

2013

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

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Chairman's Message



Dear Terna Shareholders and Stakeholders,

These Financial Statements testify to another year, the ninth in a row, of positive results for the Group, along with the intrinsic benefits which Terna generates for the country, by virtue of the electricity system's role.

This twin-track creation of value for shareholders and other stakeholders is at the root of an important new development: this year, for the first time, the Financial Statements take the form of an Integrated Report, in which financial results are set out together with the main environmental and social achievements of the Group. The Report on Operations accompanying the Financial Statements has been completely revised, to give a complete illustration of the business model of the Terna Group, its position on issues of sustainability, and the results it has achieved. This choice represents an important step forward in the evolution of Terna reporting, after two years of active participation in the Pilot Programme of the International Integrated Reporting Committee. This is based on the belief that the shareholders and all other stakeholders must be provided with a comprehensive representation of the Group's performance and how it was achieved, especially in view of the clear relationship between good results for shareholders and improved ability to deliver transmission services to the population.

In this context, particular significance is attached to investment, which, as in the two previous years, exceeded € 1.2 billion, largely aimed at Grid development. For the electricity service, these investments represent the bridging of the infrastructure gap with the rest of Europe, with increased efficiency and reduced costs. For the Italian economy, they also bring a direct contribution to growth – an important element in these years of continued economic and employment crisis: in 2013 Terna, through contracts on its works sites, employed about 2,300 full-time workers. For the environment, the development of the Grid results in greater efficiency and ability to integrate production from renewable sources, thus reducing CO2 emissions from the electricity system. Terna's emphasis on the design and installation of pylons aimed at optimal environmental integration helps to significantly reduce the visual impact of the lines.

Alongside our operating activities we have strengthened our approach based on seeking out trust-centred relationships with stakeholders; the creation of listening initiatives has allowed us to better identify sustainability issues for inclusion in the Integrated Report and, above all, to plan initiatives in line with the expectations of our stakeholders. These initiatives have a common denominator in promoting integrity in management and respect for the environment and human rights, in line with our commitment to the United Nations Global Compact, which in 2013 led to our involvement in setting up the Fondazione Global Compact Network Italia. At the same time, we have maintained our initiatives in the community, both in terms of culture – with the fifth edition of the Terna Prize for Contemporary Art – and in terms of social awareness, with the launch of new projects in this regard.

In 2013, this approach to sustainability and continuous improvement has been the subject of presentations and broad discussions with management, also at a regional-office level. And because it is now an integral part of a working method aimed at professional excellence, it also has an important intangible value and acts as a solid basis for looking forward with confidence to the new challenges ahead.

The Chairman
LUIGI ROTH



Letter to Shareholders



Dear Shareholders,

Thanks to our constant commitment, the results for 2013 represent the achievement of a further goal of growth for the Terna Group, with net profits more than doubled compared to nine years ago. Our ability to transform processes and actions into concrete results is a distinguishing quality, consolidated over years of rigorous operational and financial governance.

Revenues increased by 5% on the previous year, while EBITDA grew by more than 6%, equal to 78% of revenues, thus recording a further improvement in operating profitability. The Net Profit of the Group amounted to 514 million, with double-digit growth year on year.

The result also confirms Terna's commitment to the development of investments, which in the last three years have gone beyond the record figure of € 1.2 billion, and which are of a high quality, being composed 80% of incentive investments. In line with the dividend policy, and also thanks to the contribution of non-core activities, we are also offering a total dividend of 20 euro cents per share for 2013.

These results are related to a strategy which began nine years ago. Since 2005, Terna has invested nearly € 8 billion. With a doubling of assets under management for regulatory purposes (RAB), the infrastructure gap between Italy and the rest of Europe has been bridged, thus generating savings for the Italian electricity system that are significantly higher than total investments. Operational and financial efficiency has further strengthened profits, which totalled 4.2 billion overall. About one third of this figure was generated by involvement in non-core activities, now considered a key element in our dual strategy.

This approach was confirmed in the new Strategic Plan 2014-2018, with value to be created on the solid foundation of core activities and the encouraging potential of non-core activities. Looking at core activities, around 8 billion is needed for the development of the Grid. The National Transmission Grid Development Plan, in fact, specifies 5.6 billion by 2023, and the remainder over a 10-year period. The investment target for 2018 stands at 3.6 billion, mostly concentrated in the initial years, allowing an annual RAB growth rate of around 5%.

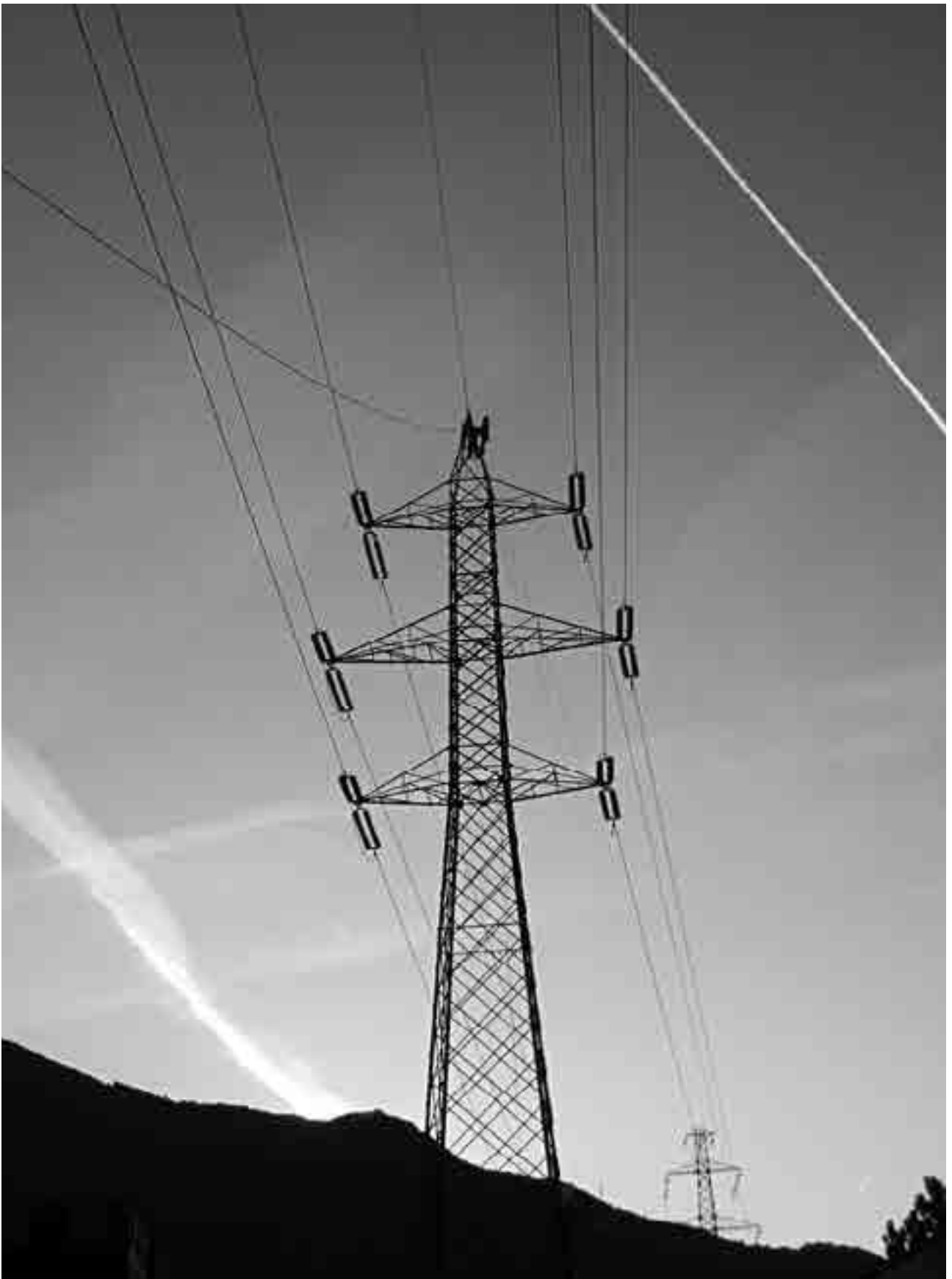
In this context, we recall that Terna is one of the top companies worldwide for the large-scale application of storage systems as elements of the Grid. For non-core activities, the Plan pledges a potential 900 million, in addition to the figure for the contracts already included. Unlike last year, Terna today can count on ongoing operations, bringing our total commitment to 1.3 billion.

Profitability in terms of EBITDA to revenues will exceed 79% in 2018, while the net debt/RAB ratio stands at well below 60%, an indicator of absolute financial soundness. Operating cash flow will cover 90% of our investment and dividend needs and will limit the increase in net debt during the Plan period to only 600 million (400 less than last year). Last but not least, the dividend policy has been validated, with the core activities on which it is based, while the non-core activities offer potential for growth.

In conclusion, Terna has always anticipated trends and developments in external conditions, which continuously alter the company's operating environment and the challenges Terna is called on to deal with. With a single goal – creating value for all our shareholders.

The CEO
FLAVIO CATTANEO

A handwritten signature in black ink, appearing to read 'Flavio Cattaneo', with a long horizontal line extending to the right.



Notice of Call

Call of ordinary and extraordinary Shareholders' Meeting

The Shareholders' Meeting of TERNA S.p.A. has been convened in Rome, at TERNA's Auditorium in Piazza Giuseppe Frua no. 2, in ordinary and extraordinary session in single call for May 27, 2014 at 11a.m., to discuss and resolve on the following

Agenda

Extraordinary Session

1. Proposal – made by the shareholder Cassa Depositi e Prestiti S.p.A. pursuant to Art. 2367 of the Italian Civil Code – regarding ineligibility or forfeiture of office for directors and integrity requirements. Amendment of Art. 15.1 and replacement of Art. 15.2 of the Bylaws.
2. Adjustment of Articles 4.1, 10, 14.3, 15.5 and 26.2 of the Corporate Bylaws as a result of the resolutions of the Regulatory Authority for Electricity, Gas and Water Services (AEEG) Nos. ARG/com 153/11 and 142/2013/R/EEL through which AEEG ruled the certification procedures for the electricity transmission operator and adopted the final certification decision of Terna S.p.A. as “Transmission System Operator”.

Ordinary Session

1. Financial Statement as of December 31, 2013. Reports by the Board of Directors, the Board of Statutory Auditors and the Independent Auditors. Related resolutions. Presentation of the Consolidated Financial Statement as of December 31, 2013.
2. Allocation of the net income of the fiscal year.
3. Determination of the number of members and term of office of the Board of Directors.
4. Appointment of the members of the Board of Directors.
5. Appointment of the Chairman of the Board of Directors.
6. Determination of the remuneration of the members of the Board of Directors.
7. Appointment of the Board of Statutory Auditors.
8. Determination of the remuneration of the Standing Auditors of the Board of Statutory Auditors.
9. Resolutions regarding the remuneration of the Directors with delegated powers pursuant to paragraph 5quinquies of Art. 23bis of Decree-Law 201/2011 (converted with amendments by Art. 1, paragraph 1, L. 214/2011) introduced by Art. 84ter, paragraph 1 of Decree-Law 69/2013 (converted with amendments into L. 98/2013).
10. Annual Report on Remuneration: consultation on the Remuneration Policy pursuant to Art. 123ter, paragraph 6 of Legislative Decree no. 58/1998 (Consolidated Law on Finance).

Reports and documentation

The illustrative reports by the Directors on the items on the agenda, required by the applicable law will be made available to the public at the Company head office according to the following timetable:

- by the publication date of this Notice of Call, the report concerning item 1 of the agenda of the extraordinary Shareholders' Meeting;
- by April 17, 2014, the reports concerning items 3, 4, 5, 6, 7, 8 and 9 of the agenda for the ordinary Shareholders' Meeting;
- by April 26, 2014, the reports concerning items 1 and 2 of the agenda for the ordinary Shareholders' Meeting;
- by May 6, 2014, the reports concerning item 10 of the agenda for the ordinary Shareholders' Meeting and item 2 on the agenda for the extraordinary Shareholders' Meeting.

Documents submitted to the Shareholders' Meeting will be made available to the public at the Company head office in the terms provided for by the rules in force.

The reports and documentation relating to the Shareholders' Meeting will also be published on the Company's website (www.terna.it - “Investor Relations”) and made available with the markets' management company Borsa Italiana S.p.A., as required by Consob notice no. DME/12027454 of April 5, 2012, and may also be consulted on Borsa Italiana S.p.A.'s website (www.borsaitaliana.it). Shareholders and non-shareholders entitled to participate in the Shareholders' Meeting have the right to obtain copies.

Right to supplement the agenda and presentation of additional resolution proposals

Shareholders who, also as a group, represent at least one fortieth of the share capital with voting rights, may ask, pursuant to and in the modes pursuant to Art.126bis of Legislative Decree 58/1998 (TUF), within ten days from the publication of this notice (i.e. by April 26, 2014), to add subjects to be discussed, indicating the additional proposed subjects in the request, or present new resolution proposals on subjects already itemized in the Shareholders' Meeting agenda (without prejudice however to whoever has voting rights to present resolution proposals at the Shareholders' Meeting in an individual capacity).

The request must be submitted in writing and may be in the form of correspondence or by electronic mail, and must be accompanied by information making it possible to identify the party presenting the above, and indicating further, wherever possible, a telephone contact, and must reach TERNA S.p.A. by the deadline set out above (i.e. April 26, 2014), either by being brought to TERNA S.p.A. at its head office (FAO: Legal and Corporate Affairs Management - TERNA S.p.A. Group Corporate Affairs), or sent by mail or fax to +39 06 8313 8218, or by e-mail or certified electronic mail to the following certified e-mail address: assemblea2014@pec.terna.it.

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

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

In the event of supplements to the agenda and/or the presentation of new resolution proposals, notice shall be given with the same modes of publication as this notice, at least fifteen days before the one scheduled for the Shareholders' Meeting (i.e. by May 12, 2014). At the same time – with the same modes indicated for the Reports of the Directors on the items on the Agenda – the report presented by the shareholders is made available to the public, together with any assessments of the Board of Directors.

Share capital

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

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

The right to participate in the Shareholders' Meeting and exercise the right to vote, according to the provisions in Art. 10.1 of the Bylaws, is governed by the applicable law and regulations in force. Pursuant to Art. 83sexies of the TUF in force, such right is demonstrated by the notification to the Company, made by an intermediary, in compliance with its own accounting records, on behalf of the individual who is entitled to the right to vote, based on evidence related to the close of the accounting day of the seventh market business day prior to the date set for the Shareholders' Meeting in single call (i.e. May 16, 2014), so called record date.

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

Communications by intermediaries for participation must be received by the Company by the end of the third trading day prior to the date set for the Shareholders' Meeting (i.e. May 22, 2014). There is no prejudice to the entitlement to participate and vote if the Company has received the communications after said indicated term, provided that they are received by the time the Meeting begins.

There are no procedures for voting by mail or by electronic means.

Representation at the Shareholders' Meeting

Ordinary proxy

Each party entitled to participate and vote at the Shareholders' Meeting may be represented by means of a proxy conferred in writing or by means of an electronically signed computer document pursuant to Art. 21, paragraph 2 of Italian Legislative Decree 82/2005, as stipulated under Art. 11.1 of the Corporate Bylaws, pursuant to governing provisions. For this purpose, the proxy form issued upon request of the entitled party by the qualified intermediaries can be used, or the proxy [form](#) available on the Company's website (www.terna.it - "Investor Relations") or at the head office.

The Company can be notified of the proxy by filing it with the head office (Legal and Corporate Affairs Management - TERNA S.p.A. Group Corporate Affairs) or by mail (FAO Legal and Corporate Affairs Management - TERNA S.p.A. Group Corporate Affairs – Viale Egidio Galbani, 70 – 00156 Rome), or e-mail or certified electronic mail to the following certified e-mail address: assemblea2014@pec.terna.it, or using the section of the Company website (www.terna.it - "Investor

Relations”), or fax to +39 06 8313 8218 and the proxy must be received by the Company by the time the Meeting begins. Pursuant to the applicable Art. 135novies of the TUF, as a replacement of the original, the representative may deliver or transmit to the Company a copy of the proxy, also by electronic means, stating under his/her own responsibility that the proxy is compliant with the original, as well as to the identity of the person issuing the proxy.

Designated Representative Proxy

The proxy with voting instructions may also be conferred to Computershare S.p.A (formerly Servizio Titoli S.p.A.), with head office in Via Lorenzo Mascheroni no. 19, Milan, 20145, appointed by the Company for this purpose as “Designated Representative” pursuant to Art. 135undecies of the TUF. In this regard, the specific guided web application prepared and managed by Computershare S.p.A., which can be accessed on the Company’s website (www.terna.it - “Investor Relations”), can be used to fill in the proxy [form](#) for the Designated Representative. The Designated Representative proxy form is also available in a printable version from the website, or from the Company’s head office. Proxies may not be conferred to Computershare S.p.A., unless in its capacity as Designated Representative of the Company. The Designated Representative proxy must contain voting instructions to all or some of the subjects on the agenda and the original must be given to said Designated Representative by the end of the second trading day prior to the date set for the Shareholders’ Meeting (i.e. by May 23, 2014) at the following address: Computershare S.p.A. (ref “Proxy Terna S.p.A. Shareholders’ Meeting”) Via Monte Giberto n. 29 - 00138 Rome. A copy of the proxy, accompanied by a declaration stating that it is in compliance with the original, can be anticipated to the Designated Representative by the same term by fax to: +39 06 4541 7450 or at the certified e-mail address: terna@pecserviziotitoli.it.

A Designated Representative proxy is valid only for resolutions proposed at the Shareholders’ Meeting for which the person issuing the proxy gave voting instructions. The proxy and the voting instructions are revocable within the same term as hereinabove (i.e. by 23 May 2014), with the manner and terms indicated above.

Right to pose questions on items on the agenda

Pursuant to Art. 127ter of the TUF, those entitled to the right to vote in the Shareholders’ Meeting may pose questions on subjects on the agenda also before the Shareholders’ Meeting. The questions must be posed in writing and sent to TERNA S.p.A. to its head office (FAO Legal and Corporate Affairs Management - TERNA S.p.A. Group Corporate Affairs) by fax at the number +39 06 8313 8218, or by e-mail or certified electronic mail at the certified e-mail address: assemblea2014@pec.terna.it.

Without prejudice to any other provisions in this notice, whoever intends to make use of this right must send his/her questions to the Company at the latest three days prior to the date of the Shareholders’ Meeting (i.e. by 24 May 2014). In this regard, a specific indication must be given as to the item on the agenda that the proposed individual questions refer to. An answer will be provided to the questions received prior to the start of the Shareholders’ Meeting at the latest during the Shareholders’ Meeting itself. The Company may provide a single answer to questions with the same content. An answer is not due, not even during the Shareholders’ Meeting, in the event of questions posed prior to the Meeting, where the information required is already available in the “questions and answers” section of the Company’s website (www.terna.it - “Investor Relations”), or when the response has already been published in that section of the Company’s website. The response will be deemed to have been given during the Shareholders’ Meeting, when provided in hard-copy format and made available to everyone entitled to vote at the start of the meeting.

Annual Report on Remuneration

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

Submission and filing of the lists for the appointment of the members of the Board of Directors and the Board of Statutory Auditors

The appointment of the members of the Board of Directors and the Board of Statutory Auditors shall be carried out by list vote according to the procedures and terms provided for by Articles 14.3 and 26.2 of the Bylaws and by the applicable law. For the election of the members of the aforementioned corporate bodies, each shareholder may submit or assist in the submission of one single list and each candidate may be on one list only or he/she will be considered ineligible.

The lists of candidates to the position of Director or Auditor may be submitted by the shareholders who, alone or with other shareholders, own at least 1% of the shares entitled to vote in the Shareholders’ Meeting.

The submission and filing of the lists must take place at least 25 days prior the day set for the Shareholders’ Meeting (i.e. by May 2, 2014) at the Company in accordance with the procedures and terms provided for respectively by the Bylaws and the applicable law.

The ownership of the minimum quota required for presentation of the lists is determined by considering the shares which are registered in favour of the shareholder or shareholders on the day when the lists are filed at the Company. In order to prove the ownership of the number of shares necessary to present the lists, the entitled shareholders must present and/or deliver the documentation proving ownership of the required number of shares to the Company, also after the filing of the list, provided it is by the deadline foreseen for the publication of the lists (i.e. by May 6, 2014).

Pursuant to Art. 144sexies, paragraph 5, of Consob Regulations No. 11971 of 14 May 1999 as subsequently amended (the "Consob Issuers Regulation"), in the event that on the date due for the submission of the lists for the Board of Auditors (i.e. by May 2, 2014) only one list has been filed, or only lists submitted by members who are connected to each other pursuant to applicable law have been filed, lists may be submitted up to the third day following said date. In this case, the thresholds set forth above shall be reduced by half.

The lists complete with the information required by the legislation, as well as the documentation to be supplied with the lists can be filed – as provided for by Articles 147ter, paragraph 1bis, and 148, paragraph 2, of the TUF, as well as 144sexies, paragraph 4ter, of the Consob Issuers Regulations and 14.3 of the Bylaws – at the Company (Legal and Corporate Affairs Management – TERNA S.p.A. Group Corporate Affairs from Monday to Friday from 9:00 a.m. to 5:00 p.m.) or also via email or certified email to the certified email address assemblea2014@pec.terna.it together with the information which allow the subject filing the lists to be identified (also indicating a telephone contact).

The lists, complete with the documentation and the information on the characteristics of the candidates, will promptly be made available to the public at the Company head office, on the Company internet site (www.terna.it - "Investor Relations") and via the other means provided for by Consob at least 21 days before the date of the Shareholders' Meeting (i.e. by May 6, 2014).

For the composition of the lists of the Board of Directors, please remember in particular that the names of the candidates must be listed using sequential numbering and that the provisions of Articles 14.3 and 31.1 of the Bylaws regarding gender equality of the Directors to be elected (gender quotas), and the Bylaws' provisions requiring the prerequisites of integrity, professionalism and independence of the Directors indicated in Art. 15 apply.

In this regard, in order to permit a composition of the Board of Directors which complies with the current legislation regarding gender equality, the lists which offer a number of candidates equal or greater than three must include candidates of different genders. Since this is the first application of the law, the least represented gender must obtain, at least one fifth of the Directors elected.

We remind you that TERNA has subscribed to the Governance Code of listed companies published by Borsa Italiana (available on the Borsa Italiana S.p.A. internet site sub <http://www.borsaitaliana.it> – the "Governance Code"), therefore, based on what is indicated in Articles 2.P.3 and 3.C.3 and in the Comment to Art. 2 of that same Code, the shareholders are also asked, when composing the lists, to evaluate the characteristics of the candidates also in terms of professionalism, experience, management, and of genders, relative to the size of the Company and the specific sector in which it operates. Furthermore, the lists shall indicate which are the candidates with the independence prerequisites required by the law and Art. 15.4 of the Bylaws and any other applicable information or statement required by the law, also regulatory, and the Bylaws.

Regarding the personal characteristics of the candidates, it is provided for – as indicated in the Comment to Art. 5 of the Governance Code – that the lists of candidates should include an indication of the possible suitability of the candidates to be qualified as independent pursuant to Art. 3 of the same Code.

Lastly, taking into account that, during the Shareholders' Meeting, the Shareholders will be asked to resolve on the amendments of the Bylaws' texts relative to certain integrity and independence requirements of the Directors, in line, respectively, (i) with the proposal made pursuant to Art. 2367 of the Italian Civil Code by the shareholder Cassa Depositi e Prestiti S.p.A. and the amendments under item 1 of the agenda for the extraordinary Shareholders' Meeting, and (ii) with the provisions imposed on the "operator of the electricity transmission grid" by Art. 36, paragraph 7, letter c) of Legislative Decree 93/2011 (and before even of Art. 9 par. 1, lett. d), of Directive 2009/72/EC) and the amendments under item 2 of the agenda of the extraordinary Shareholders' Meeting, in order to make it possible to appoint a new Board of Directors which is already adapted to the regulatory provisions indicated, it is suggested – also for the purposes indicated by Art. 144octies of the Consob Issuers Regulation – to indicate in the candidate lists that they hold the aforementioned integrity requirements and are not directors or members of the Supervisory Board or other bodies which legally represent a company that generates or supplies electricity or gas.

Together with every list, the declarations must be filed with which the individual candidates accept their candidacy and certify, under their own responsibility, the non-existence of causes of ineligibility and incompatibility, as well as the existence of the requirements provided for by the applicable law and the Bylaws for the relative positions, and any other applicable information required by the legislation and by the Bylaws.

In particular, Art. 144octies of the Consob Issuers Regulation, together with the list of candidates for the position of Director, provides for the filing of:

- thorough information on the personal and professional characteristics of the candidates;
 - the declaration regarding the possible possession of the independence requirements as provided for by Art. 148, paragraph 3 of the TUF and/or of the requirements of independence required by the industry regulations possibly applicable because of the activity performed by the Company;
 - the indication of identity of the shareholders who have submitted the lists and the percentage of the total shares held.
- Furthermore, with reference to the independence requirements of the Directors, the filing of every candidate's statement is required, under his/her own responsibility, regarding the possible suitability to be qualified as independent pursuant to Art. 3 of the Governance Code, as well as meeting the integrity and independence requirements for the Directors of the Companies set out, respectively: (i) in the proposal formulated under the terms of Art. 2367 of the Italian Civil Code by the shareholder Cassa Depositi e Prestiti S.p.A. found in item 1 of the agenda of the extraordinary Shareholders' Meeting and (ii) in the legislation for the electricity "transmission-system operator" according to the proposal indicated in item 2 of the agenda of the extraordinary Shareholders' Meeting.

Lastly, for what concern the appointment of the Board of Directors, please note that the Bylaws' provisions regarding the limits on the exercise of the voting right for the nomination of the Directors indicated in Art. 14.3, lett. e) apply. Furthermore, pursuant to Art. 147ter, paragraph 3, TUF, at least one member of the Board of Directors is elected from the minority list who obtained the greatest number of votes and is not connected in any way, not even indirectly, to the shareholders who submitted or voted the list which came out first by number of votes, and that the shareholders who submit a "minority list" are recipients of Consob notice no., DEM/9017893 of February, 26 2009 regarding "Appointment of members of the Board of Directors and the Board of Statutory Auditors".

For the composition of the lists of the Board of Statutory Auditors – which will be composed of three Standing Auditors and three Alternate Auditors – please note that the lists must be divided into two sections, one for the candidates to the position of Standing Auditor and the other for the candidates of Alternate Auditor. The names of the candidates must be listed using sequential numbering and in any case not with a number greater than the members of the board to be elected. The first candidate of each section of the lists must be registered in the register of statutory auditors and must have legally audited accounts for a period of at least three years.

Both the Bylaws' provisions regarding the requirements of integrity and professionalism of the Auditors indicated in Art. 26.1, and the provisions of Art. 26.2 regarding the gender equality of the Auditors to be elected (gender quotas) apply. In this regard, in order to permit a composition of the Board of Statutory Auditors that complies with the applicable law regarding gender equality, the lists which, when considering both sections, present a number of candidates equal to or greater than three must include, both in the first two positions of the section of the list relative to the Standing Auditors, and in the first two positions of the section of the list relative to Alternate Auditors, candidates of different gender. Since this is the first application of the law, the least represented gender must obtain, at least one fifth of the Auditors elected.

The lists for the Board of Statutory Auditors shall also indicate any other applicable information or statement required by the law, also regulatory, and the Bylaws.

As regards the situations of ineligibility and the limits on the accumulation of administration and audit positions which can be held by the members of the Board of Statutory Auditors, the provisions of the Bylaws and the law and current regulations apply.

Pursuant to Art. 8.C.1 of the Governance Code of listed companies published by Borsa Italiana, the shareholders are asked, when compiling the lists, to evaluate the candidates' characteristics in terms of independence, provided for by Art. 3 of the same Code relative to the Directors.

Together with every list, the declarations must be filed with which the individual candidates accept their candidacy and certify, under their own responsibility, the non-existence of causes of ineligibility and incompatibility, as well as the existence of the requirements prescribed by the current law and the Bylaws for the relative positions, and any other applicable information required by the legislation and by the Bylaws.

In particular, Art. 144sexies of the Consob Issuers Regulation, together with the list of the candidates for the position of Auditor, provides for the filing of:

- information on the identity of the shareholders who have submitted the lists, indicating the percentage of the total shares held;
- a declaration by shareholders other than those who hold, also as a group, a controlling interest or relative majority, indicating the absence of relationships as set forth in Art. 144 quinques of the Consob Issuers Regulations with them. Consob, in notice no. DEM/9017893 of February, 26 2009 advises the shareholders who are presenting a "minority list" to provide the information indicated in the aforementioned declaration;
- thorough information on the personal and professional characteristics of the candidates, as well as a statement by these candidates certifying that they hold the requirements provided for by the law (including the possession of the independence requirements as provided for by Art. 148, paragraph 3, TUF) and their acceptance of the candidacy.

Taking into account the fact that, pursuant to Art. 2400, last paragraph, Italian Civil Code, at the time of the appointment and before accepting the assignment, the administration and audit positions held by the Auditors at other companies must be made known to the Shareholders' Meeting, please provide for this purpose suitable declaration on the information regarding the personal and professional characteristics of the candidates, with the recommendation to keep them updated up to the actual date of the Shareholders' Meeting.

Regarding the appointment of the Board of Statutory Auditors, please remember that the standing member of the Board of Statutory Auditors nominated by the minority shareholders with the procedures provided for by Art. 26.2 of the Bylaws will be elected by the minority shareholders who – as required by Art. 148, paragraph 2, TUF – are not connected in any way, not even indirectly, to the shareholders who presented or voted the list which came in first by number of votes. The Chair of the Board of Statutory Auditors is given to the Standing Auditor elected from the minority lists.

Other Information

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

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

Regarding the exercise of the company rights mentioned in this notice, please remember that pursuant to Articles 22 and 23, paragraph 1, of the "Regulation governing centralised management services, liquidation, systems of guarantee and of the relative management companies", in effect at the time, adopted by the Bank of Italy and by Consob with the provision of February 22, 2008 and subsequently amended by deed of the Bank of Italy/Consob dated December 24, 2010, and updated, starting April, 15 2014, with provision of October, 22 2013 ("Bank of Italy/Consob Regulation"), the legitimacy of exercising, also jointly, corporate rights such as participation in and exercising the right to vote in the Shareholders' Meetings, the right to supplement the agenda and to present additional resolution proposals, the right to pose questions on subjects on the agenda and filing lists, is certified by a communication to the issuer made by the intermediary in compliance with his/her accounting records for holders.

Pursuant to Art. 25 of the Bank of Italy/Consob Regulation, legitimization to rights different from those provided for in Articles 22 and 23 is assessed by certification issued by the intermediary in compliance with his/her own accounting records.

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

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

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

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

Chairman of the Board of Directors

Luigi Roth

This notice is published on April 16, 2014 on the Company internet site www.terna.it with an extract in the newspaper "Il Sole 24 Ore" on April 16, 2014.

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



Summary of the resolutions of the extraordinary and ordinary Shareholders' Meeting

Terna S.p.A.'s Shareholders' Meeting met on single call on 27 May 2014 for the extraordinary and ordinary session at Terna's Auditorium in Piazza Giuseppe Frua No.2 in Rome and it approved, in the extraordinary session, the adjustment of Articles 4.1, 10, 14.3, 15.5 and 26.2 of the Company's Bylaws in accordance with the resolutions of the Italian Regulatory Authority for Electricity Gas and Water (AEEGSI) Nos. ARG/com 153/11 and 142/2013/R/EEL on the certification of Terna S.p.A. as "manager of the transmission system" for electrical energy. Not approved by the meeting, on the other hand, were the amendments relative to Article 15.1 and the replacement of Article 15.2 of the Company's Bylaws regarding causes of ineligibility or disqualification of directors and requirements of integrity.

In the ordinary session, the Meeting:

- approved Terna S.p.A.'s financial statement as of 31 December 2013;
- examined the data of the Terna Group's consolidated financial statements also as of 31 December 2013, that closed with the Group's net profits equal to € 513,605,110.08;
- resolved to allocate Terna S.p.A.'s 2013 net profits, equal to € 454,775,817.28 as follows:
 - € 140,699,440.00 to cover the interim dividend paid on 21 November 2013;
 - € 261,298,960.00 as a final dividend to be distributed in the amount of € 0.13 for each one of the 2,009,992,000 ordinary shares in circulation to be paid – gross of any withholdings according to the law – on 26 June 2014, with "registration date" of coupon No. 20 on 23 June 2014 (record date, pursuant to Art. 83-*terdecies* of Italian Legislative Decree No. 58 of 24 February 1998, the "Consolidated Law on Finance": 25 June 2014);
 - € 52,777,417.28 as balance brought forward.

In the ordinary session, the Meeting also:

- renewed the Company's Board of Directors, which will hold office until approval of the 2016 financial statement, setting the number of members as nine and appointing the following persons:
 - 1) Catia Bastioli – Chairperson ^{(1) (2)}
 - 2) Cesare Calari – Director ^{(2) (3)}
 - 3) Simona Camerano – Director ⁽¹⁾
 - 4) Carlo Gandolfo Cerami – Director ^{(1) (2)}
 - 5) Fabio Corsico – Director ^{(1) (2)}
 - 6) Luca Dal Fabbro – Director ^{(2) (3)}
 - 7) Matteo Del Fante – Director ⁽¹⁾
 - 8) Gabriella Porcelli – Director ^{(2) (3)}
 - 9) Stefano Saglia – Director ^{(1) (2)},
 setting the relative remuneration at € 50,000 gross per year for the Chairperson and € 35,000 gross per year for each Director, in addition to reimbursement of expenses incurred;
- renewed the Board of Statutory Auditors, which will hold office until the approval of the 2016 financial statement with the following members:
 - Riccardo Enrico Maria Schioppo – Chairman ⁽³⁾
 - Vincenzo Simone – Standing auditor ⁽¹⁾
 - Maria Alessandra Zunino de Pignier – Standing auditor ⁽¹⁾
 - Raffaella Annamaria Pagani – Alternate auditor ⁽³⁾
 - Renata Maria Ricotti – Alternate auditor ⁽¹⁾
 - Cesare Felice Mantegazza – Alternate auditor ⁽¹⁾
 setting the relative remuneration at € 55,000 gross per year for the Chairman of the Board of Statutory Auditors and € 45,000 gross per year for the other Standing Auditors, in addition to reimbursement of expenses incurred;
- approved limits to the remuneration of Directors with delegated powers in accordance with provisions, for companies directly or indirectly controlled by public administrations that issue equity securities listed on regulated markets specified in Article 23 *bis*, paragraph 5 *quinquies*, of Legislative Decree 201/2011 (converted with amendments by Article 1, paragraph 1, Law 214/2011) introduced by Article 84 *ter*, paragraph 1, of Legislative Decree 69/2013 (converted with amendments into Law 98/2013). In this regard, the compensation referred to in Article 2389, third paragraph, of the Italian Civil Code, of Directors with delegated powers cannot be determined and paid, by the competent company bodies, in excess of 75 percent of the total emoluments determined in any way, including those for any work done for the said company during the previous term, with reference, for this purpose, to maximum potential emoluments payable in relation to the various components of remuneration provided for in the resolutions and/or reference contracts and with effect limited to the renewal of the Board of Directors approved by the same Shareholders' Meeting;
- approved, pursuant to and for the purposes of the provisions of Article 123 *ter*, paragraph 6, of the CFL, the first section of the "Annual Remuneration Report" that – with reference to the members of the board of directors, general managers and other managers with strategic responsibilities – illustrates the Remuneration Policy adopted by Terna S.p.A. and the procedures used for the adoption and implementation of this policy.

(1) Taken from the list submitted by the controlling shareholder Cassa Depositi e Prestiti S.p.A.

(2) Director identified at the time of candidacy in possession of the independence requirements established by the law, by Terna S.p.A.'s Bylaws and by the Governance Code.

(3) Taken from the list submitted by a group of minority shareholders formed by asset management companies and other institutional investors.

Corporate administration and control bodies

Board of Directors

Chairperson

Luigi Roth

Chief Executive Officer

Flavio Cattaneo

Board members

Paolo Dal Pino
Matteo Del Fante
Salvatore Machì
Romano Minozzi
Francesco Pensato
Michele Polo
Antonio Segni¹

Board Secretary

Ernesto Calaprice

Board of Auditors

Chairperson

Luca Aurelio Guarna

Standing auditors

Alberto Luigi Gusmeroli
Lorenzo Pozza

Substitute auditors

Stefania Bettoni
Flavio Pizzini

Auditing company

PricewaterhouseCoopers S.p.A.

(1) Board member co-opted on 13 November 2013 to replace the resigning member Fabio Buscarini.

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 the Italian law on listed companies. Terna has adhered to the Code of Conduct of the listed companies published by the Corporate Governance Committee promoted by ABI, ANIA, Assonime, Assogestioni, Borsa Italiana and Confindustria, as most recently updated in December 2011 (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 Code².

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 association³.

Committees within the Board

In particular, the **Remuneration Committee** and the **Audit and Risk Committee**, both with proactive and advisory functions and composed of at least three administrators, as provided for by the Code of Conduct, are present within the Board of Directors⁴.

The criteria adopted relative to the composition, duties and responsibilities of said Committees have been identified in line with the relevant Code of Conduct 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 is comprised entirely of independent directors, and the Audit and Risk Committee entirely of non-executive directors, the majority of whom are independent, including the Chairperson. The composition of such Committees complies with the provisions of the Code of Conduct.

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 powers⁵.

Chairperson of the Board of Directors

The Chairperson is vested by the articles of association with the powers to represent the Company legally and to sign on its behalf. He/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 Code of Conduct which the Company has adopted⁶.

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 Directors⁶.

(2) 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.

(3) 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.

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

(5) 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.

(6) 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.

Terna Group's management





Luigi Roth
Chairman

Giuliano Frosini
Public and Institutional Affairs Director Terna (a.i.)



Alessandro Fiocco
Chief Executive Officer Terna Plus



Stefano Conti
Grid Development Director Terna Rete Italia



Carlo Crea
International Affairs Terna



Luciano Di Bacco
Administration and Financial Reporting Director and Executive in Charge Terna



Evaristo Di Bartolomeo
Engineering Director Terna Rete Italia



Cesare Ranieri
Human Resources and Organization Director Terna



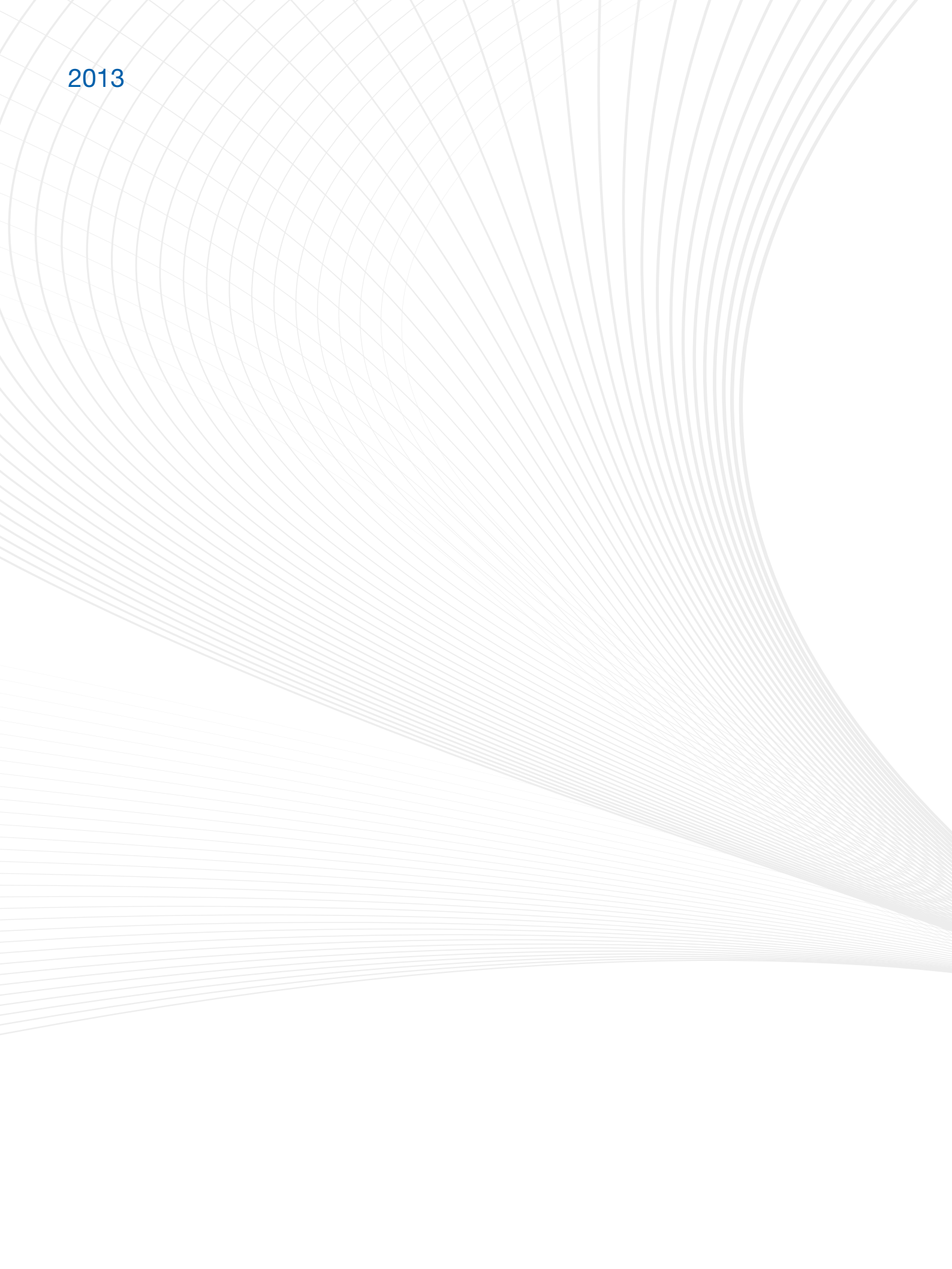
Pier Francesco Zanuzzi
National Dispatching Director Terna Rete Italia

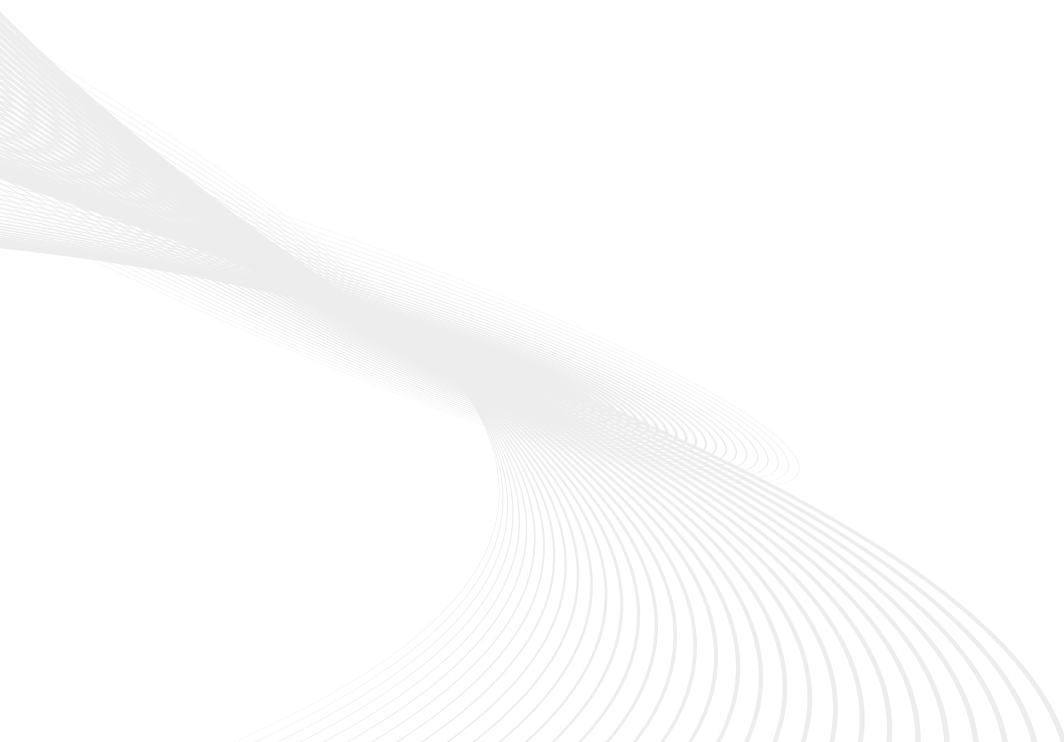






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Introduction

This report was drafted bearing in mind the principles and instructions of the International Integrated Reporting Council (IIRC), the international organisation which has been working on defining a framework for drawing up an Integrated Report since 2010.

Terna has supported the IIRC since 2011 and is involved in the work on its Pilot Programme, sharing its objective of giving the markets and the shareholders – investors in particular – increasingly exhaustive and transparent information.

The 2013 Terna Group Report thus supplements the information and figures on financial performance and sustainability in an interpretative framework which highlights the correlations between elements of the scenario and the operating context, as well as performance and strategic objectives, thus emphasising the Group's ability to create value in the short, medium and long term.

To achieve this aim, the document has been divided into four new sections: "Organisation, context and business description"; "Risks and opportunities"; "Performance" and "Strategies and future prospects", within the scope of which the results of the "materiality analyses"⁷ defined by Terna are also considered, so as to identify the relevant issues for the Group and for its stakeholders, and to assess their impact on the creation of value and corporate strategies.

The first section, "**Organisation, Context and Business Description**", illustrates the Group's mission and organisation, its ownership and operating structure, the business model and the activities performed, and the way in which such organisation fits into the operating context, as well as significant factors which could influence the Group's ability to create value in the short, medium and long term.

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.

Specifically, the adoption of a corporate governance system and a set of procedures and systems ensuring corporate security, also plays a fundamental role for creating value, aware of the social importance of the Group's activities and how, during the performance of such, adequate consideration of all the interests involved is crucial.

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.

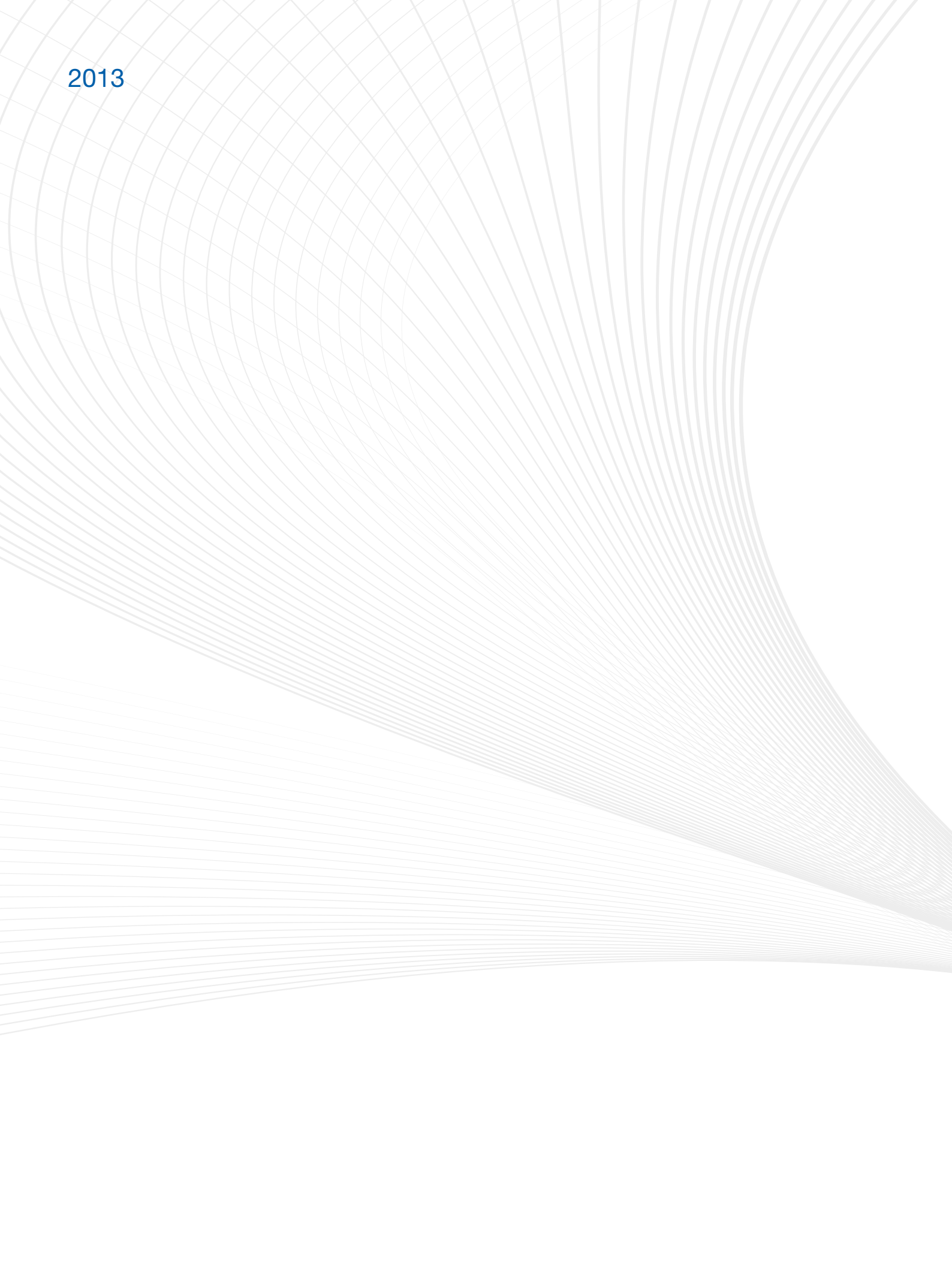
The synthesis of these areas completes the search for operating efficiency and growth opportunities, whilst fulfilling service obligations and, in particular, ensuring the security of the electricity system.

The fourth and last section "**Strategies and future prospects**" illustrates the medium- and long-term objectives and strategies of 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.

(7) For the "Materiality Analysis", please see the 2013 Sustainability Report.

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Organisation, Context and Business description



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Organisation and Context in which the Group operates

Terna is a company which mainly operates in the Italian electricity system (approximately 97% of consolidated revenue comes from activities regulated by the Italian Electricity and Gas Regulatory Authority, AEEG).

In the production, transmission, distribution and sale of electricity sector, Terna manages the transmission segment, as the Italian TSO (Transmission System Operator) which has a monopoly via a government concession. The activities performed are regulated by the Electricity and Gas Regulatory Authority (AEEG) and the Ministry for Economic Development.

The Terna Group owns the Italian National Transmission Grid (NTG) with over 57,500 kilometres of high-voltage lines (over 63,600 km of three-phase power lines), 475 transformation stations and 22 interconnection lines with foreign countries. It is responsible for transmitting and dispatching electricity along the high-voltage and very-high-voltage grid throughout the whole of Italy, as well as for planning, constructing and maintaining 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; develops market activity and new business opportunities with the experience and technical skills gained in managing complex systems; 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.

Shareholders

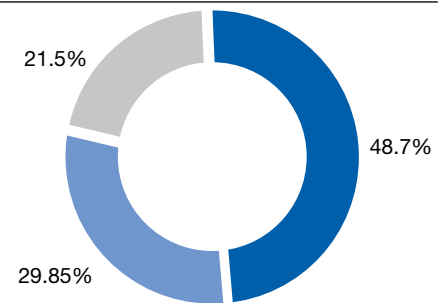
At the date on which the present report was prepared, Terna S.p.A.'s share capital amounted to € 442,198,240, represented by 2,009,992,000 ordinary shares, with a par value of € 0.22 each.

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:

- Cassa Depositi e Prestiti S.p.A. (CdP)⁸ 29.85%
- Institutional Investors 48.7%
- Retail 21.5%

SHAREHOLDING STRUCTURE BY TYPE

● Institutional Investors	48.7%
● Cassa Depositi e Prestiti S.p.A.	29.85%
● Retail	21.5%

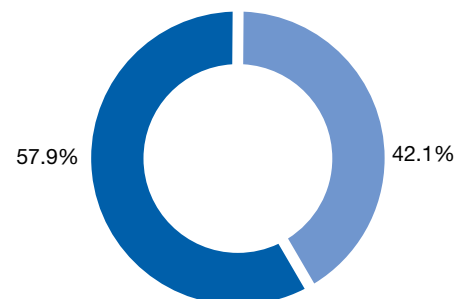


Total 100%

On the basis of the periodic surveys carried out by Terna, it is believed that 57.9% of Terna S.p.A. shares are held by Italian investors (CdP, 29.85%; retail investors, 21.5%; and institutional investors, 6.6%), and the remaining 42.1% by foreign institutional investors, primarily American and European.

SHAREHOLDING STRUCTURE BY GEOGRAPHIC AREA

● Italian Investors	
of which Cassa Depositi e Prestiti S.p.A.	29.85%
of which Retail Shareholders	21.5%
of which Institutional Investors	6.6%
● Foreign Institutional Investors	
of which USA/Canada	11.0%
of which United Kingdom/Ireland	9.4%
of which Rest of Europe	13.9%
of which Middle East, Asia and Australia	6.1%
di cui Other	1.7%



Total 100%

(8) These shareholders have a stake in Terna S.p.A. share capital above the thresholds indicated in Consob Resolution No 11971/99, based on the information available, and communications from Consob.

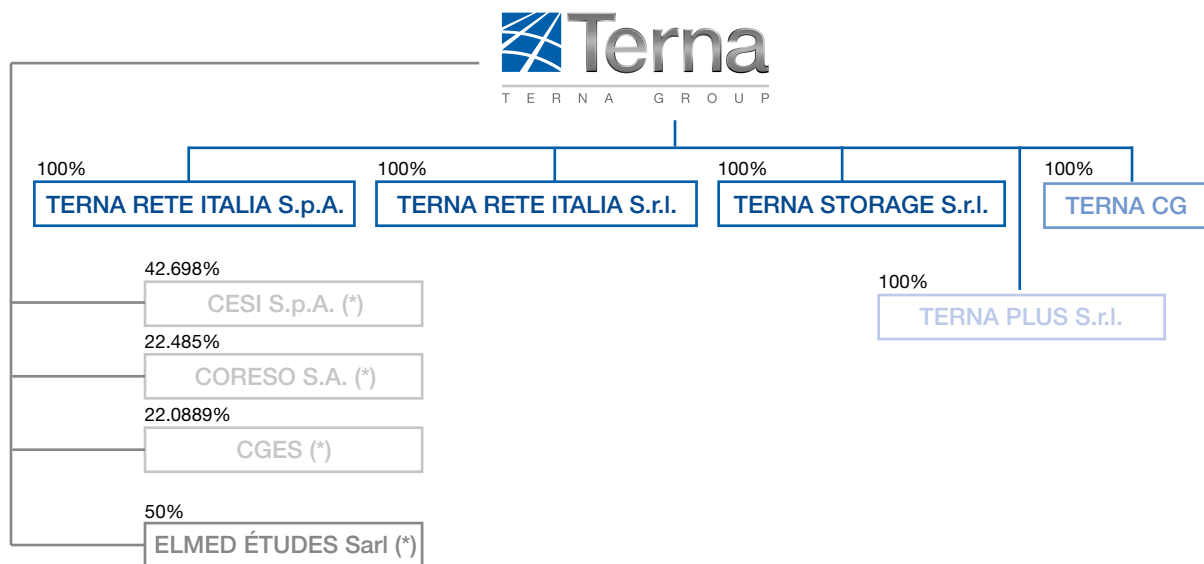
At the end of 2013, socially responsible investors held 14.8% of Terna share capital. There were 85 SRI (Socially Responsible Investors), i.e. those choosing to invest in Terna with a sustainable approach in mind, based on the consideration of ESG (Environmental, Social and Governance) aspects (up on the figure of 66 SRI recorded at the end of 2012) and representing 7.2% of the floating shares (5.2% at the end of 2012), and 10% of the shares held by institutional investors (8.4% at the end of 2012).

As part of the “Report on corporate governance and ownership structures”, approved by the Board of Directors for the financial year 2013 – Section II: Information on corporate structure published alongside Terna and the Terna Group’s Annual Financial Report reported 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 “TUF” of 24 February 1998).

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.

The Group structure

The Group structure at 31 December 2013:



- Subsidiaries – Traditional Activities (TAs) – Italy
- Subsidiaries – Traditional Activities (TAs) – Foreign Operations
- Subsidiaries – Non-Traditional Activities (NTAs)
- Joint control
- Associates

(*) Companies measured using equity method

Organisational structure

Terna S.p.A., the Parent Company, owns the concession relating to electricity dispatching and transmission (issued with the Decree of 20 April 2005 of the Ministry of Productive Activities), and maintains ownership of the capital assets and responsibility for defining the NTG Development Plan and the Defence Plan.

Traditional Activities – TAs:

Terna’s core business is mainly associated with traditional activities. Terna, in fact, receives remuneration based on a tariff system set by the Electricity and Gas Regulatory Authority, in relation to the two important traditional activities it conducts in Italy: namely the transmission and dispatching of electricity, both in implementing the Concession granted by the Ministry of Economic Development.

Within this context, the Terna Group carries out these traditional activities for the transmission and dispatching of electrical energy on the National Transmission Grid through the Parent Company Terna S.p.A. and the companies that are direct subsidiaries of the latter:

TAs – National Transmission Grid

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

The company, founded on 23 February 2012 by the parent company Terna, is tasked, within the Terna Group, with performing all traditional operational activities, ordinary and extraordinary maintenance of the section of the NTG owned, management and performance of work on developing the grid as provided for in the Concession for transmission and dispatching, and on the basis of the provisions of the Development Plan of the parent company, Terna. To such purpose, with effect from 1 April 2012, a business unit rental contract was entered into with the parent company with consequent ad hoc intergroup contracts for regulating business.

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

The Company owns approximately 12% of the NTG; the design, construction, management, development, running and maintenance of High-Voltage electricity lines fall within the subsidiary's company purpose.

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

The Company, founded in 2012, is responsible within the Terna Group, pursuant to an ad hoc contract signed with the parent company, for "safeguarding the construction" of diffused energy storage systems projects, as well as the relative "coordination", "study" and "research" activities.

The parent company has in fact launched an ambitious storage-system programme aimed at "promoting the dispatching of non-programmable plants", in line with the relative legislation which provides for the possibility of including it among the works for developing the electricity transmission grids and inclusion in the extra-incentive mechanisms established by the Electricity and Gas Regulatory Authority (AEEG) in the two Resolutions 43/2013 and 66/2013.

TAs abroad

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

The company, founded in Montenegro in 2011 by the parent company Terna, works to authorise, construct and manage the transmission infrastructure composed of the interconnection electricity line between Italy and Montenegro, on Montenegro territory, as well as promoting or developing new investment opportunities in the transmission sector associated with the construction and management of new interconnection lines between Montenegro and neighbouring countries and of connection infrastructure of renewable energy plants in said countries.

Non Traditional Activities – NTAs:

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

Compared to 31 December 2012, the changes in the Group's organisational structure refer exclusively to non-traditional activities (NTAs).

In particular, on 18 October 2013, the deed of merger by incorporation of SunTergrid S.p.A. into Terna Plus S.r.l. was signed, with legal effect from **21 October 2013** (date of registration in the Companies Register), as provided for by the merger project approved on 6 June 2013 by the respective Boards of Directors and subsequently resolved on 10 June 2013 by the relevant Shareholders' Meetings, aimed at an organisational rationalisation of non-traditional activities within the sphere of the Group.

In addition, on **24 July 2013** the subsidiary SunTergrid S.p.A. completed the transfer to Tozzi Sud S.p.A. – a company wholly controlled by Tozzi Industries S.r.l. – of 100% of the share capital of Rete Solare S.r.l., holder of the "Single Authorisation" for the construction and operation of a photovoltaic plant to be built in Aranova in the Municipality of Ferrara.

For further details of the extraordinary transactions described above, see "Significant events during the year".

Associate companies

CESI is market leader for testing and certifying electro-mechanical equipment and consultancy on electric systems. It covers all the stages of the life cycle of the electric system and offers the companies therein (generation, transmission, and distribution), the manufacturers of electrical and electronic equipment, large consumers of electricity, and local and national governments a complete range of services aimed at resolving problems connected with the productive processes of the entire electricity industry.

CORES0 is a Belgian service company with its headquarters in Brussels; Terna became a shareholder in November 2010 with a 22.485% stake. The ownership structure of the company includes the operators of France (RTE), Belgium (Elia) and Great Britain (National Grid), each holding an equal stake to that of Terna, and the German operator, 50Hertz Transmission, with 10%. CORESO prepares daily forecasts and analyses in real time 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") is the Montenegrin TSO of which Terna became a shareholder with 22.09% of the capital following the approval by the shareholders' meeting of CGES of the capital increase reserved for Terna. The agreement is the fruit of industrial and country-system cooperation and is part of the intergovernmental agreements between Italy and Montenegro, which began on 19 December 2007 and which were sanctioned by the signing of a strategic partnership agreement in November 2010, on the construction of a new submarine electricity interconnection and the implementation of the partnerships between national transmission operators.

Joint-venture companies

ELMED ÉTUDES is a special-purpose entity of which Terna and the Tunisian electrical company STEG hold 50% each. The corporate purpose is preliminary study prior to the preparation of the international call for tenders of the Ministry of Industry and Technology of the Tunisian Republic, for the assignment of production rights in Tunisia and the construction of the Italy – Tunisia undersea connection (ELMED Project). The shareholders' general meeting of ELMED Études held on 31 July 2013 resolved on the review of the ELMED Project, separating the transport part from the production part, conferring mandate on the joint managers of the company to carry out all action necessary for this purpose.



The Group History

Creation

31 May 1999

Terna is born

Legislative Decree No. 79/99 (the “Bersani Decree”) sets off the liberalisation of the electricity sector. It governs the separation of ownership and management of the national transmission grid.

Three new companies are created: Terna, to own the grid, and the National Transmission Grid Operator (NTGO) to manage the grid.

1 October 1999

Terna begins operations

Terna must manage and increase the safety, efficiency and sustainability of the business, maintain the grid and develop transmission infrastructures, following the instructions of the NTGO.

11 May 2004

Terna manager and owner of the Grid

The Presidential Decree from the Council of Ministers of 11 May 2004 sets out criteria, methods and conditions for combining the ownership and management of the national transmission grid with Terna at the helm.

It also defines a new corporate governance which aims to guarantee the neutrality and impartiality of Terna’s conduct.

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, who 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 assets owned

Cassa Depositi e Prestiti S.p.A. (CDP) buys 29.99% of Terna shares from Enel and becomes a major shareholder.

Enel’s holding reduces to 5%. The company’s shareholder structure adopts the current structure, the most suitable for its strategic role.

The Ministry for Economy and Finance is present through CDP: a further safeguard of the general interest task entrusted to Terna as the National Transmission Grid operator.

1 November 2005

The new Terna

The unification of ownership and management of the National Transmission Grid – set out the previous year in the Presidential Decree from the Council of Ministers of 11 May – comes into force at Terna’s responsibility.

This is the culmination of a process which began in 1999 and the start of a new phase in Terna’s mission at 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 Board of Directors

The Shareholders’ Meeting appoints the new Board of Directors.

Flavio Cattaneo is Chief Executive Officer, Luigi Roth Chairman.

2006

A new Code of Ethics

Terna adheres to the 2006 Governance Code for listed companies and adopts a new Code of Ethics.

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 leading TSO

Purchasing 18,600km of high-voltage line from Enel for € 1,152 million, Terna is confirmed as the **leading independent grid operator in Europe and seventh in the world.**

1 July

The Terna Prize is introduced for contemporary art and the first three-year Memorandum of Understanding is signed with the Ministry for Cultural Heritage, which was then renewed in 2011. The Prize obtains the patronage of the President of the Republic and becomes the most important public-private collaboration project in the sector.

2009

Record safety

30 July

Terna and the Ministry for the Interior sign an **agreement on the safety of the electricity system**. The agreement makes Italy a pioneer in protecting the country's strategic sectors.

3 November

Terna sells the Brazilian subsidiary Terna Participações SA, generating capital gains 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 "EEl 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 – the Italian mainland) and the Chignolo Po – Maleo in Lombardy. It also opens the construction sites for the Sorgente – Rizziconi (between Sicily and Calabria).

13 May

The new BoD unanimously confirms Flavio Cattaneo as CEO and Luigi Roth as Chairman, for their third mandate.

5 July

The Terna 2010 Sustainability Report is given an A+, the highest grade possible for completeness of information published. Terna improves on all its sustainability rankings and is currently in the World and Europe baskets of the Dow Jones Sustainability Index.

2012

Company reorganisation

April

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

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.

21 November

Terna and ANIE sign a unique agreement. Aims: to minimise the environmental impact of the electricity construction sites; to optimise resource management safety.

2013

March

Terna, as the best European utility company for returns for shareholders, was awarded the "International Utility Award 2013" in London by the Edison Electric Institute (EEI) of Washington DC (US).

September/December

Terna, leading sustainability for the fifth year in the prestigious Dow Jones Sustainability Index, is also confirmed sustainability leader by the STOXX ESG index

Secure and economical grid management

February

Approval of the pilot projects on **storage systems** to be created on the national grid: project development is managed by the company Terna Storage, specifically founded by the Parent Company.

December

The Memorandum of Understanding ("MoU") is signed with some of the category Federations to **construct and manage the infrastructure for connection with foreign countries**, aimed at laying the foundations for negotiating future agreements with the "assignees" identified by Terna.

The business

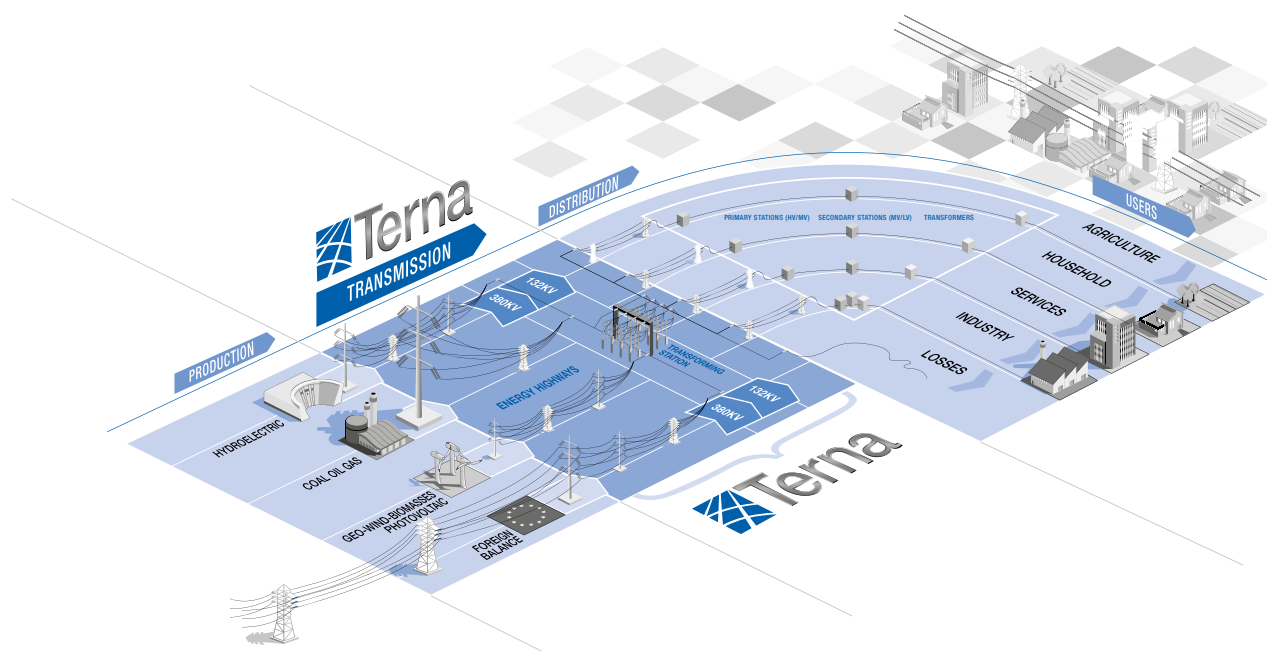
The national TSO and electricity transmission

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;
- maintaining infrastructure;
- planning and implementing grid development projects.



The main stages of transmission are as follows.

Operating the grid

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. This function is called dispatching and is performed, on the basis of business unit rental, by the subsidiary Terna Rete Italia S.p.A.

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

Terna Rete Italia S.p.A., by virtue of the aforementioned business unit rental contract, **maintains power lines and stations** through three Area Offices, which are divided into eight Operational Transmission Areas and which rely on over 85% 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 the system's adequacy 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 governments through to construction authorisation.

Finally, by analysing the grid, Terna also sees to identifying the **best ways of connecting to the transmission grid** for all operators who wish to connect their plants.

Construction

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 electricity-line components.

As far as plant construction is concerned, **Terna prepares projects for the authorised works**. It sets out the requirements for external resources and project budgets, as well as the working methods and technical specifications 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.

Other activities

Terna and non-traditional activities

The reorganisation operation, begun during the financial year 2012 combining the non-traditional activities of the Terna Group into a single subject (Terna Plus S.r.l.), continued in 2013 with the aforementioned signing of the deed of merger by incorporation of SunTergrid S.p.A. in Terna Plus S.r.l. on 18 October 2013.

The development of non-traditional 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. A further step towards defining opportunities within the sphere of non-traditional activities in Italy was the signing of the Memorandum of Understanding ("MoU") on 16 December 2013 with several trade federations, in the presence of the Minister for Economic Development and of Confindustria. The MoU regards the construction and management of interconnection infrastructure with foreign countries ("Interconnections or Interconnector") pursuant to Article 32 of Italian Law 99/2009 and aimed at providing a basis for negotiation for future agreements with the parties winning the tender procedures held by Terna in 2009 and 2010.

Development abroad

Terna's work abroad has two objectives: firstly, developing interconnections with neighbouring countries to provide greater security, cost-effectiveness and sustainability of supply, and, secondly, investing in foreign countries, which is essential in order to diversify from national investments.

With regard to the first type of investment, Italy is the most interconnected state in Europe; particularly with the Mediterranean countries: France (in 2013, work began on the new interconnection between France and Italy, as further specified in the section on significant events during the financial year), Slovenia, Greece, and shortly, Malta (2014) and Montenegro (2017). 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.

Investment in other countries with positive economic growth trends, requiring electrical infrastructure, and, along with a stable, reliable legislative/regulatory framework, increases the value of Terna's skills, regarded as best practice worldwide.

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 400kV 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, 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 interconnection cables received the necessary authorisation. The international tenders have been awarded: in Italy, the work is managed by Terna Rete Italia S.p.A., and in Montenegro by Terna Crna Gora d.o.o.

North Africa

To date, there are no Terna investment projects in progress in North Africa, only research and preliminary development work which could translate into a Euro-Mediterranean multilateral cooperation project by:

- constructing a Maghreb-Europe electric transmission corridor by interconnecting the systems within the countries concerned;
- participating in cooperation, institutional and industrial initiatives.

Interconnection projects in their development phase, in which Terna is involved relate to connections with the Tunisian and Algerian systems.

Analysis is underway in order to identify the best opportunities for interconnection with North Africa, based on Terna's experience in the following projects:

Project Elmed: this was originally an integrated production and transmission project involving the production of electricity in Tunisia and its exportation to Italy, on the basis of an intergovernmental Italian – Tunisian agreement. Elmed Études (a joint-venture company owned by Terna and STEG, the Tunisian electricity operator) has carried out technical and regulatory studies to analyse the conditions for developing the project.

Italy – Algeria interconnection: in order to proceed with interconnecting the Algerian and Italian electricity systems, Terna and Sonelgaz signed an agreement in 2011 to implement a previous feasibility study on an underwater connection between Algeria and Italy. Work was concluded at the end of 2013.

Other cooperation initiatives in this sector in which Terna is involved are:

Medgrid: a private French-law company involved in promoting a Euro-Mediterranean electricity grid for the exchange of electricity produced from renewable resources among MENA countries and transporting it to Europe.

DII (Desert Industrial Initiative): a German-led industrial initiative aiming to promote Europe-Mediterranean cooperation in electricity production, mainly from renewable resources, in the MENA countries and exporting it to Europe.

Med-TSO: is the association of Mediterranean transmission system operators sponsored by Terna. It was formed in Rome (Italy) in 2012 as a platform for dialogue among TSOs, with the aim of integrating electricity systems in the Mediterranean. It is comprised of 19 TSOs from 17 countries in the Mediterranean. The most recent members are the Palestinian transmission system operators (PETL) and the Israeli operators (IEC). The European Commission expressed its support for the development of Med-TSO and assigned the group the task of preparing a Master Plan for Mediterranean interconnections. The results were presented at the end of 2013, at the meeting of energy ministers from the EU and the rest of the Mediterranean.

The EC-financed project **Paving the Way for the Mediterranean Solar Plan** – a technical assistance project to develop the Mediterranean Solar Plan, involving nine of the MENA countries (Middle East and North Africa), developed with RTE (France), Sonelgaz (Algeria), MVV Decon (Germany) and the ENEA (Italian National Agency for New Technologies, Energy, Sustainable Economic Development) was also concluded in 2013.



Social context

Terna's concerns

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 everyone. 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. Commitment to service is therefore also a main reference point when approaching sustainability matters. This is also confirmed by the results of the materiality analysis carried out in 2013 and described in the "Introduction".

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 with regard to Italian society**. Thus Terna is fully aware of the responsibility entrusted to it by the government licence, and sets itself the following objectives:

- providing a secure, reliable, continuous, and cost-effective service;
- developing and ensuring an efficient transmission system;
- respecting impartiality and neutrality in order to ensure equal treatment for all grid users.

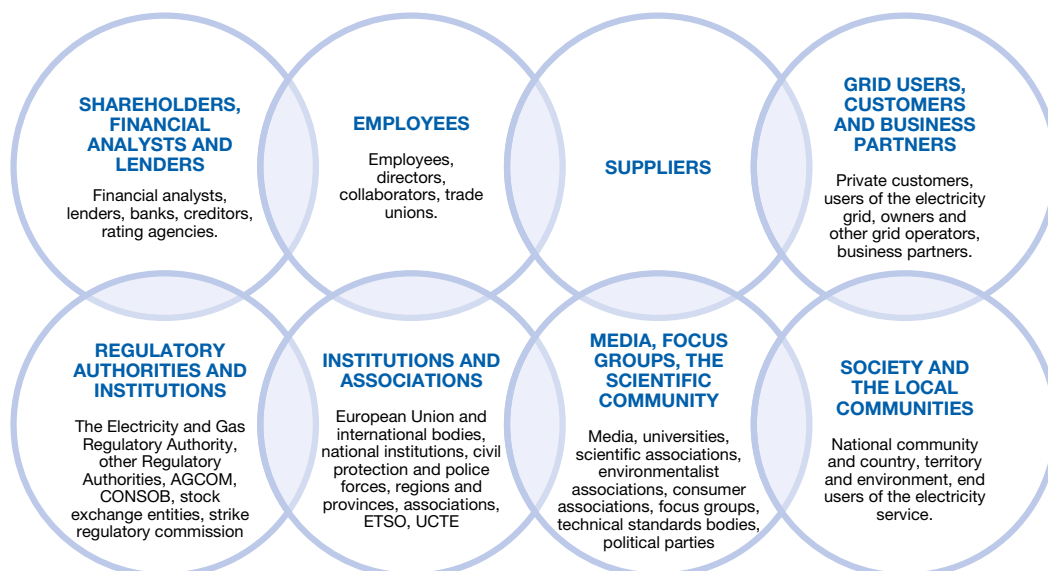
Business and sustainability matters are closely linked for Terna, so much so that the company and its stakeholders consider adopting **a responsible approach to planning the NTG** a priority.

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 – with the active involvement of its senior executives and management – identified the eight most significant categories of stakeholders, in terms of continuity of the relationship and the importance of the Company's impact on them and vice versa. Such categories are schematically represented in the graph below:



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 electrical energy in Italy

For the second consecutive year, demand for electrical energy in Italy has fallen. In 2013, the demand for electrical energy in Italy was 317,144 million kWh (provisional data), reporting a fall of 3.4% in comparison with 2012, which ended with a decline of 1.9%. This year-on-year decline is the largest after that of 2009 (when a decrease of 5.7% was reported). When comparing 2013 results with same day and temperature results from the previous year, the aforementioned decline is 3.1%. Indeed, during the summer months of 2013, the average temperature was around half a degree lower, with one less day in the year (2012 was in fact a leap year and the extra day in 2012 was a public holiday).

ELECTRICITY BALANCE SHEET FOR ITALY

GWh	2013*	2012	Change	%
Net generation	277,380	287,805	(10,425)	(3.6%)
From foreign suppliers	44,331	45,408	(1,077)	(2.4%)
Sold to foreign clients	2,178	2,304	(126)	(5.5%)
For pumping	2,389	2,689	(300)	(11.2%)
Total demand in Italy	317,144	328,220	(11,076)	(3.4%)

* Provisional data

Electricity generation

In 2013, national net production was 277,380 million kWh (provisional data), showing a fall of 3.6% from the previous year. The same production, divided according to source, shows that compared to 2012, there was a fall in the production of thermal energy and an increase in production from renewable sources⁹ including wind, solar and geothermal. There was a sharp increase in hydroelectric production (see the following table).

ELECTRICITY PRODUCTION IN ITALY

GWh	2013*	2012	Change	%
Net hydro generation	52,515	43,256	9,259	21.4%
Net thermal production	182,528	207,327	(24,799)	(12.0%)
Net wind, photovoltaic and geothermal production	42,337	37,222	5,115	13.7%
Total net production	277,380	287,805	(10,425)	(3.6%)

* Provisional data

Regulatory context

Revenue structure

In 2013, the Terna Group's revenue amounted to € 1,896.4 million. The majority of this revenue (about 97%) derives from activities regulated by the Electricity and Gas Regulatory Authority (AEEG) and 3% refers to non-traditional activities. The latter consist mainly of specialised services provided by the Terna Group 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 dispatching¹⁰, and by incentive mechanisms relative to specific spheres of the service and aimed at improving the same. **As is implicit with 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:

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

(9) 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.

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

Transmission service

The income linked to the payment for the transmission service (CTR) represents the main item of the 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 AEEG, 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 AEEG, on the basis of rules defined at the beginning of every four-year regulatory period. For the years 2013 and 2014, the unit amount of the grid transmission fee was updated respectively by AEEG resolutions No. 565/12 and No. 607/13.

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 recognised 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).

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

1. **Cost recognised 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 composed of:
 - *Base remuneration*
Pursuant to Resolution No. 199/11, as subsequently updated, the RAB is remunerated by the AEEG at a base return rate (WACC) linked to that of the market:
 - 2013 tariff: 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 31/12/2011 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 relative to the year "Y" reflect the return on investments up to the year "Y-2"). Therefore, the base return of the RAB on such investments (starting from the 2014 tariff) 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:
 - *Extra-WACC* (on investments which have entered into service): for some types of development investment, the WACC is increased for 12 years from the date of commissioning;
 - *Acceleration of investments:* for some of strategically important investments, an increase in the WACC is contemplated also in the expenditure period when the works are in progress, provided Terna reaches certain effectiveness indicators.

In 2013, RAB remuneration (base + incentives) constituted approximately 49% of Terna's recognised costs.
2. **Cost recognised to cover amortisation/depreciation:** recognised depreciation and amortisation are adjusted in accordance with the useful life of assets and the effect of net new investments. They are also re-evaluated annually according to changes in the deflator of gross fixed investments.
The share of amortisation/depreciation remuneration represented approximately 30% of the total recognised costs in 2013.
3. **Cost recognised to cover operating costs:** the component covering these costs, which in 2013 came to about 21%, 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 preceding 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 (price cap mechanism). The grid transmission fee is for the transmission of all the holders of portions of the NTG, and it is therefore calculated by the AEEG on the basis of the costs recognised by 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.

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 dynamic 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 the energy input into the distribution networks due to the incentives for the production of renewable energy, have rendered the trend in energy transported by the NTG less predictable and led the AEEG 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.

Dispatch service

The fee for the dispatch service (DIS) remunerates Terna for the activities directly connected to the dispatch service, and it is invoiced by Terna to the dispatch users, in proportion to the respective quantities of energy dispatched. The relative 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 and 2014, the unit amount of the DIS fee has been updated respectively by Resolutions No. 576/12 and No. 636/13.

2013 Incentive schemes

The AEEG has introduced specific bonus and penalty schemes aimed at encouraging service improvement, both in terms of technical reliability and cost. As is implicit with incentive mechanisms, upon reaching objectives, the benefit to service users will be a multiple of the incentive paid to Terna. In particular, in 2013 incentive mechanisms were provided:

- for the quality of the transmission service (non-tariff incentive mechanism);
- to promote particularly important investments (tariff incentive mechanisms: beyond WACC and investment acceleration).

The bonuses earned for achieving the objectives established in 2013 as part of the incentive schemes are included in Terna's total regulated revenue.

2013 INCENTIVE SCHEMES

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

Pass-through items

In addition to regulatory revenues and those generated from non-traditional activities, Terna manages income to cover costs relative to the transactions necessary for the execution of TSO activities: 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 grants 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 grants 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 2013, pass-through revenues and costs for the Terna Group totalled € 5,807.3 million (6,326.8 in 2012).

Legislative context

With reference to the legislative and regulatory context in which Terna operates, see Annex I “Relevant Italian legislation” for a more detailed description of the main regulatory measures relevant to the company issued in 2013. Further information required by specific legal or sector regulations is instead presented below.

Other information

Treasury shares

The Company does not hold any treasury shares or shares of Cassa Depositi e Prestiti S.p.A., nor has it acquired or sold any during the year, either directly or indirectly.

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 Management Report, 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 majority shares relevant in accordance with the mentioned legislation in companies incorporated 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 – holds 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 adopted by CONSOB Resolution 18079 of 20 January 2012

Pursuant to Art. 3 of Consob Resolution No. 18079 of 20 January 2012, Terna S.p.A. has decided to adhere to 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 of the right to waive the publication requirements of disclosure documents provided for significant mergers, de-mergers, share increases by contribution of non-cash assets, purchases and sales.

Related party transactions

Taking into account that Cassa Depositi e Prestiti S.p.A. exercises de facto control, as ascertained in 2007, related party transactions undertaken by the Group in 2013 consisted of intra-group transactions, transactions with employee pension funds (Fondenel and Fopen), and transactions with companies belonging to:

- the GSE Group;
 - the Enel Group;
 - the Eni Group;
 - the Ferrovie dello Stato (State Railway) Group;
- and with ANAS S.p.A.

Related party transactions carried out in the first half of 2013 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 Financial Statements at 31 December 2013. In addition, 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 at 31 December 2013, to which reference should be made.

It should be recalled that the rules produced by the Parent Company, detailed in the specific report on corporate governance and ownership structures published together with the 2013 Annual Financial Report, to which you are referred, lay down the conditions for ensuring that related party transactions be carried out observing the criteria of procedural and

substantial correctness at the same terms that would apply to independent counterparties according to the discipline for transparency of disclosures to the market.

We can note that, during 2013, 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”.

Please note that in accordance with new regulations introduced by CONSOB Resolution No. 18049 of 23 December 2011 published in the Italian Official Journal No. 303 of 30 December 2011 and in force as from 31 December 2011, the disclosure on fees relating to “members of the administrative and auditing bodies, general managers” and other “executives with strategic responsibilities”, and on the equity interests held by the same, was included in the annual remuneration report published pursuant to law.

Business description and the asset management system

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

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

The 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 2013, compared to the situation as at 31 December 2012, is shown in the following table:

	Terna S.p.A. 31.12.2013	Terna Rete Italia S.r.l. 31.12.2012	Total 31.12.2013	Total 31.12.2012	Change
Stations	456	19	475	468	+ 7
Transformers	649 138,399MVA	2 320MVA	651 138,719MVA	650 136,809MVA	+ 1 + 1,910MVA
Bays	5,022	83	5,105	5,047	+ 58
Lines	41,064km	16,476km	57,539km	57,439km	+ 100km
Three-phase power lines	2,374 46,039km	1,734 17,555km	4,108 63,594km	4,077 63,447km	+ 31 + 147km

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. e Terna Rete Italia S.r.l. plants as at 31 December 2013, separated into electrical stations and power lines is shown in the following two tables:

ELECTRICAL STATIONS	Units	2013	2012	Change	%
380kV					
Stations	No.	152	150	+ 2	+ 1.33
Power transformed	MVA	105,698	103,648	+ 2,050	+ 1.98
220kV					
Stations	No.	150	154	(4)	(2.60)
Power transformed	MVA	30,171	30,227	(56)	(0.18)
Lower voltages (≤150kV)					
Stations	No.	173	164	+ 9	+ 5.49
Power transformed	MVA	2,850	2,935	(85)	(2.90)
Total					
Stations	No.	475	468	+ 7	+ 1.50
Power transformed	MVA	138,719	136,809	+ 1,910	+ 1.40

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	2013	2012	Change	%
380 kV					
Three-phase power line length	km	11,824	11,810	+ 14	+ 0.12
Line length	km	10,908	10,894	+ 14	+ 0.13
220 kV					
Three-phase power line length	km	11,915	11,987	(71)	(0.59)
Line length	km	9,569	9,639	(70)	(0.72)
Lower voltages (≤150kV)					
Three-phase power line length	km	39,854	39,650	+ 204	+ 0.51
Line length	km	37,062	36,906	+ 156	+ 0.42
Total					
Three-phase power line length	km	63,594	63,447	+ 147	+ 0.23
Underground cable	km	1,512	1,368	+ 144	+ 10.54
Submarine cable	km	1,348	1,348	-	-
Direct current (200 - 400 - 500 kV)	km	2,066	2,066	-	-
Line length	km	57,539	57,439	+ 100	+ 0.17
Underground cable	km	1,512	1,368	+ 144	+ 10.54
Submarine cable	km	1,348	1,348	-	-
Direct current (200 - 400 - 500 kV)	km	1,746	1,746	-	-
Incidence of direct-current connections					
Three-phase power lines	%	+ 3.25	+ 3.26	(0.01)	(0.31)
Lines	%	+ 3.03	+ 3.04	(0.01)	(0.33)

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

The main variations in the size of the NTG belonging to companies in the Group are shown below.

Number of plants – Terna S.p.A.

The number of plants belonging to the company Terna S.p.A. as at 31 December 2013, compared to the situation as at 31 December 2012, is shown in the following table:

	Terna S.p.A.		
	31.12.2013	31.12.2012	Change
Stations	456	449	+ 7
Transformers	649	648	+ 1
	138,399 MVA	136,489 MVA	+1,910 MVA
Bays	5,022	4,964	+58
Lines	41,064 km	40,931 km	+132 km
Three-phase power lines	2,374	2,347	+27
	46,039 km	45,904 km	+136 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 transformation station in Manfredonia (4 x 380kV bays and 3 x 150kV bays);
 - activation of the new overhead-cable transition station in Fontelupo (2 bays at 380kV);
 - activation of the new switching stations in Arlena and Innanzi (4 x 150kV bays for each station), Duino and Molini di Tures (4 x 132kV bays for each station) and North-West Buia (3 x 132kV bays);
 - purchase of the switching station in Mistretta (3 x 150kV bays);
 - declassification of the transformation stations in Mucone 1° Salto and Mucone 2° Salto from 220kV to 150kV;
 - declassification of the Terranova switching station from 220kV to 150kV;
 - disactivation of the switching station in Pisticci (4 x 220kV bays), currently being reconstructed;
2. of existing plants:
 - activation of 24 new line bays in the stations Feroletto, Maida and Erchie (1 x 380kV bay for each station), Milan Ricevitrice West, Baggio and Santa Valburga (1 x 220kV bay for each station), Troia 380 (3 x 150kV bays), Montalto, Aliano and Augusta (2 x 150kV bays for each station), Larino, Castelnuovo, Patria, Santa Sofia, Mucone 2° Salto and Castellaneta (1 x 150kV bay for each station), Ospiate, Camin and Tavarnuzze (1 x 132kV bay for each station);
 - activation of 15 new machine and/or power factor correction bays in the stations of Sorgente (2 x 380kV bays and 1 x 220kV bay), Santa Maria Capua Vetere (1 x 380kV bay and 1 x 220kV bay), Castellaneta, Scandale and Feroletto (1 x 380kV bay and 1 x 150kV bay each), Camin and Marginone (1 x 380kV bay each), Cedegolo South and Castelluccia (1 x 220kV bay each);
 - activation of 10 new parallel and/or connector bays in the stations of Erchie (1 x 380kV bay and 1 x 150kV bay), Sorgente (1 x 380kV bay), Ponte (1 x 220kV bay), Valmontone (3 x 150kV bays), Scandale (2 x 150kV bays) and Cardano (1 x 132kV bay);
 - deactivation and/or demolition of 20 bays in the stations of Ostiglia and Camin (1 x 380kV bay for each station), Taranto North (5 x 220kV bays and 1 x 150kV bay), Mucone 2° Salto (3 x 220kV bays), Mucone 1° Salto (1 x 220kV bay and 1 x 150kV bay), Rosara (1 x 220kV bay and 1 x 132kV bay), Rotonda (1 x 220kV bay), San Colombano (2 x 132kV bays and 1 x 30kV bay) and Rubiera (1 x 132kV bay).

Two bays, installed following technical verification of the values previously cited, should be added to the above variations.

Transformers

With regard to transformers, the following variations are noted:

- activation of 2 new 380/220kV auto-transformers of 400MVA in the stations in Santa Maria Capua Vetere and Sorgente (1 x ATR for each station);
- activation of four new 380/150kV auto-transformers of 250MVA in the stations of Castellaneta, Scandale, Feroletto and Manfredonia (1 x ATR for each station);
- activation of one new 220/132kV auto-transformer of 250MVA in Santa Lucia station;
- replacement of one 220/132kV auto-transformer of 160MVA with a similar one of 250MVA in Salgareda station;
- replacement of one 220/132kV auto-transformer of 107MVA with a similar one of 160MVA in Bolzano station;
- replacement of one 220/60/10kV transformer of 75MVA with a similar one of 100MVA in Castelluccia station;
- decommissioning of four 220/150kV auto-transformers of 100MVA in the stations of Santa Lucia, Mucone 1° Salto, Mucone 2° Salto and Taranto North (1 x ATR for each station);
- decommissioning of one 220/132/8kV auto-transformer of 73.5MVA in the Ponte station;
- decommissioning of one 30/15kV transformer of 10MVA in San Colombano station.

175MVA of transformed power installed following technical verification of the values previously cited should be added to the above variations.

Power lines

With regard to power lines, the following variations are noted:

- entry into service of nine new lines for a total of 44.2 km of three-phase power line: Feroletto – Maida at 380kV (12.0km overhead), Baggio – Milan Ricevitrice West at 220kV (7.5km in cable), Montalto – Camposcala 1 and 2 at 150kV (0.9km in cable each), Temù Taio 132kV (13.8km in cable), Novate CP – Musocco CP at 132kV (4.3km in cable), Fiera Nuova CP – Fiorenza CS at 132kV (2.4km in cable), Duino – Lisert at 132kV (2.1km in cable) and Camin – Camin CP at 132kV (0.4km in cable);
- purchase from Daunia Wind of two cable lines at 150kV for a total of 26.3km of three-phase power line: Camerelle – Deliceto (17.5 km) and Camerelle – Valle (8.8km);
- activation of three short 132kV connections between adjacent plants for a total of 0.2km of three-phase power line;
- downgrading to 150kV of two 220kV overhead lines for a total of 75.0km of three-phase power line: Mucone 2° Salto – Terranova (32.7 km) and Rotonda – Terranova (42.3km);

- construction of 14 in-out derivations on 14 operating lines with an overall increase of 14 three-phase power lines and 41.8km of three-phase power line;
 - construction of variants, rigid derivations and/or changes in the line and/or grid distribution with a total increase of 26.5 km of three-phase power line;
 - demolition of two lines operating at 132kV for a total of 16.7 km of three-phase power line.
- One three-phase power line and around 13.4 km of three-phase power line should be added to the above variations following technical verification of the values previously cited.

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 2013, compared to the situation as at 31 December 2012, is shown in the following table:

	Terna Rete Italia S.r.l.		
	31.12.2013	31.12.2012	Change
Stations	19	19	-
Transformers	2	2	-
	320MVA	320MVA	-
Bays	83	83	-
Lines	16,476km	16,507km	- 32km
Three-phase power lines	1,734	1,730	+ 4
	17,555km	17,543km	+ 11km

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

Stations and transformers

No change occurred in the year, with regard to stations or transformers.

Power lines

With regard to power lines, the following variations are noted:

- entry into service of the new cable line Cuma – Patria 2 at 150kV for a total of 13.4km of three-phase power line;
- construction of ten in-out derivations on ten operating lines with an overall increase of 10 three-phase power lines and overall reduction of 1.3km of three-phase power line;
- construction of variants, rigid derivations and/or changes in the line and/or grid distribution with a total reduction of five three-phase power lines and 1.6km of three-phase power line;
- demolition of one line operating at 132kV for a total of 0.4 km of three-phase power line.

One three-phase power line and around 1.2 km of three-phase power line should be added to the above variations following technical verification of the values previously cited.

Changes to the distribution of the portion of the NTG operated by Terna Rete Italia S.r.l. over the year, although resulting in an overall increase of 11km of three-phase power lines as specified above, entailed a number of moves from single to double three-phase power line such as to reduce lines by 32 km (see table above).

The National Transmission Grid (NTG) – The 2013 Development Plan

The National Transmission Grid Development Plan

In accordance with Italian Legislative Decree 93 of 1 June 2011, which provided for two public sessions at the AEG in 2012 to present the 2012 DP for consultative purposes, on 29 May 2013 a definitive formal opinion was sent by the AEG to the MED on the 2012 DP, as well as some recommendations for future plans. On 19 February 2013, consultation on the Environmental Report related to the 2012 Development Plan was completed. We are awaiting the final reasoned opinion from the Ministry for Economic Development.

Terna's 2013 Development Plan was sent to be assessed for approval purposes to the Ministry for Economic Development and to the Electricity and Gas Regulatory Authority on 29 January 2013, in accordance with the provisions of the Ministerial Decree of 20 April 2005 (Concession, as amended and updated with the decree of the Ministry for Economic Development of 15 December 2010) and by Italian Legislative Decree 93/2011.

The said Plan (2013 DP), approved by Terna's Board of Directors with a resolution dated 19 December 2012, was submitted for consultation procedures to the User Consultation Committee¹¹ (on 6 December 2012 and 21 February 2013), which expressed a favourable opinion both on the new development work and on the 2013 Plan as a whole.

The 2013 Development Plan is concerned with the Transmission Grid development investments included in the 2013-2022 time window; the 2013 Plan consists of a main document and three further study appendices, in particular:

- the *2013 Development Plan* is the central document which describes the framework of reference, the objectives and the criteria through which the Transmission Grid planning process is organised in the Italian and European context, the forecast scenarios and the new development needs which emerged during 2012, the action priorities and the expected results deriving from implementing the said Development Plan;
- *Appendix 1 – Details of developments to the legislative framework of reference* contains details of the recent legislative and regulatory measures in the sector;
- *Appendix 2 – Main features of the electrical system and of the markets* describes the main phenomena and trends which have characterised the Italian electrical system over the last few years;
- *Appendix 3 – Technical and economic assessments* provides further information on the economic sustainability analyses of the main development projects.

The 2013 DP provides for investments of approximately € 7.9¹² billion in the decade 2013-2022, divided into € 3 billion in the first five years and € 4.3 billion in the second five years, thanks to which efficiencies will be achieved for the electrical system of more than € 1.5 billion per year and other great benefits:

- reduction of energy losses of 1.2 billion kilowatt-hours per year;
- reduction of CO₂ emissions of approximately 12 million tonnes/year;
- reduction of congestions for an amount of more than 5,000MW;
- greater import capacity estimated at more than 4,000MW;
- greater power capacity generated by renewable sources of more than 5,000MW.

In addition, implementation of the 2013 DP will lead to an increase in the dimensions of the NTG of more than 5,000 km of new power lines and more than 160 new stations for a new transformation capacity to the order of approximately 44,000MVA.

It should be noted that the Ten-Year Network Development Plan of the European electricity grid 2014 edition is being prepared under the aegis of ENTSO-E (TYNDP 2014), on the basis of the provisions of the European Community Regulation regarding the "Third Energy Package". Terna is directly involved in this Plan in the context of the Regional Forums: Continental Central South and Continental South East of which Terna is a member.

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 ambitious 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 were presented to the AEEG at the end of 2012, highlighting in particular the value of such proposals for the entire energy industry, insomuch as being not only highly innovative but also unique in kind and purpose. The development of the projects is handled by the company Terna Storage, founded for this purpose by the parent company in the financial year 2012.

The "Energy Intensive" project, introduced as part of the 2011 Development Plan, envisages the construction of three storage systems in Southern Italy with a total capacity of 34.8MW. Such systems ensure greater flexibility in the

(11) The User Consultation Committee, established by the Italian Prime-Ministerial Decree of 11 May 2004, expresses a non-binding opinion on the Development Plan as required by the Competition and the Market Authority Decision No. 14542 of 4 August 2005.

(12) Including the investments envisaged for the installation of diffused accumulation systems.

management of renewable energy plants and increase the grid's capacity to feed in green energy. As a result, the introduction of storage systems contributes to reducing energy costs and increasing the security and efficiency of the electricity system.

The cumulative 34.8MW introduced by the "Energy Intensive" projects will allow for the recuperation of hundreds of GWh of energy produced by wind energy plants, cut off until now. This is quantifiable as significant savings for the system across the country and as an environmental benefit, thanks to the large proportional reduction in CO² emissions.

In 2013, the AEEG approved Terna's projects and provided extra incentives. The procurement phase has been completed and, in May 2013, the contract was signed with the supplier of the NaS-technology batteries, with subsequent definition of the 34.8MW production plan and the related on-site construction and delivery times. The authorisation procedure for the three sites in question was also started, with two rulings obtained and the third on its way, and the construction phase was launched with the opening of the first site.

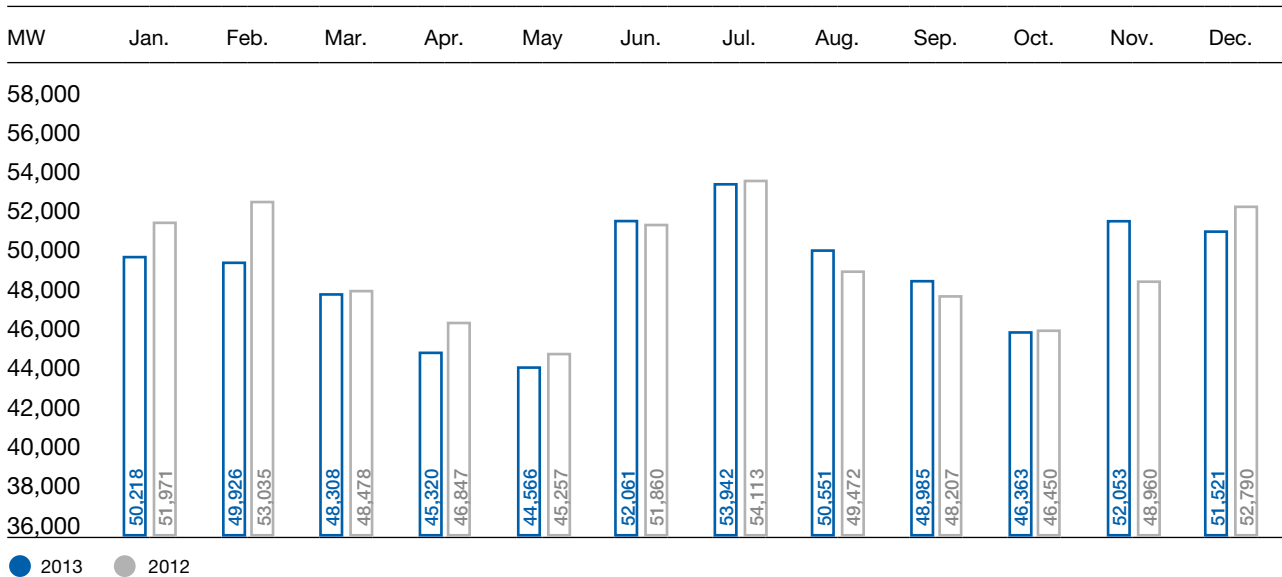
The "Power Intensive" project, which had already been approved by the Ministry of Economic Development as part of the 2012 Defence Plan, provided increased security to the electricity systems on the major Islands by installing a 40MW storage system. The project is divided into two phases: the first phase, the "Storage Lab", is under construction and will see the installation of two multi-technology plants (different storage technologies and no less than 8 different commercial products) for a total of 16MW, shared between Sicily and Sardinia. Following the completion of the first stage, which also aims to analyse the performance of the different solutions installed, a further 24MW will be achieved by selecting the most promising technologies.

Electrical energy dispatching

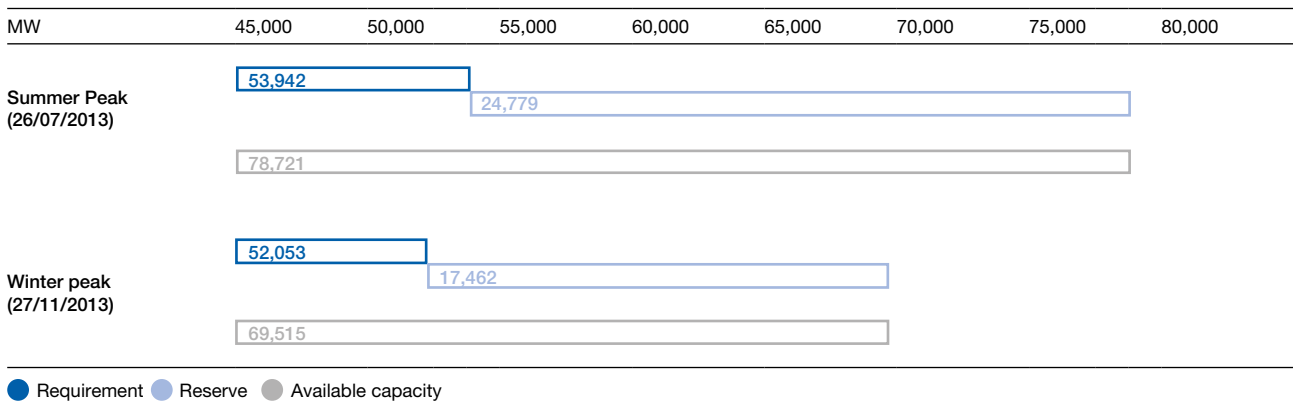
Coverage of demand

Coverage of demand 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.

