2001 Annual Report

Terna
Gruppo Enel

A strong know-how spanning from backbones to corporate networks

We are specialists in the design, construction and maintenance of the most important electricity transmission infrastructure in Italy. The know-how and experience of our people allow us to provide specialist services to medium-size and large companies.

My commitment is to drive the company with increasing enthusiasm towards ever more ambitious achievements.

Sergio Mobili
Managing Director

Terna focus

Terna, an ISO9001 standard certified company, is an Enel Group company holding 94% of the high and very high voltage electricity National Transmission Network (NTN), specializing in the design, construction, monitoring, managing, operation and maintenance of its equipment.

In accordance with the guidelines set by the ISO - Independent System Operator (GRTN - Gestore della Rete di Trasmissione Nazionale), Terna:

- maintains and operates the very high voltage transmission network owned by the company (all 380 and 220 kV power lines and part of 150, 130 and 120 kV lines);
- manages the network through its remote management systems;
- carries out work to develop the network.

Terna operates at the forefront of technological developments and innovation at the most competitive market prices, devoting strong attention to environmental protection issues.

Terna intends to maintain its status as main holder of the NTN and to play an important role in the provision of specialist services for very high and high voltage power lines, the remote monitoring and management of the same, enhancing its know-how in all the sectors in which it has gained significant experience.

Our guiding principles are focus on customer needs and knowledge of the business (professionalism and innovation).

Our mission:

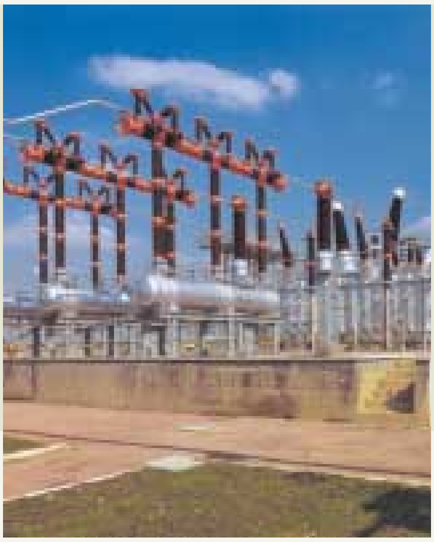
- to ensure the service standards required by the ISO through:
  - efficiency levels in line with the best international practice;
  - the best technologies;
  - the highest safety standards;
  - the highest degree of environmental protection;
- to pursue excellence in the operation and economic management of the company's assets;
- to supply specialist services to large and medium-size companies in the following fields:
  - engineering, operation and maintenance of high and very high voltage power lines;
  - monitoring and management of networks (water, gas, electricity);
  - automation of plant connected to the networks;
- to offer network component supports (antennas, optic fiber, sensors, etc.) and related services to telecommunications companies either controlled by the Group or by third parties;
- to enhance the company's know-how and technological innovation (intellectual property and technological know-how) with the aim of:

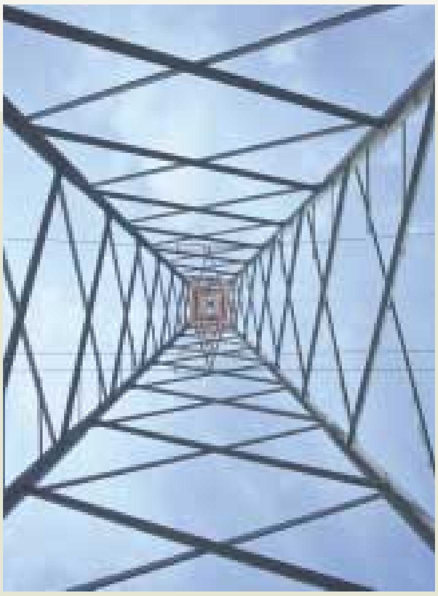
- creating value for its shareholders;
- achieve customer satisfaction;
- achieve professional enhancement.

High voltage cabins

An electricity transport cabin is part of a network, concentrated in a particular site, used to divide electricity among power lines of a network and to transfer electricity among networks having different voltages.

At December 31, 2001, Terna had 268 high and very high voltage cabins distributed throughout the national territory.





High voltage power lines

A power line is a set of equipment that connects two transformer stations or a transformer station and a point of delivery or withdrawal of electricity. It is made up by electric conductors (three conductors for three-phase alternate current, one or two conductors for direct current, etc.), suspension structures (towers, insulators, etc.) for aerial lines, safety lines and other components needed for the electrical and mechanical operation of the structure. A power line usually hosts one or more electrical circuits (single or double three-phase line).
The length of a power line (km/line) is expressed as the length of the projection of the circuits on the ground (geographical length).

At December 31, 2001, Terna had 33,580 kilometers of high and very high voltage power lines.