MAXIMUM POWER VALUES



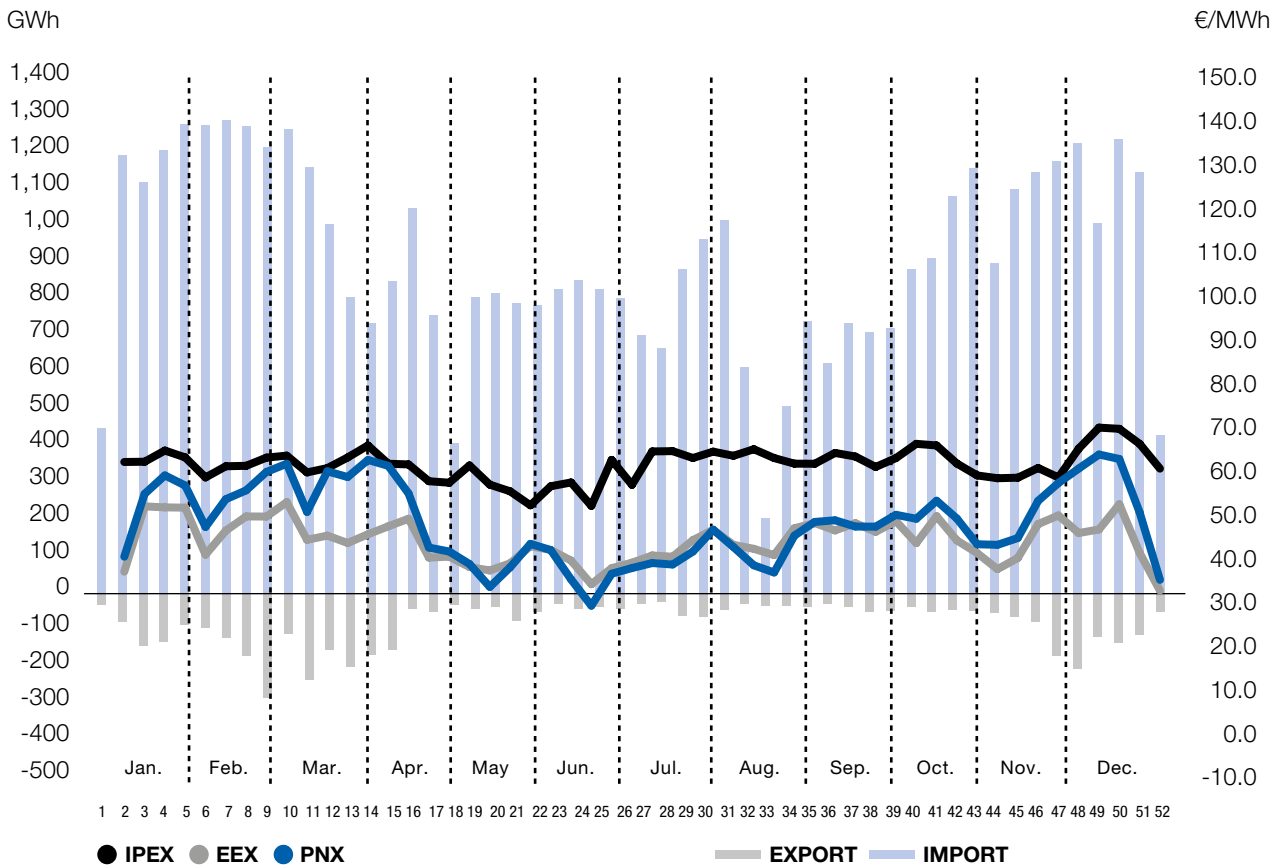
In 2013, demand reached a peak of 53,942MW on 26 July at 12:00 p.m., 0.3% below the peak recorded in the same month in 2012.



In 2013, foreign trade recorded net imports down by approximately 1TWh compared to the previous year. The price on the Italian energy exchange continued, on average, to be higher than other European exchanges:

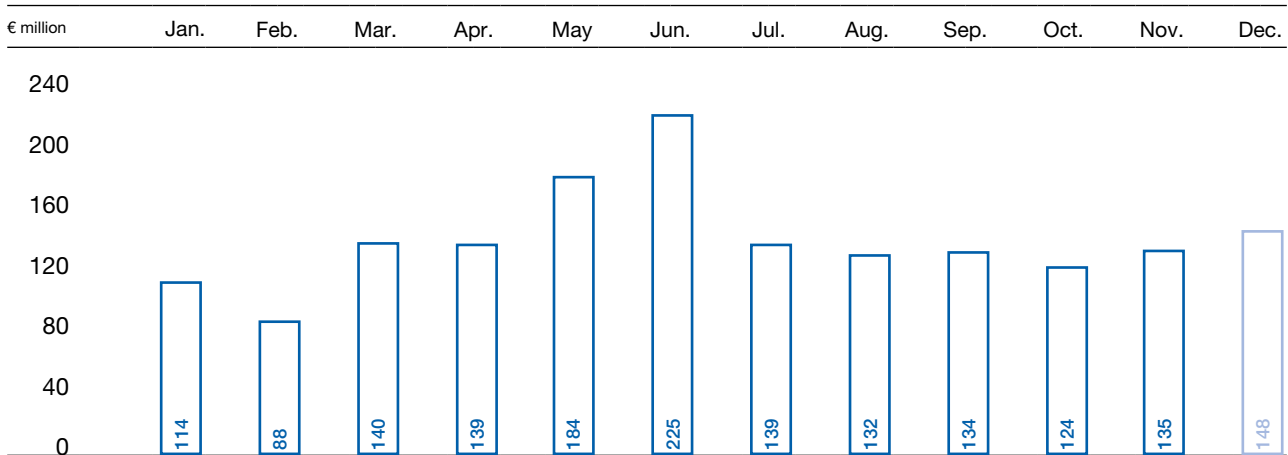
- price on the Italian energy exchange (PUN) of € 63/MWh (-16% compared to the previous year);
- price on the French energy exchange (PNX) of € 43/MWh (-6%);
- price on the German energy exchange (Phelix) of € 38/MWh (-9%).

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 convergence of the French price during the winter months is attributable to the sharp increase in demand as a result of low temperatures and for the maintenance of several nuclear reactors.



Dispatching Services Market

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



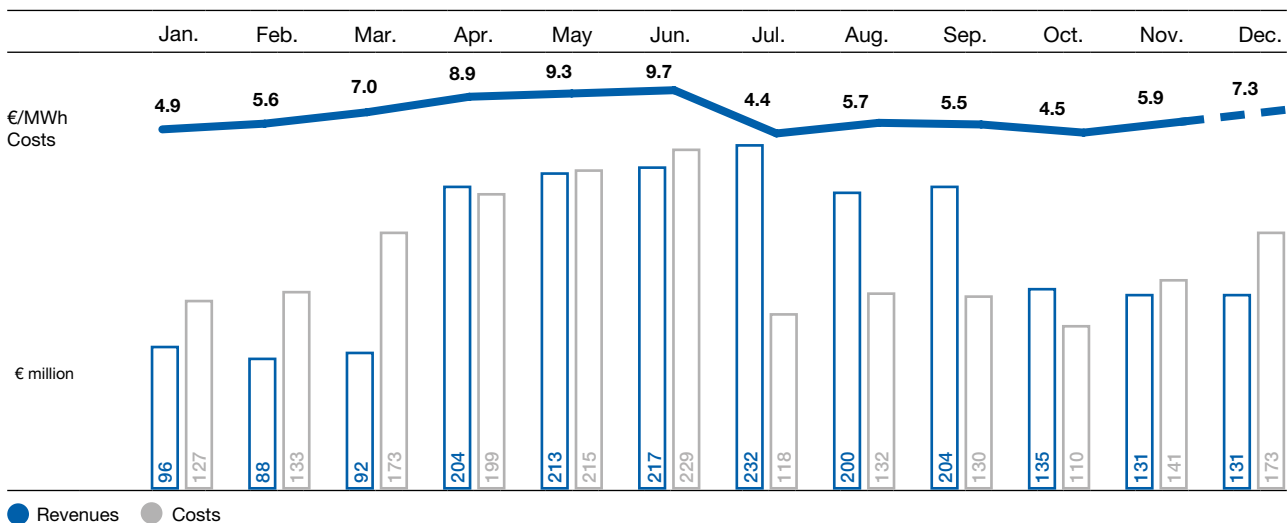
In 2013, the net associated cost was € 1,702 million (+20% on the previous year). The figures for December 2013 are provisional.

The increase in the cost recorded for 2013 is attributable to the need for greater resources to manage the system in conditions of low load and/or high renewable production.

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 AEG Resolution No. 111/06 Art. 44 and subsequent amendments, represents the net expense associated with the following energy items: purchases and sales on the DSM for the procurement of services and energy to cover imbalances, premiums for contracts signed as an alternative to declaration of essentiality, remuneration of plant goodwill on the DSM, congestion earnings and the related financial coverage, virtual interconnection service (known as the 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. The income from uplift sales ("Sales") and the relative final cost ("Costs") – the latter also as a unit tariff – are broken down in the following chart:



In 2013, uplift turnover was € 1,942 million. The figures for December 2013 are provisional.

The increase in the unit price recorded in particular in the second quarter of 2013 is attributable both to the higher cost and to the lower withdrawals on which the said cost is distributed.

Information Technology

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. Terna 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 2013 the Terna Group incurred costs of € 17.4 million in respect of the associate CESI of which € 15.9 million were capitalised.

Applied research

Research into innovations and new developments in engineering can be divided into four broad fields:

- *Optimisation of infrastructure and materials*

This area is concerned with designing pylons with less visual impact and which are more easily integrated into the surrounding environment; as well as identifying ways to boost the transmission capacity of existing lines; and developing new technology for High-Voltage cables.

One of the major achievements in 2013 was the installation of “Germoglio” pylons, designed by architect Hugh Dutton, along the 380kV double three-phase power line “Trino – Lacchiarella” power line. Along the “Lacchiarella – Vernate” line, an experimental section of 150kV cable, made entirely from recyclable materials, was installed and put into service (technology which is already well established for Medium-Voltage cables).

- *Equipment diagnostics*

The purpose of the research carried out in this area is to develop new monitoring systems which can, for example, be used with station equipment and machinery, line components, and partial discharges in High-Voltage cable systems.

At the Lacchiarella power station, work was completed on the installation of a new type of sensor on the 132kV section, in addition to those already installed in 2012 which made it the first Terna station to be fully monitored. Data transmission tests also began on the central monitoring system (PSE).

The positive results of these tests will form the basis for replicating the technology at other facilities in the future. Monitoring of electrical machinery at 11 plants was also completed. Specifically, at the Rondissone power station a device for measuring partial discharge online was installed on the Phase Shifter Transformer, in addition to the rest of the sensors.

- *New equipment*

Research in this area is dedicated to developing and implementing compact rapid installation stations. After a positive trial run with the 150kV Compact Rapid Installation Station, a similar project has been planned for 380kV. The viability of this project has been confirmed by the manufacturers and the specifications to allow the basic components to be tested in 2014 have been drawn up.

- *Plant safety*

The main aim of research in this area 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, etc.

In 2013, the final design for a feasible barrier-system project to contain power transformers (ATRs) on all four sides was completed. The plan has standardised features so that it can be used all over the country. In the event of a transformer exploding, the barriers are able to shield the plant from flames and the impact of flying shrapnel, increasing safety. Preparation is under way for a set of guidelines which will define the specifics of the fire protection system and its fields of application, in line with the regulations for electrical machinery under Presidential Decree 151/11.

Another plant-safety project in 2013 focused on providing anti-seismic devices for the most vulnerable equipment.

In collaboration with the Roma Tre University, Terna completed a study on plant seismic vulnerability. It paid particular attention to the most at-risk equipment, and the Wipe-Rope TRI system obtained seismic qualification AF5.

Seismic testing using a shaking table demonstrated the effectiveness of the insulation system, showing a 50% reduction in structural fatigue when equal force was exerted. This result allowed us to reach and exceed the required seismic qualification.

Given these results, in 2014 the devices tested will be installed on Siemens 380kV switches in stations at high risk of seismic activity.

Management of human capital

Organisational and geographical structure of the Group

Terna employees, numbering 3,442, are distributed among the Group's companies as follows:

	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Storage S.r.l.	Terna Crna Gora d.o.o.	Terna Plus S.r.l.
Number of employees	372	3,056	5	3*	9

*Local employees

Within the Group structure, the new organisational model, in force since 1 July 2013, which affected the subsidiary Terna Rete Italia S.p.A, the biggest company in terms of employees – as shown in the above table – aims in particular to strengthen local control of plant operation and maintenance, and management of operating processes.

The new structure establishes:

- three new Local Divisions (North-West, North-East and Centre-South);
- the functional integration of the operational activities previously carried out in the scope of “Lines” and “Stations” and gradual introduction of multi-skilled staff;
- the centralisation of management, design and production activities within the Local Divisions;
- allocating the local dispatching responsibilities to the relevant Local Division;
- redefining the scope of activity of the Central and Local Engineering Functions, and streamlining the geographical distribution of the operational sites.

An outline of the employees

PERSONNEL BY CATEGORY

	2013	2012	Change
Total	3,442	3,433	9
Senior executives	62	59	3
Junior executives	501	502	(1)
White-collar workers	1,922	1,925	(3)
Blue-collar workers	957	947	10

In 2013, the Group's personnel increased slightly compared to 2012. At the end of the year the Italian companies of the Group had 3,442 employees (9 more compared to 2012), in addition to the three employees of the Montenegrin subsidiary Terna Crna Gora d.o.o.¹³

CHANGES TO PERSONNEL

	2013	2012	Change
Total employees	3,442	3,433	9
Employees recruited during the year	70	45	25
Employees left during the year	61	105	(44)
<i>Turnover rate on termination (%) ⁽¹⁾</i>	1.8	3.0	

⁽¹⁾ The turnover rates report the percentage of terminations with respect 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 (0.26% in 2013; 0.34% in 2012): the total turnover rate, therefore, essentially reflects terminations owing to retirement. The average length of service of employees who left the Company in 2013 was 32.4 years.

(13) Unless explicitly indicated, Terna Crna Gora d.o.o. employees are excluded from the data presented in this chapter.

PERSONNEL COMPOSITION

	2013	2012	Change
Total employees	3,442	3,433	9
<i>By contract type</i>			
- permanent	3,412	3,383	28
- temporary	30	50	(20)
<i>By gender</i>			
- men	3,048	3,041	7
- women	394	392	2
<i>Average age of personnel (years)</i>			
Average age	46.2	45.7	

In 2013, Terna made use of 39 temporary workers (compared with 31 in 2012 and 34 in 2011), employees of agencies that provide a temporary employment service to Terna. The decrease in temporary workers (from 1.5% in 2012 to 0.9% in 2013) reflects **stabilisation thanks to the permanent recruitment** of 46 employees, previously employed with trial contracts that expired during the year.

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, 70% of the corporate population has a degree or high school diploma (69% in 2012).

Management of generational turnover

The new 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, reduced the “catchment area” of potential leavers for Terna. A summary table of potential personnel leaving for retirement in the period 2014-2018 is shown below. The total of 549 people can be broken down as follows:

Employees in service at 31.12.2013 eligible for a pension as of 1 January 2012 under the old legislation:	87
<i>of whom: senior executives, junior executives, white-collar workers</i>	63
<i>of whom blue-collar workers</i>	24
Employees in service at 31.12.2013 potentially retiring in the period 2014-2018, in accordance with the new legislation:	462
<i>of whom: senior executives, junior executives, white-collar workers</i>	284
<i>of whom blue-collar workers</i>	178

It should be noted that the probability of effective retirement in the five years considered is very high only for the first group of employees, for whom the reform – in force since 1 January 2012 – guaranteed application of the previous requisites. Instead, for members of the second group, it is expected that more will opt to continue in employment and thus gain a higher pension. Some time ago, Terna began a series of initiatives to manage generational turnover. Among the most significant are:

- 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.

At the end of the **selection process**, Terna always informs all candidates of the outcome of their application, whether positive or negative.

Terna is consolidating and expanding its relations with universities and the world of post-graduate 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, funding the creation of specialised Master’s courses.

Key figures 2013

35 agreements with universities and business schools, compared to 30 in 2012

6 Master’s sponsored, compared to 7 in 2012

116 hours of teaching Terna employees at universities and business schools, 100 in 2012

677 students from university or Master’s courses visiting the plants, compared to 550 in 2012

52 internships, traineeships, project work activities compared to 37 in 2012

14 career days in which Terna took part, compared to 13 in 2012

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.

The main context for passing on specialised know-how is the **in-house “Campus” faculty**, which has been active since 2012 and can hold 200 employees involved in various training activities. Here, expert staff act as planners and teaching staff. These activities are combined with external partnerships with universities and business schools to ensure a varied and stimulating environment.

Terna’s training model prioritises **active teaching methods in classroom training** and uses **on-the-job training** to support integration into the Company or highly professional roles. **E-learning** is used in campaigns for the transfer of specific knowledge and information.

Training activities are subject to systematic assessment of the results by means of satisfaction questionnaires and tests to ascertain the learning achieved.

Training initiatives are categorised by subject area:

- **Context & business model** for knowledge of the internal and external business context in which Terna works and to promote development of the corporate identity.
- **Education** for managerial and staff development.
- **Training** for the acquisition of technical-professional skills, and transverse skills such as foreign languages and office automation.
- **Courses**, short, medium and long training courses, devoted to specific target addressees and made up of a mixture of initiatives belonging to the three previous subject areas. The proposals are designed for new recruits and staff in service belonging to uniform professional groups (e.g. shift workers in the control rooms).

The hours of training provided in 2013 reflect the continuation of a transitional phase in the two-year period 2012-2013, which saw Terna go through corporate re-organisation (transformation into a Group) and, starting from July 2013, the reorganisation of Terna Rete Italia S.p.A., its largest company. Classroom training activities were concentrated mainly in the first half of the year, while the second half was dedicated to planning and organisation teaching activities starting in 2014 for new roles and professional groups (e.g. multi-skill figures) needed as a result of the re-organisation. In addition, the continuation of a limited influx of new staff, affecting the number of hours of training provided, is to be noted. In any case, despite a reduction in the total hours of training provided, indicators of the degree of coverage and distribution per category show very stable corporate investment in training.

Key figures 2013

89% of employees have attended at least one training course (*86% in 2012*)

120,115 hours of training provided (*143,418 in 2012*)

99.5% hours provided in the classroom (*99% in 2012*)^a

35 hours of training per capita (*41 in 2012*): 36 for men, 25 for women

As regards the context and business model section, 13,851 hours were provided (compared with 6,352 in 2012). These can only be partially attributed to activities for new recruits and refer mainly to refresher courses on the Organisational Model 231 under Law and the electricity market. A training event on sustainability funded by Fondirigenti and involving almost all managers is also to be noted.

On the subject of education, 12,782 hours were provided (a drop compared with 17,707 in 2012), inclusive of a managerial training event funded by Fondirigenti and which involved almost all managers (thus with a significantly higher degree of coverage than 2012).

Training remains the area with the highest investment of 93,482 hours (119,359 in 2012); this fall was due mainly to the reduction in new recruits.

Within this, the Safety section recorded 37,940 hours (41,137 hours in 2012) showing a slight fall due to the lower number of new recruits and to the absence of widespread campaigns such as those organised in the last few years following significant legislative changes.

The grouping of many of the training activities for all the sections, for junior executives and white and blue-collar workers, into two relevant training plans funded by Fondimpresa is also to be noted.

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 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. Application of the GPS currently involves **all senior executives, all junior executives** (excluding the shift managers of the real-time network) **and some white-collar workers**.

In 2013, 756 employees were involved, equal to 30% of the managerial and white-collar population (38% of female employees and 29% of male employees). According to Company programmes, this number is destined to increase, including new population targets.

For blue-collar workers and other employees not included in the GPS, other forms of assessment are used such as periodic discussions between managers and HR representatives.

Measurement of performance is also related to **payment of the variable parts of the remuneration**. Various tools are used to do so, according to the type of corporate figures involved and the time horizon of the results to which they refer:

- **Long-Term Incentive Plan (LTI)** 2011-2013 for multi-year corporate objectives, for senior executives who hold the most important positions in terms of achieving strategic objectives; for junior executives who hold key roles in the Company, a "Fidelity bonus" is provided.
- **MBO** (Management By Objectives) for the company management, which links individual bonuses to the achievement of targets, both at the corporate and individual levels. **Balanced Scorecard** system to assess quarterly progress in achieving objectives – including sustainability objectives – related to the Strategic Plan and the MBO. Recognising the importance of the extensive involvement of employees in implementing programmes and plans regarding quality and productivity, Terna signed an agreement with the trade unions governing a **corporate-result bonus assigned to blue- and white-collar workers**, taking into account both general company trends and specific work-related employee targets to encourage productivity.



2013

The background of the page is a complex, abstract pattern of thin, light gray lines. These lines are arranged in a grid that is distorted by a perspective effect, creating a sense of depth and movement. The lines curve and converge towards the right side of the page, where they appear to meet at a point, creating a funnel-like shape. The overall effect is a dynamic, flowing pattern that changes as the viewer's perspective shifts.



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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 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.

Society and discussion with local communities

Society and discussions with local communities are key considerations for Terna, which views the question of acceptance by local communities as central: aside from its relationships with institutions, based on identifying and agreeing on solutions in advance, increasing the degree of acceptance of electricity infrastructures in the communities involved is very important, as can also be seen from the disputes detailed 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 National Transmission Grid (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.

216 meetings took place in total in 2013, involving 149 organisations.

Opposition to building new lines

Terna considers respect for the environment and for the territory an integral part of grid planning and makes every effort to act in agreement with the local institutions. However, new infrastructure-creation projects often provoke adverse reactions attributable to "NIMBY" (Not In My Backyard) syndrome. In these cases, 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.

Searching for agreed solutions requires difficult discussions and can be drawn out process. The results are normally positive, but local opposition may persist throughout. Please note the following cases from 2013:

- **The "Sorgente – Rizziconi" case.** In 2011, when the construction sites opened, protests broke out in the Messina area against the new power line under construction, despite the fact that the route was the result of more than two years of technical and environmental studies, and despite consultation with local communities having begun in 2004 with over 100 meetings.
- **The "Redipuglia – Udine West" power line.** Construction of the line began in October 2013. When the construction sites opened, some parties expressed their disapproval even during the authorisation process. These, however, did become less intense.

- **“Rationalisation in the Middle Piave Valley”**. The project was authorised in February 2011 and, today, is in the environmental-impact assessment phase. Some municipalities including Belluno and Soverzene are opposed to the route proposed. Terna has informally put forward an alternative which is currently under consideration.
- **“Rationalisation in Arezzo”**. During the authorisation phase, when Terna presented additions to the documentation, a people’s committee voiced their opposition to the works.
- **“Montesano della Marcellana Station”**. The station, authorised in 2010, is under construction. When the construction site opened, strong opposition broke out among the local population.

Renewable sources

Climate change and greenhouse-gas emissions are one of the most significant problems at the planetary level. Terna is not obliged to reduce emissions or to be involved in emission trading schemes, nor does it see particular risks associated with climate change in terms of revenue. Terna’s can however contribute to lowering CO₂ emissions into the atmosphere by developing the grid, which makes the electricity system as a whole more efficient and makes it possible to feed in increasing production from renewable sources.

The applied research and the initiatives on the subject of Smart Grids point in the same direction, as does the participation in initiatives and international projects to develop an integrated Euro-Mediterranean electricity grid and the development of storage systems envisaged in its Strategic Plan for the coming years.

It should be remembered that climate change has led to changes in legislation to encourage renewable energy sources. This has already and will continue to provide Terna with opportunities to explore new avenues of business.

Investments in the transmission grid, made necessary by connecting renewable energy plants, are a source of revenue for Terna. Furthermore, grid development investment has significant consequences in terms of reducing emissions throughout the electricity system (reduction of losses, improvement in the production mix, connection to new renewable energy plants). This is positive for Terna’s image. The long-term prospect of developing interconnections in areas which are not connected today (e.g. the Balkans and North Africa) enables Terna to cultivate business opportunities. In the short term, Terna is experimenting with storage devices (batteries), which may actually encourage the use of renewable sources, while resolving grid regulation problems. These investments may open a new business avenue for Terna which is indirectly linked to climate change.

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 in the remaining period of the 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

With reference to 2013, around 97% of the Group’s consolidated revenue comes from annual fees and incentive mechanisms paid for the provision of services regulated by the Italian Electricity and Gas Regulatory Authority (AEEG).

With Resolutions 199/11 and 204/11 (as subsequently updated), the Electricity and Gas Regulatory Authority (AEEG) 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 2013, the unit costs of the transmission and dispatching fees were respectively updated by AEEG resolutions 565/12 and 576/12. For 2014, such updates have been provided for by AEEG resolutions 607/13 and 636/13, respectively.

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

Within the scope of such regulatory framework there are a number of variables which could affect the Group’s performance. With particular reference to RAB 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.

- *Volume effect*

The revenues of Terna S.p.A. and Terna Rete Italia S.r.l. attributable to the management, operation and development of the National Transmission Grid, and to the management of dispatching activities, are regulated by tariffs set by the Electricity and Gas Regulatory Authority.

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 AEEG Resolutions 199/11, 204/11, 565/2012 and 607/13, the volume mitigation mechanism introduced by the earlier Resolution 188/08, was also 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 +/- 0.5%.

- *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 euros per year.

Services provided by distribution companies – Mitigation

Some specific types of power outage which affect VHV/MV or HV/MV transformation plants directly connected to the NTG may give rise to mitigation services supplied by the distribution companies. Such services, aimed at providing a continuous electricity supply are provided by means of reverse current feeding from MV grids and/or by adding mobile generator groups, and entitle the distributors to receipt of a fee from Terna calculated on the basis of the electricity fed in reverse current (mitigated).

The amounts relative 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 euro (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 exceeded, 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".

- *Montenegro*

With Resolution 607/13 the Authority recognised the remuneration of Terna's investments relative to the Italy-Balkans interconnection works (so-called Network Interconnection Link – NIL) located outside Italian territory, making this conditional to the opinion expressed by the State Council (on the fact that the Intergovernmental Agreement made between the Italian and Montenegro governments on 6 February 2010 – on the basis of which the works relative to the NIL are to be performed by Terna as part of the NTG - constitutes sufficient grounds for recognising the costs related to performance of the NIL works beyond the national border).

On the basis of the resolution specified, such works are recognised by means of a specific increase of the UC3 component: the relative sums will be paid to Terna at two-month intervals by the Cassa Conguaglio for the Electricity Sector, and will be subsequently considered for the purposes of application of the revenue guarantee mechanism.

Resolution 607/13 further specifies that investments relative to any works on Montenegro territory other than the NIL, performed by Terna Crna Gora d.o.o. may not be recognised in the tariff.

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. 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 established by current legislation. At a European level, amendments to the Environmental Impact Assessment regulations are currently being defined.

- *Laws on energy*

The Group's activities may be affected by changes in national and European legislation governing the electricity market, strategic infrastructures (regarding which the "Golden Power" decree, implementing Italian Legislative Decree 21/12 is to be adopted), the authorisation process for National Transmission Grid works, and the sphere of activities which Terna may perform or which affect relations between the Group companies and other stakeholders (producers, distributors, etc.). European measures regarding the energy sector are currently being defined, among which are the Guidelines on State contributions and the energy and climate framework for 2020 to 2030.

- *Employment and contract laws*

As regards electromagnetic fields, Directive 2013/35/EU has been adopted on the exposure of workers to risks from electromagnetic fields, and should be transposed by 1 July 2016 into the national legal system. In addition, new European directives on tendering have recently been adopted which Italy must fall into line with over the next two years. 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. Specific insurance cover has been arranged to mitigate the effect of operational risks.

Litigation risk: legal disputes

The Terna Group is involved, as both plaintiff and defendant, in a number of legal proceedings involving contracts, employees, the environment, regulatory matters, and public safety issues arising from normal business operations. In addition, the Group may be involved in new litigation and/or out-of-court disputes raised by interested/entitled parties of various kinds (by way of example and not exhaustively: suppliers, public entities, etc.). Regarding this matter, please see paragraph E. "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 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.

Risk of non-traditional activities

A significant component of non-traditional 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-traditional activities may make investment in this sector less attractive and, consequently, lead to a reduction of market opportunities for Terna's non-traditional activities.

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 could result in the temporary disconnection of users in some parts of the country and difficulty in works to restore the supply. Such situations consequently cause the public authorities and the mass media to focus their attention on Terna;
- concern over climate change or the increase in the price of energy raw materials could lead to a reduction in the elasticity of energy demand compared to GDP growth. The trend towards saving energy and research into greater energy efficiency has already altered the traditional relationship between economic growth and demand for electricity. These trends could also result in lower growth in the demand for electricity than currently seen, under equal conditions. The rules adopted so far by the AEEG regarding the remuneration of the transmission service make it very unlikely that the possible reduction in volume could translate into a decrease in revenue for Terna;
- the increase in the production of energy from renewable sources poses various challenges for Terna in relation to an increase in the requests for connection to the grid from renewable energy plants, the need to plan and realise investments to resolve the grid congestion problems and the need for an 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

Firstly, it should be said that Terna acts as legal monopoly on the basis of a government concession.

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 Electricity and Gas Regulatory Authority (AEEG).

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).

Risk governance

Terna is the only operator in Italy for the transmission and dispatching of electricity on the basis of a government concession which makes it responsible for providing a service to the entire nation. The sense of responsibility for providing a public service is a key feature of the company's work ethic, making constant supervision of the risks, which could jeopardise the service provided to the nation, a requirement. Over 90% of the Group's revenues derive from activities recognised and remunerated by the Electricity and Gas Regulatory Authority, therefore, the risks arising from changes to the regulatory framework or incentive schemes could have a significant impact on achieving objectives.

This particular context which transforms some market risks into regulatory risks, influences our approach to risk management.

Terna, which is part of the country's "critical infrastructure", 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.

To this end, 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. As CONSOB itself states - *"good corporate governance can trigger a virtuous circle in terms of corporate efficiency and integrity, such as to positively reflect on other stakeholders too"*.

In particular, the **Remuneration Committee** and the **Audit and Risk Committee**, both with proactive and advisory functions are present within the context of the Board of Directors.

The latter in particular is attributed the duties provided for by the Code of Conduct which Terna has adopted. It has an advisory and proactive function, supporting the Board in decisions which relate both to internal audit systems and risk management, with regard to periodic checks to ensure the adequacy of the system relative to the company's characteristics and risk profile and its efficacy. The Audit and Risk Committee is comprised entirely of non-executive directors and has an independent majority; at least one member has adequate experience in accounting and finance.

For more details on governance structure and hierarchy, please refer to the "Report on corporate governance and ownership structures", published alongside the Terna and Terna Group Annual Financial Report.

Corporate policy on the internal audit system also establishes a direct relationship between the Audit and Risk 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 and Risk 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.

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.

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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 everyday 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 of the implementation of the Company's environmental and social policy, as well as the consistency between the objectives and results achieved. The Code of Ethics is available in the "Investor Relations" section of Terna's website under "Corporate Governance".

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.

Terna has been a member of the Steering Committee of the Italian Network since 2011, and contributed to the Committee's work in 2013, participating in the Working Group on Integrated Reporting and, for the third consecutive year, it produced an advanced-level Communication on Progress (CoP), the most thorough of those provided by the Global Compact.

Risk management systems and instruments

The identification and control of corporate risks for the entire Terna Group are constantly supported by dedicated technical and organisational analysis and protection instruments.

Specifically, the initiatives regularly taken are intended to protect the Group's human resources and physical and technological infrastructures, focusing mainly on activities intended to prevent all types of risk and to manage cases of corporate fraud. Terna has set up a Security Operations Centre (SOC) with the aim of managing and monitoring in real time critical situations within its operational scope. The SOC can prevent, address and manage safety and fraud-related events, and any emergency situations that may arise.

In the light of the risk prevention measures introduced, Terna's security unit adopts the most innovative best practices in the areas of critical infrastructure protection and security, which are also in line with the current national and European regulatory framework.

Electricity system Risk Management

Investigations in the sphere of operating risk management highlighted the successful reduction of internal vulnerabilities in the continuous monitoring of corporate operating processes, in normal circumstances and subsequent to disturbances. This should act as a stimulus for defining prompt, optimised solutions. With this aim in mind, operating risk management has recognised the advantage of moving beyond the traditional role of control activities, to include collaboration in the choice of engineering techniques and plant maintenance so as to effectively use its role as inter-directional observer to report common, sometimes hidden anomalies, observed during the vulnerability analysis of plants operating in normal conditions and in conditions of real or incipient faults.

In terms of managing external threats, outside the company's direct control, risk management has focused on trying to mitigate the consequences of events, which although rare, might negatively influence the continuity of electricity supply. Partly motivated by the up and coming Expo 2015 event, Terna Risk Management has in fact suggested simulating an urban blackout and requested the Civil Protection Authority to co-ordinate it. This is so as to encourage public services to develop emergency plans for business continuity and to verify the efficiency of communication flows and interaction with the bodies responsible for handling the emergency. During the exercise, each company showed its restrictions and vulnerabilities. These will be used to guide re-powering priorities in the event of real outage. A significant reduction in public and private damage is thus achieved, also in relation to public health, and resulting from the risk associated with Terna's responsibilities in the case of general disruption.

Electricity market Risk Management

In line with the ERM method, Terna uses an application called SIMM (Security Index Market Monitor) to analyse the main risks relative to the Dispatching Services Market. This represents the key performance indicators (KPIs) by means of a dynamic graphic interface, providing a detailed view of market trends and readily identifying any differences from the threshold limits established, so as to analyse potential critical issues and risks.

Additionally, with Resolution no. 115/08 ("TIMM") "Amended text on the monitoring of the wholesale electricity market and dispatching services market", the Electricity and Gas Regulatory Authority defined the general principles and criteria for performing market monitoring, for the companies Terna, GME and GSE, calling for each of these companies to establish a specific monitoring department.

Risk Management of the Electricity Market consists of the section of Terna's Monitoring Department responsible for managing the TIMM datawarehouse and the acquisition, organisation and storage of data for the purpose of monitoring volumes and indicators relative to the Dispatching Services Market (DSM), in line with the requirements expressed by the AEEG.

For the third year running, ISO/IEC 27001:2005 certification was obtained for the TIMM implementation process. No situations deriving from non-conformity were detected.

Fraud Management

In 2013, the Fraud Management Unit continued with its controls against company fraud, taking all actions needed to prevent its occurrence.

In this sphere, the company has implemented specific procedures for certain critical processes, which are able to define management methods and criteria focused on maximising efficiency and effectiveness and preventing unlawful conduct. It has introduced the ERM method for analysing and identifying potential fraud scenarios in relation to corporate procedures so as to assess the level of cover of existing controls and any gaps present and draw up a schedule of the operations required to mitigate the risk and of the periodic controls to be carried out.

Together with the activities involved in preventing crime, the Fraud Management Unit also carried out:

- activities to support the Company's other units, such as the analysis and assessment of counterparties, so as to limit the risks deriving from transactions with third parties;
- compliance activities focusing on cooperating with and supporting the Company's management and its various offices, aimed at ensuring compliance with laws, regulations, procedures, codes of conduct, and best practices, as well as at reducing and/or preventing the risk of sanctions and safeguarding the Company's image.

Supplier qualification

In 2013, the Supplier Qualification Unit introduced the requirement for contractors operating in the most critical sectors to enter and continuously update the UNILAV models in the Qualification Portal relative to the advance notification of hiring sent to job centres, so as to assure the spread of increasingly effective security policies. The aim of the above being to prove the regular employment of every single employee declared by the company. Extensive checks were, in addition, carried out on all personnel declared by subcontractors, when the qualification application was made, in order to verify whether the declared workers had been duly employed for the whole duration of the three-year qualification period. The analysis was intended to lead to a reinforced safety policy, also in the sense of combating the phenomenon of illegal labour, in line with the principles of Terna's General Regulations, which provide that the minimum personnel required for the technical, management and operational divisions are duly and permanently employed as part of the company's workforce, as also mentioned in the Qualification Requirements.

The Supplier Qualification Unit also implemented a series of increasingly strict controls intended to bring about continuous improvements in overall site safety. This includes the restructuring of works sectors relative to "Safety-related appointments" (CSE/CSP) and to "Site-management", the qualification requirements of which provide for a stricter and more accurate system of assessment than that used previously; and the introduction of a Quality, Safety & Environment (QSE) Manager for all contract works sectors in which staff training is required according to Terna specifications. The introduction of the QSE Manager allows the designation of a single contact within the contracting organisation who is responsible for the improvement and correct application of quality, safety and environmental issues, to act as a sole point of contact in relations with the client/company. In connection with the review of qualification requirements in the "Installation of HV cables" sector, training courses have been introduced for workers in the divisions of subcontracting organisations at greatest risk of accident.

In 2013, the current economic-financial assessment model of firms was revised so as to update the current economic-financial indicators, as well as to assess company performance based both on an analysis of its financial statements, and on a comparison of the company performance and that of its competitors in the relevant sector.

In addition, the companies present in the Register in non-optimal economic situations are placed under constant supervision. Through reports drafted on request, on the basis of official and non-official data gathered, the Supplier Qualification Unit may detect possible risk situations for the company and promptly intervene by freezing/suspending qualification.

During the last quarter of 2013 a report was drawn up, conducted and completed in collaboration with the CSR (PA- REC), Planning and financial analysis and Systems procedures and contracts (CA-AA) departments as part of the “Review of social and environmental control of the supply chain” project. Its aim was to define a multi-year working plan containing the improvements identified by the working group in 2012 and to verify the level of cover offered by the current supplier qualification and procurement procedures of the Terna Group, with regard to ESG (environmental, social, governance) aspects, simultaneously identifying areas for improvement. The project is part of the priority sustainability objectives for 2012 and responds to the focus on the supply chain. It proposes a series of initiatives intended to reduce the supply chain’s ESG (Environmental, Social, Governance) risk profile and to improve the quality of procurement.

Lastly, the “Subcontract Management” project was launched. This is a centralised IT system that enables the management, analysis and continuous monitoring of subcontracts for qualifying sectors, with the aim of reducing the high level of fragmentation of information within the company, in order to organise and consolidate the available data with a view to optimising processes and limiting employee health and safety risks. Firstly, the system involves setting up a web app on the Qualification Portal, so that data and documents on subcontracts, required by law, can be uploaded. Secondly, there will be an analysis dashboard to enable the correlation and comparison of data, which is generally not homogeneous.

Security Operations Center (SOC)

In 2013, the number of operative company sites monitored for break-ins and by video-surveillance systems increased significantly and covers most sensitive sites specified in the agreement with the Ministry of Interior.

In addition to these, there are also the areas involved by sites, which are monitored by systems that can be relocated, also referred to as VideoBoxes.

Overall, the system was managing the video surveillance of 165 company sites at the end of 2013.

With regard to physical safety operations, jointly with the Carabinieri police force, the portal “Terna - Control Centre Carabinieri” is now fully operational, allowing for the complete integration between the Terna control centre and that of the Carabinieri.

Through this portal, information, images and videos can be exchanged in real time between the SOC control room and the Carabinieri patrol, equipped with “EVA” devices, sending records from the monitoring room of the control centre, or data collected in the field by the patrols, thereby allowing for a rapid exchange of information in the event of a break-in.

With regard to the monitoring of information security, in 2013, company ICT resources were further integrated (servers, management platforms, etc.) with the Security Information and Event Management system devoted to monitoring and correlating security events on ICT resources. 2013 saw the consolidation of the ICT Security Events management system, in line with international standards such as ISO27001 and in particular ISO27035 on the topic of incident management. In addition, the IAM Identity and Access Management system for ensuring the management of control of digital users on corporate IT systems, both for Group employees and for external consultants, was implemented.

Model 231 monitoring

In 2013, following the issue of Italian Law no. 190 of 6 November 2012 “Provisions to prevent and punish corruption and illegality in the public administration” (so-called Anti-Corruption Law), providing for a series of amendments to the criminal code and making important additions to the list of offences stipulated pursuant to the Legislative Decree 231/2001, intensive action was taken to transpose such amendments to Terna’s Organisational Model.

The activities and areas of risk of the entire Terna Group have in fact been mapped in relation to the supplements made to the list of offences stipulated, and the new incriminating scenarios added to the Model of all the Group companies.

In addition, following the reorganisation of the company, the Model adopted by Terna was revised so as to adjust the specific areas of risk and procedural principles contained in each Special Part, in line with:

- **new company operations;**
- **the new organisational set-up;**
- **new national and international legislation.**

Furthermore, in order to ensure satisfactory awareness, understanding and application of the Model, a training campaign was carried out, not aimed at employees in general, but adjusted according to the areas of “risk of offence” which each individual operates in.

To facilitate reading of the maps of areas at risk, the graphics were redesigned with substantial changes to the layout. Lastly, to ensure that activities conform to laws, regulations and standards, the Model 231 Project Co-ordination and Monitoring Unit continued with the following activities:

- logging all the relevant regulatory changes and obtaining all the legal reforms that may affect the definition of a policy for preventing criminal offences, ensuring periodic follow-ups on the adequacy of the control system;
- daily monitoring of structural changes that could have an adverse impact on the updatedness and effectiveness of the Model;
- updating of the internal control system to reflect changes that each process owner is required to implement, with the related deadlines;
- support to all divisions to guarantee adequate support in terms of interpretation and application.

Integrated Management System

During 2013, following inspections by the certifying body (IMQ), Terna obtained reconfirmation of the following certifications: UNI EN ISO 9001:2008, UNI EN ISO 14001:2004, BS OHSAS 18001:2007 and ISO/IEC 27001:2005, the latter with regard to the TIMM applications.

In November the Quality, Environment and Occupational Health and Safety certification broadened the extent of its coverage to include the subsidiaries Terna Crna Gora and Terna Storage.

This year the Terna Group obtained the first accreditation enabling it to become an important benchmark in the “High Voltage” energy sector for the whole of southern Europe, as the only subject qualified to perform tests on the equipment used to carry out live-line works.

The accreditation of the multi-site laboratory management system (Viverone, Civitavecchia, Frattamaggiore), complying with the ISO/IEC 17025:2005 standard, permits testing, as legally permitted, of the equipment used by the Terna Group for live-line works and also of that of third parties, on request.

On the subject of environment, as regards the rational use of energy consumed for own use, a detailed energy analysis was performed of the operational transmission area offices in Florence, Palermo and the via della Marcigliana site in Rome (Engineering and Dispatch, and Campus and SOC Building departments).

Activities will continue into 2014, so as to implement an energy management system in accordance with the UNI CEI EN ISO 50001:2011 standard, for the purposes of future certification. The system will enable the company to implement the processes necessary to analyse energy consumption and put in place plans, targets and energy performance indicators in order to reduce consumption and identify opportunities for improving energy performance.

Management system self-assessment was launched to improve the efficiency and effectiveness of the systems, identifying and giving priority to certain areas for improvement. This will ensure that the processes for innovation and continual improvement are established and kept active.

Internal audits of the corporate Management Systems for the entire Terna Group were planned and implemented in 2013.

Physical safety and emergency management

In 2013, physical safety and emergency-management activities (PSE) were focused largely on two areas: the first relates to the development and consolidation of activities already started and divided into the various contexts of physical safety and emergency management. The second focuses on interpreting events so as to gather useful information for safeguarding resources and corporate business, with the aim of bringing the implementation of physical safety measures not just in line with corporate goals but also with the changing legislative, socio-economic, environmental and business context within which the Tern Group operates with regard to “security business intelligence”.

The number of fraud-related events has remained practically unchanged since 2012 as indeed have the overall economic characteristics of the frauds suffered, although the more extensive distribution of the phenomenon now includes the regions of Puglia and Campania, on a par with the northern regions as those with the highest numbers of fraud-related events.

In this context, the limited involvement of the insular transmission operating areas, especially those in Sicily, as well as the two operating areas of Rome and Florence, is particularly striking.

To counter the phenomenon of copper theft, especially in the case of storage of materials in sites ready for construction, collaboration with Territorial management has been stepped up, taking the form of increased use of the break-in prevention monitoring services and video-surveillance of the “mobile” type, the Videobox systems, used to cover areas at risk of theft during the period of effective exposure, namely in periods of site works.

As regards physical security systems of the fixed type for protecting company assets, the coverage of SET1 sites with break-in prevention and PSIS-type video-surveillance systems has been completed; the construction of a further 18 PSIS systems for protecting sensitive sites has also commenced.

One of the contexts in which a series of risks of fraud-related, i.e. man-made events has emerged is that of construction sites: in 2013 a number of differentiated initiatives aimed at making site activities secure were implemented, again through a dual approach of prevention and management.

Collaboration with police forces is still particularly active, based on application of the Ministry of Home Affairs - Terna Framework Agreement in 2009, with an increase in the activities of a proactive type aimed at preventing as opposed to reporting the fraud-related event. This is often combined with direct collaboration with the Prefects' offices, especially in areas with critical socio-economic issues.

Terna' collaboration with the Prime Minister's Security Information Unit continued: in 2013 an agreement was signed for the collaboration of information bodies with Terna as part of a framework of initiatives aimed at protecting critical infrastructures so as to guarantee national security.

In 2013 Terna participated in the Inter-ministerial Civil Defence Technical Commission (CDTC), which is the "official" body for coordinating prevention measures by the state in the case of aggression against the Nation.

Terna's participation in the CDTC, given its recognition as an essential critical infrastructure for the security of the national economic system, places the company in the condition to participate in planning the defence and rescue measures in the event of complex attack scenarios, including through participation in exercises, aimed at testing the capacity to respond in relation to different types of risk (bacteriological, chemical, radioactive, nuclear, cyber etc).

As regards managing emergencies, active participation in the activities set up by the Civil Protection Department continues, both during the preparation phase of the various types of emergency - including through participation in specific national exercises - and during real emergencies, guaranteeing through Dispatching, the presence of Terna in the Civil Protection System.

In 2013, collaboration with regional authorities and prefects' offices increased as encouraged by Law 100/2012 emphasising the responsibility of local institutions in handling disasters; such geographical distribution of the activities has prompted Terna to set up direct relations with local Civil Protection structures aimed at making themselves known to each other as well as sharing information required to organise, in "normal time frames", that necessary to prepare for emergencies and their management.

While awaiting Expo 2015, assessment and securitisation operations of the electricity stations present in the EXPO area as well as those which together ensure the continuity of the electricity service in the suburbs of Milan, being within Terna's sphere of competence, has commenced.

Lastly, a service which is proving of increasing strategic importance is the security analysis of foreign activities, both as regards activities already in progress (e.g. in Montenegro), and in cases in which the business opportunities in a specific foreign geographical area are being assessed.

Qualification of plants

The GAUDÍ system (Unique Plants Data Management), established by AEEG in Resolution 124/10 is the system for supporting 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 2013, the system was developed so as to: align the data with the Distributors and the GSE; achieve integration with other corporate systems using production-plant data (e.g. MeTer, MyTerna); allow satisfactory reporting on the status of the databases as well as the growth trends of the various energy-production sectors; and give a more detailed representation of the plant life cycle at the moment of making structural or commercial changes (e.g. changes to the dispatching contract as a result of changes to the commercial regime, and ownership changes).

Information Security

In 2013 important results were achieved following the introduction of innovations and projects from Information and Communication Technology (ICT) so as to improve the security of the national electricity system and the efficiency of corporate processes.

Safety improvements of the National Electricity System (SEN)

In 2013, the new system of control and conduction relative to the remote conduction functions of Terna plants and control of the National Transmission Grid, was completed. The commissioning of the system has introduced significant benefits in terms of simplifying the data acquisition and exchange architecture, the quality and reliability of the relative flows, and optimisation of the functions made available to operators in all Terna control rooms.

In 2013 the control perimeter of the NES Defence Plan was extended and, specifically, the systems of automatic corrective actions in the face of frequent and sequential shutdowns were optimised.

Improved efficiency of corporate procedures

In 2013 the systems supporting corporate processes were brought into line so as to improve their efficiency in compliance with the legislative amendments introduced.

This included support systems for the Dispatching Services Market implementing the changes to the market scheme in force from April 2014. The perimeter for remote reading by Terna's metering system was broadened to manage the non-significant production units and support the forecasting activities of production from renewable sources.

The procedures for calculating imbalances, remuneration of goodwill on DSM, management of corporate reorganisation, and the assignment of "virtual capacity" (so-called Interconnection) were also updated and integration activities with the Integrated IT System managed by the Single Buyer began. Data exchange with Snam Rete Gas was also implemented on the results of electricity markets to estimate gas withdrawals for the following day.

Information, network and IT system security

Terna holds and stores large quantities of business-sensitive information in its database, including data on the users of transmission and dispatching services. In particular, it holds information on electricity producers and traders (for example, data on plant specifications, with the related production capacity and injection plans presented to the Power Exchange) and information derived from operators in order to compile industry statistics (this is carried out by Terna as part of the National Statistics System). This also includes information made available by the Electricity and Gas Regulatory Authority for the purposes of monitoring the Electricity Market (as set out by Resolution No 115/08 of the AEEG).

Given its respective value to the firm and/or commercial value, this information is classified and managed appropriately in order to ensure the relevant protection measures are in place.

In 2013 Terna developed initiatives and projects which aim to:

- defend the boundaries of the company network and its critical areas;
- identify a suitable "intrinsic" security position for any new system, service or IT application;
- develop and monitor the effectiveness of maintenance procedures for security systems in operation;
- research compliance relative to cyber crime and related issues.

Particular attention was given to securing the network, which is a strategic asset playing a key dual role, providing a vehicle for accessing company IT resources while simultaneously protecting such resources.

As a result of the trend of threats towards industrial control and the consequent need for strategic reinforcements (which is promoted by the ENTSO-E), there was an acceleration of the initiatives to review the architecture of the industrial domain in 2013, in order to increase the degree of physical-logical segregation as a means of countering intrusion or contamination by computer viruses or other attacks.

With regard to security checks, the first target for 2013 was to automate activity as much as possible and to reduce the time needed to check quantitative/ qualitative information on the state of individual assets, which in turn is used to produce overall assessments of "global" security.

Furthermore, 2013 also saw the implementation of periodic external penetration tests on Group websites in order to check their degree of resistance to potential cyber attacks, particularly for areas of the site allocated to specific categories of stakeholders (suppliers, operators, producers, etc.).

In the latter part of the year, Terna was an active participant in a simulation of managing a complex, national cyber attack. This simulation included both public and private bodies and tested cooperation and collective-action capabilities. The practice run, called CYBIT 2013, involved simulating a credible and sustainable scenario of an organised attack, with relative combined and coordinated counter and defence actions. It was prepared and guided with the co-ordination of a technical committee composed of institutional bodies of Ministries, ISCOM, the Italian Digital Agency and others.

In the field of personal data protection, as in previous years, no complaints were received in 2013 regarding breaches of privacy or illicit use by unauthorised users of personal data entrusted to Terna, neither via the specific mailbox for such notifications (privacy@terna.it) nor via any other reporting or survey channels.

The security of the electricity system

Ensuring the security of the Italian electricity system which is interconnected with the European grid is a difficult task, which Terna performs through a series of actions based on a scrupulous assessment of operational risks.

The objective is to maintain the risk of service outage within pre-established limits and mitigate the negative consequences of such events as much as possible, should they occur.

For Terna, preventing and containing operational risk means monitoring and protecting the physical integrity of its plants, preparing defence plans to limit the impact of outages, preventative planning of operations, improving the capacity for real-time control, training its operators, developing new methods in support of the process of planning and control, increasing the reliability of the supporting resources, and coordinating the management of the system interconnected with the TSOs of neighbouring countries.

Projects are set out in the **Security Plan for the Electricity System**, prepared by Terna and approved by the Ministry of Economic Development. The Plan is drawn up every year for a four-year planning period. With each edition of the plan the approach to the security of the electricity system has become increasingly complex.

The current structure of the Security Plan provides for eight subject areas relating to the activities of planning, control, regulation and protection, restarting and monitoring of the electricity system, as well as an area devoted to the safe and optimal management of renewable resources.

The projects included in the plan are concerned both with short-to-medium term objectives aimed at boosting the security of the electricity system, beginning in the next few years, and with medium-to-long term objectives primarily related to research and analysis on new operating scenarios for the electricity system, followed by experimentation and the development of innovative solutions.

Those short-medium term projects which aim to secure distributed generation from non-programmable renewable energy sources (NPRS) are particularly significant.

Specifically, in order to facilitate the full integration of these plants in the interconnected system and resolve security criticalities associated with them, such as for example the reduction of grid stability, the 2013 Plan confirms the initiative providing for the creation and use of non-conventional systems for frequency regulation on the major islands (Sardinia and Sicily) based on electrochemical storage systems.

Following a reduction in short circuit power in the grid in Sicily, due to a significant increase in production by NPRS and the consequent lower presence of an adequate thermoelectric power station, the 2013 Security Plan also introduces a new initiative which aims to install appropriate equipment to compensate for reactive power in the area of western Sicily. These facilities will be able to constantly regulate the voltage, contributing to an increase in short-circuit power and stability on the island grid, making the system less sensitive to changes in voltage. Such equipment will also contribute to improving the efficacy of the existing re-ignition lines.

In 2013, the investments of the Security Plan totalled 76 million Euro. The planning period from 2013-2016 sets out total investments of around 320 million Euro.

Safeguarding relations with stakeholders

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

When establishing its Code of Ethics, Terna – with the active participation of its senior executives and management – 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.

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.

Stakeholder	Commitments	Instruments for monitoring and checking
SHAREHOLDERS ¹⁴ , FINANCIAL ANALYSTS AND LENDERS	<ul style="list-style-type: none"> • Creating value for shareholders in the short and long term. • Balanced management of financial, security and service-quality objectives. • 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. 	<i>Road show.</i> Meetings and dedicated mailing, Internet site Sustainability rating.
EMPLOYEES ¹⁵	<ul style="list-style-type: none"> • Safeguarding the physical integrity of employees and their personal dignity. • Non-discrimination and equal opportunities. • Investment in professional development. • Recognition of individual capabilities and merit. 	Survey on Organisational well-being. Focus groups on specific issues. Consultations and negotiation with the Trade Unions.
SUPPLIERS	<ul style="list-style-type: none"> • Opportunity to compete on the basis of quality and price. • Transparency and fulfilment of agreements and contractual commitments. • Transparent procurement processes. • Supplier qualification, including through quality, environmental, and social certification. • Anti-mafia and anti-money-laundering efforts with suppliers 	Procurement portal and direct meetings.
GRID USERS, CUSTOMERS, AND BUSINESS PARTNERS	<ul style="list-style-type: none"> • Efficient, quality service aiming at constant improvement. • No arbitrary discrimination among operators. • Confidentiality of information regarding grid users. 	Consultation committee on Grid Code and dedicated meetings. "Operator Consulting" section on Terna's website.
REGULATORY AUTHORITIES AND INSTITUTIONS AEEG	<ul style="list-style-type: none"> • Transparent, complete, reliable information. • Respect for deadlines. • Fair and collaborative approach to facilitate regulation. 	Regular meetings.
INSTITUTIONS AND ASSOCIATIONS	<ul style="list-style-type: none"> • Representing the Company's interests and positions in a transparent, scrupulous and consistent fashion, avoiding collusion. • Ensuring utmost clarity in relations. 	Direct involvement in technical committees and governing bodies.
MEDIA, FOCUS GROUPS, SCIENTIFIC COMMUNITY	<ul style="list-style-type: none"> • Public and uniform dissemination of information. • Combating the misuse and manipulation of data. • Cooperation in the interest 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.
COMMUNITIES ¹⁶	<ul style="list-style-type: none"> • Ensuring the security, quality, and cost-effectiveness of the service overtime. • Assessing the long-term effects of the Company's choices. • Reducing the environmental impact of company activities. • Investments which respect the environment, landscape, and local interests. • Supporting social, humanitarian, and cultural initiatives. • Communication of the results of the environmental and social policy. 	Consultation process in planning the electricity grid. Sample surveys of the population.

(14) For further details on relations with "Shareholders" see the "Shareholders" paragraph in this section.

(15) For further details on relations with employees see the section "Business model, organisation and context - Business and the capital management system -Human capital management".

(16) For further details on relations with the public and local communities see the section "Opportunities, risks and strategy- The public and local communities".

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.

The Procurement and Contracts Department 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, including the related procurement plans, with the electromechanical companies in the energy industry (mostly members of Confindustria ANIE). 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. Terna plays an active role in key meetings with suppliers such as industry meetings, expos and conferences.

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.

Grid users and companies in the electricity sector

Terna maintains relations with grid users, and operators of the electricity service using various means including the MyTerna and GAUDÍ portals and the Consultation Committee described below.

Consultation Committee

Throughout 2013, Terna continued to promote the involvement of electricity companies, for example via the Grid Users Consultation Committee.

The Committee is the technical consultation body established in accordance with the Prime Minister’s Decree of 11 May 2004 which regulates the unified ownership and management of the grid. It is a permanent base for consultation with companies involved in the electricity sector and it includes representatives from the various categories, namely: distributors, producers (from both conventional and renewable sources), large industrial customers, wholesalers, and consumers. The Electricity and Gas Regulatory Authority and the Ministry for Economic Development participate as observers.

The Committee advises on the general criteria for developing the grid and interconnections, and for classifying sensitive information and access to such information. It also defends grid security, puts forward proposal for changes to current regulations and acts as an arbitrator, given that, on the request of the parties, it can facilitate the resolution of any disputes between grid users deriving from the application of the rules of the Grid Code.

During 2013, the Committee was involved in the consultation process and expressed its opinion on the following elements:

- The Terna Development Plan 2013;
- The review of the dispatching rules contained in the Grid Code, in accordance with Resolutions 46/2013/R/EEL and 231/2013/R/EEL, of the Regulatory Authority, which specifically considered the voluntary access mechanism for valuing the primary reserve.

In addition to the issues listed above, on which the Committee was formally called upon to express its opinion, during 2013 Terna provided Committee members with constant information on the progress of the Development Plan for the National Transmission Grid, as well as on new requirements and developments.

Moreover, the Committee have received updates on action taken in order to encourage greater integration of renewable energy plants in the distribution network (distributed generation).

Finally, in the area of European regulation, work continued on reporting the progress of implementing the Grid Codes in relation to ENTSO-E (overall progress made with the Codes with a specific focus on electricity balancing in the Grid Code).

AEEG

Terna works mainly in a regulated context and the AEEG 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.

Public consultation on the Development Plan promoted by the AEEG

On the basis of Article 36(13) of Italian Legislative Decree 93/11, in 2012 the AEEG subjected the Transmission Grid Development Plan, prepared by Terna, to public consultation for the first time.

The consultation process involved two presentations by Terna, and led to roughly 250 comments being made on the Development Plan. Terna’s responses were published on the Authority’s website in August 2012. Subsequently, in May 2013, the Authority sent the Ministry for Economic Development and Terna their own assessment of the 2012 Development Plan, as well as some recommendations for future plans.

Following the consultation process, during the second part of 2012 and throughout 2013 Terna examined both comments from both operators and the Authority's opinion, and provided the Authority with a punctual summary of the progressive evolution of the Development Plan.

Finally, please note that the Authority has not yet begun the public consultation process on the 2013 and 2014 Development Plans (sent by Terna on 31 January 2013 and 31 January 2014 respectively).

National institutions and associations

Terna's work requires the active involvement of, and constant dialogue with, governmental institutions (Prime Minister's Office, Ministry of 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.

In 2013, 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, the following parliamentary enquiries were launched, namely:

- the hearing at the Senate Industry Commission (October 2013) on the inquiry into electricity and gas prices as a strategic factor for the growth of the country's production system;
- the Chamber Production Commission hearing (February 2014) on the inquiry on the National Energy Strategy.

The prospect of an ongoing and collaborative dialogue with representatives of the political parties, Government and Members of Parliament has been addressed. This aims to position Terna as the point of contact for the electricity sector and to represent interests and requirements.

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 of 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).

Media, focus groups, and the scientific community

Terna's multistakeholder survey on corporate social commitment

The Demoskopea survey in the 2013 edition of "*City Giornalisti*" saw Terna climb three positions, reaching third place in the overall classification. The survey involved 80 financial journalist and 12 directors of various national newspapers and was conducted on a sample of 44 firms in order to evaluate the quality of their press offices, with an average mark of 7.53 out of 10 (in 2012: 7.06/10).

Interaction with Consumer Associations

In 2013, Terna continued work developing and managing a consensus through a new national project, "Local Awareness Campaign TERNA-AA.CC". It began in January in collaboration with some of the 18 consumer associations (Codacons, Adiconsum, Codici, Lega Consumatori, Unc, MDC, Assoutenti, Adoc, Movimento Consumatori) and aimed to share as much as possible with local areas affected by the construction of planned infrastructure, as well as increasing awareness on the usefulness and benefits of the infrastructure proposed by the National Electricity Transmission Network.

It seems appropriate that local activities be accompanied by exchange of information, participation and sharing of local needs, focusing on exploring the costs and benefits of the operation. Consumer associations have a strong regional presence and are well represented at institutions. They may therefore facilitate dialogue with the local administration and with the community.

This project can be divided into two phases:

1. Training phase, for managers of all CNCU consumer associations (national secretariats and regional offices).
2. Operational phase, (raising local awareness – carried out on a progressive basis, setting supervision, consolidation and integration objectives for the operation, and synchronising information on the local impact and benefits of the work).



2013

The background of the page is a complex, abstract pattern of thin, light gray lines. These lines are arranged in a grid that is distorted by a perspective effect, creating a sense of depth and movement. The lines curve and converge towards the right side of the page, where they appear to disappear into a white space. The overall effect is a dynamic, flowing pattern that changes as the viewer's perspective shifts.



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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.

Economic-financial performance

Significant events

Below is a summary of the main events recorded in FY 2013. 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

AEEG resolution on pilot projects relating to storage systems

On **11 February 2013**, the Electricity and Gas Regulatory Authority published Resolution 43/2013, concerning "Approval of pilot projects relating to storage systems to be developed on the national transmission grid, coming under the programme for adjustment of the security and defence systems 2012-2015".

In supplementing the definitions given in Resolution 288/2012/R/eel, the measure, dividing the pilot projects on the NTG into two types:

- **energy intensive:**

"project of limited size but in any case suited to being able to carry out significant experiments, which entails the development of electricity storage systems using batteries connected to the electricity transmission grid, which can be relocated (hereinafter: portable), intended to ensure, as far as possible - whilst awaiting the necessary grid strengthening - the release onto the grid of electricity produced by NPRS; said systems must be complementary to a dynamic grid-control system";

- **power intensive:**

"the two projects of a maximum size of 8 MW each, envisaged as part of the 2012-2015 Defence Plan approved by the MED (Ministry of Economic Development), as per the Communication of 21 December 2012, which entail the installation of electrochemical type storage systems with power intensive characteristics in Sicily and Sardinia";

admission of the two power-intensive pilot projects to the incentives pursuant to paragraph 22.5, letter d) of the Integrated Transmission Text (ITT). The measure established a two-year experimentation period and set out the conditions for remuneration of the above two projects, confirming also the need to guarantee separate recognition of the economic and financial items relating to each power-intensive project admitted to the incentives.

On **21 February 2013**, the AEEG also published Resolution 66/2013 whereby it arranged for the approval and admission to incentives of six energy-intensive pilot projects in relation to Storage Systems coming under the scope of two critical directives indicated in the 2011 Development Plan approved by the Ministry of Economic Development on 2 October 2012, in accordance with that established by Italian Legislative Decree No. 28 of 3 March 2011.

AEEG resolution on positive achievement of the milestones for the first half of 2013

On **24 October 2013** the Electricity and Gas Regulatory Authority published Resolution 469/2013/R/eel, with which it confirmed achievement of the milestones in strategic investments for development of the National Transmission Grid in relation to the first half of the year 2013, for the purposes of awarding the acceleration incentives on the investments in progress at 31 December 2011 and 31 December 2012, to be included in the transmission fees for 2014. In particular, the Authority ascertained that the threshold of 70% of the total conventional value of the milestones envisaged for the first half of 2013 had been exceeded, reserving the right to verify *in situ* the effective achievement of the same and, therefore, it granted Terna the incentive for accelerating investments on fixed assets in progress relating to the I=3 investments in existence at 31 December 2011 and 31 December 2012, to be included in the transmission fees for the year 2014, subject to the decisions to be adopted on completion of the supplementary investigation ordered with Resolution 565/2012/R/eel in relation to the Italy-Balkans interconnection project, which is still in progress.

Corporate

Payment of capital grant to the subsidiary Terna Storage S.r.l.

On **14 February 2013** the parent company Terna S.p.A. paid in 2 million euro, as a capital grant in order to provide the subsidiary Terna Storage with the resources necessary to carry out its business.

In line with this objective, with effect as from **1 August 2013**, Terna Plus S.r.l. used the individual contract transfer instrument to transfer 5 employees and their related credit/debit contractual positions to the subsidiary.

New organisational structure of the subsidiary Terna Rete Italia S.p.A.

Terna Rete Italia S.p.A.'s new organisational model, aimed at strengthening territorial monitoring of plant operation and maintenance and operational process management, came into force on **1 July 2013**.

The new structure establishes:

- three new Local Divisions (North-West, North-East and Centre-South);
- the functional integration of the operational activities previously carried out in the scope of “Lines” and “Stations” and gradual introduction of multi-skilled staff;
- the territorial centralisation of management, design and production activities within the Local Divisions;
- the allocation of the local dispatching responsibilities to the relevant Local Division;
- redefining the scope of activity of the central and local engineering functions, and streamlining the geographical distribution of the operational sites.

Sale of Rete Solare S.r.l. completed

On **24 July 2013** the subsidiary SunTergrid S.p.A., in accordance with the decision of the Board of Directors of the same on 18 July 2013 - completed the transfer to Tozzi Sud S.p.A. – a company wholly controlled by Tozzi Industries S.r.l. – of 100% of the share capital of Rete Solare S.r.l., for a price of € 4,523,247.00.

Consequently, on **7 August 2013** Terna S.p.A. signed a deed with Rete Solare S.r.l. regarding termination of the rental contract previously in force for the land relating to the project aimed at creating the photovoltaic system of Aranova (RM) and the establishment of a leasehold on the same site.

Merger by incorporation of Suntergrid S.p.A. into Terna Plus S.r.l.

On 18 October 2013 the deed of merger by incorporation of Suntergrid S.p.A. into its associate Terna Plus S.r.l. was signed, with legal effectiveness from **21 October 2013**, according to the provisions of the merger project approved on 6 June 2013 by the respective Boards of Directors – after the sole shareholder Terna S.p.A. waived the need to prepare a statement of financial position of each of the companies taking part in the merger under the terms of Art. 2501 quater, section 3, of the Italian Civil Code – and subsequently resolved on 10 June 2013 by the relevant Shareholders' Meetings. In accordance with the provisions of the deed of merger, the operations carried out by the company being incorporated, Suntergrid, are recognised in the financial statements of the incorporating company Terna Plus S.r.l., and the accounting and fiscal effects of the merger start from 1 January 2013.

The aim of the merger operation is to increase the Group's synergies, by rationalising the non-traditional activities within the scope of Terna Plus - as the SunTergrid company operates in the same sector and does similar and complementary work - so as to pursue greater efficiency in managing the non-traditional activities.

Transfer of storage systems projects to Terna S.p.A.

On **20 December 2013**, in line with the current regulatory framework, the subsidiary Terna Storage S.r.l. sold the entire lot of projects relating to the storage systems under construction to the parent company; the price was agreed as € 33,181,976.82 and the operation came under the scope of the new intercompany service contract stipulated late 2013.

The amount agreed allows for the all-inclusive coverage of costs incurred by Terna Storage up until the date on which the above-mentioned intercompany contract came into force (1 December 2013) for the development of the storage-system projects.

Finance

Terna named best European utility company in terms of total shareholder return

On **11 March 2013**, Terna was awarded the “International Utility Award 2013” in London by the Edison Electric Institute (EEI) of Washington DC (US). The Company received the prestigious award for its Total Shareholder Return (TSR) recorded in the three years 2010-2012, which in fact came out at 24%, compared with the decidedly negative average returns of the sector and of the Italian index (DJ STOXX -10%, FTSE MIB -21%).

Renewal of the EMTN Programme and increase of the amount to € 6 billion

On **28 June 2013** Terna renewed its bond issue programme entitled “Euro Medium Term Note Programme” (EMTN) increasing its amount from € 5 to 6 billion as resolved by the Board of Directors on 14 May 2013. Deutsche Bank and Citigroup were the Joint Arrangers for the programme, which obtained ratings of A-/A-2 from Standard & Poor’s, Baa1/P-2 from Moody’s and A- from Fitch.

Agreement with the EIB: new € 570 million loan

On **8 July 2013** Terna signed an agreement with the European Investment Bank (EIB) to obtain a € 570 million loan to be used to expand and strengthen the Italian electricity transport system. The loan will be repaid in six-monthly instalments starting in 2015, with the last repayment date in 2030.

The economic terms envisaged for the new loan are competitive and provide for an annual cost of the loan at the 6-month Euribor rate plus a spread of 79 basis points.

Terna’s rating

On **11 July 2013** Standard and Poor’s (S&P) cut Terna’s long-term rating from ‘A-’ to ‘BBB+’, confirming at the same time the company’s short-term rating at ‘A-2’. The outlook assigned to the rating remains negative. This rating action follows the recent downgrade by a notch, from BBB+ to BBB, of the Italian Republic. Following this latest downgrade, Terna’s rating remains in any case a notch above that of the Italian Republic.

Non-traditional activities (NTAs)

New Italy-France interconnection

On **15 July 2013**, the official go-ahead was given for work to begin on the new Piossasco-Grand’lle interconnection that, together with the work to re-power one of the existing lines by 600 MW, will make the French electricity border the most important for Italy, increasing the electrical transport capacity by more than 60% (from 2,650 MW up to 4,400 MW capacity). A record-breaking project: it will in fact become the longest underground line laid anywhere in the world, with the 190 km of new lines being invisible thanks to the state-of-the-art nature of the project and the technology employed. An investment of over € 400 million for Terna, and returns of € 150 million a year, as soon as the project becomes operational for the Italian electricity system.

MOU stipulated for the international interconnection

On **16 December 2013**, witnessed by the Ministry of Economic Development and Confindustria Flavio Zanonato, the CEO Flavio Cattaneo signed a Memorandum of Understanding (“MoU”) with some category federations interested in developing new international electrical connections financed by third parties and specifically as regards the new Italy-France interconnection.

Sustainability

Terna at the top for sustainability in the DJSI for a 5th year

Fifth consecutive confirmation for Terna in the prestigious Dow Jones Sustainability Index and fourth double presence in the “World” and “Europe” baskets: this is the result of the annual review carried out by the Swiss sustainability rating agency RobecoSAM and published on **12 September 2013**.

The confirmation of Terna in both indices with scores among the highest in the Electric Utilities sector acknowledges the Company’s constant commitment to sustainable management and, for investors, constitutes a mark of the ability to create value also in the medium-long term. This figure is confirmed by the growth in the number of investors attentive to ethical issues, which today represent 12.6% of Terna’s capital.

This year, the selection identified 333 businesses out of 2,500 on the World index and 177 out of 600 on the Europe index, of which only 13 are Italian. The RobecoSAM analysis assesses in detail the corporate systems for governing risks and the opportunities connected to the social and environmental impacts of businesses. This year, the severity of the assessment criteria determined the exclusion from the indices of 47 companies previously included.

In addition to being on the DJSI, Terna is also on the international indexes FTSE4Good (Global and Europe), Axia (Ethical

and CSR), ECPI (Ethical Global, Euro, EMU), MSCI (Global and Europe Sustainability), ASPI Eurozone, Ethibel (Excellence, Sustainability Europe), Vigeo (World e Europe) and on the Italian indexes FTSE, ECPI Italia SRI Benchmark and Italia SRI Leaders, prepared from only companies listed with Borsa Italiana.

Legality rating

On **2 October 2013** the Competition and the Market Authority (CMA) resolved to attribute to Terna S.p.A. the Legality Rating with the maximum score of three stars, following the formal application presented by the Company under the terms of Italian Law Decree 1/2012 (Art. 5-ter – Legality Rating of Companies), modified by Italian Law Decree 29/2012 and converted, with amendments, by Italian Law 62/2012.

At the same time the Parent Company was added to the list of companies with a legality rating under the terms of Art. 8 of the regulation issued by the CMA with Res. No. 24075/2012.

This recognition is the result of the work done by all the Terna structures to protect the legality and transparency of all actions carried out in achievement of the company objectives. The rating attributed by the CMA is taken into account when loans are granted to companies by public administrations, and when seeking access to a bank loan.

Terna confirmed sustainability leader by the STOXX ESG indices

For the third consecutive year Terna is present in these indices created by the company STOXX Limited which, on the basis of sustainability performance, selects 313 companies among the 1,800 stocks present in the initial international basket, the STOXX Global 1800 Index.

Terna is one of the 104 companies at the global level – and the only Italian utility company – that can boast inclusion in all three indices, testifying to the solidity of its commitment and excellence on all sustainability fronts.

There are a total of 5 Italian companies in all three indices, while Italian companies included in the STOXX Global ESG Leaders have come down to 9 (there were 13 in 2011 and 10 in 2012), including Terna.

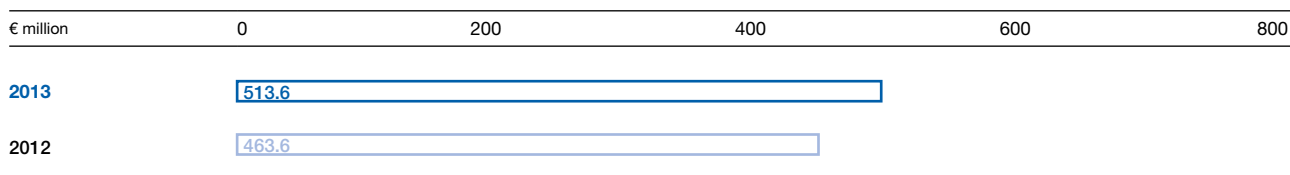
These indices are characterised by transparency in the selection criteria – based on indicators suggested by the EFFAS (European Federation of Financial Analysts Societies) and by the DVFA (Society of Investment Professionals in Germany) – and in the scores attributed by the rating agency Sustainalytics to the companies examined.

In particular, to obtain access or confirmation to the ESG Leaders indices, a company must perform in at least one of the three areas of analysis – environmental, social and governance – for inclusion in the relevant index, the STOXX Global Environmental Leaders, the STOXX Global Social Leaders or the STOXX Global ESG Governance Leaders.

Comprehensive Terna Group results

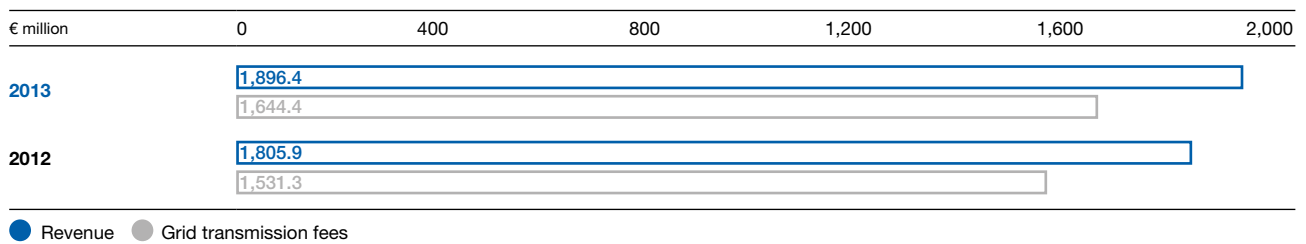
The amounts discussed below have been derived from the reclassified statements included in the “Terna Group performance and financial position” section of this Management Report. The footnotes to these statements provide a reconciliation of these amounts with the consolidated financial statements.

The consolidated financial statements as at 31 December 2013 close recording **period net profit** of € 513.6 million, up approximately 11 percentage points (€ +50.0 million, +10.8%) on the net profit recorded for 2012.



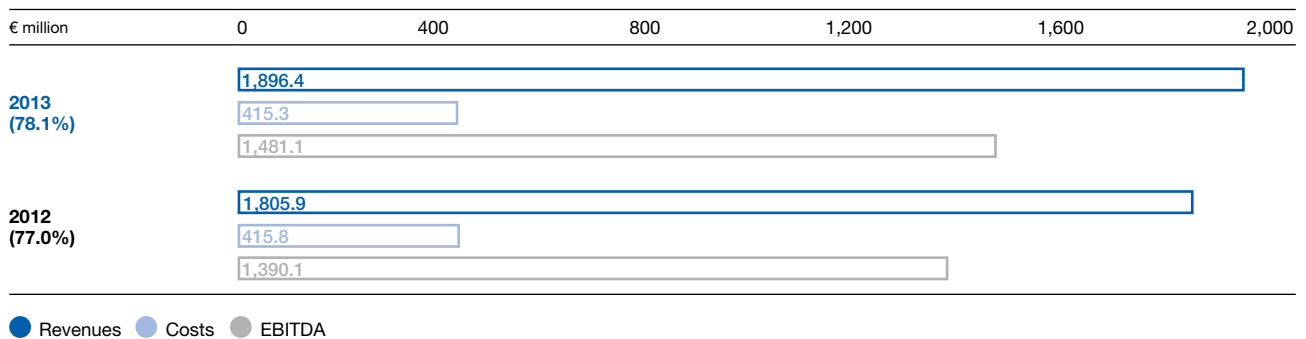
● Net profit for the year

Revenue amounted to **€ 1,896.4 million**, € +90.5 million compared with 2012 (+5.0%), of which € 1,644.4 million refers to the transmission fee, attributable to the parent company for € 1,467.8 million and to the subsidiary Terna Rete Italia S.r.l. for € 176.6 million.



Operating expenses amounted to € 415.3 million, of which € 206.3 million relating to personnel expenses and € 140.9 million to services, leases and rentals. The increase in revenue combined with the substantial stability seen in costs led to **EBITDA** (Gross Operating Profit) of **€ 1,481.1 million**, 78.1% of revenue, an increase of € 91.0 million compared with € 1,390.1 million in 2012 (+6.5%).

EBITDA MARGIN

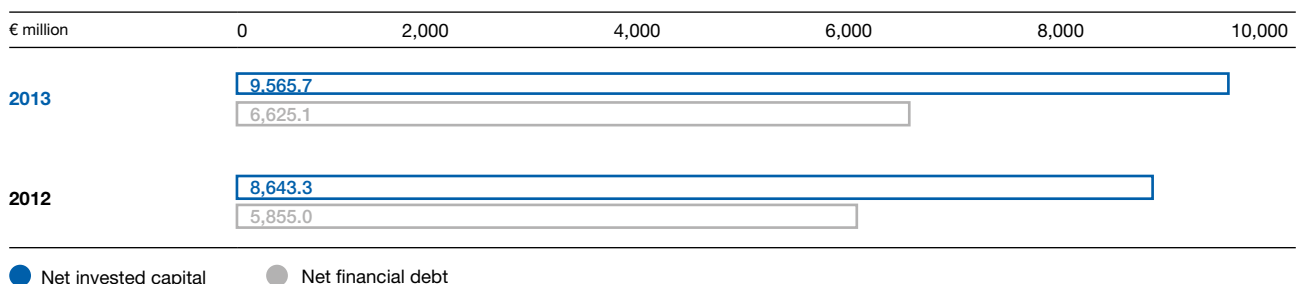


EBIT (Operating Profit) was € 1,037.7 million (+7.0% compared with the € 969.5 million recorded last year) after deducting **depreciation and amortisation** of € 443.4 million, mainly relating to the parent company for € 394.4 million and to the subsidiary Terna Rete Italia S.r.l. for € 47.8 million.

Period net financial expense (€ 100.2 million) mainly relates to the parent company (€ 98.3 million), recording an increase of € 7.0 million (+7.5%) mainly due to the lesser income deriving from the equity valuation of associates (€ -5.6 million); the slight increase in financial expense, despite the greater average net debt, also suffers the effects of the reduction in interest rates. **Income taxes** for the year amount to € 423.9 million, up € 11.2 million (+2.7%) compared with the previous year; they give rise to a tax rate of 45.2%.

Net profit for the period therefore came out at € 513.6 million, up € 50.0 million (+10.8%) compared with the € 463.6 million of 2012.

Net invested capital of € 9,565.7 million is financed through **shareholders' equity** in the amount of € 2,940.6 million and through **net financial debt** in the amount of € 6,625.1 million.



At 31 December 2013, the **debt/equity ratio** came out at 2.25.

Total investments made by the Group in 2013 amounted to € 1,212.3 million, compared with the € 1,235.2 million of 2012. The slight drop (-1.9%) was due in particular to the suspension of works on the Dolo-Camin line following the decision of the State Council, and partially offset by the investments of the period in the development of the storage systems.

Terna Group performance and financial position

Introduction

The 2013 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 2013 in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Commission (hereinafter “IFRS-EU”).

The 2013 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

Company	Registered office	Business	Currency	Share capital	% held	Consolidation method
COMPANIES CONTROLLED DIRECTLY BY TERNA S.P.A.						
Terna Rete Italia S.p.A.	Rome	Design, construction, management, development, operation and maintenance of grid structures and lines and of other infrastructures connected to the said grids, of plants and equipment functional to the said business in the sectors of electricity, dispatch and transmission and in similar, related or connected segments.	Euro	120,000	100%	Line-by-line
Terna Rete Italia S.r.l.	Rome	Design, construction, management, development, operation and maintenance of high-voltage power lines.	Euro	243,577,554	100%	Line-by-line
Terna Storage S.r.l.	Rome	Design, construction, management, development and maintenance of diffused energy storage systems (including batteries), pumping and/or storage systems, as well as plants, equipment and infrastructures, including grids.	Euro	10,000	100%	Line-by-line
Terna Crna Gora d.o.o.	Podgorica	Authorisation, construction, and management of transmission infrastructures comprising the Italy-Montenegro electrical interconnection in Montenegro territory.	Euro	36,000,000	100%	Line-by-line
Terna Plus S.r.l.	Rome	Design, construction, management, development, operation and maintenance of plants, equipment and infrastructures including grids and systems, including diffused energy accumulation, pumping and/or storage.	Euro	16,050,000	100%	Line-by-line

The change in the scope of consolidation since 31 December 2012 relates exclusively to Non-traditional activities (NTAs). More specifically, in order to ensure the rationalisation of the organisation of the non-traditional activities carried out within the Group, on 18 October 2013, the deed of merger by incorporation of Suntergrid S.p.A. into Terna Plus S.r.l. was signed, with legal effectiveness from **21 October 2013** (the date on which it was registered with Companies House), according to the provisions of the merger project approved on 6 June 2013 by the respective Boards of Directors and subsequently resolved on 10 June 2013 by the related shareholders’ meetings.

In addition, on **24 July 2013** the subsidiary SunTergrid S.p.A. completed the transfer to Tozzi Sud S.p.A. – a company wholly controlled by Tozzi Industries S.r.l. – of 100% of the share capital of Rete Solare S.r.l., holder of the “Single Authorisation” for the construction and operation of a photovoltaic plant to be built in Aranova in the Municipality of Ferrara.

For more details on the extraordinary operations described above, please refer to “Significant events”.

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 2012, except for the obligatory application of the new “IAS 19 - Employee Benefits” and of “IFRS 13 - Fair Value Measurement”.

In particular, starting from 1 January 2013, the Terna Group applied, retrospectively, the new “IAS 19 - Employee Benefits”, which introduces changes to the recognition and measurement of costs relating to employee benefits and to the related disclosure requirements. The most significant change for the Group’s financial statements introduced by the new version of the standard regards elimination of the option to defer recognition of actuarial gains and losses using the corridor approach, with consequent recognition of the same in OCI (Other Comprehensive Income). Following this, a number of comparative balances of financial year 2012 were adjusted to take account of the change in the accounting model described above. In particular this restatement entailed recognition at 31 December 2012 of higher liabilities for employee benefits of approximately € 9 million, higher deferred tax assets amounting to approximately € 3 million and a reduction in shareholders’ equity of approximately € 6 million. The impact on the 2012 Income Statement is instead negligible.

“IFRS 13 – Fair Value Measurement”, which came into force going forward from 1 January 2013, establishes a new definition of fair value and the minimum necessary content of the disclosure. IFRS 13 defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”; the main change for the Group’s financial statements is the inclusion of counterparty risk in financial instrument measurement models. Adoption of the new standard entailed, at 31 December 2013, a reduction in the value of fair value hedging derivatives of € 0.5 million, and a reduction in the value of cash flow hedging derivatives of € 0.1 million.

Group reclassified income statement

The reclassified consolidated income statement of the Terna Group for 2013 and 2012 is shown below.

€ million	2013	2012	Change	%
Revenue:				
Grid transmission fees ⁽¹⁾	1,644.4	1,531.3	113.1	7.4%
Other energy items ⁽¹⁾	169.8	161.3	8.5	5.3%
Other operating income ⁽²⁾	82.2	113.3	(31.1)	(27.4%)
Total revenue	1,896.4	1,805.9	90.5	5.0%
Operating expenses:				
Personnel expenses	206.3	196.7	9.6	4.9%
Services, leases and rentals	140.9	139.5	1.4	1.0%
Materials	14.7	29.7	(15.0)	(50.5%)
Other expenses ⁽³⁾	53.4	49.9	3.5	7.0%
Total operating expenses	415.3	415.8	(0.5)	(0.1%)
EBITDA (Gross Operating Profit)	1,481.1	1,390.1	91.0	6.5%
Amortisation and depreciation ⁽⁴⁾	443.4	420.6	22.8	5.4%
EBIT (Operating Profit/Loss)	1,037.7	969.5	68.2	7.0%
Net financial income (expense) ⁽⁵⁾	(100.2)	(93.2)	(7.0)	7.5%
Profit/Loss before taxes	937.5	876.3	61.2	7.0%
Income taxes	423.9	412.7	11.2	2.7%
Net Profit for the year	513.6	463.6	50.0	10.8%
<i>Attributable to owners of the Parent</i>	<i>513.6</i>	<i>463.6</i>	<i>50.0</i>	<i>10.8%</i>

In the Consolidated Income Statement:

- (1) the balance is included in the item "Revenue from sales and services";
- (2) corresponds to "Revenue from sales and services" for the value of the "Other Sales and Services" (€ 30.4 million) and "Other revenue and income" (€ 51.8 million);
- (3) corresponds to "Other operating expenses" and to "Amortisation, depreciation and impairment" for the amount of impairment of trade receivables (€ 7.0 million);
- (4) corresponds to "Amortisation, depreciation and impairment" net of the impairment of trade receivables (€ 7.0 million);
- (5) corresponds to the total of the items presented in points 1, 2 and 3 of letter C - "Financial income/expense".

In 2013, the Terna Group achieved **revenue** of € 1,896.4 million, mainly relating to the parent company for € 1,703.5 million and to the subsidiaries Terna Rete Italia S.r.l. for € 181.9 million and Terna Plus for € 12.5 million.

The balance increases by € 90.5 million on last year (+5%), mainly due to the trend of **grid transmission fees (CTR)**, up € +113.1 million, and other energy items for € 8.5 million, partially offset by the results recorded under "Other operating income" (€ -31.1 million).

The increased **grid transmission fees** (€ +113.1 million) are mainly due to the price review caused by increased investments in 2011 (€ +100.8 million, of which € +95.4 million for the parent company), the remuneration of the Defence Plan (€ +16 million), partially offset by CTR contingencies (€ -3.7 million).

The progress of revenue deriving from "**Other energy items**" increases by € 8.5 million mainly due to:

- greater income from the dispatching service business (€ +7.4 million);
- net increase in premiums and penalties for the quality of service recorded during the period (€ +8 million), relating to the effects of the RENS transmission service incentives - pursuant to Resolution 197/11 (totalling € +17.5 million on last year), partially offset by the greater revenues recorded last year for the incentives paid to Terna on the Dispatch Services Market, as envisaged by Resolution 213/09 (€ -9.5 million);

- reduction of € 6.6 million by virtue of the lesser investments made in dispatch infrastructures¹⁷ as compared with last year.

Other operating income shows a reduction of € -31.1 million on last year, mainly relating to greater revenues recorded in 2012 and, more specifically:

- greater capital gains from the disposal of business operating assets recorded in 2012 (€ -3.8 million);
- lesser revenues for orders, provisions and maintenance services for third parties (€ -9.8 million);
- lesser contingencies (€ -18.1 million), mainly relating to the revised previous fees concerning the housing of the optic fibre made the previous year and the contractual penalties involving suppliers noted in 2012 due to delays in the orders;
- greater contributions for connections recorded last year (€ -5.0 million);

net of income recorded in 2013 deriving from extraordinary sales (€ +3.5 million for the sale of the subsidiary RTS and € +2.1 million for the adjustment of the Provision for risks connected with the sale of the companies in the photovoltaic sector).

In 2013 the **operating expenses**, amounting to € 415.3 million, mainly related to the Parent Company (€ 132.2 million) and to the subsidiary Terna Rete Italia S.p.A. (€ 269.8 million), are largely in line with last year (€ -0.5 million, -0.1%), mainly due to the combined effect of the following events:

- **personnel expenses:** an increase of € 9.6 million, mainly due to the greater cost attributable to the voluntary redundancy agreements (€ +6.9 million) and the greater costs for dispatch infrastructure staff¹⁷ (€ +1.4 million);
- costs for **materials:** the € 15 million reduction mainly relates to the greater costs incurred for investments in the dispatch infrastructures¹⁷ made last year (€ -9.1 million), the greater use made in 2012 of inventory materials for the maintenance and operation of plants owned and pertaining to third parties; this is in addition to last year's adjustment (€ -2.6 million) in the value of certain materials, to their presumed realisation value;

the following are also noted:

- costs for **services, leases and rentals:** a slight increase is recorded on last year (€ +1.4 million, +1%), mainly relating to the greater costs invested in dispatch infrastructures¹⁷;
- **other costs:** up by € 3.5 million due to:
 - quality of service: € +18.8 million in connection with power failures that mainly took place towards the end of FY 2013, influencing the mitigation mechanisms, sharing and exceptional events;
 - IMU cost: € -15.2 million, mainly relating to the estimate prepared last year for probable greater IMU (municipal real estate tax) costs.

EBITDA (Gross Operating Margin) for the year came out at € 1,481.1 million, an increase of € 91 million compared with the € 1,390.1 million of 2012 (+6.5%).

The considerable increase in revenue and the substantial stability of costs were reflected in the **EBITDA margin** which went up from 77% in 2012 to 78.1% in FY 2013.

Amortisation and depreciation in the year grew by € 22.8 million compared with 2012, owing mainly to the parent company's commissioning of new plants.

EBIT (Operating Profit) therefore stood at around € 1,037.7 million, up € 68.2 million (+7%) on 2012.

Net financial expense (€ 100.2 million) mainly relates to the parent company (€ 98.3 million), recording an increase of € 7 million as compared with the € 93.2 million of 2012, mainly due to the lesser income deriving from the equity valuation of associates (€ -5.6 million); the slight increase in financial expense due to the greater average net debt is partially offset by the effects of the reduction in interest rates.

After deducting net financial expense, **profit before taxes** came out at € 937.5 million, up by € 61.2 million compared with the previous year (+7%).

Income taxes for the year amount to € 423.9 million, up € 11.2 million (+2.7%) compared with the previous year. The 45.2% tax rate is a reduction on the 47.1% recorded last year, mainly due to the analytical deductibility (in terms of IRES – corporate income tax) of IRAP (regional tax on production) on personnel costs of Terna Rete Italia S.p.A., recorded as from 2013, and the recovery against taxation of the estimated probable IMU expenses estimated the previous year.

Consequently, **net profit for the period** came out at € 513.6 million, up € 50 million compared with the € 463.6 million of FY 2012 (+10.8%).

(17) Recognised pursuant to IFRIC 12

Results by business segment

The table below gives a breakdown of the Terna Group's results according to business segment, with reference to FYs 2013 and 2012; the economic impacts deriving from the booking of costs/revenues for investment in dispatch infrastructures, carried in the financial statements in application of IFRIC 12, are indicated separately:

€ million	2013	2012	Change
Total revenues from traditional activities	1,801.6	1,682.2	119.4
Total revenues from non-traditional activities	64.0	86.3	(22.3)
IFRIC 12	30.8	37.4	(6.6)
Total revenue	1,896.4	1,805.9	90.5
Total costs of traditional activities	364.6	356.0	8.6
Total costs of non-traditional activities	19.9	22.4	(2.5)
IFRIC 12	30.8	37.4	(6.6)
Total expenses	415.3	415.8	(0.5)
EBITDA	1,481.1	1,390.1	91.0
<i>EBITDA on traditional activities*</i>	1,437.0	1,326.2	110.8
<i>EBITDA on non-traditional activities**</i>	44.1	63.9	(19.8)

* EBITDA including indirect costs

** Comprehensive EBITDA of product/orders, not including indirect costs

Traditional Activities

EBITDA of traditional activities stands at € 1,437 million, up € 110.8 million on last year's figure. This increase is due to the increased revenues (+€ 119.4 million, +7.1%), mainly due to Transmission fees (+€ 113.1 million), affected by the price review for increased 2011 investments and the positive impact of dispatching and *Quality of service*-related mechanisms. The increased costs relating to traditional activities (+€ 8.6 million) reflects the greater cost of labour, mainly due to expenses relating to voluntary redundancy agreements; please also note that the greater expenses for *Quality of service* (+€ 18.8 million) connected with the power failures mainly involving the end of FY 2013, were partially offset by the one-off entry made in 2012 in connection with the estimate made the previous year for probable higher IMU costs (-€ 15.2 million).

Non-Traditional Activities

EBITDA of non-traditional activities stands at € 44.1 million, down € 19.8 million on last year's figure, when revenues included the one-off contribution made by the renegotiation of the optic fibre support contract with Wind. The reduction recorded in EBITDA also reflects the slowing of the plant engineering market.

The Group's reclassified statement of financial position

Reclassified consolidated statements of financial position of the Terna Group at 31 December 2013, and 31 December 2012, are presented below.

€ million	at 31.12.2013	at 31.12.2012	Change
Net non-current assets			
Intangible assets and goodwill	461.8	470.4	(8.6)
Property plant and equipment	10,119.9	9,342.0	777.9
Financial assets ⁽¹⁾	82.8	81.4	1.4
Total	10,664.5	9,893.8	770.7
Net working capital			
Trade receivables ⁽²⁾	846.1	866.0	(19.9)
Inventories	8.0	6.6	1.4
Other assets ⁽³⁾	95.5	94.2	1.3
Trade payables ⁽⁴⁾	780.0	730.1	49.9
Net payables for pass-through energy items ⁽⁵⁾	407.3	562.0	(154.7)
Net tax liabilities ⁽⁶⁾	(32.9)	35.9	(68.8)
Other liabilities ⁽⁷⁾	441.3	409.2	32.1
Total	(646.1)	(770.4)	124.3
Gross invested capital	10,018.4	9,123.4	895.0
Sundry provisions ⁽⁸⁾	452.7	480.1	(27.4)
Net invested capital	9,565.7	8,643.3	922.4
Equity attributable to owners of the Parent	2,940.6	2,788.3	152.3
Net financial debt ⁽⁹⁾	6,625.1	5,855.0	770.1
Total	9,565.7	8,643.3	922.4

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 (€ 1.0 million);
- (2) the item "Trade receivables" net of energy-related pass-through revenue receivables (€ 875.0 million);
- (3) the item "Other current assets" net of other tax assets (€ 62.6 million) and "Current financial assets", net of the FVH derivative value (€ 18.4 million);
- (4) the item "Trade payables" net of the energy-related pass-through costs payable (€ 1,282.3 million);
- (5) 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);
- (6) 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";
- (7) the items "Other non-current liabilities", "Current financial liabilities" and "Other current liabilities" net of other tax liabilities (€ 113.9 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" and "Current financial assets" for the value of FVH derivatives (€ 527.1 million and € 18.4 million respectively).

The increase in **Net non-current assets** of € 770.7 million, compared with the figure of 31 December 2012, is mainly attributable to the item **Property, plant and equipment** (€ +777.9 million) owing to the combined effect of:

- investments of € 1,164.9 million, of which € 1,149.3 million in traditional activities and € 15.6 million in non-traditional activities;
- amortisation and depreciation for the year of € 387.4 million.

Intangible assets and goodwill recorded a reduction of € 8.6 million as compared with last year, attributable to the combined effect of period investments of € 47.4 million (of which € 31.1 million in dispatching infrastructures), and the portion of amortisation accruing of (€ 56 million, of which € 33.1 million relating to amortisation of the dispatching infrastructures and € 5.6 million relating to amortisation of the concession).

The net book value of the infrastructures used for the dispatch service as at 31 December 2013 totals € 147 million (as compared with the € 149 million booked as at 31 December 2012).

Total investments made by the Group in 2013 amounted to € 1,212.3 million, compared with the € 1,235.2 million of 2012. The slight drop (-1.9%) was due in particular to the suspension of works on the Dolo-Camin line following the decision of the State Council, and partially offset by the investments of the period in the development of the storage systems.

In terms of investments for the period, we should particularly mention those of the parent company relating mainly to the progress on the “Sorgente-Rizziconi” project (€ 157.7 million), the safety work and the conservation of works already carried out on the “Dolo-Camin” project¹⁸ (€ 54.2 million), the “Trino-Lacchiarella” power line (€ 51.1 million), the “Italy-Montenegro” underwater connection (€ 36.2 million), the “Foggia-Gissi-Villanova” power line (€ 31.3 million), the restructuring of the North Calabria Grid (€ 29.0 million) and the “Foggia Benevento II” project (€ 26.3 million). Below is the operative classification of investments according to remuneration category:

TERNA GROUP INVESTMENTS



Net working capital amounted to € -646.1 million and during the year used cash of € 124.3 million as compared with FY 2012, mainly owing to the combined effect of:

- a decrease in **net payables for pass-through energy items** in relation to the dispatching of electricity by the parent company for € 154.7 million; more specifically, the change is due to:
 - the reduction in net payables relating to the cover of imbalances deriving from significant production units (€ 105.4 million);
 - the reduction in net payables deriving from the remuneration of essential units for the safety of the electrical system (€ 22.5 million) and production capacity availability (€ 57.5 million);
 - lower net payables deriving from virtual interconnection activities (€ 31.7 million);
 - a decrease in net receivables connected to the uplift (€ 24.1 million);
 - a decrease in the net receivables deriving from the mechanism for the assignment of cross-border capacity internationally (€ 43.3 million);
- an increase in **trade payables** (€ +49.9 million), mainly due to the greater provisions and purchases booked during the latter period of the year with respect to the same period of the previous year;
- a decrease in **trade receivables** for € 19.9 million: the reduction in the Group's receivables mainly linked to non-traditional activities (€ -47.5 million) and to the incentive mechanism envisaged by AEEG Resolution 213/09 (€ -49.7 million) is partly offset by the greater receivables due from distributors for transmission fees - CTR (€ 50.1 million) and by CCSE for the quality of service - ENSR (€ +13.3 million) and for the “mitigation” mechanism pursuant to Resolution 188/08 (€ +10.0 million);
- a reduction in **net tax liabilities** totalling € 68.8 million, mainly due to the lesser net payables for current income tax (€ -65.7 million) as a consequent of the period payment made of greater tax advances pursuant to Law Decree 133/134¹⁹;
- an increase in **other liabilities** (€ 32.1 million) mainly relating to higher security deposits received from electricity market operators connected with dispatch contracts (€ +8 million) and the greater liabilities for unsettled net interest expense for the period in relation to the bond loan of € 750 million issued in October 2012 (€ +14.3 million); we also note the liability (€ +8.9 million) for the deferral of rentals receivable 2014/2015 paid during the year by Wind Telecomunicazioni for the housing of the optic fibre.

Gross invested capital, therefore, amounted to € 10,018.4 million, recording an increase compared with the previous financial year of € 895 million.

Sundry provisions declined by € 27.4 million, owing mainly to:

- use of deferred tax provisions set aside previously by the parent company Terna and the subsidiary Terna Rete Italia S.r.l. relating to additional amortisation and depreciation with respect to the economic-technical rates (€ 41.3 million and € 7.6 million, respectively);
- release of the last portion (€ 8.5 million) of deferred IRAP tax provisions governed by Italian Law No. 244 of 24 December 2007 (2008 Budget Law);
- reduction of the liability relating to employee benefits for the recognition of actuarial gains and losses accruing to the year (€ 5.8 million net of the related tax effect) essentially referable to adjustment of the relevant interest rate;

(18) Last December, the State Council confirmed cancellation of the authorisation order for work on the NTG entitled “Dolo-Camin” (380 kV rationalisation project between Venice and Padua). Therefore, during 2013 a new study was launched on rearranging the grid to form a new proposal for authorisation.

(19) More specifically, Italian Law Decree 133/13, in amending the basis for calculation of the second IRES and IRAP tax deposits for the 2013 tax period brought these to 102.5%.

- use of deferred tax assets related to the adjustment to fair value associated with derivative cash flow hedging instruments of the parent company for € 26.4 million;
- net provision to the Provision for risks relating to the quality of the electrical service (€ 11.7 million - net of the tax effect - connected with the mitigation and sharing mechanisms).

Net invested capital amounted to € 9,565.7 million, an increase of € 922.4 million compared with 31 December 2012 and is financed by shareholders' equity for € 2,940.6 million (compared with € 2,788.3 million at 31 December 2012) and by net financial indebtedness for € 6,625.1 million (€ +770.1 million compared with the € 5,855 million of 31 December 2012). At 31 December 2013, the **debt/equity** ratio therefore came out at 2.25.

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 2013	Equity at 31.12.2013
Financial Statements of the Parent Company	454.8	2,688.1
Results and Equity contributed by the Group companies in traditional activities	54.5	170.8
Results and Equity contributed by the Group companies in non-traditional activities	3.8	59.8
Equity-accounted investees	0.5	21.9
Terna Group Consolidated Financial Statements	513.6	2,940.6

Cash flows Net financial debt

The Group's net financial debt at 31 December 2013 (€ 6,625.1 million) is broken down in the table below.

€ million	31.12.2013	31.12.2012	Change
Financial debt			
A. Medium- and long-term debt			
Bond ⁽¹⁾	5,723.0	6,543.7	(820.7)
Floating-rate loans ⁽¹⁾	2,286.9	2,365.7	(78.8)
Derivative financial instruments ⁽²⁾	(447.1)	(613.7)	166.6
Total	7,562.8	8,295.7	(732.9)
B. Short-term debt (cash and cash equivalents):			
Floating-rate loans (current portions) ⁽³⁾	79.0	69.4	9.6
Fixed-rate loans (current portions) ⁽³⁾	618.8	0.0	618.8
Derivative financial instruments ⁽⁴⁾	(18.4)	0.0	(18.4)
Cash and cash equivalents	(1,617.1)	(2,510.1)	893.0
Total	(937.7)	(2,440.7)	1,503.0
Total net financial debt	6,625.1	5,855.0	770.1

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 (€ 527.1 million);

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

(4) this figure is included in the "Current financial assets" caption.

During the financial year, net financial debt increased by € 770.1 million owing mainly to the combined effect of:

- a decrease in bond loans (€ 201.9 million) as a result of adjusting financial instruments to fair value (€ -205.6 million, including the amortised cost) and the capitalisation of inflation in the period (€ +3.7 million) associated with the inflation-linked bond;
- repayment of EIB loan instalments due of € 69.4 million;
- a decrease in the positive net balance of derivative financial instruments (€ 148.2 million), mainly due to an increase in the reference interest rate curve compared to December 2012, which was reflected, in particular, in the change in derivatives hedging bonds (fair value hedges) of € -209.4 million, net of the effect on the change in derivatives hedging floating-rate debt (cash-flow hedges) of € +61.2 million;
- a decrease in cash and cash equivalents (€ 893 million).

Cash flow

€ million	Cash flow 31.12.2013	Reconciliation financial state- ments	Cash flow 31.12.2012	Reconciliation financial state- ments
Opening cash and cash equivalents	2,510.1		1,114.9	
Net profit for the year	513.6		463.6	
Amortisation and depreciation	443.4		420.6	
Net change in provisions	(27.4)		(75.2)	
<i>Employee benefits</i>		(8.3)		23.6
<i>Provisions for future risks and charges</i>		10.1		(26.9)
<i>Deferred tax liabilities</i>		(29.2)		(71.9)
Net Losses (Gains) on asset disposals ⁽¹⁾	(1.7)		(5.9)	
Self-financing	927.9		803.1	
Change in net working capital:	(124.3)		46.2	
<i>Inventories</i>		(1.4)		9.7
<i>Trade receivables</i>		163.0		(193.9)
<i>Current financial assets</i>		4.4		(27.9)
<i>Income tax assets</i>		(2.2)		(14.2)
<i>Other current assets</i>		(19.8)		(39.1)
<i>Trade payables</i>		(247.9)		261.2
<i>Tax liabilities</i>		(63.5)		(21.5)
<i>Current financial liabilities</i>		14.3		47.3
<i>Other liabilities</i>		28.8		24.6
Cash flows from operating activities	803.6		849.3	
Investments				
Total investments	(1,212.3)		(1,235.2)	
<i>Property, plant and equipment</i> ⁽²⁾		(1,164.9)		(1,181.1)
<i>Intangible assets</i> ⁽³⁾		(47.4)		(54.1)
Other changes in non-current assets	(0.1)		89.8	
<i>Intangible assets</i> ⁽³⁾		0.0		0.2
<i>Property, plant and equipment</i> ⁽²⁾		1.3		97.0
<i>Non-current financial assets</i>		(0.2)		(0.2)
<i>Other non-current assets</i>		(0.7)		(0.5)
<i>Equity-accounted investees</i>		(0.5)		(6.7)
Total cash flows provided by/(used in) investing activities	(1,212.4)		(1,145.4)	
Change in loans	(122.9)		2,127.1	
<i>Non-current financial assets</i>		227.8		(233.1)
<i>Current financial assets</i>		(18.4)		150.0
<i>Non-current financial liabilities</i>		(61.2)		29.8
<i>Long-term loans</i>		(899.5)		2,170.7
<i>Current portion of long-term loans</i>		628.4		9.7
Other changes in equity attributable to owners of the Parent ⁽⁴⁾	40.7		(33.8)	
<i>Equity attributable to owners of the Parent - Share capital, other reserves and retained earnings</i>		40.7		(33.8)
Dividends paid to shareholders of the Parent	(402.0)		(402.0)	
Total cash flows provided by/(used in) financing activities	(484.2)		1,691.3	
Total cash flows for the year	(893.0)		1,395.2	
Closing cash and cash equivalents	1,617.1		2,510.1	

(1) included in the "Other revenue and income" and "Other operating costs" captions of the consolidated income statement;

(2) see note 12 to the financial statements;

(3) see note 14 to the financial statements;

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

Change in net financial position

Cash flow for FYs 2013 and 2012 are shown in the table below.

€ million	31.12.2013	31.12.2012
Opening net financial debt	(5,855.0)	(5,123.1)
Self-financing	927.9	803.1
Change in net working capital	(124.3)	46.2
Cash flows generated from operating activities	803.6	849.3
Total investments	(1,212.3)	(1,235.2)
Other changes in non-current assets	0.6	96.7
Change in equity investments	(0.7)	(6.9)
Cash flows used in investing activities	(1,212.4)	(1,145.4)
Dividends	(402.0)	(402.0)
Other changes in Group equity	40.7	(33.8)
Own capital flows	(361.3)	(435.8)
Change in financial debt	(770.1)	(731.9)
Closing net financial debt	(6,625.1)	(5,855.0)

The liquidity generated from operating activities during the financial year, about € 803.6 million, is related to self-financing (€ +927.9 million), net of financial resources used by net working capital (€ -124.3 million).

As far as **self-financing** is concerned, we can note the period profit of € 513.6 million, amortisation and depreciation for the period of € 443.4 million, a net decrease in provisions of € 27.4 million, mainly ascribable to the changes in provisions for net deferred tax liabilities and the risks and charges provision and in liabilities relating to employee benefits, described above.

The **change in net working capital**, of € -124.3 million, is mostly attributable to the reduction in tax liabilities and net trade payables (including pass-through energy-related economic items).

Investing activities used financial resources of approximately € 1,212.3 million, mostly referable to investments made during the year in property, plant and equipment (€ 1,164.9 million, of which € 1,149.3 million in traditional activities) and intangible assets (€ 47.4 million) – attributable to the parent company for a total of € 1,113.7 million.

Cash used in relation to **own capital movements** is essentially the result of the distribution of the 2012 dividends to shareholders of the parent company (€ 261.3 million) and the interim dividend for 2013 (€ 140.7 million).

The other changes in equity attributable to owners of the Parent relate to recognition at fair value of derivatives hedging floating-rate debt (CFHs), net of the related tax effect (€ 34.9 million), and to the recognition of the actuarial gain on employee benefits accruing to the year (€ +5.8 million, considering also the tax effect) related essentially to adjustment of the relevant interest rate.

Therefore, cash flows used in investing activities and in own capital flows determined in the year a total requirement of € 1,573.7 million funded in part by cash flows provided by operating activities (€ 803.6 million) and, for the rest (€ 770.1 million), mainly by means of the net use of cash and cash equivalents at the end of 2012.

Terna S.p.A. performance and financial position

Introduction

The 2013 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 as at and for the year ended 31 December 2013 in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Commission (hereinafter “IFRS-EU”).

The 2013 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 financial statements at 31 December 2012, except for the obligatory application of the new “IAS 19 - Employee Benefits” and of “IFRS 13 - Fair Value Measurement”.

In particular, starting from 1 January 2013, Terna applied, retrospectively, the new “IAS 19 - Employee Benefits”, which introduces changes to the recognition and measurement of costs relating to employee benefits and to the related disclosure requirements. The most significant change for the Company’s financial statements introduced by the new version of the standard regards elimination of the option to defer recognition of actuarial gains and losses using the corridor approach, with consequent recognition of the same in OCI (Other Comprehensive Income). Following this, a number of comparative balances of financial year 2012 were adjusted to take account of the change in the accounting model described above. In particular this restatement entailed recognition at 31 December 2012 of higher liabilities for employee benefits of approximately € 1 million, higher deferred tax assets amounting to approximately € 0.4 million and a reduction in shareholders’ equity of approximately € 0.6 million. The impact on the 2012 Income Statement is instead negligible.

“IFRS 13 – Fair Value Measurement”, which came into force going forward from 1 January 2013, establishes a new definition of fair value and the minimum necessary content of the disclosure. IFRS 13 defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”; the main change for the Company’s financial statements is the inclusion of counterparty risk in financial instrument measurement models. Adoption of the new standard entailed, at 31 December 2013, a reduction in the value of fair value hedging derivatives of € 0.5 million, and a reduction in the value of cash flow hedging derivatives of € 0.1 million.

It should also be recalled that last year saw the start-up of the plans for the new organisational structure of the Terna Group, under the scope of which the subsidiary Terna Rete Italia S.p.A. has been assigned all the traditional operational activities, ordinary and extraordinary maintenance of the NTG, and management and performance of work developing the grid, connected with the implementation of the license provisions for transmission and dispatching and on the basis of the Terna Development Plan. To this end, with effect as from 1 April 2012, a business unit rent contract has been stipulated with Terna, with consequent specific infra-group contracts regulating the business.

It therefore follows that the analysis of the differences in the balances of the Company’s economic P&L items with respect to last year is significantly influenced by this reorganisation, which has also resulted in the reclassification of some comparative balance sheet balances following a more precise definition of the relations concerned by the BU rent contract.

Reclassified income statement of Terna S.p.A.

The reclassified income statement of Terna S.p.A. for 2013 and 2012 is shown below.

€ million	2013	2012	Change	%
Revenues:				
Grid transmission fees ⁽¹⁾	1,467.8	1,343.8	124.0	9.2%
Other energy items ⁽¹⁾	181.8	161.3	20.5	12.7%
Other operating income ⁽²⁾	118.3	154.7	(36.4)	(23.5%)
Total revenue	1,767.9	1,659.8	108.1	6.5%
Operating expenses:				
- Personnel expenses	47.1	81.9	(34.8)	(42.5%)
- Services, leases and rentals	357.3	314.7	42.6	13.5%
- Materials	5.3	19.1	(13.8)	(72.3%)
- Other expenses ⁽³⁾	50.8	44.4	6.4	14.4%
Total operating expenses	460.5	460.1	0.4	0.1%
EBITDA (Gross Operating Profit)	1,307.4	1,199.7	107.7	9.0%
Amortisation and depreciation ⁽⁴⁾	394.4	370.6	23.8	6.4%
EBIT (operating profit/loss)	913.0	829.1	83.9	10.1%
- Net financial income (expense) ⁽⁵⁾	(88.5)	(19.3)	(69.2)	358.5%
Profit/loss before taxes	824.5	809.8	14.7	1.8%
- Income taxes	369.7	346.6	23.1	6.7%
Net profit for the year	454.8	463.2	(8.4)	(1.8%)

In the income statement:

- (1) the balance is included in the item "Revenue from sales and services";
 (2) corresponds to "Revenue from sales and services" for the value of the "Other Sales and Services" (€ 50.5 million) and "Other revenue and income" (€ 67.8 million);
 (3) corresponds to "Other operating expenses" and to "Amortisation, depreciation and impairment" for the amount of impairment of trade receivables (€ 5.8 million);
 (4) corresponds to "Amortisation, depreciation and impairment" net of the impairment of trade receivables (€ 5.8 million);
 (5) corresponds to the balance of the items presented in points 1 and 2 of letter C - "Financial income/expense".

Revenue of € 1,767.9 million is up by 6.5% (€ +108.1 million) on 2012, mainly due to the higher **grid transmission fees (CTR)**, equal to € +124.0 million.

Net of contingent assets (€ +12.6 million), which, amongst others, include adjustments due to the review of the grid perimeters (€ 6.7 million to the subsidiary Terna Rete Italia S.r.l.), the increased grid remuneration (€ +111.4 million) is mainly due to:

- tariff review (€ +95.4 million) for the increase in 2011 investments;
- CTR fees for the purpose of remunerating the Defence Plan (€ +16 million).

The progress of revenue deriving from "**Other energy items**" increases by € 20.5 million mainly due to:

- greater income from the dispatching service business (€ +7.4 million);
- net increase in premiums and penalties for the quality of service recorded during the period (€ +20 million), relating to the effects of the RENS transmission service incentives - pursuant to Resolution 197/11 relating to the period until Q1 2012 (totalling € +29.5 million), partially offset by the greater revenues recorded last year for the incentives paid to Terna on the Dispatch Services Market, as envisaged by Resolution 213/09 (€ -9.5 million);
- reduction of approximately € 6.6 million by virtue of the lesser investments made in dispatch infrastructures¹⁷ as compared with last year.

(17) Recognised pursuant to IFRIC 12.

Other operating income records a reduction of € -36.4 million on last year, mainly relating to:

- greater capital gains from the disposal of business operating assets recorded in 2012 (€ -3.8 million);
- lesser revenues for orders, provisions and services for third parties (€ -8.4 million);
- lesser contingencies (€ -16.3 million), mainly relating to the revised previous fees concerning the housing of the optic fibre made the previous year;
- greater contributions for connections recorded last year (€ -4 million);
- the sale of inventories made to the subsidiary Terna Rete Italia S.p.A. last year, as a result of the rental of the BU (for € 3.2 million).

Operating expenses come to € 460.5 million and are basically in line with last year's balance (€ +0.4 million, +0.1%); this is due to the combined effect of the following phenomena, mainly related to the reorganisation process that took place in 2012, as described previously. In particular:

- **"personnel expenses"**: reduction of € 34.8 million mainly attributable to the transfer of employees belonging to the business unit leased to Terna Rete Italia S.p.A. as from the second quarter of 2012;
- **"Costs for services, leases and rentals"**: the € 42.6 million increase is also due to the reorganisation process described above; more specifically, the change is mainly brought about by:
 - greater costs payable to the subsidiary Terna Rete Italia S.p.A. (€ 64.2 million) in implementation of specific contracts in place, mainly relating to technical maintenance and operating services on owned plants (€ 62.8 million);
 - a reduction in the costs relating to third parties for tenders and provisions of ordinary maintenance works and for keeping plants efficient (€ -8.8 million), for general provisions and services, such as vehicle hire, remote transmission and telephones (€ -5.8 million) and IT services (€ -3 million);
- **"Materials"**: the reduction of € 13.8 million is mainly due to the carrying out of ordinary plant maintenance directly by the subsidiary Terna Rete Italia S.p.A. as from the second quarter of last year;
- **"Other expenses"**: the change (€ +6.4 million) is mainly due to the combined effect of:
 - quality of service: € +23.9 million mainly in connection with the valuation of RENS mechanisms, sharing and mitigation consequent to power failures mainly occurring late FY 2013²⁰;
 - IMU cost: € -15.2 million, mainly relating to the estimate prepared last year for probable greater IMU costs;
 - recording last year of contingent liabilities for the repayment of the balance of grants paid for 2002 to 2006 to the Ministry for Economic Development in relation to the former concession of telephone services for private use (€ 3.0 million).

EBITDA (gross operating profit) stands at € 1,307.4 million, representing 74% of revenue (compared to the 72.3% of 2012), with an increase of € 107.7 million over the € 1,199.7 million of 2012 (+9%).

Amortisation and depreciation for the year amount to € 394.4 million and are up by € 23.8 million on 2012 (+6.4%), mainly due to the entry into operation of new plants.

EBIT (operating profit) came to € 913 million, with an increase of € 83.9 million (+10.1%) on financial year 2012.

Net financial expense for the year comes to € 88.5 million, an increase of € 69.2 million on the € 19.3 million recorded for 2013. This is mainly due to the 2012 distribution of dividends by the subsidiary SunTergrid (€ 60 million), the lower return on the loan to the subsidiary Terna Rete Italia S.r.l. (€ 4.3 million) connected with the reduction in rates and the greater financial income achieved in 2012.

After deducting net financial expense, **profit before taxes** came out at € 824.5 million, up by € 14.7 million compared with the previous year (+1.8%).

Income taxes for the year amount to € 369.7 million, up € 23.1 million (+6.7%) compared with the previous year. The tax rate of 44.8% (44.9% without considering the one-off elements²¹) is higher than the 42.8% of last year (42.6% without considering one-off elements²¹), mainly due to the dividends recorded in the previous year.

Consequently, **net profit for the period** came out at € 454.8 million, down € 8.4 million compared with the net profit of FY 2012 (-1.8%).

(20) More specifically, following the definition of the Terna Group organisational restructuring operation and the related intercompany contracts, and in view of the proven uncertain nature and economic relevance of the premiums and penalties system connected with the Quality of the service mechanism, as from 1 January 2013, Terna and Terna Rete Italia S.p.A. agreed to establish a threshold of +/-€ 10 million in favour of/at the expense of Terna Rete Italia S.p.A., with Terna instead remaining responsible for any income/expense exceeding this amount.

(21) Relating to the lesser liquidation of tax recorded in previous year, net provisions for tax risks and the adjustment for the IRES surtax (the "Robin Hood Tax") and IRAP rates.





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

The reclassified statement of financial position of Terna S.p.A. at 31 December 2013 and 2012 is summarised below. The table is obtained by reclassifying the data stated in the Statement of financial position.

€ million	at 31.12.2013	at 31.12.2012	Change
Net non-current assets			
Intangible assets and goodwill	356.1	363.6	(7.5)
Property plant and equipment	8,972.6	8,202.8	769.8
Financial assets ⁽¹⁾	683.3	681.1	2.2
Total	10,012.0	9,247.5	764.5
Net working capital			
Trade receivables ⁽²⁾	833.5	844.2	(10.7)
Inventories	0.7	0.0	0.7
Other assets ⁽³⁾	88.7	92.6	(3.9)
Trade payables ⁽⁴⁾	733.8	667.6	66.2
Net payables for pass-through energy items ⁽⁵⁾	449.4	603.0	(153.6)
Net tax liabilities ⁽⁶⁾	(40.6)	(13.4)	(27.2)
Other liabilities ⁽⁷⁾	453.3	436.0	17.3
Total	(673.0)	(756.4)	83.4
Gross invested capital	9,339.0	8,491.1	847.9
Sundry provisions ⁽⁸⁾	247.2	272.2	(25.0)
Net invested capital	9,091.8	8,218.9	872.9
Equity	2,688.1	2,598.5	89.6
Net financial debt ⁽⁹⁾	6,403.7	5,620.4	783.3
Total	9,091.8	8,218.9	872.9

Reported in the statement of financial position as:

- (1) "Other non-current assets" and "Non-current financial assets" for the value of equity investments (€ 681.1 million);
- (2) the item "Trade receivables" net of energy-related pass-through revenue receivable (€ 875.0 million);
- (3) the item "Other current assets" net of other tax assets (€ 58.7 million) and "Current financial assets", net of the FVH derivative value (€ 18.4 million);
- (4) the item "Trade payables" net of the energy-related pass-through costs payable (€ 1,324.4 million);
- (5) the items "Trade receivables" for energy-related pass-through revenue receivable (€ 875.0 million) and "Trade payables" for energy-related pass-through costs payable (€ 1,324.4 million);
- (6) the items "Tax assets", "Other current assets" for the amount of the other tax assets (€ 58.7 million), "Other current liabilities" for the amount of other tax liabilities (€ 1.3 million) and "Tax liabilities";
- (7) the items "Other non-current liabilities", "Current financial liabilities" and "Other current liabilities" net of other tax liabilities (€ 112.1 million);
- (8) the items "Employee benefits", "Provisions for risks and charges" and "Deferred tax liabilities";
- (9) "Long-term loans", "Current portion of long-term loans", "Non-current financial liabilities", "Short-term loans", "Cash and cash equivalents", "Non-current financial assets", for the value of the loan to Terna Rete Italia S.r.l. and the FVH derivatives (respectively € 500.0 million and € 527.1 million) and "Current financial assets" for the value of the FVH derivatives (€ 18.4 million).

The € 764.5 million increase in **net non-current assets** since 31 December 2012, is mainly attributable to:

- **property, plant and equipment**, which increased by € 769.8 million.

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

€ million

Investments

Transmission lines	615.7
Transformation stations	328.7
Other	115.7
Investments in property, plant and equipment – traditional activities	1,060.1
Investments in property, plant and equipment – non-traditional activities	12.4
Total investments in property, plant and equipment	1,072.5
Depreciation and amortisation	(339.9)
Disposals, impairment and other changes	0.6
Infra-group acquisitions	36.6
Total	769.8

The change (€ +769.8 million) is mainly attributable to the net effect of new investments (€ 1,072.5 million, of which € 1,060.1 million in traditional activities), the amortisation and depreciation for the year (€ -339.9 million) and the acquisitions of assets made by other Group companies (€ +36.6 million). More specifically, during the year Terna purchased the entire lot of projects relating to the diffused energy storage systems (batteries) from the subsidiary Terna Storage S.r.l. for € 33.2 million, and a rapidly installable connection station (SCRI) to cope with the needs arising for the parent company to acquire the availability of an infrastructure able to restore and maintain the connection of a “traditional” station, whose function had been temporarily compromised following a major incident, from Terna Plus S.r.l. for € 2.2 million.

In terms of period investments, we should particularly mention the progress made on the work on “Sorgente-Rizziconi” (€ 157.7 million), “Dolo-Camin” (€ 54.2 million), the “Trino-Lacchiarella” power line (€ 51.1 million), the underwater connection “Italy-Montenegro” (€ 36.2 million), the “Foggia-Gissi-Villanova” power line (€ 31.3 million), the restructuring of the North Calabria Grid (€ 29.0 million) and the development of the “Foggia Benevento II” work (€ 26.3 million);

- **intangible assets and goodwill recorded** a reduction of € 7.5 million on 2012, attributable to ordinary period changes, in particular:
 - period investments of € 47.0 million (of which € 31.1 million in dispatch infrastructures);
 - portion of amortisation accruing (€ 54.5 million of which, in particular, € 33.1 million relating to the amortisation of the dispatching infrastructures and € 5.6 million relating to amortisation of the concession);
- **financial assets**, which show an increase of € 2.2 million, mainly due to the payment on capital account (€ 2 million) made in favour of the subsidiary Terna Storage during the year, in order to ensure that the company had the resources it needed to develop its business.

Net working capital stands at € -673 million and used € 83.4 million in liquidity during the year essentially deriving from the following:

- **net payables for pass-through energy items:** the reduction (€ -153.6 million) is largely related to:
 - the reduction in net payables relating to the cover of imbalances deriving from significant production units (€ 105.4 million);
 - the reduction in net payables deriving from the remuneration of essential units for the safety of the electrical system (€ 22.5 million) and production capacity availability (€ 57.5 million);
 - lower net payables deriving from virtual interconnection activities (€ 31.7 million);
 - a decrease in net receivables connected to the uplift (€ 24.1 million);
 - a decrease in the net receivables deriving from the mechanism for the assignment of cross-border capacity internationally (€ 43.3 million);
- **trade payables:** the increase (€ +66.2 million) mainly derives from the greater payables due to subsidiaries, in turn mainly relating to the acquisition of the batteries under construction from Terna Storage S.r.l. up until end November (€ 33.2 million) and to the subsequent developments/adjustments and related coordination and monitoring by the subsidiary in December (€ 30.3 million) in implementation of the specific contract stipulated;
- **trade receivables:** the reduction of € 10.7 million mainly reflects the decline in receivables for the most part relating to the Company’s non-traditional activities (€ -37.3 million) and to the incentive mechanism envisaged by AEEG Resolution 213/09 (€ -49.7 million) is partly offset by the greater receivables due from distributes for transmission fees - CTR (€ 50.1 million) and by CCSE for the quality of service - ENSR (€ +13.3 million) and for the “mitigation” mechanism pursuant to Resolution 188/08 (€ +10 million);

- **net tax liabilities:** the decrease of € 27.2 million is due mainly to lower net payables to the tax authorities for current taxes (€ -15 million), essentially attributable to the period payment of greater tax advances pursuant to Italian Law Decree No. 133/13⁽²²⁾, to the increased receivable due from the tax authority for VAT (€ 7.1 million) and for tax and withholdings accrued on interest income on the Company's financial assets (€ 4.9 million);
- **other liabilities:** the increase (€ +17.3 million) mainly relates to:
 - higher security deposits received from electricity market operators connected with dispatch contracts (€ +8 million);
 - greater liabilities for unsettled net interest expense for the period in relation to the bond loan of € 750 million issued in October 2012 (€ +14.3 million);
 - the liability (€ +7.2 million) for the deferral of rentals receivable 2014/2015 paid during the year by Wind Telecomunicazioni for the housing of the optic fibre;
 - the reduction of the amount payable to Terna Rete Italia S.p.A. following the liquidation by the subsidiary of payables due to employees of the business unit (€ -8.9 million).

The **gross invested capital** therefore amounts to € 9,339.0 million, recording an increase of € 847.9 million as compared with 31 December 2012.

Sundry provisions, amounting to € 247.2 million, post a decrease of € 25.0 million, mainly due to:

- use of amounts set aside previously for deferred tax liabilities relating to additional amortisation and depreciation with respect to the assets' estimated useful life (€ 42.7 million);
- release of the last portion (€ 8.5 million) of deferred IRAP tax provisions governed by Italian Law No. 244 of 24 December 2007 (2008 Budget Law);
- reduction of the liability relating to employee benefits for the recognition of actuarial gains and losses accruing to the year (€ 1.9 million net of the related tax effect) essentially referable to adjustment of the relevant interest rate;
- use of deferred tax assets related to the adjustment to fair value associated with derivative cash flow hedging instruments for € 26.4 million.

Net invested capital stands at € 9,091.8 million and is financed through **equity** for € 2,688.1 million (as compared with € 2,598.5 million as of 31 December 2012) and by **net financial debt** for € 6,403.7 million (€ +783.3 million as compared with 31 December 2012).

The **debt/equity** ratio (net financial debt/equity) stands at 2.38.

(22) More specifically, Italian Law Decree 133/13, in amending the basis for calculation of the second IRES and IRAP tax deposits for the 2013 tax period brought these to 102.5%.

Cash flows

Net financial debt

The Company's net financial debt at 31 December 2013 (€ 6,403.7 million) is broken down as follows.

€ million	31.12.2013	31.12.2012	Change
A. Medium- and long-term debt:			
Bond ⁽¹⁾	5,723.0	6,543.7	(820.7)
Floating-rate loans ⁽¹⁾	2,286.9	2,365.7	(78.8)
Derivative financial instruments ⁽²⁾	(447.1)	(613.7)	166.6
Loan to Terna Rete Italia S.r.l. ⁽³⁾	(500.0)	(500.0)	0.0
Total	7,062.8	7,795.7	(732.9)
B. Short-term debt (cash and cash equivalents):			
Floating-rate loans (current portions) ⁽⁴⁾	79.0	69.4	9.6
Fixed-rate loans (current portions) ⁽⁴⁾	618.8	0.0	618.8
Derivative financial instruments ⁽⁵⁾	(18.4)	0.0	(18.4)
Net current a/c position of intercompany treasury ⁽⁶⁾	269.5	249.7	19.8
Cash and cash equivalents	(1,608.0)	(2,494.4)	886.4
Total	(659.1)	(2,175.3)	1,516.2
Total	6,403.7	5,620.4	783.3

In the 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 (€ 527.1 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) this figure is included under "Current financial assets";
- (6) this figure corresponds to the item "Short-term loans".

During the financial year, net financial debt increased by € 783.3 million owing mainly to the combined effect of:

- a decrease in bond loans (€ 201.9 million) as a result of adjusting financial instruments to fair value (€ -205.6 million, including the amortised cost) and the capitalisation of inflation in the period (€ +3.7 million) associated with the inflation-linked bond;
- repayment of EIB loan instalments due of € 69.4 million;
- a decrease in the positive net balance of derivative financial instruments (€ 148.2 million), mainly due to an increase in the reference interest rate curve compared to December 2012, which was reflected, in particular, in the change in derivatives hedging bonds (fair value hedges) of € -209.4 million, net of the effect on the change in derivatives hedging floating-rate debt (cash-flow hedges) of € +61.2 million;
- increase in the net negative balance of intercompany current accounts held by the Company with its subsidiaries (€ 19.8 million);
- a decrease in cash and cash equivalents (€ 886.4 million).

Cash flow

€ million	Cash flow 31.12.2013	Reconciliation financial state- ments	Cash flow 31.12.2012	Reconciliation financial state- ments
Opening cash and cash equivalents & intercompany current accounts	2,494.4		1,114.3	
Net profit for the year	454.8		463.2	
Amortisation and depreciation	394.4		370.6	
Net change in provisions	(25.0)		(148.9)	
<i>Employee benefits</i>		(0.7)		(80.4)
<i>Provision for future risks and charges</i>		(7.8)		(20.5)
<i>Deferred tax liabilities</i>		(16.5)		(48.0)
Net Losses (Gains) on asset disposals ⁽¹⁾	(1.7)		(5.9)	
Self-financing	822.5		679.0	
Change in net working capital:	(83.4)		41.3	
<i>Inventories</i>		(0.7)		12.4
<i>Trade receivables</i>		153.8		(178.3)
<i>Current financial assets</i>		4.5		(27.1)
<i>Income tax assets</i>		6.4		(14.4)
<i>Other current assets</i>		(13.1)		(36.7)
<i>Trade payables</i>		(230.5)		221.8
<i>Tax liabilities</i>		(21.4)		(37.8)
<i>Current financial liabilities</i>		14.3		47.3
<i>Other liabilities</i>		3.3		54.1
Cash flows from operating activities	739.1		720.3	
Investments				
Total investments	(1,119.5)		(1,166.8)	
<i>Property, plant and equipment</i> ⁽²⁾		(1,072.5)		(1,113.0)
<i>Intangible assets</i> ⁽³⁾		(47.0)		(53.8)
Other changes in non-current assets	(37.7)		60.6	
<i>Property, plant and equipment</i>		(35.5)		112.3
<i>Non-current financial assets</i>		(2.2)		(56.1)
<i>Other non-current assets</i>		0.0		4.4
Total cash flows provided by/(used in) investing activities	(1,157.2)		(1,106.2)	
Change in loans	(103.1)		2,195.5	
<i>Current financial assets</i>		(18.4)		150.0
<i>Non-current financial assets</i>		227.8		(233.1)
<i>Non-current financial liabilities</i>		(61.2)		29.8
<i>Long-term loans</i>		(899.5)		2,170.7
<i>Current portion of long-term loans</i>		628.4		9.7
<i>Short-term loans</i>		19.8		68.4
Other changes in equity	36.8		(27.5)	
<i>Equity - Share capital and other reserves</i> ⁽⁴⁾		36.8		(27.5)
Dividends ⁽⁴⁾	(402.0)		(402.0)	
Total cash flows provided by/(used in) financing activities	(468.3)		1,766.0	
Total cash flows for the year	(886.4)		1,380.1	
Closing cash and cash equivalents & intercompany current accounts	1,608.0		2,494.4	

(1) Included in the "Other revenue and income" and "Other operating expenses" captions of the income statement;

(2) see note 11 to the financial statements;

(3) see note 13 to the financial statements;

(4) see the Statement of Changes in Equity.

Change in net financial position

€ million	2013	2012
Opening net financial debt	(5,620.4)	(4,805.0)
Self-financing	822.5	679.0
Change in net working capital	(83.4)	41.3
Cash flows generated from operating activities	739.1	720.3
Total investments	(1,119.5)	(1,166.8)
Infra-group disposals (acquisitions) of fixed assets	(36.6)	16.1
Disposals (acquisitions) of equity investments	(2.2)	(56.1)
Other changes in non-current assets	1.1	100.6
Cash flows used in investing activities	(1,157.2)	(1,106.2)
Dividends distributed	(402.0)	(402.0)
Other changes in equity	36.8	(27.5)
Own capital flows	(365.2)	(429.5)
Change in financial debt	(783.3)	(815.4)
Closing net financial debt	(6,403.7)	(5,620.4)

The liquidity generated from operating activities during the financial year, about € 739.1 million, is related to **self-financing** (€ +822.5 million), net of the **change in net working capital** (€ -83.4 million). In particular, with regard to **self-financing**, note the profit for the period of € 454.8 million, the amortisation and depreciation for the period of € 394.4 million and a net decrease in provisions of € 25 million, which mainly reflects the change in the provision for net deferred tax liabilities and for the provisions for risks and charges mentioned above.

Net working capital used net financial resources totalling € 83.4 million and is mostly attributable to the reduction in tax liabilities and net trade payables (including pass-through energy-related economic items).

Investing activities led to a net use of cash of about € 1,157.2 million. These resources mainly refer to period **investments** made in **property, plant and machinery** (€ 1,072.5 million, of which € 1,060.1 million in traditional activities) and in **intangible assets** (€ 47 million); under this scope, we note the acquisitions of assets made by the Company within the Group and in particular from the subsidiary Terna Storage S.r.l., of the entire lot of projects relating to the diffused energy storage systems (for € 33.2 million) and by the subsidiary Terna Plus S.r.l. for a rapidly installable connection station (SCRI), for € 2.2 million.

Cash used in relation to **own capital movements** is essentially the result of the distribution of the 2012 dividends (€ 261.3 million) and the interim dividend for 2013 (€ 140.7 million). The other changes in equity attributable to recognition at fair value of derivatives hedging floating-rate debt (CFHs), net of the related tax effect (€ 34.9 million), and to the recognition of the actuarial gain on employee benefits accruing to the year (€ +1.9 million, considering also the tax effect) related essentially to adjustment of the relevant interest rate.

Therefore, cash flows used in investing activities and in own capital flows determined in the year a total requirement of € 1,522.4 million funded in part by cash flows provided by operating activities (€ 739.1 million) and, for the rest (€ 783.3 million), mainly by means of the net use of cash and cash equivalents at the end of 2012.

Value added

In the period 2011-2013 the value added generated by the Group increased by 19.8% with regard to its continuing operations and 9.4% including also the added value of discontinued operations relative to 2011.

During the 2011-2013 three-year period, the incidence of the remuneration of employees (on average 21.2%) and borrowed capital (on average 14.7%) as well as direct and indirect tax (on average 31.7%), relative to the total net added value of ongoing activities was essentially stable.

As a proportion of the total net value added, the remuneration of risk capital was essentially in line with 2011 (-0.6%) and recorded a reduction (-1.9%) if compared with the total net value added of ongoing activities.

During the three years, provisions made to reserves, in relation to the total net value added, record growth from approximately 2% to approximately 8%.

NET GLOBAL VALUE ADDED



TERNA GROUP – VALUE ADDED STATEMENT*

	Use 2013	Use 2012	Use 2011
Non-subordinate personnel	2,314,044	2,222,526	1,957,413
Subordinate personnel, direct remuneration	216,983,787	209,498,296	217,415,063
Subordinate personnel, indirect remuneration	63,293,832	64,045,853	63,744,420
A – Staff Remuneration	282,591,663	275,766,675	283,116,896
Direct taxes	423,935,663	412,696,487	387,281,919
Indirect taxes	9,855,050	24,701,769	6,133,331
B – Remuneration of public authorities	433,790,713	437,398,256	393,415,250
Short-term loan expense	230	468	45,248
Interest on bank loans	78,682,981	82,220,620	92,634,544
Interest on bonds	112,084,212	129,226,227	89,522,207
C – Return on borrowed capital	190,767,423	211,447,315	182,201,999
Dividends**	401,998,400	401,998,400	422,098,320
D – Return on risk capital	401,998,400	401,998,400	422,098,320
Allocations to reserves	111,606,710	61,541,976	17,906,390
E – Remuneration of the Company	111,606,710	61,541,976	17,906,390
TOTAL NET GLOBAL VALUE ADDED	1,420,754,909	1,388,152,622	1,298,738,855
<i>of which global net value added of continuing operations</i>	<i>1,420,754,909</i>	<i>1,388,152,622</i>	<i>1,186,035,046</i>
<i>of which value added of discontinued operations held for sale</i>	<i>-</i>	<i>-</i>	<i>112,703,809</i>

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

** The 2013 dividends regard the advance distributed in November 2013 (€ 140.7 million) and the balance proposed to the Shareholders' Meeting by the BoD in the meeting of 25 March 2014 (€ 261.3 million).

Operative performance

Quality of service

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 standards of technical quality.

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

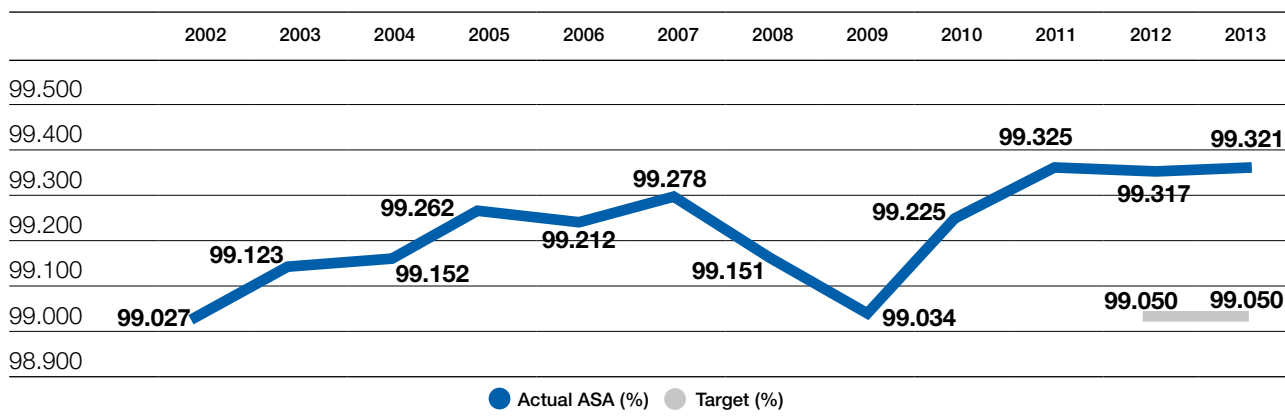
The change in the indexes during the period specified does not reveal significant trends. Each index moves within a very small range in ratio to the overall service measured. In addition, among the causes of change are both external factors, such as weather conditions, and events (for example faults)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

AVAILABILITY INDICATOR

Average System Availability (ASA)

Average availability of the electricity grid components for use in a given period. This index can be expressed in terms of specific categories (for example, by voltage level), grid areas, or – as in this case – the entire National Transmission Grid. The higher the level of the indicator, the better the service performance.

Below is a graph showing the trend of the ASA index from 2002 to 2013⁽²³⁾:



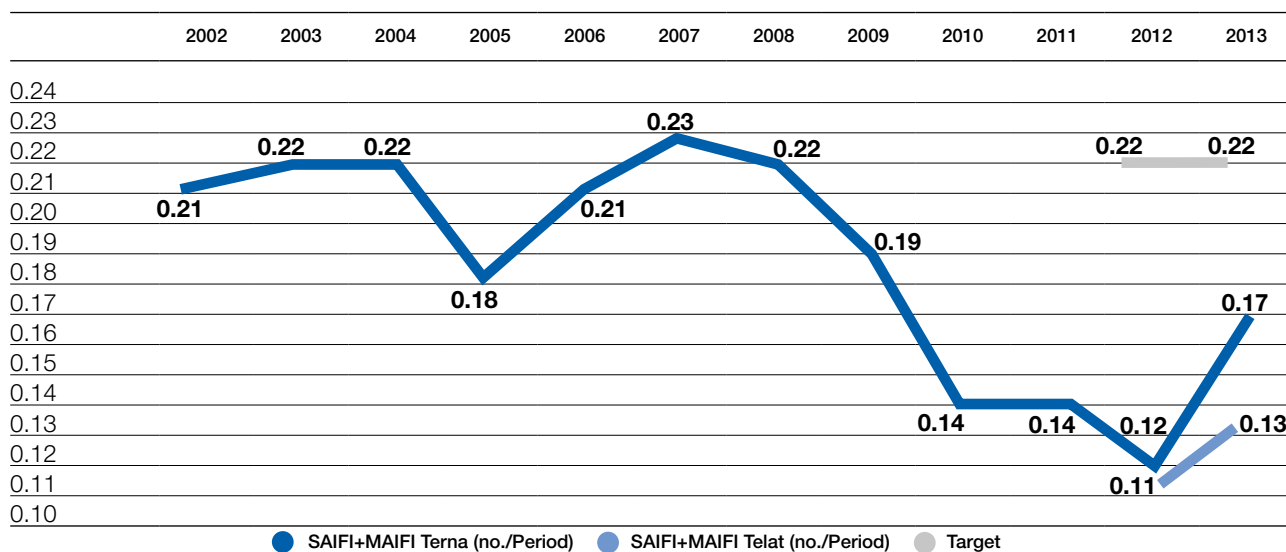
(23) As at the reporting date, the 2013 data for the ASA index is provisional.

CONTINUITY INDICATOR

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

This interruption frequency index is calculated as the ratio between the number of customers 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 NTG²⁴ is better than the reference target, as shown in the graph displaying the index trend for the years from 2002 to 2013, given below:

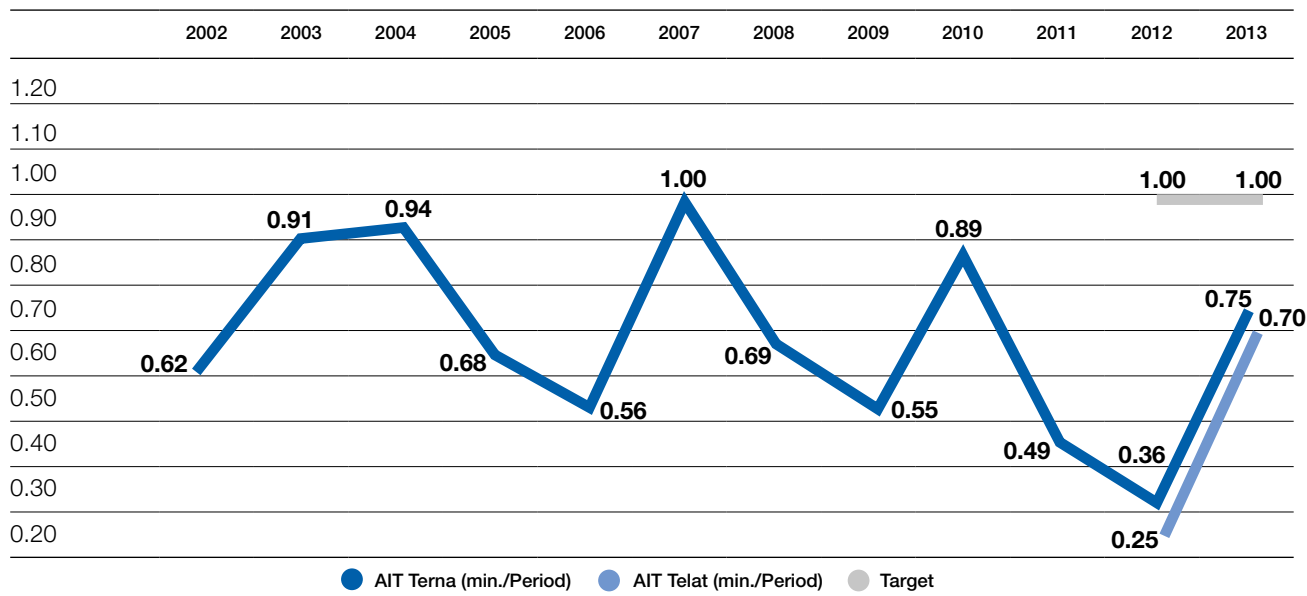


SYSTEM CONTINUITY INDICATOR

Average Interruption Time (AIT)

Average interruption time of the electricity system supply (NTG) in one year. This index is calculated as the ratio between the energy not supplied over a certain period (ENS) and the average power absorbed by the electricity system in the period in question. The figure is rounded to two decimal places. The lower the level of the indicator, the better the service performance.

The performance achieved during the year 2013, with reference to the Terna NTG²⁵ is better than the reference target, as shown in the graph displaying the index trend for the years from 2002 to 2013, given below.



(24) 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.

(25) 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.

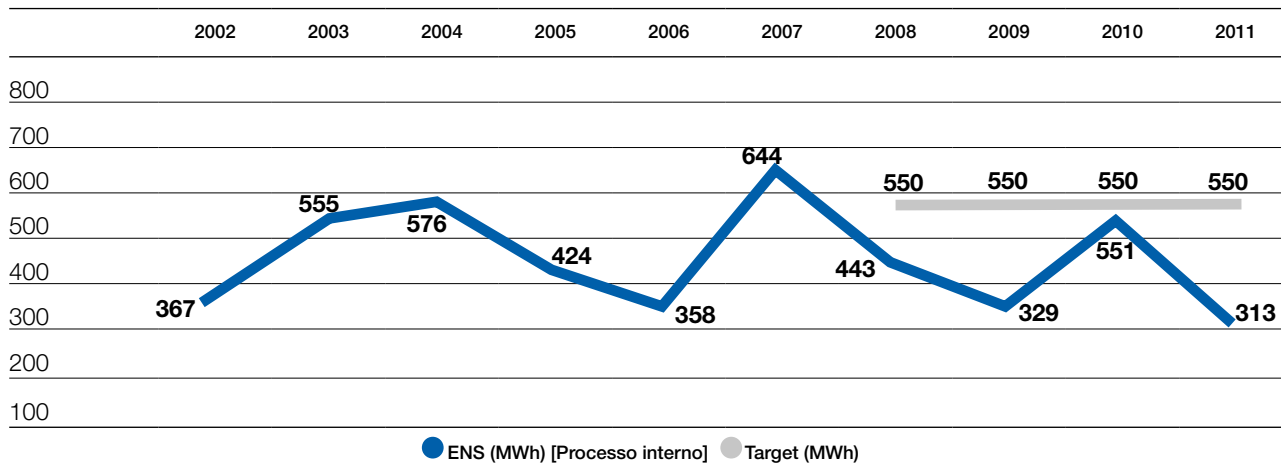
SERVICE CONTINUITY INDICATOR

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 2012 and 2013 by the AEEG were not available at the time this report was published. The following therefore shows the changes in these indicators from when they were introduced and until 2011.

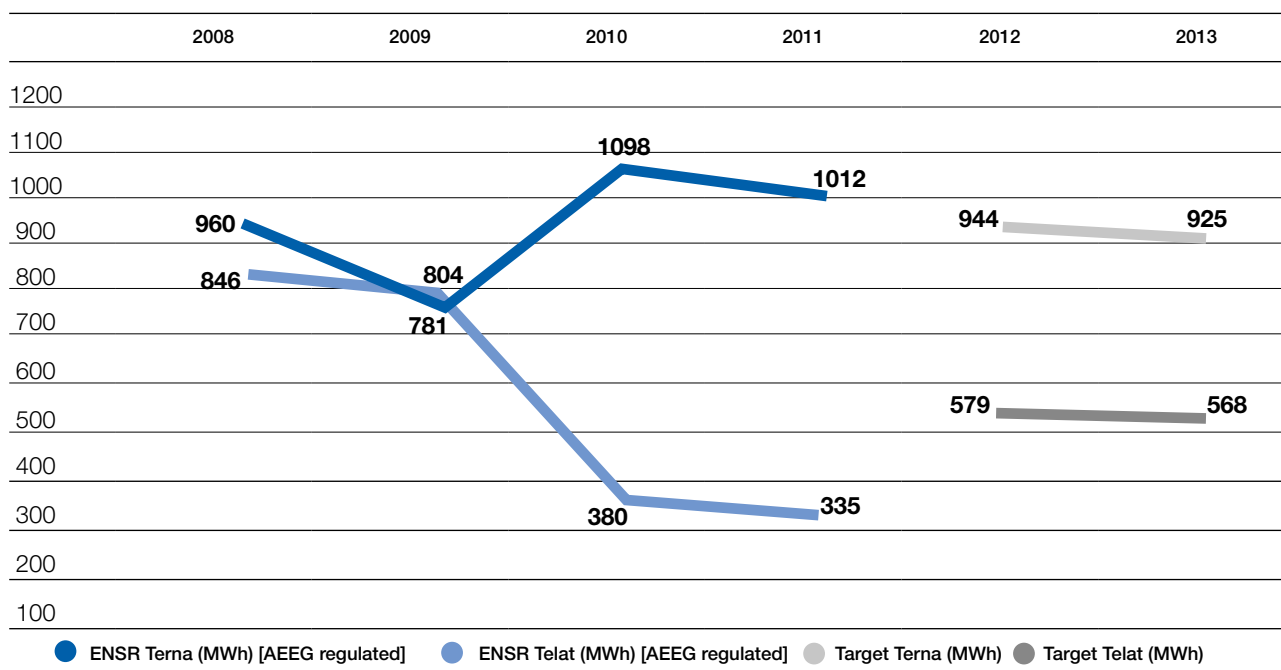
Energy Not Supplied (ENS)

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



Regulated Energy Not Supplied (RENS)²⁶

The AEEG has regulated the quality of the service provided by Terna using an incentive/penalty mechanism set out by Resolution AEEG 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 Terna Rete Italia S.r.l. grid.



(26) For the ENSR indicator, the targets for 2012-2015 have been set as an average of the RENS 2008-2011 indicator, pursuant to 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 2013, Terna increased its transformation capacity by about 2,000MVA of power and put about 100 km of new High and Very-High Voltage lines into operation. From the work which has been completed, the projects of primary interest include: new 220 kV underground power lines from “Baggio – Ricevitrice West” and “Stura – Turin Centre” to improve service safety in the Milan and Turin metropolitan areas; removal of the transport restrictions on the 380 kV grid interconnection with France; rationalisation of the 132 kV grid north of Trieste; the 132 kV “Cerreto Castello – Biella Est” power line and the 380 kV “Feroletto – Maida” power line to improve the safety conditions of the Calabria grid. With regard to power plants which feed in and use production from renewable sources in the south of Italy, two important 380 kV and 150 kV stations have been completed. Upgrades have also been made to extensive portions of the 150 kV grid such as the completion of new transformer stations in Aliano, Erchie and Manfredonia and the 150 kV switching station in Stornara and their respective overhead and underground connection cables. Two reactors have been installed at the power stations in Castelluccia and Marginone, and various underground cables have been laid close to Lacchiarella and in Tavarnuzze which will extend to Sicily (Sorgente – Duferdofin).

Progress on construction sites

The major works still in progress in 2013 aim to reduce grid congestion, connect new power plants (particularly those based on renewable sources) and to make national transmission more reliable with a greater emphasis on the environment and safety. The 85km, 380kV Foggia – Benevento II line and the 380kV “Gissi – Villanova” line (the first of the sections needed to double the Adriatic backbone to 380kV) represent a step in this direction.

Work on the 380kV double three-phase power line between “Trino and Lacchiarella”, which measures more than 100km in length, is nearing completion, while work on the new 380kV “Sorgente – Rizziconi” underground cable connection is ongoing.

As part of the wider “Udine West – Redipuglia” planned project, construction sites have opened at the Udine South power station.

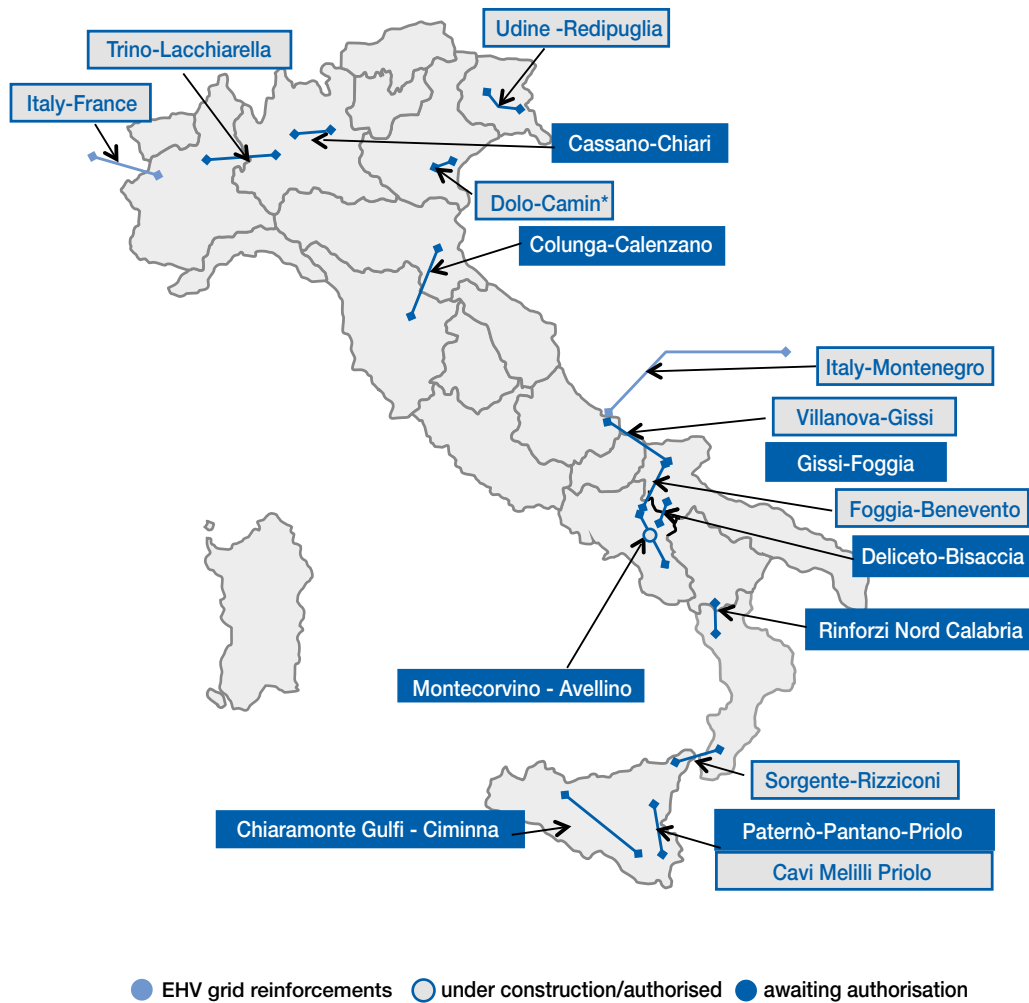
Authorised work and authorisation procedures in progress

In 2013, authorisation procedures were initiated for projects relating to: the 380kV “Cassano – Chiari” power line; the 220/132kV Monte di Malo transformer station; the 132kV “Magliano – Fossano A” power line; restructuring of the 380kV and 132kV grid in Lucca and Vaiano; the 150kV connection cables between the 380/150kV stations in Tuscania and Rotello in order to feed in production from renewable sources; the 150kV Cappuccini – Camerino power line and finally the 150kV S. Teresa – Tempio – Buddusò line to improve the mesh structure of the 150kV grid in Sardinia.

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 Plan²⁷.

(27) See the institutional website at: www.terna.it/default/Home/SISTEMA_ELETTRICO/CantieriTernaPerItalia.aspx.

The picture below summarises the Main Development Plan projects which have been authorised or are in the authorisation process:



* Last December, the Council of State confirmed the annulment of the authorisation order for implementation of the NTG works entitled "Dolo – Camin" (380kV rationalisation between Venice and Padua). Therefore, during 2013, activities were completed on making safe and conserving the works already done, and a new study was launched on rearranging the grid so as to re-propose an authorisation process. At present, the date on which the new authorisation will be obtained is unknown, and no impact is foreseeable, in terms of times and costs, on implementing the project.

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 of Economic Development, 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 picture below summarises the main development projects that involve the 381kV Very-High-Voltage grid for full use of the energy produced by renewable source systems:

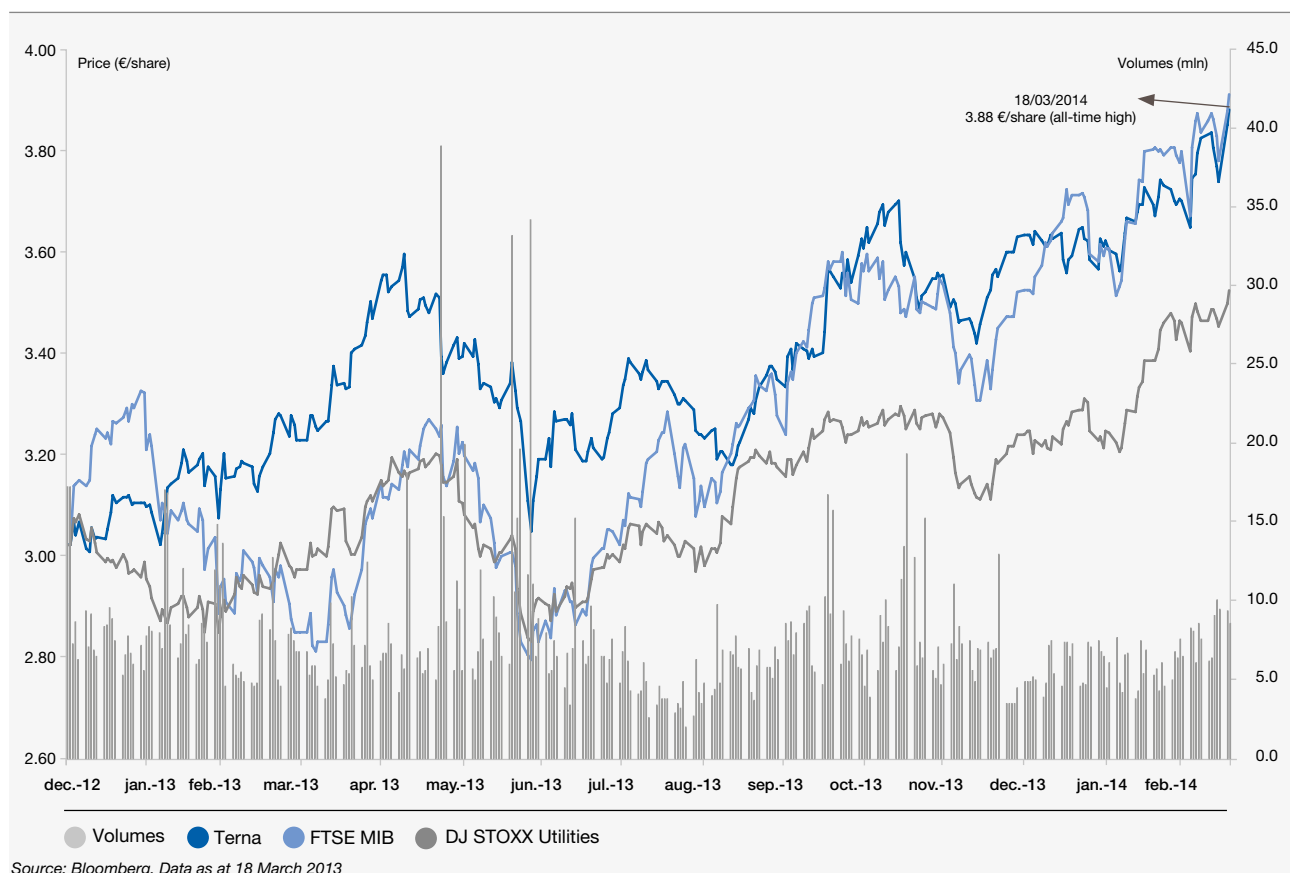


Performance of Terna stock

2013 was a good year for the major global financial centres, which were encouraged by expansionary monetary policies put forward by Central Banks. Despite the expected reduction in monetary stimulus by the Fed, in the United States the Dow Jones Index ended the year up 26.5%, a new record high. In Europe, the economic recovery has been less consistent, with negative growth and high unemployment rates particularly in the European Union's peripheral countries. However, the perception of risk by investors in these countries has declined, with the return differential on sovereign bonds in relation to the German Bund falling sharply (spread BTP10Y/Bund10Y at 31 December 2013, 220 basis points compared with 318 basis points at the end of 2012). The Frankfurt Stock Exchange performed the best in Europe (Dax Index +21,4%), whilst the FTSE MIB in Milan closed the year up 16.6%

Within the sector, in 2013 there was a reversal of the negative performance seen over the previous three years, with a 7.5% gain on the European Utilities Index. In this context, Terna's stock has outperformed both the sector Index and the Milan Index with an increase in value of 20.1% and a Total Shareholder's Return (TSR) of 27.6%, coming among the first of comparable companies. On 12 November, the share prices reached a historical peak of € 3.70 per share and, at the end of the year, with a market capitalisation of € 7.3 billion it was confirmed as 14th in terms of size among the FTSE MIB companies. The average volume traded in 2013 stood at approximately 7.8 million units daily. Finally, it should be noted that, since its listing on the stock exchange (23 June 2004), the stock has increased in value by 114% with a TSR of 284%. This performance is in sharp contrast with the market (TSR FTSE MIB -0,3%) and is three times better than the sector's performance (TSR DJ Stoxx Utilities +94.5%). Finally, we note that during the first few months of 2014, the security gained 6.8%, on 18 March 2014 peaking at € 3.88/share.

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



Terna and the financial markets

FINANCIAL INDICATORS

30 December 2013

Proportion of Terna shares ⁽¹⁾

> in the FTSE MIB index

2.22%

> in the FTSE Italia All Share index

1.92%

Ratings

Standard & Poor's

Outlook
M/L term
Short Term

Negative
BBB+
A-2

Moody's

Outlook
M/L term
Short Term

Negative*
Baa1
Prime-2

Fitch

Outlook
M/L Term⁽²⁾
Short Term

Negative*
A-
F2

(1) Source: Borsa Italiana. Data as at 30 December 2013

(2) Issuer Default Rating

* The rating company has changed the Outlook during the first quarter of 2014 from Negative to Stable

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 objectives and plans. In particular, please note the following activities carried out in 2013:

- active participation in the International Integrated Reporting Council's Pilot Programme, which resulted in observations being formulated at the "Consultation draft of the Integrated Reporting Framework" and in the development of an interactive version of the Integrated Report 2012, which is accessible on the Terna website and served as requisite for the compilation of this report;
- setting out Terna's Social Action Plan which is also based on a stakeholder engagement initiative involving 50 external experts and 60 employees. The Plan identified the main areas of engagement and outlined a series of coherent initiatives, launched in part in 2013 (e.g. the "Here Come Grandma and Grandpa" project with ARCI Milan), and will be developed fully in 2014;
- revision of the system of ethics and social and environmental responsibility with regard to the supply chain – a task which began in 2012 and will continue over the next few years. This has resulted in a list of countries identified as potentially at risk of not respecting human rights and of a lacking integrity within their business management. It will allow the establishment of additional care procedures when approving suppliers and during procurement processes in relation to such countries;
- renewal of the collaboration agreement with the WWF Italia (July 2013) and the completion – with the work being carried out at the Pollino National Park – of efforts to protect biodiversity envisaged in the previous agreement.

The materiality analysis conducted in the second half of 2013 launched the process of strengthening those business tools designed to uncover shareholders' expectations and to plan further action which will benefit relations with these shareholders.

The integration of sustainability into management and managerial decisions has been supported by the creation of awareness initiatives which involved all the Group managers (Sustainability Day, May 2013) and subsequently the middle management from the three Regional Directorates.

Sustainability indicators

The materiality analysis 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 2013 there were no fatal occupational injuries suffered by the Group's employees. The total number of injuries fell considerably compared to 2012, from 51 to 41 in 2013. 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⁾	2013	2012	Change
Injury Rate	1.42	1.77	(0.35)
Lost-Day Rate ⁽²⁾	46.57	63.03	(16.46)
Number of injuries	41	51	(10)
- of which serious	2	3	(1)
- 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) In 2013, unlike preceding years, the calculation of the lost-day rate only considered the days not worked consequent to accidents which occurred in 2013 and not those lost in 2013 for accidents that happened in previous years.

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 work 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 7.1 in 2013, 8.8 in 2012, and 8.3 in 2011.

Lost day rate: this is the ratio between days not worked owing to injury and hours worked in the year, multiplied by 200,000. Days not worked are calendar days, counted starting from when the injury occurred. To facilitate comparison with other sources, this indicator was calculated using a multiplication factor of 1,000. With this calculation method, the lost-day rate came out at 0.2 in 2013, 0.3 in 2012, and 0.2 in 2011.

The overall picture that is revealed by this data shows the effectiveness of the policies and practices implemented to ensure worker health and safety.

The activities are pursued by an organisational structure assigned to safety, structured into a central supervisory office and managers spread throughout the territory. 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.

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 2013**. The increase also regards higher-qualified positions of responsibility (senior and junior executives).

Moreover, the portion of female managers out of all female employees (17.9%) 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 2013

11.5% women out of total employees (11.4% in 2012)

17.9% of total managerial positions occupied by women (17.3% in 2012)

16.7% females hired out of the net total of blue-collar workers (31.3% in 2012)

Percentage values	2013	2012	Change
<i>Women out of total employees</i>			
Women out of total	11.5	11.4	-
Women out of total net of blue-collar workers	15.9	15.8	0.1
Female senior executives out of total senior executives	16.1	15.3	0.9
Female senior and junior executives out of total senior and junior executives	17.9	17.3	0.7
<i>Managerial positions</i>			
Female senior executives out of total women	2.5	2.3	(0.5)
Male senior executives as % of male employees (excluding blue-collar workers)	2.5	2.4	2.3

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, as defined above, actually incurred.

COSTS FOR THE ENVIRONMENT - INVESTMENT AND OPERATING COSTS

€ million	2013	2012	Change
Investments			
Environmental offsets:	8.4	4.1	4.3
Environmental impact studies	3.9	1.3	2.6
Environmental activities – new plants	5.0	6	(1)
Environmental activities – existing plants	7.8	9.6	(1.8)
Demolitions	1.0	2.4	(1.4)
Total investment	26.1	23.4	2.7
Operating expenses			
Costs for environmental activities	17.9	15.1	2.8
Total operating expenses	17.9	15.1	2.8

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 authorized by the relevant 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 2012-2013 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 increase in 2013 reflects the increased perimeter both of the stations for the grass cutting activities, and for the lines, for the tree cutting activities.

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. Such definitions and the methodology described below have been taken from the operating guideline in the Terna Group.

Environmental costs are identified firstly on the basis of the definitions available, in particular those of the ISTAT (the National Statistical Institute), Eurostat and the GRI as well as on the European Commission's recommendation on the recognition, measurement and disclosure of environmental issues in annual accounts and annual reports (Recommendation 2001/453/EC). On the basis of this recommendation the term "environmental expenditure" includes the cost of steps taken by an organisation or on its behalf by others, to prevent, reduce or repair damage to the environment which results from its operating activities.

Secondly, the aforesaid definitions were applied to the environmental aspects considered significant (for example, the noise of stations, electromagnetic fields, etc.) in the Company's ISO 14001-certified Environmental Management System to identify in the main corporate processes those of Terna's operating and investment activities with environmental significance.

Many of Terna's activities described in this Report entail environmental expenses. However, several limitations were introduced in determining the reporting boundary:

- exclusion of integrated costs, i.e. regarding activities whose purpose is not exclusively environmental (for example, the use of pylons with features that are innovative also from the point of view of their environmental integration) because of the subjectivity of accounting only for the environmental components;
- exclusion of the additional costs connected with the consideration of restrictions or requests for safeguarding of the environment during the stage of planning and designing new lines (detours and burials).

Other conditions were that the costs had to be:

- a) significant;
- b) consistent with the annual reporting of accounts (operating costs and investment clearly distinguished);
- c) directly recognizable on the basis of the existing corporate accounting system.

This last condition fulfils the need to minimize recourse to estimates based on off-the-books analysis.

Direct CO₂ emissions

Terna's business is electricity transmission and it has no production activities, which in the electricity industry – and among all businesses in general – are those most responsible for greenhouse gas emissions. For this reason, Terna is not subject to emission reduction obligations according to the Kyoto targets, nor to emission trading schemes of any kind.

For all these reasons, CO₂ emissions are not a significant indicator of the Group's sustainability performance. However, given the commitment that Terna has voluntarily made to limit emissions and in response to the attention paid by various institutions to this issue, below is data on the Group's direct emissions.

TOTAL DIRECT GREENHOUSE-GAS EMISSIONS

equivalent tonnes of CO ₂ ⁽¹⁾	2013	2012	2011
Total direct emissions	64,743	70,007	(5,264)

⁽¹⁾ Direct consumption is converted into CO₂ equivalent emissions using the parameters indicated by the Greenhouse Gas (GHG) Protocol Initiative.

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);
- indirect consumption of energy sources (electricity consumption);
- leaks of SF₆ (sulphur hexafluoride), a greenhouse gas used in station equipment for its high insulating power;
- leaks causing consumption of R22 coolant gas, used in air conditioning systems.

SF₆ leaks are the main direct source of greenhouse-gas emissions by Terna; in particular in 2013 they account for 88% of total direct emissions. In the last five year period the quantity of SF₆ present in Terna's plants increased by 169 tonnes (+50%). This is a trend – common to many transmission operators – destined to continue in the next few years for technical reasons associated with the higher insulating performance of the gas and to the smaller size of stations built with equipment containing SF₆, compared with more traditional solutions. For this reason the indicator Terna looks at is the percentage of leaks compared with the total gas present in the equipment. Over the last few years the percentage figure for leaks declined gradually and in 2013 was 0.49% (0.59% in 2012).

Compliance with legislation

In addition to that presented thus far, we should also recall that in the two years considered (2012-2013):

- 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 2013 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 shows in its sustainability ratings, its inclusion in the main international stock exchange sustainability indexes and the appreciation of socially responsible investors.

In 2013, Terna was again present in these indexes. As for the transparency of communications on its CO₂ emissions and the containment programmes implemented, it was again included on the "CDP Italy 100 Climate Discloser Leadership Index", prepared by the Carbon Disclosure Project, an international initiative supported in 2013 by 722 investors who manage 87,000 billion dollars.

TERNA'S PRESENCE IN SUSTAINABILITY INDEXES

INDEX	INCLUSION SINCE	INDEX FEATURES
FTSE4Good - Global - Europe	2005	The FTSE4Good indexes 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 potential 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 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 indexes select the companies with the best sustainability performance among those most highly capitalised (for the World Index, the top 2,500 and for the Europe Index, the top 600) according to the rankings of the RobecoSAM agency.
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 300 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 indexes 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.

2013

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Strategies and future prospects



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Strategies and future prospects

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

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 non-traditional activities 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.

2014-2018 Strategic Plan

On **25 March 2014**, the Board of Directors approved the Terna Group's Strategic Plan for the period 2014-2018; these are the guidelines:

- **Traditional Activities:** € 3.6 billion of investments have been planned for grid maintenance and development.
- **Non-Traditional Activities:** commitment increases up to € 1.3 billion over the plan period (confirmed the potential of € 900 million, plus the value of activities already announced).
- **Improved margins:** EBITDA margin will exceed 79% in 2018.
- **Strong financial structure:** no refinancing needs until the end of 2015 and Net Debt/RAB ratio below 60% during the Plan period.
- **Dividend policy:** confirmed the dividend policy, with interim and final dividend practice. A base dividend of 19 eurocents per share from Traditional Activities, on top of which the contribution from Non Traditional Activities will be added (60% pay out on results).

Grid development

The transmission grid must gradually evolve and be extended in line 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 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 Plan. It is accompanied by a closer examination of analyses carried out on the economic sustainability of the main development plans.

Each Development Plan goes through a structured process, since it is assessed and approved by the Ministry for Economic Development, and subject to public consultation (pursuant to Article 36.13 of Legislative Decree 93/11) by the Electricity and Gas Regulatory Authority and to assessment by the grid user's Consultation Committee.

Furthermore, in accordance with Legislative Decree 152/06 and subsequent amendments, the plan is also subject to the Strategic Environmental Assessment (SEA)²⁸ process carried out by the Ministry for Environment, Land and Sea in collaboration with the Ministry for Cultural Heritage.

(28) It is also potentially subject to screening to check whether it should undergo SEA pursuant to 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.

In the Development Plan, Terna has set out projects which will 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. Such projects include:

- installing electrical equipment (Phase Shifting Transformers – PSTs) for controlling energy flows on the High and Very-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;
- using high-capacity conductors to maximise the transport capacity of the existing lines, also on the basis of the temperature (Dynamic Thermal Rating – DTR). 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 usually lower than those necessary for the creation of new network infrastructure (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): this project was presented to the European Commission, 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 is on the list of Projects of Common Interest (PCI) published in October 2013, as part of the Smart Grids projects. The project is conditional on receiving possible financing by the European Commission;
- improving grid identification and control with digital systems: exploiting the potential of 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 view of the load/generation on distribution systems that operate with the transmission grid.

Terna and the 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 this objective for 2014, the ENTSO-E is already working on composing ten Network Codes. Two of these codes refer to connection, one is on the market and three are concerned with the operation of the transmission grid, and these are all currently under consideration by EU Member States in order to gain their final approval as part of the comitology process. The remaining four Codes will be presented to the European Commission by the end of 2014.

Market transparency and integrity

The 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 Regulation 543/2013 on transparency and the ENTSO-E is correspondingly constructing a new European central platform which will publish (as set out in the Regulation) the data of the 41 European grid operators.

Moreover, 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 plan is published every two years and together with the other TSOs, Terna is already working towards the next edition which will be issued this year. The new Plan will be 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 date.

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. Each year 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 Development Plan and reduction of the electricity system’s CO₂ emissions

The construction of the new lines and stations provided for by the Development Plan will produce positive effects not only in terms of service security and the final cost of electricity, but also of reduced emissions by the electric system. The effects can be organised into three categories:

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

Overall, the reduction of CO₂ emissions within the time horizon of the 2014-2023 Plan could reach an amount of approximately 13.5 million tonnes a year.

Reduction of grid losses

Grid losses depend, among other things, on the distance the electricity travels on the transmission grid. In very simple terms, the further the point of consumption (of withdrawal from the NTG) is from the point of production (of 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 2014 Development Plan, the decrease in losses at the peak could reach a power value of approximately 180MW, corresponding to a reduction in grid energy losses estimated at around 1,100 GWh/year. Assuming that the reduction of these losses is equivalent to a reduction in production from combustible sources, it can be considered that the work may also have the added positive effect of a decrease in CO₂ emissions, somewhere between 400,000 and 500,000 tonnes every year.

Improvement of the production mix and interconnection with other countries

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

The work envisaged in the Development Plan, together with the expansion of interconnection with other countries, would enable a more efficient production mix than the current one, with a larger proportion of production by plants with higher yields. An identical final consumption would thus be covered with a smaller quantity of fuel: the benefits are quantifiable as a reduction in CO₂ emissions of up to approximately 5,500,000 tonnes a year.

Connection of plants using renewable energy

The main contribution to the reduction of CO₂ emissions comes from connecting production plants using renewable sources considered among the projects of the 2014 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 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 2014 Development Plan will release about 6,000MW of power from renewable sources, thus obtaining a reduction in CO₂ emissions amounting to about 7,800 ktCO₂/year.

Reduction of CO₂ emissions in 2013

In 2013, the benefits in terms of reduction of CO₂ emissions were mainly due to the installation of new “zero-emission” production units. The provisional figure for power installed from renewable sources in 2013 is presented below.

Renewable energy source	Power installed - MW
Wind	~8,500
Photovoltaic	~18,500
Total power installed	~27,000

From the 2013 provisional figures, it can be seen that, in the year, gross production using wind and photovoltaic energy increased by approximately **5,000 GWh**; this figure corresponds to a reduction of approximately **2,900 ktCO₂²⁹**.

(29) Considering a conversion coefficient of 0.567 tCO₂/MWh and assuming that the new renewable capacity installed replaces an equivalent thermoelectric capacity.

Significant events

Terna and ANCI working together for the sustainable development of electricity infrastructures

On **12 February 2014** Flavio Cattaneo, Terna CEO, and Piero Fassino, Chairman of 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 planning of the municipalities.

The importance of this agreement lies in the fact that Terna and ANCI – to foster sustainable development and to accelerate the execution of strategic works – will work together to harmonise the needs of the electricity system with those of protecting the environment and the local area, relative to the positioning of the electricity grid development works. Terna has invested approximately € 8 billion between 2005 and the present day for 2,500km of new grid line and 84 new electrical stations, and it plans to invest the same amount again over the next decade, with about € 3 billion already committed for the execution of the 250 construction sites open at present throughout the country, which employ 4,000 people and 750 firms every day. Terna's commitment to both dispatch and the grid, which, from 2005 until today, has produced savings of € 5.4 billion in total for citizens and companies.

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.

With the Memorandum of Understanding, Terna and ANCI undertake to consult each other periodically:

- to promote prior consultation on the works to be carried out at the national level, directly involving town councils;
- to sign a specific Memorandum of Understanding with the relevant town councils relating to the provisional position of the works;
- to work together to inform local citizens of the areas affected by the NTG Development Plan works and for the reciprocal exchange of information between Terna and ANCI;
- to foster maximum agreement with the populations concerned by the electricity infrastructure to be constructed.

Terna's ratings

On **18 February 2014**, Moody's Investors Services (Moody's) improved 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 move from a negative to a stable outlook reflects the close connection between the credit quality of Terna 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.

Non-Traditional Activities (NTAs): agreement signed for purchase of Tamini Trasformatori

On **25 February 2014**, within the scope of performing non-traditional activities by the Terna Group, Terna Plus S.r.l., a company fully controlled by the parent company, signed an agreement for the purchase of the entire share capital of Tamini Trasformatori S.r.l. and a number of companies controlled by it.

The transaction, which is expected to cost € 23.9 million for the production plants alone, is planned for the first half of 2014, subject to a number of conditions precedent being granted. At the closing date, the purchase price will be adjusted on the basis of the value of the circulating assets (including other items) and the net financial position certified at such date.

The purchase of the Tamini Group, despite the limited direct financial exposure of Terna and the prospects typical of the Group's non-traditional activities – ever considered "non-continuous" operating activities – offers the chance to valorise a historic Italian industrial concern, recognised for its excellence in the electricity sector in Italy and abroad.

Tamini operates in the production and marketing sector of industrial and power electric transformers and is owned by Luciano Tamini (50%) and Carlo Pavese Tamini (50%). It has four production plants all located in Italy in Legnano, Melegnano, Novara and Valdagno.

The Tamini Group which the agreement relates to is composed of the subsidiaries V.T.D Trasformatori S.r.l., Verbano Trasformatori S.r.l. and Tamini Transformers USA L.L.C.

In 2012, the Tamini Group had a turnover of € 119.5 million and an EBITDA of € 7.7 million.

Outlook

The year 2014 will see the Company committed to implementing the 2014-2018 Strategic Plan approved by the Board of Directors on 25 March 2014.

In line with the strategy of the previous Strategic Plan and with reference to its traditional activities, the Group will be focused on making investments for the development and renewal of the NTG and in relation to storage systems. Specifically, during the year, the new 380kV double three-phase power line Trino – Lacchiarella, improving the use of the production and import capacity of North-West Italy in the loading area of Milan, and the new 380kV power line Foggia – Benevento II, permitting an increase in the carrying capacity to service the generation plants situated in Puglia, Molise and Campania, will come into service. As regards the storage systems, activities in the sites provided for as part of the Development Plan of the NTG will continue.

As regards non-traditional activities, the focus on creating value through third-party activities within the sphere of engineering, construction and maintenance services, mainly for the electric and housing sector in the telecommunications business is confirmed; in addition, the Group is engaged in scouting and development activities, looking for new opportunities in Italy and abroad through its subsidiary Terna Plus. Specifically, the negotiation of agreements for building the Italy-France interconnection and finalisation of the purchase of Tamini Trasformatori S.r.l. are scheduled for 2014.

In line with previous years, the Company will continue with the rationalisation of processes, efficiency of operating expenses and increasing attention to service quality indicators.

Lastly, the focus on its financial position is also confirmed; in 2014, the Group will fund investments and the payment of dividends through cash generation and cash on hand, there being no need to refinance its debt before 2015.

2013

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ANNEX – “Organisation, context and business model” section

Italy’s regulatory framework

Regulatory framework

Below is a brief description of the main regulatory measures issued in 2013 that affect the Company.

Italian Decree of 20 December 2012 on the “Determination of the arrangements and conditions applicable to imports and exports of electricity for 2013”, published in the Italian Official Journal of 3 January 2013, No. 2.

The Decree regards transport capacity that can be assigned for 2013, taking into account international agreements, and confirming the methods to divide the proceeds from the assignment of transport capacity on interconnections with respect to the previous year. In addition, as provided for in relation to the carrying capacity of interconnections, *“Terna promotes agreements with managers of foreign grids for shared investment programmes able, over the medium-term, to overcome current border congestion and, in the absence of said programmes, act to make agreements with the managers of foreign grids”*.

With regard to equal opportunity: Italian Presidential Decree No. 251 of 30 November 2012, “Regulations regarding equal access to administration and control bodies of companies, established in Italy, controlled by public administrations, pursuant to Article 2359, first and second paragraphs, of the Civil Code, not listed on regulated markets, in implementation of Article 3, paragraph 2 of Law No. 120 of 12 July 2011”, published in the Italian Official Journal of 28 January 2013, No. 23.

The Decree implements Article 3 of Italian Law 120/11 regarding equal access of both genders to corporate administration and control bodies, dictating the regulations to apply to non-listed companies that are directly or indirectly under public control. Said companies are held to include, in their articles of association, that the assignment of the administration and control bodies *“is carried out using methods that guarantee that the less represented gender obtains at least a third of the components of each body”*.

Companies must ensure respect for the composition of the company bodies, if constituted in committee form, in accordance with the criteria described above, including in the case of replacement, for three consecutive terms starting from the first renewal subsequent to the date the regulations take effect. Only for the first term, the quota reserved for the less-represented gender is equal to at least one fifth of the number of members of the body.

Italian Decree of 9 November 2012 “Approval of the 2012-2014 three-year national electricity grid research Plan and the 2012 annual operational plan”, published in the Italian Official Journal of 30 January 2013, No. 35.

With reference to the 2012-2014 three-year plan, the Decree identifies the priority areas of intervention and the associated resources, for a total of € 221 million.

With reference to the 2012 annual operational plan, € 62 million was set aside for the execution of the research envisaged through the programme agreements with ENEA, CNR and RSE.

Italian Law No. 10 of 14 January 2013 “Regulations for the development of urban green spaces”, published in the Italian Official Journal on 1 February 2013, No. 27.

Italian Decree of 8 March 2013, containing approval of the National Energy Strategy, published in the Italian Official Journal of 27 March 2013, No. 73.

With the inter-ministerial decree of the Ministry of Economic Development and the Ministry for the Environment and Protection of the Territory and the Sea of 8 March 2013, the National Energy Strategy was approved. The document establishes energy policy objectives such as the alignment of energy costs with those of Europe by 2020. In this light, it affirms that one of the priorities is the development of infrastructure and the electricity market.

Italian Legislative Decree No. 33 of 14 March 2013, containing “Reorganisation of the regulations governing publicity, transparency and information-disclosure obligations on the part of public administrations,” published in the Italian Official Journal of 5 April 2013, No. 80.

The Decree was prepared in implementation of Italian Law 190/12 in regards to preventing corruption and includes obligations related to transparency and publicity assigned to public administrations, investee companies of the same, and their subsidiaries. Said companies, limited to activities of public interest governed by national or community law, are required to publish a certified email address on their institutional websites, which citizens can use to send requests, as well as information related to administrative procedures, authorisations and concessions, the selection of contractors for the assignment of work, supplies and services, the disbursement of subsidies, and production costs for services provided to citizens.

Italian Legislative Decree No. 39 of 8 April 2013, regarding “Provisions on the subject of the non-conferable nature and incompatibility of roles with public administrations and private bodies under public control, pursuant to Article 1, paragraphs 49 and 50, of Law No. 190 of 6 November 2012”, published in the Italian Official Journal of 19 April 2013, No. 92.

The Legislative Decree was issued in implementation of Italian Law 190/12, regarding the prevention of corruption, and dictates regulations regarding the non-conferable nature and ineligibility of roles in public administration and controlled bodies.

Italian Decree Law No. 35 of 8 April 2013, published in the Italian Official Journal of 8 April 2013, No. 82, regarding payment of the debt of public administration and local waste, converted by Italian Law No. 64 of 6 June 2013, published in the Italian Official Journal of 7 June 2013, No. 132.

The Law Decree acts in regard to IMU property tax, redetermining the expiries and methods of payment. Payment of the first instalment is carried out on the basis of the percentage and deductions in reference to the twelve months of the previous year. Payment of the second instalment, which is the balance of the tax due for the entire year, with possible adjustment of the first instalment paid, is on the basis of the acts published on the above-mentioned site as of 28 October of each tax year.

Italian Decree Law No. 43 of 26 April 2013 on “Urgent measures on environmental emergencies”, published in the Italian Official Journal of 26 April 2013, No. 97, converted by Italian Law No. 71 of 24 June 2013, published in the Italian Official Journal of 24 June 2013, No. 147.

This law introduces provisions regarding dirt and excavated rock and an increase in the set stamp duty as of 25 June 2013.

Italian Decree Law No. 54 of 21 May 2013, “Urgent measures regarding the suspension of the municipal tax, refinancing of social programmes in derogation, extension regarding non-permanent work at public administrations, and elimination of salaries of members of parliament of the Government,” published in the Italian Official Journal of 21 May 2013, No. 117.

The Decree establishes the suspension of the deadline to pay the first instalment of the municipal tax on main residences to 16 September 2013 and envisages that a general reform of property tax be implemented, to be completed by 31 August. In the context of the reform, it is envisaged that the deductibility of the municipal tax relative to the properties used for production activities relative to company income be reviewed.

AVCP Determination No. 3 of 23 April 2013, relative to “Participation in company networks in tender procedures to award public contracts, pursuant to Articles 34 and 37 of Italian Legislative Decree No. 163 of 12 April 2006”, published in the Italian Official Journal of 24 May 2013, No. 120.

The Decree contains indications regarding the concrete methods for company networks to participate in tender procedures, in order to overcome certain application problems.

Italian Decree Law No. 69 of 21 June 2013 relating to “Urgent measures for relaunching the economy” published in the Italian Official Journal of 21 June 2013, No. 144, converted by Italian Law No. 98 of 9 August 2013, published in the Italian Official Journal of 20 August 2013, No. 63.

In regards to taxes, it envisages the extension of the application of the additional IRES [corporation tax], known as the “Robin Tax”, also for companies with revenue volumes exceeding € 3 million (in place of the previous € 10 million) and with taxable income greater than € 300 thousand (previously € 1 million).

In regards to the Tobin Tax, the tax on financial transactions, introduced by Italian Law 228/12 for transactions related to derivative instruments and high-frequency trading relative to derivative financial instruments and securities, application is postponed to 1 September 2013, in place of 1 July.

Italian Decree Law No. 76 of 28 June 2013, regarding VAT and youth employment, “First urgent measures to promote employment, specifically of young people, social cohesion, and in regard to value-added tax (VAT) and other urgent financial measures”, published in the Italian Official Journal of 28 June 2013, No. 150, converted by Italian Decree Law No. 99 of 9 August 2013, published in the Italian Official Journal of 22 August 2013, No. 196.

The increase of VAT from 21 to 22% was postponed from 1 July to 1 October 2013.

For the 2013 tax period, the amount of advances is increased for IRPEF [income tax] (from 99 to 100%), IRAP [production tax] (from 100 to 110%) and IRES [corporation tax] (from 100 to 101%). The change will take effect as of the second prepayment instalment envisaged for November. In addition, the regions with special status and the autonomous provinces of Trento and Bolzano, as of 2014, may increase the rate of the additional regional IRPEF by a maximum of one percentage point with an appropriate provision.

An employer who hires workers who receive Social Security/Unemployment Benefit for a full-time permanent position, is granted, for each monthly payment, a monthly contribution equal to 50% of the residual monthly indemnity that would have been paid to the worker.

It is envisaged that the customer or employer is jointly obliged with the contractor and any subcontractors, within two years of completing the tender, including with reference to any remuneration due to self-employed workers. In addition, incentives are envisaged equal to a third of gross monthly remuneration chargeable for social security purposes for a period of 18 months in relation to the permanent hiring of workers between 18 and 29 years of age, who have been without regularly paid employment for at least six months, without high school or professional diplomas or who live alone with one or more dependants.

Italian Decree Law No. 93 of 14 August 2013, “Urgent measures on security and to combat gender violence, and on civil protection and compulsory administration of the provinces”, published in the Italian Official Journal of 16 August 2013, No. 191. converted by Law No. 119 of 15 October 2013”, published in the Italian Official Journal of 15 October 2013, No. 242.

The Decree provides for a change to the Criminal Code to introduce more severe penalties in the case of theft of “*metallic components or other material removed from infrastructure destined to provide energy, transport or telecommunications services or other public services and services managed by public or private subjects under a public concession arrangement*” (imprisonment from one to six years and a fine from € 103 to € 1,032 instead of imprisonment from six months to three years and a fine from € 154 to € 516); this also applies in the case of receipt of these same components.

Italian Decree Law No. 101 of 31 August 2013 on “Urgent measures for pursuing rationalisation measures in public administrations” published in the Italian Official Journal of 31 August 2013, No. 204, converted by Italian Law No. 125 of 30 October 2013, published in the Italian Official Journal of 30 October 2013, No. 255.

The decree lays down that the supervision of the AEEG on the ban on transfers of the “Robin Tax” involves “sample inspections” and be exercised “only in relation to subjects whose turnover is higher than the total turnover provided for in Article 16, section 1, first case, of Italian Law No. 287 of 10 October 1990”, thus more than € 411 million.

Italian Decree Law No. 102 of 31 August 2013, “Urgent provisions on IMU [Council tax] and other property taxes, on support of housing policies and local finance, and on the temporary redundancy fund and pension schemes”, published in the Official Journal of 31 August 2013, No. 66, converted by Italian Law No. 124 of 28 October 2013, published in the Official Journal of 29 October 2013, No. 254.

The decree provides for the abolition of the first instalment of IMU on first homes (excluding luxury homes), on agricultural land and on farm buildings. It also provides for the non-deductibility of insurance premiums paid by firms for third-party damages caused by the circulation of motorised vehicles, substitute values of the shares payable to regional and local authorities providing services through the National Health Service.

Lastly, it grants the Minister for the Economy and Finance the power to issue, by November 2013, measures aimed at increasing the advances paid on IRES an IRAP and taxes on energy products and on electricity to offset the possible shortfall of income compared to forecasts.

Italian Decree Law No. 133 of 30 November 2013 containing “Urgent measures concerning IMU [Council tax], the disposal of public property and the Bank of Italy”, published in the Italian Official Journal No. 281 of 30 November 2013.

The Decree postponed the term for paying the second or only instalment of the IRES advance from 2 to 10 December 2013, for the tax period in progress at 31 December 2013.

The term by which the Minister for the Economy and Finance could redetermine the rates of the advances paid on IRES and IRAP for 2013 and 2014, initially established as 30 November by the decree law 76/13, was then extended to 2 December.

Decree by the Ministry for the Economy and Finance of 30 November 2013, published in the Italian Official Journal No. 282 of 2 December 2013.

The Decree provides for a 1.5 percentage point increase in the IRES and IRAP advances for the tax period in progress at 31 December 2013 and the following period.

Italian Decree Law No. 145 of 23 December 2013, containing “Urgent operations for commencing the “Destinazione Italia” plan to limit electricity and gas prices, reduce third party liability car insurance premiums, for internationalisation, for the development and digitalisation of firms as well as measures for the construction of public works and EXPO 2015” published in the Italian Official Journal No. 300 of 24 December 2013.

The Law Decree provides for the revision of benchmark prices for supplies destined to end customers not supplied on the free market, the revision of the dedicated withdrawal tariffs and the possibility for producers to extend the duration of the incentive period for the production of electricity from renewable sources on their own plants in exchange for a reduction of the tariff, in the manner to be defined by decree by the Minister for Economic Growth jointly with the Minister for the Environment, after consulting the Electricity and Gas Regulatory Authority.

A tax credit was also created for firms investing 50% of their annual increase in expenditure in R&D and a tax credit regarding the purchase of new capital goods for firms performing land reclamation of contaminated sites and which have signed specific programmatic agreements with the Ministers for the Environment and for Economic Growth.

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 single council 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).

Stamp duty was then increased on periodic statements to consumers 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 deductions for employed work for income groups up to € 55,000 were also redetermined. At the suggestion of INAIL, there are plans to reduce the insurance premiums and contributions for accidents at work and occupational disease by decree of the Minister for Employment.

The law provides that, within ninety days of the law coming into force, at the suggestion of the Electricity and Gas Regulatory Authority, and after consultation with the Minister for the Environment, the Minister for Economic Growth should define the terms and conditions of a system for remunerating production capacity “able to provide adequately flexible services to the extent strictly required to ensure the security of the electricity system and to cover the demand by grid operators and without increasing electricity prices and tariffs for the end users, within the sphere of electricity market regulation”.

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.

Resolutions of the Electricity and Gas Regulatory Authority

Resolution 28/2013/R/eel

With this provision, which updates Title 6 of Annex A of Resolution ARG/elt 197/11 regarding quality of service ("*Availability of the elements constituting the NTG*") and follows the consultation document 256/2012/R/eel, the Authority introduced some indicators aimed at providing information about the efficiency and efficacy of Terna in scheduling maintenance activities and the timeliness of repairing the elements constituting the NTG, in order to reflect the effective reliability and safety of the transmission service.

With this provision, the Authority envisages that, starting from 1 January 2014, Terna records the indicators relative to the unavailability/availability of the elements constituting the NTG and the average repair time for serious malfunctions/anomalies of the same elements and the radial assets following serious malfunctions/anomalies. In addition, specific disclosure obligations with regard to the Authority to that end are also envisaged, as well as obligations for publication on Terna's website.

Resolution 34/2013/R/eel

With this provision, containing "Updates to the Integrated Settlement Rules (ISRs)", the Authority restored the transitory provisions pursuant to paragraphs 72.3 and 72.4 of resolution 111/06, regarding the time frames for regulation of dispatching payments pursuant to Articles 38 and 44 of the same resolution, for all of 2013. In addition, the resolution made some formal amendments to implement the amendments already envisaged in other resolutions regarding, among other things, the payment of adjustment compensation, and rationalisation and standardisation of informational flows between distributors and sellers of electricity regarding measurement figures taken at the withdrawal points.

Resolution 40/2013/R/eel

The resolution involves the development projects on the National Transmission Grid to be included in type I=3 pursuant to paragraph 22.5, letter c) of the ITT, as well as the objective dates and milestones for each project for the application of the incentive mechanism to accelerate investments for the period 2012-2015. In addition, the resolution amends the conditions that allow postponing of the milestones and the objective dates for not yet authorised projects (establishing that said postponement is allowed when the delay is consequent to an extension of the authorisation process or provisions not foreseeable deriving from the same and when the same delay is due to causes that are objectively outside of Terna's control) and envisages the establishment of a mechanism to monitor the progress status of NTG development projects, the achievement of the associated milestones, and the associated costs incurred.

Resolutions 43/2013/R/eel and 66/2013/R/eel

In the context of the regulations for storage systems, by Resolution 43/2013/R/eel, the Authority granted incentives for two storage-system pilot projects pursuant to paragraph 22.5 of the ITT, known as "power intensive" inserted in the Terna 2012-2015 Defence Plan approved by the Ministry of Economic Development. To that end, the provision distinguishes between pilot projects on the National Transmission Grid in the two types: "energy intensive" (limited-size project, but in any case sufficient to allow a significant experiment to be carried out, which involves the creation of electricity storage systems using batteries connected to the electricity transmission grid, aimed at achieving insertion into the grid of electricity produced through non-programmable renewable sources to the greatest extent possible) and "power intensive" (the two large experiments, equal to 8MW each, in the 2012-2015 Defence Plan, which envisage the installation of electrochemical storage systems with power intensive features in Sicily and Sardinia).

The measure established a two-year experimentation period and set out the conditions for remuneration of the above two projects, confirming also the need to guarantee separate recognition of the economic and financial items relating to each power-intensive project admitted to the incentives.

In Resolution 66/2013/R/eel the Authority subsequently provided for the approval and admission to incentive treatment of six energy intensive pilot projects relative to storage systems falling under two critical directives indicated in the 2011 Development Plan, approved by the Ministry of Economic Development on 2 October 2012.

Resolution 46/2013/R/eel

With this provision, the Authority positively verified the changes to the Grid Code proposed by Terna regarding the structure of offers on the DSM, including the extension of the offer to switch on the turbo gas systems, the introduction of the structure change offer and of certain technical data, and the change in the algorithm used to calculate the payment for non-compliance with switch-on orders. The Authority also established that Terna act to change the Grid Code, so as to allow for defining the technical data for the enabled units and managing changes in said data.

Resolution 69/2013/R/eel

With this provision, the Authority modified the regulations on the instantaneous withdrawal-reduction service for the three-year period 2013-2015 (known as “super-interruptibility”), so as to take into account the changes made to Article 34, paragraph 1, at the time Italian Decree Law 179/10 was converted to law. On the basis of this, the Authority established that Terna shall act to assign, on a monthly basis, rather than on a quarterly basis as currently envisaged, the power that is not contracted in any way for the entire period falling between the first useful month after the assignment and 31 December 2015. In the light of this change, Terna is held to send the Authority a new proposed Standard Regulations and Contract.

Resolution 96/2013/A

With this provision, the Authority established the adoption of specific measures to simplify and rationalise the disclosure obligations envisaged in the Authority’s regulation and the start of a procedure to adopt the guidelines necessary to measure administrative expenses suffered by regulated parties.

Resolution 129/2013/I/eel

In this provision, regarding “*Monitoring the development of distributed generation systems in Italy for the year 2011*”, the annual report on monitoring the development of distributed generation systems for 2011 was approved, on the basis of the information provided by Terna. Specifically, the report highlighted the spread of distributed generation (DG) and small generation (SG) in Italy, relative to the year 2011. In addition, the report indicates the relevant regulatory framework for distributed generation. The Authority notes that new projects are necessary in order to promote the integration of DG systems into the electricity system, so that they can increase their penetration in a sustainable way over time, guaranteeing the security of said electricity system. Finally, the Authority repeats the importance of the rationalisation of informational flows to the GAUDI system.

Resolutions 531/2012/R/eel and 142/2013/R/eel – Terna Certification

In Resolution 142/2013/R/eel, containing “*Certification of Terna S.p.A. as the manager of the electricity transmission system under separate ownership, following the opinion of the European Commission of 11 February 2013 C(2013) 810 final*”, the Authority completed the procedure to certify Terna, adopting a final certification decision in accordance with the separate ownership-grid-manager model (“ownership unbundling”), pursuant to Article 9, paragraph 1, of Directive 2009/72/EC and Article 36 of Legislative Decree 93/11. In addition, the provision also envisages certain stipulations regarding Terna, already partially identified in the preliminary certification decision pursuant to Resolution 531/2012/R/eel, relative, specifically, to certain changes in the articles of association and the agreements in existence with the owners of portions of the National Transmission Grid.

Resolution 165/2013/R/eel

With this resolution, the Authority began activities to recognise “Other private grids”, or private grids other than:

- internal user grids (IUGs), identified by the same Authority with Resolution ARG/elt 52/10;
- historic cooperatives for which the Authority, with Resolution ARG/elt 113/10 (TICOOP), had already defined the regulation of methods to disburse electricity connection, measurement, transmission, dispatch and sales services, as well as
- other cases traceable to a simplified system featuring a single connection point, a single producer, and a single end customer.

Specifically, on the basis of the information provided by the managers of said grids, each distributing company is held to identify all the “Other private grids” that impact all or part of their concession providing, in reference to the same, certain information. Similar information must also be provided by Terna, within 150 days of the date the provision is published.

Resolution 166/2013/R/eel

This resolution regarding the “Provisions regarding the accreditation of operators for the Integrated Information System (IIS) and additions to resolution 42/08” relates to the process of centralising, through the ISS, management of information flows relative to the electricity and natural gas markets. This provision establishes methods and time frames for the exchange of information regarding the stipulation of dispatch and transport contracts by new operators between Terna, the distribution companies and the IIS, and introduces the consequent changes and additions to Authority Resolution 42/08.

Resolution 182/2013/R/eel

With this resolution, the Authority:

- quantified the final costs recognised to Terna for carrying out activities necessary for monitoring electricity markets as € 920,200;
- quantified the income deriving from the difference between the final costs recognised and the estimated costs as € 122,974;
- established that the income as per the previous point is to be recovered through the fee for Terna's operations for the year 2014.

Resolution 197/2013/E/eel

With this provision, "Closure of the fact-finding investigation relative to the dynamics of the electricity market in Sardinia" the Authority:

- closed the investigation begun with Resolution 342/2012/R/EEL, through the acquisition, as the final action, of the document "Technical report on the results of the fact-finding investigation regarding the dynamics of the electricity market in Sardinia";
- mandated the offices to carry out further research as assigned with regards to reviewing the regulation of the effective imbalances and revising the TIMM, in order to establish that Terna create a market simulator that makes it possible to simulate all stages of the DSM.

Resolution 204/2013/R/eel

With this provision, the Authority began procedures to reform the tariffs for grid services (transmission and distribution) and for measurement of electricity, as well as the tariff components that cover general system charges for low-voltage domestic usage, aimed at reforming tariffs for the disbursement of electricity transmission, distribution and measurement services for low-voltage domestic use, as well as the review of the structure of the tariff components intended to cover general charges for the electricity system.

Said procedure will be completed, together with other procedures that will be started to define the tariff regulations for the fifth regulation period (2016-19), with the exception of early activation of certain specific measures starting in 2014.

Resolution 206/2013/R/eel

With this resolution, the Authority:

- recognised as completed, in respect of the agreed-upon time frames, the activities to implement operations of the GAUDÌ system envisaged in the project plans prepared by Terna and approved by the Authority;
- quantified the amount of the final costs recognised to Terna for 2012 for the execution of activities aimed at developing and rendering operational the GAUDÌ system, as € 785,957;
- established the use of the savings, quantified as € 171,043, deriving from the difference between final costs pursuant to the point above and the percentage of costs estimated for 2012 (€ 957,000) for the purposes of quantifying the payment for Terna's operations relative to 2014.

Resolution 208/2013/R/eel

In this measure the Authority:

- determined the advance payment on the reimbursement price for the years 2010 and 2011, with reference to the essential Montemartini production plant;
- added to the regulations regarding remuneration of productive capacity availability. In particular:
 - introduced the concept of virtual market operators for each essential unit eligible for reimbursement of costs and eligible for remuneration of production capacity, in order to identify the amount of the additional payment to be accounted for among the revenues of the operator who has the costs of the essential units reimbursed;
 - changed the algorithm used to calculate the additional payment and in particular the formula used to determine the effective revenues of each market operator.

Resolution 231/2013/R/eel

With this provision, regarding “Economic treatment of energy disbursed from production units for primary frequency regulation”, the Authority:

- introduced a mechanism, based on a proposal sent by Terna, that allows the contribution to primary regulation provided by production units to be excluded from unbalancing, through measurement of the same and subsequent inclusion in the input programme;
- set out that Terna send the Authority, to verify compliance, the Grid Code and relative technical annexes, amended and examined in order to implement said mechanism, by 1 October 2013;
- envisaged the implementation of the mechanism, which the production units can make use of on a voluntary basis by paying the connected charges (installation of equipment and certification), by 1 April 2014.

Resolutions 239/2013/R/eel and 285/2013/R/eel

With subsequent provisions, the Authority took action, in the context of the completion of the procedure to organically amend the unbalance regulations (begun with Resolution 197/2013/R/eel), to define urgent measures regarding containment of unbalancing charges.

In particular, it determined that:

- as of 1 July 2013, and limited to the macro-zones of Sicily and Sardinia, Terna shall calculate the direction of the macro-zone unbalance, excluding the ex ante changes made in the DSM;
- the algorithm for remuneration of switch-on orders be modified so as to not pay the switch-on fee in the cases in which, in any sub-stage of the ex ante DSM, a switch on already scheduled by the user of the energy-market dispatching is confirmed or moved. To this end, the resolution requires Terna to request the Authority, by approval, for an updated version of Annex A.23 to the Grid Code (which defines the rules for remuneration of switch-on orders) that takes into account the resolution.

Resolution 242/2013/R/eel

With this provision, the Authority made decisions regarding the production plants of San Filippo del Mela 220kV, San Filippo del Mela 150kV and Centro Energia Ferrara, as essential for the year 2012.

Resolution 243/2013/R/eel

With this provision, the Authority continued its work to adjust distributed generation systems already operational as of 31 March 2012 to the provisions contained in Annex A.70, extending the retrofit effects also to plants with power up to 50kW connected in Medium Voltage and to production plants connected in Low Voltage.

Specifically, the resolution envisages that producers must comply with the provision that requires plants to remain connected to the grid within the frequency interval of 49Hz – 51Hz:

- by 30 June 2014, for plants with power over 20kW already connected at low voltage as of 31 March 2012 and for plants with power up to 50kW already connected at medium voltage as of the same date;
- by 30 April 2015, for plants connected at low voltage with power over 6kW and under 20kW.

Furthermore:

- in the case of a lack of compliance with the terms, suspension of the disbursement of the incentive by GSE is confirmed, also for these plants. To that end, the Authority asks GSE, in reference to the in situ exchange and dedicated withdrawal services, to apply the associated agreements to the clauses which envisage the suspension of the efficacy of said agreements in the case of non-fulfilment, until the plants are compliant;
- finally, it is envisaged that distributors, in the case of appropriately documented specific situations, may ask Terna, under their responsibility, for temporary derogations in applying the provision in the case of given conditions specified in the provision and on the basis of the same principles as those already adopted as per Resolution 84/2012.

Resolution 262/2013/R/eel

With this provision, the Authority amended Resolution ARG/elt 48/04, regarding transitory remuneration of production-capacity availability, establishing:

- the criteria by which Terna must determine the value of parameter G_{CAP1} for the year 2012 in order to make the specific 2012 payment by 30 June 2013;
- the criteria by which Terna must determine the value of parameter G_{CAP1} for the year 2013 in order to make the specific 2013 payment by 30 November 2013.

With the same provision, the Authority also defined the table that specifies the time brackets with reference to the year 2012, establishing that Terna, within 30 days of the resolution taking effect, shall send a proposal for the table of time brackets, in reference to the year 2013, for approval by the Authority.

Resolution 299/2013/R/eel

With this measure the Authority took urgent action on payment of the economic items arising from settlement and load profiling adjustments relating to the year 2012. In particular, in order to limit the economic effects deriving from differences between energy withdrawn for dispatching purposes and energy transported – which occurred owing to structural problems in the invoicing process of Acea Distribuzione for a considerable number of withdrawal points – the Authority suspended with reference to each user of the dispatching in the area of Acea Distribuzione the provisions pursuant to 27.3 and 55.2 of the TIS, that is to say the check on congruity between energy dispatched and energy transported, enabling Terna to proceed with invoicing of the related economic items.

Resolution 327/2013/R/eel

With this resolution the Authority approved the amounts of revenue supplements to cover the expenses for the discount to electricity industry employees, pursuant to Article 37 of the TIT 2012-2015, in relation to the years 2012 and 2013. Terna is one of companies with a right to this revenue supplement, with amounts of € 1.3 million for the year 2012 and € 1.1 million for the year 2013, to be paid out by the Electricity Industry Adjustment Fund (EIAF).

Resolution 357/2013/R/eel

With this measure, responding to information received from Alcoa of Portovesme, confirmed by the Ministry for Economic Development with reference to the reasons that determined the infringement of the minimum withdrawal constraints pursuant to Article 3, section 3.2, letter a), point ii., of Resolution ARG/elt 15/10, the Authority introduced urgent changes to the contractual terms in relation to the instantaneous load reduction service provided by the Alcoa Portovesme facility to Terna. In particular, the Authority stated that the rule pursuant to Article 3, Section 3.4, of Resolution ARG/elt 15/10 – which provides for a particularly penalising reduction of the fees in the event of infringement of the minimum withdrawal constraint – does not apply with reference to the service of instantaneous reduction of withdrawals of electricity provided by the facility in September and October 2012 and that Terna must consequently define the relevant contractual fees or adjust fees already settled, proceeding to make up the relevant amounts.

Resolution 360/2013/R/eel

With this resolution the Authority introduced decisions on essential plants and amendments and additions to the Authority's Resolution No. 111/06. In particular, the Authority:

- set the amounts to be paid to Edipower and Enel as a further advance on the supplementary fee for the essential units for the year 2011;
- approved the specific typical parameters requested by Enel for its plants;
- asked Terna to recalculate the supplementary fee covering costs for the year 2011 and then to pay any difference after informing the Authority;
- modified the methodology for calculating certain variable cost components;
- defined for the year 2014 the standard category parameters and the specific standard parameters of the individually essential units.