The Italy-Greece link

In 2001, works for the electricity power line linking Italy and Greece, with a transport capacity of 500 MW of ± 400 kV direct current, were completed.

The power line is about 361 kilometers long, linking the AC to DC converter of Galatina transformer station (Lecce) in Puglia Region, and the DC to AC converter of Arachthos, Greece.

The connection is carried out according to a single-pole design, with the current returning by sea through two marine electrodes, of which the cathode in Italy and the anode in Greece, in addition to a 163 kilometer long underwater direct current cable that crosses the Otranto Channel linking Apulia with Epirus, respectively at Otranto and Aethos, reaching depths of up to 1,000 meters. On the Italian territory, the link is completed by a terrestrial cable (43.5 kilometers in length) laid between Otranto and the Galatina electrical station. On the Greek territory, the link consists of an aerial line (110 kilometers in length) linking Aethos and Arachthos.

The project that represents the link between the Greek electricity grid with the European one, will allow a more efficient operation of electricity systems in the two countries, will favor the linking of electricity systems in all of the Mediterranean Basin. It represents one of the priorities of the European Union that has therefore financed about 40% of the project as part of the REGEN and INTERREG II projects. The Italy-Greece link absorbed a total investment of euro 339 million.

Environmental protection

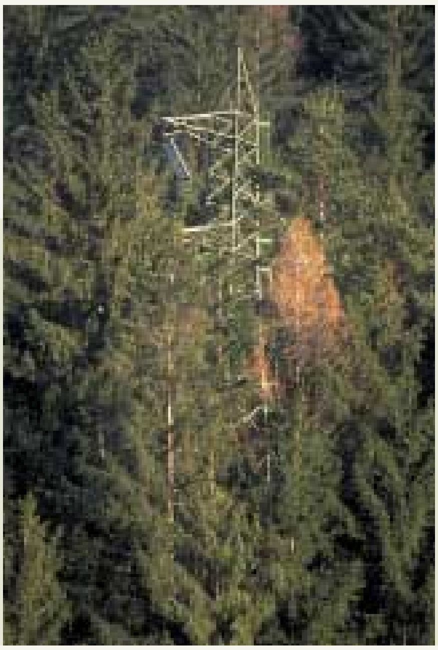
Environmental protection efforts made by Terna, particularly in the construction of new power lines, involved the growing use of new design techniques employed to improve the compatibility of new structures with the landscape, accompanied by the search for new solutions to reduce the visual impact of equipment to be installed.

Plans for the installation of all new equipment are drawn by making use of maps of the terrain obtained through aerial photography, allowing to evaluate with more accuracy the future impact of proposed installation on the territory.

The following projects in the field of transformer station design were developed:

Innovation in the field of transformer stations

- compact 170 kV systems: These are high voltage multi-functional compact systems that make use of innovative but consolidated technology.
- 170, 220 and 380 kV switches and control sections: a new technical standard specific to high voltage switches, bringing it into line with new international IEC standards, was issued in 2001;
- static condenser batteries: A new standard was introduced in 2001 for static condenser batteries, involving high voltage "all-film technology", to be installed in strategic points of the network to regulate voltage;
- diagnostic systems for equipment allowing focusing of maintenance work.



In addition to the use of innovative design techniques aimed at determining the best location of new power lines on the territory, as part of new projects,

Streamlining of the power line network

Terna, in agreement with the ISO - Independent System Operator, has been active in streamlining the network by eliminating where possible existing power lines having a particularly negative impact on the territory.

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Terna
Gruppo Enel

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BOARD OF DIRECTORS AND BOARD OF STATUTORY AUDITORS

Board of Directors

Chairman
Francesco Tatò

Managing Director
Sergio Mobili

Directors
Mario Barozzi
Fulvio Conti

Board of Statutory Auditors

Chairman
Giovanni Ferreri

Auditors
Bruno Franceschetti
Giancarlo Russo Corvace

Substitute Auditors
Daniela Gallucci
Fabrizio Orazi

Independent Auditors
Arthur Andersen SpA

NOTICE OF MEETING

The Meeting of Shareholders of Terna SpA is called on March 12, 2002 at 11:30 a.m. at the Parent Company Enel SpA registered office in Rome, viale Regina Margherita no.137, on first call, to discuss and resolve on the following items of the

AGENDA

Ordinary business:

1) Financial Statements for the fiscal year ended December 31, 2001. Report of the Board of Directors and Board of Statutory Auditors. Related resolutions.
2) Appointment of independent auditors.
3) Appointment of chairman and members of the Board of Directors, determination of their number, term of service and related compensation.
4) Appointment of chairman and members of the Board of Statutory Auditors and related resolutions.