Resolution 375/2013/R/eel

With this measure the Authority verified positively the Draft Rules for the new capacity market sent by Terna, under the terms of Resolution ARG/elt 98/11, following consultation with the operators and introduced, among other things, the following main changes:

- “interest-bearing” nature of the guarantee deposit which goes into the guarantee fund;
- provision for a “cap” on offers presented in auctions, also with reference to the new capacity;
- in order to avoid potential penalisation of the new capacity compared with the existing capacity in the first two years of delivery, provision for an optional mechanism which would enable holders of new capacity to be qualified for the entire production capacity they have available;
- calculation of the load factor with reference to each market zone, and not with reference to the electrical system as a whole.

Terna consequently sent the modified documents to the Ministry for Economic Development and to the Authority.

Resolution 398/2013/E/eel

With this measure the Authority approved an inspection of Terna on the subject of service quality. The Authority established that this inspection is to be performed by 31 December 2013 and will regard the correct application of the obligation to record power outages, pursuant to Title 8 of Appendix A to Resolution 250/04, to Chapter 11 of the Grid Code, and to Appendix A.54 to the Grid Code; and calculation of the energy not delivered indicators communicated to the Authority in 2013, pursuant to Title 2 of Appendix A to Resolution ARG/elt 197/11.

Resolution 413/2013/R/eel

With this measure, following the consultation launched with Document DCO 369/201, the Authority established how the value of natural gas is to be calculated in the context of the rules on production plants essential for the security of the electrical system, introducing changes and additions to Resolution 111/06. In particular, the Authority modified, starting from 1 October 2013, the criteria for calculating the value of natural gas both for the units in a typical arrangement (ordinary or cost supplement) in determining the variable cost component paid (CVR) to cover the cost of the fuel, and for the units in an alternative arrangement (contractualised) in determining the marginal offer price.

Resolution 399/2013/R/eel

With this measure, the Authority adopted urgent rules in relation to provision of the transitory safeguarding service in the municipality of Chiomonte, following termination of the contract between the Municipal Electricity Company of Chiomonte and Exergia (the subject providing safeguards in this area), until the new tender procedures have been completed to identify the safeguarding service provider under the terms of the decree of 23 November 2007.

Resolution 444/2013/R/EEL

With this measure the Authority adopted decisions on essential plants and amendments and additions to the related rules. Among other things, in particular, the Authority:

- extended the terms for notification by users of the dispatching of the standard parameters, typical parameters and minimum groups of production plants available to them, to be subject to the rules on essentiality, and of the communication to the Authority and to Terna on the subject of intention to sign the contract;
- extended the terms for publication by Terna of the list of essential plants and for performance by Terna of the activities related to the standard parameters and the typical parameters;
- modified the term by which users of the dispatching ask the Authority to be eligible for the supplement;
- extended certain rules to 2014, the validity of which is currently limited to the year 2013, on the subject of determining the fees for the essential plants;
- extended to 2014 the validity of the list of reference products for calculating the value of fuels applied for the year 2013.

Resolution 450/2013/E/EEL

With this measure, acknowledging that it had carried out the opportune assessments of price trends in the Sicily zone in the maintenance period of the Sicily - Continent interconnection, the Authority also extended to the Sicilian electrical system, considering the evident critical issues in operating the same securely, the fact-finding investigation launched with Resolution 401/2012/R/eel with reference to the Sardinian electrical system, extending the term for closure of the same to 31 March 2014.

Resolution 456/2013/R/eel

With this measure, following the consultation launched on 19 September 2013 with the Consultation Document 396/2013/R/EEL, the Authority set forth rules for revision of the tender procedure related to assignment of the safeguarding service and certain aspects of the regulations for said service, with a view to the procedures related to the period 2014-2016. Among other things, the territorial areas with reference to which the service is provided were modified, the minimum requisites that operators participating in the tender procedures must possess were supplemented, and it was stated that the safeguarding provider, starting from 1 January 2015, must sign dispatching contracts related to the service and separate from the dispatching contracts related to any end customers served in the free market.

Resolution 462/2013/R/eel

With this measure the Authority acted to implement Orders 3565/2013, 3566/2013, 3567/2013 and 3568/2013, with which the Council of State issued judgements following the appeal lodged by the Authority against the judgements with which the Lombardy Regional Administrative Court partially cancelled the Authority's Resolutions 281/2012/R/efr, 343/2012/R/efr and 493/2012/R/efr on calculating the value of imbalances of units supplied by non-programmable renewable sources. In particular, the Authority established that from 1 January 2013 and until a decision has been made on the merit of the appeals pending before the Council of State:

- to production units supplied by non-programmable renewable sources the imbalance prices envisaged for the ineligible units are applicable exclusively with reference to the portion of effective imbalance exceeding 20% of the modified and corrected binding programme, while within the 20% excess the hourly zonal price is applicable;
- Terna and GSE are obliged to apply the rules in force of Resolution 281/2012/R/efr starting from October 2013, postponing the application related to the period 1 January 2013-30 September 2013 following the decision made by the Council of State.

Resolution 483/2013/R/eel

With this measure the Authority verified positively the proposed amendment to the Network Code transmitted by Terna, on completion of the consultation with the operators, under the terms of Resolution 231/2013/R/eel, contained in Chapters 4 and 7 of the said Code and in a number of its annexed documents.

The main changes concern:

- valuation of the structure change manoeuvre;
- definition of the technical data of the production units valid for the purposes of the electricity market;
- introduction of an optional mechanism for valuation of the primary frequency adjustment service, under the terms of Resolution 231/2013/R/eel.

Resolutions 530/2013/R/eel, 546/2013/R/eel, 577/2013/R/eel, 610/2013/R/eel and 635/2013/R/eel

With these provisions the Authority provides for regulations on the matter of essential plants for the security of the electricity system.

In resolution 530/2013/R/EEL, in particular, the Authority provided for resolutions on alternative systems for the essential plants. The ruling re-determined the values of the relevant technical-economic parameters in the sphere of alternative remuneration systems of essential plants for the year 2014, considering the choice of some dispatching users to partially adopt said systems, and supplemented the regulations governing the remuneration of such plants.

In resolution 546/2013/R/EEL, the Authority partially approved the proposals presented by Terna S.p.A. pursuant to the regulations on essential plants for the year 2014 determining the values of several parameters relevant for the application of typical systems to the essential production plants for the year 2014.

In Resolution 577/2013/R/eel, the Authority determined the amounts for an advance payment on the replenishment price, in relation to the essential plants for 2012.

With Resolution 610/2013/R/eel, the Authority approved, with amendments, Terna S.p.A.'s contractual proposals for implementing the regulations of alternative systems on the matter of remuneration of the essential plants for the year 2014.

Lastly, in Resolution 635/2013/R/eel, the Authority identified the essential production units for the security of the electricity system admitted to the cost replenishment regime, specifying the duration and conditions of admission.

Resolution 531/2013/R/eel

In such ruling, the Authority recognised the costs estimated for 2014 communicated by Terna to perform activities needed to monitor the wholesale electricity markets, quantifying them at the amount of € 855,470. The Authority further specified that the difference, of € 732,496 between such amount and the residual amount between the estimated and final cost 2012, is covered by the fee for the functioning of Terna in 2014.

Resolution 543/2013/R/eel

In this ruling, the Authority approved the new version of the rules for allocating the carrying capacity on the interconnection grid with foreign countries (Access Rules) drawn up by Terna jointly with the other grid operators participating in the works of the Regional Initiatives for the Centre-South and Centre-West of Europe and Switzerland.

Resolutions 562/2013/R/eel and 564/2013/R/eel

In such rulings, the Authority intervened on the regulations for provision of the safeguarding service for the three-year period 2014-2016, dictating urgent provisions for the correct supply of the service starting from 1 January 2014.

Resolution 578/2013/R/eel

In this ruling, the Authority completed the definitive framework for the Simple Systems of Production and Consumption (SSPC), identifying the various types of system allowed: Energy Efficiency Systems (EES), Existing Equivalent Systems to the EES (EESEES), Self-Production Systems, (SPS) and Other Existing Systems (OES). Specifically, the Authority provided that, for the EES and the EESEES, the tariff fees of transmission and distribution, as well as those of dispatching and those covering general costs, apply in relation to the point of connection to the public grid and to the electricity withdrawn at such point. For the other types of SSPC, the Authority provided that the tariff fees of transmission, distribution and dispatching apply in relation to the point of connection to the public grid and to the electricity withdrawn at such point, while the general system costs apply in relation to the internal point of connection and to the electricity consumed within the system.

Furthermore, the ruling provided that the register of the SSPC be managed using the GAUDI system, requiring that new information flows be implemented with the GSE and with the distributor companies to such purpose, as subjects engaged in the qualification process of the plants such as EES-EESEES and in the connection process of the SSPC.

Resolution 607/2013/R/eel

By this measure, the Authority updated the tariffs and economic terms for 2014 for providing the connection service and other dispositions relative to the provision of transmission, distribution and metering services of electricity. The main changes concern:

- updating of the remuneration rate of invested capital for the period 1 January 2014 – 31 December 2015 to 6.3%;
- updating, for 2014, of the CTR component to 0.663 euro cents/kWh;
- confirmation of the monomial transmission tariff for the remaining years of the IV regulatory period;
- recognition of the investments relative to the Italy-Balkans interconnection operation situated outside Italy;
- inclusion in the transmission RAB of adjustments relative to the equity increases of third parties owning the NTG in the period 2004-2010, for a total amount of 47.4;
- inclusion in the transmission tariff of the additional remuneration to the WIP category I3 at 31 December 2011 and at 31 December 2012, consequent to exceeding of the 70% limit of the overall conventional value of the milestones estimated for the first six months of 2013, as part of the incentive mechanism to accelerate investment.

Resolution 609/2013/R/eel

By such measure, the Authority provided for checking compliance of the Master Agreement and Pentilateral Agreement for the continuation of the Market Coupling project between Italy and Slovenia and the draft Agreement between Terna and the Energy Market Operator (EMO) for regulating relations relative to the energy market and to the dispatching services market.

Resolution 615/2013/R/eel

In this measure the Authority:

- defined the dispatching methods for electricity produced by the essential units for the safety of the gas system;
- defined the method for recognising the costs incurred by the essential units for the safety of the gas system;
- established that Terna will annually send the draft contract for limiting gas consumption to the Authority for approval within ten days of approval of the list of units essential to the gas system;
- defined transitory method specifications for 2013 and 2014.

Resolution 620/2013/R/gas

By such measure, the Authority provided that the costs related to the availability of the thermoelectric systems for the safety of the gas system be paid into the Fund for the interruptibility of the gas system opened at the Cassa Conguaglio. Such Fund takes its provision from a variable fee applied as a surcharge of the variable carrying fee to the quantities of gas fed into the national gas pipe grid.

Resolution 634/2013/R/eel

By such measure, the Authority extended, to 30 June 2014, the validity of the ARG/elt 187/10 resolution on the method of supplying instantly interruptible resources and in an emergency for the three-year period 2011-2013, simultaneously starting off a procedure aimed at defining a new system for regulating interruptible services starting from 1 July 2014.

Resolution 636/2013/R/eel

In Resolution 636/2013/R/eel, the Authority updated, for 2014, the DIS fee covering recognised costs for the functioning of Terna (quantifying such as € 0.0673 cents/kWh) and the other dispatching costs.

Resolution 6/2014/R/eel

By such measure, the Authority started a procedure for supplementing the regulation of the remuneration mechanisms of productive capacity, which provides for the setting up of a market segment to supplement the capacity market outline sent by Terna to the Ministry of Economic Growth, dedicated to negotiating a suitable production capacity to provide the flexibility of service needed to cover the long-term demand forecast by Terna. It also provides for the remodulation of the transitory capacity remuneration mechanism so as to bring it into line with the supply objectives of adequately flexible services, to the extent strictly necessary to guarantee the functioning of the electricity system.

Consolidated financial statements
as at 31 December 2013

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2013





Consolidated income statement

€ million	Notes	2013	2012
A. Revenue			
1. Revenue from sales and services	1	1,844.6	1,732.8
<i>of which: related parties</i>		1,442.0	1,287.1
2. Other revenue and income	2	51.8	73.1
<i>of which: related parties</i>		2.2	0.2
Total revenue		1,896.4	1,805.9
B. Operating expenses			
1. Raw materials and consumables	3	14.7	29.7
2. Services	4	140.9	139.5
<i>of which: related parties</i>		14.7	3.0
3. Personnel expenses	5	206.3	196.7
- gross personnel expenses		279.5	270.9
- personnel expenses, capitalised		(73.2)	(74.2)
<i>of which: related parties</i>		0.9	1.5
4. Amortisation, depreciation and impairment	6	450.4	423.7
5. Other operating expenses	7	46.4	46.8
<i>of which: related parties</i>		0.3	0.0
Total expenses		858.7	836.4
A-B Operating profit (EBIT)		1,037.7	969.5
C. Financial income/expense			
1. Financial income	8	65.8	89.5
2. Financial expense	8	(167.6)	(189.9)
<i>of which: related parties</i>		(6.3)	(10.4)
3. Share of profits/(losses) of equity-accounted investees	9	1.6	7.2
D. Profit before taxes		937.5	876.3
E. Income taxes	10	423.9	412.7
F. Net profit for the year		513.6	463.6
Profit for the year attributable to the owners of the Parent		513.6	463.6
Earnings per share			
Basic earnings per share	11	0.256	0.231
Diluted earnings per share		0.256	0.231

Consolidated statement of comprehensive income

€ million	Notes	2013	2012 Restated
Net profit for the year		513.6	463.6
Other components of comprehensive income for the year which will be subsequently released to the income statement:			
- Cash flow hedges net of tax effect	22	34.9	(18.2)
Other components of comprehensive income for the year which will not be subsequently released to the income statement:			
- Actuarial gains (losses) on employee benefits net of tax effect	22	5.8	(15.5)
Net comprehensive income for the year		554.3	429.9
Net comprehensive income for the year attributable to:		554.3	429.9
<i>Owners of the Parent</i>		<i>554.3</i>	<i>429.9</i>

Consolidated statement of financial position

Assets

€ million	Notes	at 31.12.2013	at 31.12.2012 Restated	at 01.01.2012 Restated
A. Non-current assets				
1. Property, plant and equipment	12	10,119.9	9,342.0	8,618.2
<i>of which: related parties</i>		21.2	18.5	24.3
2. Goodwill	13	190.2	190.2	190.2
3. Intangible assets	14	271.6	280.2	280.7
4. Equity-accounted investees	15	74.0	73.5	66.8
5. Non-current financial assets	16	528.1	755.7	522.4
6. Other non-current assets	17	7.8	7.1	6.6
Total non-current assets		11,191.6	10,648.7	9,684.9
B. Current assets				
1. Inventories	18	8.0	6.6	16.3
2. Trade receivables	19	1,721.1	1,884.1	1,690.2
<i>of which: related parties</i>		413.6	424.9	122.5
3. Current financial assets	16	97.1	83.1	205.2
<i>of which: related parties</i>		0.3	0.3	0.4
4. Cash and cash equivalents	20	1,617.1	2,510.1	1,114.9
5. Income tax assets	21	20.8	18.6	4.4
6. Other current assets	17	79.4	59.6	20.5
Total current assets		3,543.5	4,562.1	3,051.5
Total assets		14,735.1	15,210.8	12,736.4

Consolidated statement of financial position

Liabilities

€ million	Notes	at 31.12.2013	at 31.12.2012 Restated	at 01.01.2012 Restated
C. Equity attributable to owners of the Parent				
1. Share capital		442.2	442.2	442.2
2. Other reserves		783.6	742.9	776.4
3. Retained earnings		1,341.9	1,280.3	1,262.7
4. Interim dividend		(140.7)	(140.7)	(160.8)
5. Net profit for the year		513.6	463.6	440.0
Total equity attributable to owners of the Parent	22	2,940.6	2,788.3	2,760.5
D. Non-current liabilities				
1. Long-term loans	23	8,009.9	8,909.4	6,738.7
<i>of which: related parties</i>		500.0	500.0	500.0
2. Employee benefits	24	120.1	128.4	104.8
3. Provisions for risks and charges	25	177.0	166.9	193.8
4. Deferred tax liabilities	26	155.6	184.8	256.7
5. Non-current financial liabilities	23	80.0	141.2	111.4
6. Other non-current liabilities	27	132.9	135.4	137.1
Total non-current liabilities		8,675.5	9,666.1	7,542.5
E. Current liabilities				
1. Current portion of long-term loans	23	697.8	69.4	59.7
2. Trade payables	28	2,062.3	2,310.2	2,049.0
<i>of which: related parties</i>		33.6	15.6	44.9
3. Tax liabilities	28	31.5	95.0	116.5
4. Current financial liabilities	23	151.4	137.1	89.8
<i>of which: related parties</i>		1.1	1.1	2.4
5. Other current liabilities	28	176.0	144.7	118.4
<i>of which: related parties</i>		1.3	4.9	7.3
Total current liabilities		3,119.0	2,756.4	2,433.4
Total liabilities and equity		14,735.1	15,210.8	12,736.4

Statement of changes in consolidated equity

31 DECEMBER 2012 - 31 DECEMBER 2013

CONSOLIDATED SHARE CAPITAL AND RESERVES

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

31 DECEMBER 2011 - 31 DECEMBER 2012

CONSOLIDATED SHARE CAPITAL AND RESERVES

€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve
Equity at 31 December 2011	442.2	88.2	20.0	(70.0)
Adjustment of opening balances	-	-	-	-
Equity at 31 December 2011	442.2	88.2	20.0	(70.0)
Net profit for the year				
Other comprehensive income:				
Change in fair value of cash flow hedging derivatives, net of tax effect				(18.2)
Actuarial gains (losses) on employee benefits net of tax effect				
Total other comprehensive income	-	-	-	(18.2)
Net comprehensive income	-	-	-	(18.2)
Transactions with equity owners:				
Allocation of 2011 profit				
- Retained earnings		0.2		
- Dividends				
Interim dividend 2012				
Total transactions with equity owners	-	0.2	-	-
Other changes				
Equity at 31 December 2012	442.2	88.4	20.0	(88.2)

Other reserves	Retained earnings	Interim dividend	Net profit for the year	Equity attributable to the owners of the Parent	
728.7	1,280.3	(140.7)	463.6	2,794.3	
(6.0)	-	-		(6.0)	
722.7	1,280.3	(140.7)	463.6	2,788.3	
			513.6	513.6	
				34.9	
5.8				5.8	
5.8	-	-	-	40.7	
5.8	-	-	513.6	554.3	
	61.6		(61.6)	-	
		140.7	(402.0)	(261.3)	
		(140.7)		(140.7)	
-	61.6	-	(463.6)	(402.0)	
728.5	1,341.9	(140.7)	513.6	2,940.6	
Securities-available-for-sale reserve	Other reserves	Retained earnings	Interim dividend	Net profit for the year	Equity attributable to the owners of the Parent
0.0	728.7	1,262.7	(160.8)	440.0	2,751.0
	9.5	-	-		9.5
0.0	738.2	1,262.7	(160.8)	440.0	2,760.5
				463.6	463.6
					(18.2)
	(15.5)				(15.5)
-	(15.5)	-	-	-	(33.7)
-	(15.5)	-	-	463.6	429.9
		17.7		(17.9)	-
			160.8	(422.1)	(261.3)
			(140.7)		(140.7)
-	-	17.7	20.1	(440.0)	(402.0)
		(0.1)			(0.1)
-	722.7	1,280.3	(140.7)	463.6	2,788.3

Consolidated statement of cash flows*

€ million	2013	2012 Restated
Net profit for the year	513.6	463.6
Adjustments for:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and intangible assets (non current)**	430.9	403.2
Provisions (including employee-related provisions) and impairment (Gains)/Losses on disposals of property, plant and equipment	48.9	68.1
Financial (income)/expense	(1.7)	(5.9)
Income taxes	103.8	101.8
	423.9	412.7
Cash flows generated by operating activities, before changes in net working capital	1,519.4	1,443.5
Increase/(Decrease) in provisions (including employee-related and tax provisions)	(36.6)	(106.6)
(Increase)/decrease in inventories	(1.4)	9.7
(Increase)/decrease in trade receivables and other current assets	129.4	(232.6)
Increase/(decrease) in trade payables and other current liabilities	(210.0)	299.2
Increase/(decrease) in other non-current liabilities	3.3	4.1
(Increase)/decrease in other non-current assets	(0.7)	(0.5)
Interest income and other financial income received	202.4	305.4
Interest expense and other financial expense paid	(305.6)	(398.5)
Income taxes paid	(536.4)	(489.3)
Cash flows generated by operating activities [a]	763.8	834.4
Investments in non-current property, plant and equipment, net of grants received	(1,151.1)	(1,156.3)
Proceeds from sale of non-current property, plant and equipment and intangible assets and other changes	(12.5)	72.3
Capitalised financial expense	26.3	26.5
Investment in non-current intangible assets, net of grants received	(47.4)	(54.1)
(Increase)/decrease in equity investments in associates	(0.5)	(6.8)
Acquisition of equity investments	(0.2)	(0.2)
Cash flows used in investing activities [b]	(1,185.4)	(1,118.6)
Dividends paid	(402.0)	(402.0)
Change in short- and medium/long-term financial payables (including short-term portions)***	(69.4)	1,931.4
Change in short-term financial investments	0.0	150.0
Cash flows generated by financing activities [c]	(471.4)	1,679.4
Increase/(decrease) in cash and cash equivalents [a+b+c]	(893.0)	1,395.2
Opening cash and cash equivalents	2,510.1	1,114.9
Closing cash and cash equivalents	1,617.1	2,510.1

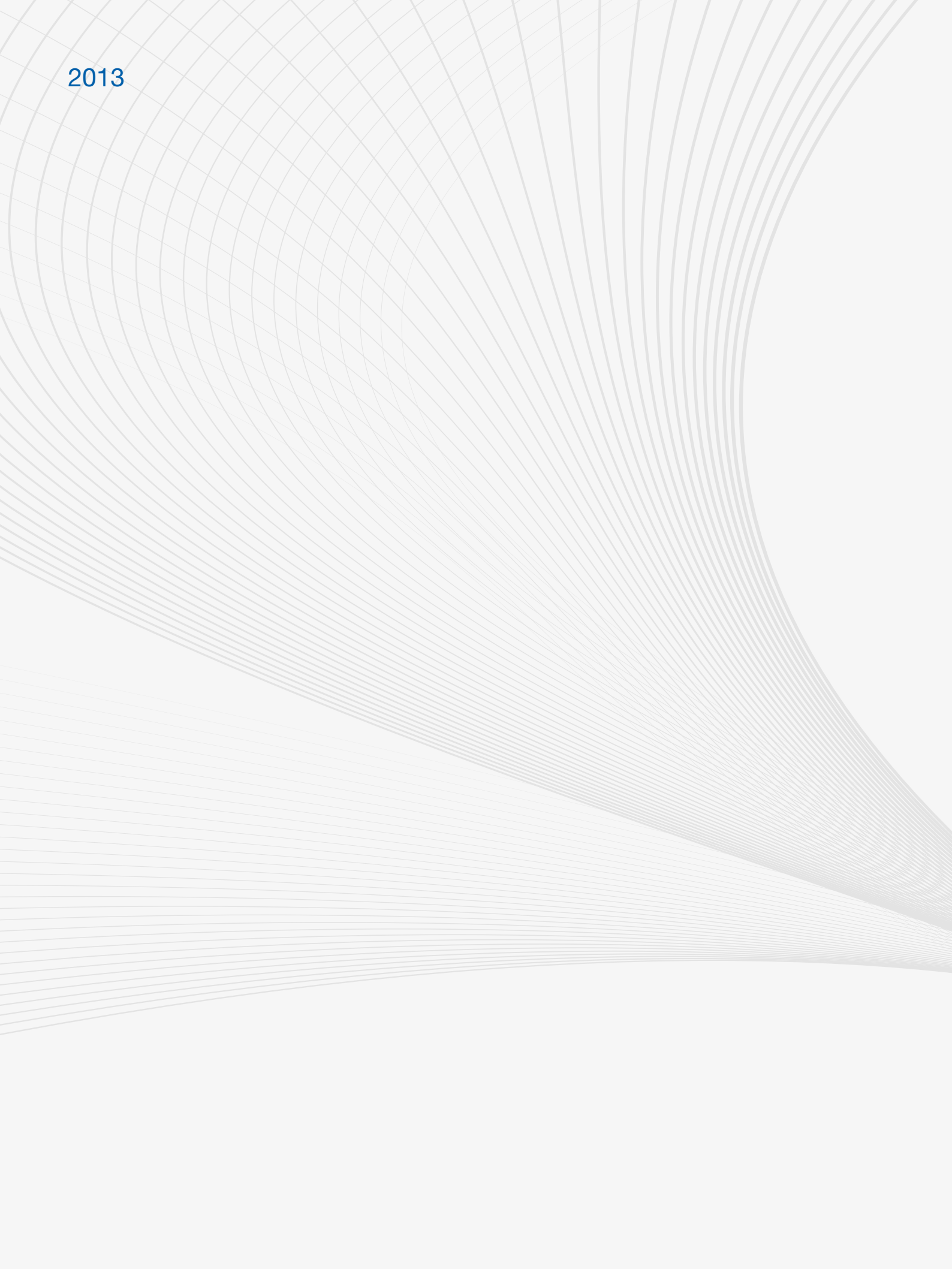
(*) For comments on the Consolidated Statement of Cash Flows, please see the section "Notes to the Statement of Cash Flows" in the "NOTES TO THE FINANCIAL STATEMENTS".

(**) Net of set-up grants recognised in the income statement for the year.

(***) Net of FVH derivatives.



2013



Notes to the Consolidated Financial Statements



A. Accounting policies and measurement criteria

Introduction

Terna S.p.A. has registered offices in Viale Egidio Galbani 70, Rome, Italy. The Consolidated Financial Statements at and for the year ended 31 December 2013 include the separate financial statements of the Company and those of its subsidiaries (the “Group”), as well as the Group’s shareholding in associates and joint ventures. The subsidiaries included within the scope of consolidation are listed below.

These Consolidated Financial Statements were authorised for publication by the Directors on 25 March 2014.

The Consolidated Financial Statements for the year ended 31 December 2013 are available on demand at Terna S.p.A.’s offices at Viale Egidio Galbani, 70 Rome or on the website www.terna.it.

Compliance with IAS/IFRS

The consolidated financial statements as of 31 December 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Commission (“IFRS-EU”) at that date.

This document has also been prepared by taking into account the provisions of Legislative Decree No. 38 of 28 February 2005, the Italian Civil Code and CONSOB Resolutions Nos. 15519 (“*Provisions governing financial statements in implementation of Art. 9, paragraph 3, of Legislative Decree No. 38/2005*”) and 15520 (“*Amendments to the implementing rules for Legislative Decree no. 58/1998*”), both of 27 July 2006, as well as CONSOB Communication No. DEM/6064293 of 28 July 2006 (“*Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public and pursuant to Art. 116 of the Consolidated Financial Act*”).

The Consolidated Financial Statements have been prepared on a historic cost basis, modified where necessary for certain financial instruments, as well as on a going-concern basis. The Group has determined that, despite the challenging economic and financial environment, it does not face material uncertainties (as defined in paragraph 25 of IAS 1R) that might cast doubt on its ability to continue as a going concern.

Basis of presentation

The Consolidated Financial Statements are composed of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive income, the Statement of Changes in Equity, the Statement of Cash flows and the Notes thereto.

In the Statement of Financial Position, assets and liabilities are classified on a “current/non-current” basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Group’s normal operating cycle; current liabilities are those expected to be settled in the Group’s normal operating cycle or within one year from the close of the financial year.

The Income Statement is classified on the basis of the nature of costs. The income statement is presented as two statements, the first of which (Income Statement) presents the components of profit or loss for the year; while the second (Statement of Comprehensive Income) starts with the result for the year and then presents the revenue and expense items (including reclassification adjustments) that are recognised in equity rather than profit or loss for the year. The statement of cash flows has been prepared using the indirect method.

The Consolidated Financial Statements are accompanied by the Management Report for Terna S.p.A. and the Terna Group, which as from the 2008 financial year has been prepared as a single document, exercising the option granted under Legislative Decree No. 32 of 2 February 2007, which amended Art. 40 (Directors’ Report on Operations) of Legislative Decree No. 127 of 9 April 1991.

These Consolidated Financial Statements are presented in millions of euro, and all figures are shown in millions of euro, unless otherwise indicated.

The Consolidated Financial Statements have been prepared using the historical cost method, with the exception of items that are recognised at fair value in accordance with IFRS-EU, as indicated in the accounting policies for each item.

It is opportune to specify that the retrospective entry into force of the new version of IAS 19, starting from 1 January 2013, determined a restatement on the financial comparative balances at 31 December 2012, which entailed an increase in the liability for employee benefits of approximately € 9 million, higher deferred tax assets for approximately € 3 million and lower equity reserves for approximately € 6 million. The impact on the 2012 Income Statement is instead completely negligible.

Starting from the same date, with non-retrospective application, the new principle *IFRS 13 - Fair Value Measurement*, also came into effect which, in addition to identifying a univocal definition of fair value, also identifies the general guidelines for measurements in financial statements. For the Group's financial statements the main change is the inclusion of counterparty risk in financial instrument measurement models.

It is specified, in addition, that some comparative balances of the financial statements at 31 December 2012, provided for comparison, have been reclassified, without, however, altering the equity values at 31 December 2012 and those of the 2012 income statement.

Use of estimates

The preparation of the Consolidated Financial Statements requires management to make estimates and assumptions that affect the book values of assets and liabilities and related disclosures, in addition to contingent assets and liabilities at the reporting date. The estimates and associated assumptions are based on previous experience and various factors that are believed to be reasonable under the circumstances and were applied to measure carrying amounts of assets and liabilities that are not readily apparent from other objective sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the income statement for the year, if they relate solely to that period. In the case that the review affects both current and future years, the change is recorded in the year in which the estimate is reviewed as well as in the relative future years.

The aforementioned first application of IFRS 13 involves a change in the estimate of the mark to market (mtm) of the positions in derivatives: the fair value of the portfolio is adjusted for the CVA (Credit Valuation Adjustment) component, which measures the credit risk of the counterparties, and that of DVA (Debit Valuation Adjustment) which instead measures the Terna Group's credit risk. The method of calculation used consists in the weighting of the mtm expected monthly until maturity for the corresponding probability of default during the period of the counterparty, as expressed in the following formula:

$$CVA/DVA = \sum PD \times EAD \times LGD$$

with Pd= probability of default, EAD= Exposure at default and LGD= Loss Given Default, considered to be 60%* (1 - recovery rate) according to market practice;

*Source: Reuters, Bloomberg, Moody's, S&P, Fitch

Once the probabilities of default had been calculated from the Credit Default Swaps (CDSs) for the banking counterparties and from the levels on the secondary of own bonds for the Terna Group, the marginal probabilities of default were then calculated and applied to the single MTMs expected at the various dates. The sum of the marginal default probabilities applied to the various values of mtm expected and corrected by the LGD component, provides the value of the CVA/DVA relative to the derivative.

The mtm values expected were calculated with the internal pricing system based on the forward market rates at the valuation date and the expected loss was instead assumed to be 60% following the market practice.

The critical areas for key estimates and assumptions used by management in applying the IFRS endorsed by the European Commission that could have significant effects on the consolidated financial statements or that could give rise to risks that would entail significant adjustments to the book values of assets and liabilities in subsequent years are summarised below.

Employee benefits

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

Provisions for risks and charges

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

Impairment losses

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

The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually.

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

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

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

Allowance for doubtful accounts

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

Subsidiaries and the scope of consolidation

The scope of consolidation includes the Parent Company Terna S.p.A. and the companies over which the Parent Company has the power to directly or indirectly govern financial and operating policies so as to obtain benefits from their activities, regardless of the type of ownership. In assessing whether or not the Parent Company has control, potential voting rights that are presently exercisable or convertible are also considered.

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

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

Company	Registered office	Business	Currency	Share capital	% held	Consolidation method
COMPANIES CONTROLLED DIRECTLY BY TERNA S.P.A.						
Terna Rete Italia S.p.A.	Rome	Design, construction, management, development, operation and maintenance of grid structures and lines and of other infrastructures connected to the said grids, of plants and equipment functional to the said business in the sectors of electricity dispatch and transmission and in similar, related or connected segments.	€	120,000	100%	Line-by-line
Terna Rete Italia S.r.l.	Rome	Design, construction, management, development, operation and maintenance of high-voltage power lines.	€	243,577,554	100%	Line-by-line
Terna Storage S.r.l.	Rome	Design, construction, management, development and maintenance of diffused energy accumulation systems (including batteries), pumping and/or storage systems, as well as plants, equipment and infrastructure, including grids.	€	10,000	100%	Line-by-line
Terna Crna Gora d.o.o.	Podgorica	Authorisation, construction, and management of transmission infrastructures comprising the Italy-Montenegro electrical interconnection in Montenegro territory.	€	36,000,000	100%	Line-by-line
Terna Plus S.r.l.	Rome	Design, construction, management, development, operation and maintenance of plants, equipment and infrastructures including grids and systems, including diffused energy accumulation, pumping and/or storage.	€	16,050,000	100%	Line-by-line

The **change in the scope of consolidation** since 31 December 2012 relates to:

- the merger by incorporation of SunTergrid S.p.A. into Terna Plus S.r.l., which occurred during the year with a deed signed on 18 October 2013 and with legal effect from 21 October 2013 (date of registration in the Companies Register), in accordance with the provisions of the merger plan approved on 6 June 2013 by the respective Boards of Directors and subsequently resolved on 10 June 2013 by the related Shareholders' Meetings;
- to the sale on 24 July 2013, by the subsidiary SunTergrid S.p.A. to Tozzi Sud S.p.A. – a company wholly controlled by Tozzi Industries S.r.l. – of 100% of the share capital of Rete Solare S.r.l., holder of the “Single Authorisation” for construction and operation of a photovoltaic system to be installed at Aranova in the Municipality of Ferrara.

Associates

Investments in associates are those over which the Terna Group has significant influence but which are neither subsidiaries nor joint ventures. In assessing whether or not Terna has a significant influence, potential voting rights that are presently exercisable or convertible are also considered.

These investments are initially recognised at acquisition cost and subsequently measured using the equity method. The profits or the losses pertaining to the Group are recognised within the Consolidated Financial Statements when it begins to exercise significant influence and until that influence ceases.

In the event that the loss pertaining to the Group exceeds the equity interest's book value, the latter is written off and any excess is recognised in a specific provision in the case that the Parent Company is required to meet the legal or constructive obligations of the subsidiary or, in any case, to cover its losses.

Joint ventures

Investments in jointly-controlled entities, in which the Group exercises joint control of other entities, are recognised initially at cost and subsequently measured using the equity method. The profits or the losses pertaining to the Group are recognised within the Consolidated Financial Statements when it begins to exercise significant influence and until that influence ceases.

In assessing whether or not the Parent Company has a joint interest, potential voting rights that are presently exercisable or convertible are also considered.

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

Consolidation policies

All separate financial statements of subsidiaries used to prepare the Consolidated Financial Statements were drafted as of 31 December 2013 and have been approved by their respective Shareholders' Meetings; they have been adjusted, where necessary, to align them with the Parent Company's accounting policies.

During the preparation of the consolidated financial statements, intercompany balances, transactions, revenue and costs are fully eliminated, net of the related tax effect, where material ("consolidation on a line-by-line basis").

Unrealised gains and losses with associates and joint ventures are eliminated in proportion to the Group's holding therein. In both cases, unrealised losses are eliminated, unless they represent impairment.

Translation of foreign currency items

The separate financial statements of each consolidated company are prepared using the functional currency for the economic environment in which each company operates.

In these financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at year end. Any exchange rate differences are taken to profit or loss.

Non-monetary assets and liabilities in foreign currency stated at historic cost are converted at the exchange rate prevailing when the transaction was initially recognised. Non-monetary assets and liabilities in foreign currency stated at fair value are converted at the exchange rate prevailing when fair value was measured.

Translation of financial statements of foreign operations

For the purposes of the consolidated financial statements, profits and losses, assets and liabilities are expressed in euro, which is the Parent Company Terna S.p.A.'s functional currency.

For the purposes of drafting the Consolidated Financial Statements, the separate financial statements of subsidiaries with a functional currency other than the euro, including goodwill and consolidation adjustments, are converted into euro at the exchange rate prevailing at the reporting date. Income Statement figures included in these financial statements are converted at the average exchange rate of the year. The relevant exchange differences are recognised directly under equity and stated separately in a specific reserve. This reserve is then released to the Income Statement when the equity investment is sold.

Property, plant and equipment

Property, plant and equipment are recognised at historic cost, including costs directly attributable to putting the asset in the condition necessary for it to be capable of operating in the manner for which it was acquired. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of disposal or removal of the asset. The corresponding liability is recognised in provisions for contingencies and charges. Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation pursuant to IAS 23R are capitalised as part of the cost of the asset. For more information, please see the section "Financial income and expense" below. Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Group if the cost can be reliably measured. All other costs are recognised in profit or loss when incurred.

Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognised and depreciated separately.

Certain assets that were revalued at 1 January 2005 (transition date) or previously are recognised at the revalued amount, which is considered deemed cost at the date of the revaluation.

Property, plant and equipment are shown net of accumulated depreciation and any impairment losses, which are measured as described below. Depreciation is calculated on a straight-line basis over the estimated useful economic life of the asset, which is reviewed annually, with revisions applied on a prospective basis. The depreciation of assets begins when the assets become available for use.

Liabilities associated with items of property, plant and equipment are taken to a specific provision as a balancing entry to the related asset. The amount is taken to profit or loss through the depreciation of the asset.

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

DEPRECIATION RATES

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

Land, regardless of whether it is free of construction or related to civil and industrial buildings, is not depreciated, since it has an indefinite useful life.

Property, plant and equipment acquired under finance leases - and through which the Group has substantially acquired all the risks and rewards of ownership - are recognised as Group assets at the lower of fair value and the present value of minimum lease payments due, including any amounts to be paid to exercise the purchasing option. The corresponding liability to the lessor is recognised under financial payables. Assets are depreciated using the criteria and rates described above. If the company is not reasonably certain that it will acquire ownership at the end of the lease, the asset is depreciated over the shorter of the term of the lease and the asset's useful life.

Leases in which the lessor maintains substantially all the risks and rewards of ownership are classified as operating leases. Costs related to operating leases are taken in full to profits or losses over the term of the lease.

Intangible assets

Intangible assets, which all have finite useful lives, are recognised at cost, having obtained, if necessary, the approval of the Board of Statutory Auditors, and shown net of accumulated amortisation and any impairment losses, measured as described below.

Amortisation begins when the asset becomes available for use and is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions to estimated figures are applied on a prospective basis.

Intangible assets essentially regard the exclusive license to carry out electricity transmission and dispatching activities and other intangible assets. In particular, the parent company Terna S.p.A. obtained the license for electricity transmission and dispatching activities in Italy on 1 November 2005 when it acquired the TSO business unit. As established in the Decree issued by the Ministry of Productive Activities on 20 April 2005, this license runs for twenty-five years, renewable for another twenty-five years, from the date of effective transfer of the activities, functions, assets and legal arrangements of the concession from GSE (formerly NTGO) to Terna S.p.A. This intangible asset was initially recognised at cost, which reflected fair value.

Other intangible assets mainly relate to the following:

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

Development costs are capitalised by the Group only if all following conditions are met: costs can be reliably estimated and there are technical possibilities and intent to complete the intangible asset so as for it to be available after use; the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset pursuant to IAS 23R are capitalised as part of the cost of the asset. For more information, please see the section "Financial income and expense" below.

All other development costs and research expenses are recognised in profit or loss when incurred.

These intangible assets are amortised over their estimated residual useful life, which is normally three years, given their rapid obsolescence.

Rights on the infrastructure

These include the property, plant and equipment and intangible assets employed in the dispatching activity, carried out under concession, which fall within the scope of application of IFRIC 12, since the relevant criteria apply: the services provided are regulated and control exists over the residual interest. More specifically, in view of the rate system for dispatching activities, the Intangible Asset model has been applied, as provided for in the Interpretation.

The revenue and costs relating to the investment in dispatching activities are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase is limited to the amount of the internal and external construction costs incurred, considering that the fair value of the construction services is equivalent to the construction cost recognised to third-party contractors plus the internal cost of the technical personnel employed on such construction activities. The assets continue to be amortised and depreciated in accordance with the initial schedule.

By contrast, tariff revenue continues to be recognised in accordance with IAS 18 and borrowing costs continue to be capitalised pursuant to IAS 23R.

IFRIC 12, instead, is not applicable to the Parent Company's concession for the part relating to the transmission activities, since neither the concession nor related legislation envisage that the NTG will return to public ownership, either via the payment of an indemnity or otherwise.

Goodwill

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

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

Inventories

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

Contract work in progress

When the profit or loss on a contract can be reliably estimated, the related contract costs and revenue are recognised separately in the Income Statement on a percentage of completion basis. Progress is measured based on the work carried out and measured proportionally to the ratio of costs for the works carried out up to the reporting date and total cost of the contract (cost-to-cost). Differences between the value of completed contracts and payments on account received are recognised under Statement of Financial Position assets or liabilities, considering any impairment losses on the work carried out so as to take into account the risks of customers' refusal to recognise the work performed. Expected contract losses are immediately taken to profit or loss.

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

Financial instruments

Financial assets

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

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method, and net of any impairment losses due to sums considered non-recoverable, which are taken to the specific allowance for impairment. Impairment losses are measured on the basis of the present value of estimated future cash flows, discounted at the original effective interest rate.

Receivables with due dates that fall under normal commercial terms are not discounted.

Cash and cash equivalents

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

Trade payables

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

Financial liabilities

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

Derivative financial instruments

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

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

Changes in the fair value of derivatives that do not meet hedge accounting requirements in accordance with the IFRS-EU are recognised in profit or loss.

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

Financial and non-financial contracts (which are not already measured at fair value) are also analysed to identify any “embedded” derivatives, which must be separated and measured at fair value. This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows.

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

Employee benefits

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

As already specified above, starting from 1 January 2013 the Group applied retrospectively the new “IAS 19 - Employee Benefits”; consequently some comparative balances of the year 2012 were adjusted to take account of the change in the accounting model.

Provisions for risks and charges

Accruals to the provisions for risks and charges are recognised when, at the reporting date, the Company has a legal or constructive obligation towards others as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, accruals are measured by discounting estimated future cash flows using a pre-tax discount rate that reflects current market assessment of the time value of money and the specific risk associated with the liability, if present. Where discounting is used, the increase in the provision due to the passage of time is recognised in the Income Statement as interest expense. If the liability relates to property, plant and equipment (site disposal and restoration, for example), the provision is recognised as a balancing entry to the asset to which it relates. The expense is recognised in profit or loss through depreciation of the item of property, plant and equipment to which it relates.

Changes in the estimate are recognised within the income statement for the year in which the change happens, except for those costs expected for dismantling, removal and reclamation, which come as a result of changes in the timing and use of economic resources necessary to extinguish the obligation or attributable to a material change in the discount rate, which are recognised as an increase or reduction of the related assets and recognised in profit or loss through depreciation.

Grants

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

Revenue

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

- revenue from the sale of goods is recognised when the material risks and rewards of ownership of the goods have been transferred to the buyer and their total amount can be reliably determined and collected;
- revenue from services rendered is recognised with reference to the stage of completion of the transaction. If revenue cannot be reliably measured, it is recognised to the extent of recoverable costs;
- revenue accrued during the year in respect of contract work in progress is recognised on the basis of the payments agreed for the progress of works using the cost-to-cost method. In addition to contractual payments, project revenue includes any payments in respect of variations, price revisions and incentives, with the latter recognised where it is probable that they will actually be earned and can be reliably determined. Revenue is also adjusted for any penalties for delays attributable to Group companies;
- when the recovery of an amount already recognised in revenue is uncertain, the non-recoverable value or the amount whose recovery is no longer probable is recorded as a cost, with recognition of a balancing entry in provisions for risks and charges;
- amounts collected on behalf of third parties, such as the fees paid to non-Terna grid owners, as well as revenue recognised for managing activities related to the balancing of the national electrical system, which do not increase equity, are reported net of the related costs (so-called pass-through energy items). This reporting method, which reflects the substance of transactions by offsetting revenue with the related costs arising from the “same transaction”, is however discussed in full in the specific section 1 – Revenue from sales and services of the Explanatory Notes (*Other energy items – pass-through revenue/costs*).

Financial income and expense

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

Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where funds are raised through general borrowing, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool, excluding any specifically borrowed funds. The amount of borrowing costs capitalised during a year shall in any case not exceed the amount of borrowing costs incurred during that year.

Capitalisation commences as from the date all the following conditions have been met: (a) expenditures have been incurred for the asset; (b) borrowing costs have been incurred; and (c) activities to prepare the asset for its intended use or sale are in progress.

Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.

The capitalisation rate used for 2013 amounts to 2.06% and that for 2012 amounts to 2.60%.

Financial income and expense other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities using the effective interest rate.

Dividends

Dividends from investee companies are recognised when the shareholders' right to receive payment is established.

Dividends and interim dividends payable to shareholders are shown as changes in equity at the date in which they are approved by the Shareholders' Meeting and the Board of Directors, respectively.

Earnings per share

Basic earnings per share are calculated by dividing the profit or loss for the year attributable to holders of ordinary shares by the weighted average of outstanding ordinary shares during the year.

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

Income taxes

Current income taxes are recognised as "Tax liabilities", net of advances paid, or "Tax assets" where the net balance of the captions is positive. They are based on the estimated taxable income and in accordance with current legislation, taking account of applicable exemptions.

Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes, using current tax rates or the rates expected to be in effect when the temporary differences reverse, based on current rates or those that are substantially approved at the reporting date.

Deferred tax assets are recognised when their recovery is considered probable, i.e. when future taxable income will be available against which the asset can be used. The recoverability of deferred tax assets is reviewed at each year end.

Deferred tax liabilities are recognised in any case if they exist. The tax relating to items noted directly as equity are also allocated to equity.

New standards

International accounting standards taking effect from 1 January 2013

The following international accounting standards and related interpretations took effect from 1 January 2013:

Amendment to IAS 19

On 5 June 2012 the European Union endorsed the amendment to “IAS 19 - Employee Benefits”, which introduces changes to the recognition and measurement of costs relating to employee benefits, such as severance indemnities and the requirements for disclosure of all employee benefits. The amendment eliminated the option to defer the recognition of actuarial gains and losses using the corridor approach and provided for the recognition of the cost connected with services rendered and net financial expenses on the Income Statement, and the recognition of actuarial gains and losses deriving from remeasurements of assets and liabilities to be presented in “Other Comprehensive Income” (OCI). Additionally, the return on assets included amongst net financial expenses must be calculated according to the liability discount rate and no longer on the forecast return on the assets. Finally, the amendment also introduces new additional information to be provided in the notes to the financial statements. For more details on the application methods and on the relative effects on the data presented for comparative purposes, please refer to the paragraph “Basis of presentation” mentioned above.

Amendment to IAS 1

Endorsed on 5 June 2012, the amendment to “IAS 1 - Presentation of Financial Statements” requires, among other things, that all comprehensive income items presented in “Other Comprehensive Income” (OCI) be grouped together according to whether they may or may not be reclassified to profit or loss. The amendment primarily impacted on the disclosure of these Explanatory Notes.

IFRS 13 – Fair Value Measurement

On 11 December 2012, the European Commission approved standard IFRS 13, which seeks to increase consistency and comparability in fair value measurements and related disclosures through a “fair value hierarchy”. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to prices quoted in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. For the Group’s financial statements the main change is the inclusion of counterparty risk in financial instrument measurement models. Adoption of the new standard entailed, at 31 December 2013, a reduction in the value of fair value hedging derivatives, of € 0.5 million and a reduction in the value of cash flow hedging derivatives of € 0.1 million.

Improvement to IFRSs (2009-2011 Cycle)

On 27 March 2013 the Annual Improvement was approved in relation to the 2009-2011 cycle, incorporating changes to the standards (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34) under the scope of the annual improvement process for the international accounting standards, focusing on amendments considered to be necessary but not urgent; of these, we note the following as relevant to the Group:

- “IAS 1 - Presentation of Financial Statements” - Comparative information: this clarifies that should additional comparative information be provided, it must be presented in accordance with the previous comparative period. Moreover, it is also clarified that in the event that an entity should amend an accounting standard or carry out a rectification/reclassification retrospectively with a significant (material) effect on the information given in the financial-equity position at the start of the previous period, this same entity must present a third statement/column on the opening balance sheet (relative to the start of the previous period), whilst it will not be necessary to present the explanatory notes to the opening column;
- “IAS 16 - Property, Plant and Equipment” - Classification of servicing equipment as “Property, Plant and Equipment” if used for more than one financial year or to inventories if used for just one year;
- “IAS 34 – Interim Financial Reporting” – Clarifies that all assets of a specific “operating segment” must only be stated when the amounts are regularly provided to the chief operating decision-maker and there have been significant (material) changes in all assets with respect to the previous annual financial statements for the segment subject to disclosure.

These amendments have not had a significant impact on the separate financial statements at 31 December 2013.

During the period, the following standards also came into effect, governing cases that are currently not relevant for the Group’s financial statements:

- amendment to “IFRS 7 - Financial Instruments: Disclosures” - Offsetting Financial Assets and Financial Liabilities, requires additional disclosures regarding the actual or potential effects of the application of rules of offsetting financial assets and liabilities;
- “IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine” - accounting treatment of the costs of stripping a surface mine, to be recognised during production;
- amendment to “IFRS 1 - Government Loans” on accounting for government grants (IAS 20) for entities that apply the IFRSs for the first time.

International financial reporting standards endorsed but not yet in force

At the date these financial statements were prepared, the European Commission endorsed certain accounting principles. The possible impact of their application on the financial statements of the Terna Group is being evaluated. These accounting standards are listed below.

New accounting standards on consolidation

On 11 December 2012 the European Commission endorsed the following 5 standards (IFRS 10, IFRS 11, IFRS 12, IAS 27 Amended, and IAS 28 Amended), the first application of which is established for 1 January 2014, specifically:

IFRS 10 – Consolidated Financial Statements

The standard introduces a single control model that is valid for all types of entity, superseding “SIC 12 - Consolidation of SPEs” (Special Purpose Entities) and removing from IAS 27 the part relating to control and consolidation. In particular, the standard introduces a new definition of control, based on the investee (a company actually or potentially controlled) and the investor (the Parent Company drawing up the separate financial statements), which has control if it is exposed, or has variable returns from its involvement in the investee and has the possibility of affecting these returns through its power over the investee. Additionally, in identifying the investor it is essential to consider both potential but substantive voting rights, where the holder has the real possibility of exercising these rights, and actual control, understood as the possibility of unilaterally guiding activities. The first adoption of the standard will be retrospective.

IFRS 11 – Joint Arrangements

The new standard introduces important simplifications as it supersedes the classification into three types envisaged by IAS 31. The new classification is based on analysing the rights and obligations arising from the arrangement and establishes only two types: Joint Operations and Joint Ventures. The first derive from a non-structured arrangement through a separate vehicle by the parties, which determines rights on the assets and obligations from liabilities. For accounting purposes, the controlling share of assets, liabilities and corresponding costs and revenue are recognised. The second, on the other hand, are classified as joint ventures where there are structured arrangements through an SPE that is separated from the parties. In this case, the entity must carry out assessments based on the legal form of the “SPE”, the contractual terms and the other facts and circumstances from which the rights over the net assets of the agreement derive. For joint ventures, the standard provides for the elimination of the proportional consolidation method, replaced by the equity method only. The new standard therefore replaces IAS 31 and SIC 13.

IFRS 12 – Disclosure of interests in other entities

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

Amendment to IAS 27 – Separate Financial Statements

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

Amendment to IAS 28 – Investments in Associates and Joint Ventures

The amendment to IAS 28 (as amended in 2011) sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

In addition in this context the following amendments were endorsed:

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

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

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

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

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

On 19 December 2013, the European Commission endorsed the amendment to the standard IAS 36 - Impairment of Assets, which provides clarifications regarding disclosure to be provided in case of impairment of assets, when the recoverable value was determined as fair value less costs to sell and, furthermore, sets out limits on the obligation of indicating in the disclosures the recoverable value of the assets or the Cash Generating Units (CGU). First adoption is set for 1 January 2014.

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

The amendment to IAS 39 was endorsed on 19 December 2013. It defines certain exemptions to the Hedge Accounting requirements when, owing to new laws or regulations, an existing derivative must necessarily be replaced with a new instrument with a Central Counterparty (CCP); in these cases (novation), the amendment allows the hedging to continue regardless of the novation. The date of effectiveness is set for the financial years that begin from 1 January 2014.

In addition the European Commission endorsed the amendment to IAS 32 – Financial Instruments: Presentation - “Offsetting Financial Assets and Financial Liabilities”, which provides clarifications on the presentation of offset financial instruments. The amendment, which will come into force on 1 January 2014, governs a case currently not relevant to the Group’s financial statements.

International financial reporting standards not yet endorsed

For amendments, new standards and interpretations that have not yet been endorsed by the EU, but which address issues that affect or could affect the Terna Group, assessments are currently being conducted of the possible impact of their application on its financial statements, taking account of the date on which they take effect. This assessment covers the standards and interpretations listed below.

IFRS 9 - Financial Instruments

On 12 November 2009 the IASB published the standard “IFRS 9 - Financial Instruments” on the classification and measurement of financial assets applicable no longer as from 1 January 2015 but, as proposed by the IASB amendment published on 19 November 2013, which postpones entry into force of the standard until the entire project has been completed. The new standard arises from a complex procedure, divided into various different stages that aims to entirely replace IAS 39; for the stages currently published by the IASB, the new standard defines the criteria for classification of financial assets and liabilities and for derecognition of financial assets from the financial statements. More specifically, to determine the measurement criteria of financial assets, it introduces a unique approach that, replacing the many different methods in IAS 39, is based on the methods by which financial instruments are managed and on the characteristics of the contractual cash flow of the financial assets themselves. On the contrary, for financial liabilities, the main change concerns the presentation in “Other Comprehensive Income” (OCI) of the effects of changes in the fair value assigned to the credit risk of liabilities measured at fair value, which will no longer be recognised in profit or loss.

In addition, on 19 November 2013 the IASB published the document “*IFRS 9 – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39*”, which completed the stage of the project on Hedge Accounting. Among the main changes introduced by the document we can note the substantial revision of hedge accounting so that it reflects better in the financial statements the risk management activities and the removal, as mentioned above, of the mandatory date of effectiveness.

Finally, note that the IFRS 9 adoption process is currently suspended in the EU, given that the European Commission intends to proceed with approval of the standard only upon conclusion of the definitive standard publication process by the IASB, when replacement of IAS 39 has been completed.

Interpretation IFRIC 21 - Levies

On 20 May 2013, the IASB published the interpretation of IFRIC 21 - Levies in order to clarify when to set aside a liability in case of levies imposed by the government.

Amendment to IAS 19 – Defined Benefit Plans: Employee Contributions

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

Improvement to IFRSs (2010-2012 Cycle) and (2011-2013 Cycle)

On 12 December 2013 the IASB published the annual Improvements relating to the cycles 2010-2012 and 2011-2013, which incorporate respectively the changes to the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38 and the standards IFRS 1, IFRS 3, IFRS 13 and IAS 40.

IFRS 14 – Regulatory Deferral Accounts

On 30 January 2014 the IASB published the interim standard related to the Rate-Regulated Activities project, IFRS 14 *Regulatory Deferral Accounts*. IFRS 14 permits only those who are adopting the IFRSs for the first time to continue to recognise amounts relating to rate regulation, if permitted by the national accounting standards adopted. In order to improve the comparability with entities that already apply the IFRSs and that do not recognise these amounts, the standard requires that the rate regulation effect must be presented separately from the other items. The standard applies starting from 1 January 2016 but early adoption is permitted.



B. Notes to the consolidated income statement

Revenue

1. Revenue from sales and services – € 1,844.6 million

“Revenue from sales and services” for the years 2013 and 2012 is analysed in the following table:

€ million	2013	2012	Change
Grid transmission fees	1,639.1	1,522.2	116.9
Adjustments for prior year grid transmission fees	5.3	9.1	(3.8)
Other energy revenue	169.8	161.3	8.5
Other revenue from sales and services	30.4	40.2	(9.8)
Total	1,844.6	1,732.8	111.8

Grid transmission fees and related adjustment

Grid transmission fees refers to the remuneration paid to the Parent Company for use of the National Transmission Grid – NTG (€ 1,467.8 million). It also comprises the net revenue from the portion of the NTG pertaining to the subsidiary Terna Rete Italia S.r.l. (€ 176.6 million).

In consideration of the contingencies for intercompany grid transmission fee adjustments (€ 6.7 million) caused by the review of the perimeters of the NTG of the grid owners, the increase in the item, € 113.1 million, refers totally to the Parent Company (+€ 117.3 million) for higher revenue attributable:

- effects of the AEEG Resolution 565/2012 which updated among other things the fees for the disbursement of the transmission services (+€ 101.3 million);
- higher grid transmission fees related to the Defence Plan (+€ 16 million).

Within this item, the drop in revenues from grid transmission fees relating to the subsidiary Terna Rete Italia S.r.l. (-€ 4.2 million) reflects the one-off effect of recognising in financial year 2012 the positive results associated with the general equalisation pursuant to Res. 348/07 (-€ 9.6 million) which more than offset the increase in revenue deriving from remuneration of the owned portion of the NTG (+€ 5.4 million)

Other energy revenue

This refers mainly to the price paid to the Parent Company by the electricity operators for the dispatching service (DIS component, € 114.6 million), to premiums/penalties deriving from the mechanism connected to the quality of the transmission service – RENS (Regulated Energy Not Supplied) pursuant to AEEG Resolution 197/11 (€ 11.5 million), and to the incentive mechanism linked to the reduction in volumes procured on the Market for Dispatching Services pursuant to AEEG Resolution 213/09 (€ 13.1 million); the item also contains revenue from the construction and development of dispatching infrastructures recognised following application of IFRIC 12 (€ 30.8 million). We should note that, as specified in the section “ A. Accounting policies and measurement criteria”, this last revenue corresponds to the costs incurred during the year to purchase raw materials and consumables, services as well as personnel expenses which are included in operating expenses.

The increase in Other energy revenues, of € 8.5 million, was due essentially to the combined effect of the following factors:

- update of the Remuneration System for dispatching activities (+€ 7.4 million);
- net increase in premiums/penalties for quality of the service, recognised in the year (+€ 8 million), referable to the effects of the incentive mechanism for the RENS transmission service - pursuant to Res. 197/11 (a total of +€ 17.5 million compared with the previous year), partially offset by higher revenue recognised in the previous year for the incentive given to Terna on the Market for Dispatching Services, provided for in Resolution 213/09 (-€ 9.5 million);
- a reduction of € 6.6 million as a result of lower investments made in dispatching infrastructures compared to the previous year.

Pass-through revenue/costs

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

It also includes the grid transmission fee which Terna pays to other owners of the grid.

The components of these transactions are detailed below.

€ million	2013	2012	Changes
Revenue – Power Exchange:			
- foreign market - exports	0.4	0.8	(0.4)
- Sale of energy on the Day Ahead Market, Adjustment Market, Market for Dispatching Service and others	337.8	408.1	(70.3)
- imbalances and other minor items	783.8	1,323.6	(539.8)
- resources procurement for the Market for Dispatching Services	1,953.4	1,528.9	424.5
- congestion rent income - DCT Res. 288/06	879.3	930.6	(51.3)
- other items - Power Exchange	53.3	67.6	(14.3)
- <i>Interconnector/Shipper</i>	72.8	73.1	(0.3)
- Market coupling Res. 143/10	65.5	268.3	(202.8)
Total revenue - Power Exchange	4,146.3	4,601.0	(454.7)
Revenue components under Res. nos. 168/04 - 237/04 and others	1,302.5	1,330.4	(27.9)
Other items	341.2	378.8	(37.6)
Revenue from grid transmission fees of other owners and the NTGO share CIP/6	17.3	16.6	0.7
Total revenue from outside the Power Exchange	1,661.0	1,725.8	(64.8)
Total pass-through energy revenue	5,807.3	6,326.8	(519.5)
Energy purchases:			
- on Day Ahead Market and Adjustment Market	171.0	131.2	39.8
- to provide the dispatching service	1,964.6	1,667.1	297.5
- for unbalancing	807.9	1,314.3	(506.4)
- on the foreign market - imports	1.6	3.1	(1.5)
- Electricity Market Operator fees	0.4	0.6	(0.2)
- congestion revenue - rights for use of transportation capacity (RTC), Res. No. 288/06	579.6	618.3	(38.7)
- other items - Power Exchange	43.9	61.7	(17.8)
- <i>Interconnector/Shipper</i>	542.8	567.9	(25.1)
- Market coupling Res. 143/10	34.5	236.8	(202.3)
Total costs - Power Exchange	4,146.3	4,601.0	(454.7)
Purchase of electricity-market related services	1,302.5	1,330.4	(27.9)
Other items	341.2	378.8	(37.6)
Fees to be paid to NTG owners, the NTGO and other	17.3	16.6	0.7
Total services and fees	1,661.0	1,725.8	(64.8)
Total pass-through energy costs	5,807.3	6,326.8	(519.5)

Other revenue from sales and services

“Other revenue from sales and services” amounted to € 30.4 million and mainly relates to revenue from a variety of specialised High and Very High Voltage services provided to third party customers (€ 25.5 million). The amount reflects revenue from:

- NTG connection services of production plants and property of end users (€ 0.6 million);
- line design for interconnection with abroad (€ 1.8 million);
- the contribution due to the Parent Company related to the cost incurred for electricity discounts to its employees (€ 2.5 million).

The decrease of € 9.8 million was essentially due to recognition in 2012 of revenue for greater maintenance and engineering activity and services carried out by the Group in favour of third parties.

2. Other revenue and income – € 51.8 million

“Other revenue and income” for the years 2013 and 2012 are analysed in the following table:

€ million	2013	2012	Change
Rental income	23.4	35.0	(11.6)
Sundry grants	12.5	17.5	(5.0)
Income from extraordinary transactions	5.6	-	5.6
Contingent assets	4.2	1.6	2.6
Gains on the disposal of plant components	2.4	6.2	(3.8)
Sales to third parties	1.7	1.9	(0.2)
Insurance settlements for losses	1.0	1.4	(0.4)
Contractual penalties at suppliers' expense	0.1	9.0	(8.9)
Other revenue	0.9	0.5	0.4
Total	51.8	73.1	(21.3)

“Other revenue and income”, amounting to € 51.8 million, mainly refer to the Parent Company for € 39.5 million and to the subsidiaries Terna Plus S.r.l. and Terna Rete Italia S.r.l. respectively for € 5.7 and 5.2 million.

The item “Rental income” mainly includes the housing of the Wind Group’s fibre optics on the grids (approximately € 20.5 million) and the use by Enel Distribuzione of infrastructure for the purpose of power line communication belonging to the Parent Company (€ 1.5 million), while income relating to extraordinary transactions refers to the capital gain made with the RTS subsidiary sale operation (€ 3.5 million) and to the adjustment of Provisions for Risks associated with the sale of the company in the photovoltaic sector which occurred in 2011 (€ 2.1 million).

The decrease in the item (€ 21.3 million) is mainly due to:

- the revision of the previous revenues related to fibre optic housing carried out in the previous year (€ 12.1 million);
- greater penalties charged in 2012 to third party suppliers (-€ 8.9 million) for breaches of contract basically in relation to works/supplies for the SA.PE.I. underwater cable;
- higher contributions for connections recognised in the previous year (-€ 5.0 million);

net of the above income recognised in the year and deriving from extraordinary sale transactions (€ 3.5 million for the sale of RTS and +€ 2.1 million for adjusting Provisions for risks connected with the same of the photovoltaic asset).

Operating expenses

3. Raw materials and consumables – € 14.7 million

This item, amounting to € 14.7 million, expresses the value of the consumption of materials and miscellaneous equipment used for the core business of operating and maintaining Group and third party plants in addition to costs for materials recognised in pursuance of IFRIC 12 and with reference to investments in dispatching infrastructures. The € 15 million decrease on last year (€ 29.7 million in 2012) was mainly due to the greater consumption in the previous year for maintenance work on Group and third party plants, for investment in and the development of the dispatch infrastructures to ensure optimisation on the Dispatch Service Market (-€ 9.1 million) and the adjustment of the photovoltaic modules to the presumed realisation value and the write-down of photovoltaic plants under construction, renounced during the previous year (overall -€ 2.6 million).

4. Services – € 140.9 million

The cost of services totalled € 140.9 million, of which € 78.2 million relating to the subsidiary Terna Rete Italia S.p.A. and € 55.7 million to the Parent Company.

The cost of “Services” for the years 2013 and 2012 is analysed in the following table:

€ million	2013	2012	Change
Tenders on plants	28.8	32.7	(3.9)
Maintenance and sundry services	53.8	50.6	3.2
IT services	22.1	20.8	1.3
Remote transmission and telephone	16.2	15.6	0.6
Insurance	7.9	7.8	0.1
Leases and rentals	12.1	12.0	0.1
Total	140.9	139.5	1.4

The item “Services” refers to costs for tenders and services for routine maintenance operations and Group and third party plant maintenance (€ 28.8 million) and costs for maintenance, professional services and general services (€ 53.8 million). It also includes costs for IT services (€ 22.1 million) remote transmission and telephone services (€ 16.2 million), leases and rentals (€ 12.1 million), and insurance (€ 7.9 million). It is specified that the costs relating to remuneration to the Board of Statutory Auditors of the companies of the Group for the period amount to € 0.4 million.

The modest increase (€ 1.4 million) compared to the previous year was substantially due to higher costs invested in dispatching infrastructures, pursuant to IFRIC 12 (+€ 1.0 million).

5. Personnel expenses – € 206.3 million

“Personnel expenses” for the years 2013 and 2012 are analysed in the following table:

€ million	2013	2012	Change
Wages, salaries and other short-term employee benefits	253.7	253.4	0.3
Directors’ fees	2.3	2.2	0.1
Termination benefits, electricity discount and other post-employment benefits	17.0	15.8	1.2
Early retirement incentives	6.5	(0.5)	7.0
Personnel expenses, gross	279.5	270.9	8.6
Personnel expenses, capitalised	(73.2)	(74.2)	1.0
Total	206.3	196.7	9.6

This caption includes the cost of wages and salaries, social security contributions and other costs incurred by the Parent Company for early retirement incentives, as well as benefits paid to employees who stay with the company and termination benefits provided for by the current national collective employment contract for the electricity sector.

Total personnel expenses increased by € 9.6 million, as a consequence substantially of early retirement incentive agreements (+€ 7.0 million) and higher personnel expenses relating to the dispatching infrastructures (+€ 1.4 million)³⁰.

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

	Average number		Final number	
	2013	2012	31.12.2013	31.12.2012
Senior management	63	61	62	59
Junior management	508	501	501	502
Office staff	1,934	1,953	1,925	1,928
Production workers	960	974	957	947
Total	3,465	3,489	3,445	3,436

(30) Recognised pursuant to IFRIC 12.

The net change in the average number of employees at the end of 2012 was a decrease of -24 units. Please note that as at 31 December 2013, the staff of the Terna Group was as follows:

	Terna S.p.A.	Terna Rete Italia S.p.A.	Terna Storage S.r.l.	Terna Crna Gora d.o.o.	Terna Plus S.r.l.
Units	372	3,056	5	3*	9

(*) Local employees.

For the reconciliation of the opening and closing present value of the liability for employee benefits and the main assumptions used in the actuarial estimate, please refer to section "24. Employee benefits".

6. Amortisation, depreciation and impairment – € 450.4 million

These relate to accruals during the year calculated on the basis of amortisation and depreciation rates that reflect the useful lives of the Group companies' property, plant and equipment and intangible assets (€ 443.4 million), and the writedowns of trade receivables, which are considered unlikely to be collected (€ 7.0 million).

The following table details the amortisation, depreciation and impairment for the years 2013 and 2012:

€ million	2013	2012	Change
Amortisation of intangible assets	56.0	54.4	1.6
- of which: infrastructure rights	33.1	29.5	3.6
Depreciation of property, plant and equipment	387.4	366.2	21.2
Impairment of property, plant and equipment and tangible assets	-	0.1	(0.1)
Impairment of trade receivables	7.0	3.0	4.0
Total	450.4	423.7	26.7

The increase of the item, in the amount of € 26.7 million, particularly reflects the growth of amortisation/depreciation (€ 22.8 million) compared to 2012 essentially attributable to the Parent Company for +€ 23.8 million, mainly as a result of more property, plant and machinery and intangible assets which came into use during the year (greater amortisation/depreciation for +€ 22.1 and +1.7 million, respectively).

The change was also an effect of the increase in impairment of trade receivables (€ +4.0 million) relating essentially to receivables from third parties for diversified activities, the recoverability of which is considered unlikely (+€ 2.8 million).

7. Other operating expenses – € 46.4 million

"Other operating expenses" for the years 2013 and 2012 are analysed in the following table:

€ million	2013	2012	Change
Service quality expenses	24.1	5.3	18.8
Taxes, duties and local levies	9.9	24.7	(14.8)
Contingent liabilities	2.2	5.3	(3.1)
Allocations made to Provisions for disputes	0.6	3.9	(3.3)
Other operating expenses	9.6	7.6	2.0
Total	46.4	46.8	(0.4)

The Group's other operating expenses, of € 46.4 million, are mainly attributable to the subsidiary Terna Rete Italia S.p.A. (€ 25.9 million) and to the Parent Company (€ 18.6 million).

The item is substantially in line with the figure of the previous year (€ 46.8 million) recording a drop of € 0.4 million referable substantially to the combined effect of:

- an increase in expenses related to quality of the electrical service (€ +18.8 million) mainly associated with the events in Cortina and Bagheria which characterised the end of financial year 2013 affecting the mitigation mechanisms and exceptional events;
- a decrease in taxes, duties and local levies (-€ 14.8 million) mainly due to lower expenses for the Single Council Tax (Imposta Municipale Unica - IMU) (-€ 15.2 million) substantially for provisions set aside to cover risks made in the previous year in keeping with Circular 6/2012 of the Land Registry (Agenzia del Territorio) in relation to re-registration of the Parent Company's electrical stations;
- lower contingent liabilities (-€ 3.1 million) mainly due to repayment of the balance of grants paid for 2002 to 2006 to the Ministry for Economic Development in relation to the former concession of telephony for private use (€ 3.0 million) recorded during 2012.

Financial income and expense

8. Net financial income/(expense) – € -101.8 million

This caption is analysed below:

€ million	2013	2012	Change
Financial income			
Interest income and other financial income	63.4	85.7	(22.3)
Debt adjustment (bonds) and related hedges	0.4	2.4	(2.0)
Exchange gains	2.0	1.4	0.6
Total income	65.8	89.5	(23.7)
Financial expense			
Financial expense from the Parent	(6.3)	(10.4)	4.1
Interest expense on medium/long-term loans and related hedges	(184.5)	(201.1)	16.6
Discounting of post-employment benefits, other personnel-related provisions and provisions for risks and charges	(3.1)	(4.9)	1.8
Capitalised borrowing costs	26.3	26.5	(0.2)
Total expense	(167.6)	(189.9)	22.3
Total	(101.8)	(100.4)	(1.4)

Net financial expense amounted to € 101.8 million, entirely attributable to the Parent Company, comprising € 167.6 million in financial expense and € 65.8 million in financial income. Net financial expense was substantially in line with those of the previous year, rising € 1.4 million owing mainly to the following factors:

- lower financial income (-€ 22.3 million) which was primarily attributable to the joint effect of:
 - a general decrease in the market interest rates at which the cash was invested (-€ 19.7 million);
 - recognition of lower net income for uplift (-€ 2.2 million);
 - lower default interest for the late payment of receivables deriving from dispatching activities (-€ 0.4 million);
- the negative net economic effects deriving from the fair value adjustment of bonds and the related hedges (-€ 2.0 million);
- adjustment to the currency exchange of the provision for probable expenses relating to the tax obligations deriving from the sale of the equity interest held in the Brazilian subsidiaries (+€ 0.6 million);
- lower financial expense paid to the parent company CDP (+€ 4.1 million) deriving from falling interest rates during the year;
- lower financial expense deriving from medium and long-term debt and the related hedges (+€ 16.6 million) due to the reduction, during 2013, of interest rates (+€ 5.5 million) and the rate of inflation (+€ 11.1 million);
- lower financial expense deriving from the discounting of employee benefits and provisions for risks and charges (+€ 1.8 million);
- capitalised financial expense substantially in line (-€ 0.2 million) compared with the previous year.

9. Share of profits/(losses) of equity-accounted investees – € 1.6 million

The item comprises essentially the economic effects deriving from adjustment to the proportion of equity at 31 December 2013 of equity investments in the associates CESI S.p.A. (of € 1.0 million) and the Montenegrin company CGES (€ 0.6 million).

The difference in the item (-€ 5.6 million) compared to the figure of the previous year was mainly due to the impact of measuring the aforementioned equity investments at equity (respectively -€ 5.2 million for CESI S.p.A. and -€ 0.4 million for CGES).

10. Income taxes – € 423.9 million

Income taxes for the year amounted to € 423.9 million, up by € 11.2 million compared to the previous year.

The following table reports changes in taxes with respect to 2012:

€ million	2013	2012	Change
Income taxes of the year			
Current taxes:			
- IRES (corporate income tax)	406.7	390.4	16.3
- IRAP (regional tax on productive activities)	78.4	74.2	4.2
Total current taxes	485.1	464.6	20.5
New temporary differences:			
- deferred tax assets	(21.7)	(16.3)	(5.4)
Reversal of temporary differences:			
- deferred tax assets	20.3	18.8	1.5
- deferred tax liabilities	(58.4)	(59.1)	0.7
Total change in deferred tax assets and liabilities	(59.8)	(56.6)	(3.2)
Adjustment of prior-year taxes	(4.8)	(1.1)	(3.7)
Other one-off changes	3.4	5.8	(2.4)
Total	423.9	412.7	11.2

Current taxes

Current taxes increased by € 20.5 million with respect to the previous financial year, mainly due to the greater pre-tax profit.

Deferred tax assets and liabilities

Deferred tax assets and liabilities, of -€ 59.8 million, recorded a change of -€ 3.2 million compared to the figure for the previous year owing essentially to the positive net effect of recognising prepaid taxes on higher expenses for the year associated with service quality net of the consequent re-transfer of the reduction in the liability relating to employees benefits due essentially to actuarial gains and losses of the year.

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

Adjustment of prior-year taxes, of -€ 4.8 million, relate to the higher current taxes paid in prior years and the other one-off changes, for a total of +€ 3.4 million, relate to provisions set aside to tax risks, and to the adjustment of deferred tax liabilities for the so-called Robin Hood Tax which, beginning in financial year 2014, will take the IRES rate from 38% to 34%.

The effective proportion of income taxes of the year (€ 423.9 million) to profit before taxes is 45.2%.

The 2013 tax rate came out at 45.4% without taking into account the prior-year adjustments and the other one off items and was 1.2 percentage points lower than the 2012 adjusted tax rate of 46.6%⁽³¹⁾, owing substantially to the analytical deductibility for IRES purposes of the IRAP tax on expenses for the personnel of Terna Rete Italia S.p.A., recognised starting in 2013, and the recovery to taxation of the estimate of probable IMU expense, estimated in the previous year in application of Circular 6/2012 of the Agenzia del Territorio (Land Registry).

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

€ million	2013	2012
Profit before taxes	937.5	876.3
Theoretical tax	356.3	333.0
IRAP	78.4	74.2
Permanent differences	(9.3)	0.8
Actual tax charge	425.3	408.0
Effective rate (net of adjustments of prior-year taxes and one-off variations)	45.4%	46.6%
Adjustment of prior-year taxes	(4.8)	(1.1)
<i>Other one-off changes</i>	3.4	5.8
Actual tax net of prior year adjustments	423.9	412.7

11. Earnings per share

Basic earnings per share, which corresponds to diluted earnings per share, amounts to €0.256 (numerator of €513.6 million, corresponding to the profit for the year, and denominator of 2,009,992.0 thousand shares).

(31) It does not take account of the lower taxes deriving from liquidation of prior-year taxes (-€ 1.1 million) and of other one-off changes (a total of +€ 5.8 million) relating to provisions to cover tax risks offset by the recognition of a tax credit for IRES pursuant to Italian Law Decree 16/2012 of 2 March 2012.

C. Operating segments

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

- **Traditional Activities (TAs)**
- **Non-Traditional Activities (NTAs)**

The traditional activities segment includes the development, operation and maintenance of the National Transmission Grid in addition to dispatching. These activities are represented in a single operating segment, as activities regulated by the AEEG with similar characteristics in terms of the remuneration model and the tariff determination methods.

The operating segment of non-traditional activities instead includes specialised services provided to third parties mainly relating to systems engineering services, the operation and maintenance of high and very high voltage plants and the housing of telecommunications equipment and optic fibre grid maintenance services. These activities are provided in a free market context by means of specific commercial initiatives.

Below are the results of the operating segments of the Terna Group in 2013 and 2012, in line with the evidence of the Group Management Control System and the reconciliation with the Group's profit before taxes.

€ million	2013	2012	Change
Total revenues from traditional activities	1,832.4	1,719.6	112.8
Total revenues from non-traditional activities	64.0	86.3	(22.3)
Total revenue	1,896.4	1,805.9	90.5
EBITDA	1,481.1	1,390.1	91.0
of which EBITDA for traditional activities*	1,437.0	1,326.2	110.8
of which adjusted EBITDA** on non-traditional activities	44.1	63.9	(19.8)
EBITDA margin	78.1%	77.0%	1.1%
EBITDA margin on traditional activities*	78.4%	77.1%	1.3%
adjusted EBITDA** margin on non-traditional activities	68.9%	74.0%***	(5.1%)
Reconciliation of segment result with pre-tax result			
EBITDA	1,481.1	1,390.1	
Depreciation and amortisation	443.4	420.6	
EBIT	1,037.7	969.5	
Financial income/(expense)	(101.8)	(100.4)	
Share of profits/(losses) of equity-accounted investees	1.6	7.2	
Profit before taxes	937.5	876.3	

(*) EBITDA including indirect costs

(**) Comprehensive EBITDA of product/orders, not including indirect costs

(***) The 2012 figure includes the one-off contribution of the renegotiation of the optic fibre support contract with Wind.

The Group's **revenue** amounted to € 1,896.4 million recording growth of € 90.5 million compared to 2012.

EBITDA (Gross Operating Margin) came out at € 1,481.1 million, an increase of € 91.0 million (+6.5%) compared to the € 1,390.1 million of 2012.

The increase was almost entirely due to revenue from traditional activities and in particular at the Transmission Fees partially offset by lower revenue from non-traditional activities mainly attributable to the one-off contribution received in 2012 from renegotiating the optic fibre support contract with Wind.

The Group's **EBITDA margin** thus went up from 77.0% in 2012 to 78.1% in financial year 2013.

The financial information provided periodically to the Senior Management make no direct reference to the single segment activities, but rather to assessing and representing the gross invested capital overall; this indicator is presented below for the years 2013 and 2012:

€ million	31.12.2013	31.12.2012
Net non-current assets ³²	10,664.5	9,893.8
NWC ³³	(646.1)	(770.4)
Gross invested capital ³⁴	10,018.4	9,123.4
Investments in associates and joint ventures	74.0	73.5

As regards the dependence of Terna Group companies on external customers, in 2013 transactions that generated revenue from individual customers or companies under common control equal to more than 10% of consolidated revenue were represented by transactions with related parties in respect of traditional activities; for more information, please see the section on "Related party transactions".

(32) Net fixed assets include the value of the items "Property, plant and equipment", "Goodwill", "Intangible assets", "Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" for the value of the other equity investments (€ 1 million).

(33) NWC (Net Working Capital) is equal to the difference between current assets, net of liquid funds and of the value of FVH derivatives (€ 18.4 million), and current liabilities net of the short-term portion of long-term loans and other non-current liabilities.

(34) The gross invested capital is equal to the sum of net non-current assets and the NWC (Net Working Capital).

D. Notes to the consolidated statement of financial position

Assets

12. Property, plant and equipment – € 10,119.9 million

Property, plant and equipment amount to € 10,119.9 million (€ 9,342.0 million at 31 December 2012). The amount and changes for each category are reported in the following table:

€ million	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Cost at 01.01.2013	97.1	1,232.4	12,406.2	73.6	112.4	1,436.9	15,358.6
Investments	-	0.6	32.4	1.8	3.1	1,127.0	1,164.9
Entry into use	3.5	79.2	627.6	3.8	3.2	(717.3)	-
Disposals	(0.1)	(0.4)	(62.6)	(0.1)	(2.8)	-	(66.0)
Other changes	-	-	(13.1)	-	-	15.3	2.2
Reclassifications	-	-	(0.9)	-	0.9	-	-
Cost at 31.12.2013	100.5	1,311.8	12,989.6	79.1	116.8	1,861.9	16,459.7
Accumulated depreciation and impairment at 01.01.2013	-	(337.9)	(5,564.9)	(48.5)	(65.3)	-	(6,016.6)
Depreciation charge for the year	-	(30.5)	(336.6)	(4.4)	(15.9)	-	(387.4)
Disposals	-	0.3	61.4	0.1	2.4	-	64.2
Accumulated depreciation and impairment at 31.12.2013	-	(368.1)	(5,840.1)	(52.8)	(78.8)	-	(6,339.8)
Carrying amount							
At 31 December 2013	100.5	943.7	7,149.5	26.3	38.0	1,861.9	10,119.9
At 31 December 2012	97.1	894.5	6,841.3	25.1	47.1	1,436.9	9,342.0

“Plant and machinery”, at 31 December 2013, includes in particular the energy transportation network as well as the transformation stations in Italy.

The item “Property, plant and equipment” shows an increase on the previous financial year amounting to € 777.9 million, as a result of ordinary transactions made during the year, relating to:

- investments during the year for +€ 1,164.9 million, of which € 1,149.3 million made under the scope of the Group’s traditional activities (and mainly relating to the parent company Terna for € 1,054.3 million, to the subsidiaries Terna Rete Italia S.r.l. and Terna Storage S.r.l., respectively for € 56.7 million and € 32.1 million); under the scope of the non-traditional activities, we note investments for € 15.6 million, mainly due to changes made for third parties essentially covered by the related contributions;
- depreciation for the year (-€ 387.4 million) and also disposals and other changes (€ 0.4 million).

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

€ million	
Investments	
- Transmission lines	666.6
- Transformation stations	334.9
- Other	147.8
Total Investments in property, plant and equipment - traditional activities	1,149.3
Investments in property, plant and equipment – non-traditional activities	15.6
Total investments in property, plant and equipment	1,164.9
Depreciation	(387.4)
Disposals and other changes	0.4
Total	777.9

As regards investments during the year in traditional activities (€ 1,149.3 million) we can note, in particular, those of the Parent Company, related mainly to:

- progress on the work on the “Sorgente-Rizziconi” line (€ 157.7 million): laying of both the undersea three-phase power lines, the optical fibre and the related protection activity, was completed as was the well excavation work on the Scilla side. Work on excavating the Favazzina tunnel is also in progress and the “Villafranca-Sorgente” 380 kV power line is being built, while work is being completed on the electrical stations in Calabria and in Sicily. This work includes, respectively, for Scilla the second-stage activities relating to the 150 kV section and for Sorgente construction of the civil works and mounting of the 380 kV armoured system at the Villafranca station;
 - the “Dolo-Camin” project (€ 54.2 million): last December the Council of State confirmed cancellation of the authorisation order for implementation of the action on the NTG entitled “Dolo-Camin” (380 kV rationalisation between Venice and Padua). Therefore during 2013 activities were completed on making safe and conserving the works already done and a new study was launched on rearranging the grid so as to re-propose an authorisation process. As of today the date on which the new authorisation will be obtained is unknown and no impacts are foreseeable in terms of times and costs on implementing the project;
 - the “Trino-Lacchiarella” power line (€ 51.1 million): we can note completion of the construction work and of the tests on the bays at the Trino and Lacchiarella Electrical Stations aimed at bringing the power line on-stream. This occurred at the beginning of 2014. The demolition plan provided for was also launched and together with the environmental reclamations;
 - creation of the “Italia-Montenegro” undersea connection (€ 36.2 million): preliminary work began at the Cepagatti (Pescara) electrical station, with completion of land purchases necessary to create the Kotor electrical station; in addition a survey and final design of the marine cable are in progress. The supplier Nexans has also begun to produce the first piece of marine cable;
 - creation of the “Foggia-Gissi-Villanova” power line (€ 31.3 million): the final design of the “Villanova-Gissi” power line is in progress, easements are being obtained and the materials needed to open the site in the first half of 2014 are being made ready;
 - re-arrangement of the Nord Calabria Grid (€ 29.0 million) and creation of the “Foggia-Benevento II” project (€ 26.3 million).
- We can also note the investments in unconventional Accumulation Systems (€ 63.2 million), acquisition optical fibre from Wind (€ 30.0 million) and purchase and/or renovation actions (€ 17.0 million).





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

	€ million
Main projects - Lines and Stations	534.8
<i>of which transport lines</i>	<i>412.1</i>
<i>of which transformer stations</i>	<i>122.6</i>
380 kV Sorgente - Rizziconi power line	157.7
of which transport lines	129.3
of which transformer stations	28.3
380 kV Dolo - Camin power line	54.2
of which transport lines	47.1
of which transformer stations	7.0
380 kV Trino - Lacchiarella power line	51.1
of which transport lines	50.0
of which transformer stations	1.1
Italy - Montenegro interconnection	36.2
of which transport lines	33.7
of which transformer stations	2.5
380 kV Foggia-Gissi-Villanova power line	31.3
of which transport lines	17.2
of which transformer stations	14.1
Restructuring of the North Calabria grid	29.0
of which transport lines	9.9
of which transformer stations	19.1
380 kV Foggia - Benevento II power line	26.3
of which transport lines	26.3
of which transformer stations	0.0
Camerelle station connection	24.5
of which transport lines	21.6
of which transformer stations	2.9
Restructuring of the 220 kV City of Naples grid	19.5
of which transport lines	12.4
of which transformer stations	7.1
Paternò-Pantano-Priolo power line	19.0
of which transport lines	10.4
of which transformer stations	8.5
380 kV Udine Ovest-Redipuglia power line	18.5
of which transport lines	6.3
of which transformer stations	12.1
220 kV City of Turin rationalisation	17.9
of which transport lines	14.7
of which transformer stations	3.2
220 kV Musocco power station	17.0
of which transport lines	11.6
of which transformer stations	5.4
Montecorvino-Benevento power line	16.5
of which transport lines	7.4
of which transformer stations	9.1
Capri-Continent interconnection	16.1
of which transport lines	14.0
of which transformer stations	2.1

13. Goodwill – € 190.2 million

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

Impairment testing

Cash Generating Unit – NTG

The estimate of the recoverable value of goodwill deriving from acquisition of Terna Rete Italia S.r.l., recognised for a value of € 101.6 million, and of goodwill deriving from acquisition of RTL (incorporated by the Parent Company in 2008), recognised for a value of € 88.6 million, was made determining the fair value of the NTG Cash Generating Unit (CGU), less costs to sell. The fair value of the CGU, calculated taking into consideration the Stock Exchange quotation of the Terna stock, was found to be higher than the carrying amount, for a value of € 3,270 million.

In addition, as further support, the estimate of the recoverable value of goodwill was also determined on the basis of the criterion of value in use applying the “Discounted Cash Flow” method (unlevered version) to the NTG Cash Generating Unit (CGU). In line with the provisions of IAS 36, the cash flow forecasts have been prepared for the time frame 2014-2018, taking the estimates given in the last Industrial Plan approved by the Board of Directors on 25 March 2014. This Industrial Plan has been developed considering the latest estimates of the electricity sector and the latest macroeconomic forecasting in addition to the current regulatory (IV regulatory period) and tax provisions (Robin Hood Tax with additional IRES of +6.5% from 2014). The final value was assumed to be equal to the RAB (Regulatory Asset Base) at the end of 2018 and the adopted discount rate was equal to 4.61%. Also through applying this method, the value in use of the CGU determined according to the methods described above was higher than the carrying amount.

14. Intangible assets – € 271.6 million

Changes during the year in intangible assets are detailed below:

	Infrastructure rights	Concessions	Other assets	Assets under development and payments on account	Total
€ million					
Balance at 31.12.2012	121.6	95.3	32.5	30.8	280.2
Investments	-	-	0.5	46.9	47.4
Entry into use	42.5	-	13.5	(56.0)	-
Amortisation	(33.1)	(5.6)	(17.3)	-	(56.0)
Balance at 31.12.2013	131.0	89.7	29.2	21.7	271.6
Cost	351.7	135.4	159.8	21.7	668.6
Accumulated amortisation	(220.7)	(45.7)	(130.6)	-	(397.0)
Balance at 31.12.2013	131.0	89.7	29.2	21.7	271.6

Intangible assets amount to € 271.6 million (€ 280.2 million at 31 December 2012). This item, in particular, includes:

- the infrastructures used for the dispatching services, carried out under concession and booked as set out by the “IFRIC 12 - Service Concession Arrangements”, for a net book value at 31 December 2013 of € 131.0 million for the infrastructures which went into operation and € 16.0 million for the infrastructures under construction included in the category “Assets under development and payments on account” (€ 121.6 million and € 27.4 million respectively at 31 December 2012);
 - the concession for the provision of electricity transmission and dispatching services in Italy (with net carrying amount of € 89.7 million at 31 December 2013), recognised initially during 2005 at fair value and subsequently measured at cost.
- Other intangible assets mainly comprise application software developed internally or purchased when implementing systems development projects. Related investments (€ 16.3 million) are made essentially through internal development. The difference, in the item with respect to the previous financial year (-€ 8.6 million) is due to the combined effect of routine movements during the period, regarding investments (€ 47.4 million, including € 31.1 million in infrastructure rights) - mainly in application software - and amortisation (€ 56.0 million, of which € 33.1 million in relation to dispatching infrastructures and € 5.6 million related to the concession).

Investments for the year in intangible assets (€ 47.4 million, of which traditional activities € 47.0 million for the Parent Company and € 0.1 million for the subsidiary Terna Rete Italia S.r.l.), we can note in particular those for the development and evolution of software for the Remote Management System for Dispatching (€ 13.9 million), for the Power Exchange (€ 7.9 million) and for the protection of the electrical system (€ 1.1 million), as well as software applications and general use licenses (€ 14.6 million).

15. Equity accounted investee – € 74.0 million

This item amounts to € 74.0 million and relates to the shareholdings of the Parent Company Terna S.p.A.:

- in the associate CESI S.p.A. (€ 36.7 million), representing a stake of 42.698%;
- in the associate CORESO S.A. (€ 0.4 million), which was acquired in November 2010, representing a stake of 22.485%;
- in the associate CGES - CrnoGorski Elektroprenosni Sistem AD (€ 36.9 million), which was acquired in January 2011, representing a stake of 22.0889%.

CESI S.p.A. operates in the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the electro-technical field in general and to the technical and scientific developments in that area. The value of the equity investment decreased with respect to the previous financial year by € 0.1 million by virtue of the adjustment of the investment to equity at year end with reference to the stake held by the Group in said company.

The company CORESO S.A. is the first technical centre owned by various Electricity Transmission System operators which implements joint TSO technical coordination activities in order to improve and strengthen security and coordination of the electrical system in central/western Europe; it prepares daily forecasts and analyses in real time of energy flows in the region, identifying potentially critical areas and promptly notifying the TSOs which are affected. The value of the equity investment was unchanged from the balance of the previous year.

CGES is the electricity dispatch and transmission operator in Montenegro. The financial investment of Terna in CGES, which was made following an industrial cooperation and country system and included as part of inter-governmental understandings reached by Italy and Montenegro, sanctions the institutional commitment to the development of a new submarine electrical interconnection and the implementation of the partnership between national transmission operators. The value of the investment share has increased with respect to the previous financial year by € 0.6 million by virtue of the adjustment of the investment to the shareholders' equity at year end with reference to the share held by the Group in said company.

16. Financial assets

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

€ million	Carrying amount		
	31.12.2013	31.12.2012	Change
FVH derivatives	527.1	754.9	(227.8)
Other investments	1.0	0.8	0.2
Non-current financial assets	528.1	755.7	(227.6)
FVH derivatives	18.4	-	18.4
Deferred assets on FVH derivatives contracts	62.9	61.8	1.1
Other current financial assets	15.8	21.3	(5.5)
Current financial assets	97.1	83.1	14.0

At 31 December 2013, "Non-current financial assets", amounting to € 528.1 million, reported the measurement of fair value hedging derivatives hedging bonds as well as the value of other investments held by the Parent Company.

The downward change in the fair value of derivatives (€ 227.8 million) with respect to 31 December 2012 is due to the increase of the interest rate curve at the end 2013.

“Other investments” (€ 1.0 million) refers to:

- the 5.6% interest held in the share capital of Desertec Industrial Initiative (“DII”) (€ 0.1 million) acquired in September 2010;
- the 8.3% interest held in the share capital of CASC CWE S.A. (€ 0.3 million) acquired in November 2010;
- the 5% interest held in the share capital of the company Medgrid S.A.S. (€ 0.6 million, which increased by +€ 0.2 million following subscription of the capital increase of the investee company).

The item “Current financial assets” showed a balance of € 97.1 million (€ 83.1 million at 31 December 2012) and recorded an increase compared to the previous year of +€ 14.0 million due to:

- recognition among current assets of FVH derivatives taken out to cover the € 600 million bond maturing on 28 October 2014 (+€ 18.4 million);
- the increase in net financial income matured on the related financial instruments, but not yet paid (+€ 1.1 million);
- the decrease in interest matured and not yet collected at the reporting date relating to short-term cash investments (-€ 5.5 million).

17. Other assets

“Other assets” are broken down below:

€ million	31.12.2013	31.12.2012	Change
Receivables due from others:			
- loans and advances to employees	7.2	6.5	0.7
- deposits with third parties	0.6	0.6	-
Other non-current assets	7.8	7.1	0.7
Other tax assets	62.6	48.5	14.1
Receivables due from others:			
- advances to employees	0.2	0.2	-
- other	16.6	10.9	5.7
Other current assets	79.4	59.6	19.8

“Other non-current assets” (€ 7.8 million) - which are presented in the table above - are essentially unchanged since the end of last year (€ 7.1 million) and mainly comprise loans and advances paid to employees by the parent company and subsidiaries Terna Rete Italia S.p.A. and Terna Plus (€ 7.2 million).

The item “Other current assets”, equal to € 79.4 million and whose composition is presented in the previous statement, increased by +€ 19.8 million compared to 31 December 2012 attributable to:

- other tax assets (€ +14.1 million), referable substantially to the higher VAT receivable due from the tax authorities (€ +8.6 million) mainly of the Parent Company and of the subsidiary Terna Storage S.r.l. and to the higher balance of the receivables due from the tax authorities and the withholdings on interest income accrued on the financial assets of the Parent Company (€ 4.9 million);
- receivables due from others (€ +5.7 million) referable mainly to higher advances paid to suppliers and shippers (€ 5.3 million).

18. Inventories – € 8.0 million

Current inventories (€ 8.0 million) refer to a balance which has not undergone any significant changes with respect to the previous year (€ 6.6 million); they relate mainly to materials and devices used in activities of operation, maintenance and construction of plants.

19. Trade receivables – € 1,721.1 million

Trade receivables are analysed as follows:

€ million	31.12.2013	31.12.2012	Change
Energy-related receivables	991.2	1,165.7	(174.5)
Grid transmission fee receivables	652.2	592.1	60.1
Other trade receivables	77.7	126.3	(48.6)
Trade receivables	1,721.1	1,884.1	(163.0)

Trade receivables amounted to € 1,721.1 million. The decrease (€ 163.0 million) from the previous year mainly comprises pass-through amounts deriving from the electricity dispatching activities carried out by the Parent Company. They are measured net of impairment losses on items considered non-collectable that are covered by allowances for doubtful accounts (€ 23.2 million for energy items and € 8.8 million for other items in 2013, as compared with € 20.6 million for energy items and € 5.9 million for other items in 2012).

Energy-related receivables – € 991.2 million

They mainly include receivables in relation to the so-called “pass-through” energy items arising in respect of dispatching activities carried out by the parent company. This item also includes receivables for fees payable by market operators for dispatching activities (DIS fee as per AEEG Resolution 111/06 and its subsequent amendments and additions).

The decrease in this item of € 174.5 million from the previous year was mainly due to the combined effect of:

- lower receivables for sales of electricity within the scope of the Power Exchange deriving mainly from lower receivables for the market coupling mechanism connected with management of congestion on the interconnection with Slovenia (–€ 37.7 million), for the uplift component (–€ 24.2 million) and generated by the reduction in the imbalance measurement quantity and prices (–€ 23.4 million);
- lower receivables for the sale of electricity off the Power Exchange, mainly for credit items relating to the procurement of interruptible resources (–€ 50.5 million);
- collections of receivables connected with the three-year (2010-2012) incentive mechanism provided for in AEEG Resolution 213/09 on reducing volumes procured on the Market for Dispatching Services (MDS) (–€ 49.7 million, net of the receivable recognised in the year for € 13.1 million in relation to the final data pursuant to Res. 636/13);
- higher receivables from the Electricity Equalisation Fund for the service quality – RENS (+€ 13.3 million).

Grid transmission fees receivable – € 652.2 million

The grid transmission fees receivable, € 652.2 million, reflect the remuneration paid to the Parent Company and to other owners for the use of the National Transmission Grid by distributors of electricity. The above receivable increased by € 60.1 million, compared to the previous year, owing to higher receivables from distributors for transmission fees (€ 50.1 million) as a result of AEEG Resolution 565/2012 which among other things updated the remuneration for the provision of transmission services and fee adjustments from Electricity Equalisation Fund for optional acceptance of the “mitigation” mechanism provided for in Resolution ARG/elt 188/08 to cover the risk associated with declining consumption (€ 10.0 million net of collections during the year).

Other trade receivables – € 77.7 million

Other trade receivables mainly regard receivables due from clients of the diversified businesses; they decreased by € 48.6 million with respect to the previous year owing primarily to:

- receivables from third parties for invoices to be issued by the Parent Company and by the subsidiary Terna Rete Italia S.r.l. (–€ 22.8 million) related mainly to collection of the receivable from Wind Telecomunicazioni recognised in the previous year for redetermination of the fee for the period 2009/2012 for housing optical fibre on the grids owned (€ 13.4 million for the Parent Company and € 3.2 million for Terna Rete Italia S.r.l.); we specify that, on the basis of the deed of settlement formalised with Wind, the higher fees “redetermined” for the period 2013/2015 were invoiced and paid during the year 2013; the receivables from Enel Distribuzione (€ 4.4 million), recognised in previous years were also collected. These were for the fee related to the use of the Parent Company’s infrastructures for power line communication;
- receivables from third parties of the subsidiary Terna Plus S.r.l. (–€ 9.1 million) mainly related to higher collections on existing 2012 orders, moved less in 2013 because mostly close to their natural completion, partially offset by new contracts signed during the year;
- other receivables from third parties of the Group (–€ 18.9 million) mainly relating to diversified activities, for the most part for maintenance and engineering, substantially with regards to companies of the electricity sector on the basis of specific contracts.

This item also includes receivables for contract work in progress (€ 2.3 million) relative to works of multi-year duration, shown in the table below, which the Group has been implementing with third party customers and which decreased with respect to the previous year by € 0.1 million:

€ million	Payments on account	Contract value	Balance at 31.12.2013	Payments on account	Contract value	Balance at 31.12.2012
Others	(22.4)	24.7	2.3	(15.4)	17.8	2.4

The amount of the guarantees issued to third parties by the parent company, Terna S.p.A., at 31 December 2013 comes to € 21.5 million, of which € 19.2 million for sureties issued to secure the contractual obligations arising under the scope of operations and € 2.3 million as itemized below:

- € 1.0 million in guarantees issued on behalf of the subsidiary Terna Rete Italia S.r.l.;
- € 1.3 million on behalf of the subsidiary Terna Rete Italia S.p.A.;

all issued on the lines of credit of the Parent Company.

20. Cash and cash equivalents – € 1,617.1 million

At 31 December 2013, cash and cash equivalents amount to € 1,617.1 million of which € 1,300.0 million liquid funds invested in short-term, highly-liquid deposits, € 317.0 million net liquidity on bank current accounts and € 0.1 million cash on hand held by the Territorial Operational Units of the subsidiary Terna Rete Italia S.p.A.

21. Income tax assets – € 20.8 million

Income tax assets amounted to € 20.8 million and recorded an increase of € 2.2 million compared to the previous year owing to the net effect of higher tax advance paid to the tax office pursuant to Italian Law Decree 133/13³⁵ (€ 8.6 million) and lower receivables from the tax office for IRES (€ 6.4 million) recognised on filing the 2013 tax return.

(35) In particular, Law Decree 133/13, modifying the base for calculating the second IRES and IRAP tax advances for the 2013 tax period, brought them to 102.5%.

Liabilities

22. Equity attributable to the owners of the group – € 2,940.6 million

Share capital – € 442.2 million

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

Legal reserve – € 88.4 million

The legal reserve amounts to 20% of the share capital of the Parent Company.

Other reserves – € 695.2 million

Other reserves increased by € 40.7 million, due to Other Comprehensive Income, in particular owing to:

- fair value adjustment of the derivative instruments hedging the Parent Company's floating-rate loans - cash-flow hedges (€ 34.9 million, considering the related tax effect of € 26.4 million);
- recognition of the actuarial gains and losses on employee benefits (€ 5.8 million, considering the related tax effect of € 3.0 million).

Retained earnings and losses – € 1,341.9 million

The increase in the year of the item "Retained Earnings/Losses" of € 61.6 million essentially refers to allocation of the residual profit achieved by the Group in 2012 compared to the distribution of the 2012 dividend on the part of the Parent Company (a total of € 402.0 million).

Interim dividend 2013

After receiving the report of the independent auditors required by Art. 2433-bis of the Italian Civil Code, on 13 November 2013 the Parent Company's Board of Directors approved the distribution of an interim dividend amounting to € 140.7 million, equal to € 0.07 per share, which is payable on 21 November 2013, with an ex dividend date (coupon 19) of 18 November 2013.

23. Loans and financial liabilities

The following table details loans and financial liabilities recognised in the consolidated financial statements at 31 December 2013:

€ million	Carrying amount		Change
	31.12.2013	31.12.2012	
Bonds	5,723.0	6,543.7	(820.7)
Bank loans	2,286.9	2,365.7	(78.8)
Long-term loans	8,009.9	8,909.4	(899.5)
CFH derivatives	80.0	141.2	(61.2)
Non-current financial liabilities	80.0	141.2	(61.2)
Bonds	618.8	-	618.8
Current portion of long-term loans	79.0	69.4	9.6
Short-term loans and current portion of medium/long-term loans	697.8	69.4	628.4
Total	8,787.7	9,120.0	(332.3)

Gross debt for the year decreased with respect to the previous year by € 332.3 million to € 8,787.7 million.

The decrease in the value of bonds (-€ 201.9 million) is attributable for € -207.2 million to changes in the fair value of the risk hedged, for +€ 1.6 million to the effect of the amortised cost and for € 3.7 million to the capitalisation of inflation in the period.

The change linked to the hedging of the interest rate risk comprises -€ 37.2 million in relation to the Inflation-Linked bond issue, -€ 79.9 million associated to the bonds 2014-2024, -€ 27.0 million for the Private Placement and -€ 63.1 million relating to the bond issued in 2011.

The latest official prices for the bonds listed on the Luxembourg Stock Exchange are detailed below:

- bond maturing 2024: price at 2013 € 114.28 and price at 2012 € 112.88;
- bond maturing 2014: price at 2013 € 102.82 and price at 2012 € 105.89;
- bond maturing 2023: price at 2013* € 109.90 and price at 2012 € 105.82;
- bond maturing 2019: price at 2013 € 114.60 and price at 2012 € 114.72;
- bond maturing 2021: price at 2013 € 112.74 and price at 2012 € 113.55;
- bond maturing 2017: price at 2013 € 108.27 and price at 2012 € 108.51;
- bond maturing 2018: price at 2013 € 104.20 and price at 2012 € 102.73.