Extraordinary business:

1) Amendment to the By-Laws

Francesco Tatò
The Chairman of the Board

Published in the Official Gazette (*Gazzetta Ufficiale)* of the Italian Republic no. 44, February 21, 2002.

ORDINARY SHAREHOLDERS' MEETING RESOLUTIONS

The Shareholders' Meeting of Terna SpA, held on March 12, 2002 and attended by the Board of Directors and the Board of Statutory Auditors, in addition to the representative of the sole shareholder, Enel SpA, resolved the adjourning of the Meeting with regards to items 1 and 2 in the ordinary business agenda.
Subsequently, on March 26, 2002, the Meeting resolved the following regarding item 1 in agenda.

- the approval, after the presentation of the Report of the Board of Directors, the Board of Statutory Auditors and Independent Auditors, of the Financial Statements at December 31, 2001;
- the allocation of the Net Income amounting to euro 67,992,483.92 as follows:

1) euro 3,399,624.20 (equal to 5%) to be accrued to the Legal Reserve;
2) euro 42,767,620.27 to be accrued to the Provision for accelerated depreciation;
3) euro 6,718,965.00 to cover the cost of dividends already distributed in 2001;
4) euro 15,066,400.00 as additional amount to be distributed as dividends;
5) euro 39,874.45 accrued to Retained earnings.

On April 9, 2002 the Meeting resolved with regards to item 2 in agenda, the appointment as independent auditor for the years 2002–2004 of independent auditors KPMG SpA.

REPORT ON OPERATIONS

REPORT ON OPERATIONS

In fiscal year 2001 Terna SpA pursued its core activities consisting of managing, maintaining and developing high and very high-voltage electricity networks.
A decree of the Ministry of Industry issued on December 22, 2000 established a convention scheme regulating relationships between Gestore della Rete di Trasmissione Nazionale (the Independent System Operator, ISO) and network owners. Negotiations with the Authorities to define an Operating Convention between Terna SpA and the ISO are still underway.
Through resolution no. 304 of 2001, Italy's Authority for Electricity and Gas (the "Authority") approved "fi" parameter values for the fixed annual component of electricity transport fees for individual network segments.

In 2001, Terna SpA expanded diversified business activities in unregulated environments, thanks to the use of assets and know-how accumulated by company personnel in high-voltage plant operation, maintenance and installation, addressed to affiliated companies as well as clients external to the Enel Group. In 2001 the Company entered into an agreement with Enel Distribuzione, based on which Terna SpA will handle operation and maintenance of Enel Distribuzione's entire high-voltage network.

Enel Distribuzione owns a high-voltage (ranging from 150 to 130 to 60 kV) network which currently covers about 20,777 kilometers.
Terna SpA owns high-voltage networks that are part of the National Transmission Network (NTN) and is in charge of maintenance of the same. Hence, as part of initiatives aimed at developing synergies among Enel Group companies, Terna SpA acquired from Enel Distribuzione the corporate division that handles maintenance and operation of high-voltage lines - including activities currently involving the fiber optic network running alongside the same - while maintaining ownership of the network itself. To this end, Terna SpA entered into a contract according to which it becomes responsible for the operation and maintenance of the high-voltage network owned by Enel Distribuzione.
The acquisition of Enel Distribuzione's corporate division handling high-voltage network maintenance was approved by Terna SpA's Board of Directors on April 5, 2001 and became effective June 1, 2001. In addition to the sale of the assets involved, the transaction resulted in the transfer of 455 employees.
Asset and liabilities items involved in the acquisition included:

- liabilities strictly connected to operations that have been transferred to Terna SpA (contingency funds, employee termination indemnity provisions, retirement benefits and similar obligations, payments to Social Security institutions for a total amout of euro 12.7 million and related assets (consisting primarily of advances on taxes related to the employee termination indemnity and receivables for loans to employees) totaling about euro 1.3 million;
- equipment worth about euro 3.2 million;
- cash transferred to the seller against the net amount payable to personnel, totaling about euro 11.5 million.

The sale's value totaled euro 3.2 million, an amount that reflects the value of equipment sold in the transaction.

In May 2001, Terna SpA successfully completed the conversion of its accounting system from lire to euro.

OPERATING AND FINANCIAL REVIEW

Fiscal year 2001 closed with net after-tax profit of about euro 68 million, after depreciation on fixed assets amounting to about euro 283.1 million (of which euro 235.4 million of ordinary depreciation and euro 47.7 million in excess of ordinary charges), net financial expenses amounting to euro 41.6 million and taxes amounting to euro 38.6 million.

Accelerated depreciation totaling 42.7 million euro was taken into account to calculate the 2001 tax amount.