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

The debt which was originally floating-rate, shows a decrease of € 69.2 million mainly due to the reduction in EIB (European Investment Bank) loans (€ 69.4 million) and other financing following repayments made on outstanding loans.

Long-term loans

The following table reports the book values of long-term debt and the repayment plan as of 31 December 2013, broken down by loan type, including amounts falling due within one year and average interest rate at year-end:

	Maturity	31.12.2012	31.12.2013	Due within one year	Due beyond one year	2015	2016	2017	2018	After	Average interest rate as of 31.12.2013
€ million											
Bonds	2014-2024	1,676.1	1,596.2	618.8	977.4	-	-	-	-	977.4	4.62%
Bonds IL	2023	710.5	677.0	-	677.0	-	-	-	-	677.0	2.75%
Bonds PP	2019	699.4	672.4	-	672.4	-	-	-	-	672.4	4.87%
Bonds 1250	2021	1,465.7	1,402.6	-	1,402.6	-	-	-	-	1,402.6	4.75%
Bonds 1250	2017	1,246.0	1,246.9	-	1,246.9	-	-	1,246.9	-	-	4.12%
Bonds 750	2018	746.0	746.7	-	746.7	-	-	-	746.7	-	2.88%
Total fixed rate		6,543.7	6,341.8	618.8	5,723.0	-	-	1,246.9	746.7	3,729.4	
EIB	2014-2030	1,285.7	1,216.3	79.0	1,137.3	77.0	85.1	96.9	96.9	781.4	0.34%
Club Deal	2015	649.4	649.6	-	649.6	649.6	-	-	-	-	0.72%
CDP	2019	500.0	500.0	-	500.0	-	-	-	-	500.0	1.25%
Total floating rate		2,435.1	2,365.9	79.0	2,286.9	726.6	85.1	96.9	96.9	1,281.4	
Total		8,978.8	8,707.7	697.8	8,009.9	726.6	85.1	1,343.8	843.6	5,010.8	

The total amount of the Group's borrowings at 31 December 2013 is equal to € 8,707.7 million, of which € 5,010.8 million is due after more than five years.

On maturity, on 15 September 2023, the Inflation Linked Bond provides for repayment of the face value revalued to inflation, while repayment of the face value of the other Bonds, of € 5,250.0 million, provides for repayment of € 600 million on 28 October 2014, of € 1,250 million on 17 February 2017, of € 750 million on 16 February 2018, of € 600 million on 3 October 2019, of € 1,250 million on 15 March 2021 and of € 800 million on 28 October 2024.

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

As regards the 2014-2024 bonds, with an average coupon of 4.62%, if fair value hedging operations are taken into account, the average interest rate is equal to 0.67%.

For the Inflation-Linked bonds - and taking hedges into account - and assuming a 0.66% inflation rate, the average interest rate paid in the year was -0.40%.

The Private Placement, issued at fixed rate, was brought synthetically to floating rate with derivatives of the same duration and consequently the average interest rate in the year was 1.63%.

As regards the 2021 Bond, the average coupon is 4.75%; if we consider FVH operations, the average interest rate amounts to 1.45%.

For the two bond issues made in 2012 maturing in 2017 and 2018, no hedges have been implemented and the average interest rate is 4.12% and 2.88% respectively.

With regard to floating-rate loans covered by fluctuations in interest rates - and taking into account the effect of derivative financial instruments booked as cash-flow hedges - an average rate of 2.91% is reported for EIB financing while for the Club Deal financing totalling € 650 million, the average rate was 3.27% and for the CDP financing the average rate was 3.94%.

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

Type of loan	Nominal debt at 31.12.2012	Carrying amount at 31.12.2012	Repayment and capitalisation	Delta Fair Value 31.12.2012 31.12.2013	Change in carrying amount	Nominal debt at 31.12.2013	Carrying amount at 31.12.2013	Market value at 31.12.2013
€ million								
Bonds 2014-2024	1,400.0	1,676.1	-	(79.9)	(79.9)	1,400.0	1,596.2	1,531.1
Listed IL bond	561.7	710.5	3.7	(37.2)	(33.5)	565.4	677.0	621.4
Private Placement	600.0	699.4	-	(27.0)	(27.0)	600.0	672.4	687.6
2021 Bond	1,250.0	1,465.7	-	(63.1)	(63.1)	1,250.0	1,402.6	1,409.2
2017 Bond	1,250.0	1,246.0	-	0.9	0.9	1,250.0	1,246.9	1,353.4
2018 Bond	750.0	746.0	-	0.7	0.7	750.0	746.7	781.5
Total bonds	5,811.7	6,543.7	3.7	(205.6)	(201.9)	5,815.4	6,341.8	6,384.2
Bank loans	2,435.7	2,435.1	(69.4)	0.2	(69.2)	2,366.3	2,365.9	2,366.3
Total bank loans	2,435.7	2,435.1	(69.4)	0.2	(69.2)	2,366.3	2,365.9	2,366.3
Total financial debt	8,247.4	8,978.8	(65.7)	(205.4)	(271.1)	8,181.7	8,707.7	8,750.5

As compared with 31 December 2012, long-term debt shows an overall decrease of € 271.1 million, due for € 3.7 million to capitalisation of inflation in the year linked to the IL bond, for -€ 205.4 million to the decrease in the fair value of bonds, also considering the amortised cost and for € 69.4 million to repayment of instalments on the EIB loans.

At 31 December 2013, the Parent Company has an additional debt capacity of about € 850 million for short term lines of credit.

The table also reports, pursuant to IFRS 7, the Fair Value of financial payables, which for bonds is represented by the market value of the same on the basis of prices at the reporting date, whilst for floating rate loans it has been taken as equal to the notional repayment amount.

Non-current financial liabilities

The table below reports the amount and changes in non-current financial liabilities with respect to value at the end of 2013:

€ million	31.12.2013	31.12.2012	Change
CFH derivatives	80.0	141.2	(61.2)
Total	80.0	141.2	(61.2)

The item "Non-current financial liabilities" includes the fair value measurement of cash flow hedging derivatives.

Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The change in the interest rate curve since 31 December 2012 resulted in a change amounting to -€ 61.2 million.

Current financial liabilities

Current financial liabilities, due to the net interest expense accrued on financial instruments but not yet settled, have increased by € 14.3 million since the end of last year.

The following table details deferred liabilities on the basis of the financial liabilities to which they relate:

€ million	31.12.2013	31.12.2012	Change
Deferred liabilities on:			
Derivatives			
- <i>hedging</i>	12.7	12.3	0.4
Bond			
- <i>Inflation Linked</i>	4.6	4.6	-
- <i>Private Placement</i>	7.2	7.2	-
- <i>5-year (2017)</i>	44.9	44.9	-
- <i>10-year (2014)</i>	4.5	4.5	-
- <i>20-year (2024)</i>	7	7	-
- <i>10-year (2021)</i>	47.5	47.5	-
- <i>5-year (2018)</i>	18.8	4.5	14.3
Total	134.5	120.2	14.3
Loans	4.2	4.6	(0.4)
Total	151.4	137.1	14.3

Net financial position

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

€ million	Carrying amount
	31.12.2013
A. Cash	317.1
B. Short-term deposits	1,300.0
C. Liquidity (A) + (B)	1,617.1
D. Current portion of long-term debt	697.8
E. Current financial debt (D)	697.8
F. Net current financial debt (E) - (C)	(919.3)
G. Non-current bank payables	2,286.9
H. Bonds issued	5,723.0
I. Derivative financial instruments in portfolio	(465.5)
J. Net non-current financial debt (G) + (H) + (I)	7,544.4
K. Net financial debt (J) + (F)	6,625.1

The debt/equity ratio of the Group thus stood at 2.25 in 2013.

For further details on the breakdown of the present items in the table please see the Notes, Comment 16 “Current financial assets” and 20 “Cash and cash equivalents” in the Notes to the Consolidated Financial Statements, and the information provided in the present Note under Comment 23 “Loans and financial liabilities”.

Default risk and debt covenants

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

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

1. the Company's bonds, comprising two issues of € 600 million and € 800 million in 2004, and five issues carried out under the bond issue programme of € 6 billion (€ 6,000,000,000 Medium-Term Notes Programme, hereinafter the "EMTN Programme"), one of € 500 million in 2007, and one in the form of a Private Placement of € 600 million in 2009, one of € 1,250 million realised in March 2011, one of € 1,250 million in February 2012 and one of € 750 million in October 2012;
2. bank payables, consisting in a "Club Deal" syndicated loan of € 650 million, and a loan from Cassa Depositi e Prestiti (CDP) of € 500 million that draws on EIB funds;
3. loans to the Company from the European Investment Bank (EIB) totalling € 2,193 million.

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

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

The main covenants for the "Club Deal" syndicated loan and the € 500 million loan from CDP are summarised below:

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

The main covenants governing the EIB loans are summarised below:

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

24. Employee benefits – € 120.1 million

The Group provides benefits to its employees during their period of employment (loyalty bonus), at the termination of their employment (termination benefits, additional month’s pay and indemnity for lack of notice), and in the period after the termination of employment (electricity discount and the ASEM health plan).

The loyalty bonus is awarded to employees and managers of the Group when they reach certain seniority levels (25 and 35 years of service).

The benefits granted at the termination of employment are recognised for all employees (termination benefits), managers hired or appointed before 28 February 1999 (Indemnity for Lack of Notice), and employees (production workers, office staff and junior managers) hired before 24 July 2001 (Additional Month’s Pay Indemnity).

Post-employment benefits consist of the following:

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

As reported in the Basis of Presentation, on 1 January 2013 the new version of the IAS 19 - Employee Benefits came into effect which entailed, for the Group, an adjustment of the opening balance of the item of € 9.0 million.

The composition of termination benefits and other employee-related provisions at 31 December 2013 is detailed below along with changes in the period:

€ million	31.12.2012 restated	Provision	Interest cost	Utilisations and other changes	Actuarial gains/losses	31.12.2013
Benefits payable to employees						
Loyalty bonus and other incentives	4.5	1.1	0.1	(0.3)	-	5.4
Total	4.5	1.1	0.1	(0.3)	-	5.4
Benefits payable upon termination of employment						
Termination benefits	66.5	0.0	1.3	(2.7)	(2.1)	63.0
Additional month's pay	9.3	0.2	0.2	(0.4)	(0.4)	8.9
Indemnities for lack of notice and similar	0.9	0.0	0.0	(0.1)	0.1	0.9
Total	76.7	0.2	1.5	(3.2)	(2.4)	72.8
"Energy discount"						
"ASEM"	39.2	0.8	0.8	(0.7)	(5.1)	35.0
Total	8.0	0.2	0.2	(0.2)	(1.3)	6.9
Total	47.2	1.0	1.0	(0.9)	(6.4)	41.9
Total	128.4	2.3	2.6	(4.4)	(8.8)	120.1

The item, equal to € 120.1 million at 31 December 2013 (€ 128.4 million at 31 December 2012 revised), decreased by € 8.3 million from the previous year, due to the utilisations of the year (€ 4.4 million), and to the recognition of actuarial gains and losses (€ 8.8 million), offset by provisions in the year and by the recognition of the discounting expenses for the year (€ 4.9 million in total).

Details of the pension cost relating to performance of current work and interest income and expense are shown below:

€ million	Loyalty bonus and other incentives	Termination benefits	Additional month's pay	Indemnities for lack of notice and similar	Energy discount	ASEM	Total
Net impact recognised in profit or loss							
- cost relating to current work performed	1.1	-	0.2	-	0.8	0.2	2.3
- interest income and expense	0.1	1.3	0.2	-	0.8	0.2	2.6
Total recognised in income statement	1.2	1.3	0.4	-	1.6	0.4	4.9

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

€ million	Termination benefits	Additional month's pay	Indemnities for lack of notice and similar	Energy discount	ASEM	Total
Actuarial gains/losses						
- based on past experience	0.1	(0.3)	-	(2.1)	(0.2)	(2.5)
- due to changes in demographical assumptions	0.1	(0.1)	-	(0.2)	-	(0.2)
- due to changes in other economical assumptions	-	-	-	3.3	0.2	3.5
- due to changes in discount rate	(2.3)	-	0.1	(6.1)	(1.3)	(9.6)
Total OCI impacts	(2.1)	(0.4)	0.1	(5.1)	(1.3)	(8.8)

The statements below, finally, show that main actuarial assumptions used, a sensitivity analysis on the movements in these assumptions and the payment schedule envisaged in the plan:

€ million	Loyalty bonus and other incentives	Termination benefits	Additional month's pay	Indemnities for lack of notice and similar	Energy discount	ASEM
Discount rate	3.17%	2.54%	2.09%	1.36% - 1.20%	3.17%	3.17%
Inflation rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Duration	10.70	10.19	6.50	4.71 - 0.80	13.30	13.88

€ million	Loyalty bonus and other incentives	Termination benefits	Additional month's pay	Indemnities for lack of notice and similar	Energy discount	ASEM
Discount rate +0.25%	0.4	3.7	0.4	0.4	13.2	4.5
Discount rate -0.25%	0.4	3.9	0.4	0.4	14.0	4.8
Inflation rate +0.25%	0.4	3.9	n/a	n/a	14.0	n/a
Inflation rate -0.25%	0.4	3.7	n/a	n/a	13.2	n/a
Annual rate of increase in healthcare +3%	n/a	n/a	n/a	n/a	n/a	7.1
Annual rate of increase in healthcare -3%	n/a	n/a	n/a	n/a	n/a	3.2
Conversion value of KW/h +5%	n/a	n/a	n/a	n/a	14.3	n/a
Conversion value of KW/h -5%	n/a	n/a	n/a	n/a	12.9	n/a

€ million	Loyalty bonus and other incentives	Termination benefits	Additional month's pay	Indemnities for lack of notice and similar	Energy discount	ASEM	Total
By the end of 2014	1.5	6.3	0.3	0.1	0.7	0.2	9.1
By the end of 2015	0.7	5.6	0.6	-	0.6	0.2	7.7
By the end of 2016	0.6	6.5	0.8	0.1	0.6	0.2	8.8
By the end of 2017	0.3	8.1	1.1	0.2	0.6	0.2	10.5
By the end of 2018	0.2	5.9	0.8	0.2	0.6	0.3	8.0

25. Provisions for risks and charges – € 177.0 million

The breakdown of and changes in provisions for risks and charges at 31 December 2013 is detailed below:

€ million	Provision for disputes and litigation	Provisions for other risks and charges	Provision for early retirement	Total
Balance at 31.12.2012	19.8	128.5	18.6	166.9
Provisions	0.7	32.8	7.5	41.0
Utilisations and other changes	(3.9)	(22.9)	(4.1)	(30.9)
Balance at 31.12.2013	16.6	138.4	22.0	177.0

Provision for disputes and litigation – € 16.6 million

The provisions are accrued to cover the liabilities at year end that may arise from lawsuits and out-of-court disputes relating to the Group Companies' activities. The amount accrued takes into account the opinions both of internal and external legal counsel and records a net change of € 3.2 million with respect to the previous year, due to uses in the period.

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

Provision for other risks and charges – € 138.4 million

The provision reported a net increase of € 9.9 million with respect to the previous year, ascribable to provisions of € 32.8 million and utilisations of a negative -€ 22.9 million in the course of the year. More specifically:

- net provisions for the charges due pursuant to AEEG Resolution 197/11 to distributing companies for power failures of the transformation plants linked to the NTG (€ 4.9 million) as well as for the sharing of indemnities due to final users (€ 13.7 million);

- net uses referring to management incentive plans for -€ 3.8 million;
- net utilisations of the provisions set aside by the Parent Company in previous years for tax risks, of -€ 2.4 million;
- adjustment to the risks probable at 31 December 2013 of the provision set aside by Suntergrid S.p.A. (merged into Terna Plus) related to the extraordinary transactions completed by the company in 2011, for € -2.1 million;
- exchange rate adjustment (-€ 2.0 million) of the provision for probable expenses relating to tax obligations deriving from the sale of Terna Participações by the Parent Company.

Provision for early retirement incentives – € 22.0 million

This provision reflects the estimated extraordinary charges related to the voluntary early termination of the working relationship of employees of the Parent Company who are eligible for retirement. The item recorded a net increase of € 3.4 million.

26. Deferred tax liabilities – € 155.6 million

The aforementioned adoption of the new version of IAS 19 - Employee Benefits determined for the Group, also an adjustment of deferred tax assets at 31 December 2012, for an amount of € 3.0 million.

The changes in this provision are analysed below:

€ million	31.12.2012 restated	Provisions	Utilisations and other changes	Impact recognised in equity	31.12.2013
Deferred tax liabilities					
Property, plant and equipment	367.8	-	(57.4)	-	310.4
Employee benefits and financial instruments	4.3	-	0.0	-	4.3
Total deferred tax liabilities	372.1	-	(57.4)	-	314.7
Deferred tax assets					
Provisions for risks and charges	35.5	12.1	(8.2)	-	39.4
Allowance for doubtful accounts	3.6	0.3	-	-	3.9
Employee benefits	30.8	9.1	(8.7)	(3.0)	28.2
FVH - CFH derivatives	53.6	-	-	(26.4)	27.2
Release of goodwill	63.7	-	(3.6)	-	60.1
Other	0.1	0.2	-	-	0.3
Total deferred tax assets	187.3	21.7	(20.5)	(29.4)	159.1
Net deferred tax liabilities	184.8	(21.7)	(36.9)	29.4	155.6

This balance, equal to € 155.6 million, reflects the net movements in the Group's deferred tax assets and liabilities.

Deferred tax liabilities totalled € 314.7 million, down € 57.4 million, essentially due to:

- utilisation of prior provisions covering the accelerated depreciation recorded by the Parent Company Terna and the subsidiary Terna Rete Italia S.r.l. in excess of the tax-allowable amounts (€ 41.3 million and € 3.8 million, respectively), including the amount released in relation to the depreciation charge for the period associated with merger differences allocated to property, plant and equipment at the time of the mergers carried out in prior years (totalling € 2.7 million);
- release of the charge for the year (€ 8.5 million) of the provision for deferred IRAP liabilities governed by Law no. 244 dated 24/12/2007 (the 2008 Finance Law), recorded in prior years in relation to economic/technical rates;
- release of the charge for the period of the deferred taxes calculated on the additional cost paid for the acquisition of Terna Rete Italia S.r.l. following its allocation to the transmission plant and to intangible assets (totalling € 3.8 million).

Deferred tax assets (€ 159.1 million) show a decrease of € 28.2 million, mainly related to the following changes:

- utilization for € 26.4 million, attributable to the tax effect, which has no impact on the Income Statement, in respect of changes in cash flow hedge instruments of the Parent Company;
- release of the relevant proportion of prepaid tax allocated for the release of goodwill recorded following the merger of RTL into the parent company (€ 3.6 million);
- net provision of € 3.9 million in relation to changes during the year of provisions for risks and charges. This recognises essentially the tax effects of net provisions set aside by Terna Rete Italia S.p.A. (€ 6.9 million) and net utilisations of the Parent Company's provisions (-€ 2.6 million);
- net decrease, of -€ 2.6 million, in deferred tax assets on the Group's employee benefits, of which -€ 3.0 million with impact on Other comprehensive income.

27. Other non-current liabilities – € 132.9 million

This item, amounting to € 132.9 million at 31 December 2013 encompasses the deferred positions of set-up grants of the Parent Company (€ 118.0 million) and of Terna Rete Italia S.r.l. (€ 14.9 million).

The reduction in this item with respect to the previous financial year, of € 2.5 million, essentially derives from the release of the share of the contributions in relation to amortisation of plants in the period for which they were recorded, net of new contributions received from Terna Rete Italia S.r.l.

28. Current liabilities

Current liabilities at 31 December 2013 break down as follows:

€ million	31.12.2013	31.12.2012	Change
Current portion of long-term loans*	697.8	69.4	628.4
Trade payables	2,062.3	2,310.2	(247.9)
Tax liabilities	31.5	95.0	(63.5)
Current financial liabilities	151.4	137.1	14.3
Other current liabilities	176.0	144.7	31.3
Total	3,119.0	2,756.4	362.6

(*) See the comments in Note 23. Loans and financial liabilities

Trade payables – € 2,062.3 million

Trade payables at 31 December 2013 break down as follows:

€ million	31.12.2013	31.12.2012	Change
Suppliers:			
- Energy-related payables	1,304.9	1,596.6	(291.7)
- Non energy-related payables	744.5	697.4	47.1
Payables due to associates	9.5	10.3	(0.8)
Payables for contract work in progress	3.4	5.9	(2.5)
Total trade payables	2,062.3	2,310.2	(247.9)

Suppliers

Energy-related payables

This item reports the effects on the balance sheet of payables generated by “pass-through” costs not ascribable to the Parent Company, and refers mainly to purchase of energy relating to dispatching activities and the transport fee due to the owners of other sections of the NTG.

The decrease of € 291.7 million compared with the previous year is essentially due to:

- lower payables (€ 297.8 million) relating to “pass-through items” which are mainly ascribable to the joint effect of:
 - the decrease in payables for electrical energy purchases within the Power Exchange perimeter (-€ 104.9 million) deriving essentially from the joint effect of falling quantities and prices and the imbalance measurement (-€ 162.7 million), as already commented on in the section of the item “Trade receivables” - and lower payables deriving from virtual interconnection activity (-€ 34.8 million), in part offset by an increase in payable items generated by the increase in volumes of resources procured on the Energy Market (+€ 93.3 million);
 - the reduction of payables for energy purchases outside the perimeter of the Power Exchange perimeter (-€ 192.9 million) deriving essentially from the reduction in payables for capacity payments (-€ 58.1 million) and for EUSSs – Essential Units for the Security of the Electricity System (-€ 54.4 million), and from lower payables relating to procurement of uninterruptible resources (-€ 25.1 million); the decrease also derived from returning during the year the one-off cash advance received from CCSE (-€ 54.0 million) to settle the economic items on the market coupling on the Italy-Slovenia interconnection under the terms of Resolution 217/12;
- higher payables on margin (+€ 6.1 million) to Electricity Industry Clearing House attributable to the net effect between an increase in net expenses to be paid to the exceptional events fund for power failure episodes occurring in earlier years and in the year (+€ 4.5 million) under the terms of Resolution 341/07 and subsequent updates, and from higher payables relating to the bonus and penalty mechanisms on the subject of transmission service quality (ENSR) (+€ 1.8 million), partially offset by the receivable recognised to the Parent Company for the grid transmission fees relating to earlier years (€ 0.2 million).

Non energy-related payables

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

The increase compared to the previous year (€ 47.1 million) was the consequence essentially of more services rendered and purchases made during the last part of the year compared to the corresponding period of the previous year owing to the liquidation in the early days of 2014 of payable items in maturity at the end of the year.

Payables due to associates

This item amounts to € 9.5 million and mainly includes payables to the associate CESI for services provided to the Parent Company (€ 0.4 million) and the subsidiary Terna Rete Italia S.p.A. (€ 9.0 million) in the construction and management of laboratories and plants for tests, inspections, studies and experimental research in the general field of electricity technology and scientific and technical progress. The decrease (€ 0.8 million) compared with 31 December 2012 was the result of a decline in services rendered in the final part of the year.

Group commitments with suppliers amounted to about € 2,847.2 million and refer to purchase commitments relating to normal “operating activities” for the period 2014-2018.

Payables for contract work in progress

Payables for contract work in progress (€ 3.4 million as at 31 December 2013) fell with respect to 31 December 2012 (-€ 2.5 million) essentially as a result of the lower advances received on orders of the subsidiary Terna Plus S.r.l. and consist of the following:

€ million	Payments on account	Contract value	Balance at 31.12.2013	Payments on account	Contract value	Balance at 31.12.2012
Other	(16.3)	12.9	(3.4)	(21.9)	16.0	(5.9)

Tax liabilities – € 31.5 million

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

- the Parent Company Terna in the amount of € 29.0 million;
- the subsidiary Terna Rete Italia S.p.A. in the amount of € 2.5 million.

There was a decrease of euro 63.5 million, compared to the previous year, due substantially to the payment of higher tax advances in the year compared to the payable recognised for current taxes accrued. In particular Italian Legislative Decree 133/13, on the occasion of payment of the second tax advance, entailed a change in the calculation basis, increasing the advances to 102.5%.

Other current liabilities – € 176.0 million

Other current liabilities break down as follows:

€ million	31.12.2013	Due within one year	Due beyond one year	31.12.2012	Change
Payments on account	23.0	0.9	22.1	21.3	1.7
Other tax liabilities	19.0	19.0	-	8.0	11.0
Payables to social security institutions	22.8	22.8	-	22.4	0.4
Payables to employees	32.8	32.8	-	32.1	0.7
Other payables to third parties	78.4	14.3	64.1	60.9	17.5
Total	176.0	89.8	86.2	144.7	31.3

Payments on account

The item (€ 23.0 million) recognises set-up grants related to plants received by the Group (€ 20.3 million for the Parent Company and € 1.8 million for Terna Rete Italia S.r.l.) for assets under construction at 31 December 2013. compared to the 2012 figure (€ 21.3 million) there was a net increase of € 1.7 million essentially due to the new effect of new advances received from third parties of € 15.5 million and to the decrease of € 13.8 million in grants taken directly to reduce the carrying amount of assets, which came into operation during the year.

Other tax liabilities

Other tax liabilities, amounting to € 19.0 million, show an increase of € 11.0 million with respect to the previous financial year, mainly as a result of the recognition of the VAT payable accruing to the year related essentially to the subsidiary Terna Rete Italia S.p.A.

Payables to social security institutions

Amounts payable to social security institutions, mainly relating to payables due to INPS by the Parent and the subsidiary Terna Rete Italia S.p.A, amounted to € 22.8 million (€ 22.4 million at 31 December 2012), and were basically in line with the previous year. The item also includes the payable due to Fondo Previdenza Elettrici – F.P.E. (Pension Fund for Electricians) (€ 4.6 million).

Payables to employees

Amounts payable to employees, which came to € 32.8 million (€ 32.1 million at 31 December 2012), pertain to the Parent Company and the subsidiary Terna Rete Italia S.p.A. and mainly regard:

- amounts relating to staff incentives to be paid the following year (€ 18.1 million);
- payments due to employees for unused holiday time and abolished public holidays (€ 10.7 million);
- termination benefits due to employees whose employment was terminated before 31 December 2013 (€ 1.0 million).

Other payables to third parties

Other payables to third parties, equal to € 78.4 million (€ 60.9 million at 31 December 2012), mainly regard security deposits (€ 64.2 million) received from electricity market operators securing their contractual obligations.

The item increased by € 17.5 million owing essentially to higher guarantee deposit covering contractual obligations involved in dispatching and virtual interconnection contracts (+€ 8.0 million), and to the deferment of rental income related to the period 2014/2015 collected in the year from Wind Telecomunicazioni S.p.A. for the housing of optical fibre on company-owned networks (€ 8.9 million).

E. Commitments and risks

Risk management

Market and financial risks

During the financial year, in going about its business, the Terna Group is exposed to various different financial risks: market risk (namely exchange rate risk, interest rate risk and inflation risk), liquidity risk and credit risk.

This section provides information regarding the Terna Group's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to measure them, with further quantitative disclosures concerning the 2013 financial statements.

The Group'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 the related systems are reviewed on a regular basis in order to take account of any changes in market conditions or in the operations of the companies.

The exposure of the Terna Group to the aforementioned risks is substantially represented by the exposure of the Parent Company. As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.

€ million	31.12.2013				31.12.2012			
	Receivables	Receivables at fair value	Hedging derivatives	Total	Receivables	Receivables at fair value	Hedging derivatives	Total
Assets								
Derivative financial instruments	-	-	545.5	545.5	-	-	754.9	754.9
Cash, short-term deposits and inter-company loans	1,617.1	-	-	1,617.1	2,510.1	-	-	2,510.1
Total	1,617.1	-	545.5	2,162.6	2,510.1	-	754.9	3,265.0

€ million	31.12.2013				31.12.2012			
	Payables	Loans at fair value	Hedging derivatives	Total	Payables	Loans at fair value	Hedging derivatives	Total
Liabilities								
Long-term debt (including short-term portion)	2,365.9	6,341.8	-	8,707.7	2,435.1	6,543.7	-	8,978.8
Derivative financial instruments	-	-	80.0	80.0	-	-	141.2	141.2
Total	2,365.9	6,341.8	80.0	8,787.7	2,435.1	6,543.7	141.2	9,120.0

Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risks include three types of risks: exchange rate risk, interest rate risk and inflation risk.

Risk management must be performed with the objective of maximising financial income and minimising the related risks by selecting counterparties and instruments compatible with the corporate risk management policy. Speculative activity is not envisaged in the corporate mission.

Terna Group seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changes in market conditions or in the hedged item make the latter unsuitable or excessively expensive. The concept of hedging transaction is not restricted to those hedges that qualify for hedge accounting, but rather encompasses the objective of total or partial hedging of the economic or financial item against interest rate risk.

All derivative contracts entered into have a notional amount and maturity date prior to or equal to that of the underlying financial liability, so that any change in the fair value and/or estimated cash flows of the contracts is offset by a corresponding change in the fair value and/or of the estimated cash flows of the underlying position. The fair value of financial derivatives reflects the estimated amount that Terna would pay or receive in order to extinguish contracts at the closing date.

The fair value of instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (Level 2) by means of appropriate valuation techniques for each category of financial instrument, using market data as at the closing date (such as interest rates, exchange rates and volatility) and discounting projected cash flows on the basis of the market yield curve and inflation at the reporting date.

The financial assets and liabilities in respect of derivative instruments in place during the year can be classified as:

- cash flow hedge derivatives, related to hedging the risk of changes in cash flows associated with long-term floating-rate loans;
- fair value hedging derivatives, related to hedging the exposure to changes in the fair value of a financial asset or liability associated with fluctuations in interest rates (fixed-rate bonds).

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

€ million	31.12.2013		31.12.2012		Change	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
FVH derivatives	3,750.0	545.5	3,750.0	754.9	-	(209.4)
CFH derivatives	2,366.3	(80.0)	2,435.7	(141.2)	(69.4)	61.2

Interest rate risk

Interest rate risk is represented by the uncertainty associated with interest rate fluctuations. This is the risk that a change in market interest rates may produce effects on the fair value or future cash flows of financial instruments.

In conducting its operations, Terna is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with items of net financial debt and the related hedging positions in derivative instruments that generate financial expense. Terna's borrowing strategy focuses on long-term loans whose term reflects the useful life of company assets. It pursues an interest rate risk hedging policy that aims to reconcile this approach with the regulatory framework, which every four years establishes the cost of debt as part of the formula to set the return on the Regulatory Asset Base (RAB).

Accordingly, the hedging instruments used, at various maturity dates, include both derivatives that transform fixed rates into floating rates and derivatives that transform floating rates into fixed rates.

In order to reduce the amount of financial debt exposed to the risk of fluctuations in interest rates and to optimise the temporal correlation between average cost of debt and regulatory rate used in the WACC formula, various types of plain vanilla derivatives are used, such as interest rate swaps.

Interest rate swaps are used in order to reduce the volume of debt exposed to fluctuations in interest rates and to reduce the volatility of borrowing costs. With an interest rate swap, Terna agrees with a counterparty to exchange, at specific intervals, the floating-rate cash flows on a specified notional amount against the fixed-rate (agreed between the parties) cash flows, or vice versa.

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

€ million	Carrying amount		Change
	31.12.2013	31.12.2012	
Fixed-rate financial instruments			
- liabilities	6,421.8	6,684.9	(263.1)
Floating-rate financial instruments			
- assets	2,162.6	3,265.0	(1,102.4)
- liabilities	2,365.9	2,435.1	(69.2)
Total	6,625.1	5,855.0	770.1

Sensitivity to interest-rate risk

As regards the management of interest rate risk, Terna has, on the one hand, entered into fixed-to-floating interest rate swaps (FVH) to hedge the fair value of fixed-rate risk bonds and, on the other, floating-to-fixed interest rate swaps (CFH) to hedge the expected cash flows in respect of all other floating-rate debt.

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

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

€ million	Profit or loss			Equity		
	Current rates +10%	Current rates	Current rates -10%	Current rates +10%	Current rates	Current rates -10%
31 December 2013						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	0.2	0.3	0.0	(78.1)	(80.0)	(82.0)
<i>Hypothetical change</i>	(0.2)	-	(0.3)	1.9	-	(1.9)
31 December 2012						
Positions sensitive to changes in interest rates (FVH, bonds, CFH)	2.5	2.4	2.3	(138.7)	(141.2)	(143.7)
<i>Hypothetical change</i>	0.1	-	(0.1)	2.5	-	(2.5)

Inflation risk

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

Exchange rate risk

Generally Terna hedges exchange rate risk through the forward sale or purchase of currencies (forward contracts) or the use of options. Currency options give Terna the right or the obligation to buy or sell predetermined amounts of a currency at a specific exchange rate at the end of a specific period of time. Normally, both forward contracts and options have maturities of no more than 12 months.

Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from an appreciation or depreciation of the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

At 31 December 2013 (as at 31 December 2012), no financial instruments exposed to exchange rate risk were present.

Liquidity risk

The liquidity risk is the risk Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of financial needs by obtaining adequate lines of credit and appropriate management of any surplus liquidity. As of 31 December 2013 Terna had € 850 million in short-term credit lines. The table below shows the repayment plan at 31 December 2013 of the nominal long-term debt:

€ million	Maturity	31.12.2012	31.12.2013	Due within 12 months	Due beyond 12 months	2015	2016	2017	2018	After
Bonds	2014-2024	1,676.1	1,596.2	618.8	977.4	-	-	-	-	977.4
Bonds IL	2023	710.5	677.0	-	677.0	-	-	-	-	677.0
Bonds PP	2019	699.4	672.4	-	672.4	-	-	-	-	672.4
Bonds 1250	2021	1,465.7	1,402.6	-	1,402.6	-	-	-	-	1,402.6
Bonds 1250	2017	1,246.0	1,246.9	-	1,246.9	-	-	1,246.9	-	-
Bonds 750	2018	746.0	746.7	-	746.7	-	-	-	746.7	-
Total fixed rate		6,543.7	6,341.8	618.8	5,723.0	-	-	1,246.9	746.7	3,729.4
EIB	2014-2030	1,285.7	1,216.3	79.0	1,137.3	77.0	85.1	96.9	96.9	781.4
Club Deal	2015	649.4	649.6	-	649.6	649.6	-	-	-	-
CDP	2019	500.0	500.0	-	500.0	-	-	-	-	500.0
Total floating rate		2,435.1	2,365.9	79.0	2,286.9	726.6	85.1	96.9	96.9	1,281.4
Total		8,978.8	8,707.7	697.8	8,009.9	726.6	85.1	1,343.8	843.6	5,010.8

Credit risk

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

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

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

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

€ million	Carrying amount		Change
	31.12.2013	31.12.2012	
FVH derivatives	545.5	754.9	(209.4)
Cash and cash equivalents	1,617.1	2,510.1	(893.0)
Trade receivables	1,721.1	1,884.1	(163.0)
Total	3,883.7	5,149.1	(1,265.4)

The total value of the exposure to credit rate risk at 31 December 2013 is represented by the carrying amount of financial assets (current and non-current), trade receivables and cash and cash equivalents.

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

GEOGRAPHICAL DISTRIBUTION

€ million	Carrying amount	
	31.12.2013	31.12.2012
Italy	1,676.0	1,854.6
Euro-area countries	35.4	4.5
Other countries	9.7	25.0
Total	1,721.1	1,884.1

CUSTOMER TYPOLOGY

€ million	Carrying amount	
	31.12.2013	31.12.2012
Distributors (*)	430.0	380.9
Electricity Equalisation Fund (**)	238.3	216.0
Input dispatching contractors	216.3	227.9
Withdrawal dispatching contractors	745.2	917.1
Parties which have virtual import contracts and virtual import services (interconnectors and shippers)	15.7	18.9
Receivables for sundry activities	75.6	123.3
Total	1,721.1	1,884.1

(*) includes receivable accrued in respect of Terna Rete Italia S.r.l. grid transmission fees.

(**) of which € 223 million from volume effect on grid transmission fees.

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

€ million	31.12.2013		31.12.2012	
	Impairment	Gross	Impairment	Gross
Not yet past due	-	1,429.3	-	1,491.5
0-30 days past due	-	216.8	-	321.0
31-120 days past due	(0.6)	22.6	(3.7)	36.2
More than 120 days past due	(31.4)	84.4	(22.8)	61.9
Total	(32.0)	1,753.1	(26.5)	1,910.6

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

€ million	2013	2012
Balance at 1 January	(26.5)	(23.6)
Reversal of provision	1.5	0.8
Impairment for the year	(7.0)	(3.7)
Balance at 31 December	(32.0)	(26.5)

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

€ million	2013	2012
Input dispatching activity	258.1	240.9
Withdrawal dispatching activity	843.1	897.0
Grid transmission fees - distributors	174.8	169.7
Virtual importing	171.2	99.5
Balance at 31 December	1,447.2	1,407.1

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the Parent is a party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. For more information on the contractual provisions of outstanding loans at 31 December 2013, please see the section “Loans and financial liabilities” in the notes of Terna S.p.A..

Legal disputes

The main unrecognised commitments and risks of the Parent Company Terna and the subsidiaries Terna Rete Italia S.r.l. and Terna Rete Italia S.p.A. at 31 December 2013 are discussed below. The other subsidiaries had no unrecognised commitments and risks at that date.

Environmental and urban planning litigation

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

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

In addition, a number of cases relating to urban planning and environmental issues are pending in respect of the construction and operation of certain transmission lines. The possible effects of any unfavourable outcome to these cases are unpredictable and, accordingly, have not been considered when determining the “Provisions for disputes and other risks”.

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

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

Litigation concerning concession activities

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

Tax Authority

On 27 March 2012, the parent company Terna, as jointly and severally responsible with Enel Distribuzione S.p.A. (“Enel Distribuzione”), received a notice for the payment of greater taxes due as a result of the sale transaction of the holding owned by Enel Distribuzione in Elat S.r.l. (later Telat S.r.l., today Terna Rete Italia S.r.l.) to Terna S.p.A. (for the overall amount of approximately € 38 million, including interest). According to the provisions of the investment sale contract, Enel Distribuzione S.p.A. must release the parent company, Terna, of obligations regarding all costs, liabilities and any damages resulting from the aforementioned notice and the points contested therein. Enel Distribuzione, acting in agreement with Terna, intends on taking the necessary steps to safeguard its own claim, holding Terna exempt from all payments/advances. Therefore, on the basis of the contractual agreements, confirmed by Enel Distribuzione in a letter dated 17 April 2012, we do not believe that any financial expenditure will result from the notice in question.

In addition, on 17 May 2012, the Provincial Tax Commission of Rome ordered the temporary suspension of the aforementioned payment notice until the result of the appeal hearing. On 03 December 2012, the hearing was duly held in relation to the dispute underway before Chambers I of the Rome Provincial Tax Commission, which has now adjourned to decide on another date.

F. Business combinations

There were no business combinations during 2013.

G. Related-party transactions

The Terna Group's transactions with related parties during the year, taking account of the de facto control exercised by Cassa Depositi e Prestiti S.p.A. ascertained in 2007, regarded relations with the associate companies Cesi S.p.A. and Coreso S.A., the employee pension funds (Fondenel and Fopen), and with said Cassa Depositi e Prestiti, as well as companies belonging to:

- the GSE Group;
- the Enel Group;
- the Eni Group;
- the Ferrovie dello Stato (State Railway) Group;

and with ANAS S.p.A.

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

Related party transactions in the financial year 2013 are mainly services that are part of ordinary operations and were settled on an arm's length basis.

Below is an explanation of the nature of the transactions implemented by the Terna Group with related parties and the respective income and expense totalled during the year, in addition to the respective receivables and payables in place as of 31 December 2013:

Related party	Revenue transactions	Cost transactions
Cassa Depositi e Prestiti S.p.A.		Non energy-related items Credit line
Cesi S.p.A.	Non energy-related items Lease of laboratories and similar structures for specific purposes	Non energy-related items Technical consultancy, studies and research, projects and experimentation
CORESIO S.A.		Non energy-related items Servizi di coordinamento tecnico TSO
GSE Group	Energy-related items MIS component, dispatching fees Non energy-related items Specialist services, leases, IT services	
Enel Group	Energy-related items NTG remuneration and measurement aggregation, dispatching fees Non energy-related items Lease and rent, line maintenance, line moving/ variants, and power-line-communication maintenance on owned lines	Non energy-related items Return of electricity discount, staff administration, building services, supply of MV power to new stations, specialised services for connection to Terna control and protection systems
ENI Group	Energy-related items Dispatching fees Non energy-related items Line maintenance	
Ferrovie Group	Energy-related items Dispatching fees Non energy-related items Line moving	Energy-related items NTG Remuneration Non energy-related items Right-of-way fees
Anas S.p.A.	Non energy-related items Line moving/variants	Non energy-related items Right-of-way fees
Fondenel and Fopen		Non energy-related items Pension contributions borne by the Terna Group

€ million	Income statement			
	Income items		Operating expenses	
	Grid transmission fees and other energy-related items	Non energy-related items	Grid transmission fees and other energy-related items	Non energy-related items
De facto parent company				
Cassa Depositi e Prestiti S.p.A.	-	-	-	6.3
Total de facto parent company	-	-	-	6.3
Associates:				
Cesi S.p.A.	-	0.1	-	1.5
CORESIO S.A.	-	-	-	1.3
Total associates	-	0.1	-	2.8
Other related companies:				
GSE Group	42.9	0.5	-	-
Enel Group	1,385.2	11.0	-	12.5
Eni Group	7.9	0.5	-	0.1
Ferrovie Group	3.3	-	7.2	-
ANAS S.p.A.	-	-	-	-
Total other related companies	1,439.3	12.0	7.2	12.6
Pension funds:				
Fondenel	-	-	-	0.3
Fopen	-	-	-	0.2
Total pension funds	-	-	-	0.5
Total	1,439.3	12.1	7.2	22.2

€ million	Statement of financial position					
	Property, plant and equipment	Receivables and other assets		Payables and other liabilities		Guarantees*
	Capitalised costs	Other	Financial	Other	Financial	
De facto parent company						
Cassa Depositi e Prestiti S.p.A.	-	-	0.3	-	501.1	-
Total de facto parent company	-	-	0.3	-	501.1	-
Associates:						
Cesi S.p.A.	15.9	0.3	-	9.4	-	3.2
CORESIO SA	-	-	-	0.1	-	-
Total associates	15.9	0.3	-	9.4	-	3.2
Other related companies:						
GSE Group	-	7.3	-	-	-	-
Enel Group	5.3	402.0	-	23.7	-	427.8
Eni Group	-	2.2	-	-	-	24.1
Ferrovie Group	-	0.6	-	1.3	-	44.0
ANAS S.p.A.	-	1.2	-	0.3	-	-
Total other related companies	5.3	413.3	-	25.3	-	495.9
Pension funds:						
Fopen	-	-	-	0.2	-	-
Total pension funds	-	-	-	0.2	-	-
Total	21.2	413.6	0.3	34.9	501.1	499.1

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

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

No significant, non-recurring, atypical or unusual transactions - with the exception of those described above - were carried out during 2013, either with third parties or with related parties.

I. Notes to the statement of cash flows

The cash flow generated from **continuing operations** in the year amounted to around € 763.8 million, which reflects around € 1,519.4 million in cash from operating activities (self-financing) and around € 755.6 million in financial resources generated by the management of net working capital.

Investing activities used net financial resources of around € 1,185.4 million, and included € 1,151.1 million of investment in property, plant and machinery (€ 1,164.9 million net of plant grants totalling € 13.8 million) and € 47.4 million of investment in intangible assets. Capitalised financial expense is also recorded here, of € 26.3 million.

The net change in **loan flows** in relation to equity drops by € 402.0 million due to the disbursement of the 2012 dividend balance (€ 261.3 million) and the 2013 interim dividend (€ 140.7 million).

Consequently, the financial resources used in investing activities and the remuneration of equity during the year, led to total financial requirements of € 1,587.1 million in the year, part of which (€ 763.8 million) was covered by the cash flows generated by operating activities and the remainder mainly through the net use of cash and cash equivalents as at end 2012.

L. Subsequent events

Terna's rating

On **18 February 2014** Moody's Investors Services (Moody's) raised from negative to stable the outlook assigned to Terna's rating. The Issuer's rating and the rating of the Senior Unsecured Debt were confirmed at Baa1, as also 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 to "BBB+" from "A-", thus aligning itself with the other agencies. The outlook went from negative to stable. The Short-Term IDR was confirmed at "F2".

Non Traditional Activities (NTAs): agreement signed for acquisition of Tamini Trasformatori

On **25 February 2014**, as part of the creation of the Terna Group's non-traditional activities, Terna Plus S.r.l., a full subsidiary of the Parent Company, signed an agreement to acquire the entire share capital of Tamini Trasformatori S.r.l. and of a number of companies controlled by the latter.

The transaction - which provides for a price for the production plants alone of € 23.9 million - is expected to be completed in the first half of 2014 and is subordinated to occurrence of certain suspensive conditions. At the closing date the purchase price will be adjusted on the basis of the values of the working capital (including other items) and of the net financial position certified on that date.

Despite the limited direct financial exposure of Terna and the typical perspective of the Group's non-traditional activities, which have always been considered "non-continuous" operating activities, acquisition of the Tamini Group represents an opportunity to enhance a historical Italian industrial enterprise, recognised as an excellence in the electrical sector in Italy and abroad.

Tamini is a company which operates in the sector of producing and marketing industrial electrical and power transformers and is owned by Luciano Tamini (50%) and Carlo Pavese Tamini (50%). It owns 4 manufacturing facilities situated all in Italy at Legnano, Melegnano, Novara and Valdagno.

The Tamini Group involved in the agreement is made up of the parent company V.T.D. Trasformatori S.r.l., Verbano Trasformatori S.r.l. and Tamini Transformers USA L.L.C.

In 2012 the Tamini Group recorded a value of production of € 119.5 million and EBITDA of € 7.7 million.

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

The following table, prepared in accordance with Art. 149-*duodecies* of the CONSOB Issuers Regulations, reports the fees for 2013 for the audit and non-audit services provided to the Terna Group by the auditing companies.

In €	Entity providing service	Fees due for the year
Independent Auditing of accounts and financial statements	PWC	375,818.70
Attestation services	PWC*	115,500.00
Total		491,318.70

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

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

1. The undersigned Flavio Cattaneo, as CEO, and Luciano di Bacco, as Executive in Charge of the preparation of accounting documents for TERNA S.p.A., also considering that established by art. 154 *bis*, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, certify:
 - the suitability in relation to the business characteristics; and
 - the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements during financial year 2013.
2. The assessment of the suitability of the administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 2013, is based on a set of standards and methodologies defined by Terna S.p.A. in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represents a set of reference standards for the internal control and risk management system, generally accepted worldwide.
3. It is also specified that:
 - 3.1. the consolidated financial statements at 31 December 2013:
 - a. are prepared in compliance with the applicable international accounting standards recognised in the European Community in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002 and the provisions issued in implementation of art. 9 of Italian Legislative Decree no. 38/2005;
 - b. comply with the results of the accounts and accounting entries;
 - c. are suitable to providing a truthful, correct representation of the equity, economic and financial position of the issuer and all companies included in the consolidation;
 - 3.2. the report on operations includes a reliable analysis of the trend and operating result, in addition to the position of the issuer and all businesses included in the scope of consolidation and a description of the main risks and uncertainties to which they are exposed.

Rome, 25 March 2014

Delegated administrative bodies
(Flavio Cattaneo)

Executive in Charge of the preparation of
the Company's accounting documents
(Luciano Di Bacco)

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

2013



Auditors' Report in accordance with Articles 14 and 16 of Legislative Decree no. 39 of 27 January 2010
Consolidated Financial Statements as of 31 December 2013





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

To the Shareholders of
Terna SpA

1. We have audited the consolidated financial statements of Terna SpA and its subsidiaries ("Terna Group") as of and for the year ended 31 December 2013 which comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. The directors of Terna SpA are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards, as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for listed Companies and Stock Exchange. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free from material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference is made to our report dated 16 April 2013.

3. In our opinion, the consolidated financial statements of Terna Group as of and for the year ended 31 December 2013 comply with the International Financial Reporting Standards, as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position as of 31 December 2013, result of operations and cash flows of Terna Group for the year then ended.
4. The directors of Terna SpA are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 presented in the report on corporate governance and ownership structure, with the financial statements, as

PricewaterhouseCoopers SpA

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required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard 1 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob. In our opinion, the report on operations and the information referred to in paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 presented in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of Terna Group as of and for the year ended 31 December 2013.

Rome, 16 April 2014

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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

Separate financial statements
as at 31 December 2013

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2013





Income statement of Terna S.p.A.

In euros	Notes	2013	2012
A. Revenue			
1. Revenue from sales and services	1	1,700,137,891	1,571,587,371
<i>of which: related parties</i>		1,483,460,467	1,329,485,410
2. Other revenue and income	2	67,742,577	88,232,458
<i>of which: related parties</i>		30,286,610	23,943,015
Total revenue		1,767,880,468	1,659,819,829
B. OPERATING EXPENSES			
1. Raw materials and consumables	3	5,286,628	19,158,663
2. Services	4	357,250,218	314,702,350
<i>of which: related parties</i>		307,390,750	236,957,848
3. Personnel expenses	5	47,080,947	81,864,726
- gross personnel expenses		49,466,938	100,406,161
- personnel expenses, capitalised		(2,385,991)	(18,541,435)
<i>of which: related parties</i>		545,755	1,133,842
4. Amortisation, depreciation and impairment	6	400,224,877	373,657,290
5. Other operating expenses	7	45,007,685	41,297,358
<i>of which: related parties</i>		26,687,358	0
Total expenses		854,850,355	830,680,387
A-B Operating profit (EBIT)		913,030,113	829,139,442
C. Financial income/expense			
1. Financial income	8	81,138,959	168,958,289
<i>of which: related parties</i>		15,609,350	19,576,720
2. Financial expense	8	(169,651,874)	(188,308,377)
<i>of which: related parties</i>		(10,439,745)	(12,046,393)
D. Profit before taxes		824,517,198	809,789,354
E. Income taxes	9	369,741,381	346,555,940
F. Net profit for the year		454,775,817	463,233,414

Statement of comprehensive income of Terna S.p.A.

In euros	Notes	2013	2012 Restated
Net profit for the year		454,775,817	463,233,414
Other components of comprehensive income for the year which will be subsequently released to the income statement:			
- <i>Cash flow hedges net of tax effect</i>	19	34,890,956	(18,228,099)
Other components of comprehensive income for the year which will not be subsequently released to the income statement:			
- <i>Actuarial gains (losses) on employee benefits net of tax effect</i>	19	1,944,623	(10,192,659)
Net comprehensive income for the year		491,611,396	434,812,656

Statement of financial position of Terna S.p.A.

Assets

In euros	Notes	at 31.12.2013	at 31.12.2012 Restated	at 01.01.2012 Restated
A. Non-current assets				
1. Property, plant and equipment	10	8,972,615,577	8,202,762,360	7,514,015,690
<i>of which: related parties</i>		71,884,716	60,665,688	37,215,423
2. Goodwill	11	88,577,142	88,577,142	88,577,142
3. Intangible assets	12	267,474,173	275,009,001	273,976,474
4. Non-current financial assets	13	1,708,185,158	1,933,752,467	1,644,659,308
<i>of which: related parties</i>		500,000,000	500,000,000	500,000,000
5. Other non-current assets	14	2,271,725	2,270,927	6,556,985
Total non-current assets		11,039,123,775	10,502,371,897	9,527,785,599
B. Current assets				
1. Inventories	15	729,798	-	12,385,102
2. Trade receivables	16	1,708,481,144	1,862,343,604	1,684,024,162
<i>of which: related parties</i>		429,655,545	439,636,382	125,827,102
3. Current financial assets	13	98,874,733	84,986,254	207,883,933
<i>of which: related parties</i>		2,055,409	2,130,298	3,028,213
4. Cash and cash equivalents	17	1,607,966,194	2,494,454,606	1,114,355,077
5. Income tax assets	18	12,200,000	18,550,327	4,200,000
6. Other current assets	14	66,980,480	53,793,739	17,039,991
Total current assets		3,495,232,349	4,514,128,530	3,039,888,265
Total assets		14,534,356,124	15,016,500,427	12,567,673,864

Statement of financial position of Terna S.p.A.

Liabilities

In euros	Notes	at 31.12.2013	at 31.12.2012 Restated	at 01.01.2012 Restated
C. Equity				
1. Share capital		442,198,240	442,198,240	442,198,240
2. Other reserves		785,854,906	749,019,326	776,373,481
3. Retained earnings		1,145,960,799	1,084,725,786	1,053,482,789
4. Interim dividend		(140,699,440)	(140,699,440)	(160,799,360)
5. Net profit for the year		454,775,817	463,233,414	453,587,554
Total Equity	19	2,688,090,322	2,598,477,326	2,564,842,704
D. Non-current liabilities				
1. Long-term loans	20	8,009,942,333	8,909,431,457	6,738,696,429
<i>of which: related parties</i>		<i>500,000,000</i>	<i>500,000,000</i>	<i>500,000,000</i>
2. Employee benefits	21	23,677,046	24,416,753	104,835,663
3. Provisions for risks and charges	22	114,043,619	121,777,188	142,222,950
4. Deferred tax liabilities	23	109,473,332	126,015,472	173,976,140
5. Non-current financial liabilities	20	80,039,595	141,201,714	111,425,992
6. Other non-current liabilities	24	189,752,483	204,248,431	129,109,886
<i>of which: related parties</i>		<i>71,794,376</i>	<i>87,011,273</i>	<i>0</i>
Total non-current liabilities		8,526,928,408	9,527,091,015	7,400,267,060
E. Current liabilities				
1. Short-term loans	20	269,469,158	249,742,964	181,311,199
<i>of which: related parties</i>		<i>269,469,158</i>	<i>249,742,964</i>	<i>181,311,199</i>
2. Current portion of long-term loans	20	697,790,915	69,366,487	59,689,067
3. Trade payables	25	2,058,245,664	2,288,726,451	2,066,928,533
<i>of which: related parties</i>		<i>622,102,204</i>	<i>497,940,249</i>	<i>65,596,362</i>
4. Tax liabilities	25	28,988,728	50,348,616	88,143,944
5. Current financial liabilities	20	151,432,450	137,108,559	89,813,418
<i>of which: related parties</i>		<i>1,105,000</i>	<i>1,136,889</i>	<i>2,406,806</i>
6. Other current liabilities	25	113,410,479	95,639,009	116,677,939
<i>of which: related parties</i>		<i>708,903</i>	<i>2,498,985</i>	<i>3,962,547</i>
Total current liabilities		3,319,337,394	2,890,932,086	2,602,564,100
Total liabilities and equity		14,534,356,124	15,016,500,427	12,567,673,864

Statement of changes in equity

31 DECEMBER 2012 - 31 DECEMBER 2013

SHARE CAPITAL AND RESERVES OF TERNA S.P.A.

€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve	Other reserves	Retained earnings	Interim dividend	Net profit for the year	Equity
Equity at 31 December 2012	442.2	88.4	20.0	(88.2)	729.5	1,084.7	(140.7)	463.2	2,599.1
Adjustment of opening balances	-	-	-	-	(0.6)	-	-	-	(0.6)
Equity at 31 December 2012	442.2	88.4	20.0	(88.2)	728.9	1,084.7	(140.7)	463.2	2,598.5
Net profit for the year								454.8	454.8
Other comprehensive income:									
- Change in fair value of cash flow hedging derivatives net of tax effect				34.9					34.9
- Actuarial gains (losses) on employee benefits net of tax effect					1.9				1.9
Total other comprehensive income	-	-	-	34.9	1.9	-	-	-	36.8
Net comprehensive income	-	-	-	34.9	1.9	-	-	454.8	491.6
Transactions with equity owners:									
- Allocation of 2012 profit									
- Dividends							140.7	(402.0)	(261.3)
- Retained earnings						61.2		(61.2)	-
- 2013 Interim dividend							(140.7)		(140.7)
Transfer to Terna Plus									-
Total transactions with equity owners and other transactions	-	-	-	-	-	61.2	-	(463.2)	(402.0)
Equity at 31 December 2013	442.2	88.4	20.0	(53.3)	730.8	1,145.9	(140.7)	454.8	2,688.1
31 DECEMBER 2011 - 31 DECEMBER 2012									
SHARE CAPITAL AND RESERVES OF TERNA S.P.A.									
€ million	Share capital	Legal reserve	Share premium reserve	Cash-flow-hedge reserve	Other reserves	Retained earnings	Interim dividend	Profit for the year	Equity
Equity at 31 December 2011	442.2	88.2	20.0	(70.0)	728.7	1,053.4	(160.8)	453.6	2,555.3
Adjustment of opening balances	-	-	-	-	9.5	-	-	-	9.5
Equity at 31 December 2011	442.2	88.2	20.0	(70.0)	738.2	1,053.4	(160.8)	453.6	2,564.8
Net profit for the year								463.2	463.2
Other comprehensive income:									
- Change in fair value of cash flow hedging derivatives net of tax effect				(18.2)					(18.2)
- Actuarial gains (losses) on employee benefits net of tax effect					(10.1)				(10.1)
Total other comprehensive income	-	-	-	(18.2)	(10.1)	-	-	-	(28.3)
Net comprehensive income	-	-	-	(18.2)	(10.1)	-	-	463.2	434.9
Transactions with equity owners:									
- Allocation of 2011 profit									
- Dividends							160.8	(422.1)	(261.3)
- Retained earnings		0.2				31.3		(31.5)	-
- 2012 Interim dividend							(140.7)		(140.7)
Transfer to Terna Plus					0.8				0.8
Total transactions with equity owners and other transactions	-	0.2	-	-	0.8	31.3	20.1	(453.6)	(401.2)
Equity at 31 December 2012	442.2	88.4	20.0	(88.2)	728.9	1,084.7	(140.7)	463.2	2,598.5

Statement of cash flows*

€ million	2013	2012 Restated
Net profit for the year	454.8	463.2
Adjustments for:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and intangible assets (non-current) **	383.4	355.7
Provisions (including employee-related provisions) and impairment	23.8	49.2
(Gains)/Losses on disposals of property, plant and equipment	(1.7)	(5.9)
Financial (income)/expense	90.5	20.7
Income taxes	369.7	346.6
Cash flows generated by operating activities, before changes in net working capital	1,320.5	1,229.5
Increase/(Decrease) in provisions (including employee-related and tax provisions)	(27.3)	(167.2)
(Increase)/decrease in inventories	(0.7)	12.4
(Increase)/decrease in trade receivables and other current assets	127.9	(214.7)
Increase/(decrease) in trade payables and other current liabilities	(207.4)	210.2
Increase/(decrease) in other non-current liabilities	(8.9)	87.0
(Increase)/decrease in other non-current assets	0.0	4.4
Interest income and other financial income received	216.8	324.9
Dividend received	1.1	60.7
Interest expense and other financial expense paid	(309.7)	(400.1)
Income taxes paid	(416.2)	(431.4)
Cash flows generated by operating activities [a]	696.1	715.7
Investments in non-current property, plant and equipment, net of recognised grants	(1,058.6)	(1,088.6)
Proceeds from sale of non-current property, plant and equipment and other changes	(12.8)	71.7
Investments in non-current intangible assets, net of grants received	(47.0)	(53.8)
Capitalised financial expenses	26.3	26.5
Intra-group transactions	(36.6)	16.1
(Increase)/decrease in equity investments	(2.2)	(56.1)
Cash flows used in investing activities [b]	(1,130.9)	(1,084.2)
Changes in reserves	0.0	0.8
Dividends paid	(402.0)	(402.0)
Change in medium/long-term financial payables (including short-term portions)***	(69.4)	1,931.4
Changes in short-term financial investments and the net financial position of the intercompany current a/c	19.8	218.4
Cash flows generated by financing activities [c]	(451.6)	1,748.6
Increase/(decrease) in cash and cash equivalents [a+b+c]	(886.4)	1,380.1
Opening cash and cash equivalents	2,494.4	1,114.3
Closing cash and cash equivalents	1,608.0	2,494.4

(*) For comments on the Statement of Cash Flows, please see the section "NOTES TO THE STATEMENT OF CASH FLOWS" in the Notes To The Financial Statements

(**) Net of set-up grants recognised in the income statement for the year

(***) Net of FVH derivatives

2013



Notes to the Separate Financial Statements



A. Accounting policies and measurement criteria

Introduction

Terna S.p.A., which operates in the electrical energy transmission and dispatching sector, is a joint-stock company with headquarters at Viale Egidio Galbani 70, Rome, Italy.

These Separate Financial Statements were authorised for publication by the Directors on 25 March 2014.

The Separate Financial Statements for the year ended 31 December 2013 are available on demand at Terna S.p.A.'s offices at Viale Egidio Galbani, 70 Rome or on the website www.terna.it.

Compliance with IAS/IFRS

The Separate Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Commission ("IFRS-EU") at that date.

This document has also been prepared by taking into account the provisions of Legislative Decree No. 38 of 28 February 2005, the Italian Civil Code and CONSOB Resolutions Nos. 15519 ("*Provisions governing financial statements in implementation of Art. 9, paragraph 3, of Legislative Decree No. 38/2005*") and 15520 ("*Amendments to the implementing rules for Legislative Decree no. 58/1998*"), both of 27 July 2006, as well as CONSOB Communication No. DEM/6064293 of 28 July 2006 ("*Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public and pursuant to Art. 116 of the Consolidated Financial Act*").

The Separate Financial Statements have been prepared on a historical cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis. The Company, in fact, has determined that, despite the challenging economic and financial environment, it does not face material uncertainties (as defined in paragraph 25 of IAS 1R) that might cast doubt on its ability to continue as a going concern.

Basis of presentation

The Separate Financial Statements consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and the Notes to the Financial Statements.

In the Statement of Financial Position, assets and liabilities are classified on a "current/non-current" basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Company's normal operating cycle. Current liabilities are those expected to be settled in the Company's normal operating cycle or within one year from the reporting date.

The Income Statement is classified on the basis of the nature of costs. The income statement is presented as two statements, the first of which (Income Statement) presents the components of profit or loss for the year; while the second (Statement of Comprehensive Income) starts with the result for the year and then presents the revenue and expense items (including reclassification adjustments) that are recognised in equity rather than profit or loss for the year. The statement of cash flows has been prepared using the indirect method.

The Separate Financial Statements are accompanied by the Management Report for the company and Group, which as from the 2008 financial year has been prepared as a single document, exercising the option granted under Italian Legislative Decree No. 32 of 2 February 2007, which amended Art. 40 (Directors' Report on Operations) of Italian Legislative Decree No. 127 of 9 April 1991.

The Separate Financial Statements have been prepared in euro, while the figures in the notes are given in millions of euro, unless otherwise specified.

The Separate Financial Statements have been prepared using the historical cost method, with the exception of items that are recognised at fair value in accordance with IFRS-EU, as indicated in the accounting policies for each item.

It is opportune to specify that the retrospective entry into force of the new version of IAS 19, starting from 1 January 2013, determined a restatement on the financial comparative balances at 31 December 2012, which entailed an increase in the liability for employee benefits of approximately € 1 million, higher deferred tax assets for approximately € 0.4 million and lower equity reserves for approximately € 0.6 million. The impact on the Income Statement of the year 2012 is instead completely negligible.

Starting from the same date, with non-retrospective application, the new standard IFRS 13 - Fair Value Measurement, also came into effect. In addition to identifying an univocal definition of fair value, this also identifies the general guidelines for measurements in financial statements. For the Company's financial statements the main change is the inclusion of counterparty risk in financial instrument measurement models.

It should also be remembered that, during the previous year the project for the new organisational structure of the Terna Group was launched, in the context of which the subsidiary Terna Rete Italia S.p.A. was delegated to perform all the traditional operating activities, ordinary and extraordinary maintenance and development of the NTG, management and performance of work on developing the grid, connected with implementation of the provisions of the Agreement for Transmission and Dispatching activities and on the basis of guidelines laid down in the parent company Terna's Development Plan. To this end, with effect from 1 April 2012, a business unit rental agreement was signed with Terna with consequent specific intra-group agreements governing the activities.

It follows that the analysis of the differences between the balances of the Company's economic balances with respect to the previous year is affected significantly by this reorganisation, which entailed a reclassification of certain comparative financial balances following a more precise definition of the relationships involved in the business unit rental agreement. Other comparative balances of the Financial Statements at 31 December 2012, in addition, have been reclassified for the purpose of better comparison, without, however, altering the equity figures at 31 December 2012 and those of the Income Statement for 2012.

Use of estimates

The preparation of the Statement of Financial Position and Income Statement in accordance with the IFRSs-EU requires the management to use estimates and assumptions that affect the carrying amounts of assets and liabilities and related disclosures, in addition to contingent assets and liabilities at the reporting date. The estimates and associated assumptions are based on previous experience and various factors that are believed to be reasonable under the circumstances and were applied to measure carrying amounts of assets and liabilities that are not readily apparent from other objective sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the income statement for the year, if they relate solely to that period. In the case that the review affects both current and future years, the change is recorded in the year in which the estimate is reviewed as well as in the relative future years.

The aforementioned first application of IFRS 13 involves a change in the estimate of the mark to market (MTM) of positions in derivatives: the fair value of the portfolio is adjusted for the CVA (Credit Valuation Adjustment) component, which measures the credit risk of counterparties, and that of DVA (Debit Valuation Adjustment) which instead measures the Company's credit risk. The method of calculation used consists in the weighting of the MTM expected monthly until maturity for the corresponding default probability during the period of the counterpart, as expressed in the following formula:

$$CVA/DVA = \sum PD \times EAD \times LGD$$

with Pd= probability of default, EAD= Exposure at default and LGD= Loss Given Default, considered to be 60%* (1 - recovery rate) according to market practice;

*Source: Reuters, Bloomberg, Moody's, S&P, Fitch

Once the probabilities of default had been calculated from the Credit Default Swaps (CDSs) for the banking counterparties and from the levels on the secondary of own bonds for the Company, the marginal probabilities of default were then calculated and applied to the single MTMs expected at the various dates. The sum of the marginal default probabilities applied to the various values of MTM expected and corrected by the LGD component provides the value of the CVA/DVA relative to the derivative.

The MTM values expected were calculated with the internal pricing system based on the forward market rates at the valuation date and the expected loss is instead assumed to be 60% following market practice.

The critical areas for key estimates and assumptions used by management in applying the IFRSs endorsed by the European Commission that could have significant effects on the Separate Financial Statements or that could give rise to risks that would entail significant adjustments to the carrying amount of assets and liabilities in subsequent years are summarised below.

Employee benefits

The liability for employee benefits paid upon or following termination of employment in relation to defined benefit plans or other long-term benefits is recognised net of any plan assets and is measured on the basis of actuarial assumptions, estimating the amount of future benefits that employees have vested at the reporting date. The actuarial valuations used to quantify employee benefits (of all plans except termination benefits) were made on the basis of the "vested benefits"

method by means of the “Projected Unit Credit” (PUC) criterion. These valuations are based on economic and demographic assumptions: discounting rate (used to determine the current value of the obligation, determined considering the return of high quality bond securities in line with the duration of the group of workers measured), inflation rate, rate at which future salary levels increase, increase rate of average health reimbursement, increase rate of electric consumer goods prices and demographic techniques, such as, for example, mortality and invalidity, retirement, resignation, advances and family members.

Provisions for risks and charges

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

Impairment losses

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

The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually.

The recoverable amount is equal to the greater of the fair value less costs to sell and value in use. Value in use is measured by discounting estimated future cash flows considering information available at the time of estimate and on the basis of subjective assessments of the performance of future variables such as prices, costs, demand growth rates, production profiles, and discounted at a pre-tax rate that reflects current market assessment of the time value of money for the investment period and risks specific to the asset. If the intangible asset does not generate cash inflows that are largely independent, the asset’s recoverable amount is calculated as part of the “Cash Generating Unit (CGU)” to which it belongs.

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

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

Allowance for doubtful accounts

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

Investments in subsidiaries and associates

Investments in subsidiaries are those in entities over which Terna has the power to directly or indirectly govern financial and operating policies so as to obtain benefits from their activities. Investments in associates are those in entities over which Terna has significant influence.

In assessing whether or not the Company has control or significant influence, potential voting rights that are presently exercisable or convertible are considered.

Investments in subsidiaries and associates are measured at cost, reduced to reflect impairment losses. If the reasons for the impairment losses no longer exist, the carrying amount of the investment is reinstated within the limits of the impairment losses, and the reversal is taken to the Income Statement.

In the event that an investee’s losses attributable to the shareholders of the Parent Company exceed that investments’ carrying amount, any excess is recognised in a specific provision, where the Parent Company is required to meet the legal or construction obligations of the investee or, in any case, to cover its losses.

Translation of foreign currency items

Terna S.p.A. prepares its financial statements in euro, which is also the functional currency. In these financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at year end. Any exchange rate differences are taken to the Income Statement. Non-monetary assets and liabilities in foreign currency stated at historic cost are converted at the exchange rate prevailing when the transaction was initially recognised. Non-monetary assets and liabilities in foreign currency stated at fair value are converted at the exchange rate prevailing when fair value was measured.

Property, plant and equipment

Property, plant and equipment are recognised at historical cost, including costs directly attributable to putting the asset in the condition necessary for it to be capable of operating in the manner for which it was acquired. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of disposal or removal of the asset. The corresponding liability is recognised in provisions for risks and charges. Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation pursuant to IAS 23R are capitalised as part of the cost of the asset. For more information, please see the section “Financial income and expense” below. Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Company and if the cost can be reliably measured. All other costs are recognised in profit or loss when incurred.

Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognised and depreciated separately.

Certain assets that were revalued at 1 January 2005 (transition date) or previously are recognised at the revalued amount, which is considered deemed cost at the date of the revaluation.

Property, plant and equipment are shown net of accumulated depreciation and any impairment losses, which are measured as described below. Depreciation is calculated on a straight-line basis over the estimated useful economic life of the asset, which is reviewed annually, with revisions applied on a prospective basis. The depreciation of assets begins when the assets become available for use.

Liabilities associated with items of property, plant and equipment are taken to a specific provision as a balancing entry to the related asset. The amount is taken to profit or loss through the depreciation of the asset.

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

DEPRECIATION RATES

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

Land, regardless of whether it is free of construction or related to civil and industrial buildings, is not depreciated, since it has an indefinite useful life.

Property, plant and equipment acquired under finance leases - and through which the Group has substantially acquired all the risks and rewards of ownership - are recognised as Company assets at the lower of fair value and the present value of minimum lease payments due, including any amounts to be paid to exercise the purchasing option. The corresponding liability to the lessor is recognised under financial payables. Assets are depreciated using the criteria and rates described above. If the company is not reasonably certain that it will acquire ownership at the end of the lease, the asset is depreciated over the shorter of the term of the lease and the asset’s useful life.

Leases in which the lessor maintains substantially all the risks and rewards of ownership are classified as operating leases. Costs related to operating leases are taken in full to profits or losses over the term of the lease.

Intangible assets

Intangible assets, which all have finite useful lives, are recognised at cost, having obtained, if necessary, the approval of the Board of Statutory Auditors, and shown net of accumulated amortisation and any impairment losses, measured as described below.

Amortisation begins when the asset becomes available for use and is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions to estimated figures are applied on a prospective basis.

Intangible assets essentially regard the exclusive license to carry out electricity transmission and dispatching activities and other intangible assets. In particular, the parent company Terna S.p.A. obtained the license for electricity transmission and dispatching activities in Italy on 1 November 2005 when it acquired the TSO business unit. As established in the Decree issued by the Ministry of Productive Activities on 20 April 2005, this license runs for twenty-five years, renewable for another twenty-five years, from the date of effective transfer of the activities, functions, assets and legal arrangements of the concession from GSE (formerly NTGO) to Terna S.p.A.. This intangible asset was initially recognised at cost, which reflected fair value.

Other intangible assets mainly relate to the following:

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

Development costs are capitalised by the Company only if all following conditions are met: costs can be reliably estimated and there are technical possibilities and intent to complete the intangible asset so as for it to be available after use; the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset pursuant to IAS 23R are capitalised as part of the cost of the asset. For more information, please see the section “Financial income and expense” below.

All other development costs and research expenses are recognised in profit or loss when incurred.

These intangible assets are amortised over their estimated residual useful life, which is normally three years, given their rapid obsolescence.

Rights on the infrastructure

These include the property, plant and equipment and intangible assets employed in the dispatching activity, carried out under concession, which fall within the scope of application of IFRIC 12, since the relevant criteria apply: the services provided are regulated and control exists over the residual interest. More specifically, in view of the rate system for dispatching activities, the Intangible Asset model has been applied, as provided for in the Interpretation.

The revenue and costs relating to the investment in dispatching activities are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase is limited to the amount of the internal and external construction costs incurred, considering that the fair value of the construction services is equivalent to the construction cost recognised to third-party contractors plus the internal cost of the technical personnel employed on such construction activities. The assets continue to be amortised and depreciated in accordance with the initial schedule.

By contrast, tariff revenue continues to be recognised in accordance with IAS 18 and borrowing costs continue to be capitalised pursuant to IAS 23R.

IFRIC 12, instead, is not applicable to the Company’s concession for the part relating to the transmission activities, since neither the concession nor related legislation envisage that the NTG will return to public ownership, either via the payment of an indemnity or otherwise.

Goodwill

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

Inventories

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

Contract work in progress

When the profit or loss on a contract can be reliably estimated, the related contract costs and revenue are recognised separately in the Income Statement on a percentage of completion basis. Progress is measured based on the work carried out and measured proportionally to the ratio of costs for the works carried out up to the reporting date and total cost of the contract (cost-to-cost). Differences between the value of completed contracts and payments on account received are recognised under Statement of Financial Position assets or liabilities, considering any impairment losses on the work carried out so as to take into account the risks of customers’ refusal to recognise the work performed. Expected contract losses are immediately taken to profit or loss.

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

Financial instruments

Financial assets

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

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method, and net of any impairment losses due to sums considered non-recoverable, which are taken to the specific allowance for impairment. Impairment losses are measured on the basis of the present value of estimated future cash flows, discounted at the original effective interest rate.

Receivables with due dates that fall under normal commercial terms are not discounted.

Cash and cash equivalents

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

Trade payables

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

Financial liabilities

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

Derivative financial instruments

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

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

Changes in the fair value of derivatives that do not meet hedge accounting requirements in accordance with the IFRS-EU are recognised in profit or loss.

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

Financial and non-financial contracts (which are not already measured at fair value) are also analysed to identify any “embedded” derivatives, which must be separated and measured at fair value. This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows.

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

Employee benefits

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

As already specified above, starting from 1 January 2013 the Company applied retrospectively the new “IAS 19 - Employee Benefits”; consequently some comparative balances of the year 2012 were adjusted to take account of the change in the accounting model.

Provisions for risks and charges

Accruals to the provisions for risks and charges are recognised when, at the reporting date, the Company has a legal or constructive obligation towards others as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, accruals are measured by discounting estimated future cash flows using a pre-tax discount rate that reflects current market assessment of the time value of money and the specific risk associated with the liability, if present. Where discounting is used, the increase in the provision due to the passage of time is recognised in the Income Statement as interest expense. If the liability relates to property, plant and equipment (site disposal and restoration, for example), the provision is recognised as a balancing entry to the asset to which it relates. The expense is recognised in profit or loss through depreciation of the item of property, plant and equipment to which it relates.

Changes in the estimate are recognised within the income statement for the year in which the change happens, except for those costs expected for dismantling, removal and reclamation, which come as a result of changes in the timing and use of economic resources necessary to extinguish the obligation or attributable to a material change in the discount rate, which are recognised as an increase or reduction of the related assets and recognised in profit or loss through depreciation.

Grants

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

Revenue

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

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

Financial income and expense

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

Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where funds are raised through general borrowing, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool, excluding any specifically borrowed funds. The amount of borrowing costs capitalised during a year shall in any case not exceed the amount of borrowing costs incurred during that year.

Capitalisation commences as from the date all the following conditions have been met: (a) expenditures have been incurred for the asset; (b) borrowing costs have been incurred; and (c) activities to prepare the asset for its intended use or sale are in progress.

Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.

The capitalisation rate used for 2013 amounts to 2.06% and that for 2012 amounts to 2.60%.

Financial income and expense other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities using the effective interest rate.

Dividends

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

Income taxes

Current income taxes are recognised as "Tax liabilities", net of advances paid, or "Tax assets" where the net balance of the captions is positive. They are based on the estimated taxable income and in accordance with current legislation, taking account of applicable exemptions.

Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities recognised in the separate financial statements and the corresponding amounts recognised for tax purposes, using current tax rates or the rates expected to be in effect when the temporary differences reverse, based on current rates or those that are substantially approved at the reporting date.

Deferred tax assets are recognised when their recovery is considered probable, i.e. when future taxable income will be available against which the asset can be used. The recoverability of deferred tax assets is reviewed at each year end.

Deferred tax liabilities are recognised in any case if they exist. Taxes relating to items recognised directly in equity are also allocated to equity.

New standards

International accounting standards taking effect from 1 January 2013

The following international accounting standards and related interpretations took effect from 1 January 2013:

Amendment to IAS 19

On 5 June 2012 the European Union endorsed the amendment to "IAS 19 - Employee Benefits", which introduces changes to the recognition and measurement of costs relating to employee benefits, such as severance indemnities and the requirements for disclosure of all employee benefits. The amendment eliminated the option to defer the recognition of actuarial gains and losses using the corridor approach and provided for the recognition of the cost connected with services rendered and net financial expenses on the Income Statement, and the recognition of actuarial gains and losses deriving from remeasurements of assets and liabilities to be presented in "Other Comprehensive Income" (OCI). Additionally, the return on assets included amongst net financial expenses must be calculated according to the liability discount rate and no longer on the forecast return on the assets. Finally, the amendment also introduces new additional information to be provided in the notes to the financial statements. For more details on the application methods and on the relative effects on the data presented for comparative purposes, please refer to the paragraph "Basis of presentation" mentioned above.

Amendment to IAS 1

Endorsed on 5 June 2012, the amendment to "IAS 1 - Presentation of Financial Statements" requires, among other things, that all comprehensive income items presented in "Other Comprehensive Income" (OCI) be grouped together according to whether they may or may not be reclassified to profit or loss. The amendment primarily impacted on the disclosure of these Explanatory Notes.

IFRS 13 – Fair Value Measurement

On 11 December 2012, the European Commission approved standard IFRS 13, which seeks to increase consistency and comparability in fair value measurements and related disclosures through a "fair value hierarchy". The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to prices quoted in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. For the separate financial statements the main change is the inclusion of counterparty risk in financial instrument measurement models. Adoption of the new standard entailed, at 31 December 2013, a reduction in the value of fair value hedging derivatives, of € 0.5 million and a reduction in the value of cash flow hedging derivatives of € 0.1 million.

Improvement to IFRSs (2009-2011 Cycle)

On 27 March 2013, the Annual Improvement was approved relative to the 2009-2011 cycle, incorporating changes to the standards (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34) under the scope of the annual improvement process for the international accounting standards, focusing on amendments considered to be necessary but not urgent; of these, we note the following as relevant to the Company:

- “IAS 1 - Presentation of Financial Statements” - Comparative information: this clarifies that should additional comparative information be provided, it must be presented in accordance with the previous comparative period. Moreover, it is also clarified that in the event that an entity should amend an accounting standard or carry out a rectification/reclassification retrospectively with a significant (material) effect on the information given in the financial-equity position at the start of the previous period, this same entity must present a third statement/column on the opening balance sheet (relative to the start of the previous period), whilst it will not be necessary to present the explanatory notes to the opening column;
- “IAS 16 - Property, Plant and Equipment” - Classification of servicing equipment as “Property, Plant and Equipment” if used for more than one financial year or to inventories if used for just one year;
- “IAS 34 - Interim Financial Reporting” - Clarifies that all assets of a specific “operating segment” must only be stated when the amounts are regularly provided to the chief operating decision-maker and there have been significant (material) changes in all assets with respect to the previous annual financial statements for the segment subject to disclosure. These amendments have not had a significant impact on the separate financial statements at 31 December 2013.

During the period, the following standards also came into effect, governing cases that are currently not relevant for the Company’s financial statements:

- amendment to “IFRS 7 - Financial Instruments: Disclosures” - Offsetting Financial Assets and Financial Liabilities, requires additional disclosures regarding the actual or potential effects of the application of rules of offsetting financial assets and liabilities;
- “IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine” - accounting treatment of the costs of stripping a surface mine, to be recognised during production;
- amendment to “IFRS 1 - Government Loans” on accounting for government grants (IAS 20) for entities that apply the IFRSs for the first time.

International financial reporting standards endorsed but not yet in force

As of the date these financial statements were prepared, the European Commission has endorsed a number of accounting standards. The possible impact of their application on Terna’s financial statements is being assessed. These accounting standards are listed below.

New accounting standards on consolidation

On 11 December 2012 the European Commission endorsed the following 5 standards (IFRS 10, IFRS 11, IFRS 12, IAS 27 Amended, and IAS 28 Amended), the first application of which is established for 1 January 2014, specifically:

IFRS 10 – Consolidated Financial Statements

The standard introduces a single control model that is valid for all types of entity, superseding “SIC 12 - Consolidation of SPEs” (Special Purpose Entities) and removing from IAS 27 the part relating to control and consolidation. In particular, the standard introduces a new definition of control, based on the investee (a company actually or potentially controlled) and the investor (the Parent Company drawing up the statutory financial statements), which has control if it is exposed, or has variable returns from its involvement in the investee and has the possibility of affecting these returns through its power over the investee. Additionally, in identifying the investor it is essential to consider both potential but substantive voting rights, where the holder has the real possibility of exercising these rights, and actual control, understood as the possibility of unilaterally guiding activities. The first adoption of the standard will be retrospective.

IFRS 11 – Joint Arrangements

The new standard introduces important simplifications as it supersedes the classification into three types envisaged by IAS 31. The new classification is based on analysing the rights and obligations arising from the arrangement and establishes only two types: Joint Operations and Joint Ventures. The first derive from a non-structured arrangement through a separate vehicle by the parties, which determines rights on the assets and obligations from liabilities. For accounting purposes, the controlling share of assets, liabilities and corresponding costs and revenue are recognised. The second, on the other hand, are classified as joint ventures where there are structured arrangements through an SPE that is separated from the parties. In this case, the entity must carry out assessments based on the legal form of the “SPE”, the contractual terms and the other facts and circumstances from which the rights over the net assets of the agreement derive. For joint ventures, the standard provides for the elimination of the proportional consolidation method, replaced by the equity method only. The new standard therefore replaces IAS 31 and SIC 13.

IFRS 12 – Disclosure of interest in other entities

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

Amendment to IAS 27 – Separate Financial Statements

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

Amendment to IAS 28 – Investments in Associates and Joint Ventures

The amendment to IAS 28 (as amended in 2011) sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

In addition in this context the following amendments were endorsed:

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

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

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

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

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

On 19 December 2013, the European Commission endorsed the amendment to the standard IAS 36 - Impairment of Assets, which provides clarifications regarding disclosure to be provided in case of impairment of assets, when the recoverable value was determined as “fair value less costs to sell” and, furthermore, sets out limits on the obligation of indicating in the disclosures the recoverable value of the assets or the Cash Generating Units (CGU). First adoption is set for 1 January 2014.

Amendment to IAS 39 – Novation of derivatives and continuation of hedge accounting

The amendment to IAS 39 was endorsed on 19 December 2013. It defines certain exemptions to the Hedge Accounting requirements when, owing to new laws or regulations, an existing derivative must necessarily be replaced with a new instrument with a Central Counterparty (CCP); in these cases (novation), the amendment allows the hedging to continue regardless of the novation. The date of effectiveness is set for the financial years that begin from 1 January 2014.

In addition the European Commission endorsed the amendment to IAS 32 – Financial Instruments: Presentation – “Offsetting Financial Assets and Financial Liabilities”, which provides clarifications on the presentation of offset financial instruments. The amendment, which will come into force on 1 January 2014, governs a case currently not relevant to the Company’s financial statements.

International financial reporting standards not yet endorsed

For amendments, new standards and interpretations that have not yet been endorsed by the EU, but which address issues that affect or could affect Terna, assessments are currently being conducted of the possible impact of their application on its financial statements, taking account of the date on which they take effect. This assessment covers the standards and interpretations listed below.

IFRS 9 - Financial Instruments

On 12 November 2009 the IASB published the standard “IFRS 9 - Financial Instruments” on the classification and measurement of financial assets applicable no longer as from 1 January 2015 but, as proposed by the IASB amendment published on 19 November 2013, which postpones entry into force of the standard until the entire project has been completed. The new standard arises from a complex procedure, divided into various different stages that aims to entirely replace IAS 39; for the stages currently published by the IASB, the new standard defines the criteria for classification of financial assets and liabilities and for derecognition of financial assets from the financial statements. More specifically, to determine the measurement criteria of financial assets, it introduces a unique approach that, replacing the many different methods in IAS 39, is based on the methods by which financial instruments are managed and on the characteristics of the contractual cash flow of the financial assets themselves. On the contrary, for financial liabilities, the main change concerns the presentation in “Other Comprehensive Income” (OCI) of the effects of changes in the fair value assigned to the credit risk of liabilities measured at fair value, which will no longer be recognised in profit or loss.

In addition, on 19 November 2013 the IASB published the document “IFRS 9 – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39”, which completed the stage of the project on Hedge Accounting. Among the main changes introduced by the document we can note the substantial revision of hedge accounting so that it reflects better in the financial statements the risk management activities and the removal, as mentioned above, of the mandatory date of effectiveness.

Finally, note that the IFRS 9 adoption process is currently suspended in the EU, given that the European Commission intends to proceed with approval of the standard only upon conclusion of the definitive standard publication process by the IASB, when replacement of IAS 39 has been completed.

Interpretation IFRIC 21 - Levies

On 20 May 2013, the IASB published the interpretation of IFRIC 21 - Levies in order to clarify when to set aside a liability in case of levies imposed by the government.

Amendment to IAS 19 – Defined Benefit Plans Employee Contributions

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

Improvement to IFRSs (2010-2012 Cycle) and (2011-2013 Cycle)

On 12 December 2013 the IASB published the annual Improvements relating to the cycles 2010-2012 and 2011-2013, which incorporate respectively the changes to the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38 and the standards IFRS 1, IFRS 3, IFRS 13 and IAS 40.

IFRS 14 – Regulatory Deferral Accounts

On 30 January 2014 the IASB published the interim standard related to the Rate-Regulated Activities project, IFRS 14 Regulatory Deferral Accounts. IFRS 14 permits only those who are adopting the IFRSs for the first time to continue to recognise amounts relating to rate regulation, if permitted by the national accounting standards adopted. In order to improve the comparability with entities that already apply the IFRSs and that do not recognise these amounts, the standard requires that the rate regulation effect must be presented separately from the other items. The standard applies starting from 1 January 2016 but early adoption is permitted.



B. Notes to the income statement

Revenue

1. Revenue from sales and services - € 1,700.1 million

The table below details “Revenue from sales and services” for 2013 and 2012:

€ million	2013	2012	Change
Grid transmission fees	1,455.9	1,344.5	111.4
Adjustments for prior year grid transmission fees	11.9	(0.7)	12.6
Other energy revenue	181.8	161.3	20.5
Other revenue from sales and services	50.5	66.5	(16.0)
Total	1,700.1	1,571.6	128.5

Grid transmission fees and related adjustment

The item, of € 1,467.8 million, consists of the revenue of the “core business” referred to the remuneration due to the Company for use of the National Transmission Grid.

Net of contingent assets (+€ 12.6 million) which include among other things adjustments connected with the revision of the network perimeters (€ 6.7 million to the subsidiary Terna Rete Italia S.r.l.), the increase in the remuneration of the Grid (+€ 111.4 million) is mainly attributable to:

- effects of the AEEG Resolution 565/2012 which updated among other things the remuneration for the disbursement of the transmission services (+€ 95.4 million);
- grid transmission fees related to the Defence Plan (+€ 16 million).

Other energy revenue

This refers mainly to the price paid to the Company by the electricity operators for the dispatching service (DIS component, € 114.6 million), to premiums/penalties deriving from the mechanism connected to the quality of the transmission service – RENS pursuant to AEEG Resolution 197/11 (€ 23.5 million), and to the incentive mechanism linked to the reduction in volumes procured on the Market for Dispatching Services pursuant to AEEG Resolution 213/09 (€ 13.1 million); the item also contains revenue from the construction and development of dispatching infrastructures recognised following application of IFRIC 12 (€ 30.8 million). We should note that, as specified in the section “A. Accounting policies and measurement criteria”, this last revenue corresponds to the costs incurred during the year to purchase raw materials and consumables, services as well as personnel expenses which are included in operating expenses.

The increase in Other energy revenues, of € 20.5 million, was due essentially to the combined effect of the following factors:

- update of the Remuneration System for dispatching activities (+€ 7.4 million);
- net increase in premiums/penalties for service quality, recognised in the year (+€ 20 million), referable to the effects of the RENS incentive mechanism for the transmission service - pursuant to Res. 197/11 (a total of +€ 29.5 million compared with the previous year), partially offset by higher revenue recognised in the previous year for the incentive given to Terna on the Market for Dispatching Services, provided for in Resolution 213/09 (-€ 9.5 million);
- a reduction of € 6.6 million as a result of lower investments made in dispatching infrastructures compared to the previous year.

Pass-through revenue/costs

This item includes revenue and costs of a “pass-through” nature (whose balance is therefore nil). They arise in respect of daily purchases and sales with operators on the electricity market to carry out dispatching activities. To this end, the measurements at each point of input and withdrawal are taken and the differences from the energy market schedules are calculated. These differences (called imbalances) are measured using algorithms established by the regulatory framework. The net charge resulting from the measurement of these imbalances and of the buying and selling transactions executed by the Parent Company Terna on the Market for Dispatching Services are billed on a pro rata basis to each consumer with the uplift fee.

It also includes the remuneration paid by Terna to the other owners of the grid.

The components of these transactions are detailed below.

€ million	2013	2012	Change
Revenue – Power Exchange			
- foreign market - exports	0.4	0.8	(0.4)
- Sale of energy on the Day Ahead Market, Adjustment Market, Market for Dispatching Service and others	337.8	408.1	(70.3)
- imbalances and other minor items	783.8	1,323.6	(539.8)
- resources procurement for the Market for Dispatching Services	1,953.4	1,528.9	424.5
- congestion rent - DCT Res. no. 288/06	879.3	930.6	(51.3)
- other items - Power Exchange	53.3	67.6	(14.3)
- Interconnector/shipper	72.8	73.1	(0.3)
- Market coupling Res. 143/10	65.5	268.3	(202.8)
Total revenue - Power Exchange	4,146.3	4,601.0	(454.7)
Revenue components under Res. nos. 168/04 - 237/04 and others	1,302.5	1,330.4	(27.9)
Other items	341.2	378.8	(37.6)
Revenue from grid transmission fees of other owners and NTGO share CIP/6	207.2	194.5	12.7
Total revenue from outside the Power Exchange	1,850.9	1,903.7	(52.8)
Total pass-through energy revenue	5,997.2	6,504.7	(507.5)
Energy purchases:			
- on Day Ahead Market and Adjustment Market	171.0	131.2	39.8
- to provide the dispatching service	1,964.6	1,667.1	297.5
- for unbalancing	807.9	1,314.3	(506.4)
- on the foreign market - imports	1.6	3.1	(1.5)
- Electricity Market Operator fees	0.4	0.6	(0.2)
- congestion revenue - rights for use of transportation capacity (RTC), Res. No. 288/06	579.6	618.3	(38.7)
- other items - Power Exchange	43.9	61.7	(17.8)
- Interconnector/shipper	542.8	567.9	(25.1)
- Market coupling Res. 143/10	34.5	236.8	(202.3)
Total costs - Power Exchange	4,146.3	4,601.0	(454.7)
Purchase of electricity-market related services	1,302.5	1,330.4	(27.9)
Other items	341.2	378.8	(37.6)
Fees to be paid to NTG owners, to the NTGO and other	207.2	194.5	12.7
Total services and fees	1,850.9	1,903.7	(52.8)
Total pass-through energy costs	5,997.2	6,504.7	(507.5)

Other revenue from sales and services

The item "Other revenue from sales and services" amounts to € 50.5 million and for the most part refers to revenue from:

- administrative services to the subsidiaries (€ 35.2 million, of which € 33.7 million for services rendered by Terna Rete Italia S.p.A.);
- diversified specialised activities in the field of high and extremely-high voltage, which the company provides third parties clients (€ 9.5 million);
- NTG connection services of production plants and property of end users (€ 0.6 million);
- line design for interconnection with abroad (€ 1.8 million);
- the contribution due to the Company related to the cost incurred for electricity discounts to its employees (€ 2.5 million).

The difference in the item (-€ 16.0 million) is partly due to the organisational restructuring of the Terna Group, carried out in 2012, as part of which the subsidiary Terna Rete Italia S.p.A. was made responsible for performing the activities of management, and ordinary and extraordinary maintenance of the NTG and also for technical dispatching and operating services starting from second quarter 2012. There were in fact lower revenues for orders, work and services rendered to third parties (€ 8.4 million) and for intercompany services to the subsidiaries (€ 7.5 million), related mostly to technical services rendered in the first quarter 2012 to the subsidiary Terna Rete Italia S.r.l..

2. Other revenue and income - € 67.8 million

“Other revenue and income” for the years 2013 and 2012 are analysed in the following table:

€ million	2013	2012	Change
Rental income	22.5	31.2	(8.7)
Business unit rent	24.3	17.7	6.6
Sundry grants	11.0	15.0	(4.0)
Contingent assets	3.5	1.5	2.0
Gains on the disposal of plant components	2.2	6.0	(3.8)
Sales to third parties	1.5	4.8	(3.3)
Insurance settlements for losses	0.6	1.4	(0.8)
Other revenue	2.2	1.6	0.6
Contractual penalties at suppliers' expense	0.0	9.0	(9.0)
Total	67.8	88.2	(20.4)

Under the item “Other revenue and income”, the significant sub-items are related to the revenue from the subsidiary Terna Rete Italia S.p.A. deriving from the business unit rental accruing to the year (€ 24.3 million), rental income mostly for housing the Wind Group’s optical fibre on the company-owned network (approximately € 17.2 million), the utilisation by Enel Distribuzione of the infrastructures for the purpose of power line communication belonging to the Company (€ 1.5 million), and for making available areas that can be equipped in favour of the subsidiaries Terna Rete Italia S.p.A. and Terna Plus S.r.l., in order to position employee workstations (€ 2.2 million and € 0.4 million respectively).

The decrease in the item of € 20.4 million was essentially due to higher revenue recognised in 2012 and more specifically related to:

- revision of the previous 2009/2011 revenues related to fibre optic housing carried out in the previous year (€ 9.8 million);
- penalties charged in 2012 to third party suppliers (-€ 9 million) for breaches of contract basically in relation to works/supplies for the SA.PE.I. underwater cable;
- higher contributions for connections recognised in the previous year (-€ 4 million);
- sale to the subsidiary Terna Rete Italia S.p.A. in the previous year of the warehouse as a consequence of renting the business unit (for € 3.2 million);

shown net of the higher income recognised in 2013 from the subsidiary Terna Rete Italia S.p.A. for the business unit rent (+€ 6.6 million, compared to the figure related to the last nine months of the previous year).

Operating expenses

3. Raw materials and consumables - € 5.3 million

The item, of € 5.3 million, shows the value of purchases of sundry materials and supplies, mostly related to fuel for managing the vehicle fleet, as well as costs of materials used in investments in the Company's dispatching infrastructures³⁶ (€ 1.4 million).

The reduction of € 13.8 million with respect to the previous year (€ 19.1 million in 2012) was mainly due to ordinary maintenance work carried out on plants directly by the subsidiary Terna Rete Italia S.p.A. as from the second quarter of the year, and to increased investments in dispatching infrastructures made by the Company in 2012 (-€ 5.5 million).

4. Services – € 357.3 million

The table below details "Services" for 2013 and 2012:

€ million	2013	2012	Change
Technical and administrative intercompany services	301.2	236.4	64.8
Tenders on plants	2.7	11.5	(8.8)
Maintenance and sundry services	24.0	31.3	(7.3)
Remote transmission and telephone	9.5	12.9	(3.4)
IT services	4.2	7.2	(3.0)
Insurance	6.9	6.7	0.2
Leases and rentals	8.8	8.7	0.1
Total	357.3	314.7	42.6

The breakdown of the balance and differences with respect to the previous year of "Services" is particularly influenced by the reorganisation of operating activities within the Terna Group during second quarter 2012.

The main contribution is, in fact, made by costs applicable to the enforcement of specific contracts stipulated with the subsidiary Terna Rete Italia S.p.A. (€ 300.6 million), mostly related to technical maintenance and operation services on company-owned systems (€ 266.0 million), to investment activities for the development of dispatching infrastructures – pursuant to IFRIC 12 (€ 25.7 million), to activities and services carried out on third-party systems (€ 2.8 million), and to remuneration for investment activity for development of systems (€ 4.1 million).

The item also includes amounts paid to third parties relating to tenders and services for routine maintenance operations and plant maintenance (€ 2.7 million), for other maintenance, professional services and expenses for general services (€ 24.0 million), remote transmission and telephone services (€ 9.5 million), IT services (€ 4.2 million), leases and rentals (€ 8.8 million), and insurance (€ 6.9 million). It is specified that the costs relating to remuneration of the Board of Statutory Auditors for the period amounted to € 0.2 million.

The increase in the item of € 42.6 million is attributable to the aforementioned reorganisation process; in particular the change was mainly due to:

- higher amounts paid to the subsidiary Terna Rete Italia S.p.A. (+€ 64.2 million) substantially for technical maintenance and operation services for company-owned plants (+€ 62.8 million) and for investments in developing dispatching infrastructures – pursuant to IFRIC 12 (+€ 2.0 million);
- reduction of costs relating to third-party services for contracts and routine maintenance operations and maintaining the efficiency of systems (-€ 8.8 million), professional and general services such as vehicle hire, remote transmission and telephone services (-€ 5.8 million), IT services (-€ 3.0 million) and also for surveillance and other property services (-€ 2.5 million).

(36) Recognised pursuant to IFRIC 12.

5. Personnel expenses – € 47.1 million

Personnel expenses break down as follows:

€ million	2013	2012	Change
Wages, salaries and other short-term employee benefits	38.5	93.3	(54.8)
Directors' fees	2.0	1.9	0.1
Termination benefits, electricity discount and other post-employment benefits	2.5	5.9	(3.4)
Early retirement incentives	6.5	(0.7)	7.2
Personnel expenses, gross	49.5	100.4	(50.9)
Personnel expenses, capitalised	(2.4)	(18.5)	16.1
Total	47.1	81.9	(34.8)

This item includes the cost of wages and salaries, social security contributions and other costs incurred by the Company for voluntary early retirement incentives, as well as benefits paid to employees who stay with the Company and termination benefits provided for by the current national collective employment contract for the electricity sector.

The € 34.8 million reduction in personnel expenses was essentially due to the transfer of employees included in the business unit rented to Terna Rete Italia S.p.A. starting from second quarter 2012.

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

	Average number		Final number	
	2013	2012	31.12.2013	31.12.2012
Senior management	25	37	26	23
Junior management	134	227	136	128
Office staff	192	637	210	182
Production workers	-	245	-	-
Total	351	1,146	372	333

Following the transfer of employees to the subsidiary Terna Rete Italia S.p.A., the net change in the average number of employees recorded with respect to FY 2012 is -795 units.

For the reconciliation of the opening and closing present value of the liability for employee benefits and the main assumptions used in the actuarial estimate, see section "21. Employee benefits".

6. Amortisation, depreciation and impairment – € 400.2 million

The item relates to allocations during the year calculated on the basis of amortisation and depreciation rates that reflect the useful lives of the Company's plant, property and equipment and intangible assets (a total of € 394.4 million), and the impairment of trade receivables, which are considered unlikely to be collected (€ 5.8 million).

The breakdown of and changes in the item during the year is shown in the following table:

€ million	2013	2012	Change
Amortisation of intangible assets	54.5	52.8	1.7
- of which: infrastructure rights	33.1	29.5	3.6
Depreciation of property, plant and equipment	339.9	317.8	22.1
Impairment of property, plant and equipment and tangible assets	-	0.1	(0.1)
Impairment of trade receivables	5.8	3.0	2.8
Total	400.2	373.7	26.5

The € 26.5 million increase in the item reflects, in particular, the growth of amortisation/depreciation, owing mainly to entry into operation during the year of new property, plant and machinery and intangible assets (greater depreciation of +€ 22.1 and amortisation of +€ 1.7 million, respectively).

The change was also due to the increase in the impairment of trade receivables (€ 2.8 million), considered unlikely to be collected.

7. Other operating expenses – € 45.0 million

Other operating expenses break down as follows:

€ million	2013	2012	Change
Service quality expenses	26.1	2.2	23.9
Taxes, duties and local levies	8.4	23.5	(15.1)
Contingent liabilities	1.7	5.0	(3.3)
Allocations made to Provisions for disputes	0.5	3.9	(3.4)
Other operating expenses	8.3	6.7	1.6
Total	45.0	41.3	3.7

The most significant components of the item are service quality expenses (€ 26.1 million) and costs for taxes, duties and local levies (€ 8.4 million, of which € 5.2 million for the Single Council Tax and € 2.4 million for the tax on the occupation of public places and areas, *TOSAP*, and the waste and services tax, *TARES*).

The increase in this item of € 3.7 million derives to a large extent from the following events:

- an increase in service quality expenses (€ +23.9 million) mainly attributable to measurement of the RENS mechanism, sharing and mitigation consequent to outage events which mainly characterised the end of FY 2013³⁷;
- a decrease in taxes, duties and local levies (-€ 15.1 million) mainly due to lower expenses for the Single Council Tax (-€ 15.2 million) substantially for provisions set aside to cover risks made in the previous year in keeping with Circular 6/2012 of the Land Registry (*Agenzia del Territorio*) in relation to re-registration of electrical stations;
- a decrease in contingent liabilities (-€ 3.3 million) substantially for the repayment made in the previous year of the balance of contributions paid for the years from 2002 to 2006 to the Ministry of Economic Development relating to the former concession of telephone services for private use (€ 3.0 million).

(37) In particular, following the definition of the organisational restructuring of the Terna Group and of the related intercompany contracts and considering the proven uncertainty and economic significance of the system of bonuses and penalties connected with the Service Quality mechanism, starting from 1 January 2013, Terna and Terna Rete Italia S.p.A. agreed to set a threshold of +/- € 10 million payable/chargeable to Terna Rete Italia S.p.A.. Any income/expense exceeding this amount instead remains payable/chargeable to Terna.

Financial income and expense

8. Net financial income/(expense) – -€ 88.5 million

This caption is analysed below:

€ million	2013	2012	Change
Financial income			
Dividends from subsidiaries and associates	1.1	60.8	(59.7)
Financial income from subsidiaries	14.5	18.8	(4.3)
Interest income and other financial income	63.2	85.6	(22.4)
Debt adjustment (bonds) and related hedges	0.4	2.4	(2.0)
Exchange gains	2.0	1.4	0.6
Total income	81.2	169.0	(87.8)
Financial expense			
Financial expense from the Parent	(6.3)	(10.4)	4.1
Financial expense to subsidiaries	(4.2)	(1.7)	(2.5)
Interest expense on medium/long-term loans and related hedges	(184.5)	(201.1)	16.6
Discounting of termination benefits, other employee benefit provisions and provisions for risks and charges	(1.0)	(1.6)	0.6
Capitalised borrowing costs	26.3	26.5	(0.2)
Total expense	(169.7)	(188.3)	18.6
Total	(88.5)	(19.3)	(69.2)

Net financial expense amounted to € 88.5 million for the year, comprising € 169.7 million in financial expense and € 81.2 million in financial income. The increase of € 69.2 million with respect to the previous financial year is the net result of the following main factors:

- dividends distributed in 2012 of the subsidiary Suntergrid (-€ 60.0 million) and of the associate CGES AD (-€ 0.8 million), offset by the dividends distributed in the year by the associate CESI (+€ 1.1 million);
- lower financial income from subsidiaries (-€ 4.3 million), mainly due to the impact of the reduced short-term interest rate on the loan granted to the subsidiary Terna Rete Italia S.r.l.;
- lower financial income (-€ 22.4 million) which was primarily attributable to the joint effect of:
 - a general decrease in the market interest rates at which cash was invested (-€ 19.8 million);
 - recognition of lower net income for uplift (-€ 2.2 million);
 - lower default interest for the late payment of receivables deriving from dispatching activities (-€ 0.4 million);
- the negative net economic effects deriving from the fair value adjustment of bonds and the related hedges (-€ 2.0 million);
- adjustment to the exchange rate of the provision for probable expenses relating to tax obligations deriving from the sale of the equity interest held in the Brazilian subsidiaries (+€ 0.6 million);
- lower financial expense paid to the parent company CDP (+€ 4.1 million) deriving from falling interest rates during the year;
- higher financial expense with regard to subsidiaries (-€ 2.5 million) in relation to interest accrued on correspondent accounts with the subsidiaries Terna Rete Italia S.p.A. and Terna Rete Italia S.r.l.;
- lower financial expense deriving from medium and long-term debt and the related hedges (+€ 16.6 million) due to the reduction of interest rates (+€ 5.5 million) and the inflation rate (+€ 11.1 million) during 2013;
- lower financial expense deriving from the discounting of employee benefits and provisions for risks and charges (+€ 0.6 million);
- capitalised financial expense substantially in line (-€ 0.2 million) compared with the previous year.

9. Income taxes - € 369.7 million

Income taxes for the year amounted to € 369.7 million, up by € 23.1 million compared to the previous year. The following table reports changes in taxes with respect to 2012:

€ million	2013	2012	Change
Income taxes of the year			
Current taxes:			
- IRES	354.2	331.4	22.8
- IRAP	60.8	58.8	2.0
Total current taxes	415.0	390.2	24.8
New temporary differences:			
- deferred tax assets	(5.7)	(9.1)	3.4
Reversal of temporary differences:			
- deferred tax assets	12.0	15.8	(3.8)
- deferred tax liabilities	(51.3)	(51.7)	0.4
Total change in deferred tax assets and liabilities	(45.0)	(45.0)	-
Adjustment of prior-year taxes	(4.1)	(1.0)	(3.1)
Other one-off changes	3.8	2.4	1.4
Total	369.7	346.6	23.1

Current taxes

Current taxes increased by € 24.8 million with respect to the previous financial year, mainly due to the greater pre-tax profit.

Deferred tax assets and liabilities

Deferred tax assets and liabilities, of -€ 45 million, were in line with the previous year as a result of the following factors:

- utilisation of amounts set aside previously for deferred tax liabilities relating to additional amortisation and depreciation with respect to the economic-technical rates (-€ 0.7 million);
- release of the last portion (+€ 1.1 million) of deferred IRAP tax provisions governed by Italian Law No. 244 of 24 December 2007 (2008 Budget Law);
- lower net prepaid taxes of -€ 0.4 million with reference mainly to the change in liabilities for employee benefits and provisions for risks and charges.

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

Adjustment of prior-year taxes, of -€ 4.1 million, relate to the higher current taxes paid in prior years and the other one-off changes, for a total of +€ 3.8 million, relate to provisions set aside to tax risks, and to the adjustment of deferred tax liabilities for the so-called Robin Hood Tax which, beginning in financial year 2014, will take the IRES rate from 38% to 34%.

The effective proportion of income taxes of the year (€ 369.7 million) to profit before taxes is 44.8%.

The 2013 tax rate came out at 44.9% without taking into account adjustment of prior-year taxes and other one-off items and was 2.2 per cent higher than the 2012 adjusted tax rate of 42.6%³⁸, owing substantially to the tax benefit deriving from the deductibility of the higher dividends paid by the subsidiary SunTergrid in 2012.

For a clearer presentation of the differences between the theoretical and actual tax rates, the table below reconciles the theoretical tax rate with the effective tax rate for the year:

€ million	Taxable income	Tax	% change
Profit before taxes	824.5		
IRES - theoretical tax charge (38%)		313.3	
IRAP - theoretical tax charge (5.12% on operating profit of € 913.0 million)		46.7	
Total		360.0	
Theoretical tax rate			43.7%
Permanent IRES differences			
Employee benefits		1.2	0.1%
Contingencies		2.0	0.2%
IMU tax (including estimate pursuant to Circular 6/2012 of the Land Registry)		1.4	0.2%
Other increases/decreases		2.7	0.3%
IRAP - Art. 6 Law 28/01/2009		(2.2)	(0.3%)
IRAP on personnel expenses pursuant to Italian Law Decree no. 201/2011		(0.8)	(0.1%)
Dividends		(0.4)	0.0%
Permanent IRAP differences			
Personnel expense		2.6	0.3%
Capitalised borrowing costs		1.3	0.2%
Other increases/decreases		2.2	0.3%
Actual tax rate net of adjustments to income taxes of previous years			44.9%
Prior year taxes		(4.1)	(0.5%)
Other one-off changes		3.8	0.5%
Total taxes for the year		369.7	
Actual tax rate			44.8%

C. Operating segments

Consistent with the provisions of “IFRS 8 - Operating Segments” concerning companies that publish the Consolidated Financial Statements of a parent company in the same document as the separate financial statements of that parent company, operating segment disclosures are provided for the Consolidated Financial Statements only. Accordingly, please see the analogous section of the Notes to the Financial Statements of the Terna Group.

(38) It does not take account of the lower taxes deriving from liquidation of prior-year taxes (-€ 1.0 million) and of other one-off changes (a total of +€ 2.4 million) relating to provisions to cover tax risks offset by the recognition of a tax credit for IRES pursuant to Italian Law Decree 16/2012 of 2 March 2012.



D. Notes to the statement of financial position

Assets

10. Property, plant and equipment – € 8,972.6 million

Property, plant and equipment amount to € 8,972.6 million (€ 8,202.8 million at 31 December 2012). The amount and changes for each category are reported in the following table:

€ million	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Cost at 01.01.2013	96.9	1,228.2	10,648.7	73.4	112.3	1,367.0	13,526.5
Investments	-	-	31.3	1.8	3.1	1,036.3	1,072.5
Entry into use	3.5	79.2	558.2	3.8	3.2	(647.9)	-
Intra-group purchases	-	-	-	-	-	36.6	36.6
Disposals	(0.1)	(0.4)	(55.5)	(0.1)	(2.8)	-	(58.9)
Other changes	-	-	(13.1)	-	-	15.2	2.1
Reclassifications	-	-	(0.6)	-	0.6	-	-
Cost at 31.12.2013	100.3	1,307.0	11,169.0	78.9	116.4	1,807.2	14,578.8
Accumulated depreciation and impairment at 01.01.2013	-	(337.8)	(4,872.2)	(48.5)	(65.2)	-	(5,323.7)
Depreciation charge for the year	-	(30.3)	(289.4)	(4.4)	(15.8)	-	(339.9)
Disposals	-	0.3	54.6	0.1	2.4	-	57.4
Accumulated depreciation and impairment at 31.12.2013	-	(367.8)	(5,107.0)	(52.8)	(78.6)	-	(5,606.2)
Carrying amount							
At 31 December 2013	100.3	939.2	6,062.0	26.1	37.8	1,807.2	8,972.6
At 31 December 2012	96.9	890.4	5,776.5	24.9	47.1	1,367.0	8,202.8

The category “Plant and machinery” essentially includes the energy transportation network as well as the transformation stations.

The item “Property, plant and equipment” shows an increase on the previous financial year amounting to € 769.8 million, as a result of ordinary transactions made during the year, relating to:

- investments for the financial year (+€ 1,072.5 million, of which € 26.3 million for capitalised financial expense);
- depreciation accruing (-€ 339.9 million), disposals and other changes (+€ 0.6 million);
- intra-group purchases (+€ 36.6 million) mainly related to:
 - the entire batch of projects relating to diffused electricity storage systems of the subsidiary Terna Storage S.r.l., defined in December in keeping with the legislation introduced in 2013 which established that the concession holder Terna was responsible for them (€ 33.2 million);
 - a 170 kV rapid-installation connection station (SCRI) of the subsidiary Terna Plus S.r.l., completed on 25 November 2013 to meet the need that had arisen for the Company to acquire the availability of an infrastructure capable of recovering and maintaining the connection solution of a “traditional” station, the operation of which had been temporarily compromised following a significant incident (€ 2.2 million).

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

€ million	
Investments	
- Transmission lines	615.7
- Transformation stations	328.7
- Other	115.7
Investments in property, plant and equipment - traditional activities	1,060.1
Investments in property, plant and equipment - non-traditional activities	12.4
Total investments in property, plant and equipment	1,072.5
Depreciation	(339.9)
Disposals and other changes	0.6
Intra-group purchases	36.6
Total	769.8

With reference to investments in the year (€ 1,072.5 million) we can note in particular:

- progress on the work on the “Sorgente-Rizziconi” line (€ 157.7 million): laying of both the undersea three-phase power lines, the optical fibre and the related protection activity, was completed as was the well excavation work on the Scilla side. Work on excavating the Favazzina tunnel is also in progress and the “Villafranca-Sorgente” 380 kV power line is being built, while work is being completed on the electrical stations in Calabria and in Sicily. This work includes, respectively, for Scilla the second-stage activities relating to the 150 kV section and for Sorgente construction of the civil works and mounting of the 380 kV armoured system at the Villafranca station;
 - the “Dolo-Camin” project (€ 54.2 million): last December the Council of State confirmed cancellation of the authorisation order for implementation of the action on the NTG entitled “Dolo-Camin” (380 kV rationalisation between Venice and Padua). Therefore during 2013 activities were completed on making safe and conserving the works already done and a new study was launched on rearranging the grid so as to re-propose an authorisation process. As of today the date on which the new authorisation will be obtained is unknown and no impacts are foreseeable in terms of times and costs on implementing the project;
 - the “Trino–Lacchiarella” power line (€ 51.1 million): we can note completion of the construction work and of the tests on the bays at the Trino and Lacchiarella Electrical Stations aimed at bringing the power line on-stream. This occurred at the beginning of 2014. The demolition plan provided for was also launched and together with the environmental reclamations;
 - creation of the “Italia–Montenegro” undersea connection (€ 36.2 million): preliminary work began at the Cepagatti (Pescara) electrical station, with completion of land purchases necessary to create the Kotor electrical station; in addition a survey and final design of the marine cable are in progress. The supplier Nexans has also begun to produce the first piece of marine cable;
 - creation of the “Foggia-Gissi-Villanova” power line (€ 31.3 million): the final design of the “Villanova-Gissi” power line is in progress, easements are being obtained and the materials needed to open the site in the first half of 2014 are being made ready;
 - re-arrangement of the North Calabria Grid (€ 29.0 million) and creation of the “Foggia-Benevento II” project (€ 26.3 million).
- We can also note the investments in unconventional Accumulation Systems (€ 63.2 million), acquisition optical fibre from Wind (€ 30.0 million) and purchase and/or renovation actions (€ 17.0 million).

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

	€ million
Main projects - Lines and Stations	534.8
<i>of which transport lines</i>	<i>412.1</i>
<i>of which transformer stations</i>	<i>122.6</i>
380 kV Sorgente - Rizziconi power line	157.7
of which transport lines	129.3
of which transformer stations	28.3
380 kV Dolo - Camin power line	54.2
of which transport lines	47.1
of which transformer stations	7.0
380 kV Trino - Lacchiarella power line	51.1
of which transport lines	50.0
of which transformer stations	1.1
Italy - Montenegro interconnection	36.2
of which transport lines	33.7
of which transformer stations	2.5
380 kV Foggia-Gissi-Villanova power line	31.3
of which transport lines	17.2
of which transformer stations	14.1
Restructuring of the North Calabria grid	29.0
of which transport lines	9.9
of which transformer stations	19.1
380 kV Foggia - Benevento II power line	26.3
of which transport lines	26.3
of which transformer stations	0.0
Camerelle station connection	24.5
of which transport lines	21.6
of which transformer stations	2.9
Restructuring of the 220 kV City of Naples grid	19.5
of which transport lines	12.4
of which transformer stations	7.1
Paternò-Pantano-Priolo power line	19.0
of which transport lines	10.4
of which transformer stations	8.5
380 kV Udine Ovest-Redipuglia power line	18.5
of which transport lines	6.3
of which transformer stations	12.1
220 kV City of Turin rationalisation	17.9
of which transport lines	14.7
of which transformer stations	3.2
220 kV Musocco power station	17.0
of which transport lines	11.6
of which transformer stations	5.4
Montecorvino-Benevento power line	16.5
of which transport lines	7.4
of which transformer stations	9.1
Capri-Continent interconnection	16.1
of which transport lines	14.0
of which transformer stations	2.1

11. Goodwill - € 88.6 million

Goodwill amounted to € 88.6 million and was unchanged from the balance of the previous year.

Impairment testing

Cash Generating Unit – Terna

The recoverable amount of the goodwill arising from the acquisition of RTL (merged into Terna in 2008), recognised for a value of € 88.6 million, was estimated determining the fair value of the Cash Generating Unit (CGU) Terna, less costs to sell. The fair value of the CGU, calculated taking into consideration the Stock Exchange quotation of the Terna stock, was found to be higher than the carrying amount, for a value of € 2,494.0 million.

12. Intangible assets - € 267.5 million

Changes during the year in intangible assets are detailed below:

€ million	Infrastructure rights	Concessions	Other assets	Assets under development and payments on account	Total
Balance at 31.12.2012	121.6	95.3	27.3	30.8	275.0
Investments	-	-	0.2	46.8	47.0
Entry into use	42.5	-	13.4	(55.9)	-
Amortisation	(33.1)	(5.6)	(15.8)	-	(54.5)
Balance at 31.12.2013	131.0	89.7	25.1	21.7	267.5
Cost	351.7	135.4	150.2	21.7	659.0
Accumulated amortisation	(220.7)	(45.7)	(125.1)	-	(391.5)
Balance at 31.12.2013	131.0	89.7	25.1	21.7	267.5

Intangible assets amount to € 267.5 million and in particular, include:

- the infrastructures used for the dispatching services, carried out under concession and booked as set out by the “IFRIC 12 - Service Concession Arrangements”, for a net book value at 31 December 2013 of € 131.0 million for the infrastructures which went into operation and € 16.0 million for the infrastructures under construction included in the category “Assets under development and payments on account” (€ 121.6 million and € 27.4 million respectively at 31 December 2012);
 - the concession for the provision of electricity transmission and dispatching services in Italy (with net carrying amount of € 89.7 million at 31 December 2013), recognised initially during 2005 at fair value and subsequently measured at cost.
- Other intangible assets mainly comprise application software developed internally or purchased when implementing systems development projects. Related investments (€ 15.9 million) are made essentially through internal development. The difference with respect to the previous financial year (-€ 7.5 million) is due to the combined effect of routine movements during the period, regarding amortisation accruing (-€ 54.5 million, of which € 33.1 million relating to dispatching infrastructures) - and investments (€ 47.0 million, of which € 31.1 million for infrastructure rights) mainly in application software.

Among the investments for the year we can note in particular those related to the development and evolution of application software, the Dispatching Remote Management System (€ 13.9 million), for the Power Exchange (€ 7.9 million) and for protection of the electrical system (€ 1.1 million), as well as software applications and licenses (€ 14.6 million).

13. Financial assets

The following table details financial assets recognised by Terna S.p.A.:

€ million	Carrying amount		Change
	31.12.2013	31.12.2012	
Investments in subsidiaries	628.0	626.0	2.0
Investments in associates	52.1	52.1	-
Other investments	1.0	0.8	0.2
Loan to Terna Rete Italia S.r.l.	500.0	500.0	-
FVH derivatives	527.1	754.9	(227.8)
Non-current financial assets	1,708.2	1,933.8	(225.6)
FVH derivatives	18.4	-	18.4
Deferred assets on FVH derivatives contracts	62.9	61.8	1.1
Other current financial assets	17.6	23.2	(5.6)
Current financial assets	98.9	85.0	13.9

“Non-current financial assets”, equal to € 1,708.2 million, reported the value at 31 December 2013 of equity investments, the intercompany loan to Terna Rete Italia S.r.l. and the measurement of fair value hedge derivatives for bond loans.

“Investments in subsidiaries” (€ 628.0 million) refer to investments in subsidiaries held directly by Terna S.p.A. and summarised below. The increase in the item, of € 2 million, derived from the payment made on 14 February 2013 to the subsidiary Terna Storage S.r.l. as a capital grant, in order to give it the resources needed to develop its business.

The value of “Investments in associates” (€ 52.1 million), in line with the balance of the previous year, refers to:

- the interest held (42.698%) in the share capital of CESI S.p.A. (equal to € 17.6 million);
- the interest held (22.485%) in the share capital of CORESO S.A. (€ 0.3 million) acquired in November 2010;
- the value of investments in the associate CGES - CrnoGorski Elektroprenosni Sistem AD (€ 34.2 million), which was acquired in January 2011, representing a stake of 22.0889%.

CESI S.p.A. operates in the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the electro-technical field in general and to the technical and scientific developments in that area.

The company CORESO S.A. is the first technical centre owned by various electrical energy transmission companies which implements joint TSO technical coordination activities in order to improve and strengthen security and coordination of the electrical system in central/western Europe; it prepares daily forecasts and analyses in real time of energy flows in the region, identifying potentially critical areas and promptly notifying the TSOs which are affected.

CGES is the electricity dispatch and transmission operator in Montenegro. The financial investment of Terna in CGES, which was made following an industrial cooperation and country system and included as part of inter-governmental understandings reached by Italy and Montenegro, sanctions the institutional commitment to the development of a new submarine electrical interconnection and the implementation of the partnership between national transmission operators.

“Other investments” (€ 1 million) refers to:

- the 5.6% interest held in the share capital of Desertec Industrial Initiative (“DII”) (€ 0.1 million) acquired in September 2010;
- the 8.3% interest held in the share capital of CASC CWE S.A. (€ 0.3 million) acquired in November 2010;
- the 5% stake owned in the share capital of the company Medgrid S.A.S. (€ 0.6 million, which increased with respect to the previous year by +€ 0.2 million following subscription of the capital increase of the investee company).

The following table summarises Terna S.p.A.'s direct investments in subsidiaries and associates at 31 December 2013, with data related to the last approved financial statements:

Company	Registered office	Business	Currency	Share capital	% held	Book value
COMPANIES CONTROLLED DIRECTLY BY TERNA S.P.A.						
Terna Rete Italia S.p.A.	Rome	Design, construction, management, development, operation and maintenance of grid structures and lines and of other infrastructures connected to the said grids, of plants and equipment functional to the said business in the sectors of electricity dispatch and transmission and in similar, related or connected segments.	€	120,000	100%	3,120,000
Terna Rete Italia S.r.l.	Rome	Design, construction, management, development, operation and maintenance of high-voltage power lines.	€	243,577,554	100%	557,666,437
Terna Crna Gora d.o.o.	Podgorica	Authorisation, construction, and management of transmission infrastructures comprising the Italy-Montenegro electrical interconnection in Montenegro territory.	€	36,000,000	100%	36,000,000
Terna Plus S.r.l.	Rome	Design, construction, management, development, operation and maintenance of plants, equipment and infrastructures including grids and systems, including diffused energy accumulation, pumping and/or storage.	€	16,050,000	100%	29,143,709
Terna Storage S.r.l.	Rome	Design, construction, management, development and maintenance of diffused energy accumulation systems (including batteries), pumping and/or storage systems, as well as plants, equipment and infrastructure, including grids.	€	10,000	100%	2,030,000
ASSOCIATES						
Cesi S.p.A.	Milan	Ricerca sperimentale inerente l'elettrotecnica.	€	8,550,000	42.698%	17,563,381
Coreso S.A.	Brussels (Belgium)	Centro tecnico di proprietà di diversi operatori di trasmissione di energia elettrica, che svolge attività di coordinamento tecnico congiunto dei TSO, per il miglioramento e potenziamento della sicurezza e coordinamento del sistema elettrico nell'Europa centro-occidentale. Elabora previsioni giornaliere e analisi in tempo reale dei flussi di energia nella regione, individuando possibili criticità e informando tempestivamente i TSO coinvolti.	€	1,000,000	22.485%	281,082
CGES A.D.	Podgorica	Operatore della trasmissione e del dispacciamento dell'energia elettrica in Montenegro.	€	155,108,283	22.0889%	34,285,811
COMPANIES SUBJECT TO JOINT CONTROL						
ELMED Etudes Sarl*	Tunis	Studio e consulenza preliminari inerenti la preparazione dei documenti della gara di appalto del governo tunisino per la costruzione e la gestione del polo di produzione di energia elettrica in Tunisia, funzionale al progetto per l'interconnessione tra l'Italia e la Tunisia stessa.	Tunisian Dinar	2,700,000	50%	-

(*) The value of the equity interest was reduced to zero in 2010 (€ 0.7 million) as a result of the impairment of Terna's investment in ELMED Études Sarl, consequent to the altered political situation seen in Tunisia, which currently makes its recovery difficult.

The fair value of the FVH derivatives hedging the Company's bonds, equal to € 527.1 million, is calculated by discounting expected cash flow with the market interest rate curve at the date of reference. The decrease in the fair value of derivatives (€ 227.8 million) with respect to 31 December 2012 is due to the increase of the interest rate curve at the end of 2013. The item "Current financial assets" showed a balance of € 98.9 million (€ 85.0 million at 31 December 2012) and recorded an increase compared to the previous year of +€ 13.9 million due to:

- recognition among current assets of FVH derivatives taken out to cover the € 600 million bond maturing on 28 October 2014 (+€ 18.4 million);
- the amount of net financial income matured on the related financial instruments, but not yet paid (+€ 1.1 million);
- the decrease in interest matured and not yet collected at the reporting date relating to short-term cash investments (-€ 5.6 million).

14. Other assets

"Other assets" are analysed below:

€ million	31.12.2013	31.12.2012	Change
Receivables due from others:			
- loans and advances to employees	1.8	1.7	0.1
- deposits with third parties	0.4	0.5	(0.1)
Other non-current assets	2.2	2.2	0.0
Other tax assets	58.7	46.2	12.5
Receivables due from others:	8.2	7.6	0.6
Other current assets	66.9	53.8	13.1

"Other non-current assets" (€ 2.2 million) - which are shown in the table - are in line with the amounts of the previous year and mainly comprise loans and advances paid to employees (€ 1.8 million).

The item "Other current assets" of € 66.9 million, a breakdown of which is given in the table above, shows an increase of € 13.1 million with respect to the balance at 31 December 2012, mainly due to other tax assets (+€ 12.5 million), as a result in particular of the higher VAT credit due from the tax office (+€ 7.1 million), and of the higher net balance of the credit with the tax office and withholdings on interest income accrued on the financial assets (+€ 4.9 million).

15. Inventories – € 0.7 million

Inventories of working assets show a balance of € 0.7 million, compared with the figure of zero of the previous year, deriving from the signing of the supply contract for replacement parts for maintaining equipment needed for remote transmission systems.

16. Trade receivables - € 1,708.5 million

Trade receivables are analysed as follows:

€ million	31.12.2013	31.12.2012	Change
Energy-related receivables	991.2	1,165.7	(174.5)
Grid transmission fee receivables	652.2	592.1	60.1
Other trade receivables	46.9	85.2	(38.3)
Receivables from subsidiaries	18.2	19.3	(1.1)
Trade receivables	1,708.5	1,862.3	(153.8)

Trade receivables amounted to € 1,708.5 million. The decrease (€ 153.8 million) from the previous year mainly comprises pass-through amounts deriving from the electricity dispatching activities carried out by the Company.

They are measured net of impairment losses on items considered non-collectable that are covered by allowances for doubtful accounts (€ 23.2 million for energy items and € 7.6 million for other items in 2013, as compared with € 20.6 million for energy items and € 5.9 million for other items in 2012).

Energy-related receivables - € 991.2 million

They mainly include receivables in relation to the so-called “pass-through” energy items arising in respect of dispatching activities. This item also includes receivables for fees payable by market operators for dispatching activities (DIS fee as per AEEG Resolution no. 111/06 and its subsequent amendments and additions).

The decrease in this item of € 174.5 million from the previous year was mainly due to the combined effect of:

- lower receivables for sales of electricity within the scope of the Power Exchange deriving mainly from lower receivables for the market coupling mechanism connected with management of congestion on the interconnection with Slovenia (-€ 37.7 million), for the uplift component (-€ 24.2 million) and generated by the reduction in the imbalance measurement quantity and prices (-€ 23.4 million);
- lower receivables for the sale of electricity off the Power Exchange, mainly for credit items relating to the procurement of interruptible resources (-€ 50.5 million);
- collections of receivables connected with the three-year (2010-2012) incentive mechanism provided for in AEEG Resolution 213/09 on reducing volumes procured on the Market for Dispatching Services (MDS) (-€ 49.7 million, net of the receivable recognised in the year for € 13.1 million in relation to the final data pursuant to Res. 636/13);
- higher receivables from the Electricity Equalisation Fund for the service quality – RENS (€ +13.3 million).

Grid transmission fees receivable - € 652.2 million

The grid transmission fees receivable, € 652.2 million, reflect the remuneration paid to the Company and to other owners for the use of the National Transmission Grid by distributors of electricity. The above receivable increased by € 60.1 million, compared to the previous year, owing to higher receivables from distributors for transmission fees (€ 50.1 million) as a result of AEEG Resolution 565/2012 which among other things updated the remuneration for the provision of transmission services and fee adjustments from Electricity Equalisation Fund for optional acceptance of the “mitigation” mechanism provided for in Resolution ARG/elt 188/08 to cover the risk associated with declining consumption (€ 10.0 million net of collections during the year).

Other trade receivables - € 46.9 million

Other trade receivables mainly regard receivables due from third party clients of the Company for the diversified business; they show a drop of € 38.3 million with respect to the previous year primarily due to:

- receivables from third parties for invoices to be issued (-€ 18.0 million) related mainly to collection of the receivable from Wind Telecomunicazioni recognised in the previous year for redetermination of the fee for the period 2009/2012 for housing optical fibre on the grids owned (€ 13.4 million); we specify that, on the basis of the deed of settlement formalised with Wind, the higher fees “redetermined” for the period 2013/2015 were invoiced and paid during the year 2013; the receivables from Enel Distribuzione (€ 4.4 million), recognised in previous years were also collected. These were for the fee related to the use of the Company’s infrastructures for power line communication;
- other receivables due from third party customers (-€ 20.8 million) which are primarily derived from orders underway in relation to stations and connections.

This item also includes net receivables for contract work in progress (€ 0.7 million), highlighted in the table below, related to works of multi-year duration which the Company has been implementing with third party customers, which show a balance in line with the previous year:

€ million	Payments on account	Contract value	Balance at 31.12.2013	Payments on account	Contract value	Balance at 31.12.2012
Others	(12.9)	13.6	0.7	(12.5)	13.2	0.7

Receivables from subsidiaries - € 18.2 million

The item, of € 18.2 million, shows a balance substantially in line with the figure for the previous year (-€ 1.1 million) and relates substantially to the receivable from the subsidiary Terna Rete Italia S.p.A. with reference mainly to contracts for technical and administrative services provided to it recognised in the last quarter (€ 9.4 million) and to the fee for rental of the business unit (€ 7.3 million). The item also includes the receivable due from the subsidiary Terna Plus S.r.l. with reference to the service agreement in place (€ 0.3 million).

The amount of the guarantees issued to third parties by Terna S.p.A., at 31 December 2013 comes to € 21.5 million, of which € 19.2 million for sureties issued to secure the contractual obligations arising under the scope of operations and € 2.3 million as itemised below:

- € 1.0 million in guarantees issued on behalf of the subsidiary Terna Rete Italia S.r.l.;
 - € 1.3 million on behalf of the subsidiary Terna Rete Italia S.p.A.;
- all issued on the Company's credit lines.

17. Cash and cash equivalents - € 1,608.0 million

Cash and cash equivalents at 31 December 2013 amount to € 1,608.0 million of which € 1,300.0 million liquid funds invested in short-term, highly-liquid deposits and € 308.0 million net liquidity on bank current accounts.

18. Income tax assets - € 12.2 million

Income tax assets amounted to € 12.2 million and recorded an decrease of € 6.4 million compared to the previous year owing to the lower tax credits for IRES recognised on presenting the 2013 tax return.

Liabilities

19. Equity - € 2,688.1 million

Share capital - € 442.2 million

The share capital of Terna is represented by 2,009,992,000 ordinary shares, par value € 0.22 each.

Legal reserve - € 88.4 million

The legal reserve is 20% of the Company's share capital; it did not change with respect to the previous year.

Other reserves - € 697.5 million

Other reserves increased by € 36.8 million, due to Other Comprehensive Income, in particular owing to:

- fair value adjustment of the derivative instruments hedging the Company's floating-rate loans - cash-flow hedges (€ 34.9 million, considering the related tax effect of € 26.4 million);
- recognition of the actuarial gains and losses on employee benefits (€ 1.9 million, considering the related tax effect of € 1.0 million).

Retained earnings and losses - € 1,145.9 million

The increase of € 61.2 million of the item "Retained earnings/Losses carried forward" regarded the allocation of the residual profit for 2012, compared to the distribution of the dividend in the same year (a total of € 402.0 million).

Interim dividend 2013

After receiving the report of the independent auditors required by Art. 2433-bis of the Italian Civil Code, on 13 November 2013 the Company's Board of Directors approved the distribution of an interim dividend amounting to € 140.7 million, equal to € 0.07 per share, which is payable on 21 November 2013, with an ex dividend date (coupon 19) of 18 November 2013.

The following table shows the origin, availability and possibility of distribution of the equity components at the reporting date:

€ million	31.12.2013	Possibility of use	Available portion
Share/quota capital	442.2	-	-
Legal reserve	88.4	B	88.4
Other reserves			
- equity-related	416.1	A, B, C	416.1
- income-related*	281.4	A, B, C	281.4
Retained earnings	1,145.9	A, B, C	1145.9
Interim dividend	(140.7)	A, B, C	-
Total	2,233.3		1,931.8

Key:

A - for share capital increase

B - to cover losses

C - for distribution to shareholders

(*) Includes the negative reserve for the effective portion of changes in the fair value of cash flow hedges, amounting to, net of the tax effect, € 53.3 million.

Of the total available portion, € 593.7 million refers to untaxed income-related reserves.

20. Loans and financial liabilities

The following table details loans and financial liabilities recognised in the separate financial statements of Terna at 31 December 2013:

€ million	Carrying amount		Change
	31.12.2013	31.12.2012	
Bonds	5,723.0	6,543.7	(820.7)
Bank loans	2,286.9	2,365.7	(78.8)
Long-term loans	8,009.9	8,909.4	(899.5)
CFH derivatives	80.0	141.2	(61.2)
Non-current financial liabilities	80.0	141.2	(61.2)
Short-term loans	269.5	249.7	19.8
Bonds	618.8	-	618.8
Current portion of long-term loans	79.0	69.4	9.6
Short-term loans and current portion of medium/long-term loans	967.3	319.1	648.2
Total	9,057.2	9,369.7	(312.5)

Gross debt for the year decreased, with respect to the previous year, by € 312.5 million to € 9,057.2 million.

The decrease in the value of bonds (-€ 201,9 million) is attributable for -€ 207.2 million to changes in the fair value of the risk hedged, for +€ 1.6 million to the effect of the amortised cost and for € 3.7 million to the capitalisation of inflation in the period.

The change linked to the hedging of the interest rate risk comprises € 37.2 million in relation to the Inflation-Linked bond issue, € 79.9 million associated to the bonds 2014-2024, € 27.0 million for the Private Placement and € 63.1 million relating to the bond issued in 2011.

The latest official prices for the bonds listed on the Luxembourg Stock Exchange are detailed below:

- bond maturing 2024: price at 2013 € 114.28 and price at 2012 € 112.88;
- bond maturing 2014: price at 2013 € 102.82 and price at 2012 € 105.89;
- bond maturing 2023: price at 2013* € 109.90 and price at 2012 € 105.82;
- bond maturing 2019: price at 2013 € 114.60 and price at 2012 € 114.72;
- bond maturing 2021: price at 2013 € 112.74 and price at 2012 € 113.55;
- bond maturing 2017: price at 2013 € 108.27 and price at 2012 € 108.51;
- bond maturing 2018: price at 2013 € 104.20 and price at 2012 € 102.73.

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

The debt which was originally floating-rate, shows a decrease of € 69.2 million mainly due to the reduction in EIB (European Investment Bank) loans (€ 69.4 million) and other financing following repayments made on outstanding loans. "Short-term loans" (€ 269.5 million) includes the balance of intercompany current accounts held by Terna S.p.A. with its Italian subsidiaries.

Long-term loans

The following table reports the book values of long-term debt and the repayment plan as of 31 December 2013, broken down by loan type, including amounts falling due within one year and average interest rate at year-end:

	Maturity	31.12.2012	31.12.2013	Due within one year	Due beyond one year	2015	2016	2017	2018	Oltre	Average interest rate as of 31.12.2013
€ million											
Bonds	2014-2024	1,676.1	1,596.2	618.8	977.4	-	-	-	-	977.4	4.62%
Bonds IL	2023	710.5	677.0	-	677.0	-	-	-	-	677.0	2.75%
Bonds PP	2019	699.4	672.4	-	672.4	-	-	-	-	672.4	4.87%
Bonds 1250	2021	1,465.7	1,402.6	-	1,402.6	-	-	-	-	1,402.6	4.75%
Bonds 1250	2017	1,246.0	1,246.9	-	1,246.9	-	-	1,246.9	-	-	4.12%
Bonds 750	2018	746.0	746.7	-	746.7	-	-	-	746.7	-	2.88%
Total fixed rate		6,543.7	6,341.8	618.8	5,723.0	-	-	1,246.9	746.7	3,729.4	
EIB	2014-2030	1,285.7	1,216.3	79.0	1,137.3	77.0	85.1	96.9	96.9	781.4	0.34%
Club Deal	2015	649.4	649.6	-	649.6	649.6	-	-	-	-	0.72%
CDP	2019	500.0	500.0	-	500.0	-	-	-	-	500.0	1.25%
Total floating rate		2,435.1	2,365.9	79.0	2,286.9	726.6	85.1	96.9	96.9	1,281.4	
Total		8,978.8	8,707.7	697.8	8,009.9	726.6	85.1	1,343.8	843.6	5,010.8	

On maturity, on 15 September 2023, the Inflation Linked Bond provides for repayment of the face value revalued to inflation, while repayment of the face value of the other Bonds, of € 5,250.0 million, provides for repayment of € 600 million on 28 October 2014, of € 1,250 million on 17 February 2017, of € 750 million on 16 February 2018, of € 600 million on 3 October 2019, of € 1,250 million on 15 March 2021 and of € 800 million on 28 October 2024.

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

The total amount of Terna's borrowings at 31 December 2013 is equal to € 8,707.7 million, of which € 8,009.9 million is due after more than five years.

As regards the 2014-2024 bonds, with an average coupon of 4.62%, if fair value hedging operations are taken into account, the average interest rate is equal to 0.67%.

For the Inflation-Linked bonds - and taking hedges into account - and assuming a 0.66% inflation rate, the average interest rate paid in the year was -0.40%.

The Private Placement, issued at fixed rate, was brought synthetically to floating rate with derivatives of the same duration and consequently the average interest rate in the year was 1.63%.

As regards the 2021 Bond, the average coupon is 4.75%; if we consider FVH operations, the average interest rate amounts to 1.45%.

For the two bond issues made in 2012 maturing in 2017 and 2018, no hedges have been implemented and the average interest rate is 4.12% and 2.88% respectively.

With regard to floating-rate loans covered by fluctuations in interest rates - and taking into account the effect of derivative financial instruments booked as cash-flow hedges - an average rate of 2.91% is reported for EIB financing while for the Club Deal financing totalling € 650 million, the average rate was 3.27% and for the CDP financing the average rate was 3.94%.

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

Type of loan	Nominal debt at 31.12.2012	Carrying amount at 31.12.2012	Repayment and capitalisation	Delta Fair Value 31.12.2012 31.12.2013	Change in carrying amount	Nominal debt at 31.12.2013	Carrying amount at 31.12.2013	Market value at 31.12.2013
€ million								
Bonds 2014-2024	1,400.0	1,676.1	-	(79.9)	(79.9)	1,400.0	1,596.2	1,531.1
Listed IL bond	561.7	710.5	3.7	(37.2)	(33.5)	565.4	677.0	621.4
Private Placement	600.0	699.4	-	(27.0)	(27.0)	600.0	672.4	687.6
2021 Bond	1,250.0	1,465.7	-	(63.1)	(63.1)	1,250.0	1,402.6	1,409.2
2017 Bond	1,250.0	1,246.0	-	0.9	0.9	1,250.0	1,246.9	1,353.4
2018 Bond	750.0	746.0	-	0.7	0.7	750.0	746.7	781.5
Total bonds	5,811.7	6,543.7	3.7	(205.6)	(201.9)	5,815.4	6,341.8	6,384.2
Bank loans	2,435.7	2,435.1	(69.4)	0.2	(69.2)	2,366.3	2,365.9	2,366.3
Total bank loans	2,435.7	2,435.1	(69.4)	0.2	(69.2)	2,366.3	2,365.9	2,366.3
Total financial debt	8,247.4	8,978.8	(65.7)	(205.4)	(271.1)	8,181.7	8,707.7	8,750.5

As compared with 31 December 2012, long-term debt shows an overall decrease of € 271.1 million, due for € 3.7 million to capitalisation of inflation in the year linked to the IL bond, for -€ 205.4 million to the decrease in the fair value of bonds, also considering the amortised cost and for € 69.4 million to repayment of instalments on the EIB loans.

At 31 December 2013, Terna has an additional debt capacity of about € 850 million for short term credit lines.

The table also reports, pursuant to IFRS 7, the Fair Value of financial payables, which for bonds is represented by the market value of the same on the basis of prices at the reporting date, whilst for floating rate loans it has been taken as equal to the notional repayment amount.

Non-current financial liabilities

The table below reports the amount and changes in non-current financial liabilities with respect to value at the end of 2013:

€ million	31.12.2013	31.12.2012	Change
CFH derivatives	80.0	141.2	(61.2)
Total	80.0	141.2	(61.2)

The item "Non-current financial liabilities" includes the fair value measurement of cash flow hedging derivatives.

Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date.

The change in the interest rate curve since 31 December 2012 resulted in a change amounting to -€ 61.2 million.

Current financial liabilities

Current financial liabilities, due to the net interest expense accrued on financial instruments but not yet settled, have increased by € 14.3 million since the end of last year.

The following table details deferred liabilities on the basis of the financial liabilities to which they relate:

€ million	31.12.2013	31.12.2012	Change
Deferred liabilities on:			
Derivatives			
- <i>hedging</i>	12.7	12.3	0.4
Bond			
- <i>Inflation Linked</i>	4.6	4.6	-
- <i>Private Placement</i>	7.2	7.2	-
- <i>5-year (2017)</i>	44.9	44.9	-
- <i>10-year (2014)</i>	4.5	4.5	-
- <i>20-year (2024)</i>	7.0	7.0	-
- <i>10-year (2021)</i>	47.5	47.5	-
- <i>5-year (2018)</i>	18.8	4.5	14.3
Total	134.5	120.2	14.3
Loans	4.2	4.6	(0.3)
Total	151.4	137.1	14.3

Net financial position

Pursuant to CONSOB Communication of 28 July 2006 and in compliance with Recommendation ESMA/2011/81 of 23 March 2011, the Company's net financial position is as follows:

€ million	Carrying amount 31.12.2013
A. Cash	308.0
B. Short-term deposits	1,300.0
C. Inter-company loan to Terna Rete Italia	500.0
D. Cash and cash equivalents (A) + (B) + (C)	2,108.0
E. Current portion of long-term payables	697.8
F. Net current account position of intercompany treasury with subsidiaries	269.5
G. Current financial debt (E) + (F)	967.3
H. Net current financial debt (G) - (D)	(1,140.7)
I. Non-current bank debt	2,286.9
J. Bonds issued	5,723.0
K. Derivative financial instruments in portfolio	(465.5)
L. Net non-current financial debt (I) + (J) + (K)	7,544.4
M. Net financial debt (L) + (H)	6,403.7

Terna's debt/equity ratio stood at 2.38 in 2013.

For further details on the breakdown of the present items in the table please see the Notes, 13 "Current financial assets" and 17 "Cash and cash equivalents", and the information provided in the present Note 20 "Loans and financial liabilities".

For more information on the contractual provisions of outstanding loans at 31 December 2013, please see the Notes to the Consolidated Financial Statements.

21. Employee benefits – € 23.7 million

Terna provides benefits to its employees during their period of employment (loyalty bonus), at the termination of their employment (termination benefits, additional month's pay and indemnity for lack of notice), and in the period after the termination of employment (electricity discount and the ASEM health plan).

The loyalty bonus is awarded to employees and managers of the Company when they reach certain seniority levels (25 and 35 years of service).

The benefits granted at the termination of employment are recognised for all employees (termination benefits), managers hired or appointed before 28 February 1999 (indemnity for lack of notice), and employees (production workers, office staff and junior managers) hired before 24 July 2001 (additional month's pay indemnity).

Post-employment benefits consist of the following:

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

As reported in the Basis of Presentation, on 1 January 2013, the new version of the IAS 19 – *Employee Benefits* came into effect which entailed, for the Group, an adjustment of the opening balance of the item of € 1.0 million.

The composition of termination benefits and other employee-related provisions at 31 December 2013 is detailed below along with changes in the period:

€ million	31.12.2012 Restated	Provision	Interest cost	Utilisations and other changes	Actuarial gains/losses	31.12.2013
Benefits payable to employees						
Loyalty bonus and other incentives	0.4	0.5	-	-	-	0.9
Total	0.4	0.5	-	-	-	0.9
Benefits payable upon termination of employment						
Termination benefits	3.8	-	0.1	0.3	(0.4)	3.8
Additional month's pay	0.3	-	-	0.1	-	0.4
Indemnities for lack of notice and similar	0.3	-	-	-	0.1	0.4
Total	4.4	-	0.1	0.4	(0.3)	4.6
Post-employment benefits						
Energy discount	14.1	-	0.3	0.9	(1.7)	13.6
ASEM	5.5	0.1	0.1	(0.2)	(0.9)	4.6
Total	19.6	0.1	0.4	0.7	(2.6)	18.2
Total	24.4	0.6	0.5	1.1	(2.9)	23.7

The item, of € 23.7 million at 31 December 2013 (€ 24.4 million at 31 December 2012), was substantially in line with the previous year. It reflects in particular the recognition of actuarial gains and losses (-€ 2.9 million), provisions set aside in the year (€ 0.6 million) and recognition of the discounting expense of the year (€ 0.5 million).

Details of the pension cost relating to performance of current work and interest income and expense are shown below:

€ million	Loyalty bonus and other incentives	Termination benefits	Additional month's pay	Indemnities for lack of notice and similar	Energy discount	ASEM	Total
Net impact recognised in profit or loss							
- cost relating to current work performed	0.5	-	-	-	-	0.1	0.6
- interest income and expense	-	0.1	-	-	0.3	0.1	0.5
Total recognised in income statement	0.5	0.1	-	-	0.3	0.2	1.1

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

€ million	Termination benefits	Additional month's pay	Indemnities for lack of notice and similar	Energy discount	ASEM	Total
Actuarial gains/losses						
- based on past experience	-	-	0.1	(0.9)	(0.2)	(1.0)
- due to changes in demographical assumptions	-	-	-	-	-	-
- due to changes in other economical assumptions	-	-	-	1.3	0.1	1.4
- due to changes in discount rate	(0.4)	-	-	(2.1)	(0.8)	(3.3)
Total OCI impacts	(0.4)	-	0.1	(1.7)	(0.9)	(2.9)

The statements below, finally, show that main actuarial assumptions used, a sensitivity analysis on the movements in these assumptions and the payment schedule envisaged in the plan:

	Loyalty bonus and other incentives	Termination benefits	Additional month's pay	Indemnities for lack of notice and similar	Energy discount	ASEM
Discount rate	3.17%	3.17%	2.09%	1.36% - 0.86%	3.17%	3.17%
Inflation rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Duration	10.70	10.19	6.50	4.71 - 0.80	13.30	13.88

€ million	Loyalty bonus and other incentives	Termination benefits	Additional month's pay	Indemnities for lack of notice and similar	Energy discount	ASEM
Discount rate +0.25%	0.4	3.7	0.4	0.4	13.2	4.5
Discount rate -0.25%	0.4	3.9	0.4	0.4	14.0	4.8
Inflation rate +0.25%	0.4	3.9	n/a	n/a	14.0	n/a
Inflation rate -0.25%	0.4	3.7	n/a	n/a	13.2	n/a
Annual rate of increase in healthcare +3%	n/a	n/a	n/a	n/a	n/a	7.1
Annual rate of increase in healthcare -3%	n/a	n/a	n/a	n/a	n/a	3.2
Conversion value of KW/h +5%	n/a	n/a	n/a	n/a	14.3	n/a
Conversion value of KW/h -5%	n/a	n/a	n/a	n/a	12.9	n/a

€ million	Loyalty bonus and other incentives	Termination benefits	Additional month's pay	Indemnities for lack of notice and similar	Energy discount	ASEM	Total
By the end of 2014	0.5	0.1	-	-	0.7	0.2	1.5
By the end of 2015	-	0.3	-	-	0.6	0.2	1.1
By the end of 2016	-	0.1	-	-	0.6	0.2	0.9
By the end of 2017	-	0.3	-	0.1	0.6	0.2	1.2
By the end of 2018	-	0.2	-	0.2	0.6	0.3	1.3

22. Provisions for risks and charges – € 114.0 million

The items and changes of the “provisions for risks and charges” at 31 December 2013 are set out below:

€ million	Provision for disputes and litigation	Provisions for other risks and charges	Provision for early retirement	Total
Balance at 31.12.2012	18.4	84.8	18.6	121.8
Provision	0.5	9.4	7.5	17.4
Utilisations and other changes	(3.9)	(17.2)	(4.1)	(25.2)
Balance at 31.12.2013	15.0	77.0	22.0	114.0

Provision for disputes and litigation - € 15.0 million

The provision is set aside to cover the liabilities at year end that may arise from lawsuits and out-of-court disputes relating to Company activities. The amount set aside takes into account the opinions both of internal and external legal counsel and shows a net decrease of € 3.4 million with respect to the previous year, due to utilisations in the period.

Lawsuits for which no potential charge can reasonably be calculated are described under “Off-balance sheet commitments and risks”.

Provisions for other risks and charges - € 77.0 million

The provisions showed a net decrease of € 7.8 million with respect to the previous year, ascribable to provisions of € 9.4 million and utilisations of -€ 17.2 million in the course of the year. More specifically:

- exchange rate adjustment (-€ 2.0 million) of provisions for probable expenses relating to tax obligations deriving from the sale of Terna Participações;
- net utilisations of provisions set aside in previous years for tax risks, of -€ 2.4 million;
- net uses referring to management incentive plans for -€ 2.8 million;
- net utilisations (-€ 0.7 million) for the charges payable to distributing companies for the sharing of indemnities due to final users.

Provision for early retirement incentives - € 22.0 million

This provision reflects the estimated non-recurring charges related to the voluntary early termination of the working relationship of employees who are eligible for retirement. The item reflects a decrease of € 3.4 million for net uses made during the financial year.

23. Deferred tax liabilities – € 109.5 million

The aforementioned adoption of the new version of IAS 19 – Employee Benefits determined, determined for the Company, also an adjustment of deferred tax assets at 31 December 2012, for an amount of € 0.4 million.

The changes in this provision are analysed below:

€ million	31.12.2012 Restated	Provisions	Utilisations and other changes	Impact recognised in equity	31.12.2013
Deferred tax liabilities					
Property, plant and equipment	277.0	-	(49.8)	-	227.2
Employee benefits and financial instruments	4.3	-	-	-	4.3
Total deferred tax liabilities	281.3	-	(49.8)	-	231.5
Deferred tax assets					
Provisions for risks and charges	24.2	3.6	(6.2)	-	21.6
Allowance for doubtful accounts	3.6	-	-	-	3.6
Employee benefits	10.1	2.1	(1.8)	(1.0)	9.4
FVH - CFH derivatives	53.6	-	-	(26.4)	27.2
Release of goodwill	63.8	-	(3.6)	-	60.2
Total deferred tax assets	155.3	5.7	(11.6)	(27.4)	122.0
Passività nette per imposte differite	126.0	(5.7)	(38.2)	27.4	109.5

This balance, equal to € 109.5 million, reflects the net movements in the Company's deferred tax assets and liabilities. Deferred tax liabilities totalled € 231.5 million, down € 49.8 million, essentially due to:

- the use of previous provisions to cover the difference between additional depreciation and amortisation calculated using ordinary technical rates (€ 41.3 million), including the reversal in respect of the amortisation/depreciation charge for the period attributable to the difference from merger eliminations allocated to property, plant and equipment following mergers carried out in previous years (€ 2.4 million);
- release of the charge for the year (€ 8.5 million) of the provision for deferred IRAP liabilities governed by Law no. 244 dated 24/12/2007 (the 2008 Finance Law), recorded in prior years in relation to economic/technical rates.

Deferred tax assets (€ 122.0 million) show a decrease of € 33.3 million, mainly related to the following changes:

- total utilisations of -€ 27.4 million, attributable to the tax effect, which has no impact on the Income Statement, of changes in cash flow hedging financial instruments (-€ 26.4 million) and of actuarial gains and losses on employee benefits (-€ 1.0 million);
- utilisation, amounting to -€ 3.6 million, of the portion accruing of deferred tax assets allocated for the release of goodwill recognised following the merger of RTL;
- net utilisation of -€ 2.6 million in relation to changes during the year to provisions for risks and charges.

24. Other non-current liabilities – € 189.8 million

The item (€ 189.8 million at 31 December 2013) includes the amount payable to Terna Rete Italia S.p.A. arising through the transfer of net liabilities included in the business unit (€ 71.8 million) and deferred positions relating to set-up grants (€ 118.0 million).

The decrease in the item, of € 14.4 million compared to the previous year, derived from the reduction in the payable to Terna Rete Italia S.p.A. following the liquidation by the subsidiary of payables to employees included in the business unit (€ 8.9 million) and from the release of set-up grant portions (€ 5.5 million).

25. Current liabilities

Current liabilities at 31 December 2013 break down as follows:

€ million	31.12.2013	31.12.2012	Change
Short-term loans *	269.5	249.7	19.8
Current portion of long-term loans *	697.8	69.4	628.4
Trade payables	2,058.2	2,288.7	(230.5)
Tax liabilities	29.0	50.4	(21.4)
Current financial liabilities*	151.4	137.1	14.3
Other current liabilities	113.4	95.7	17.7
Total	3,319.3	2,891.0	428.3

(*) See the comments in Note 20. LOANS AND FINANCIAL LIABILITIES

Trade payables - € 2,058.2 million

Trade payables at 31 December 2013 break down as follows:

€ million	31.12.2013	31.12.2012	Change
Suppliers:			
- Energy-related payables	1,330.0	1,637.4	(307.4)
- Non energy-related payables	156.9	194.0	(37.1)
Payables due to associates	0.5	0.9	(0.4)
Payables due to subsidiaries	568.9	454.0	114.9
Payables for contract work in progress	1.9	2.4	(0.5)
Total trade payables	2,058.2	2,288.7	(230.5)

Suppliers

Energy-related payables

This item reports the effects on the balance sheet of payables for “pass-through” costs not ascribable to the Company, and refers mainly to purchase of energy relative to dispatching activities and the transport fee due to the owners of other sections of the NTG.

The decrease of € 307.4 million compared with the previous year is essentially due to:

- lower payables (€ 296.8 million) relating to “pass-through items” which are mainly ascribable to the joint effect of:
 - the decrease in payables for electrical energy purchases within the Power Exchange perimeter (-€ 104.9 million) deriving essentially from the joint effect of falling quantities and prices and the imbalance measurement (-€ 162.7 million), as already commented on in the section of the item “Trade receivables” - and lower payables deriving from virtual interconnection activity (-€ 34.8 million), in part offset by an increase in payable items generated by the increase in volumes of resources procured on the Energy Market (+€ 93.3 million);
 - the reduction of payables for energy purchases outside the perimeter of the Power Exchange (-€ 191.9 million) deriving essentially from the reduction in payables for capacity payments (-€ 58.1 million) and for EUSSs – Essential Units for the Security of the Electricity System (-€ 54.4 million), and from lower payables relating to procurement of uninterruptible resources (-€ 25.1 million); the decrease also derived from returning during the year the one-off cash advance received from CCSE (-€ 54.0 million) to settle the economic items on the market coupling on the Italy-Slovenia interconnection under the terms of Resolution 217/12;
- lower margin payables (€ 10.6 million) to the Electricity Industry Clearing House mainly attributable to payables relating to the bonus and penalty mechanisms on the subject of transmission service quality (RENS) recognised in the previous year (-€ 10.2 million), in part offset with payables to the subsidiary Terna Rete Italia S.p.A. recognised in 2013, commented on under the specific item “payables due to subsidiaries” to which you are referred, for the attribution to Terna of the expenses exceeding the service quality threshold.

Non energy-related payables

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

The decrease compared to the previous year (-€ 37.1 million) was essentially due to increased investment activity still in progress involving third parties in the last quarter of 2012, mostly offset by higher payables to the subsidiary Terna Rete Italia S.p.A. recognised in 2013 in execution of specific intercompany contracts; for more details on the subject see the item “Payables due to subsidiaries”.

Payables due to subsidiaries

This item, amounting to € 568.9 million, shows an increase of € 114.9 million mainly due to:

- higher payables to Terna Storage S.r.l. related to the acquisition of batteries under construction finalised by the subsidiary up to the end of November (€ 33.2 million), and the subsequent development/upgrading work and the related coordination and oversight activity carried out by Terna Storage in December (€ 30.3 million) in execution of the specific contract signed;
- higher payables to the subsidiary Terna Rete Italia S.p.A. (€ 51.2 million) essentially for increased investment activity recognised in the last quarter with respect to the corresponding period of the previous year (+€ 29.6 million) and the recognition of the payable for attribution to the Company of the expenses exceeding the agreed service quality threshold (€ 26.5 million).

Payables due to associates

This item, of € 0.5 million and substantially in line with the balance of the previous year (-€ 0.4 million), mainly includes payables to the associate CESI for services provided to the Company in the construction and management of laboratories and plants for tests, inspections, studies and experimental research in the general field of electricity technology and scientific and technical progress.

Company commitments to suppliers totalled approximately € 367.0 million and refer to purchase commitments relating to the normal “operating cycle” planned for the period 2014-2018.

Payables for contract work in progress

Payables for contract work in progress amounted to € 1.9 million at 31 December 2013 and were substantially in line with 31 December 2012 (-€ 0.5 million). They can be broken down as follows:

€ million	Payments on account	Contract value	Balance at 31.12.2013	Payments on account	Contract value	Balance at 31.12.2012
Altri	(14.6)	12.7	(1.9)	(15.8)	13.4	(2.4)

Tax liabilities – € 29.0 million

The caption refers to the Company's liabilities for IRES and IRAP taxes for the financial year. There was a net decrease, compared to the previous year, of € 17.7 million, due substantially to the payment of higher tax advances in the year compared to the payable recognised for current taxes accrued. In particular Italian Legislative Decree 133/13, on the occasion of payment of the second tax advance, entailed a change in the calculation basis, increasing the advances to 102.5%.

Other current liabilities – € 113.4 million

Other current liabilities break down as follows:

€ million	31.12.2013	Due within one year	Due beyond one year	31.12.2012	Change
Payments on account	22.2	0.9	21.3	19.6	2.6
Other tax liabilities	1.3	1.3	-	1.0	0.3
Payables to social security institutions	6.6	6.6	-	6.6	-
Payables to employees	8.1	8.1	-	8.6	(0.5)
Other payables to third parties	75.2	11.0	64.2	59.9	15.3
Total	113.4	27.9	85.5	95.7	17.7

Payments on account

This item (€ 22.2 million) includes the set-up grants received by the Company in relation to assets under construction at 31 December 2013.

Compared to the 2012 figure (€ 19.6 million) there was a net increase of € 2.6 million due to the new effect of new advances received from third parties of € 16.5 million and to the decrease of € 13.9 million in grants taken directly to reduce the carrying amount of assets, which came into operation during the year.

Other tax liabilities

Other tax liabilities, of € 1.3 million and substantially in line with the previous year (+€ 0.3 million), reflect mainly the recognition of payables for IRPEF (income tax) withheld on wages and salaries.

Payables to social security institutions

Payables to social security institutions, essentially relating to payables to the pensions agency INPS, show a balance of € 6.6 million in line with the previous year.

Payables to employees

Payables to employees show a balance of € 8.1 million substantially in line with the previous year (€ 8.6 million at 31 December 2012) and refer mainly to:

- amounts relating to staff incentives to be paid the following year (€ 4.9 million);
- payments due to employees for unused holiday time and abolished public holidays (€ 2.1 million).

Other payables to third parties

Other payables to third parties, of € 75.2 million (€ 59.9 million at 31 December 2012), mainly regard security deposits (€ 64.2 million) received from electricity market operators securing their obligations in respect of dispatching contracts. The item increased by € 15.3 million owing mainly to guarantee deposits received covering contractual obligations involved in dispatching and virtual interconnection contracts (€ 8.0 million), and to the deferment of rental income related to the period 2014/2015 collected in the year from Wind Telecomunicazioni S.p.A. for the housing of optical fibre on company-owned networks (€ 7.2 million).





E. Commitments and risks

Risk management

Terna S.p.A.'s market and financial risks

During the financial year, in conducting its operations, Terna is exposed to various different financial risks: market risk (namely interest rate risk and inflation risk), liquidity risk and credit risk.

This section provides comprehensive information regarding Terna's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to measure them, with further quantitative disclosures concerning the 2013 financial statements.

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

As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.

€ million	31.12.2013				31.12.2012			
	Receiv.	Receiv. at fair value	Hedging derivatives	Total	Receiv.	Receiv. at fair value	Hedging derivatives	Total
Assets								
Derivative financial instruments	-	-	545.5	545.5	-	-	754.9	754.9
Cash, short-term deposits and inter-company loans	2,108.0	-	-	2,108.0	2,994.4	-	-	2,994.4
Total	2,108.0	-	545.5	2,653.5	2,994.4	-	754.9	3,749.3

€ million	31.12.2013				31.12.2012			
	Payables	Loans at fair value	Hedging derivatives	Total	Payables	Loans at fair value	Hedging derivatives	Total
Liabilities								
Debt	2,635.4	6,341.8	-	8,977.2	2,684.8	6,543.7	-	9,228.5
Derivative financial instruments	-	-	80.0	80.0	-	-	141.2	141.2
Total	2,635.4	6,341.8	80.0	9,057.2	2,684.8	6,543.7	141.2	9,369.7

Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risks include three types of risks: exchange rate risk, interest rate risk and inflation risk.

Risk management must be performed with the objective of maximising financial income and minimising the related risks by selecting counterparties and instruments compatible with the corporate risk management policy. Speculative activity is not envisaged in the corporate mission.

Terna S.p.A. seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changes in market conditions or in the hedged item make the latter unsuitable or excessively expensive. The concept of hedging transaction is not restricted to those hedges that qualify for hedge accounting, but rather encompasses the objective of total or partial hedging of the economic or financial item against interest rate risk.

All derivative contracts entered into have a notional amount and maturity date prior to or equal to that of the underlying financial liability, so that any change in the fair value and/or estimated cash flows of the contracts is offset by a corresponding change in the fair value and/or of the estimated cash flows of the underlying position. The fair value of financial derivatives reflects the estimated amount that Terna would pay or receive in order to extinguish contracts at the closing date.

The fair value of instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (Level 2) by means of appropriate valuation techniques for each category of financial instrument, using market data as at the closing date (such as interest rates, exchange rates and volatility) and discounting projected cash flows on the basis of the market yield curve and inflation at the reporting date.

The financial assets and liabilities in respect of derivative instruments in place during the year can be classified as:

- cash flow hedge derivatives, mainly related to hedging the risk of changes in cash flows associated with long-term floating-rate loans;
- fair value hedging derivatives, mainly related to hedging the exposure to changes in the fair value of a financial asset or liability associated with fluctuations in interest rates (fixed-rate bonds).

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

€ million	31.12.2013		31.12.2012		Change	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
FVH derivatives	3,750.0	545.5	3,750.0	754.9	-	(209.4)
CFH derivatives	2,366.3	(80.0)	2,435.7	(141.2)	(69.4)	61.2

Interest rate risk

Interest rate risk is represented by the uncertainty associated with interest rate fluctuations. This is the risk that a change in market interest rates may produce effects on the fair value or future cash flows of financial instruments.

In conducting its operations, Terna is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with items of net financial debt and the related hedging positions in derivative instruments that generate financial expense. Terna's borrowing strategy focuses on long-term loans whose term reflects the useful life of company assets. It pursues an interest rate risk hedging policy that aims to reconcile this approach with the regulatory framework, which every four years establishes the cost of debt as part of the formula to set the return on the Regulatory Asset Base (RAB).

Accordingly, the hedging instruments used, at various maturity dates, include both derivatives that transform fixed rates into floating rates and derivatives that transform floating rates into fixed rates.

In order to reduce the amount of financial debt exposed to the risk of fluctuations in interest rates and to optimise the temporal correlation between average cost of debt and regulatory rate used in the WACC formula, various types of plain vanilla derivatives are used, such as interest rate swaps.

Interest rate swaps are used in order to reduce the volume of debt exposed to fluctuations in interest rates and to reduce the volatility of borrowing costs. With an interest rate swap, Terna agrees with a counterparty to exchange, at specific intervals, the floating-rate cash flows on a specified notional amount against the fixed-rate (agreed between the parties) cash flows, or vice versa.

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

€ million	Carrying amount	Carrying amount	Change
	31.12.2013	31.12.2012	
Fixed-rate financial instruments:			
- liabilities	6,421.8	6,684.9	(263.1)
Floating-rate financial instruments:			
- assets	2,653.5	3,749.3	(1,095.8)
- liabilities	2,635.4	2,684.8	(49.4)
Total	6,403.7	5,620.4	783.3

Sensitivity to interest-rate risk

As regards the management of interest rate risk, Terna has, on the one hand, entered into fixed-to-floating interest rate swaps (FVH) to hedge the fair value of fixed-rate risk bonds and, on the other, floating-to-fixed interest rate swaps (CFH) to hedge the expected cash flows in respect of all other floating-rate debt.

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

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

€ million	Profit or loss			Equity		
	Current rates +10%	Current rates	Current rates -10%	Current rates +10%	Current rates	Current rates -10%
31.12.2013						
Positions sensitive to changes in interest rates (FVH, bonds, CFH)	0.2	0.3	-	(78.1)	(80.0)	(82.0)
<i>Hypothetical change</i>	<i>(0.2)</i>	<i>-</i>	<i>(0.3)</i>	<i>1.9</i>	<i>-</i>	<i>(1.9)</i>
31.12.2012						
Positions sensitive to changes in interest rates (FVH, bonds, CFH)	2.5	2.4	2.3	(138.7)	(141.2)	(143.7)
<i>Hypothetical change</i>	<i>0.1</i>	<i>-</i>	<i>(0.1)</i>	<i>2.5</i>	<i>-</i>	<i>(2.5)</i>

Inflation risk

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

Exchange rate risk

Generally Terna hedges exchange rate risk through the forward sale or purchase of currencies (forward contracts) or the use of options. Currency options give Terna the right or the obligation to buy or sell predetermined amounts of a currency at a specific exchange rate at the end of a specific period of time. Normally, both forward contracts and options have maturities of no more than 12 months.

Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from an appreciation or depreciation of the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

At 31 December 2013 (as at 31 December 2012), no financial instruments exposed to exchange rate risk were present.

Liquidity risk

The liquidity risk is the risk Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of financial needs by obtaining adequate lines of credit and appropriate management of any surplus liquidity. As of 31 December 2013 Terna had € 850 million in short-term credit lines. The table below shows the repayment plan at 31 December 2013 of the nominal long-term debt:

€ million	Maturity	31.12.2012	31.12.2013	Due within 12 months	Due beyond 12 months	2015	2016	2017	2018	After
Bonds	2014-2024	1,676.1	1,596.2	618.8	977.4	-	-	-	-	977.4
Bonds IL	2023	710.5	677.0	-	677.0	-	-	-	-	677.0
Bonds PP	2019	699.4	672.4	-	672.4	-	-	-	-	672.4
Bonds 1250	2021	1,465.7	1,402.6	-	1,402.6	-	-	-	-	1,402.6
Bonds 1250	2017	1,246.0	1,246.9	-	1,246.9	-	-	1,246.9	-	-
Bonds 750	2018	746.0	746.7	-	746.7	-	-	-	746.7	-
Total fixed rate		6,543.7	6,341.8	618.8	5,723.0	-	-	1,246.9	746.7	3,729.4
EIB	2014-2030	1,285.7	1,216.3	79.0	1,137.3	77.0	85.1	96.9	96.9	781.4
Club Deal	2015	649.4	649.6	-	649.6	649.6	-	-	-	-
CDP	2019	500.0	500.0	-	500.0	-	-	-	-	500.0
Total floating rate		2,435.1	2,365.9	79.0	2,286.9	726.6	85.1	96.9	96.9	1,281.4
Total		8,978.8	8,707.7	697.8	8,009.9	726.6	85.1	1,343.8	843.6	5,010.8

Credit risk

Credit risk is the risk a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by trade receivables and the financial investments of the Company.

The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since the counterparties, in compliance with financial risk management policies, are leading international credit institutions with high ratings and such transactions are diversified in compliance with specific concentration limits.

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

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

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

€ million	Carrying amount		Change
	31.12.2013	31.12.2012	
FVH derivatives	545.5	754.9	(209.4)
Intercompany loan to Terna Rete Italia S.r.l.	500.0	500.0	-
Cash and cash equivalents	1,608.0	2,494.4	(886.4)
Trade receivables	1,708.5	1,862.3	(153.8)
Total	4,362.0	5,611.6	(1,249.6)

The total value of the exposure to credit rate risk at 31 December 2013 is represented by the carrying amount of financial assets (current and non-current), trade receivables and cash and cash equivalents.

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

GEOGRAPHICAL DISTRIBUTION

€ million	Carrying amount	
	31.12.2013	31.12.2012
Italy	1,671.2	1,832.8
Euro-area countries	35.4	4.5
Other countries	1.9	25.0
Total	1,708.5	1,862.3

CUSTOMER TYPOLOGY

€ million	Carrying amount	
	31.12.2013	31.12.2012
Distributors (*)	430.0	380.9
Electricity Equalisation Fund (**)	238.3	216.0
Input dispatching contractors	216.3	227.9
Withdrawal dispatching contractors	745.2	917.1
Parties which have virtual import contracts and virtual import services (interconnectors and shippers)	15.7	18.9
Receivables for sundry activities	63.0	101.5
Total	1,708.5	1,862.3

(*) includes receivable accrued in respect of Terna Rete Italia S.r.l. grid transmission fees.

(**) of which € 223.0 million from volume effect on grid transmission fees.

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

€ million	31.12.2013		31.12.2012	
	Impairment	Gross	Impairment	Gross
Not yet past due	-	1,439.0	-	1,488.4
0-30 days past due	-	215.7	-	315.5
31-120 days past due	(0.6)	10.0	(3.7)	25.0
More than 120 days past due	(30.2)	74.6	(22.8)	59.9
Total	(30.8)	1,739.3	(26.5)	1,888.8

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

€ million	2013	2012
Balance at 1 January	(26.5)	(23.6)
Reversal of provision	1.5	0.8
Impairment for the year	(5.8)	(3.7)
Balance at 31 December	(30.8)	(26.5)

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

€ million	2013	2012
Input dispatching activity	258.1	240.9
Withdrawal dispatching activity	843.1	897.0
Grid transmission fees - distributors	174.8	169.7
Virtual importing	171.2	99.5
Balance at 31 December	1,447.2	1,407.1

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the Company is party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. For more information on the contractual provisions of outstanding loans at 31 December 2013, please see the section “Loans and financial liabilities” in the notes of Terna S.p.A.

Parent company guarantees issued in favour of suppliers of subsidiaries

The Company has issued parent company guarantees in favour of a number of suppliers of the subsidiaries Terna Rete Italia S.p.A. and Terna Crna Gora, for contracts connected with construction of the interconnection between Italy and Montenegro. The Company’s maximum exposure at 31 December 2013 amounted to € 18.4 million for Terna Rete Italia S.p.A. and € 0.7 million for Terna Crna Gora.

Legal disputes

The main off-balance sheet commitments and risks of the company at 31 December 2013 are as follows.

Environmental and urban planning litigation

Environmental litigation originates from the installation and operation of electrical plants and primarily involves damages which could be derived from exposure to electrical and magnetic fields that are generated by long-distance power lines. Terna is involved in various civil and administrative suits requesting the transfer or change in operations of allegedly-harmful long-distance power lines, even though they were installed in full compliance with applicable legislation (Italian Law no. 36 of 22 February 2001 and Prime Ministerial Decree of 8 July 2003). Only a very small number of cases include claims for damages for harm to health caused by electromagnetic fields.

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

In addition, a number of cases relating to urban planning and environmental issues are pending in respect of the construction and operation of certain transmission lines. The possible effects of any unfavourable outcome to these cases are unpredictable and, accordingly, have not been considered when determining the “Provisions for disputes and other risks”.

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

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

Litigation concerning concession activities

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

Tax Authority

On 27 March 2012, Terna, as jointly liable with Enel Distribuzione S.p.A. (“Enel Distribuzione”), was served an order for payment of higher tax deriving from the sale transaction of the equity investment held by Enel Distribuzione in Elat S.r.l. (later Telat S.r.l., now Terna Rete Italia S.r.l.) to Terna S.p.A. (for a total of approximately € 38 million, including interest). According to the provisions of the investment sale contract, Enel Distribuzione S.p.A. must release Terna of obligations regarding all costs, liabilities and any damages resulting from the aforementioned notice and the points contested therein. Enel Distribuzione, acting in agreement with Terna, intends on taking the necessary steps to safeguard its own claim, holding Terna exempt from all payments/advances. Therefore, on the basis of the contractual agreements, confirmed by Enel Distribuzione in a letter dated 17 April 2012, Terna does not believe that any financial expenditure will result from the notice in question.

In addition, on 17 May 2012, the Provincial Tax Commission of Rome ordered the temporary suspension of the aforementioned payment notice until the result of the appeal hearing. On 03 December 2012, the hearing was duly held in relation to the dispute underway before Chambers I of the Rome Provincial Tax Commission, which has now adjourned to decide on another date.

F. Business combinations

There were no business combinations during 2013.

G. Related-party transactions

Terna’s transactions with related parties during the year, taking account of the de facto control exercised over the Company by Cassa Depositi e Prestiti S.p.A. ascertained in 2007, regarded - in addition to the subsidiaries (Terna Rete Italia S.p.A., Terna Rete Italia S.r.l., Terna Crna Gora d.o.o., Terna Plus S.r.l. and Terna Storage S.r.l.) - the associate companies (Cesi S.p.A. and Coreso S.A.), the employee pension funds (Fondenel and Fopen), Cassa Depositi e Prestiti as well as companies belonging to:

- the GSE Group;
 - the Enel Group;
 - the Eni Group;
 - the Ferrovie dello Stato (State Railway) Group;
- and with ANAS S.p.A.

Given that Terna S.p.A. and the aforementioned subsidiaries directly or indirectly controlled by the Ministry for the Economy and Finance fall within the definition of “Government-related entities” as per IAS 24 - *Related party disclosures*, the Group adopts the partial exemption provided by the same standard, which dispenses with the required disclosures of relationships with other companies controlled, connected or under joint control of the same government body; in particular, the qualitative and quantitative indications of relationships with Government-related entities which have a significant impact on the Group’s results are reported below in this section; no amounts relating to “pass-through items” are given here.

Related party transactions in 2013 are mainly services that are part of core business and regulated by market conditions. It should be remembered that, in the current organisational structure of the Terna Group, in signing the business unit rental agreement with the Company, and the consequent specific infra-group contracts, the subsidiary Terna Rete Italia S.p.A. is tasked with performing all traditional operational activities, ordinary and extraordinary maintenance of the section of the NTG owned, as well as management and performance of work on developing the grid as provided for in the Concession for transmission and dispatching, and on the basis of the provisions of Terna’s Development Plan.

Terna also provides for the operative management of all subsidiaries by means of specific service agreements that not only assure the administrative and financial coordination and the coordination of institutional relations, but also enable it to act on behalf of the subsidiaries, or for and on their behalf.

Please also note that in December 2013, the Company stipulated a two-year contract with the subscribers Terna Storage, for “safeguarding the construction” of diffused energy storage systems projects, as well as the relative “coordination”, “study” and “research” activities.

The parent company has in fact launched an ambitious storage-system programme aimed at “promoting the dispatching of non-programmable plants”, in line with the relative legislation which provides for the possibility of including it among the works for developing the electricity transmission grids and inclusion in the extra-incentive mechanisms established by the Electricity and Gas Regulatory Authority (AEEG) in the two Resolutions 43/2013 and 66/2013.

As concerns the non-traditional activities, the Company uses the services offered by the subsidiary Terna Plus S.r.l., in accordance with the current intercompany service agreement.

Terna is also involved in the management of cash demands of subsidiaries through specific Treasury contracts that ensure the guidance and coordination of all transactions in relation to financial resource and needs management and treasury services, as well as the implementation of all related transactions. Under the scope of the centralised treasury management of financial resources, we recall the loan of € 500.0 million supplied by Terna to the subsidiary Terna Rete Italia S.r.l. in November 2009.

Below is a summary of the intercompany contracts in place at 31 December 2013:

Counterparty	Type	Annual price
Terna Rete Italia S.p.A.	Service agreement:	
	<i>Operation & Maintenance</i>	€ 265,971,587*
	<i>Renewal and development</i>	equal to costs incurred + 5.82% on the personnel expenses incurred
	<i>Administrative, assistance and consulting services</i>	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (assets)	€ 33,684,067*
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (liabilities)	€ 1,915,525*
	Lease of areas able to be set up as employee workstations	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (assets)	€ 2,207,790
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (liabilities)	€ 350,025
	Business unit rent	€ 24,267,020
Terna Rete Italia S.r.l.	Admin., assist. and consult. service agreement (assets)	€ 306,000
Terna Plus S.r.l.	Service agreement:	
	<i>Non-traditional activities by Terna (liabilities)</i>	€ 43,915
	<i>Management fee (assets)</i>	€ 756,577
	<i>Other administrative services att. to contract (assets)</i>	€ 94,532
	Lease of areas able to be set up as employee workstations (assets)	
Terna Storage S.r.l.	Administrative, assistance and consulting service agreement (assets)	
	Service agreement (liabilities)	
	<i>Coord., study and monitoring of storage system dev. activities</i>	€ 600,000
	<i>Adjustment and development of storage systems</i>	equal to costs incurred + 5.82% on the personnel expenses incurred
Terna Crna Gora d.o.o.	Service agreement:	
	<i>Technical services</i>	equal to costs incurred + 5.82%
	<i>Administrative services</i>	€ 90,074

(*) 2013 price updated by agreement of the parties in accordance with Art. 9.6 bis and 7.1 of the service agreement.

The table below also sets out the contractual terms and conditions of the financial contracts in place with the subsidiaries:

	Contractual conditions - interest rates		
	Loan	Intercompany current a/c	
		Inventories	Utilisations
Terna Rete Italia S.r.l.	Euribor 6 months +2.50%	Euribor monthly average 1 month +1.50%	Euribor monthly average 1 month + 2.00%
Terna Rete Italia S.p.A.	-	Euribor monthly average 1 month +1.50%	Euribor monthly average 1 month + 2.00%
SunTergrid S.p.A.	-	Euribor monthly average 1 month +1.50%	Euribor monthly average 1 month + 2.00%
RTS S.r.l.	-	Euribor monthly average 1 month +1.50%	Euribor monthly average 1 month + 2.00%
Terna Plus S.r.l.	-	Euribor monthly average 1 month +1.50%	Euribor monthly average 1 month + 2.00%
Terna Storage S.r.l.	-	Euribor monthly average 1 month +1.50%	Euribor monthly average 1 month + 2.00%
Terna Crna Gora d.o.o.	-	Euribor monthly average 1 month +1.50%	Euribor monthly average 1 month + 2.00%

The tables on the next page instead specify the nature of the transactions implemented by the Company with related parties and the respective income and expense totalled during the year, in addition to the respective receivables and payables in place as of 31 December 2013:

Related party	Revenue transactions	Cost transactions
Terna Rete Italia S.p.A.	non energy-related items Rental charges, administrative services, lease of employee workstations and other services	non energy-related items Maintenance and other technical services, Grid renewal and development, Quality of service exemption, administrative services, employee workstation lease, centralised treasury management
Terna Rete Italia S.r.l.	NTG transmission fees NTG transmission fees non energy-related items Management fees, loan assets	NTG transmission fees Grid remuneration non energy-related items Mitigation mechanism Res. 188/08 centralised treasury management
Terna Plus	non energy-related items Technical and administrative services, space and workstation lease	non energy-related items Management of non-traditional activities, centralised treasury management
Terna Storage	non energy-related items Administrative, assistance and consulting services	non energy-related items Coord., study and monitoring of storage system dev. activities, technical services for the adjustment and development of storage systems
Terna Crna Gora d.o.o.	non energy-related items Administrative services, provisions of seconded and transferred staff	

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

Company	Income statement				
	Income items			Expenses	
	Grid transmission fees and other energy-related items	Non energy-related items	Dividends	Grid transmission fees and other energy-related items	Non energy-related items
Subsidiaries:					
Terna Rete Italia S.p.A.	-	60.7	-	-	328.5
Terna Rete Italia S.r.l.	6.7	15.2	-	-	1.6
RTS S.r.l.*	-	0.2	-	-	-
Terna Crna Gora doo	-	1.0	-	-	-
Terna Plus S.r.l.	-	1.4	-	-	1.4
Terna Storage S.r.l.	-	0.3	-	-	0.6
Total subsidiaries	6.7	78.8	-	-	332.1
De facto parent company:					
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	6.3
Total de facto parent company	-	-	-	-	6.3
Associates:					
Cesi S.p.A.	-	0.1	1.1	-	-
CORESIO S.A.	-	-	-	-	1.3
Total associates	-	0.1	1.1	-	1.3
Other related companies:					
GSE Group	42.9	0.5	-	-	-
Enel Group	1,385.2	10.1	-	-	4.8
Eni Group	7.9	-	-	-	0.1
Ferrovie Group	3.3	-	-	7.2	-
Total other related companies	1,439.3	10.6	-	7.2	4.9
Pension funds:					
Fondenel	-	-	-	-	0.3
Fopen	-	-	-	-	0.2
Total pension funds	-	-	-	-	0.5
Total	1,446.0	89.5	1.1	7.2	345.1

(*) Rete Solare S.r.l. was sold by the subsidiary SunTergrid S.p.A. on 24 July 2013. For more details, please refer to the section on accounting policies and measurement criteria.

€ million	Statement of financial position					
	Property, plant and equipment	Receivables and other assets		Payables and other liabilities		Guarantees*
	Capitalised costs	Other	Financial	Other	Financial and position of inter-company current account	
Company						
Subsidiaries						
Terna Rete Italia S.p.A.	70.6	17.4	-	577.1	106.6	-
Terna Rete Italia S.r.l.	-	0.1	501.8	42.1	103.7	-
Terna Crna Gora doo	-	0.3	-	-	-	-
Terna Plus S.r.l.	-	0.3	-	0.1	81.8	-
Terna Storage S.r.l.	-	0.1	-	63.5	(22.6)	-
Total subsidiaries	70.6	18.2	501.8	682.8	269.5	-
De facto parent company						
Cassa Depositi e Prestiti S.p.A.	-	-	0.3	-	501.1	-
Total de facto parent company	-	-	0.3	-	501.1	-
Associates:						
Cesi S.p.A.	0.6	0.3	-	0.4	-	3.2
CORESIO S.A.	-	-	-	0.1	-	-
Total associates	0.6	0.3	-	0.5	-	3.2
Other related companies:						
GSE Group	-	7.3	-	-	-	-
Enel Group	0.7	400.7	-	9.5	-	427.8
Eni Group	-	1.4	-	-	-	24.1
Ferrovie Group	-	0.6	-	1.3	-	44.0
ANAS S.p.A.	-	1.2	-	0.3	-	-
Total other related companies	0.7	411.2	-	11.1	-	495.9
Pension funds:						
Fopen	-	-	-	0.2	-	-
Total pension funds	-	-	-	0.2	-	-
Total	71.9	429.7	502.1	694.6	770.6	499.1

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

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

No significant, non-recurring, atypical or unusual transactions - with the exception of those described above - were carried out during 2013, either with third parties or with related parties.

I. Notes to the statement of cash flows

The cash flow generated from **continuing operations** in the year amounted to around € 696.1 million, which reflects around € 1,320.5 million in cash from operating activities (self-financing) and around € 624.4 million in financial resources generated by the management of net working capital.

Investing activities used net financial resources of around € 1,130.9 million, and mainly included € 1,058.6 million of investment in property, plant and machinery (€ 1,072.5 million net of plant grants totalling € 13.9 million) and € 47.0 million of investment in intangible assets.

Cash flow for investment activities also reflects the acquisitions of assets made by the Company within the Group and in particular from the subsidiary Terna Storage S.r.l., of the entire lot of projects relating to the diffused energy storage systems (for € 33.2 million) and by the subsidiary Terna Plus S.r.l. for a rapidly installable connection station (SCRI), for € 2.2 million.

The net change in **loan flows** in relation to equity drops by € 402.0 million due to the disbursement of the 2012 dividend balance (€ 261.3 million) and the 2013 interim dividend (€ 140.7 million).

Consequently, the financial resources used in investing activities and the remuneration of equity during the period, led to total financial requirements of € 1,532.9 million in the year, part of which (€ 696.1 million) was covered by the cash flows generated by operating activities and the remainder mainly through the net use of cash and cash equivalents as at end 2012.

L. Subsequent events

Terna's rating

On **18 February 2014** Moody's Investors Services (Moody's) raised from negative to stable the outlook assigned to Terna's rating. The Issuer's rating and the rating of the Senior Unsecured Debt were confirmed at Baa1, as also 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 other agencies. The outlook went from negative to stable. The Short-Term IDR was confirmed at "F2".

Non Traditional Activities (NTAs): agreement signed for acquisition of Tamini Trasformatori

On **25 February 2014**, as part of the creation of the Terna Group's non-traditional activities, Terna Plus S.r.l., a full subsidiary of Terna S.p.A., signed an agreement to acquire the entire share capital of Tamini Trasformatori S.r.l. and of a number of companies controlled by the latter.

The transaction - which provides for a price for the production plants alone of € 23.9 million - is expected to be completed in the first half of 2014 and is subordinated to occurrence of certain suspensive conditions. At the closing date the purchase price will be adjusted on the basis of the values of the working capital (including other items) and of the net financial position certified on that date.

Despite the limited direct financial exposure of Terna and the typical perspective of the Group's non-traditional activities, which have always been considered "non-continuous" operating activities, acquisition of the Tamini Group represents an opportunity to enhance a historical Italian industrial enterprise, recognised as an excellence in the electrical sector in Italy and abroad.

Tamini is a company which operates in the sector of producing and marketing industrial electrical and power transformers and is owned by Luciano Tamini (50%) and Carlo Pavese Tamini (50%). It owns 4 manufacturing facilities situated all in Italy at Legnano, Melegnano, Novara and Valdagno.

The Tamini Group involved in the agreement is made up of the parent company V.T.D. Trasformatori S.r.l., Verbano Trasformatori S.r.l. and Tamini Transformers USA L.L.C..

In 2012 the Tamini Group recorded a value of production of € 119.5 million and EBITDA of € 7.7 million.

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

The following table, prepared in accordance with Art. 149-*duodecies* of the CONSOB Issuers Regulations, reports the fees for 2013 for the audit and non-audit services provided to Terna S.p.A. by the same auditing company.

In €	Entity providing service	Prices due for the year
Independent Auditing of accounts and financial statements	PWC	222,585.60
Attestation services	PWC*	115,500.00
Total		338,085.60

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

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

1. The undersigned Flavio Cattaneo, as CEO, and Luciano di Bacco, as Executive in Charge of the preparation of accounting documents for TERNA S.p.A., also considering that established by art. 154 *bis*, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, certify:
 - the suitability in relation to the business characteristics; and
 - the effective application of the administrative and accounting procedures for the preparation of the separate financial statements during financial year 2013.
2. The assessment of the suitability of the administrative and accounting procedures for the preparation of the separate financial statements as at 31 December 2013, is based on a set of standards and methodologies defined by Terna S.p.A. in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represents a set of reference standards for the internal control and risk management system, generally accepted worldwide.
3. It is also specified that:
 - 3.1. the separate financial statements at 31 December 2013:
 - a. are prepared in compliance with the applicable international accounting standards recognised in the European Community in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002 and the provisions issued in implementation of art. 9 of Italian Legislative Decree no. 38/2005;
 - b. comply with the results of the accounts and accounting entries;
 - c. are suitable to providing a truthful, correct representation of the equity, economic and financial position of the issuer;
 - 3.2. the report on operations includes a reliable analysis of the trend and operating result, in addition to the position of the issuer and a description of the main risks and uncertainties to which it is exposed.

Rome, 25 March 2014

Delegated administrative bodies
(Flavio Cattaneo)

Executive in Charge of the preparation of
the Company's accounting documents
(Luciano Di Bacco)

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



2013



Report by the Board of Statutory Auditors to the shareholders' meeting of Terna S.p.A.
Auditors' Report in accordance with articles 14 and 16 of Legislative Decree no. 39 of 27 January 2010
Financial Statements as of 31 December 2013



Report by the Board of Statutory Auditors to Terna S.p.A.'s Shareholders Meeting

(pursuant to Art. 153 of Italian Legislative Decree no. 58/98)

Dear Shareholders,

During the financial year ended 31 December 2013, we carried out supervisory activity in accordance with the Law (Italian Legislative Decree no. 58 of 24/2/1998 – “Consolidated Law on Financial Intermediation” and Italian Legislative Decree no. 39 of 27/1/2010 “Implementation of Directive 2006/43/EC related to the legal auditing of annual accounts and consolidated accounts, modifying Directives 78/660/EEC and 83/349/EEC and abrogating Directive 84/253/EEC”), adapting our activity to the code of practice of Boards of Statutory Auditors of joint-stock companies with shares listed in regulated markets as recommended by the National Board of Chartered Accountants and by CONSOB provisions regarding company auditing and activities conducted by Boards of Statutory Auditors.

The independent auditing activity, pursuant to Legislative Decree 39/2010, was assigned to the PricewaterhouseCoopers S.p.A. auditing firm to whose reports you are referred.

The Board of Statutory Auditors presently in office was appointed by the Shareholders Meeting on 13 May 2011 based on the provisions of the By-laws.

Also in compliance with the provisions issued by CONSOB with Notice DEM/125564 dated April 6, 2001 and subsequent updates, the following was carried out:

- We monitored that the Law and the By-laws were complied with.
- We attended the meetings of the Board of Directors and specific preparatory meetings regarding the items on its agenda, including the meetings of the Risk Control and Corporate Governance Committee and of the Remuneration Committee and were regularly informed by the Directors about the activities carried out, expected outlook and the most significant economic, financial and equity transactions of the Company, and we were satisfied that the resolutions adopted and implemented were in compliance with Law provisions and the By-laws and were not manifestly imprudent, risky, representing a potential conflict of interests, in contrast with the resolutions passed by the shareholders meeting or capable of compromising the Company's assets. During the assessments, no atypical and/or unusual operation emerged. To fulfil our mandate we also conducted interviews with the Company's management, and meetings with the independent auditor and with the other auditing bodies of the Group companies, and analysed the information flows coming from the various corporate structures also by means of specific audit meetings.

- The Board of Directors, in its meeting on 25 March 2014, with the favourable opinion of the Human Resources and Remuneration Committee, approved the “*Annual Report on Remuneration*” prepared, in accordance with Article 123^{ter} of Italian Legislative Decree no. 58/1998 and in compliance with the provisions of Art. 7 of Borsa Italiana's Code of Conduct.
- In the chapter “Related-party transactions” included in the Notes to the Consolidated and Separate Financial Statements, the directors highlighted the main transactions that were conducted with related parties, identified on the basis of the international accounting standards and the provisions issued on the matter by CONSOB. This chapter can be referred to, to identify the type of transactions and the related economic and financial and equity effects. The Board also monitored application of the “Related Party Transactions Procedure”, pursuant to Art. 4 of the Regulation adopted by CONSOB with Resolution no. 17221 of March 12, 2010 as subsequently amended and added to and adopted by the Board of Directors on 12 November 2010.
- The Company drew up the 2013 Separate financial statement according to the International Accounting Standards (IAS/IFRS), as was also done for the previous one in 2012. The Notes include the accounting standards and the evaluation criteria adopted. The 2013 separate Financial Statements of Terna S.p.A. were submitted to the evaluation of the Auditing Firm PricewaterhouseCoopers S.p.A., appointed by the Shareholders' Meeting of 13 May 2011 for the financial years from 2011 to 2019, which issued its audit report on 16 April 2014 without objections or calls for further disclosure. Significant events that occurred during 2013 are included in the Directors' Report and can be examined more in detail:
 - During financial year 2013, the organisational adjustments of the Group consequent to the reorganisation process were completed. This process was launched in 2012 and aimed at dividing the corporate structure into a Parent Company and two operating companies, Terna Rete Italia S.p.A. and Terna Plus S.r.l.. In particular Terna Rete Italia S.p.A.'s new organisational model, aimed at strengthening territorial monitoring of plant operation and maintenance and operational process management, came into force on 1 July 2013.
 - On 28 June 2013 Terna renewed its bond issue programme entitled “Euro Medium Term Note Programme” (EMTN) increasing its amount from € 5 to 6 billion as resolved by the Board of Directors on 14 May 2013. Deutsche Bank and Citigroup were the Joint Arrangers for the programme, which obtained ratings of A-/A-2

from Standard & Poor's, Baa1/P-2 from Moody's and A- from Fitch. In addition, on 8 July 2013 Terna signed an agreement with the European Investment Bank (EIB) to obtain a € 570 million loan to be used to expand and strengthen the Italian electricity transport system. The loan will be repaid in six-monthly instalments starting in 2015, with the last repayment date in 2030.

- The Company drew up the 2013 Consolidated Financial Statements applying the International Accounting Standards (IFRSs/IASs) as it did for the previous year; the Terna Group's Consolidated Financial Statements were submitted to the evaluation of PricewaterhouseCoopers S.p.A. Auditing Firm which issued its audit report on 16 April 2014 without objections or calls for further disclosure.
- We acquired knowledge on and monitored, as far as was our duty, the adequacy of the Company's organisational structure, observance of the principles of correct administration and the adequacy of the instructions issued by the Company to the subsidiaries under the terms of Art. 114, paragraph 2, of Italian Legislative Decree 58/98, by acquiring information from the managers of the competent corporate units, meeting with the auditing firm and meeting with the auditing bodies of the largest subsidiaries, in order to reciprocally exchange significant data and information.
- We monitored the administrative and accounting system, assessing the reliability of the latter in providing a true and fair view of operations; this activity was carried out by obtaining information from the heads of the various departments, by examining company documents and analysing the results of the work carried out by the PricewaterhouseCoopers S.p.A. auditing firm. The Board of Directors appointed the Executive in charge of "preparing the Company's accounting documents" also verifying for him the existence of the necessary professional requirements. The CEO and the Executive in charge of preparing the Company's accounting documents certified with a specific report (attached to the Company's 2013 separate Financial Statements) a) compliance and effective application of administrative and accounting procedures; b) compliance of the contents of the accounting documents with the IFRS/IAS international accounting standards approved by the European Commission, as well as with the provisions issued by CONSOB implementing Legislative Decree no. 38/2005; c) compliance of the documents with the data included in the books and the accounting records and their reliability in correctly representing the Company's economic, financial and equity situation. The same type of Certification Report is attached to the Terna Group's Consolidated Financial Statements.

➤ We monitored the adequacy of the internal control system also through a) examination of the report by the Executive in charge of Terna's internal control system; b) examination of the Internal Audit reports, as well as the informative report on the outcomes of monitoring activity; c) relationships with the Supervisory Bodies of the main subsidiaries pursuant to paragraphs 1 and 2 of Art. 151 of Italian Legislative Decree 58/98; d) attending all the Risk Control and Corporate Governance Committee meetings and acquiring the related documentation e) conversations and meetings with the Company's Chief Risk Officer. Attending the Risk Control and Corporate Governance Committee meetings enabled the Board to coordinate with the activities of the said Committee the performance of its own functions as "Committee for Internal Control and Auditing of Accounts" assumed on the basis of Art. 19 of Italian Legislative Decree 39/2010 and to proceed, in particular, to monitor i) the financial disclosure process ii) the effectiveness of the internal control, internal auditing and risk management systems iii) the independent auditing of the annual and consolidated accounts iv) the aspects relating to independence of the Auditing Firm. On the basis of the activity carried out, considering the evolutionary nature of the Internal Control System, the Board expresses an evaluation of adequacy of it and acknowledges, in quality of Committee for internal control and auditing of accounts, that there are no observations to report to the Shareholders Meeting. With reference to the provisions of paragraph 9, point a) of Art. 17 of Italian Legislative Decree 39/2010, the Auditing firm has notified total fees for auditing Terna S.p.A.'s Separate and Consolidated Financial Statements at 31 December 2013, besides limited auditing of the Interim Financial Statements, for activities of assessment of regular accounting activities, and for other assignments; the fees for these further assignments are shown in the table below:

Client Company	Service description	Amount
Terna S.p.A.	Audit of Unbundling for AEEG (including expenses)	35,200
	Audit of reporting packages (including expenses)	17,600
	Opinion for interim dividend (including expenses)	35,200
	Attestation of the Sustainability Report (including expenses)	44,000
	Issue of EMTN comfort letter (including expenses)	36,300
	Total	168,300

Moreover, PricewaterhouseCoopers has notified that, based on the best information available, taking into account the prescribed and professional requirements governing auditing activity, it maintained in the reference period its position of independence and objectivity towards Terna S.p.A. and that there have been no changes in the non-existence of incompatibility causes with reference to the situations and subjects provided for in Art. 17 of Italian Legislative Decree 39/2010 and of the articles pursuant to paragraph *Ibis* (Incompatibility) of Title VI of the Issuers Regulations.

- We held periodic meetings with the representatives of the auditing firm PricewaterhouseCoopers S.p.A. , pursuant to Art. 150, paragraph 3, of Legislative Decree 58/98 and no significant data and information requiring mention in this Report emerged. We also give notice that on 16 April 2014 the Auditing firm submitted its report, pursuant to the third paragraph of Art. 19 of Italian Legislative Decree 39/2010, reporting that no fundamental issues emerged on the occasion of the auditing activities, nor were significant deficiencies found in the internal control system, with reference to the financial reporting process.
- We have monitored the actual implementation of Terna S.p.A.'s Governance Code adopted by the Board of Directors without noticing anything significant to be mentioned in this report. Moreover, with reference to the provisions established by the Governance Code which refer to the tasks of the Board of Statutory Auditors, the following should be pointed out:
 - we verified the correct application of the criteria and procedures for assessing independence, adopted by the Board of Directors, with nothing significant to report;
 - as regards the so-called “self-evaluation” of the independence requirement of its members, the Board of Statutory Auditors verified its existence during the meeting held on 19 December 2013, with the same methods as those adopted by the directors, in accordance with the provisions of the Governance Code;
 - we complied with the provisions of the regulation for managing and handling confidential and privileged company information;

Furthermore, it should be noted that the Auditing firm expressed its opinion regarding coherence of information pursuant to paragraph 1) letters c), d), f), l), m) and to paragraph 2, letter b), of Art. 123*bis* of Italian Legislative Decree 58/98 as provided for in the amendments introduced by Article 5, paragraph 4, of Legislative Decree 173/2008.

- With reference to Italian Legislative Decree no. 231/2001, the Company has adopted an organisational and management model whose contents are in compliance with international best practices. The model has also been adopted by the subsidiaries of Terna S.p.A.. During 2013 the Model underwent an update, which had become necessary owing to the introduction, under the terms of the Italian Law of 6 November 2012, of the predicate crime of corruption between private parties and undue encouragement to give or promise benefits to a public official/public service provider. During the year we maintained a constant information flow with representatives of the Oversight Committee.
- The Board notes that among the applications received before the Shareholders' Meeting of 14 May 2013 under the terms of Article 127^{ter} of Italian Legislative Decree no. 58 of 24 February 1998 the shareholder Fabris objected, also under the terms of Art. 2408, to the failure to provide certain information among the annexes to the minutes of the ordinary shareholders' meeting of 16 May 2012. At the end of its checks and investigations the Board of Statutory Auditors was able to note that these omissions do not constitute a motivation for annulment of the resolution nor can they have constituted damage to the exercise of the voting rights of the shareholders present.
- We do not have the knowledge of any other facts or reports to be mentioned to the Meeting.
- We have verified compliance with the laws regarding the drawing up of the draft Separate financial statement and of the Group's draft Consolidated financial statement, of the respective Illustrative Notes and the Directors' Report, directly and with the collaboration of the Heads of departments and through information obtained by the Auditing firm, and we have nothing significant to report.
- We have issued our opinions pursuant to Art. 2389, paragraph 3 of the Italian Civil Code; the auditing firm issued its opinion pursuant to the provisions of paragraph 5 of Art. 2433^{bis} of the Italian Civil Code (interim dividends).
- The members of the Board of Statutory Auditors have complied with the obligation to notify administration and control assignments in Italian companies within deadlines and by the means provided for in Art. 148^{bis} of Italian Legislative Decree no. 58 of 24 February 1998 and in Art. 144^{duodecies} and following of the so-called Issuers Regulation adopted by Consob with Resolution no. 11971 of 14 May 1999.

- In carrying out the above-mentioned monitoring activity, during 2013, the Board of Statutory Auditors met six times, attended the six meetings of the Board of Directors and participated in the four meetings of the Risk Control and Corporate Governance Committee and in the three meetings of the Remuneration Committee.

During the above-mentioned activity, as well as on the basis of the information periodically exchanged with the PricewaterhouseCoopers S.p.A. Auditing firm, no omissions and/or reproachable facts and/or irregularities were found that required reporting to the control bodies or that were worthy to be mentioned in this Report.

Acknowledging the Separate Financial Statements at 31 December 2013, the Board of Statutory Auditors has no objections to raise as regards the proposed resolutions presented by the Board of Directors; it notes, finally, that with the approval of the Financial Statements at 31 December 2013, its mandate will expire.

Rome, 16 April 2014

THE STATUTORY AUDITORS

Luca A. Guarna

Lorenzo Pozza

Alberto Gusmeroli

This report is an English translation of the original report by the Board of Statutory Auditors, which was issued in Italian. This report has been prepared solely for the convenience of international readers



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

To the Shareholders of
Terna SpA

1. We have audited the separate financial statements of Terna SpA as of and for the year ended 31 December 2013 which comprise the statement of financial position, the separate income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. The directors of Terna SpA are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards, as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these separate financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for listed Companies and Stock Exchange. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the separate financial statements are free from material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the separate financial statements of the prior year, which are presented for comparative purposes, reference is made to our report dated 16 April 2013.

3. In our opinion, the separate financial statements of Terna SpA as of and for the year ended 31 December 2013 comply with the International Financial Reporting Standards, as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position as of 31 December 2013, result of operations and cash flows of Terna SpA for the year then ended.
4. The directors of Terna SpA are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 presented in the report on corporate governance and ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian

PricewaterhouseCoopers SpA

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Auditing Standard 1 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob. In our opinion, the report on operations and the information referred to in paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 presented in the report on corporate governance and ownership structure are consistent with the separate financial statements of Terna SpA as of and for the year ended 31 December 2013.

Rome, 16 April 2014

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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

2013

The background of the page is a complex, abstract pattern of thin, light gray lines. These lines are arranged in a grid that is distorted by a perspective effect, creating a sense of depth and movement. The lines curve and converge towards the right side of the page, where they appear to meet at a point, creating a funnel-like shape. The overall effect is a dynamic, flowing pattern that changes as the viewer's perspective shifts.

Report on corporate governance and ownership structures

(traditional administration and management model)

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2013 Report on corporate governance and ownership structures

Foreword

Following the start-up of the trading of shares on the MTA stock market organised and managed by Borsa Italiana S.p.A. in June 2004, Terna adopted a corporate governance system that is compliant with the standards set out in the Governance Code prepared by the Corporate Governance Committee of listed companies promoted by Borsa Italiana and has progressively approved adjustments of the system as required by the further editions of the Governance Code – of which the latest was in December 2011 – implementing them in order to ensure compliance with the commitments made up until the date of approval of the draft financial statements for FY 2012 according to that set out below.

Therefore, the Corporate Governance system in place at Terna is in line with the principles of the December 2011 edition of the Governance Code (hereinafter the “Governance Code”), with CONSOB recommendations in this respect and, more generally, with international best practices.

This corporate governance system is essentially focused on the objective of creating value for shareholders, aware of the corporate relevance of the activities in which the Group is involved and the consequent need to suitably consider, in the related implementation, all interests involved and which – as noted by CONSOB – “good corporate governance can create a virtuous cycle in terms of efficiency and business integrity, such as to also have a positive impact on the other stakeholders”.

Since 2004, Terna has used this annual report to provide information on the evolution of its corporate governance system with reference to the recommendations contained in the different subsequent editions of the Governance Code and the conduct effectively adopted.

This Report on Corporate Governance and Ownership Structures – prepared in consideration of the instructions given by Borsa Italiana – in a specific section provides the information required by Article 123-*bis* of Italian Legislative Decree no. 58/98 (the Consolidated Law on Finance) and by Article 144-*decies* of the “Regulation enacting Italian Legislative Decree no. 58 of February 24, 1998, concerning issuer regulations” adopted by CONSOB (Issuers Regulation) and is complete with a specific attachment that explains the main characteristics of the internal control and risk management systems existing in relation to the financial disclosure process.

Failure to comply with certain provisions of the Governance Code is explained in the section of the report that concerns the relative practice of governance otherwise applied by the Company.

All the information included in the report, unless otherwise specified, was updated on the basis of information available as of the date of the Report’s approval.

With reference to the new features introduced by the Governance Code in its December 2011 edition, this Report summarises the information on conduct adopted with regard to the provisions of the Governance Code that have already come into force according to the terms required for adjustment as established by transitional legislation. Therefore, it is otherwise specified where the disclosure refers to the recommendations of the previous edition of the Governance Code of listed company published by Borsa Italiana in 2006, as amended in March 2010.

Section I Issuer’s Profile - Corporate Structure

Issuer’s profile

Mission

“Terna is a leading grid operator for energy transmission. The Company manages electricity transmission in Italy and guarantees its safety, quality and affordability over time. It ensures equal access conditions for all grid users. It develops market activities and new business opportunities with the experience and technical skills gained in the management of complex systems. It creates value for the shareholders with a strong commitment to professional best practices and with a responsible approach to the community, respecting the environment in which it operates”.

Social Responsibility

Terna manages all its activities focusing on their possible economic, social and environmental consequences and in adopting a sustainable approach to business, has identified a method for creating, maintaining and consolidating a relationship of mutual trust with its stakeholders, that is useful for the creation of value for the Company, society and the environment.

Terna's main orientation for Social Responsibility can be found in the Code of Ethics and in the Company's mission, and entail defining its concrete and measurable responsibilities and objectives in economic, environmental and social areas, in addition to the one specific to Terna, that of responsibility for the electricity service.

From the point of view of sustainability, respect for the environment is particularly important. The physical presence of pylons, electricity lines and stations which interact with the landscape and biodiversity represent indeed the most significant impact of Terna's activities. That is why Terna has chosen the approach of negotiation and coordination with Local Authorities, also involving potentially significant stakeholders such as the main environmentalist associations to take environmental needs into consideration from the early stages of planning new lines. Terna has also developed a management system to control and limit the environmental impact of its activities. Thus, consideration of environmental issues matches the Company's interest in implementing grid development investments and in the more general interest of community for a reliable, inexpensive and environmentally safe electricity system.

The results of this management approach, oriented towards continuous improvement through the definition of economic, social and environmental responsibility objectives are presented in the Sustainability Report, indicated by the Code of Ethics as an instrument to give the stakeholders an account of the degree of implementation of its undertakings, and published yearly since 2006.

For its Sustainability Report, Terna adopts the international standard G3.1-Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), a leading global organization that develops guidelines on reporting sustainability, and then submits it for analysis to an external auditor and to the Board of Directors for approval.

Since the 2009 edition, the Sustainability Report has obtained an A+, the highest level provided for by the GRI standard, for transparency and completeness of information.

Among the main 2013 results for CSR it is worth mentioning:

- active participation in the International Integrated Reporting Council's Pilot Programme, which resulted in observations being formulated with the "Consultation draft of the Integrated Reporting Framework" and in the development of an interactive version of the Integrated Report 2012, which is accessible on the Terna website and served as requisite for the compilation of this report;
- setting out Terna's Social Action Plan, which is also based on a stakeholder engagement initiative involving 50 external experts and 60 employees. The Plan identified the main areas of engagement and outlined a series of coherent initiatives, launched in part in 2013 (e.g. the "Here Come Grandma and Grandpa" project with ARCI Milan), and will be developed fully in 2014;
- revision of the system of ethics and social and environmental responsibility with regard to the supply chain – a task which began in 2012 and will continue over the next few years. This has resulted in a list of countries identified as potentially at risk of not respecting human rights and of a lacking integrity within their business management. It will allow the establishment of additional care procedures when approving suppliers and during procurement processes in relation to such countries;
- renewal of the collaboration agreement with the WWF Italia (July 2013) and the completion – with the work being carried out at the Pollino National Park – of efforts to protect biodiversity envisaged in the previous agreement.

Terna's commitment to improving its ESG (Environmental, Social Governance) performance has been considered positively in sustainability ratings, in the inclusion of the main international sustainability stock exchange indexes and in the appreciation of socially responsible investors, which, as at December 2013, accounted for 7.23% of floating shares, thereby showing strong growth on the 1.59% recorded in March 2009. In 2013, Terna was confirmed on all main international sustainability stock markets.

Company organization

In compliance with the provisions of the Italian legislation concerning listed companies, the Company's organization – based on the traditional administration and management model – includes the following:

- a Board of Directors responsible for the Company management. To such aim, the Board is entrusted with the widest powers so as to complete all the actions that deems appropriate for the performance and the attainment of the Corporate purpose, excluding only the action that the Law and the Bylaws reserve to the Shareholders' Meeting;
- a Board of Statutory Auditors responsible for monitoring: (I) that the Company complies with the Law, the Bylaws and the principles of correct administration in performing Company activities, (II) the adequacy of the Company's organisational structure, Internal Control System and administrative/accounting system as well as those of the foreign subsidiaries outside of the EU. It is also responsible for carrying out all duties assigned to the Board of Statutory Auditors by Law and by the Corporate Governance Code for listed companies.

Pursuant to the provisions of article 19 of Italian Legislative Decree 39/2010, it is the responsibility of the Board of Statutory Auditors to supervise the financial information process, the efficiency of the internal control systems, of internal reviews and risk management, the auditing of annual and consolidated results and the independence of the auditing company;

- the Shareholders' Meeting – ordinary and extraordinary – that resolves upon, inter alia, (i) the appointment and revocation of members of the Boards of Directors and of Statutory Auditors and their fees and duties, (ii) the approval of the Financial statements and allocation of the profits for the year, (iii) the purchase and sale of treasury shares, (iv) amendments to the Bylaws, and (v) the issuance of convertible bonds; (vi) authorizations for actions carried out by Directors concerning Transactions with Related Parties for which there was no favourable opinion by the competent independent body, in compliance with governing regulations and based on procedures adopted by the Board of Directors as well as on urgent transactions submitted by the Directors to an advisory vote of the Shareholders' Meeting (Article 13.3 of the Bylaws), and (vii) during consultations pursuant to Article 123-ter, paragraph 6 of the Consolidated Law on Finance, on Company Policy on matters of remuneration of members of administration bodies, of general directors and of executives with strategic responsibilities. As concerns the directors' remuneration, the Shareholders' Meeting will - during the forthcoming renewal of the administrative body, in accordance with the provisions of Article 23-bis, paragraph 5-quinquies of Italian Law Decree no. 201 of December 6, 2011 - resolve on the criteria by which to reduce the remuneration of executives with strategic responsibilities, in compliance with the provisions of said regulations;
- an Executive in Charge of the preparation of the Company's accounting records, who is given all assignments and responsibilities provided by the Law and regulations as well as those provided for by the Governance Code (Article 7.C.2).

Statutory auditing activities are entrusted to a specialized company enrolled in the specific register of legal auditors, which is appointed by the Shareholders' Meeting on proposal by the Board of Statutory Auditors.

Terna's independent legal auditors also have similar engagements with the Company's main subsidiaries.

It has been some time since the Organizational Model adopted by the Company pursuant to Legislative Decree no. 231/01 – which was recently updated based on the provisions of Legislative Decree 39/2010 – has provided that the auditing of the Company's Financial statements and that of any company of the Group and of the Consolidated financial statements is not compatible with consultancy activities for Terna or any company of the Group, extending to all network of the audit company as well as to shareholders, Directors, members of control bodies and employees of the audit company and of the other companies belonging to the same network. The assignments to the audit company are submitted to Terna's Internal Control Committee (now the "Control and Risk Committee") for any assignment other than the one given under Law provisions, in any event related to auditing activities. In order to ensure independence of the company and of the officer in charge of auditing, the assignment for the legal auditing of the Company's financial statements and that of any company of the Group and of the consolidated financial statements is not in any case given to audit companies that fall within one of the incompatibility situations pursuant to Article 17 of Italian Legislative Decree no. 39/2010 and Part III, Title VI, paragraph I bis of the Issuers Regulation.

The Shareholders' Meeting held on May 14, 2013 approved changes to Articles 9.1 and 14.3 of the Company Bylaws consequent to the provisions introduced by Italian Legislative Decree no. 91 of June 18, 2012, correcting Italian Legislative Decree no. 27 of January 27, 2010 and implementing the "Shareholders' Rights Directive" (on the exercise of certain rights of shareholders of listed companies), including, amongst others, those of Articles 2369 of the Italian Civil Code and 147-ter of the Consolidated Law on Finance on the convening of the shareholders' meeting and the methods for filing lists.

Section II **Information on shareholding structure (pursuant to Article 123-bis, paragraph 1 of the Consolidated Law on Finance)**

Share capital structure (pursuant to Article 123-bis, paragraph 1, letter a) of the Consolidated Law on Finance)

The Company's share capital as of March 25, 2014 amounts to € 442,198,240.00 and comprises exclusively nominal ordinary shares, for a total of 2,009,992,000 ordinary Terna's shares with a nominal value of € 0.22 each. They are fully paid-up and bear voting rights at both the ordinary and extraordinary Shareholders' Meetings. Ordinary shares grant further administrative and financial rights provided for by the Law regulating the shares with right to vote.

Since June 23, 2004, Terna shares have been listed on the Italian stock exchange organised and managed by Borsa Italiana S.p.A., in the *Mercato Telematico Azionario* ("MTA") – Large Cap (or Blue Chip) segment comprising the 40 businesses that are most capitalised with the greatest level of liquidity and belong to the Financial Times Stock Exchange – *Milano Indice di Borsa* (FTSE MIB).

Pursuant to Article 5.2 of the Company Bylaws, the Shareholders' Meeting can approve capital increases through share issuance, also belonging to special categories, to be assigned free of charge pursuant to Article 2349 of the Italian Civil Code for employees, or rather as payment, and with the exclusion of the option right under Article 2441 of the Civil Code, in favour of subjects identified by shareholders.

In compliance with this provision of the Company Bylaws, the Shareholders' Meeting held on April 1, 2005 resolved only one share-based incentive plan that was utilized in full in 2011 and that included increasing the share capital according to the provisions in the subsequent paragraph "Powers to increase the share capital and authorizations for the purchase of treasury shares".

The Company did not issue other financial tools granting the right to subscribe newly issued shares.

Terna did not issue shares that were not negotiated on regulated markets of a country in the EU.

Significant participating interests in share capital and shareholders agreements (pursuant to Article 123-bis, paragraph 1, letters c) and g) of the Consolidated Law on Finance)

On the basis of the shareholders' book, communications received pursuant to CONSOB Resolution no. 11971/99 and available information, and with reference to the Company's share capital as of March 25, 2014, equal to € 442,198,240.00 for a total of 2,009,992,000 ordinary Terna shares with a nominal value of € 0.22 each, the following investors hold a share of the capital in excess of the thresholds of relevance specified by Consob:

- Cassa Depositi e Prestiti S.p.A. (public limited company in which the Italian Ministry for the Economy and Finance of the Italian Republic owns 80.1%), with 29.851% of the share capital. On the basis of this evidence, as at December 31, 2013 the following investors hold a share of the capital in excess of the thresholds specified by Consob:
- Cassa Depositi e Prestiti S.p.A. (public limited company in which the Ministry for the Economy and Finance of the Italian Republic owns 80.1%), with 29.851% of the share capital.
- Assicurazioni Generali S.p.A. (directly and indirectly) with 2.026% of the share capital.

BlackRock Inc. (with reference to the shares held through the management company of the BlackRock Group, by way of asset management), declared that it is applying the exemption established under Article 119-bis, paragraphs 7 and 8 of the Issuers Regulation, as amended by Consob Regulation no. 18214, which came into force on June 6, 2012. Therefore, as from June 6, 2012, BlackRock Inc.: (i) has asked that the investments declared previously in Terna, in excess of 2% and less than 5%, not be considered significant in terms of the disclosure obligations considered; (ii) has declared that it be kept beneath the *new medio tempore* threshold of relevance established by the coming into force of Consob changes; and (iii) holds (through the management company of the BlackRock Group, by way of asset management), as of November 8, 2012, a shareholding equal to 2.73% of the capital.

No other investors own more than the threshold of relevance indicated by Consob of Terna S.p.A.'s share capital and the Company is not aware of the existence of any shareholders' agreement relating to the Company shares.

Powers to increase share capital and authorization for the purchase of treasury shares (pursuant to Article 123-bis, paragraph 1, letter m) of the Consolidated Law on Finance)

The power granted to the Board of Directors to increase the share capital resolved by the extraordinary Shareholders' Meeting held on April 1, 2005 was exercised through the adoption of a share-based incentive plan aimed at Terna Group's executives and in force from 2006 up to its complete exhaustion, which took place in 2011, with the exercising of all the Stock Options still in circulation.

The above-mentioned Stock Option plan brought about an increase in the share capital of € 2,198,240.00 through the issuance of 9,992,000 new ordinary Terna's shares, each with a nominal value of € 0.22.

It should be remembered that the extraordinary Shareholders' Meeting of April 1, 2005 had resolved the assignment of a five-year proxy to the Board of Directors for a share capital increase for maximum € 2,200,000 through the issuance of maximum 10,000,000 ordinary shares with a nominal value of € 0.22 each, on a dividend-right basis, to be offered for subscription to Terna Group's managers as payment with exclusion of the option right under the combined provisions of Article 2441, last paragraph, of the Civil Code and Article 134, paragraph 2 of the Consolidated Law on Finance, as provided for by Article 5.3 of the Company Bylaws.

Pursuant to the Shareholders' Meeting resolution of April 1, 2005, on December 21, 2005, Terna's Board of Directors adopted a share-based incentive plan. With reference to the adopted plan, the Board of Directors of March 21, 2007 partially exercised the above mentioned proxy, approving a share capital increase regarding the 2006 stock option plan up to maximum € 2,198,240.00 through the issuance of maximum 9,992,000 new ordinary Terna's shares with a nominal value of € 0.22 each, at € 2.072 each, to be implemented in compliance with Article 5.4 of the Bylaws. Based on Meeting resolution dated April 22, 2009, the maximum date for the total subscription of the increase is March 31, 2013. The proxy is no longer effective.

No other proxies to increase capital have been assigned, pursuant to Article 2443 of the Civil Code.

No resolution authorizing the purchase of treasury shares under Article 2357 and following of the Civil Code has been submitted to Terna's Shareholders' Meeting.

Terna does not own, nor has purchased or sold during the year, not even indirectly, treasury shares or shares of its parent company.

Employees' shareholdings: system to express the right to vote (pursuant to Article 123-bis, paragraph 1, letter e) of the Consolidated Law on Finance)

The system for expressing the right to vote during the Shareholders' Meeting through shareholding associations, including employee's shareholding groups, is regulated based on the existing specific legal provisions on the subject.

Based on the provisions regarding the special legislation on listed companies, Terna's Bylaws introduced a special provision aimed at facilitating collecting voting proxies with its employees' shareholding groups as well as of its subsidiaries, encouraging in this way the relative involvement in the meeting decision-making processes (Article 11.1 of the Bylaws).

As of March 25, 2014 the Company had not received any notification of the establishment of employees' shareholding groups.

Change of control clauses (pursuant to Article 123-bis, paragraph 1, letter h) of the Consolidated Law on Finance) and statutory provisions in takeover bid matters (ex Article 104, paragraph 1-ter, and 104-bis, paragraph 1 of the Consolidated Law on Finance)

As regards significant agreements Terna or any of its subsidiaries are parties of and that come into effect, are amended or expire in the event of shareholding change within Terna, the following should be noted.

The loan contracts stipulated with the European Investment Bank (EIB) include mandatory advance repayment clauses in the event the Company proceeds to or is involved in a merger, a split or transfer of a Company branch. Should such events occur, the EIB will have the power of requesting, and the Company will have the obligation to inform the Bank, any information that the latter may reasonably require regarding the Company situation, in order to understand any changes and relative consequences in the Company's commitments towards the Bank. In such cases, should the EIB deem, according to its indisputable judgement, that these transactions may have negative consequences on the commitments undertaken by the Company, the bank itself will have the power to request the necessary changes in the loan contracts or alternative solutions that satisfy the Bank itself, such as early reimbursement of the loan.

With regard to takeover bids and public tender offers to exchange, the Company Bylaws do not provide for any derogation of the provisions in the Consolidated Law on Finance on the so-called passivity rule provided for by Article 104, paragraphs 1 and 1-bis of the Consolidated Law on Finance, nor are there neutralization rules as established Article 104-bis, of the Consolidated Law on Finance, without prejudice to – pursuant to Article 104-bis, paragraph 7 of the Consolidated Law on Finance – law and statutory provisions regarding special powers as provided for in Article 2 of Law Decree no. 332 dated May 31, 1994 converted with amendments by Law no. 474 dated July 30, 1994, with subsequent modifications and amendments – the so-called “Law on Privatisation”, and concerning limits on share possession and the right to vote pursuant to Article 3 of the same Law Decree.

Restrictions in share transfer and shares granting special powers (pursuant to Article 123-bis, paragraph 1, letters b) and d), of the Consolidated Law on Finance)

No limitations exist in the Company Bylaws to the availability of shares, except for the provisions stated by the Bylaws regarding rules for privatization based on the Law Decree no. 332 dated May 31, 1994 converted with amendments by Law no. 474 dated July 30, 1994 and subsequent changes – the so called “Privatisation Law”.

In particular, pursuant to Italian regulations concerning privatizations, Terna's Bylaws provide for the possibility for the Government to exercise certain “special powers” and establishes a “maximum limit of shareholding” – equal to a direct and/or indirect ownership of Terna's shares for more than 5% of the share capital – for subjects other than the Italian Government, state-controlled companies and entities subject to either control: the implementation of those provisions, in some circumstances as indicated by the Bylaws, has effects also on the voting right.

“Special powers” (indicated by the provisions of Article 6.3 of the Bylaws, in enactment of Article 2, paragraph 1 of the “Privatisation Law”) can be exercised by the Italian Government, represented in this case by the Ministry for the Economy and Finance, notwithstanding the number of Terna shares potentially owned by the Ministry itself.

In particular, in implementation of the “Privatisation Law”, the Ministry for the Economy and Finance, as agreed with the Ministry of Productive Activities (now called Ministry for Economic Development), is assigned the following “special powers”:

- a) opposition to relevant ownership (that is equal or higher than 1/20th of Terna's share capital formed by shares bearing right to vote in Shareholders' Meetings) by entities subject to the ownership restriction presented above. The opposition must be expressed within 10 days from the date of the communication, which must be made by Directors at the request of subscription in the shareholders' book, only when this may jeopardize the vital public interest. In the meantime, the right to vote and non-financial rights related to shares representing the relevant ownership, are suspended;
- b) opposition to shareholder agreements under the Consolidated Law on Finance, in case at least 1/20th of Terna's share capital, including shares bearing right to vote at Shareholders' Meetings, is thereby represented. Opposition must be expressed within 10 days from the date of communication that must be made by CONSOB. In the meantime, the right to vote and non-financial rights related to shares of shareholders that are parties of the agreements, are suspended;
- c) veto, dutifully motivated, in relation to concrete jeopardy of the vital public interest, to the adoption of provisions for the winding-up of the Company, of transfer, merger, division, moving abroad of the registered offices, of Company Corporate purpose change, of amendments to the Bylaws suppressing or modifying powers indicated by the same Article 6.3 of the Bylaws;
- d) appointment of one director with no right to vote. In case of termination of the assignment of the appointed Director, the Ministry for the Economy and Finance, in agreement with the Ministry of Productive Activities (now called Ministry for Economic Development), will appoint the substitute.

The power of opposition pursuant to letters a) and b), in accordance with the provisions of Article 4, paragraph 228 of Italian Law no. 350 of December 24, 2003, can be exercised with reference to the individual operation. It can also be exercised when ownership, also through single purchase acts, records an increase which is equal or higher than expectations. Such power can also be exercised every time the need to protect mandatory public interest arises, within ten days from their actual occurrence. In this case, the act of exercising the State power must include explicit and motivated reference to the date such causes arose.

The special powers under letters a), b), c) and d) are exercised with respect of the criteria provided for by the Prime Minister's Decree of June 10, 2004.

The "maximum limit of shareholding" (provided for by Article 6.4 of the Bylaws and pursuant to Article 3 of the "Privatisation Law") is calculated also considering total share ownership related to the Parent Company, natural person or legal entity or company; to all direct and indirect subsidiaries as well as the subsidiaries under the same controlling subject; to all associated subject as well as to natural persons bound by parental or affinity relationships up to second grade and by marriage, in the event that husband/wife are not legally separated. Control occurs, also with reference to subjects other than companies, in cases provided for by Article 2359, paragraphs 1 and 2, of the Italian Civil Code. Association occurs in cases under Article 2359, paragraph 3, of the Civil Code, as well as between subjects who, directly and indirectly, through subsidiaries other than those managing common investment funds, join, also with third parties, agreements related to the exercise of the right to vote or to the transfer of shares or portions of third companies or, anyway, to agreements or pacts as per Article 122 of the Consolidated Law on Finance, with reference to other companies, if these agreements or pacts refer to at least 10% of the share capital with right to vote, in case of listed companies, or 20% in case of non-listed companies. With reference to the calculation of the above-mentioned limit of share ownership (5%), shares owned through trustees and/or through a third person and, generally, through an intermediary person are also considered.

This limit established to share ownership - in accordance with the provisions of Article 3, paragraph 3 of the "Privatisation Law" - in any case fails to apply where it is exceeded as a result of a public takeover bid, as long as the bidder, following the offer, holds a stake of at least seventy-five percent of the capital with voting rights in the resolutions regarding the appointment or revocation of directors.

The right to vote related to share ownership exceeding the above-mentioned maximum limit cannot be exercised and proportionally reduces the right to vote of each subject to whom the limit in share ownership refers to, except in the event of joint communications by the involved shareholders. In case of non-compliance, decision can be appealed under Article 2377 of the Civil Code if the requested majority would not be achieved without the votes exceeding the above-mentioned limit. Shares for which the right to vote cannot be exercised are calculated anyhow for the regular formation of the Shareholders' Meeting.

The described provisions on special powers set out in the "Privatisation Law" and reported under Article 6.3 of the Company Bylaws, as specified, have recently been subjected to a legislative change that is not yet in force, as it is awaiting a decree identifying assets of strategic importance, comprising the scope of application of the new legislation.

More specifically, with Italian Law Decree No. 21 of March 15, 2012, converted with amendments by Italian Law No. 56 of May 11, 2012 (the so-called "Golden Power Decree"), the legislator dictated new provisions on the special powers of the government "*in relation to strategic activities in the energy, transport and communications industries*", in order to standardise national legislation with the legislation of the European Union, assigning the Government powers of intervention to protect the lawful, essential and strategic interests of the country.

These provisions, set out under Articles 2 and 3 of the “Golden Power Decree” basically state:

- the issue of specific regulations, to be updated at least once every three years, aimed at identifying “*the grids and systems, including those needed to ensure the minimum provisioning and operations of essential public services, assets and reports of strategic relevance for the national interests in the fields of energy, transport and communication and the type of acts or operations within a single group to which the regulations of this Article do not apply*”;
- the obligation to notify the Prime Minister’s Office – within 10 days and in any case before implementation – of resolutions, acts and operations adopted by a company holding one or more of the assets as identified above, which result in:
 - changes to the ownership, control or availability of the assets;
 - the change in their purpose, including resolutions of the Shareholders’ Meeting or administrative bodies concerning the merger or spin-off of the company;
 - the transfer of the company offices abroad;
 - a change to the company object;
 - the company wind-up;
 - the amendment of any statutory clauses adopted in accordance with Article 2351, third paragraph of the Italian Civil Code, or introduced in accordance with Article 3, paragraph 1 of the “Privatisation Law”, as most recently amended by Article 3 of the same Decree;
 - the transfer of the business or a business unit encompassing these assets;
 - the assignment of them by way of guarantee;
 and the obligation to notify resolutions passed by the Shareholders’ Meeting or administrative bodies concerning the transfer of subsidiaries holding said assets;
- the Prime Minister’s power to veto adopted – on the proposal of the Ministry for the Economy and Finance and on compliant resolution of the Council of Ministers – on resolutions, acts or operations notified that give rise “*to an exceptional situation, not regulated by national and European segment legislation, of a threat for serious damages to the public interests concerning the safety and operation of the grids and systems and the continuity of provisioning*”. The power to veto can also be exercised in the form of the imposition of specific provisions or conditions where such suffices to ensure the protection of the public interests in relation to the safety and operation of the grids and plants and the continuity of provisions. The veto is notified within 15 days of communication; said terms may be suspended once only for a request for information and until receipt of such, which must be within 10 days. The resolutions, acts or operations adopted or implemented in breach of the obligations to notify the information or in breach of the conditions, provisions or veto established by the Government are null. The Government may also demand that the company and any counterparty restore the previous situation at its own expense. Anyone not complying with the provisions relating to notification and veto, without prejudice to where the fact is a crime, is subject to the administrative sanctions specified in the “Golden Power Decree”;
- the obligation to notify the Prime Minister’s Office – within 10 days – of the acquisitions by any title, by a subject;
- whether natural person or legal entity, external to the European Union, or “*which does not have residence, usual place of domicile, registered office or administration or main centre of business in a European Union Member State or of the European Economic Area or which is not in any case established therein*” of majority shareholdings in companies holding the assets identified as strategic “*of relevance such as to determine the permanent establishment of the buyer by virtue of the assumption of control of the company whose investment has been acquired*”. The notice is accompanied “*by all information useful to providing a general description of the acquisition project, the buyer and its scope of operations*”. In calculating the significant shareholding, consideration is also taken of the investment held by third parties with which the buyer has stipulated shareholders’ agreements;
- the power of the Prime Minister, within 15 days from the notification of said acquisitions and to be exercised, at the request of the Ministry for the Economy and Finance, in accordance with paragraph 8 of said Article, and by compliant resolution of the Council of Ministers, sent at the same time to the appointed parliamentary commissions, to:
 - subject the effect of the acquisition to the assumption by the buyer of commitments intended to guarantee the protection of the essential interests of the Government “*in relation to the safety and functioning of the grids and plants and the continuity of provisions*” where the acquisition entails a threat of serious prejudice to said interests, or
 - oppose the acquisition, in exceptional cases of risk to the protection of the mentioned essential interests of the Government, which cannot be eliminated through the assumption of the above commitments.

Once these terms have expired, the operation can be implemented.

Until notification and expiry of the terms for the potential exercise of the special powers relating to the indicated acquisitions, voting rights and other non-capital rights connected with the shares representing the significant investment are suspended, just as such rights are suspended in the event of failure to comply with the commitments said as a condition of the admissibility of the acquisition, for the entire period for which the breach continues. Any resolutions passed with the determining vote of said shares or in any case resolutions or acts adopted in breach or infringement of the conditions set, are null. Any buyer failing to comply with the commitments required is also subject, without prejudice to where the facts constitute a crime, to the administrative sanctions specified in said “Golden Power Decree”.

In the event that the power of opposition is exercised, the buyer may not exercise voting rights and in any case those rights with a different content to that of the capital rights connected with shares, which represent the significant shareholding. Any meeting resolutions adopted with the determining vote of said shares are null. Shares must be sold within 1 year and, in the event of failure to comply, at the request of the Government, the court orders the sale of said shares.

Without prejudice to the provisions commented on above, the acquisition, by any title, by a party outside the European Union is permitted at mutual conditions, in compliance with the international agreements signed by Italy or by the European Union;

- the special powers of veto and opposition to acquisitions are exercised on the basis of objective criteria, such as:
 - the existence of connections between the operators involved and: (a) third party countries that do not recognise principles of democracy or a state of law, which do not comply with rules of international law, or which have behaved “riskily” with regard to the international community, given the nature of their alliances; or (b) criminal organisations or with subjects or entities in any case connected to them;
 - the suitability of the structure resulting from the legal act or the operation to guarantee: (a) the safety and continuity of provisions; (b) the maintenance, safety and operations of the grids and systems.

Until adoption of the provisions, which must specify the organisational methods by which to carry out the activities required prior to the exercise of special powers, the competences relating to the proposals for the exercise of special powers set out above are instead assigned to the Ministry for the Economy and Finance for the companies in which it holds an interest.

By virtue of the specified provisions of the “Golden Power Decree” and with regard to Terna, the following shall in any case therefore cease to have any effect as from the date on which the regulations for the identification of strategic assets come into effect:

- the current legislation on special powers established by Article 2 of the “Privatisation Law” and the Prime Minister’s Decree of June 10, 2004 (“*Definition of the criteria for the operation of special powers, pursuant to Article 2 of Italian Law Decree no. 332 of May 31, 1994, converted, with amendments, by Italian Law no. 474 of July 30, 1994*” as subsequently amended and supplemented), the provisions of which are in any case abrogated as from the date on which the last of the regulations that will complete the identification of the energy, transport and communication industries, comes into effect;
- the provisions assigning special powers contained in the Prime Minister’s Decree of September 17, 1999 (“*Provisions for the assignment of special powers to the Ministry for the Treasury, Budgets and Economic planning on the disposal of shareholdings of ENEL S.p.A.*”), in the Decree by the Ministry for the Treasury, Budgets and Economic planning of September 17, 1999 (“*Identification of the contents of statutory clauses to be included in the bylaws of ENEL S.p.A., ENEL Produzione S.p.A., Terna S.p.A. and ENEL Distribuzione S.p.A., which assign the Ministry for the Treasury, Budgets and Economic planning title of special powers in accordance with Article 2 of Italian Law Decree no. 332 of May, 31 1994, converted into Italian Law no. 474 of July 30, 1994*”) and in the decree of the Ministry for the Economy and Finance no. 32578 of April 1, 2005, which, by virtue of the changes made to the “Privatisation Law” by Article 4 of the Law no. 350 of December 24, 2003 had updated the content of the statutory clause on special powers already contained in Terna’s Bylaws;
- the current clauses on special powers in Terna’s Bylaws, without prejudice to the provisions on the maximum limit of shareholding of Article 6.4 of the Company Bylaws.

Voting Restrictions (pursuant to Article 123-bis, paragraph 1, letter f) of the Consolidated Law on Finance)

Pursuant to privatization regulations, restrictions exist (under Articles 6.3 and 6.4 of the Bylaws) to the right to vote related to the exercise of “special rights” of the Italian State and to the limits of share ownership as mentioned earlier.

Further restrictions are applied to operators of the electricity sector (as provided for by Article 3 of the Prime Minister’s Decree dated May 11, 2004 as regards “*criteria, modalities and conditions for the unification of ownership and management of the National Transmission Grid*”) for which a limit equal to 5% of the share capital was established for exercising the right to vote in case of Directors’ appointment (Article 14.3 letter e) of Company Bylaws).

From the date on which the regulations identifying the strategic assets pursuant to the “Golden Power Decree” came into force - as already described under “Restrictions in share transfer and shares granting special powers” - restrictions to voting rights connected to the exercise of “special powers” of the Italian State shall cease all effect, as envisaged by the “Privatisation Law” and Terna’s Bylaws, whereas those envisaged on the matter by the “Golden Power Decree”, in any case without prejudice to the provisions and restrictions to voting rights established by Terna’s Bylaws (Article 6.4), connected to the provisions on the maximum limit of shareholdings, shall instead apply.

Appointment and substitution of Directors and amendments to the Bylaws (pursuant to Article 123-bis, paragraph 1, letter l) of the Consolidated Law on Finance)

Appointment, requirements and term of office of Directors

The terms for appointing the members of the Board of Directors are ruled by article 14 of the Bylaws.

As resolved upon by the Meeting, the Board of Directors is made up of seven to thirteen members who are appointed for a period not longer than three years (Article 14.1 of the Bylaws) and they may be reappointed at the end of their term (Article 14.2 of the Bylaws). In addition to this, there may be a Director without voting rights, whose potential appointment - until the date on which the regulations identifying the strategic assets pursuant to the provisions of the “Golden Power Decree” come into force, as described under “Restrictions in share transfer and shares granting special powers” - is reserved to the Italian government (Article 6.3, letter d) of the Bylaws) by virtue of the legislation on privatisation; up until now, this power of appointment has not been exercised by the Italian government.

The Chairman is appointed by the Shareholders’ Meeting among the members of the Board (Article 16.1 of Bylaws and Article 2380-bis, paragraph 5 of the Civil Code): in case of impossibility, by the Board itself. The Board can appoint a Deputy Chairman. In no case can such positions be held by the Director potentially appointed by the Italian Government under said privatisation law (Article 16.1 of the Company Bylaws).

The appointment of the entire Board of Directors takes place – in compliance with the privatisation regulation and in compliance with the provisions of the Italian Law for listed companies – according to the mechanism of the “list voting”, governed by Article 14.3 of the Bylaws, aiming at guaranteeing the presence in the management body of members designated by minority shareholders equal to 3/10 of the Directors to be appointed with rounding, in case of lower fractional number to the unit, to the following unit.

In accordance with the provisions of Articles 4, paragraph 1-bis of the “Privatisation Law”, of Article 147-ter of the Consolidated Law on Finance and the implementing regulations of the above-mentioned law provisions included in Articles 144-ter and following of the Issuer Regulations – establishes that the lists of candidates can be submitted by the outgoing Board of Directors or by shareholders who, alone or with other shareholders, represent at least 1 % of the share capital as provided for by the law – or a lower amount, as established by the law, of the shares with voting right in the Meeting. For this purpose CONSOB, implementing the provisions of Article 147-ter of the Consolidated Law on Finance and Article 144-septies of the Issuers Regulation, has established – with Resolution no. 18775 dated January 29, 2014 and for the year that ended on December 31, 2013 – the minimum participation stake required for submitting candidate lists to be appointed in Terna’s administration and control bodies at 1% of the share capital, taking into account the Company’s capitalization, and without prejudice to the lower stake included in the Bylaws.

The presentation, filing and publication of the lists are regulated by specific referral of the Bylaws, by applicable legislation and regulation and, where required by the Bylaws, by indications provided by the Company in the notice convening the shareholders’ meeting.

More specifically, the presentation and filing of the lists must take place – in accordance with Article 147-ter, paragraph 1-bis of the Consolidated Law on Finance, at least 25 days prior to the date scheduled for the Shareholders’ Meeting called to resolve on the appointment of the members of the Board of Directors.

Ownership of the minimum stake required to submit lists shall be determined – in accordance with the provisions of Article 147-ter, paragraph 1-bis of the Consolidated Law on Finance – by taking into account the shares that are registered in the name of the Shareholder(s) on the day in which the lists are filed with the Company. In order to prove ownership of the number of shares necessary for presenting the lists, shareholders with rights must present and/or deliver the related documentation issued in accordance with Article 23 of the “Regulation governing the centralised management services, liquidation, guarantee systems and related management companies” as in force (adopted by the Bank of Italy/Consob on February 22, 2008 and subsequently amended by deed of the Bank of Italy/Consob of December 24, 2010 and updated, as from April 15, 2014, by provision of October 22, 2013), also subsequent to filing the list, as long as, within the terms envisaged for the publication of the lists (i.e. at least 21 days prior to the date scheduled for the Shareholders’ Meeting called to resolve on the appointment of the administrative body).

Each Shareholder may present or assist in the presentation of one single list and each candidate may be on one list only or he will be considered ineligible.

The lists shall list candidates according to a progressive number (Article 14.3 of the Bylaws).

Lists with three or more candidates must include candidates of different gender, in accordance with the provisions of the notice convening the meeting, in order to enable a Board of Directors to be formed in compliance with current legislation on the balance of gender in the administrative and auditing bodies of companies with listed shares pursuant to Italian Law no. 120 of July 12, 2011 and Article 147-ter, paragraph 1-ter of the Consolidated Law on Finance in accordance with the provisions of Articles 14.3 and 31.1 of the Company Bylaws.

The lists specify which candidates meet the independence requirements established by the law and the Bylaws (Article 147-ter of the Consolidated Law on Finance and Article 15.4 of the Company Bylaws) and all other information or declarations required by the legislation and regulations applicable and by the Bylaws for the respective positions.

As concerns the personal characteristics of the candidates and on the basis of that specified under Articles 2.P.3 and 3.C.3 and in the Comment to Article 2 of the Governance Code, in the notice convening the shareholders' meeting, shareholders are specifically asked, when preparing lists, to evaluate the characteristics of the candidates, also as concerns their professional characteristics, experience, including managerial experience, and gender, in relation to the dimensions of the Company and specific nature of the sector in which it operates. Moreover, in accordance with that specified in the Comment under Article 5 of the Governance Code, the lists of candidates must also be accompanied by an indication of their potential suitability to be classified as independent, in accordance with Article 3 of said Code. In this regard, together with the lists, according to a specific mention included in the notice convening the meeting, the certification of each candidate must also be filed, at their own responsibility, stating if they are able to be classified as independent in accordance with Article 3 of said Code. The lists must include declarations with which each candidate accepts his own candidacy and states, under his own responsibility, the non existence of ineligibility and incompatibility causes, and the information required by Article 144-*octies*, paragraph 1, letter b) of the Issuers Regulation and all other information required by applicable law and regulations, and by the Bylaws.

Shareholders presenting a "minority list" are addressees of the CONSOB communication no. DEM/9017893 of February 26, 2009 (concerning the "Appointment of the members of the administrative and auditing bodies"), which recommends that they file, together with the list, a declaration certifying the lack of any connection pursuant to Article 147-*ter*, paragraph 3 of the Consolidated Law on Finance, setting out the information listed in said Communication with regard to the election of the administrative body.

The lists, complete with information on the specific characteristics of the candidates and the additional declarations and information envisaged by Article 144-*octies*, paragraph 1 of the Issuers Regulation and CONSOB Communication no. DEM/9017893 of February 26, 2009, are made available to the public – in accordance with Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance – at the company's headquarters, on the company's website and according to the methods set out by CONSOB, at least 21 days prior to the date of the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Directors, thereby guaranteeing a transparent procedure for the appointment of the Board of Directors.

The Director must meet the requirements of integrity, professionalism and independence envisaged by the Company Bylaws. More specifically, the Company's Directors must meet certain integrity and professionalism requirements, similar to those required by the Auditors of listed companies (Article 15.2 of the Bylaws). The appointed Directors must communicate without hesitation the loss of requirement as per current regulations and according to the Bylaws to the Board of Directors, as well as any possible cause of ineligibility or incompatibility (Article 14.3 of the Bylaws).

As regards the requirements of professionalism, the Bylaws (Article 15.3) provide that those who have not accrued experience of at least three years cannot be appointed as Director and, if so, they must resign:

- activities of administration, control or management in companies having a share capital not lower than € 2 million; or
- professional activities or university teaching in legal, economic, financial and technical scientific subjects and closely related to the activities of the Company as defined in Article 26.1 of the Bylaws; or
- managing roles in public bodies or public authorities in the finance and insurance fields or, however, in fields closely related to that of the Company, as defined by the Article 26.1 of the Bylaws (subjects such as business law, tax law, business economy and finance, as well as subjects linked to energy in general, the network communications and structures, are to be considered as closely related to the Company's scope of activities).

With stricter application compared to the provisions of Article 147-*ter* paragraph 4 of the Consolidated Law on Finance, at least 1/3 of the Directors in force must also be in possession of specific requirements of independence under Article 15.4 of the Bylaws that recalls the requirements of the Auditors indicated by Article 148, paragraph 3 of the Consolidated Law on Finance; furthermore, Executive Directors, taking into account the specific activity carried out by the Company, can be applied the independence requirements as stemming from Article 15.5 of the Bylaws.

The presence of "Independent" Directors as provided for by the Governance Code becomes important in the composition of the Board Committees, as provided for by the Code itself and by the Committee for Related Party Transactions established within Terna for implementing the provisions of CONSOB Regulations that include provisions regarding related party transactions issued with Resolution no. 17221 dated March 12, 2010 and subsequently amended with Resolution no. 17389 dated June 23, 2010.

The Board of Directors assesses the presence of integrity, professionalism and independence requirements, for every one of its members and periodically assesses the presence of requirements of independence for every one of its non-executive members, on the basis of the information supplied by each member.

The Company is equipped with a specific internal procedure that defines the criteria for the assessment of independence of the non-executive members and for the assessment of the requirements necessary according to the Bylaws and the Corporate Governance Code ("Criteria of application and procedure for the assessment of independence of the directors pursuant to Article 3 of the Corporate Governance Code"). Such procedure, recently updated with the resolution of December 19, 2012, coherently with the new provisions of the Governance Code, provides for the assessment of requirements following the appointment, that is every time events take place that can interfere with the independence of a Director and however at least once a year (generally in the 30 days before the approval of the draft financial statements).

To this end, Directors are asked for the information necessary to allow the Board to make its assessment. Additionally, considering that established by Article 5 of the Governance Code, it is established that non-executive directors who have declared their independence, undertake to maintain that requirement for the entire duration of the appointment, submitting the verification that the requirements remain met to a new appraisal by the Board of Directors that, if applicable, can also be carried out with reference to criteria that differs partially from that identified and disclosed in accordance with the requirements of the Governance Code (Article 3.C.4).

On the basis of the procedure for appointing the Directors according to the “list voting” mechanism governed by Article 14.3 of the Company Bylaws, each person with the right to vote can vote a single list only in the shareholders’ meeting. Seven tenths of the Directors to be elected (rounding down, if the proportion results in a fraction of less than one) are taken in the progressive order in which they are listed, from the list that obtained the greatest number of shareholder votes. The remaining directors are taken from the other lists (the “minority lists”), to this end, applying the specific rules dictated under letters b) and c) of said Article 14.3.

If, once voting is complete, the requirements laid down by legislation on gender balance should not be met, Article 14.3, letter c-bis) of the Company Bylaws provides for the preparation of a new decreasing list of all candidates elected on the various lists (including the list that obtained the greatest number of votes) and the replacement of the candidate of the gender most represented but which obtained the lowest level of the list, with the first candidate of the gender least represented and not elected, belonging to the same list as the candidate replaced; this is without prejudice to compliance with the minimum number of independent directors established by the Bylaws. If quotas are equal, the replacement is taken from the list that obtained the most votes, without prejudice to the minimum number of independent directors established by the Bylaws. If there are no candidates on that list, the procedure continues with the legal majorities, respecting a proportional representation of minorities in the Board of Directors. If more than one candidate of a different gender to that of the other candidates elected should need to be appointed, the substitution procedure specified will be carried out starting from the bottom of the hierarchical list and moving upwards until the requirements of the legislation have been met.

The provisions of the Bylaws - introduced by Shareholders’ Meeting resolution of May 16, 2012 - aimed at guaranteeing compliance with current legislation on gender balance, shall apply, in accordance with the provisions of Article 31.1 of the Company Bylaws, to the first three renewals of the Board of Directors following the coming into force and effectiveness of the provisions of Article 1 of Italian Law no. 120 of July 12, 2011, published in Official Journal no. 174 of July 28, 2011 and in force as from August 12, 2011, without prejudice to any further extensions as may be provided for by law. Therefore, they shall first apply upon the renewal of the corporate bodies standing down on approval of the 2013 financial statements.

According to the provisions of Article 147-ter, paragraph 3 of the Consolidated Law on Finance, at least one of the members of the Board of Directors should be appointed by the minority list that has obtained the highest number of votes and is not connected in any way, not even indirectly, with the members who have submitted or voted the list that won for number of votes.

For the appointment of directors who, for any reason, are not elected according to the “list voting” procedure, the shareholders’ meeting resolves with the legal majorities and in such a way as to in any case ensure:

- the presence of the necessary number of directors meeting independence criteria established by the law (i.e. at least one director, if the board numbers no more than seven members, or two directors if the board numbers more than seven members);
- compliance with current legislation on gender balance.

Finally, the Bylaws establish a limit for electrical industry operators of 5% of the share capital as concerns the exercise of voting rights when appointing Directors, in accordance with that specified under the above-mentioned section. These restrictions are in addition to those more generally established for the exercise of voting rights in shareholders’ meetings, in enactment of privatisation legislation in force and connected with the limits of share possession and the exercise of “special powers” of the Italian Government, regulated by Articles 6.3 (effective until the coming into force of the provisions of Italian Law Decree no. 21 of March 15, 2012, converted with amendments by Italian Law no. 56 of May 11, 2012, the “Golden Power Decree”) and 6.4 of the Company Bylaws, as described in the previous section “Restrictions in share transfer and shares granting special powers”.

Any replacement of Directors will be carried out pursuant to Article 2386 of the Civil Code.

In any case, the replacement of Directors who have stood down is assured by the Board of Directors, guaranteeing the necessary number of Directors meeting the independence requirements laid down by the law and by Article 15.4 of the Bylaws and compliance with current gender-balance legislation.

If the majority of the Directors appointed by the Shareholders’ Meeting is not reached, the entire Board of Directors is considered as having resigned and the Shareholders’ Meeting must be called without delay by the Directors still in office for appointing a new Board.

Succession Plans

Considering the ownership structures of Terna and the concentration of shareholders, the Board of Directors considered on March 20, 2012 – with reference to the provisions of paragraph VIII of the “Guidelines and transitional regime” which brought forward for issuers belonging to the FTSE-MIB index, to last year, the disclosure obligations with regard to the provisions of today’s Article 5.C.2 of the Governance Code – not to proceed with an assessment of succession plans for the executive directors.

Bylaws Amendments

With regard to regulations applicable to the amendments to the Bylaws, the extraordinary Shareholders’ Meeting resolves on the matter with the majority envisaged by the Law.

The Bylaws (Article 21.2), according to Law provisions, attributes the Board of Directors the power to adopt any resolutions pertaining to the Shareholders’ Meeting that can determine amendments to the Bylaws such as:

- a) the merger and the split, in cases envisaged by the Law;
- b) the establishment or elimination of other offices;
- c) stating which of the directors represent the Company;
- d) the reduction of the share capital in case one or more members withdraws;
- e) the amendment of the Bylaws according to regulations;
- f) the transfer of the Company headquarters in the national territory.

Article 6.3 of the Bylaws, in compliance with the regulations on privatization, attributes to the Italian Government, represented for this purpose by the Ministry for the Economy and Finance, the “special power” to veto, duly motivated with reference to effective detriment of the Government’s vital interests, on the adoption of a series of resolutions adopted by the Shareholders’ Meeting of significant impact on the Company, capable of amending the Bylaws, as previously described in “Restrictions in share transfer and shares bearing special powers”.

From the date on which the regulations identifying the strategic assets came into force, pursuant to the provisions of the “Golden Power Decree” currently being issued – as already described in the previous title sub “Restrictions in share transfer and shares bearing special powers” – the provisions regarding the “special power” of veto shall cease all effect, as envisaged by the “Privatisation Law” and in Terna’s Bylaws, instead applying those envisaged on the matter by the “Golden Power Decree”.

Furthermore, as provided for by Article 3 paragraph 3 of the “Privatisation Law”, Terna’s Bylaws provides that the measures as per Article 6.4 of the Company Bylaws relative to the above-mentioned “maximum limit of shareholding” and in the previous title “restrictions in share transfer and shares granting special powers” and those included in the Bylaws that have the purpose to ensure protection of the share minorities, cannot be modified for a period of three years from the date of effectiveness of the transfer to Terna of the activities, functions, assets and obligations relative to the management of the National Transmission Grid as per Article 1, paragraph 1 of the Prime Minister’s Decree dated May 11, 2004 (November 1, 2005).

Indemnities for Directors in case of resignation, discharge or cessation of relation following a public take-over bid (pursuant to Article 123-bis, paragraph 1, letter i) of the Consolidated Law on Finance)

The information required by Article 123-bis, paragraph 1, letter i) of the Consolidated Law on Finance on the agreements between the Company and the Directors, which envisage indemnity in the case of redundancies or termination/revocation without just cause or if their employment ceases following a public take-over bid, are reported within the “Terna’s Annual Report on Remuneration”, published by Terna in compliance with the provisions of Article 123-ter of the Consolidated Law on Finance and CONSOB Resolution no. 18049 of December 23, 2011 (published in the Official Journal no. 303 of December 30, 2011) which, amongst others, introduced Article 84-quater of the Issuers Regulation.

Management and coordination

Terna is subject to the de-facto control of Cassa Depositi e Prestiti S.p.A. with 29.851% of the share capital. The assessment, from which the existence of such control emerged, has been carried out by Cassa Depositi e Prestiti S.p.A. itself and made public on April 19, 2007. As of today, no managing and coordination activity has been officialised nor exercised; Terna carries out its activity either directly or through its subsidiaries under management and negotiation independence.

It is specified that the additional information on the Company's Corporate Governance envisaged in Article 123-*bis*, paragraph 2 of the Consolidated Law on Finance and Article 144-*decies* of the Issuers Regulation, with regard to:

- compliance, (pursuant to Article 123-*bis*, paragraph 2, letter a) of the Consolidated Law on Finance) are illustrated in the section of the Report specifically devoted thereto (section III);
- the principal characteristics of existing risk management and existing internal control systems in relation to the financial informative note, also consolidated (pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance), and further relevant Corporate Governance practices (pursuant to Article 123-*bis*, paragraph 2, letter a) of the Consolidated Law on Finance) are illustrated in the section of the Report devoted to internal control and risk management system (section XI) and in Attachment 1 therein;
- the Shareholders' Meeting activity (pursuant to Article 123-*bis*, paragraph 2, letter c), of the Consolidated Law on Finance) in the section of the report devoted to the Shareholders' Meeting (section XVI);
- the composition of the Board and the role of the Board Members as well as those relative to the appointment and composition of the control body (pursuant to Article 123-*bis*, paragraph 2, letters a) and d) of the Consolidated Law on Finance and 144-*decies* of the Issuers Regulations), are illustrated in the Report respectively in the section devoted to the Board of Directors (section IV) and in subsequent sections devoted to the Board Internal Committees (sections VI, VII, VIII and X) and in the sections devoted to the appointment and composition of the Board of Statutory Auditors (sections XIII and XIV).

Section III Compliance

The Corporate Governance system in place in the Company is substantially in line with the principles included in the Governance Code of listed companies published by the corporate governance committee promoted by Abi, Ania, Assonime, Assogestioni, Borsa Italiana and Confindustria, as most recently updated in December 2011 (accessible on the Borsa Italiana S.p.A. website *sub* <http://www.borsaitaliana.it>) that Terna has adopted, as illustrated before, with resolution by the Board of Directors of July 24, 2012, also proceeding to adjust the procedures in place and impacted by the new provisions of the Governance Code by subsequent resolution of the Board of Directors of December 19, 2012.

Further actions aimed at improving the Group's governance system are being carried out and others will be taken into consideration for the constant update of Terna's governance system to comply with the best practices and for the adhesion of the company to the provisions of the new Governance Code that will come into force at the next renewal of the company bodies expiring with the approval of the 2013 statutory financial statements, as indicated by the timing for the adjustment envisaged by the transitional regulations.

The Company is not subject to non-Italian laws that influence its Corporate Governance structure.

Section IV Board of Directors

Composition

In compliance with the shareholders' resolution passed during the ordinary meeting held on May 13, 2011, the Board of Directors numbers nine members, whose term will expire with the approval of the financial statements as of 2013.

The members of the Board of Directors, in accordance with that resolved by the Shareholders' Meeting of May 13, 2011 are: Luigi Roth, Flavio Cattaneo, Paolo Dal Pino, Matteo Del Fante and Michele Polo (Directors appointed within the majority list formulated by Cassa Depositi e Prestiti S.p.A.), Salvatore Machì and Romano Minozzi (Directors appointed from the minority list submitted by shareholder Romano Minozzi and companies he controls).

The Directors appointed represent two of the three lists submitted for the indicated Shareholders' Meeting. Further information regarding the submitted lists of candidates and on the results of the voting is available on the Company's website at www.terna.it in the section "Investor Relations/Corporate Governance/Company bodies/Shareholders' Meetings/Shareholders' Meeting of May 13, 2011".

Following the resignation of Director Andrea Camporese (appointed by the abovementioned Shareholders' Meeting from the majority list), the Board of Directors in its meeting on July 29, 2011, resolved to appoint by co-optation Francesco Pensato (subject to indications from the same majority shareholder Cassa Depositi e Prestiti S.p.A. that had expressed the resigning Director). This appointment was confirmed by the Shareholders' Meeting of May 16, 2012.

Moreover, following the resignation of Director Fabio Buscarini (considering in this regard that reported by some mutual investment funds and minority shareholders who had voted the list from which the resigning director had been chosen - in accordance with Shareholders' Meeting resolutions of May 13, 2011), in its meeting held on November 13, 2013, the Board of Directors resolved - with the specific approval of the Board of Statutory Auditors - to appoint by co-optation Antonio Segni, having verified, on the basis of the declarations made, the existence of the statutory requirements of integrity, professionalism and independence (pursuant to Articles 15.2, 15.3 and 15.4 of the Company Bylaws) and independence in accordance with the criteria defined by the Board in accordance with Article 3 of the Governance Code. On the basis of the statements made for the appointment, of the vote count and of the end of voting, the appointed Board of Directors, also following appointment by appointment of Director Pensato and the co-optation of Director Segni, largely meets the requirements envisaged by Article 147-ter, paragraph 3 of the Consolidated Law on Finance and two members of the Board of Directors appointed by the Meeting on May 13, 2011 were taken from the minority list that has obtained the highest number of votes and is not connected in any way, even indirectly, with the members who have submitted or voted the list that won based on number of votes.

The Board of Directors consists of executive and non-executive directors and provides for the presence of a Chairman, appointed by resolution of the Shareholders' Meeting of May 13, 2011, in accordance with Article 16 of the Bylaws, and a single executive director, the Chief Executive Officer, appointed by the Board of Directors in accordance with Article 22 of the Bylaws, in accordance with that specified in the following title of this section "Appointed bodies and other executive directors" with suitable competence and professionalism (Articles 2.P.1 and 2.P.4 of the Governance Code).

Terna's Directors are suitably competent and professional (Article 2.P.1 of the Governance Code). A brief description of the Board members' professional background is provided:

- **Luigi Piergiuseppe Ferdinando Roth, 73 years old - Chairman**
[born in Milan on November 1, 1940]

With a degree in Business Administration from the "Luigi Bocconi" University, Milan, he is a registered auditor. He was appointed Chairman of Terna S.p.A. in November 2005; he was appointed Chairman of Terna Rete Italia S.r.l. in November 2009 (formerly TELAT S.r.l.) and in February 2012, Chairman of Terna Rete Italia S.p.A., a subsidiary of Terna S.p.A. He has also been Chairman of Alba Leasing S.p.A. since May 2012 and independent director on the board of Pirelli & C. S.p.A. and Autostrada Torino Milano S.p.A. since April 2007.

He has been a member of the National Council of Confindustria, in representation of ANIE (the National Federation of Electro-technological and Electronics Companies) since May 2013. Chairman of the Lombardy Group of the national federation of *Cavalieri del Lavoro*, since September 2013.

Mr. Roth began his career as a business manager with the Pirelli Group, handling activities in Italy and abroad. He then joined Metropolitana Milanese as Director of Planning. Since 1980, he has managed mid-sized companies both in the manufacturing and real estate sectors, in the positions of General Manager and CEO. From 1986 to 1993 he was Managing Director of Ernesto Breda S.p.A.

From 1993 to 2001 he was Chairman and Managing Director of Breda Costruzioni Ferroviarie S.p.A. From April 1996 to January 1998, he was Chairman of Società Ferrovie Nord Milano S.p.A. of which he was CEO from December 1996 to January 1998. From December 1996 to January 1998 he was Chairman and CEO of Società Ferrovie Nord Milano Esercizio S.p.A.. From May 1998 to December 2000 he was CEO of Ansaldo Trasporti S.p.A. and transmission agent for Finmeccanica S.p.A.. From 2002 to 2006, he was Board Member at the Luigi Bocconi University.

From January 2004 to April 2007 he was Deputy Chairman at Cassa Depositi e Prestiti S.p.A. From May 2004 to April 2007 he was Board Member at TELECOM Italia S.p.A. and from 2001 to 2009 he was President of the Fondazione Fiera Milano. From May 2006 to November 2009, he was Deputy Chairman of Terna Participações S.A., at the time a subsidiary of Terna S.p.A.; from April 2009 to April 2012, he was Chairman of Banca Popolare di Roma; and from 2009 to 2010, he was a Director on the Board of Cassa di Risparmio di Ferrara.

- **Flavio Cattaneo, 50 years old – CEO**
[born in Rho (Milan) on June 27, 1963]

With a degree in Architecture from the Milan Politecnico, Mr. Cattaneo has also received specialized training in business management. Since November 2005, Flavio Cattaneo has been CEO of Terna S.p.A.. Since January 2008 he has been Independent Director in Cementir Holding S.p.A. Since October 2008, he has been Deputy Chairman in Charge of Energy and Environmental Policies at UIR, Union of Industrialists and Companies in Rome.

He has held important managerial and administrative positions in various Italian companies in the building, radio and television, service, new technologies, public service and facilities sectors. He became head of the former Ente Autonomo Fiera Internazionale di Milano as Extraordinary Commissioner in 1999 and went on to oversee its stock market listing as Fiera di Milano S.p.A., serving as Chairman and CEO until 2003.

Flavio Cattaneo has been Director of many energy companies (from 1999 to 2001), including: AEM S.p.A. of Milan (as Deputy Chairman), Serenissima Gas S.p.A., Triveneta Gas S.p.A., Seneca S.r.l. and Malpensa Energia S.r.l. From April 2003, he was appointed at the top of the public TV R.A.I. S.p.A. as General Manager until August 2005, also dealing with the merger with Rai Holding and the separation of the accounts. From May 2006 to November 2009 he was Chairman of Terna Partecipazioni S.A., a subsidiary of Terna S.p.A..

- **Paolo Carlo Renato Dal Pino, 51 years old - Director**
[born in Milan on June 26, 1962]

He has a degree in Economics from the University of Pavia. He is currently the Executive Chairman of Pirelli Latin America, a Director on the Board of the Italian Hospital of Buenos Aires and CESI S.p.A. and a member of the Economic Committee of the State Industrial Federation of São Paulo (FIESP). Since April 2008, he has been Director on the Board of Terna S.p.A. and, as part of this office, Chairman of the Control and Risk Committee, member of the Related Party Transactions Committee and the Remunerations Committee.

He was previously a member of the Boards of Directors of numerous companies in the communication and publishing sector. These included positions as Managing Director for Wind Telecomunicazioni S.p.A. (2006-2007); Chairman of Telecom Italia Latin America and of Tim Brasil (2004-2005); Managing Director of SEAT S.p.A. (2001-2003); General Manager of Gruppo Editoriale L'Espresso (1995-2001); Chief Financial Officer of Editoriale la Repubblica S.p.A. and has also been Managing Director of Kataweb S.p.A. and Director and member of the Executive Committee of ANSA.

In 1986, he began his career in the Fininvest Group and from 1987, until 1990, he joined the Mondadori Group where he was CFO of the Verkerke Group in The Netherlands.

- **Matteo Del Fante, 46 years old - Director**
[born in Florence on May 27, 1967]

He has a degree in Economic Policy from the “Luigi Bocconi” University in Milan. He began his career with J.P. Morgan in 1991 holding positions of increasing responsibility for Italy and for foreign countries in the sector of fixed income markets. From 1999 to 2003, as *Managing Director* in London, he managed significant financial and strategic operations in Europe. Since June 2010 he has been General Director at Cassa Depositi e Prestiti S.p.A., where he previously was Head of the Financial Department and of the Real Estate Department.

Since July 2010, leaving the position of CEO, he took on the position of chairman of the Board of Directors of “CDP Investimenti SGR”, a savings management company which founded and manages the “Fondo Investimenti per l’Abitare” operating in the private social construction sector and the “Fondo Investimenti per le Valorizzazioni”, dedicated to optimising and disposing of public real-estate assets. Since April 2008, he has been a Director on the Board of Terna S.p.A. and, as part of this appointment, member of the Control and Risk Committee.

- **Salvatore Machì, 76 years old - Director**
[born in Palermo on May 28, 1937]

He holds a degree in Electronic Engineering and has received specialized training at the Istituto Superiore di Telecomunicazioni, in addition to his professional experience with Esso and IBM, he joined Enel in 1965 and held various positions up to 1999, including Manager of the Transmission Department, National Manager of Thermo-electrical Energy Generation and Purchase and Tender Manager. He was CEO (from July 1999 to April 2000) and, then, Chairman (up to July 2003) of the Gestore della Rete di Trasmissione Nazionale S.p.A., and Director of Gestore del Mercato Elettrico S.p.A. during that time.

He has been Chairman of the Board of Directors of CESI S.p.A. since March 2003, where he previously (from July 1999 to October 2001) served as CEO. He has been a Director on the Board of Terna S.p.A. since September 2004 and, as part of this appointment, Chairman of the Remunerations Committee and Coordinator of the Related Party Transactions Committee.

- **Romano Minozzi, 79 years old - Director**

[born in Castelnuovo Rangone (Modena) on March 6, 1935]

He has a degree in Business and Economics from the University of Bologna.

He began his career at the Banca Commerciale Italiana. In 1961 he was one of the founders of Iris Ceramica, where he holds the position of President and is still the principal reference person.

He is currently not only Chairman of Iris Ceramica S.p.A. but also Director of Castellarano Fiandre S.p.A. and, since January 7, 2013, Chairman of GranitiFiandre S.p.A.

He has been a Director on the Board of Terna S.p.A. since May 2011 and, as part of this appointment, member of the Remunerations Committee and of the Related Party Transactions Committee.

Romano Minozzi has received recognition for his activities, including the “Innovazione 2000” award by the Academy of Ceramics.

In the past, he held various roles: for 10 years, Director of Banco S. Geminiano e S. Prospero, subsequently merged into Banco Popolare; from July 2002 to May 2005, Independent Director of Ferrari Automobili S.p.A. Maranello (MO) on the appointment of Mediobanca and member of the syndicate agreement of Mediobanca since its constitution; Director of GranitiFiandre S.p.A. from April 2004 and Chairman of Fincea S.p.A. and Domfin S.p.A., Sole Director of IRIS Due S.p.A., Sole Director of R.M. Finanziaria S.p.A. and Canalfin S.p.A. (the latter incorporated by merger of October 31, 2012 into Iris Ceramica S.p.A.).

- **Francesco Pensato, 67 years old - Director**

[born in Casalpusterlengo (LO) on February 17, 1947]

He has a law degree from the University of Milan and is registered on the official roll of lawyers of Milan. He is also registered with the special list of lawyers qualified to practise before the higher courts and registered on the list of legal auditors. His professional experience has been accrued in the field of legal consulting and assistance in civil, corporate, commercial and business crisis matters for medium and large Italian and foreign companies. This also includes various legal corporate appointments such as Adjuster and Extraordinary Commissioner with management functions upon appointment by the Ministry for Economic Development.

Since 2006, he has been the Common Representative of bond-holders of Telecom Italia S.p.A., following his legal appointment.

Since 2010 he has been Board Member at Mediocredito Italiano S.p.A.

Since July 2011, he has been Board Member of Terna S.p.A. and a member of the Audit and Risk Committee.

- **Michele Polo, 56 years old - Director**

[born in Milan on August 7, 1957]

He has a degree in Business and Economics from the “Luigi Bocconi” University in Milan, and graduated in Economic Policy with a Masters in Economic Sciences from the *London School of Economics*. From 2003 he has been Ordinary Professor of Economic Policy. He was Vice-Chancellor of the “Luigi Bocconi” University from 2008 to 2012. Since April 2008, he has been a Director on the Board of Terna S.p.A. and, as part of this appointment, member of the Internal Control Committee (now the Control and Risk Committee).

He is Director of the Institute for Economics and Policy of Energy and the Environment (IEFE) of the Bocconi University and carries out other scientific and academic activities: he is Director of the Journal of Economists and member of the Editors Committee of Economy of Energy Sources and the Environment and of the Editor’s Committee of Market, Competition, and Regulations.

He is scientific advisor of the publishing house “Il Mulino”, in Bologna. From 2006 to 2009 he was Economic Advisor of the Directorate-General for Competition at the European Commission. Since December 2012, he has been a member of the Supervisory Body on equal access to the Telecom Italia network. He is also the author of numerous essays and monographs on themes such as antitrust, liberalisation and energy sectors.

• **Antonio Segni, 48 years old – Director**

[born in Genoa on May 11, 1965]

He has a law degree from “La Sapienza” University of Rome and a Master of Laws (LL.M.) from Harvard University. An expert in corporate law and the financial markets, since January 2014 he has been a partner in the Lombardi Molinari Segni law firm and is acknowledged as one of Italy’s most authoritative experts on capital markets. After five years performing legal consulting services for Consob, he began his own professional business with the Gianni, Origoni, Grippo & Partners law firm, rising to the position of partner responsible for the Capital Market Group. From 2006 to 2013, he was founding partner of the Labruna Mazziotti Segni law firm where, in addition to pursuing his consulting in the capital markets sector, he focused his work on extraordinary finance and M&A operations, often involving listed companies. He has recently also been involved in the restructuring of listed companies and in arbitration proceedings regarding corporate and contractual law. Since the very start of the sector development, he has also been involved in the structuring and establishment of investment funds in the private equity sector and in the real estate fund sector.

Since 2009, he has been (non-executive) Chairman of the Board of Directors of Ambienta SGR S.p.A. and since 2012 (non-executive) Deputy Chairman of Bioera S.p.A.. He has been a Board Member of Terna S.p.A. since November 13, 2013.

During its term, the Board of Directors has confirmed the existence of the requirements of honour and professionalism held by each of its members (Article 2.P.1 of the Governance Code).

The evaluation regarding the existence of the requirements of independence for each of the non-executive members was made, taking into account the information provided by each person, during the appointment and during the meeting held on March 25, 2014 according to the terms stated in the following paragraph “Independent Directors”.

Table 1 attached gives information on the members of the Board of Directors as at March 25, 2014 (Articles 1.C.1 letter i)-(1) of the Governance Code and 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance).

Maximum number of positions in other companies

All the Directors accept their appointment to office when they believe they can devote the necessary time to the diligent performance of their duties – also considering the number and type positions they hold outside the Company in other companies listed on regulated markets (also abroad), financial companies, banks, insurance companies and significantly large companies, and the work required of additional working and professional activities carried out and the association offices held – and to devote the necessary time to the diligent performance of their duties, as they are well aware of the responsibilities of the office held.

To this end, since February 2007, in compliance with Article 1.C.3 of the Governance Code, Terna’s Board of Directors approved its own guidelines regarding the maximum number of positions as Director or Auditor in significantly large companies that can be held still enabling the efficient performance of the duties as Director of Terna S.p.A. included in the internal document “Orientations concerning the maximum number of positions that can be held by Directors of Terna S.p.A.” requiring the Directors of Terna consider the acceptance of the office. 4 years after adoption, following the constant monitoring of the governance choices made by the company and in line with the practice seen in similar companies, in the meeting of October 7, 2011, the Board of Directors proceeded to review said guidelines, which, in order to consider the clarifications provided by the Governance Code in the December 2011 edition, were further updated by the resolution of December 19, 2012.

To this purpose, “significantly large companies” were defined as:

- a) companies with shares listed on regulated markets, in Italy or abroad;
- b) Italian or foreign companies with shares not listed on regulated markets, and operating in the insurance, banking, brokerage, asset management or financial sectors;
- c) other Italian or foreign companies with shares not listed on regulated markets, not operating in the sectors listed in letter b), having net assets exceeding € 1 billion.

The Board has identified different general criteria for the commitments required of each role (CEO, Executive Director – for example Executive Chairman, Managing Director, i.e. with special proxy – Non-executive and/or Independent Director and Standing Auditor), considering the nature and size of the Company in which the positions are held and whether they are part of the Terna Group or are Terna’s investees (which, originating from the assignment itself, are not calculated in the total number). It is specified that the attribution of deputy powers or for urgent cases only to directors without management powers of attorney does not, in itself, make them executive directors, except where such powers are, in actual fact, used significantly frequently. A “weight” was assigned to each type of position for the purposes of assessing the commitment required, and the Directors also established that the role of CEO at Terna is incompatible with the same role in other significantly large companies.

When more assignments are held within the same Group, also for a work relation with a company belonging to the Group itself, only the most important assignment is considered.

All the Directors in office that were appointed by the Meeting on May 13, 2011 gave details of the positions they held at the time the lists were submitted and subsequently when they accepted their appointment. This is also true for the Director confirmed by the shareholders' meeting of May 16, 2012 at the time of appointment and the Director co-opted by the Board of Directors on November 13, 2013. Based on the updated information delivered to the Company in compliance with the approved guidelines, as of March 25, 2014, all Directors held a number of positions that is compatible with the guidelines set by the Board.

In the summaries of each Director's personal characteristics, all the positions held by them are indicated. The total number of positions held as Directors or Auditors in other significantly large companies is provided in the attached table 1. There have not been exceptions, issued by Terna's Shareholders' Meeting, to the prohibition of competition by the Directors provided for by Article 2390 of the Civil Code (Article 1.C.4 of the Governance Code).

Induction Programme

Terna has considered the organisation of initiatives appropriate, which now constitute an at least annual tradition, aimed at providing Directors and Auditors with suitable knowledge of the segment of business in which the company operates, business dynamics and their evolution and the reference legislative framework, as established by Article 2.C.2 of the Governance Code. At the initiative of the Chairman, by agreement with the Chief Executive Officer, subsequent to appointment and during FY 2013, the Directors of Terna were involved in meetings with the company management, also attended by the members of the Board of Statutory Auditors, in relation to the core business, with specific reference to the preparation of the National Transmission Grid development plan.

Moreover, during the Board and Committee meetings, at the request of the Chairman and potentially also at the request of an individual Director, in line with the provisions of Article 1.C.6 of the Governance Code, executives of the company attended the meeting, whose presence was considered helpful to ensuring the best possible information on the items on the agenda and, where required by the specific subject, to explain the reference legislative framework.

The Directors are kept constantly informed by competent departments on the main legislative and regulatory innovations concerning the Company and the exercise of own functions. On occasion of the appointment, they are adequately informed about the existing Corporate Governance system and the fundamental lines of *governance*.

Role of the Board of Directors

The Company's Board of Directors holds a crucial role in its organization. It has strategic and organizational functions and responsibilities with respect to the Company and the Group. It is also responsible for verifying that the necessary controls are in place to monitor the performance of the Company and its subsidiaries.

In addition to exercising the powers that are attributed to it by the Law, the Company's Bylaws (Article 21.1), according to the law, attributes the Board the competence to resolve on issues pertaining to the Shareholders' Meeting that can determine amendments to the Bylaws as previously described in "amendments to the Bylaws".

Within the limits as per Article 2381 of the Italian Civil Code, the Board of Directors may delegate its tasks to an executive committee and/or to one or more of its members (Article 22.1 of the Bylaws).

In this context and in compliance with the Law and the provisions of specific resolutions, and considering the provisions of Article 1 of the Governance Code, the Board of Directors reserved to itself a series of decisions necessary or useful to pursuing the company purpose. In particular:

- examines and approves the strategic, industrial and financial plans of the company and the Group it heads, regularly monitoring implementation. In this respect, the current structure of Company powers provides that, in particular, the Board of Directors approves the Company's annual budget and long-term plans updated on an annual basis (which include the combined annual budgets and long-term plans of the subsidiaries) (Article 1.C.1, letter a) of the Governance Code). Monitoring is carried out through the regular (quarterly) assessment of the trend of operations and specific Company Performance Management tools (BSC). In 2013, the Board of Directors examined and approved the strategic, industrial and financial plan of Terna and the Terna Group, presented to the market on February 6, 2013 (the 2013 - 2017 Strategic Plan), most recently updated on March 25, 2014 (the 2014 - 2018 Strategic Plan), thereby pursuing the creation of value for shareholders in the medium/long-term. Monitoring was carried out in accordance with the terms specified and according to board meetings to approve the accounts. With regard to the action planned, the Board provides specific guidelines, a description of the objectives, characteristics and application methods of the activity monitoring the business processes and risk analysis, and defines the nature and level of accounting risk with the strategic objectives relating to the implementation of the mission assigned to the company (Articles 1.P.2 and 1.C.1, letter b) of the Governance Code). With regard to this matter, reference should be made to section XI;
- defines the corporate governance system under the scope of the company and provides for the appointment, definition of functions and regulations of the internal committees of the board, as established by the current structure of powers in the company and presented in this report (Articles 1.C.1, letter a); 7.P.3 and 7.C.1, letter d) of the Governance Code);

- resolves, with regard to the Group structure and regarding the establishment of new companies, the purchase and transfer of shares in companies, namely in companies or company branches with a value exceeding € 30 million, as envisaged by the current structure of powers in the company (Article 1.C.1, letter a) of the Governance Code);
- on the basis of the proposals by the specific Committee, approves Company Policy concerning remuneration of members of administration bodies, general directors and executives with strategic responsibilities, which is then submitted to the Shareholders' Meeting for an advisory vote, and after having heard the Board of Statutory Auditors, determines the remuneration of the CEO and of other Directors covering special offices (Article 6.P.4 of the Governance Code) which it indicates annually in a specific report. With regard to this matter, reference should be made to section IX;
- constantly evaluates the suitability of the organisational, administrative and accounting structure of the company, defined by the CEO according to the proxies received, and its subsidiaries of strategic relevance (thereby meaning, in accordance with that resolved by the company's Board of Directors on February 22, 2007: a) subsidiaries listed on regulated markets and b) subsidiaries which abroad have a significant share of the segment of core business of the Group) and during the examination of internal procedures on the matter submitted to the Board and the resolutions passed on the various matters submitted to it during FY 2013. With specific reference to the internal control and risk management system, it defines the relevant guidelines, at the proposal of the Director appointed by the Internal Control and Risk Management System and, upon seeking the opinion of the specific Committee (Articles 1.C.1, letter c) and 7.C.1, letter a) and b) of the Governance Code). The evaluation of the suitability of the Internal Control and Risk Management System of the Terna Group with respect to the characteristics of the business and the risk profile assumed, and its efficiency is carried out at least once a year, upon seeking the opinion of the Control and Risk Committee (Article 7.C.1, letter b) of the Governance Code). With regard to this matter, reference should be made to section XI;
- examines and approves transactions with a significant impact on the Company's financial position and results, especially if they are related party transactions or could otherwise give rise to a potential conflict of interest. This is without prejudice to the powers assigned to the CEO for particularly urgent cases. In particular, in addition to that specifically envisaged by a specific procedure on related party transactions and the steps taken to identify and manage situations where a Director holds his own interest or an interest of third parties regarding a transaction that he should evaluate (for which we would refer you to the specific section XII sub "Interests of Directors and related party transactions") are subjected to the prior approval or preventive examination (in the case of operations for which the companies directly and/or indirectly controlled by Terna are competent) of the Board of Directors, "significant operations" concluded also by means of subsidiaries identified under the scope of a specific internal procedure of the Board ("Approval of significant operations and management of situations of interest", most recently updated on March 31, 2011). These are identified as: (i) transactions that have as their object, amount and terms/time frames of implementation an impact on safeguarding the company assets or the completeness and correctness of Terna's information also of accounting information and that as such create an obligation for Terna to make available to the public an informative document in compliance with provisions by supervisory authorities of financial markets and/or (ii) financial transactions whose value exceeds 50 million euros with the exception for transactions included in the budget and in approved financial plans as well as those regarding dispatching activity and all related services (Article 1.C.1, letter f) of the Governance Code). In this regard, it is specifically envisaged that the Board of Directors shall receive a suitable disclosure on the executive methods of significant operations, on timing and economic conditions for the implementation of such operations, on the evaluation procedure, the interests and reasoning underlying them and on any risks for Terna and its subsidiaries connected with said operations and, moreover, that can use the assistance of one or more independent experts for an opinion on the economic conditions and/or the executive and technical methods of the operation. Board resolutions taken in relation to infra-group operations are suitably grounded with regard to the reasons and convenience of the operation. According to the current structure of powers in the company, the Board of Directors is also entitled to pass resolutions on: the reduction of loans, assets and liabilities, in any form, in the medium/long-term, of a value in excess of € 100 million not envisaged by the budget and financial plans approved and not aimed at developing interventions that have already been approved by the Board in the National Transmission Grid Development Plan and/or the Strategic Plan;
- receives, as does the Board of Statutory Auditors and in accordance with the provisions of Article 21.3 of the Bylaws, constant, complete information from the Chief Executive Officer on the activities carried out in the exercise of the proxies received and in relation to the trend of operations of the company, its foreseeable outlook and the most important operations, summarised on a quarterly basis in a specific report (Article 1.C.1, letter d) of the Governance Code). In particular, with respect to all significant transactions carried out by the Company and its subsidiaries (including any related party transactions of lesser importance as identified in the specific Procedure adopted by Terna, and which are not exempt from application of the same, which do not require approval by the Board of Directors) the CEO reports to the Board of Directors on the (i) characteristics of the transactions, (ii) the parties involved and their relationship with the Company or its subsidiaries;
- assesses the general performance of Company operations, with specific reference to situations of conflict of interest, on the basis of the information received from the CEO and the Control and Risk Committee, periodically checking that planned results have been achieved (Article 1.C.1, letter e) of the Corporate Governance Code);

- carries out, at least once a year, an assessment on the operation of the Board and its committees and on the dimension and composition. In this respect, we refer you to the details given in the title below “Assessment of the operation of the Board of Directors” (Article 1.C.1, letter g) of the Governance Code);
- assesses, having consulted with the Board of Statutory Auditors and received the opinion of the Control and Risk Committee, the results given by the legal auditor in any letter of suggestions and in the report on the essential issues that have emerged during the legal audit (Article 7.C.1, letter e) of the Governance Code);
- reports to the shareholders in the meeting, in accordance with the provisions of current legislation. With regard to this matter, reference should be made to section XVI.

Board of Directors Meetings and the role of the Chairman

The Directors gather regularly and carry out tasks based on their full knowledge and in autonomy, pursuing the objective of creating value for shareholders, taking into account the social aspects of the Group’s activities and the resulting need to adequately consider all stakeholders in the performance of those activities (Articles 1.P.1 and 1.P.2 of the Governance Code).

During FY 2013, the Board of Directors held 6 meetings, each lasting an average of 1 hour and 20 minutes, which saw the regular participation of the Directors and the attendance of the Board of Statutory Auditors and which also was the attendance, by invitation of the Chairman and in line with the provisions of Article 1.C.6 of the Governance Code, executives of the Company, whose presence was considered an assistance in ensuring a better disclosure on the items on the agenda. The percentage participation of each Director in the meetings held during FY 2013 is indicated in table 1 attached (Article 1.C.1, letter i)-(2) of the Governance Code and Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance).

For 2014, all board meetings have been scheduled relative to the examination of the economic and financial data by the Board of Directors according to that officially communicated to the market on January 27, 2014. In the current year and as of the date of approval of the present Report, the Board of Directors met two times.

The activities of the Board of Directors are coordinated by the Chairman. In accordance with the Bylaws, the latter has the legal power of representation of the company and the company signature, chairs the Shareholders’ Meeting, shares the Board of Directors, convenes board meetings, establishes the agenda on the request of the CEO and guides the related events; it also verifies implementation of board resolutions (Article 25 of the Bylaws) and is assigned the tasks attributed to the Chairman by the law or Governance Code. More specifically, with regard to the duties involved in organising the Board works, the Chairman ensures that suitable documentation and information is given to enable the Board to rule knowledgeably on the matters submitted for its examination (Article 1.C.5 and Comment to Article 2 of the Governance Code).

To this end, during the meeting held on December 19, 2012 – considering the provisions of the Governance Code and the set of governance rules of the company with regard to the meetings of the Board of Directors and the committees established within the board – the Board of Directors defined a disclosure prior to the board meeting and for the committees that is at least coherent with the terms envisaged for convening the meetings of these organisations, without prejudice to the fact that, where the subject so requires, the information given can be supplemented, including subsequently, by the presentation provided orally by the Chairman, the Chief Executive Officer or members of the Group management and/or consultants suitably authorised and invited during the meetings of said organisations, or the meetings of the Board of Statutory Auditors, or during specific informal meetings open to the participation of Directors and/or Auditors organised to further investigate matters of interest with reference to business management.

Subsequently to that resolved and until the date of approval of this Report, the disclosure made has been coherent with that specified by the Board.

Assessment of the Board of Directors activity

In compliance with the Governance Code, Terna’s Board of Directors also for 2013 assessed the Board operation, its committees and their size and composition. The Board conducted such assessment, drawing on the assistance of the company Egon Zehnder International S.p.A. as an external consultant to ensure the utmost objectivity of its evaluations. This initiative follows on from others run by the Board of Directors of Terna since 2006, which, amongst other matters, have highlighted how the suitability of the members of the Board of Terna and the specificity of the members have helped ensure that aware decisions were taken (Articles 2.P.1, 2.P.2, 2.P.3, and 2.P.4 of the Governance Code).

It is specified that, in accordance with Article 1.C.1, letter g) of the Governance Code, Egon Zehnder International S.p.A. has specifically declared the lack of other consulting and/or other professional appointments between Egon Zehnder and Cassa Depositi e Prestiti S.p.A. and/or some of the subsidiaries of Terna S.p.A..

The analysis of the consulting firm, initiated during the first quarter of 2014, was carried out using qualitative questionnaires and in-depth individual interviews with individual Directors representing both the majority and minority shareholders, members of the Committees established in accordance with the Governance Code and with the subsequent examination of the data collected (Article 1.C.1 letter i)-(3) of the Governance Code).

More specifically, the analysis focused on numerous aspects relating to: a) the heterogeneous, balanced composition of the members of the Board and Committees, considering the professional characteristics, experience (including managerial and in the office), with reference to the law, provisions of the company Bylaws and Governance Code with regard to the members of the Board and Committees that have already come into force on the basis of the respective adjustment time indicated by the transitional regulations; b) the decision-making process; c) the flow of information and presentation; d) the participation in the definition of the strategic guidance and e) the role played by the Chairman and Committee Chairmen; f) the climate within the Board and relations with the Chairman and CEO and the level of interaction between Directors and Management. Such analysis highlighted how Terna's Board of Directors is totally in line with the Governance Code to the point that it fully represents a *best practice* both at the Italian and international level, confirming the positive judgement that there was *compliance* with said requirements. In the three years (2011-2013), the Board has progressively improved, both in terms of its maturity and knowledge acquired and its capacity to take informed decisions, both of which are key to the good successful operation of a Board.

On the basis of the results of the analysis carried out, on March 25, 2014, the Board of Directors passed an overall positive evaluation on the size, composition and performance of the Board and its Committees having positively evaluated all the principal profiles examined and committed to exercising their role as best as possible. In particular, the Board, considering that the operation of the board in 2013 has confirmed the high level of efficiency and general tendency towards continuous improvement, has identified some areas of excellence. These include: a) the governance structure; b) internal cohesion and independence; c) the great reliability of managerial and financial operations and the sharing of performance objectives and business strategy by the BoD; d) the decision-making capacity facilitated by the transparent role held by the Chairman and the competence and authority of the CEO; and e) the capacity for debate and awareness in the decision-making process.

The Board, considering the results of the evaluation and with reference to the requirements of Article 1.C.1, letter h) of the Governance Code, in view of the forthcoming renewal of the administrative body now approaching its term, highlighted that:

- the level of cohesion, particularly for the results achieved by Terna's Board of Directors, should be preserved as far as possible, in order to guarantee continuity both in managerial terms, with the confirmation of the Senior management, and in terms of the presence of the Directors that have built up fundamental technical business knowledge for equally successful management over the next three years;
- the future Board may benefit from greater competence in the energy/infrastructures/technology/innovation sectors and in regard to international elements;
- it is hoped that the Board will be able to benefit from a greater female presence.

Delegated bodies and other Executive Directors

CEOs

On May 13, 2011 the current structure of the Board of Directors provides for only one CEO, to which the Board has attributed powers, defining their content, limits and any exercise modalities; no executive committee was established.

The CEO has powers of legal representation of the Company and is entrusted with the widest powers for the administration of the Company, pursuant to Board Resolution, with exception of those differently attributed by the Law, by the Bylaws or reserved for the Board of Directors, as described in this section under the "Role of the Board of Directors" (Article 2.C.1 of the Governance Code).

The CEO informs the Board of Directors and the Board of Statutory Auditors of the activities and of the management of the Company as well as of the resolutions passed in exercising his powers pursuant to Article 21.3 of the Bylaws, at least on a quarterly basis and on occasion of Board meetings.

On a quarterly basis, specific *reports* are prepared in order to inform the Board on major action and activities.

As at the date of this Report and in accordance with 2.C.5 of the Governance Code, it is specified that there are no situations referred to as "cross directorship": in actual fact the Chief Executive Officer of Terna does not hold any offices of Director in companies outside the Terna Group, of which another Director of Terna is Chief Executive Officer.

Exception made for the CEO Flavio Cattaneo, the other 8 members of the Board of Directors (Luigi Roth, Paolo Dal Pino, Matteo Del Fante, Salvatore Machi, Romano Minozzi, Francesco Pensato, Michele Polo and Antonio Segni) must all be considered as non-executive. In actual fact, we note, in this regard, that the Chairman Luigi Roth does not hold an executive role, insofar as he has not been assigned individual management powers, nor does he have a specific role in preparing business strategies (Articles 2.P.1 and 2.C.1 of the Governance Code).

As already explained in the previous title "Board Meetings and role of the Chairman", the Bylaws assign the Chairman powers of legal representation of the Company and the company signature, the chair of the Shareholders' Meetings and the power to convene and chair the Board of Directors and verify the implementation of the Board's resolutions (Article 25 of the Bylaws); he is also assigned the duties assigned to the Chairman by law and by the Governance Code.

In this context, the separation of roles between the Chairman and CEO in Terna strengthens the characteristics of impartiality and balance required of the Chairman of the Board of Directors as envisaged by the Governance Code (Comment to Article 2 of the Governance Code).

Non-executive directors (insofar as they do not have any operative powers of attorney and/or management functions within the company):

- enrich with their specific competences the Board's discussions, so as to favour the examination of the subjects according to various perspectives and subsequently pass deeply analysed, conscious and respectful resolutions in line with social interests (Article 2.P.2 of the Governance Code) and
- for their number, competence, authority and availability of time, they are capable of guaranteeing that their judgement can have a significant weight in Board's decisions in line with what provided for by the Governance Code (Article 2.P.3 of the Governance Code).

The suitability of the dimension, composition and function of Terna's Board and its committees, in this regard is certified by the results of the annual board reviews, as illustrated in the previous title "Assessment of the function of the Board of Directors".

Independent Directors

A suitable number, also for competence, of Non-executive Directors is independent.

Although independence characterises the activity of all the Directors, executives and non-, the presence of Directors that can be qualified as "independent" in compliance with the independence requirements set out by the law, the Bylaws and the Governance Code adopted by Terna, and whose role is significant both within the Board and its committees, suitably ensures adequate consideration of all shareholding members' interests.

Since February 2007, therefore the Company has been equipped with a specific internal procedure that defines the criteria for the assessment of independence of the non-executive members and for the assessment of the requirements necessary according to the Bylaws and the Corporate Governance Code ("Criteria of application and procedure for the assessment of independence of the directors pursuant to Article 3 of the Governance Code"), in coherence with the provisions of the Governance Code, according to the already explained in the previous section II under "Appointment, requirements and term of office of Directors".

With reference to this criteria, and on the basis of the information supplied by the individual parties concerned, the Board of Directors has assessed the existence of the requirements of independence set out by the law, the Bylaws and the Governance Code with each Director at the first opportunity following appointment (Articles 3.P.2 of the Governance Code and 144-*novies*, paragraph 1-*bis* of the Issuers Regulation) and, subsequently, once a year at the board review (Articles 3.P.2 and 3.C.4 of the Governance Code), with regards, as specifically required by the Governance Code, more to the substantive profile than the formal profile and rewarding reputational value based on the value of the office.

More specifically, in the meeting of November 13, 2013, the Board of Directors, with reference to the principle of seniority of office established by Article 3.C.1, letter e) of the Governance Code and the related criterion for the assessment adopted by the Board (2.1, letter e)), verified the continuing fulfilment of the requirement of independence of Director Salvatore Machì, considering the personal qualities of the Director, specific experience accrued and the proven professionalism, and independent judgement and independence always demonstrated during his current and previous terms of office.

This approach was also confirmed by the meeting of March 25, 2014, during which the Board of Directors evaluated, on the basis of the information supplied by the individual parties concerned, the commercial, financial and professional relations entertained directly or indirectly by the Directors with Terna, which may be or could appear to be such as to compromise the independence of a Director by virtue of their significance, both in absolute terms and as concerns the economic-financial position of the party concerned, and therefore certified that independence criteria were met by the 6 non-executive directors: Paolo Dal Pino, Salvatore Machì, Romano Minozzi, Francesco Pensato, Michele Polo, Antonio Segni (Articles 3.C.1, 3.C.2, and 3.C.4 of the Governance Code).

At the same time, the correct application of the defined criteria and the procedures adopted by the Board of Directors was verified by the Board of Statutory Auditors (Article 3.C.5 of the Governance Code).

Among the assessments carried out by the Board, with reference to the 6 Directors, the existence is proven of the requirement of independence envisaged for in Article 15.4 of the Bylaws that requires that at least 1/3rd of the Directors in force – with rounding, in case of fractional number lower than the unit, to the following unit – meets the requirements of independence established for Auditors by Article 148, paragraph 3, of the Consolidated Law on Finance.

The number of independent directors is therefore already in line with the requirements for the members of the board as set out in the Governance Code for issuers belonging to the FTSE-MIB index, which applies as from the forthcoming renewal of the body (Article 3.C.3 of the Governance Code).

The number and competences of the independent directors have also guaranteed a suitable membership of the committees indicated by the Governance Code and instituted in Terna in accordance with the provisions of current transitional regulations of said Code (paragraph VIII of the "Guidelines and transitional regime" and 3.C.3, first sentence, of the Governance Code). Following the composition and the work method of the Board of Directors, as well as the presence of Independent Directors in the composition of the Committees, in the operating system a constant exchange of information between the same Independent Directors has been taking place, both at meetings of the Internal Committees and at the Board meetings, which has not required a specific meeting to be held for them (Article 3.C.6 of the Governance Code).

Lead independent director

The work method and composition of the Board of Directors has assured the suitable coordination of the contributions and the requests of the Non-executive Directors and, in particular, of the Independent Directors; it also guaranteed a preventive exchange of information that rendered the work of the Board productive and focused on the true requirements of the Company. On the basis of these assumptions, confirmed by the results of the board review to which the Board is subjected, and without the criteria being met as specified in the provisions of the 2006 edition of the Governance Code, updated in 2010 or the new provisions of the Governance Code (Article 2.C.3 of the Governance Code), which are intended to be applied as from the next renewal of the body, in Terna the figure of Lead Independent Director has not yet been instituted (Article 2.C.4 of the Governance Code).

Section V Management of company information

In April 2004, in accordance with the provisions of the Governance Code in force at the time, the company's Board of Directors adopted a specific regulation for the internal management and processing of confidential information, also setting out procedures for the external communication of documents and information concerning the company and its subsidiaries, aimed at preserving the confidentiality of confidential information, whilst also assuring that the market disclosure in relation to company data is correct, complete, suitable, timely and not selective.

This regulation – which also provides guidance for the subsidiaries, to assure that they provide Terna with all information necessary to fulfil the communication obligations set out by the law – was then supplemented in December 2006, with specific reference to the inside information pursuant to Article 114, paragraph 1 of the Consolidated Law on Finance, aimed at preventing insider trading and, most recently, updated on December 19, 2012 by the CEO according to the proxies received from the Board to consider the applicable regulatory innovation and the new organisational and document structure of the Group (Article 1.C.1, letter j) of the Governance Code).

The Directors and Auditors of Terna and its subsidiaries are required to comply with the provisions of this regulation and, in any case, keep all documents and information acquired in the performance of their duties, as well as the content of any discussions during Board meetings, confidential.

The regulation – available on the company's website www.terna.it under the section “*Investor Relations/Corporate Governance/Regulations and Procedures/Information Management Regulations*” – assigns, on a general basis, the CEO of the company and the respective company heads (sole director, executive chairman, chief executive officers and/or general managers, as applicable) of the subsidiaries, the management of the relevant confidential information, establishing that disclosure of the information relating to the individual subsidiaries must in any case take place with the authorisation of the company's CEO.

Moreover, the regulation establishes specific procedures to be followed when disclosing Company documents and information outside the Company, with particular focus on the disclosure of privileged information. It also scrupulously governs the way in which members of the Company should deal with the press and other mass communication means (i.e. financial analysts and institutional investors) (Comment to Article 1 of the Governance Code).

Lastly, specific “Measures for persons committing violations” are also envisaged in the regulation's provisions.

Moreover, in the more general interests of protecting information and to guarantee the security of information within the Group, in 2013, Terna also gave specific guidelines for subsidiaries too, contained in the document “*Information Security Policy – Strategic Guidelines*”, adopting a security governance model inspired by the strictest standards of Information Security Management Systems (ISMS).

In compliance with the provisions of Article 115-*bis* of the Consolidated Law on Finance and with the regulatory measures issued by CONSOB, Terna's Board of Directors created a specific list of people with access to privileged information within Terna. It also prepared a specific regulation to govern how the list should be held and updated. The same regulation requires that subsidiaries also create their own Registers.

As of April 2004, the Company's Board of Directors also approved the internal dealing Corporate Governance Code, in compliance with the regulatory measures laid down by Borsa Italiana S.p.A., establishing the market transparency requirement for listed companies with respect to significant transactions, involving the financial instruments of the Company or its subsidiaries, carried out by people with significant decision-making powers in the Company and with access to price sensitive information (so called “relevant persons”).

Following the entrance into force of the new internal dealing regulations that were introduced by Law no. 62 dated April 18, 2005 (“2004 Community Law” that integrated the provisions of Article 114 of the Consolidated Law on Finance) and of the relative implementing provisions (Articles from 152-*sexies* to 152-*octies* and Attachment 6 of the Issuers Regulations), starting from 2006 Terna adopted a specific internal Procedure to identify Terna's “relevant persons” and to manage, handle e disseminate to the market information regarding financial instruments of the Company.

Within this Procedure – subsequently updated based on CONSOB explanations and on the structural asset of the Company – Terna deemed appropriate to maintain, for the “relevant persons” identified, the obligation to refrain – either directly or indirectly – from carrying out transactions that are subject to internal dealing regulations during two blocking periods in concomitance with the approval of the draft financial statement and of the half-year report by Terna’s Board of Directors. The transparency obligations are governed by legislative and/or regulatory provisions of reference, as in force at the time (Article 114, paragraph 7 of the Consolidated Law on Finance and Article 152-*sexies et seq.* of the Issuers Regulation, as resulting following the simplifications made by CONSOB Resolution no. 18079 of January 20, 2012 published in the Official Journal of February 7, 2012, aimed at combining the competitiveness of the market with the necessary investor protection and the related thresholds for the disclosure of operations subsequent to those already disclosed).

This procedure is available in the Company’s website www.terna.it in the “Investor Relations/Corporate Governance/Regulations and Procedures/Internal Dealing” section. The procedure includes the following qualifying elements, which are considered adequate in heightening its qualitative content:

- application of internal dealing transparency obligations towards “relevant persons” within the Company and its subsidiaries as identified in the procedure (in addition to Terna’s actual Directors and Auditors, the list of which is updated in line with the organisational changes made to the company);
- “relevant persons” are not allowed to carry out transactions (other than the exercise of options) during the 30 days before the approval of the draft financial statements and half year report by Terna’s Board of Directors. Moreover, the Board can establish additional *blocking periods* during the year, following specific events;
- an adequate penalty system was created for “relevant persons” identified as violating the measures of this procedure.

Section VI Committees within the Board

In particular, the Remuneration Committee and the Audit and Risk Committee, both with proactive and advisory functions and composed of at least three Directors, as provided for by the Code of Conduct, are present within the Board of Directors, in order to guarantee the effective fulfilment of its duties. The criteria adopted relative to the composition, duties and responsibilities of said Committees have been identified in line with the provisions of the Governance Code of reference at the time and the methods for holding meetings are governed by the internal ad hoc Organisational Regulations adopted by the Board of Directors since January 24, 2007 and thereafter updated, most recently on December 19, 2012, to comply with the new provisions of the Governance Code (Article 4.P.1 and 4.C.1, letters a) and b) of the Governance Code). The Remuneration Committee is comprised entirely of independent directors, and the Audit and Risk Committee entirely of non-executive directors, the majority of whom are independent, including the Chairperson.

At least one member of the Remuneration Committee possesses adequate knowledge and experience in financial matters, and at least one member of the Control and Risk Committee possesses adequate expertise in accounting and finance matters. The composition of these committees is therefore in line both with the current transitional provisions of the Governance Code (paragraph VIII of the “Guidelines and transitional regime” and Article 3.C.3, first sentence, of the Governance Code) and with the new provisions of the Governance Code.

The information given under the scope of this Report on the activities carried out during the year, on the number and average duration of the meetings held and the related percentage participation of each member of the instituted committees is given with the support of the Chairman or other members, as respectively competent (Article 4.C.1, letter g) of the Governance Code). Within the Board of Directors another Committee was set up (“Transactions with Related Parties Committee”) as the body that plays the role required by “Regulation containing provisions concerning transactions with related parties” issued by CONSOB in March 2010 and subsequently amended and on the basis of the provisions in “Procedure for Transactions with Related Parties” adopted by the Company and illustrated in the special Section XII of this Report. The Committee is assigned preliminary, proactive and advisory duties and powers in evaluations and decisions concerning the above mentioned Transactions with Related Parties both for the approval of greater importance transactions and of those of lesser importance indicated in Terna’s procedure, as well as in relation to possible proposals for amendments to the same procedure adopted by Terna. Said Committee is composed of at least three Directors, all independent, according to the provisions of the Governance Code.

Minutes are taken of committee meetings (Article 4.C.1, letter d) of the Governance Code). Each committee has also the faculty to access the information and the necessary departments to carry out its tasks and can use possible external advisors in the limits provided for by the Board of Directors (Article 4.C.1, letter e) of the Governance Code).

Within the Company budget, adequate financial resources are allocated for the implementation of the tasks of each committee (Article 4.C.1, letter e) of the Governance Code). At the invitation of the Chairman/Coordinator of each committee, other members of the Board of Directors can attend or other people whose presence may prove helpful to ensuring the best possible fulfilment of the functions of the committee with reference to the items on the agenda and in accordance with that detailed below with reference to each of the committees established (Article 4.C.1, letter f) of the Governance Code).

Section VII Appointment Committee

Currently, Terna has not set up, within the Board of Directors, a specific Appointment Committee, since up to now shareholders have not met difficulties in presenting adequate candidacies, such as to allow a composition of the Board in line with the provisions of the Governance Code.

In this regard, we would remind you that, in accordance with the provisions of current transitional regulations of the Governance Code (paragraph VIII of the “Guidelines and transitional regime” of the Governance Code) on the appointment of Directors, the provisions recommending the institution of said Committee only apply as from the next renewal of the Board of Directors. Moreover, with reference to the specific competences in terms of making proposals and providing consultation assigned to said Governance Code Committee on the dimension and members of the Board of Directors and to those on the replacement and appointment by co-optation of an independent director (Article 5.C.1, letter a) and b) of the Governance Code), we would remind you (as already explained in Section IV above, under “Assessment of the function of the Board of Directors”) that the board of Directors has in any case assessed the dimension and composition if it during its annual board review, using a specialised external consultant.

Section VIII Remuneration Committee

Functions of the Remuneration Committee

In 2004, a specific Remuneration Committee was established within the Board of Directors, the duties of which have been identified in line with the provisions of the Governance Code of reference, and the methods for holding meetings are governed by the internal ad hoc Organisational Regulations adopted by the Board of Directors since January 24, 2007 (“Organizational Regulations of the Remuneration Committee of Terna S.p.A.”) and thereafter updated on November 9, 2011 and most recently on December 19, 2012, to comply with the new provisions of the Governance Code (Article. 6). More specifically, the following are the competences of the Committee: (i) on the remuneration policy of the Directors and Executives with strategic responsibilities (Articles 6.P.4 and 6.C.5 of the Governance Code); (ii) on the proposals and opinions for the remuneration of executive directors and other directors holding specific roles; (iii) on the fixing of performance objectives linked to the variable part of that remuneration; (iv) monitoring the application of the decisions taken by the Board; and (v) verification of the effective achievement of performance objectives (Article 6.C.5 of the Governance Code).

With regard to the new provisions on the composition of the Committee, we note that, as envisaged by the transitional provisions of the Governance Code (paragraph VIII of the “Guidelines and transitional regime”), they are to be applied during the next renewal of the Board of Directors.

The current composition of the Committee is in any case already in line both with the provisions of the current transitional provisions of the Governance Code (paragraph VIII of the “Guidelines and transitional regime” and Article 3.C.3, first sentence, of the Governance Code) and with the new provisions of the Governance Code. In actual fact, following the renewal of the Board of Directors in the meeting held on May 13, 2011, three non-executive, independent Directors were appointed: Salvatore Machi (to act as Chairman), Romano Minozzi and Paolo Carlo Renato Dal Pino. At least one member is in possession of sufficient financial knowledge and experience.

The Chairman of the Committee or other member of the Committee reports to shareholders on how duties are exercised. To this end, it is envisaged that the Chairman of the Committee or another member of the Committee shall attend the Annual Shareholders’ Meeting (Comment to Article 6 of the Governance Code). The Chairman of the Committee attended the Shareholders’ Meeting of May 14, 2013, making a speech.

No Director takes part in Remuneration Committee meetings where proposals intended for the Board are formulated on matters concerning its own remuneration, unless proposals are presented that regard general Committee members as established within the Board (Article 6.C.6 of the Governance Code).

At the request of the Chairman of the Committee, members of the Control and Risk Committee and/or other members of the Board of Directors can attend the meetings, the Chairman of the Board of Statutory Auditors or another Auditor appointed by him and other TERNA’s executives or other people whose presence may prove helpful to the best fulfilment of the Committee functions (Article 4.C.1, letter f) and Comment to Article 6 of the Governance Code).

In 2013, the Remuneration Committee held 3 meetings, with the regular participation of all members and the Chairman of the Board of Statutory Auditors. The meetings lasted an average of about 50 minutes each. None of the Directors participated in the Committee meetings in which proposals regarding their remuneration were submitted to the Board of Directors. Upon the Committee’s request, the meetings were also attended by Directors of the Company whose presence was deemed helpful for the best information regarding the items on the agenda.

Minutes were duly taken of all committee meetings and the committee had the chance to access the information and business functions necessary to go about its duties and to use external consultants in accordance with the terms established by the Board (Article 4.C.1, letter e) of the Governance Code). In this latter regard, the Committee verified the existence of the requirement of independence of the consultants used (Article 6.C.7 of the Governance Code).

In 2014, the Committee will hold as many meetings as are sufficient for carrying out the duties assigned.

During the year up to the date of approval of this Report, the Committee has held one meeting.

The percentage participation of each member of the committee in the meetings held during FY 2013 is indicated in table 1 attached (Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).

As part of its duties, and with respect to the remuneration of the CEO and other Directors holding special offices, during 2013 the Remuneration Committee dealt with the following matters:

- verification that 2012 results had been achieved in order to pay the variable remuneration of the CEO, both for his administrative role and his role as manager;
- identification of the variable remuneration objectives of the CEO for FY 2013, which look to be particularly challenging and which will involve much of the company's business and the development initiatives underway;
- verification, with reference to the long-term incentive (LTI) plan that the mid-plan objectives had been reached, following which the Committee suggested that the Board of Directors disburse the advance on the premium envisaged by the Plan Regulation;
- preparation, with the support of the company Towers Watson, of the Annual Remuneration Report submitted for the approval of the Board of Directors, under the scope of which the remuneration policy adopted by Terna for the remuneration of the executive directors, other directors assigned special roles, auditors, general managers and managers with strategic responsibilities, was presented and submitted to the annual shareholders' meeting in accordance with Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance.

2014 also saw the Committee make the proposal for the "Remuneration Policy" approved by the Board which will be submitted to the shareholders' meeting called to approve the FY 2013 financial statements in accordance with Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance; at the same time, an opinion will be requested on the proposal made by the Board of Directors, to be submitted to the shareholders' meeting - at the time of the renewal of the Board of Directors now having reached the end of its term of office - with regard to the criteria adopted in determining the fees of Directors with powers of attorney of the Company and its subsidiaries, in accordance with the provisions of Article 23-*bis*, paragraphs 5-*quater*, 5-*quinquies* and 5-*sexies* of Italian Law Decree no. 201 of December 6, 2011 ("Urgent measures for growth, fairness and the consolidation of public accounts", converted, with amendments, into law by Article 1, paragraph 1 of Italian Law no. 214 of December 22, 2012), as most recently amended by Article 84-*ter*, paragraph 1 of Italian Law Decree no. 69 of June 21, 2013, converted with amendments by Italian Law No. 98 of August 9, 2013.

During the meeting of March 25, 2014, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the committee, was confirmed by the Board of Directors within the yearly review of the Board itself and of the committees.

The Committee has been granted adequate financial resources.

Section IX Remuneration of Directors

With regard to FY 2013, we would remind you that in December 2011, Terna's Board of Directors adopted the "Remuneration Policy" in implementation of the provisions of the Governance Code of reference, in force at the time, at the proposal of the "Remuneration Committee".

Following the coming into force of regulatory provisions implementing Article 123-*ter* of the Consolidated Law on Finance issued by CONSOB Resolution no. 18049 of December 23, 2011 (published in Official Journal no. 303 of December 30, 2011), which, amongst other elements, introduced Article 84-*quater* into the Issuers' Regulation, on the proposal of the Remuneration Committee, in 2012, Terna's Board of Directors approved the update to the Policy adopted as described in the "Annual Remuneration Report". This report is produced annually, available to the public at the registered office and published on the Company's website (www.terna.it) and that of the market management company, Borsa Italiana S.p.A. (www.borsaitaliana.it), it is also submitted for an advisory, non-binding vote to the shareholders' meeting, in accordance with Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance. This shareholders' meeting has always ruled in favour and the meeting of May 14, 2013 was no exception.

The information and/or updates of the Company's Remuneration Policy approved by the Board of Directors on the proposal of the Remuneration Committee, regarding the remuneration of the members of the boards of directors, general managers and managers assigned strategic responsibilities, at least with reference to the following year, and regarding the work of the Committee and the procedures used to adopt and implement said Policy, in addition to the information required by Article 6 of the Governance Code to which Terna has adhered, are summarised in the Annual Remuneration Report; this was approved by the Board of Directors on March 25, 2014 and will be published by Terna and submitted for the approval of the forthcoming annual shareholders' meeting called to approve the financial statements for the year ended December 31, 2013, in compliance with the provisions of Article 123-ter of the Consolidated Law on Finance and the specified Consob Resolution.

With regard to the compensation of the Directors, please remember that this is established by the Shareholders' Meeting for each Director (Article 24.1 of the Bylaws).

Extra compensation for the members of the Committees formed within the Board of Directors in compliance with the Governance Code was resolved, following the evaluation by the Board of Statutory Auditors, in compliance with Article 2389, paragraph 3, of the Civil Code and with Article 24.2 of the Bylaws, by the Board itself; the overall compensation for the Chairman and the CEO is also identified by the Board of Directors based on the proposal submitted by the Remuneration Committee and following the evaluation by the Board of Statutory Auditors.

As concerns the definition of remuneration when renewing the Board of Directors now approaching the end of its term of office with the approval of the 2013 financial statements, the shareholders' meeting will also be asked - under the provisions for companies directly or indirectly controlled by public administrations, pursuant to Article 1, paragraph 2, of Italian Legislative Decree no. 165 of March 30, 2001, which issue shares on regulated markets, introduced by Article 84 ter, paragraph 1 of Italian Law Decree no. 69 of June 21, 2013, converted with amendments by Italian Law no. 98 of August 9, 2013 (the "Action Decree" [Decreto del Fare]), in force as from August 21, 2013, which amended the provisions of Article 23-bis of Italian Law Decree no. 201 of December 6, 2011, converted with amendments by Italian Law no. 214 of December 22, 2011 (the "Save Italy Decree" [*Decreto Salva Italia*]) - a resolution by virtue of which the Board of Directors is required to comply, under the scope of its prerogatives as defined by Article 2389 of the Italian Civil Code, in defining the remuneration of directors with powers of attorney, with the restrictions set forth under Article 5-quinquies of Article 23-bis of the "Save Italy Decree". At the time, the controlling public shareholder must give its consent to the proposal made in compliance with said criteria. The total emoluments received by the members of the Board of Directors during the year are indicated in the note to the financial statements.

For a suitable representation of the fees paid during the year of reference, by any title and in any way by the company and subsidiaries or related parties to the administrative body of Terna and executives with strategic responsibilities for FY 2013, including the representation of each of the items comprising the remuneration and treatments established in the event of cessation of office or termination of employment and a judgement of the coherence with the Company's Remuneration Policy approved the previous year, we would refer you to the specified "Terna's Annual Report on Remuneration" which will be published and submitted to the forthcoming annual Shareholders' Meeting called to approve the financial statements for the financial year ended on December 31, 2013 in compliance with the provisions of Article 123-ter of the Consolidated Law on Finance and the mentioned Consob Resolution.

Finally, based on the provisions of Article 84-quater, paragraph 4, of the Issuers Regulations, the Annual Report on Remuneration shall include information concerning compensation plans provided for by Article 114-bis and information on shareholdings in Terna and in subsidiaries held by members of the administration and control bodies, by general directors, and by other executives with strategic responsibilities, as well as by spouses not legally separated and by minor children, directly or through subsidiaries, trust companies or through a third parties.

Section X Control and Risk Committee

Functions of the Control and Risk Committee

In 2004, within the Board of Directors, a specific Internal Control Committee was established, with the task of providing instructions, in the form of advice and suggestions, and, in particular, supporting the Board in its assessments and decisions relating to the Internal Control System and regularly monitoring its suitability, as well as in connection with specific aspects relating to the identification of the main business risks (such as, for example, operational risk, financial risk, market risk, and compliance risk (in addition to auditing compliance)), regularly reporting back to the Board on the suitability of the system and the work performed. The duties of the Committee have been identified in compliance with the Governance Code and the modalities of carrying out the meetings have been ruled through proper internal organizational Regulations adopted by the Board of Directors as of January 24, 2007.

In the meeting held on December 19, 2012, the Board of Directors resolved the necessary adjustments in relation to the members and competences of the committee in place in order to ensure that it was perfectly in line with the new provisions of the Governance Code on the internal control and risk management system (Articles 7.P.3, letter a-ii), 7.C.1 and 7.C.2 of the Governance Code) making some changes to the indicated Organisational Regulation (now named the “Organisational Regulation for the Control and Risk Committee of Terna S.p.A.”). Consequently, the Internal Control Committee, already established in Terna, took on the name of Control and Risk Committee with no change made to its members.

More specifically, the “Control and Risk Committee” has the task of supporting the Board of Directors, with suitable guidance, in the assessments and decisions relating to the “Internal Control and Risk Management System” (the “System”), to approval of the annual financial report and the half-yearly financial report and relations between the company and the external auditor (Article 7.P.3, letter a-ii) of the Governance Code). Under this scope, the Committee is specifically assigned the following tasks:

- supporting the Board of Directors in fulfilling the duties assigned it by the Governance Code on internal control and risk management, preparing specific opinions in this regard:
 - i. the definition of the System guidelines and level of compatibility of these risks with business management that is coherent with the strategic objectives identified by the Board of Directors (Article 7.C.1, letter b) of the Governance Code);
 - ii. the regular verification of the suitability of the System with respect to the business characteristics of the business and the risk profile assumed and its effectiveness (Article 7.C.1 letter a) of the Governance Code);
 - iii. the approval of the plan of works prepared by the Internal Audit Department Manager (Article 7.C.1, letter c) of the Governance Code);
 - iv. the description of the main characteristics of the system in the Annual Report on Corporate Governance and Ownership Structures and in the assessment of the suitability of the system (Article 7.C.1, letter d) of the Governance Code);
 - v. the assessment of the results presented by the legal auditor and in the report on the essential issues that emerged during the legal audit;
- assessing, together with the executive in charge of the preparation of accounting documents and the legal auditor and the Board of Statutory Auditors, the correct application of accounting principles and their uniformity for the preparation of the consolidated financial statement (Article 7.C.2, letter a) of the Corporate Governance Code);
- expressing opinions on request of the CEO, on specific aspects concerning identification of main Company risks (Article 7.C.2, letter b) of the Corporate Governance Code);
- examine the regular reports concerning the assessment of the system and those of particular relevance prepared by the Audit Department (Article 7.C.2, letter c) of the Governance Code);
- monitor the independence, suitability, efficacy and efficiency of the Audit Department (Article 7.C.2, letter d) of the Governance Code). In this respect, we would refer you to the title below “Internal Audit Department Manager”;
- report at least once every six months to the Board of Directors during approval of the annual financial report and half-yearly financial report, on the activities carried out and on the suitability of the system (Article 7.C.2, letter f) of the Governance Code);
- carry out the additional duties as may be assigned to the Board of Directors.

Additional specific duties are assigned to the Committee based on the Organisational Model adopted by Terna in compliance with Legislative Decree no. 231/01 and with Terna’s Code of Ethics.

The Committee can ask the Internal Audit Department to carry out checks on specific operative areas, simultaneously informing the Chairman of the Board of Statutory Auditors (Article 7.C.2, letter e) of the Governance Code).

The Chairman of the Board of Statutory Auditors (or another auditor appointed by him) shall attend the meetings of the Committee, and in any case, all other auditors can also attend (Article 7.C.3, letter e) of the Governance Code). At the invitation of the Committee Chairman, the Internal Audit Department Manager can attend the meetings and, with reference to the individual items on the agenda, the CEO (in his capacity as Director appointed to oversee the functions of the Internal Control and Risk Management System), the members of the Remuneration Committee and/or other members of the Board of Directors or other people whose presence may be useful to ensure the best possible operation of the Committee (Article 4.C.1, letter f) of the Governance Code).

With regard to the new provisions on the composition of the Committee, we note that, as envisaged by the transitional provisions of the Governance Code (paragraph VIII of the “Guidelines and transitional regime”), they are to be applied during the next renewal of the Board of Directors. The current composition of the Committee is in any case already in line both with the provisions of the current transitional provisions of the Governance Code (paragraph VIII of the “Guidelines and transitional regime” and Article 3.C.3, first sentence, of the Governance Code) and with the new provisions of the Governance Code. In actual fact, following the renewal of the Board of Directors and subsequent appointment of the Director Pensato in lieu of a Director who was standing down, by resolutions passed on May 13, 2011 and November 9, 2011, four directors were appointed, all non-executive, and the majority of whom are independent: Paolo Carlo Renato Dal Pino (acting as Chairman), Matteo Del Fante, Francesco Pensato and Michele Polo. At least one member is in possession of sufficient accounting and financial experience.

Information on the number of meetings and the percentage attendance, as set out below, refers to the total activities of the Committee in FY 2013.

More specifically, during FY 2013, the Committee held 4 meetings, characterised by the regular participation of its members and the Board of Statutory Auditors, in view of the specific supervisory duties over the system that are assigned to the Board by current legislation on listed companies and by the Governance Code (Articles 7.P.3, letter d) and 7.C.3 of the Governance Code). The average duration was approximately 1 hour and 25 minutes each. By invitation of the Committee Chairman, the Internal Audit Department Manager attended the meetings.

Upon the Committee’s request, the meetings were also attended by Directors of the Company whose presence was deemed helpful for the best information regarding the items on the agenda (Article 4.C.1, letter f) of the Governance Code). More specifically, during FY 2013, in accordance with the provisions of the Governance Code in force at the time, the Committee has:

- given a positive opinion on the determination by the Board of the level of compatibility of the main risks relating to Terna and its subsidiaries with business management in line with the strategic objectives identified;
- in connection and with the involvement of various subjects and organisations concerned, expressed its opinion in favour of the suitability of the Internal Audit and Risk Management System with respect to the characteristics of the business and the risk profile concerned, and its effectiveness and ruled in favour of the appointment of the Chief Risk Officer (CRO), established as explained below in section XI “Internal Control and Risk Management System”;
- positively examined the structure of Terna’s audit, the work schedule prepared by the Audit Department Manager and the regular reports prepared by the Audit Manager in 2013, obtaining elements for the evaluation of the control and risk management system, also as concerns the Group reorganisation;
- met the independent auditing firm to assess the auditing activities with particular regard to the methods by which they were carried out and the results.

Furthermore, it examined the progress of financial risk management. Pursuant to what provided for by the Governance Code, the committee assessed, together with the Executive in Charge and having consulted with the legal auditor and the Board of Statutory Auditors, the correct use of the accounting standards and received information on control activities implemented for compliance with the provisions of law 262/05 and subsequent amendments. The Committee also received the required disclosure from the Supervisory Body pursuant to Italian Legislative Decree no. 231/01 on the suitability and development of the Model and activities carried out by said organisation and reported to the board at the time of approval of the annual and half-yearly financial reports on the activities carried out and the suitability of the Internal Control and Risk Management System (Articles 7.C.2, letter c) and f) of the Governance Code).

Minutes were duly taken of all committee meetings and the committee had the chance to access the information and business functions necessary to go about its duties and to use external consultants in accordance with the terms established by the Board (Article 4.C.1, letter e) of the Governance Code).

In 2014, the Committee will hold as many meetings as are sufficient for carrying out the duties assigned.

During the current year, up to the date of approval of this Report, the Committee has held one meeting.

The percentage participation of each member of the committee in the meetings held during FY 2013 is indicated in table 1 attached (Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance).

During the meeting of March 25, 2014, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the committee, was confirmed by the Board of Directors within the yearly review of the Board itself and of the committees.

The Committee has been granted adequate financial resources.

Section XI Internal Control and Risk Management System

With regard to internal controls, since December 2006, on the basis of the preventive instructions given by the Internal Control Committee (now the Control and Risk Committee), the Board of Directors has:

- defined the “Terna Group Internal Control System” (now the “Internal Control and Risk Management System of the Terna Group” or the “ICRMS”), taking its inspiration from national and international best practices such as the set of rules, procedures and organisational structures, which, through a suitable identification, measurement, management and monitoring process of the main risks, enable correct, coherent business management with the objectives established by the Company;
- established the guidelines of the “Internal Control and Risk Management System of the Terna Group” (ICRMS), envisaged by the new Governance Code (by resolution of December 19, 2012), describing the rules, procedures and organisational structures prepared to ensure that the main risks faced by Terna and its subsidiaries are correctly identified and suitably measured, managed and monitored in accordance with criteria compatible with healthy, correct management in line with the strategic objectives identified (Articles 7.P.1, 7.P.2 and 7.C.1, letter a) of the Governance Code). More specifically, these guidelines were updated by the Board of Directors – also considering the new provisions of the Governance Code – by resolution of December 19, 2012 and upon seeking an opinion of the Control and Risk Committee. At the same time and in accordance with the provisions of the mentioned guidelines, upon seeking the opinion of the Control and Risk Committee, the board defined the nature and level of risk compatible with the strategic objectives of Terna and its subsidiaries.

The Internal Control and Risk Management System of the Terna Group helps, with reasonable certainty, to guarantee the achievement of strategic objectives, the safeguarding of the company assets, the efficiency and effectiveness of the business processes, the reliability of the financial operations, compliance with the law, regulations, Bylaws and internal procedures and the reliability of the company reports and financial disclosure. Moreover, it is constructed considering the specific nature and type of activities carried out and the connected risks and corporate interest of the activities carried out by Terna with special attention paid to the part of the ICRMS that has the objective of safeguarding continuity of the electrical service and the guarantee of impartial behaviour in carrying out the activities granted under concession.

The ICRMS is based on the following elements: control environment; risk management system; control activities; information, communication and monitoring. The coordinated function of these elements determines the overall effectiveness of the ICRMS in achieving the objectives:

- the “control environment”, the basis of all other elements, consists of the set of ethical and cultural values, the governance and organisational model, the leadership style exercised by the company’s senior management and by the management and staff management policies. In these terms, the Code of Ethics is adopted, a document that in moral terms too, stresses the unique position of Terna; it recalls the need to comply with universal ethical standards, in which everyone can immediately recognise themselves, and that should be fully adopted by companies. It confirms legality, integrity and responsibility as being its general ethical principles and acknowledges that standards of good business management, respect in the broadest sense of the term, fairness as a basis for loyal, impartial behaviour and transparency in acting and communicating, are particularly important. These ethical standards apply to all Group companies and employees are duly informed of them. Finally, an organisational structure is adopted with a clear assignment of roles and responsibilities and operating limits, in line with the skills required by the roles assigned;
- the “risk management system” implemented by the company senior management and management starts from the definition of the business objectives (strategic plans, budget, key performance indicators, risk appetite) and enables the various levels of the organisation to identify the main risks of the individual processes to which the plans of action are related for the prevention and management of risk in order to keep it within acceptable limits, monitoring the results over time. The risk management models adopted, the roles and responsibilities within the organisation are defined in specific business procedures and policies. In order to implement an integrated “risk management system”, in 2007 Terna created a Corporate Security Department significantly integrating its security tools and defining a transversal system for identifying, analysing and controlling Corporate risks. Moreover, in accordance with the provisions of the guidelines of the Terna Group Internal Audit and Risk Management System, the role of the Chief Risk Officer (CRO) has been outlined (Comment on Article 7 of the Governance Code), appointed by the Director in charge of the Internal Control and Risk Management System in May 2013, to which the main responsibility assigned consists of supporting senior management in effectively implementing and managing the Group Risk Management process, with reference to all financial, operational, business and other risks. In addition to ensuring absolute compliance with legal provisions, this integrated model allows reaching corporate security levels that exceed the regular standards attainable through a sectoral and fragmented security management;
- the “control activities” carried out by the management and staff in order to achieve the specific business objectives are based on underlying reference principles such as self-control, hierarchical control, accountability, balancing different interests and the separation of roles;

- the “communications and information processes” ensure that the Company’s expected objectives, culture, values, roles, responsibilities and conduct are clearly disclosed internally, while guaranteeing that disclosures to stakeholders outside the Company are correct and transparent. More specifically, internal communication is implemented clearly and directly by management with regard to: business objectives, culture, values, roles and responsibilities, conduct required and sanctions. In managing information, a suitable security level must be guaranteed in relation based on the nature of the data. External communication is then regulated by procedures and organisational systems that are able to guarantee the transparency and correctness of corporate communications and prevent corporate crime. In these terms, the “regulation for the management and processing of confidential information and external communication of documents and information” has been adopted (please refer to the specific section V, “Processing of corporate information”);
- “monitoring” aims at constantly verifying the effectiveness of the Internal Control and Risk Management System of the Terna Group through continuous activities carried out by personnel in the performance of their work, and through separate assessments that are regular, but not continuous, and typical, but not exclusive, of the Audit Department.

Terna has an appropriate structure dedicated to preventing and managing Corporate fraud activities also aimed at spreading the culture of legality and respecting Corporate regulations. Continuously monitoring processes, verifying and managing reports of illegalities have led to introducing specific controls aimed at reducing such risks and at defining, for certain critical processes, specific procedures aimed at preventing illegal conduct.

Upon completion of the resolutions passed on the ICRMS as described above and on the basis of the positive opinion of the Control and Risk Committee, during the meeting of December 19, 2012, the Board of Directors expressed a positive opinion on the suitability of the Internal Control and Risk Management System with respect to the characteristics of the business and the risk profile assumed, as well as its effectiveness. This assessment, supported by the annual report of the Audit and Risk Committee, was also confirmed by the Board of Directors during the meeting of March 25, 2014.

Terna’s Board of Directors’ meeting of March 25, 2014, in compliance with the opinion rendered by the Internal Control Committee on the basis of the analyses made during 2013 and when approving the draft financial statements for FY 2013, confirmed the positive assessment given and judged the Terna Group’s Internal Control System suitable to achieve an acceptable risk profile, in consideration of the field in which Terna operates, of its size, organizational and Corporate structure (Article 1.C.1, letter c) and 7.C.1 letter b) of the Governance Code).

The Audit and Risk Committee, in its report, also made reference to the report of the Supervisory Body appointed pursuant to Italian Legislative Decree no. 231/01 regarding the enactment of the Organisational Model at Terna and at other Group companies, as well as referring to the report of the Chief Risk Officer (CRO), focused on risk-management methods employed within Terna, as carefully set out and quantified in related supporting documents.

Attachment 1 to this report includes the principal characteristics of existing risk management and internal control systems with respect to the financial information note, also consolidated (ex Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Finance).

Executive Director in charge of the Internal Control and Risk Management System

The CEO of Terna, as the Director in Charge of the Internal Control and Risk Management System identified by the Board of Directors by resolution of December 19, 2012, is responsible for establishing and maintaining the Internal Control and Risk Management System of the Terna Group. In particular, he implements the guidelines set out by the Board of Directors, taking care of planning, enacting and managing the same and ensuring their continuing suitability and efficiency, adapting them based on operating conditions and the legislative and regulatory context; as well as identifying the principal corporate risks, keeping up to date on the key features of the business carried out by the Company and its subsidiaries, and periodically submitting this information to the Board of Directors (Article 7.P.3, letters a)-(i) and 7.C.4, letters a) and b) of the Governance Code). He carries out the duties assigned by the Governance Code (Article 7.C.4, letters c), d) and e) of the Governance Code). It also appoints and revokes, after seeking the opinion of the Audits and Risks Committee, the Chief Risk Officer (CRO), ensuring that he has the resources necessary to fulfil the appointment.

It may also ask the Audit department to audit specific operative areas and compliance with internal rules and procedures in the implementation of business, simultaneously informing the Chairman of the Board of Directors, the Chairman of the Audit and Risks Committee and the Chairman of the Board of Statutory Auditors, and reports promptly to the Audit and Risk Committee (or the Board of Directors) on any problems or critical issues that have emerged in going about its business or of which it may have become aware, in order that the committee (or Board of Directors) can take any necessary action. In performing these duties during FY 2013, more specifically, the Chief Executive Officer implemented the guidelines of the “Terna Group Internal Audit and Risk Management System” defined by the Board of Directors and appointed the Chief Risk Officer (CRO) - as explained in section XI “Internal Audit and Risk Managing Director System” - and monitored the trend of the Company’s operating conditions as a result of the Group reorganisation, in this respect, through the appointed company structures, reporting back to the Audits and Risks Committee.

Internal Audit Department Manager

The Internal Control and Risk Management System of the Terna Group – according to the provisions of the “Internal Control and Risk Management System of the Terna Group” guidelines, as most recently updated on December 19, 2012 and already presented in this section – provides for an Audit Department and the figure of the Internal Audit Department Manager appointed by the Board of Directors on the appointment of the “Director in Charge of the Internal Control and Risk Management System” upon first seeking the favourable opinion of the Control and Risk Committee and having consulted with the Board of Statutory Auditors (Article 7.C.1 of the Governance Code). This is also assigned the tasks set out in the Governance Code (Article 7.C.5 of the Governance Code) and is not assigned any operative area; it depends on the Board of Directors and also reports to the CEO as “Director in Charge of the Internal Control and Risk Management System” (Article 7.C.5, letter b) of the Governance Code).

Terna’s organisation instituted a specific Internal Audit Department some time ago and assigned its responsibility to a company executive with suitable requirements of professionalism without any operative responsibilities or appointments, who reports to the Director in Charge of the Internal Control and Risk Management System and who answers in his work to the Board of Directors, assigning him resources and means for overseeing the suitability, operations and function of the ICRMS and remuneration coherent with business policies (Article 7.C.1 of the Governance Code). This structure has guaranteed the efficiency of the audit in pursuing its mission and the conformity of the activities carried out with the Standard for the practice of Internal Auditing issued by the IIA and consequently, the Board of Terna has maintained its current structure and the figure of the Internal Audit Department Manager already in place in Terna and held by engineer Fulvio De Luca.

Terna’s Internal Audit Department Manager:

- checks, both continuously and in relation to specific needs and in compliance with international standards, the operations and suitability of the Internal Control and Risk Management System through the audit plan based on a structured process analysing and prioritising the main risks (Article 7.C.1, letter a) of the Governance Code);
- has direct access to all information useful to fulfilling the appointment. More specifically, in order to go about its duties, the Audit Department may access all company information systems freely and all acts and information in the company (Article 7.C.1, letter c) of the Governance Code);
- prepares regular reports containing suitable information on his work, on the way in which risks are managed and on compliance of the plans defined to limit them. The regular reports contain an assessment of the suitability of the Internal Control and Risk Management System (Article 7.C.1, letter d) of the Governance Code);
- prepares prompt reports on particularly important events (Article 7.C.1, letter e) of the Governance Code);
- sends the reports pursuant to the above points to the Chairs of the Board of Statutory Auditors, the Control and Risk Committee, the Board of Directors and the Director in Charge of the Internal Control and Risk Management System (Article 7.C.1, letter f) of the Governance Code);
- checks, as part of the audit plan, the reliability of the information systems including the accounting systems (Article 7.C.1, letter g) of the Governance Code).

The plan of works prepared by the Internal Audit Department Manager is approved by the Board of Directors at least once a year and having first sought the opinion of the Control and Risk Committee, having consulted with the Board of Statutory Auditors and the Director in Charge of the Internal Control and Risk Management System (Article 7.C.1, letter c) of the Governance Code). For FY 2013, the plan of works was approved by the Board in the meeting of March 15, 2013, having first obtained the opinion of the Control and Risk Committee and consulted with the Board of Statutory Auditors and the Director in Charge of the Internal Control and Risk Management System. The new work schedule for FY 2014 was approved by the Board in the meeting held on March 25, 2014, having first obtained the favourable opinion of the Audits and Risks Committee, having consulted with the Board of Statutory Auditors and the Director appointed for the Internal Control and Risk Management System.

The Internal Audit Department Manager operates through audits, the scope of application of which is extended to Terna and its subsidiaries. Audit activities can be carried out in connection with the departments carrying out audits in the companies and are carried out according to the annual plan of action or prepared each time by the company senior management (such as the “Director in Charge of the Internal Control and Risk Management System”) in relation to specific facts or following specific events, simultaneously informing the Chairman of the Board of Directors, the Chairman of the Control and Risk Committee and the Chairman of the Board of Statutory Auditors (Article 7.C.4, letter d) of the Governance Code).

The Control and Risk Committee can ask the Audit Department to carry out audits on specific operative areas, simultaneously notifying the Chairman of the Board of Statutory Auditors (Article 7.C.1, letter e) of the Governance Code) and the Director in Charge of the Internal Control and Risk Management System.

The Board of Statutory Auditors, within its own activities, can request the Audit department to carry out assessments on specific operating areas or Company operations (Article 8.C.4 of the Governance Code).

The Internal Audit Department Manager informs the Director in Charge of the Internal Control and Risk Management System of the requests for audit received from the Control and Risk Committee and the Board of Statutory Auditors.

The Board of Statutory Auditors and the Control and Risk Committee exchange significant information to fulfil their tasks (Article 8.C.5 of the Governance Code).

During FY 2013, numerous significant company scopes were audited, relating to: the management of the electrical system and its safety, impartiality with regard to grid users, design and development activities, group reorganisation and information management. In 2013, moreover, Terna's Audit Department underwent a Full External Quality Assessment by qualified external experts, which, on February 26, 2014, assigned the Audit Department's work the best possible score with respect to the International Standards for the Professional Practice of Internal Auditing. More specifically, the Audit activities were found to be: "generally compliant with the definition of Internal Auditing, the Profession's Code of Ethics, the Standards regarding Auditors and the Standards of Performance; suitable for the processes and procedures defined internally; aimed at facilitating the control processes, risk management and control governance; focused on continuous improvement; and aimed at adding value and improving the organisation's operative processes".

Code of Ethics

In May 2002, aware of the moral aspects involved in its core activities, Terna's Board of Directors resolved to adopt its Code of Ethics (that was updated in March 2004) to allow employees and all those having relations with Terna, to operate in the right way in order to establish trust, strengthen the Company's positive reputation and create value.

In 2006, the Code of Ethics underwent an updating process to provide Terna, following the change that rendered it an independent operator in the electricity transmission market, with a set of rules and principles to follow on the basis of its new context of reference.

The new Code of Ethics, which was approved by the Board of Directors on December 21, 2006, explains also in ethical terms, Terna's uniqueness. It underlines the need to respect universal ethical principles, that can be immediately recognized by everybody, and that should be fully adopted by companies. It is not by coincidence that The Code of Ethics specifically notes the 10 principles of the Global Compact, the most prestigious expression of this vision that Terna has followed since 2009.

Terna's Code of Ethics is broken down into five sections, which discuss, in this order:

- Terna's fundamental ethical principles, which are organized into general ethical principles (legality, honesty and accountability), that are universal and therefore to be recognized and shared by all, and into four main principles that Terna believes are particularly important, given its activities and nature (good management, respect, fairness and transparency);
- the conduct required, especially from employees, based on three important elements: loyalty to the Company, conflicts of interest and the integrity of Company assets;
- general instructions for the conduct to follow in relations with stakeholders, broken down into eight groups in which Terna requires consistent conduct;
- Terna's commitment to comply with the Code and the conduct required in relation to certain stakeholders;
- the rules implementing the Code and the relevant people responsible for updating it and gathering reports, who should be contacted for any clarifications.

The Code of Ethics was approved in December 2006. It applies to all of Terna Group's subsidiaries for sections 1 (Principles), 2 (Conflicts of interest, Company loyalty and the integrity of Company assets) and for section 3 (Relations with *stakeholders*) limited to the initial guidelines for the conduct to be followed with the individual categories of *stakeholders*. The Code of Ethics represents the Charter in which Terna sets out the ethical commitments it makes with regard to its *stakeholders*. These commitments translate into concrete and measurable objectives, which Terna reports on once a year in its Sustainability report.

In 2009, Terna established an Ethics Committee to provide internal and external *stakeholders* with a new, specific channel for comparisons and reports on matters regarding the Code of Ethics. The Ethics Committee is an organisation comprising three members, appointed by the Chief Executive Officer from amongst the group employees.

Organizational Model under Legislative Decree no. 231/2001

Since December 2002, Terna's Board of Directors has resolved to adopt an Organizational and Management Model that met the requirements of Legislative Decree no. 231 of June 8, 2001, which introduced into the Italian Law a system of administrative (and criminal) liability for companies with respect to certain types of offences committed by their Directors, Auditors, managers or employees in the Company's interest or to its benefit. The Model was updated in June 2004, after the Company's shares were listed. During 2010, the Model was amended following changes in law provisions as per Article 24-*ter* regarding "organized crime offences" and Article 25-*bis*, 25-*novies* and 25-*novies-(bis)* regarding, respectively, "offences against industry and trade", "crimes related to the violation of copyright" and "crime of incitement to refrain from issuing statements or to issue false statements", introducing the new Special Section I, relative to organized crime offences and updating the "General Section" and the "Special Sections" "A", "B", "G" and "H" for the other types of offences.

In addition to identifying areas deemed to be mostly at-risk for committing offences (so called “At-risk Areas”), the activity also involved defining conduct principles which all company representatives must comply with in order to prevent such offences, in addition to the provisions already included in the existing procedures within the Company.

This project went hand-in-hand with the Code of Ethics, as the Company believes that the adoption of this Model – regardless of the regulations that made it optional rather than mandatory – is a valid tool in increasing the awareness of those operating in the name and on behalf of Terna and its Group, so that their conduct be correct and transparent in the performance of their activities, to prevent the risk of the offences provided for by the Decree from being committed. In 2011, due to the extension of the predicate offences category to environmental crimes, pursuant to Article 25-*undecies* of Legislative Decree no. 231/2001, an assessment was carried out, as well as the mapping of company areas, the roles and responsibilities, identifying the so-called “At-Risk Areas” and the definition of principles of conduct which company representatives must comply with in order to prevent the occurrence of new predicate offences. Therefore, following said activity, the Model 231 was further broadened through the introduction of the Special Section “L” in connection with “Environmental Offences”.

In 2012, by virtue of the business reorganisation of the Terna Group, the Model of the parent company Terna S.p.A. was completely reviewed and updated and specific Organisational Models were prepared for the subsidiaries to consider their specific business.

Under the scope of the new special part “D”, the new Model also considers the extension of the list of crimes established under Article 25-*duodecies* of Italian Legislative Decree no. 109 of July 16, 2012, which establishes the extension of the administrative liability to include entities where the minimum rules relating to the employment of citizens of third party countries with invalid permits to stay are exceeded, as established in Italian Legislative Decree no. 286 of July 25, 1998 (the Consolidated Law on Immigration).

In 2013, due to the extension of the list of crimes defined following the issue of Italian Law no. 190/2012 on “anti corruption”, the assessment and mapping of business areas, roles and responsibilities was carried out, thereby identifying the so-called “Risk Areas” and defining the standards of conduct with which company representatives are required to comply, in order to prevent any instances of the newly defined crimes. Therefore, following this activity, the Model was further supplemented, updating Special Parts A and B of the Model to consider in particular the changes made to the crimes of “undue encouragement to give or promise benefits”, “extortion”, “corruption in performing a duty” and the introduction of the crime of “corruption between private parties”. In relation to organised crime, the new category of crime “illegal influences peddling” was added to special part I of the Model, which, although not included as a new crime for the application of Italian Legislative Decree no. 231/01, does concern conduct similar to that of corruption, and as such was considered best mapped and included in the Model under crimes of association.

The Model is currently organized into eleven sections:

- a “general section” which describes, inter alia, the content of Legislative Decree no. 231/2001, the objectives of the Model and its implementation, the duties of the supervisory board – structured as a collective body – required to monitor the implementation and compliance of the Model, information flows and the penalty system; In this regard, in the meeting of December 19, 2012 and considering the current legislative and regulatory structure concerning the appointments and competences of the Board of Statutory Auditors, the Board of Directors chose not to transfer the functions of supervisory body to this organisation (Comment to Article 7 of the Governance Code);
- a “special section A” concerning the crimes committed in transactions with the public administration and crime of leading someone not to make a declaration or to make untruthful declarations to the legal authorities;
- a “special section B”, which discusses Corporate offences;
- a “special section C”, which deals with offences of terrorism or subversion of the democratic order;
- a “special section D” in relation to crimes against the individual personality and the employment of citizens from third party countries with invalid residence permits;
- a “special section E”, concerning market abuse offences, with the addition of specific “Compliance regulations for the prevention of offences and administrative market abuse offences”;
- a “special section F” regarding dealing in stolen goods, money laundering and use of money or assets coming from illegal sources as introduced in Decree no. 231/01 consequent to Legislative Decree no. 231/07 becoming effective;
- a “special section G”, regarding manslaughter and serious or very serious injuries committed in violation of the rules on occupational health and safety;
- a “special section H” relating to computer crime and breach of copyright;
- a “special section I” relative to organized crime offences;
- a “special section L”, concerning environmental offences.

The content of this Model is consistent with the guidelines prepared for this purpose by trade associations. It is also in line with the *best practices*, and represents the final step towards complete accuracy, transparency and accountability in internal and external relations, while offering shareholders a guarantee of efficient and correct management.

As a supplement to the Model, already in 2008, Terna also approved a specific “Compliance Regulation for preventing offences and administrative illegalities of market abuse”, most recently updated in July 2012, aimed at providing the recipients of the Model an additional operational tool for evaluating their conduct for integrating offences and administrative illegalities of market abuse and consequently for preventing conduct potentially representing a source of administrative responsibility for the Company.

In order to guarantee wider diffusion of the knowledge of the adopted Model, the same is published in the Company’s website (www.terna.it) under the Investor Relations section and, since 2010, a widespread training and customized campaign has been carried out involving all employees. In particular, in 2013 an awareness raising campaign based on “At-risk areas” for crimes where everyone operates, and other activities were undertaken aimed at ensuring an effective process-modulated awareness of regulations and conduct to be followed by all company representatives. Moreover, an intranet portal has been set up, with a specific section dedicated to the matters pursuant to Italian Legislative Decree no. 231/01, in which the Models of all Group companies can be accessed, along with detailed information on doctrine and case law and a manual on the “Model for Organization and Management of Procedures” - intended for Terna’s personnel, called on to implement the Model - in order to allow a simple interpretation of the Model but one that is complete in terms of clearly indicating proper conduct and conduct to be avoided in terms of liability.

Independent Auditors

The assignment of auditing the separate and consolidated financial statements was entrusted, pursuant to the resolution passed by the Shareholders’ Meeting of May 13, 2011 on proposal of the Board of Statutory Auditors, to the audit company PricewaterhouseCoopers S.p.A. for the 2011-2019 period in replacement of the company KPMG S.p.A., whose appointment expired with no possibility for renewal or extension pursuant to Article 17 of Legislative Decree no. 39 of January 27, 2010.

In drafting the auditing assignment proposal submitted to the Meeting of May 13, 2011, the Board of Statutory Auditors preliminarily assessed the independence requirements of such company with reference to Terna and the Group. This company confirms its independence to the Board of Statutory Auditors once a year, in accordance with Article 17, paragraph 9 of Italian Legislative Decree no. 39 of January 27, 2010.

Executive in Charge of the preparation of the company’s accounting documents and other company roles and departments

In implementation of Article 154-*bis* of the Consolidated Law on Finance – introduced by Law no. 262 of December 28, 2005 and subsequently modified by Legislative Decree no. 303 of December 29, 2006 – Terna’s Shareholders’ Meeting of May 24, 2007 provided for in the Bylaws (Article 21.4) the position of the Executive in Charge of the preparation of the company’s accounting documents (Executive in Charge), delegating his appointment to the Board of Directors, following the indication by the Board of Statutory Auditors, based on specific requirements of professionalism.

The choice to reserve the appointment and revoking of the Executive in Charge to the Board of Directors was carried out in line with Law provisions that directly acknowledge the Board of Directors a specific task of supervision (Article 154-*bis*, paragraph 4 of the Consolidated Law on Finance). In this regard, within the scope of the “Internal Control and Risk Management System of the Terna Group” guidelines, as most recently updated on December 19, 2012 and already presented in this section - the Board has specifically assigned the figure of the Internal Control and Risk Management System Director, regulated by governed by the Governance Code, the task of making the appointment proposals, after having consulted with the Board of Statutory Auditors.

The Executive must also be in possession of requirements of honour indicated by Law and of professionalism indicated in the Bylaws (Article 21.4).

In particular, the Executive in Charge of the preparation of accounting documents must have a total experience of at least three years in:

- a) administration activities, finance and control and/or managing functions inherent to the activity of preparation and/or analysis and/or evaluation and/or verification of company documents whose complexity is comparable to accounting documents of the Company; or
- b) activity of legal control of the accounts in companies listed in Italian regulated markets or in those of other countries of the European Union; or
- c) professional activities or university teaching in financial or accounting subjects.

The Board of Directors, in compliance with the regulations, has immediately appointed as Executive in Charge Luciano Di Bacco, after verification of the requirements of honour and professionalism. Such appointment has also involved the adjustment of the organisational structure of the Company attributing to the Executive autonomy and authority with the institution of a specific Senior Manager reporting directly to the CEO.

The Executive carries out all the activities necessary to give the Board of Directors the possibility to comply with its supervision tasks as per Article 154-*bis*, paragraph 4 of the Consolidated Law on Finance.

The Executive in Charge issues a declaration on the compliance, under Article 154-*bis*, paragraph 2 of the Consolidated Law on Finance, with the action and communications of the Company provided for by Law or communicated to the market, with reference to the report, even half-year, of the Company, to documents, and the accounting books and records. These declarations have been made since the half-yearly report of 2007.

In accordance with Article 154-*bis*, paragraph 3 of the Consolidated Law on Finance, the Executive in Charge prepares suitable administrative and accounting procedures to prepare the statutory financial statements and consolidated financial statements and any other financial communication requiring his issue of a certificate. In this regard, the Executive in Charge certifies, together with the appointed administrative bodies, with a specific report on the statutory financial statements, the abridged interim financial statements and the consolidated financial statements, their suitability and effective application, in accordance with paragraph 5 of the same Article, according to the model established in the Issuers Regulation. These declarations have been made since the financial statements as at December 31, 2007.

In 2013, following the reorganisation of the Terna Group, by agreement with the CEO also in his capacity as “Director in charge of the Internal Control and Risk Management System”, the Director in Charge has updated:

- the financial disclosure control system, also referred to as the “Model 262”;
- the Regulation of the Executive in Charge;
- the Administrative and Accounting procedures;
- the Analysis of the Internal Control and Risk Management System at an entity level.

Upon completion of said updates and also for the purpose pursuant to Article 154-*bis* of the Consolidated Law on Finance, the Executive in Charge has carried out specific monitoring aimed at verifying the correct application of said procedures.

In accordance with the provisions of the Governance Code, the Executive in Charge has, together with the Control and Risk Committee, evaluated the correct use of the accounting standards (Article 7.C.2, letter a) of the Governance Code).

Coordination of the parties involved in the Internal Control and Risk Management System

The Terna Group “Internal Control and Risk Management System” involves, each insofar as they are competent, the Board of Directors, the CEO identified by the Board as the “Director in charge of the Internal Control and Risk Management System”, the Control and Risks Committee, the Board of Statutory Auditors, the Audit Department and its Manager, the Supervisory Body (SB) instituted in accordance with Italian Legislative Decree no. 231 of June 8, 2001, the CEO (Executive in Charge) instituted in accordance with Article 154-*bis* of the Consolidated Law on Finance, the Chief Risk Officer (CRO) and provides for the ways in which they shall liaise, describing roles and competences on the Internal Control and Risk Management System, in order to maximise the overall efficiency of the ICRMS and reduce duplication of activities.

In order to guarantee suitable coordination between the parties involved in the ICRMS, Terna implements:

- suitable, continuous flows of information between the parties involved in the ICRMS;
- specific meetings for the management of specific situations or events, needed to ensure prompt control of exposure to risks and the recognition of operative anomalies;
- regular meetings to notify the status of the risk management system and plan tests;
- systematic reporting on exposure to risks with different information levels according to the addressee.

Section XII Directors’ interests and related party transactions

Even before listing its shares in the stock market, Terna and its subsidiaries decided to lay the foundation for ensuring that related party transactions were carried out in compliance with the principles of procedural and substantial correctness, in its own interest, and as a duty to the market.

As of February 22, 2007, in implementing the provisions of the 2006 edition of the Governance Code, Terna defined these conditions as part of specific internal procedures submitted in advance to the Internal Control Committee and approved by the Board of Directors. Among other things, these procedures established for the entire 2011 a specific reporting to the Board of Directors and Board of Statutory Auditors that was periodically implemented.

Following the publication of “Regulations regarding related party transactions” issued by CONSOB with resolution no. 17221 dated March 12, 2010, subsequently amended with resolution no. 17389 dated June 23, 2010 (“CONSOB Related Party Regulations”), Terna’s Board of Directors – as announced to the market on November 12, 2010 – defined these conditions within a new Procedure (“Procedure for Related Party Transactions”), effective as of January 1, 2011, taking into account the new regulations regarding the provisions of the Civil Code and those of the Governance Code of listed

companies. The resolution was approved unanimously following the positive opinion of the Committee established for this purpose and formed by independent Directors only (as established by Article 4, paragraph 3, of CONSOB Related Parties Regulations) whose members were identified among the Remuneration Committee. The new Procedure was published, as of November 12, 2010, on the Company (www.terna.it, under the Investor Relations/Corporate Governance/Regulations and Procedures section).

Within the new Procedure and pursuant to Article 4 of CONSOB Related Party Regulations, the following was implemented:

- Related Parties were identified, Related Party Transactions were defined and the new terms for identifying, approving and implementing the various categories of Related Party Transactions were ruled;
- lower amount Transactions were identified as well as those cases in which the provisions of the Procedure should not be applied (in line with the provisions of Articles 13 and 14 of CONSOB Related Party Regulations) having taken into account the size of the Company and the sector it operates in, as well as the ownership structure;
- the terms for forming the Director Committee were identified called upon to express its opinion on the single Transactions of greater or lesser importance, as well as the contents of such opinion and the independence requirements of the Committee member. Furthermore, specific measures were identified should at least 3 independent, non related Directors not be present;
- the rules were established regarding cases in which Terna shall examine or approve transactions of Italian or foreign subsidiaries;
- the terms and time frames were established with which Directors and the Committee for Related Party Transactions it should be provided with information on Related Party Transactions and relative documentation;
- the choices were identified as made by the Company with reference to the possibilities included in CONSOB Related Party Regulations.

Compared to previous conduct principles regarding Related Party Transactions adopted by Terna, the new Procedure envisaged lowering the relevance thresholds regarding certain types of Transactions which should be reported to the Board of Directors, so that an enlargement of entitled Related Party Transactions could be obtained – according to the definition indicated by CONSOB in the above-mentioned resolution – as transactions of lesser importance.

The statutory changes required by the Procedure were approved by the resolution passed by the Shareholders' Meeting of May 13, 2011.

Since 2011, the annual census has been carried out of the related parties as envisaged by Article 4.

According to the provisions of the document, as a first application, the "Procedure for Related Party Transactions" was submitted for verification of possible amendments to the Board of Directors of Terna, which, on the basis of the opinion provided by the special Committee and taking into account that no critical issues have arisen, did not deem it necessary to change it. Further verifications of the "Procedure for Related Party Transactions" are envisaged, based on such procedure, where deemed necessary, and at least every three months also considering the organizational structure of the Company and of the Group, the assets owned and the effectiveness of the Procedure in its application.

The Related Party Transaction Committee, following the renewal of the outgoing Board of Directors, is presently composed of Salvatore Machì (acting as Coordinator), Romano Minozzi and Paolo Dal Pino, all non-executive and independent Directors; at least one member is also in possession of adequate experience in accounting and finance matters.

The Board identified such Committee as the body in charge of carrying out the role required by "Regulations on Related Party Transactions" issued by CONSOB with resolution no. 17221 of March 12, 2010, subsequently amended with resolution no. 17389 of June 23, 2010, both for the approval of greater importance transactions and for those of lesser importance in the Terna Procedure. The Committee is assigned preliminary duties and powers, proactive and advisory, in evaluations and decisions regarding the aforesaid Related Party Transactions, as well as in relation to possible amendment proposals by the Procedure adopted by Terna. A special "Organizational Regulation of the Related Party Transaction Committee of Terna S.p.A." approved by resolution on December 12, 2010 and in force since January 1, 2011, governs the composition, the duties and the operation of the Committee.

The Company's budget provides for adequate financial resources for carrying out the duties of the Related Party Transactions Committee. Moreover, for purposes of its own evaluation, said Committee may require the Company to utilize specialized, independent experts external to the Company, who are designated by this committee; costs for services rendered by consultants are shouldered by the Company. The methods for holding meetings are governed by the internal ad hoc Organizational Regulations adopted by the Board of Directors on November 12, 2010 and in force since January 1, 2011. Upon invitation by the Coordinator, other people whose presence could be helpful for the smooth performance of the Committee's functions may participate in the meetings of the Related Party Transactions Committee. During 2013, the Related Party Transactions Committee held 1 meeting for a duration of approximately 45 minutes, in which Company executives were in attendance, whose presence was considered helpful for the best information on the issues on the agenda. More specifically, during FY 2013, the Related party transactions Committee provided the Board of Directors and the Departments of the companies appointed to examine the specific operations envisaged by the Procedure with preliminary support. During the current year, up to the date of approval of this Report, the Committee has not held any meeting. The percentage participation of each member of the committee in the meetings held during FY 2013 is indicated in table 1 attached (Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).

Terna has also identified specific methods for the approval of the significant operations concluded by the Company, also through subsidiaries (Article 1.C.1, letter f) of the Governance Code) – explained in section IV under “Role of the Board of Directors” – and for the identification and management of situations in which a Director holds his own interest or an interest of third parties regarding a transaction that he should evaluate, in compliance with the regulations of the previous edition of the Governance Code and according to the provisions of Article 2391 of the Italian Civil Code under the scope of a specific internal procedure adopted in 2007 and subsequently updated (most recently on March 31, 2011: “Approval of significant operations and management of situations of interest”), thereby ensuring procedural monitoring that also applies where the provisions on related party transactions do not apply. In this regard, Directors who have an interest (including potential or indirect interests) in the transaction:

- are required to inform the Board of Directors and Board of Statutory Auditors in due time of the existence of the interest, specifying its nature, terms, origin and scope;
- are required to leave the Board meeting or refrain from voting at the time of resolving, unless the Board specifically authorizes participation in the related discussions and/or vote;
- are required to inform the Board of their positions at the time of their appointment and regularly update the Board on them.

Section XIII Appointment of the Auditors

Appointment and requirements of Auditors

The terms for appointing the members of the Board of Directors are ruled by Article 26 of the Bylaws.

In compliance with the provisions of the Company’s Bylaws, the Board of Statutory Auditors is comprised of three Standing Auditors and two Alternate Auditors, who are appointed by the Shareholders’ Meeting for a period of three years and may be re-appointed at the end of their term.

All members of the Board of Statutory Auditors must meet the integrity and professionalism requirements as per the special legislation for Auditors of listed companies (Article 148, paragraph 4 of the Consolidated Law on Finance) now under Ministry for Justice Decree no. 162 of March 30, 2000, as integrated by appropriate Bylaws provisions (Article 26.1 of Bylaws).

Each Auditor may not be Auditor of five or more companies that have issued securities and can hold other assignments of administration and control in share capital companies according to Book V, Title V, Chapters V, VI and VII of the Civil Code within the limits established by the Article 144-*terdecies* of the Issuers Regulations implementing the provisions of Article 148-*bis* of the Consolidated Law on Finance.

All the members of the Board of Statutory Auditors must also possess provided requirements of independence under Article 148, paragraph 3 of the Consolidated Law on Finance.

The appointment of the entire Board of Statutory Auditors takes place, in application of the provisions on privatisation and in compliance with the provisions of Italian legislation concerning listed companies, according to the “list voting” mechanism, governed by Article 26.2 of the Bylaws, aimed at guaranteeing the presence in the auditing body of a Auditor and an Alternate Auditor appointed by the minority shareholders and aimed at establishing – according to the provisions of Article 144 *sexies*, paragraph 9, of the Issuers Regulation – the criteria for the identification of the candidate to be elected if lists are equal, by referral to the provisions on the appointment of the Board of Directors.

On the basis of this referral and in accordance with the provisions of Articles 4, paragraph 1-*bis*, of the Privatisation Law and modified by Legislative Decree no. 27 of January 27, 2010, by Article 148 of the Consolidated Law on Finance and by the implementing rules for the above mentioned provisions included in Articles 144-*ter* and following of the Issuers Regulations, that the lists of candidates can be presented by shareholders that, alone or jointly with other shareholders, hold at least 1% of the share capital or a lower amount as envisaged by the law – of shares with voting rights in the meeting. For this purpose CONSOB, implementing the provisions of Article 148 of the Consolidated Law on Finance and Articles 144-*septies* of the Issuers Regulations, has established – with Resolution no.18775 dated January 29, 2014 and for the year that ended on December 31, 2013 – the minimum participation stake required for submitting candidate lists to be appointed in Terna’s administration and control bodies at 1% of the share capital, taking into account the Company’s capitalization, and without prejudice to the lower stake included in the Bylaws.

The presentation, filing and publication of the lists, by specific referral of the Bylaws, are regulated in a similar fashion as arranged for the appointment of the entire Board of Directors, where compatible with the legislation and regulations applicable and with that specifically established by Article 26 of the Bylaws for the appointment of the Board of Statutory Auditors.

More specifically, the presentation and filing of the lists must take place - in accordance with Article 148, paragraph 2 and 147-ter, paragraph 1-bis of the Consolidated Law on Finance and 144-sexies, paragraph 4 of the Issuers' Regulation - at least 25 days prior to the date scheduled to resolve on the appointment of the members of the Board of Statutory Auditors.

Ownership of the minimum stake required to submit lists shall be determined - in accordance with the provisions of Article 147-ter, paragraph 1-bis of the Consolidated Law on Finance - by taking into account the shares that are registered in the name of the Shareholder(s) on the day in which the lists are filed with the Company. In order to prove ownership of the number of shares necessary for presenting the lists, shareholders with rights must present and/or deliver the related documentation issued in accordance with Articles 144-sexies, paragraph 4-quater of the Issuers' Regulation and 23 of the "Regulation enacting the regulation of the centralised management services, liquidation, guarantee systems and related management companies" as in force (adopted by the Bank of Italy/Consob on February 22, 2008 and subsequently amended by deed of the Bank of Italy/Consob of December 24, 2010 and updated, as from April 15, 2014, by provision of October 22, 2013), also subsequently to filing the list, as long as, within the terms envisaged for the publication of the lists (i.e. at least 21 days prior to the date scheduled for the Shareholders' Meeting called to resolve on the appointment of the administrative body).

Pursuant to Article 144-sexies, paragraph 5, of the Issuers Regulations, in the event that on the date due for the submission of the lists for the Board of Statutory Auditors only one list has been filed, that is only lists submitted by members who are connected to each other pursuant to applicable law provisions, lists may be submitted up to the third day following said date; In this case, the thresholds set forth above shall be reduced by half.

Each Shareholder may present or assist in the presentation of one single list and each candidate may be on one list only or he will be considered ineligible in accordance with the provisions of the Bylaws and Article 144-sexies, paragraph 6 of the Issuers' Regulation.

Lists must include the candidates; there shall be no more candidates than the number to be elected. The names are marked by a progressive number (Article 26.2 of the Bylaws) and the lists are divided into two sections, one for the candidates for Auditors, and the other for the candidates to Alternate Auditors. The first one of the candidates of each section of the lists must be registered in the register of Auditors and must have exercised the activity of legal control of the accounts for a period of at least three years.

Both the provisions of Article 26.2 on gender balance of the Auditors to be elected, and the Bylaws' provisions on requirements of integrity and professionalism of Auditors, indicated under Article 26.1, apply.

In this regard, lists considering both sections, have three or more candidates must include, both the first two of the section of the list relating to Auditors and with regard to the first two on the list relating to Alternate Auditors, candidates of different genders, in order to enable a Board of Statutory Auditors to be formed in compliance with current legislation on the balance of gender in the administrative and auditing bodies of companies with listed shares pursuant to Italian Law no. 120 of July 12, 2011 and Articles 147-ter, paragraph 1-ter and 148, paragraph 1-bis of the Consolidated Law on Finance. These statutory provisions aimed at guaranteeing compliance with current legislation on gender balance - introduced by the resolution of the Shareholders' Meeting passed on May 16, 2012 - aimed at guaranteeing compliance with current legislation on gender balance, shall apply, in accordance with the provisions of Article 31.1 of the Bylaws, to the first three renewals of the Board of Statutory Auditors subsequent to the coming into force and acquisition of efficacy of the provisions of Article 1 of Italian Law no. 120 of July 12, 2011, published in the Official Journal no. 174 of July 28, 2011 and in force as from August 12, 2011 without prejudice to any extensions envisaged by the law. Therefore, they shall first apply when renewing the company bodies expiring with the approval of the 2013 financial statements. At the same time, in accordance with the provisions of Article 31.2 of the Bylaws, the new provisions of the Bylaws apply, which - for the same purpose and for the first three renewals, save any additional extensions provided for by the law - have extended the members of the Board of Statutory Auditors, which will number three Standing Auditors and three Alternate Auditors. Up until that time, the Board of Statutory Auditors shall number three Standing Auditors and two Alternate Auditors.

As concerns the personal characteristics of the candidates and on the basis of that specified under Article 8.C.1 of the Governance Code, in the notice convening the shareholders' meeting, shareholders are specifically asked, when preparing lists, to evaluate the characteristics of the candidates, also as concerns their independence, as envisaged by Article 3 of the same Code with reference to the Directors.

In order to ensure a transparent procedure for the appointment of the Board of Statutory Auditors, the lists are filed complete, in accordance with Article 144-sexies, paragraph 4 of the Issuers Regulation:

- a) information on the identity of the shareholders who have submitted the lists, indicating the total percentage of the shares held;
- b) a declaration by shareholders other than those who hold, also as a group, a controlling interest or relative majority, indicating the absence of relationships as set forth in Article 144-quinquies of the Issuers Regulations with them. In this regard, Consob, with Communication no. DEM/9017893 of February 26, 2009 (concerning the "Appointment of the members of the administrative and auditing bodies") recommends that shareholders presenting a "minority list" provide the information required with regard to the election of the auditing bodies in this declaration;

c) an accurate description of the personal and professional characteristics of the candidates, accompanied – pursuant to Article 2400, last paragraph of the Civil Code – by a list of administration and control positions held within other companies as well as a statement by the candidates certifying possession of the requirements set by the law (including possession of independence requirements pursuant to Article 148, paragraph 3 of the Consolidated Law on Finance) and their acceptance of the candidacy.

The lists - complete with all information envisaged by Article 144-*octies*, paragraph 1 of the Issuers' Regulation and CONSOB communication no. DEM/9017893 of February 26, 2009 - are therefore made available to the public - in accordance with Article 148, paragraph 2 of the Consolidated Law on Finance and with Article 144-*octies*, paragraph 1 of the Issuers' Regulation - at the company's office, on the company's website and according to the ways established by Consob, at least 21 days prior to the date of the specified Shareholders' Meeting.

Pursuant to Article 148, paragraph 2 of the Consolidated Law on Finance, at least one effective member is appointed by the minority shareholders who are not connected, not even indirectly, with the shareholders who have introduced or voted the list winning for a number of votes.

In this regard, on the basis of the procedure for appointing the Auditors according to the "list voting" mechanism governed by Article 26.2 of the Bylaws and Article 144-*sexies* of the Issuers' Regulation, each person with the right to vote can vote a single list only in the shareholders' meeting. In the progressive order in which they appear in the list, two Standing Auditors and two Alternate Auditors are taken from the list that has obtained the most shareholder votes (the "majority list"); the remaining Standing Auditor and the remaining Alternate Auditor are instead taken from the other lists (the "minority lists") considering that which obtained the most votes, according to the mechanism described in letter b) of Article 14.3 for the election of Directors; this is to be applied separately to each of the sections into which the lists are divided and which has been presented and voted by shareholders who are not directly or indirectly connected, in accordance with Article 144-*quinquies* of the Issuers' Regulation, with the shareholders who presented or voted the majority list.

In compliance with the Italian legislation for listed companies, the Bylaws (Article 26.2) attribute the chairmanship of the Board of Statutory Auditors to the Auditor appointed by the minority list.

For the appointment of Auditors taking place outside the context of the renewal of the entire Board of Statutory Auditors, the Shareholders' meeting shall resolve with the legal majorities and without observing the procedure described above, in any case in such a way as to assure a composition of the Board of Statutory Auditors in compliance with requirements of integrity and professionalism as envisaged by the law and the Bylaws, as well as ensuring compliance with current legislation on gender balance.

For any replacement of the Auditors, the terms of Article 26.2 of the Bylaws will be applied. If one of the Auditors is replaced, without prejudice to the possession of the legal requirements, the first of the Alternate Auditors taken from the same list shall take his place. If the take-over carried out in this way, does not enable the reconstruction of a Board of Statutory Auditors compliant with current legislation on gender balance, the second of the Alternate Auditors on the same list shall be appointed. If, subsequently, it should be necessary to replace the other Auditor taken from the same list that has obtained the greatest number of votes, in any case the additional Alternate Auditor taken from the same list shall be appointed. If the Chairman of the Board of Statutory Auditors is replaced, this position will be taken by the Alternate Auditor taken from the same list.

Section XIV Composition and operation of the Board of Statutory Auditors

The Board of Statutory Auditors currently in office, appointed by the ordinary Shareholders' Meeting of May 13, 2011, will be in office until the approval of the 2013 financial statements.

According to that resolved by the Shareholders' Meeting on May 13, 2011, the following comprise the Board of Statutory Auditors: Luca Aurelio Guarna (Chairman of the Board of Statutory Auditors appointed by the minority list submitted by shareholder Romano Minozzi and by his subsidiaries), Alberto Luigi Gusmeroli and Lorenzo Pozza (Auditors appointed by the majority list submitted by Cassa Depositi e Prestiti S.p.A.).

Alternate Auditors were also appointed: Stefania Bettoni (included in the minority list submitted by the shareholder Romano Minozzi and by his subsidiaries), and Flavio Pizzini (included in the majority list submitted by Cassa Depositi e Prestiti S.p.A.). The Auditors appointed represent both lists submitted for said meeting. Further information regarding the submitted lists of candidates and on the results of the voting is available on the Company's website at www.terna.it in the section "Investor Relations/Corporate Governance/Company bodies/Shareholders' Meetings/Shareholders' Meeting of May 13, 2011". Following the statements made for the appointment, the vote count and after the voting, a standing member was appointed by the minority members that are not connected, not even indirectly, with the members who have submitted or voted the list that won for a number of votes.

From its appointment, the Board of Statutory Auditors is unchanged.

A summary of the professional background of the Auditors is provided below.

- **Luca Aurelio Guarna, 41 years old - Chairman of the Board of Statutory Auditors**

[born in Milan on December 20, 1972]

He has a degree in Business Administration from the “Luigi Bocconi” University; he qualified for the title of Tax Consultant in 2000 and since 2002, he has been enrolled as Auditor. He has been Chairman of the Board of Statutory Auditors of Terna S.p.A. since April 2008 and Chairman of the Board of Statutory Auditors of Terna Rete Italia S.p.A., a subsidiary of Terna S.p.A., since February 2012.

He has carried out professional activity with prestigious legal and tax offices and since 2001 he has been a member of the administrative, tax and corporate consulting Spadaccini office in Milan.

He is presently the Standing Auditor in other companies such as: Eagle Pictures S.p.A., Silvano Toti Holding S.p.A., BBraun S.p.A., Aereoporto di Genova S.p.A. and Prelios Credit Servicing S.p.A..

- **Alberto Luigi Gusmeroli, 53 years old - Standing Auditor**

[born in Varese on February 27, 1961]

He has a degree in Economics from the University of Pavia, School of Economics, with a focus on company finance and credit, enrolled as a tax consultant in the Auditors Register. He has been a Standing Auditor for Terna S.p.A. since May 2011.

He is Chairman of the Board of Statutory Auditors of the publishing house Editoriale Nord Soc. Coop since 1997 and of Comecor coop a.r.l. since 1990, as well as member of the Board of Statutory Auditors of Bancoposta Fondi S.p.A. Sgr (Poste Italiane Group) since 2002 and of Versoli S.p.A. He is also a member of the Board of Società Italiana per Azioni per il Traforo del Monte Bianco. Since 2000 he has also been member of the Board of Fondazione Salina, and since 2005 of the Centro Studi sulle Lingue Parlate Locali ed i Dialetti. He is a member of the Commission for study on local bodies of the National Council of Tax Consultants in Rome and general partner of the auditing company Fiduciaria Di Revisione Sas. He was a member of the Board of the Hotel Company 3S from 2000 to 2006, Chairman of the Board of Statutory Auditors of Frigorcoop from 1992 to 2000 and Auditor in Enel Energia S.p.A. from 2005 to 2007. In the municipalized company Aspem S.p.A. in Varese he was first Board member with powers, from 1998 to 2002, and then member of the Board of Statutory Auditors from 2003 to 2009. He has held many positions as consultant, including in Aero Club d'Italia, and he was an auditor in various local bodies as well as Member of the Inspection Committee of the Regional Council of the Region of Lombardy.

- **Lorenzo Pozza, 47 years old - Standing Auditor**

[born in Milan on October 11, 1966]

He has a degree in Business Administration from the “Luigi Bocconi” University, tax consultant and auditor. He has been a Standing Auditor for Terna S.p.A. since April 2008.

Since 2001, he has been Associate Professor of Business Administration at the “Luigi Bocconi” University and Professor of Methodology and Quantitative Standards for Companies after having held various positions as a Professor in Accounting and Business Valuation since 1991 at the same university, and since 1992 at the Corporate Management School (SDA), and since 1996 at the University of Italian Switzerland. He managed the Degree Course specialised in economics and legislation for businesses as well as the master in accounting and auditing and the master in tax law.

He has been Director and Auditor in various different listed and unlisted companies operating in the industrial, financial, real estate and insurance sectors.

He also carries out professional activity since 1990 and has been a founding member of the Partners S.p.A. consulting firm. He is the author of three books on budget and company evaluation as well as of numerous other publications, and has also written articles and essays on this subject for national and international magazines.

During the appointment and taking account of the information provided by the individuals involved, the Board of Directors, based on the envisaged terms, has confirmed and verified the existence of the requirements of integrity, professionalism and independence of the members of the Board of Statutory Auditors appointed by the Shareholders' Meeting held on May 13, 2011. In the attached table 2, information is included regarding the composition of the Board of Statutory Auditors as of March 25, 2014.

No Auditor holds five assignments in other Italian companies issuing stocks listed in the Italian regulated markets or in other countries of the European Union and in companies issuing financial instruments available to the public in significant amounts pursuant to Article 116 of the Consolidated Law on Finance as defined by Article 2-bis of the Issuers Regulations. The total number of assignments as Director or Auditor in other companies according to Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the Civil Code, relevant according to Article 148-bis of the Consolidated Law on Finance, is indicated in the attached Table 2.

The total number of assignments according to Article 144-*quinquiesdecies* of the above mentioned Issuers Regulations based on CONSOB resolution no. 17326 dated May 13, 2010, is published by CONSOB and is available on its website (www.consob.it). In this regard, it should be remembered that following the amendments to Articles 144-*terdecies* and 144-*quaterdecies* of the Issuers Regulations as per the CONSOB resolution no. 18079 of January 20, 2012 (published in the Official Journal on February 7, 2012), the limits on the total number of assignments and the consequent obligation to notify CONSOB are not applicable to standing members of the control body who hold the position of standing member of the control body “in one issuer only”.

During 2013, the Board of Statutory Auditors held 6 meetings which lasted in average approximately 2 hours each, with the regular participation of the Auditors.

In 2014, all the preliminary meetings are scheduled for reviewing the economic-financial data on the part of the Board of Directors. During the year in progress up to the date of approval of this Report, the Board of Statutory Auditors held 3 meetings.

The Board of Statutory Auditors, on the basis of the criteria envisaged for the evaluation of the independence of the non-executive members of the Board of Directors in accordance with Article 3 of the Governance Code and in ways that comply with those envisaged for the directors – with reference to the information supplied by the individual parties concerned – has certified that the independence requirements remain met by all Auditors (Article 8.C.1 of the Governance Code). This verification was most recently confirmed by the meeting held on December 19, 2013.

Terna’s Board of Statutory Auditors, already from March 16, 2007, decided to voluntarily adapt to a system of transparency analogous to that of the Directors (explained in section XII) in case of operations in which they bear an interest for themselves or third parties (Article 8.C.3 of the Governance Code). This orientation was also confirmed by the Board of Statutory Auditors in office.

In 2013, the Board carried out its typical supervisory duties as established by the national order on: (i) the observance of the Law and of the founding deed, including the respect of principles of proper administration in carrying out Corporate activities, (ii) the adequacy of the organizational structure, (iii) the adequacy and effectiveness of the Internal Control and Risk Management System and (iv) the suitability of the company’s administrative-accounting system; (v) on the methods of concrete implementation of the rules of corporate governance set out by the code of conduct to which the Company has declared it complies; and (vi) on the financial disclosure process and legal auditing of the annual and consolidated accounts (Article 7.P.3 and Comment to Article 8 of the Governance Code). It has also verified the implementation of the provisions pursuant to Article 114, paragraph 2 of the Consolidated Law on Finance relative to communication obligations. The Board of Statutory Auditors also monitored the independence of the auditing company verifying both the respect of the provisions applicable on the matter, and the nature and entity of the services different from the accounting and auditing provided to Terna and to its subsidiaries by PricewaterhouseCoopers S.p.A. and the bodies belonging to its network.

The Board of Statutory Auditors verified the proper application of criteria and of procedures adopted by the Board of Directors for evaluating the independence of its members and also analysed the implementation of the regulations pursuant to Legislative Decree no. 231/01 and of the Regulations for the Executive in Charge of the preparation of financial documents pursuant to Law no. 262/05.

In FY 2013, the Board of Statutory Auditors, through its Chairman, was the addressee of the results of the audits performed by the Internal Audit Department Manager and the Auditors regularly attended meetings of the Board of Directors and the Control and Risk Committee and – the Chairman – at the meetings of the Remuneration Committee has guaranteed suitable involvement of the Board of Statutory Auditors in a great many internal procedures.

In carrying out its activity, the Board of Statutory Auditors was coordinated with the audit department and with the Control and Risk Committee according to the terms included in the previous “Section XI: Internal Control System” (Articles 8.C.4 and 8.C.5 of the Governance Code), with the Control Body pursuant to Legislative Decree no. 231/01, with the Executive in Charge pursuant to Law no. 262/05, as well as with the Boards of Statutory Auditors of the holding company and with the auditing company, exchanging relevant information to go about the respective duties.

Section XV Investor Relations

Since its listing on the stock exchange, the Company has believed that is both in its best interest and a duty to the market establishing a constant dialogue, based on the mutual understanding or roles, with all of shareholders and institutional investors: this dialogue is to be carried out in compliance with both the procedure for the disclosure of documents and information outside the Company and the principles included in the “Guide for market disclosures” and in recent regulatory measures and regulations on market disclosure.

To this regard, and also considering the Company’s size, it was decided that this dialogue should be facilitated by the creation of specific Company structures.

Accordingly, the Company has set up the (I) Investor Relations Department, which currently reports to the CEO and has the task of keeping contacts with institutional investors under the responsibility of Antonio Colombi (Viale Egidio Galbani, 70, 00156 Rome - tel. 06 8313 9041 - fax 06 8313 9312 - e-mail: investor.relations@terna.it) – and (II) a department for relations with general shareholders within the Corporate and Legal Affairs Department under the direction of Attorney Filomena Passeggio (Viale Egidio Galbani, 70 – tel. 06 8313 8136 - fax 06 8313 8218 - e-mail: azionisti.retail@terna.it) – (Articles 9.P.1, 9.P.2, and 9.C.1 of the Governance Code).

Furthermore, the Company has further encouraged dialogue with investors by creating a specific section in its website (www.terna.it), where they can find both financial information (financial statements, half year and quarterly reports and presentations to the financial community) and updated information and documents of interest to general shareholders (press releases, the Company structure, the Bylaws and regulations for Shareholders’ Meetings, Corporate Governance information and documents, the Code of Ethics and the Organizational and Management Model pursuant to Legislative Decree no. 231/2001, distributed dividends, etc.

Individual alerts can also be activated on the Company’s website, for future events in the company’s calendar.

Section XVI Shareholders’ Meetings

The Governance Code establishes that the Shareholders’ Meetings should be considered as special occasions to initiate fruitful dialogue between shareholders and the Board of Directors (despite the wide-ranging diversification of the communications methods used by listed companies with their shareholders, institutional investors and the market). This was carefully evaluated and fully approved by the Company, which believed it necessary to adopt specific measures to adequately improve the meetings, in addition to guaranteeing the participation of its Directors (Article 9.C.2 of the Governance Code).

Also on the basis of special legislation enacted as expected in relation to listed companies, Terna introduced into its Bylaws a specific regulation aimed at facilitating the gathering of voting proxies for shareholders who are employees of the Company and its subsidiaries, so as to involve them in the decision-making process at the Shareholders’ Meetings. Pursuant to Article 11.1 of the Bylaws, every shareholder that has the right to attend the Shareholders’ Meeting can be represented according to the Law, through a proxy.

In order to facilitate the notification of proxies to the Company, with resolution of October 18, 2010, Terna’s Board of Directors approved the amendments to the Bylaws necessary for adjusting the Company Bylaws to the novelties introduced by law provisions regarding shareholders’ rights of listed companies aiming at favouring the participation of shareholders in the life of the Company (Directive 2007/36/EC and relative implementing Legislative Decree no. 27 dated January 27, 2010) including notification of proxies by electronic means and, according to Article 125-*bis* of the Consolidated Law on Finance, mentioning such terms from time to time in the notice of call. On that occasion, the Board of Directors deemed appropriate to allow shareholders the possibility to grant proxies together with specific voting instructions to a Designated Company Representative according to Article 135-*undecies* of the Consolidated Law on Finance without exercising the so-called opt out possibility set by the Consolidated Law on Finance (Article 9.P.1 of the Governance Code). Additionally, by resolution of the Shareholders’ Meeting held on May 13, 2011 and with reference to current legislation looking to encourage the participation of shareholders in the company’s life, the possibility of using the single convening of the Shareholders’ Meeting has been envisaged, with a view to providing shareholders and the market with a single indication of the real date on which the meeting is held.

In order to facilitate the collection of proxies with the shareholders’ employed with the Company and its subsidiaries associated with shareholders’ associations that meet the requirements envisaged by the existing laws, according to the terms and modalities agreed upon each time with their legal representatives, these associations have made spaces available to be used for communication and for carrying out activities for collecting proxies.

With regard to the right to attend a Shareholders' Meeting, the Bylaws (Article 10.1) – as modified by the Board of Directors on October 18, 2010 implementing the Legislative Decree no. 27 dated January 27, 2010 – envisages that attendance in the Shareholders' Meeting is allowed only to those who have the right to participate in the Meeting and to exercise the voting right pursuant to law provisions in force.

On the basis of this provision and according to existing Article 83-*sexies* of the Consolidated Law on Finance, eligibility to participate in the Meeting and exercising the voting right is certified by a notice to the Company, made by an intermediary, in compliance with own accounting books, in favour of the person entitled to voting right on the basis of evidence of the accounts specified by Article 83-*quater*, paragraph 3 of the Consolidated Law on Finance related to the close of the accounting day of the seventh open-market day prior to the date set for the Shareholders' Meeting in first call, the so-called "record date".

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

Communications by intermediaries for participation must be received by the Company by the end of the third open-market day prior to the date set for the first (or only) call of the Shareholders' Meeting. There is no prejudice to the entitlement to participate and vote if the Company has received the communications after said indicated term, provided that they are received by the time the Meeting begins on single call (Article 83-*sexies*, paragraph 4 of the Consolidated Law on Finance).

The Bylaws do not envisage attendance to the Shareholders' Meeting through telecommunications means or through the expression of the right to vote by correspondence or by electronic means.

The right for integration of the agenda and the presentation of new proposed resolutions on the part of the shareholders', by virtue of the postponement of general nature pursuant to Article 30 of the Bylaws, is held by the shareholders that, also jointly, represent at least one fortieth of the share capital according to the direct provisions of the Law (Article 126-*bis* of the Consolidated Law on Finance). On the basis of this provision, shareholders can present a written application, also by correspondence or electronically, in compliance with any requirements strictly necessary to identify the applicants and as indicated by the company, within ten days of the publication of the notice convening the meeting, to supplement the agenda with additional items, specifying in the application what additional items are proposed, or presenting proposed resolutions on items already on the agenda, filing a report within these same terms, giving the reasoning for the proposed resolutions on the new items up for discussion or the reasoning in relation to the additional proposed resolutions presented on items already on the agenda, along with documentation certifying ownership of the shares in accordance with the "Regulation governing the centralised management services, liquidation, guarantee systems and related management companies" as in force (adopted by the Bank of Italy/Consob on February 22, 2008 and subsequently amended by deed of the Bank of Italy/Consob of December 24, 2010 and updated, as from April 15, 2014, by provision of October 22, 2013). Those with voting rights can individually present proposed resolutions to the Shareholders' Meetings.

The integration of the list of items to be discussed is allowed only for those topics on which the Shareholders' Meeting is authorized to resolve pursuant to the Law. These topics exclude those for which the Law itself envisages that a resolution is made on the proposal by the Directors or on the basis of one of their projects or of a report they have prepared, different to that on the items on the agenda.

In case of an integration to the agenda or the presentation of additional proposals, the modified list of subjects to be discussed during the Meeting and the new proposals must be published according to the same terms as for the notice of call, at least fifteen days prior to the day scheduled for the Meeting. At the same time – in the same ways as envisaged for the Directors' Report on the items on the agenda – the report presented by the shareholders is made available to the public, accompanied by any considerations of the administrative body.

In accordance with Article 127-*ter* of the Consolidated Law on Finance, those with voting rights in the Shareholders' Meeting can ask questions on the items on the agenda, even before the meeting. The notice convening the meeting specifies the terms and conditions in compliance with which any questions raised prior to the meeting must reach the company.

Starting March 3, 2004, with a special shareholders' resolution, the Company implemented a specific regulation aimed at ensuring the exact and functional running of Shareholders' Meetings, with detailed rules for the various sectors, in compliance with each shareholders' fundamental right to request clarifications on the various issues being discussed, express an opinion and submit proposals (Article 9.C.3 of the Governance Code). With the shareholders' resolution of May 13, 2011, the text of the adopted "Regulations for Terna S.p.A.'s Shareholders' Meetings" was adjusted to be in line with the provisions of Legislative Decree no. 27, dated January 27, 2010 with regard to the exercising of some rights of shareholders of listed companies. On that occasion, some further adjustments were made in order to better define the scope of some provisions of the Regulations in light of the acquired enforcement practice and to ensure smoother running of the Shareholders' Meetings.

The main amendments made, which were illustrated in detail to the shareholders with an ad hoc report to the Shareholders' Meeting, regarded provisions concerning governing the right to participate and vote in a Shareholders' Meeting and provisions concerning the right to pose questions on the items on the agenda, also before the Shareholders' Meeting.

In particular, with regard to the right of each shareholder to take the floor regarding the items on the agenda, Article 6 of the Regulations envisages that those entitled to exercising the right to vote can ask for the floor only once regarding the topics being discussed, presenting observations, requesting information and formulating proposals. The request to have the floor can be submitted at the time the Shareholders' Meeting is held and – unless otherwise stated by the Chairman – until the Chairman himself has not declared the discussion on the topic closed. The terms for such request, for taking the floor and relative order, are established by the Chairman. Considering the topic and the importance of each item discussed, as well as of the number of those requesting the floor and possible questions posed by shareholders before the Shareholders' Meeting which were not answered by the Company, the Chairman predetermines the duration of the reports and the responses – usually not to exceed ten minutes for reports and five minutes for the responses – in order to guarantee that the Shareholders' Meeting can end its activity in a single session. The Chairman and, by his invitation, all those who assist him, respond to the speakers at the conclusion of all the reports, or after each report, taking into consideration also possible questions posed by shareholders before the Shareholders' Meeting which were not answered by the Company. Those that have requested the floor may reply briefly.

Although said Regulation is not included in the Bylaws, it is approved by ordinary meetings under the specific power given to the shareholders by the Bylaws (Article 11.2). The contents of the Regulation have been aligned to the most sophisticated models prepared by trade associations (Assonime and ABI), for listed companies. The "Regulations for Terna S.p.A.'s Shareholders' Meetings" can be found in the Company's website under the section: "Investor Relations/Corporate Governance/Corporate bodies/Shareholders' Meetings".

The Board of Directors reports to the Shareholders' Meeting on the activities carried out and planned during the financial statements approval and regarding the report on management and, with specific reports, provides the shareholders with adequate information in a timely manner, so that they may pass resolutions with full knowledge of the facts; further clarifications, where required, are also provided in response to queries raised by shareholders during the meeting (Article 9.C.2 of the Governance Code). In this regard, the annual Shareholders' Meeting held in FY 2013, called to approve the financial statements for FY 2012, saw the attendance of 5 directors out of 9 and the entire Board of Statutory Auditors. On this occasion, the Chairman of the Remuneration Committee also attended, making a speech (comments to Article 6 of the Governance Code).

As from the date on which the new provisions of the Governance Code come into force, all resolutions passed by the Shareholders' Meeting regarded proposals of the board of directors. Therefore, the basis hoped for under the comment to Article 9 of the Governance Code on the preventive publishing of the proposals to be submitted to the Shareholders' Meeting by the controlling shareholders, has not been seen.

The Shareholders' Meeting is chaired by the Chairman of the Board of Directors, or, in case of his absence or impossibility, by the Deputy Chairman, if appointed, or, in the absence of both, by another person designated by the Board of Directors; should all the above conditions not apply, the Shareholders' Meeting appoints its own Chairman (Article 12.1 of the Bylaws).

The Chairman of the Shareholders' Meeting is assisted by a secretary, even if not a shareholder, designated by those present upon the request of the Chairman, and can appoint one or more vote counters (Article 12.2 of the Bylaws and Article 4 of the Regulations for Terna S.p.A.'s Shareholders' Meetings). The assistance of the secretary, according to the terms envisaged by the Law, is not necessary if the Chairman waives said assistance or when the minutes of the Shareholders' Meeting are prepared by a notary public, even outside cases in which it is mandatory by law (Article 4 of the Regulations for Terna S.p.A.'s Shareholders' Meetings).

The Shareholders' Meeting, unless otherwise stated by the terms envisaged by Article 21.2 of the Bylaws, assigns to the Board of Directors, according to the terms established by the Law, the power to adopt certain resolutions that fall under the Shareholders' Meetings duties that can determine amendments to the Bylaws and resolves on all the topics as established by the Law or the Bylaws (Article 13.1 of the Company Bylaws) according to the indications in the foregoing Section I under the heading: "Company organization".

The resolutions adopted by the Shareholders' Meeting of significant impact on the Company, capable of amending the Bylaws indicated in Article 6.3 of the Company Bylaws are subject to the "special power" of veto by the Ministry for the Economy and Finance until the date on which the regulations for identifying strategic assets provided for by the Golden Power Decree come into force, as mentioned above in Section II "Information on Ownership Structure" in paragraphs "Restrictions in share transfer and shares bearing special powers" and "Bylaws Amendments".

Where not otherwise established by the Bylaws, resolutions for both the ordinary and extraordinary Shareholders' Meetings, are passed with the majorities required by the law in the individual cases (Article 13.2 of the Bylaws). In particular, the Bylaws provide that: (i) for transactions with related parties that have not received a favourable opinion from the competent body, the Shareholders' Meeting resolves, in addition to the majority provided for by law, in the presence of unrelated shareholders, as defined by governing regulations, who represent at least 10% of the share capital with voting rights and with a favourable vote by the majority of said unrelated shareholders; (ii) for urgent transactions with related parties that have been submitted by the Directors for an advisory vote, the Shareholders' Meeting adopts resolutions with the majority provided for by law (Article 13.3 of the Bylaws).

During 2013 – with reference to the regulations for minority rights and compatibly with the regulations and rules for the Company mentioned above – no significant changes were made in market capitalisation of the Company's shares or in the composition of its corporate bodies for which the Board of Directors had to evaluate the opportunity of proposing to the Shareholders' Meeting any amendments to the Bylaws regarding the percentages established for exercising shares and of the prerogatives set for minority protection (Article 9.C.4 of the Governance Code).

The hereby attached two tables summarise some of the most significant information included in the fourth, eighth, tenth, twelfth and fourteenth sections of the document. An "Attachment 1" is also enclosed that includes the description of the "Principal characteristics of existing risk management systems with regard to the financial informative note" (pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance).

Table 1

COMPOSITION OF TERNA'S BOARD OF DIRECTORS AND OF THE COMMITTEES

Position	Name (Last name and first name)	Appointed since	In office until	BoD						C.C.R.		C.R.		R.P.T. Committee		
				List	Exec.	Non exec.	Indep. based on Code	Indep. based on Cons. Law on Fin.	%	Other assignments	X	%	X	%	X	%
Chairman	Roth Luigi	02.11.05	Financial statements 31/12/2013	M		•			100%	3	-	-	-	-	-	-
CEO	Cattaneo Flavio	02.11.05	Financial statements 31/12/2013	M	•				100%	1	-	-	-	-	-	-
Director	Dal Pino Paolo	28.04.08	Financial statements 31/12/2013	M		•	•	•	83,33%	0	X	100%	X	100%	X	100%
Director	Del Fante Matteo	28.04.08	Financial statements 31/12/2013	M		•	•	•	83,33%	1	X	75%	-	-	-	-
Director	Machi Salvatore	16.09.04	Financial statements 31/12/2013	m		•			100%	0	-	-	X	100%	X	100%
Director	Minozzi Romano	13.05.11	Financial statements 31/12/2013	m		•	•	•	50%	1	-	-	X	100%	X	100%
Director	Francesco Pensato	29.07.11	Financial statements 31/12/2013	M		•	•	•	83,33%	1	X	100%	-	-	-	-
Director	Polo Michele	28.04.08	Financial statements 31/12/2013	M		•	•	•	100%	0	X	75%	-	-	-	-
Director	Segni Antonio	13.11.13	Financial statements 31/12/2013	m		•	•	•	50%	2	-	-	-	-	-	-

DIRECTORS WHO RESIGNED FROM THEIR POSITION DURING THE YEAR UNDER CONSIDERATION

Director	Buscarini Fabio	13.05.11	09/07/2013	m					100%		-	-	-	-	-	-
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LEGAL NUMBER NECESSARY FOR SUBMITTING THE LISTS DURING THE LAST APPOINTMENT:

1%

NUMBER OF MEETINGS HELD DURING THE YEAR UNDER CONSIDERATION

BoD	C.C.R.	R.C.	A.C.	E.C.	RPT Committee
6	4	3	-	-	1

KEY

BoD Int. Contr.:	Board of Directors.
EC:	Executive Committee.
AC:	Appointment Committee.
R.C.:	Remuneration Committee.
C.C.R.:	Control and Risk Committee In implementation of the provisions of the new Governance Code of listed companies published by the Corporate Governance Committee promoted by Abi, Ania, Assonime, Assogestioni, Borsa Italiana and Confindustria in the December 2011 edition, the Board of Directors, in the meeting held on December 19, 2012, resolved the necessary adaptations to the competences of the current committees in place; consequently, the Internal Control Committee, already instituted in Terna in accordance with the provisions of the previous editions of the Governance Code, took on the name of the Control and Risk Committee and the related competences indicated by the new provisions of the Code, making no change to the composition. Information on the composition, number of meetings and the percentage attendance, as set sub C.R.C, refers to the total activities of the Committee in FY 2012.
RPT Committee:	Related Party Transaction Committee established for approving the Procedure for Related Party Transactions as indicated by the "Regulations regarding related party transactions" issued by CONSOB with Resolution no. 17221 dated March 12, 2010, as subsequently modified by Resolution no. 17389 dated June 23, 2010 ("CONSOB Regulations for Related Parties").
Position:	indicates whether is Chairman, Deputy Chairman, CEO, etc.
List:	indicates M/m whether the Director was appointed from the majority list (M) or from the minority list (m) or in any case appointed following co-optation.
Exec.:	it is ticked if the Director can be qualified as an executive.
Non Exec.:	it is ticked if the Director can be qualified as a non executive.
Indep. based on Code:	it is ticked if the Director can be qualified as independent according to the criteria of the Governance Code.
Indep. based on Cons. Law on Fin.:	it is ticked if the director has the independence requirements as per Article 148, paragraph 3 of the Consolidated Law on Finance as indicated by Article 147-ter, paragraph 4 of the same Law.
%:	indicates the attendance in percentage terms of Directors at the meetings of, respectively, the Board of Directors and of the Committees (in calculating this percentage the number of meetings was considered which the Director attended compared to the number of meetings of the Board or of the Committee that were held during the year under consideration or after his appointment).
Other assignments:	indicates the total number stated of assignments as Directors or Auditors in other companies listed in regulated markets (also foreign markets), in financial, banking and insurance companies or in large companies, identified on the basis of criteria defined by the Board. In calculating the indicated assignments, those held in subsidiaries, either directly or indirectly controlled, namely Terna's subsidiaries, were not included. When more assignments are held within the same Group, also for a work relation with a company belonging to the Group itself, only the most important assignment is considered. For the list of assignments held by each Director, please see the brief professional resumes included in this Report.
X:	"X" indicates that the Board Director belongs to the Committee.

Table 2

COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors								
Position	Members (Last name and first name)	In office since	In office until	List	Indep. based on Code	%	Number other assignments:	Number assignments in issuers
Chairman	Guarna Luca Aurelio	28/4/2008	Financial statements 31/12/2013	m	•	100%	28	1
Standing Auditor	Gusmeroli Alberto Luigi	13/5/2011	Financial statements 31/12/2013	M	•	100%	8	1
Standing Auditor	Pozza Lorenzo	28/4/2008	Financial statements 31/12/2013	M	•	100%	11	2
Alternate Auditor	Bettoni Stefania	28/4/2008	Financial statements 31/12/2013	m	-	-	-	-
Alternate Auditor	Pizzini Flavio	13/5/2011	Financial statements 31/12/2013	M	-	-	-	-

AUDITORS WHO RESIGNED FROM THEIR POSITION DURING THE YEAR UNDER CONSIDERATION

LEGAL NUMBER NECESSARY FOR SUBMITTING THE LISTS DURING THE LAST APPOINTMENT: 1%

NUMBER OF MEETINGS HELD DURING THE YEAR UNDER CONSIDERATION: 6

KEY

Office:	indicates whether is Chairman, Standing Auditor, Alternate Auditor.
In office since:	indicates the date when the person was first appointed as a member of Terna's Board of Statutory Auditors. All members specified were appointed by the Shareholders' Meeting of May 13, 2011.
List:	indicates M/m whether the Auditor was appointed from the majority list (M) or from the minority list (m).
Indep. based on code:	it indicates "•" if the Auditor can be qualified as independent according to the criteria of the Code.
%:	indicates the attendance in percentage terms of the Auditor at the meetings of the Board of Statutory Auditors (in calculating this percentage the number of meetings was considered which the Auditor attended compared to the number of meetings of the Board that were held during the year under consideration or after his appointment).
Number other assignments:	indicates the total number of assignments as Directors or Auditors in companies as per Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the civil code that are important according to Article 148-bis of the Consolidated Law on Finance. The total number of assignments according to Article 144-quinquiesdecies of the above mentioned Issuers Regulations based on CONSOB resolution no. 17326 dated May 13, 2010, is published by CONSOB and is available on its website www.consob.it .
Number assignments in issuers:	indicates the total number of assignments in issuers, taking into account that, following the amendments to Articles 144-terdecies and 144-quaterdecies of the Issuers Regulation made based on CONSOB Resolution no. 18079 dated January 20, 2012, (published in the Official Journal dated February 7, 2012), the limitations to the total number of assignments and the consequent information obligations to CONSOB shall not be applied for the standing members of the control body holding the position of standing members in the control body of "only one issuer". "Issuers" are defined by Article 144-duodecies, paragraph 1, letter d) of the Issuers Regulation as Italian companies issuing stocks listed in the Italian regulated markets or in other countries of the European Union and in companies issuing financial instruments available to the public in significant amounts pursuant to Article 116 of the Consolidated Law on Finance as defined by Article 2-bis of the Issuer Regulation.

Attachment 1

Principal characteristics of existing risk management and internal control systems with regard to the financial informative process (pursuant to Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Finance)

Introduction

The Terna Group has prepared the “**262 Control Model**” which oversees the preparation of the financial statements in terms of the certifications required by paragraphs 2 and 5 of Article 154-bis of the Consolidated Law on Finance, with the aim of contributing towards the evaluation of the “Internal Control and Risk Management System” (hereinafter the “ICRMS”).

The “**262 Control Model**” must be considered together with the internal control and risk management system, insofar as they are elements of the same “system” described in the “Internal Control and Risk Management System of the Terna Group” guidelines approved by the Board of Directors (last update December 19, 2012). In these guidelines, the ICRMS is recognised as the “set of rules, procedures and organisational structures aimed at enabling the identification, measurement, management and monitoring of the main risks for the running of a business coherently with the business objectives defined by the Board of Directors and encouraging the taking of aware decisions”.

The provisions of Law no. 262 (dated December 28, 2005 subsequently modified by Legislative Decree no. 303 dated December 29, 2006) relative to the ICRMS that oversees the drafting of the financial statement have the principal objective of ensuring that the financial informative note provides a truthful and proper representation of the company’s shareholders’ equity as well as its economic and financial position in compliance with the commonly accepted accounting principles.

On the basis of the provisions envisaged by Article 154-bis of the Consolidated Law on Finance, the ICRMS that oversees the drafting of the financial statements, actively involving all the corporate departments, is focused on the reliability objectives pursued by establishing adequate “accounting administrative procedures” and by verifying their actual implementation.

Definitions of the field of activity (scoping) and of the processes to be analysed are updated by the Executive in Charge (hereinafter referred to as “EIC”) at least once a year in order to analyse, identify and consider the variations that have impacted the ICRMS and integrate/modify accordingly the administrative and accounting procedures.

This update is substantiated in order to guarantee the traceability of activities.

Description of the principal characteristics of the existing risk management and internal control systems with respect to the financial informative process

The analysis approach of the ICRMS that oversees drafting the financial statements adopted by Terna is based on a twofold method of analysis:

Individual Company Analysis

Overall analysis (brief) on the individual companies of the Group with reference to the 5 elements that form the CoSO Report, specifically focusing on the adequacy of financial disclosure. This is mainly an analysis of the infrastructural components of the ICRMS (the supervisory activities carried out by the Board of Directors, by the Control and Risk Committee, by the Board of Statutory Auditors, as well as the Corporate policies and general group policies etc.) conducted in general terms but with a particular focus on the consequences of the quality of the economic and financial information.

The establishment, management and assessment of the ICRMS at the individual company level is to be carried out by those in charge of the various company departments (management) with regard to their respective duties, in line with the structure of the “individual company” being analysed.

The objective of the individual company analysis is to identify any shortcomings in the general control of the individual company that would potentially render ineffective even the best structure of controls overseeing the processes.

The assessment is expressed with a “benchmarking” activity with respect to the reference procedures defined or referred to by official bodies or with the international best-practices adopted by companies similar to the Terna Group.

This method is applied by filling out a check list based on the five components of the control system (Control Environment, Risk Assessment, Control Activity, Information System and Communication Flows, Monitoring), developed in specific control objectives.

Controls are assessed on the basis of the following requirements, where applicable:

- existence of the control tool (organizational structure, legal structure, process);
- adequate communication regarding the existence of the control tool identified for all the bodies referred to;
- understanding on the part of the company's employees of their role and responsibility in implementing the identified control tool;
- appropriate and effective monitoring of the control tool;
- management support in implementing the control tool;
- application, or action undertaken by the management aimed at ensuring compliance with the implemented control tool.

Individual Process Analysis

Analysis of relevant processes by establishing guidelines that define, for each activity, the principal risks on the financial informative note and relative controls aimed at mitigating them.

The individual process analysis allows assessing the action plan and operational level of the controls on Corporate processes and sub-processes on which the financial informative note is based.

The terms for carrying out this analysis are the establishment of administrative and accounting procedures for preparing the financial statement/consolidated financial statements/abridged interim financial statements that include the execution of specific control activities aimed at preventing the occurrence of risks of significant errors in financial statements during the development of the processes.

The process analysis and the subsequent establishment of administrative and accounting procedures requires the selection of "significant processes". For this purpose, it is necessary to carry out specific "scoping" in order to identify both the significant items in the financial statements/financial informative note as well as associate the significant information to the processes.

The relevance of the financial informative note is assessed with reference to the possible consequence that its omission or misrepresentation could determine in decisions made by the individuals who are notified about the note through the financial statements. With regard to the above, quantity parameters are identified, that are normally defined in terms of percentages compared to average income before taxes for the last five financial years, a method that successfully normalises the parameter, as well as quality parameters, namely a risk-based approach, capable of rendering an information relevant, even if the amount is lower than the level of relevance identified.

Identifying significant information is carried out through the combination of quantitative parameters, linked to the level of significance defined for the Terna Group and quality parameters linked to the specific risk for financial statement sections or informative notes.

Identifying quality parameters consists in considering possible "factors" that render significant various calculations, even if these do not exceed the threshold of materiality, by themselves. Investors could demonstrate a certain interest in various calculations in the financial statement that represent an important performance indicator or an important indicator for the sector they belong to.

The association of the information identified as being significant for the relative processes they are based on allows concentrating identification activities on those processes that can determine significant errors regarding the financial information.

Each selected significant information/item in the financial statements must be associated with the processes that contribute to its elaboration, in order to determine the significant processes.

On the basis of quality and quantity parameters, after having defined the significant information and having selected the relevant processes, the EIC establishes the guidelines for "risk activities and controls" that represent administrative and accounting procedures and assesses their adequacy and effective implementing (assessment of their operational level).

For this purpose, the analysis of significant processes occurs through the following operational steps:

- defining and analysing activities that form the processes ("mapping");
- identifying and assessing risks for each activity and their being associated with the control objectives;
- identifying and assessing existing controls;
- assessing the operational level of existing controls.

Analysing activities that form the processes ("mapping") is aimed at clearly identifying the process that creates the data or the comment to be represented in the financial statements, from identifying the initial event that originates it up to its being included in the accounting prospects or in the notes.

Mapping activities that form the processes are functional to the final objective of applying controls along the entire process of data creation or for the notes commenting the financial statements and should be capable of ensuring that the information having an administrative impact is collected, processed and sent correctly and in a timely fashion.

For every process, for mapping purposes and the subsequent association of the risks and controls, the “key” elements must be identified that are useful in identifying existing risks and controls.

The verification of the efficiency of the design and effective operation of the “key” controls is ensured through testing, namely monitoring for the purpose pursuant to Article 154-*bis* of the Consolidated Law on Finance, carried out by a dedicated structure using verification and sampling techniques recognised by international best practices.

Control assessment, where deemed necessary, can involve identifying compensatory controls, corrective measures and improvement plans. The results of these activities are submitted to the evaluation of the Executive in Charge who in turn notifies the company executives.

Roles and Departments involved

The Executive in Charge (“EIC”)

In relation to the responsibilities assigned him:

- annually updates the field of activity and the significant processes considering the factors of change/risk communicated by the Directors of Terna S.p.A. and by the management of the companies that are individually significant;
- prepares the updates to the “262 Control Model” and the “Regulation of the Executive in Charge”;
- establishing and updating adequate administrative and accounting procedures for drafting the separate financial statements, the consolidated financial statements and the condensed interim financial statements;
- reports regularly to the Chief Executive Officer on:
 - a) the activities carried out in order to monitor the effective application of the administrative and accounting procedures and the critical issues that have emerged;
 - b) the corrective action plans defined to overcome the critical issues that have emerged and the results obtained;
 - c) the suitability of the means and resources made available to the EIC and the methods of use;
- ensures, with the collaboration of all Directors, the implementation of corrective action plans and, with the collaboration of the Human resources Management and Organisation, disseminates the administrative and accounting procedures;
- supporting the Directors and the management of the companies that are individually significant in executing operational, control and reporting activities that are part of their specific duties.

The EIC can rely on the assistance of qualified external companies with specialized professional staff for carrying out plan assessment activities and the assessment of the operational levels of controls over administrative and accounting procedures.

The Internal Audit and Risk Management

Are responsible for:

- sending the Executive in Charge the regular reports prepared and the reports prepared against specific needs, regarding the operations and suitability of the ICRMS and to support the Executive in Charge in assessing the correct function of the internal control system and the related risk governance mechanisms, including any IT implementations;
- coordinating with the Executive in Charge in defining the annual audit plan, for the part regarding administrative-accounting processes;
- providing the Executive in Charge with a suitable information flow in relation to the results of the activities connected with the respective audit plans relating to the responsibilities of the Executive in Charge in the shared methods;
- in case of involvement in specific testing activities, ensuring the necessary collaboration and changes in the audit plan and in defining priorities also, if necessary, with the assistance of the administrative body in charge.

Terna S.p.A.'s Directors

Are responsible for:

- coordinating those in charge of individual controls, including of subsidiaries, in executing the controls they are responsible for;
- coordinating individual controls, including of subsidiaries, in establishing and implementing the Action Plan;
- supporting the activities carried out by the EIC and ensure access to all documents/information useful in carrying out his activities;
- preparing and forwarding in the time frames established by the reporting calendar the certifications regarding the control activities and their operational level.

Human Resources and Organisation Director

Is responsible for:

- supporting the EIC in preparing and updating the administrative-accounting procedures;
- supporting the EIC and the Management/Departments of the Terna Group in the correct implementation of the action plans that can give rise to organisational changes. To this end, the EIC is informed in advance in any case on any organisational changes.

Management of the companies that are individually significant

Is responsible for:

- coordinating those in charge of individual controls in executing the controls they are responsible for;
- assessing, in collaboration with the EIC, the ICRMS on the financial disclosure of the company that is individually significant;
- preparing and forwarding, in the time frame established by the reporting calendar, the certifications regarding the ICRMS of the company that is individually significant.

To enable the EIC and the administrative bodies in charge to issue the certificates in compliance with Article 154-*bis* of the Consolidated Law on Finance, it was necessary to define a system of “chain” certificates with the objective of ensuring the adequacy and actual implementation of administrative and accounting procedures drafted as part of the “Model 262”, of preparing and disseminating the Plan for corrective measures, where necessary, and to update such procedures.

The certification, issued to the market with the CONSOB form, is based on a complex evaluation process that includes:

- collecting internal “chain” certificates issued both by the Directors of Terna S.p.A. and by the management of the companies that are individually significant. The existence of a periodic reporting flow allows carrying out the following:
 - periodic assessment of the plan for existing controls and consequent updating of administrative and accounting procedures;
 - assessment of the operational level of existing controls and the subsequent certification of the actual implementation of administrative and accounting procedures;
 - assessment of the shortcomings (absence of control or failure to execute controls) that emerge with reference to their impact on the informative note on the financial statements;
- the assessment of the actual operational level of administrative and accounting procedures carried out by the EIC;
- the final assessment of the adequacy and effective application of administrative and accounting procedures by the CEO and the EIC. This activity is supported by the assessment of the plan for specific controls as well as by that for their operational level as mentioned above. It is therefore carried out overall with reference to the probability that following one or more significant shortcomings an error in the financial statements could occur and with reference to the risk that this error may have been significant. To support the CEO and the EIC in their final assessments concerning the concrete possibility that there is significant error in the financial statements, where one or more significant deficiencies are seen, offset controls and audits can be envisaged, which, if successful, despite the presence of one or more significant deficiencies identified specifically by the lines, enable the CEO and EIC to issue their report without findings; any significant deficiencies highlighted by the assessment process must be notified promptly, together with the results of the offset controls performed by the CEO and the EIC to the Control and Risk Committee, the Supervisory Body and the Board of Statutory Auditors of Terna S.p.A..

Glossary

Connection

Set of grid elements consisting of the transmission line and the stalls at the ends of the same, including the relative circuit sectioning devices. Classification of connections by voltage level is carried out with reference to the nominal voltage. The length of the connection is normally the length of the line constituting the actual link.

Connection line

Any power line that links the power distribution plant with the user's plant, or the power distribution plant with the connection station.

Development

Intervention within the electricity grid involving an adaptation or expansion of the transport, transformation, connection and interconnection capacity, an increase in operating flexibility of the grid or a disposal of grid elements.

Dispatching

Electricity cannot be stored. It is therefore necessary to continuously produce the quantity of energy requested by consumers and deliver it to the National Transmission Grid in such a way as to keep electricity supply and demand in equilibrium, thereby ensuring continuity and security in supplying this service. Management of these flows of electricity along the grid is known as "dispatching".

Frequency

Represents the number of oscillations per second, during which the value of an alternating quantity, such as voltage, varies from positive polarity to negative polarity. It is measured in Hertz (Hz).

Generator

Electrical machine that transforms a source of primary energy into electricity.

Gigawatt (GW)

Unit of measurement equal to one billion watts (1,000 megawatts).

Grid management

The set of activities and procedures that bring about operation and the operating plan, under every condition, of an electrical network. Said activities and procedures include the management of electricity flows, interconnection devices and the necessary auxiliary services, as well as the decisions for maintenance and development measures.

Gross production of electricity

Sum of the quantities of electrical energy produced, measured at the electrical generator terminals.

High voltage

Nominal voltage greater than 35 kV and less than or equal to 220 kV.

High-voltage electricity line

An electricity line is a system that connects two power stations, or a power station and an energy input or withdrawal point. The length of an electricity line (km/line) is expressed as the length of the circuits projection over the ground (geographical length).

High-voltage power station

A transfer power station is the part of the grid used both for dividing electricity among the grid's lines and for transferring electricity among grids with different voltages.

Interconnection line

High-voltage power line in alternating current (a.c.) or direct current (d.c.) which links two different electrical transmission or distribution grids or even two generation plants.

Interconnection of electricity grids

Connection between electricity grids required for the transfer of electricity.

Interoperability of electricity grids

Operating method for the completion of management, operation, maintenance and development activities for two or more interconnected grids, in order to ensure simultaneous and coordinated functioning of the same.

kilowatt-hour (kWh)

Unit of measurement that expresses the quantity of electricity equal to 1,000 watts provided or requested in one hour.

kW

Unit of measurement of power (1 kW=1000 J/sec).

kWh

Unit of measurement of energy.

Maintenance

Measures and intervention aimed at the maintenance or restoration of efficiency and proper functioning of electricity plants, taking into account any declines in performance.

Maximum total transport capacity on interconnection with foreign countries

Maximum transport capacity for importing along the lines of the interconnection grid with the electricity plants of neighbouring countries.

Medium voltage

Nominal voltage greater than 1 kV and less than or equal to 35 kV.

Megavolt-ampere (MVA)

Unit of measurement of the apparent electrical power.

Megawatt (MW)

Unit of measurement equal to one million watts.

National Transmission Grid (NTG)

National electricity transmission grid as defined by the Decree of the Ministry of Industry of 25 June 1999 and subsequent amendments and additions.

Net production of electricity

Sum of the quantities of electrical energy produced, measured at the outgoing points of the production plants.

Operations planning

Preparation of plans and schedules for operation of the electricity system.

Peak power

The highest value of electrical power supplied or absorbed at any point of the system during a specific time interval.

Planning

Definition of the usage plans, for a specific period of time, for the available means of production and transmission, in order to satisfy the energy requirements with respect to quality and continuity of service.

Power station

Part of a grid, concentrated and closed within a specific site, used to distribute electricity among the lines of a grid, transfer electricity among grids at different voltages and transform electricity into the lowest voltage for the user.

Producer

Natural or legal person that produces electricity, regardless of ownership of the generation plant.

Production

Generation of electrical energy, in any way.

RAB (Regulatory Asset Base)

Value of the net capital invested, as recognised by the Italian Authority for Electricity and Gas for transport and distribution companies for the purposes of determining the applicable tariffs.

Requirement

Demand for electrical energy to be satisfied by the national electricity system. It shows a variable trend throughout the day, month and year.

Stall

Set of power plants and accessory systems linked to a power line or transformer that links said elements to the grid with the busbars of a power station.

Switch

Sectioning and manoeuvring device able to carry and interrupt current under normal operating conditions, as well as during specific exceptional operating conditions, such as in the case of short circuits.

Switching station

Part of a grid consisting of the set of equipment used to distribute the electricity among the lines of a grid at the same level of voltage.

Transformation station

Part of a grid consisting of the set of equipment used to transfer electricity between grids with different voltages.

Transformer

Electrical machine used for the connection and transfer of energy between grids at different voltage levels.

Transmission

Electricity transport and transformation activities along the interconnected high- and very-high-voltage grid for the purposes of delivery to clients, distributors and recipients of self-produced energy.

Transmission activity

The activity of transporting and transformation electricity across the grid.

Transmission line

High- and very-high-voltage power line, overhead or cable, used for the transport of electricity from the production plants to the distribution systems or to users.

Unified management of the grid

Coordinated management of all portions of the Grid.

Very-high voltage

Nominal voltage over 220 kV.

Volt

Unit of measurement of voltage.

Watt

Unit of measurement of electric power.

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