Total revenues amounted to about euro 805.3 million, of which euro 763.3 million represented by revenues from the sale of goods and services, relating primarily to receivables from the use of the NTN. Based on the value of "fi" parameters for the annual fixed component of electricity transport fees relating to individual network segments established by the Authority through resolution no. 304/01, revenues from the use of the network amounted to euro 708.7 million. At December 31, 2001, amounts invoiced totaled euro 466 million, of which euro 393 million were already collected.

Operating costs amounted to about euro 618.8 million, of which euro 164.5 million represented by personnel costs.

Net extraordinary revenues and expenses, amounting to about 38.2 million euro, can be referred in large part (35.6 million euro) to the Company provision to the electricity sector pension fund.

Taxes on income, equal to euro 38.6 million, include IRPEG (corporate income taxes) amounting to euro 5.4 million, IRAP (local) taxes amounting to euro 13.4 million, tax prepayments amounting to euro 3 million and deferred taxes amounting to euro 16.8 million.

Net fixed assets at the end of the year amounted to euro 3,305 million while net capital employed was equal to euro 2,988 million, of which Shareholders' Equity covers euro 2,381 million (79.6%, against 79.5% as of December 31, 2000) and net financial debt accounting for euro 606.9 million (20.4%, as compared with 20.5% at December 31, 2000).

A Reclassified Income Statement for 2001 is included below:

In millions of euro	Dec. 31, 2001	Dec. 31, 2000	Change
NTN usage fees	708.7	708.6	0.1
Other sales and services	54.6	31.7	22.9
Change in contract work in progress	0.2	14.8	-14.6
Other revenues	29.2	15.5	13.7
Total revenues	**792.7**	**770.6**	**22.1**
Personnel costs	164.5	154.1	10.4
Leases and rentals	129.4	113.6	15.8
Materials	14.4	21.0	-6.6
Other costs	16.9	14.5	2.4
Capitalized costs	-12.5	-9.9	2.6
Total operating costs	**312.7**	**293.3**	**19.4**
GROSS OPERATING MARGIN	**480.0**	**477.3**	**2.7**
Fixed asset depreciation	235.4	224.8	10.6
Accruals and write-downs	10.5	5.1	5.4
Total depreciation and accruals	**245.9**	**229.9**	**16.0**
OPERATING INCOME	**234.1**	**247.4**	**-13.3**
Net Financial Income (expense)	-41.6	-44.9	3.3
Income before Extraordinary Items and Taxes	**192.5**	**202.5**	**-10.0**
Extraordinary items	-38.3	-34.6	-3.7
Additional depreciation	47.7	47.7	0.0
Income before Taxes	**106.5**	**120.2**	**-13.7**
Income taxes	38.6	61.5	-22.9
NET INCOME	**67.9**	**58.7**	**9.2**

A comparison with the previous fiscal year shows a slight increase in gross operating margin, equal to about euro 2.7 million, due primarily to:

- an increase in other revenues from the sale of goods and services amounting to about euro 23 million, generated by:
  - proceeds from the agreement with Enel Distribuzione for the sale of the corporate division handling maintenance of high-voltage networks;
  - increased contributions generated by the completion of a number of important projects (Edison Marghera, ILVA Taranto, Italy-Greece link);
  - higher revenues from diversified activities;
- an increase in operating costs amounting to about euro 19.4 million, generated by:
  - an increase in personnel costs resulting from the transfer of 455 employees from Enel Distribuzione, effective June 2001, as well as from expenses incurred for contract renewals for electricity industry workers;
  - an increase in costs related to external resource acquisitions, primarily due to higher inter-company costs - with particular reference to services provided by WIND relating to RIAM and Integrated Control and Management System (ICMS) connections - and expenses incurred in managing Enel Distribuzione's high-voltage network.

Operating income posted a decrease of about euro 13.3 million, resulting from higher costs related to fixed asset depreciation for new plants, and to higher provisions.

Financial expense decreased by about euro 3.3 million, due mainly to:

- an increase in interest income from correspondent accounts with the holding company (euro 4.8 million);
- a decrease in interest expense generated by the lower amount of debt transferred from Parent Company Enel (euro 3.9 million);
- an increase in interest expense related to a loan obtained by EIB (European Investment Bank) in July 2001 (euro 5.4 million).

Extraordinary expenses went up to about euro 3.7 million, due to higher provisions made to the Electricity Sector Employee Pension Fund caused by an expansion in personnel, resulting from the transfer of employees from Enel Distribuzione.

Taxes decreased by about euro 22.9 million, primarily due to the application of tax-saving measures.

Terna SpA's Reclassified Balance Sheet at December 31, 2001 is provided below:

In millions of euro	Dec. 31, 2001	Dec. 31, 2000	Change
Tangible and intangible assets	3,293.2	3,407.4	-114.2
Long-term financial assets	11.8	10.9	0.9
Total fixed assets, net	**3,305.0**	**3,418.3**	**-113.3**
Trade receivables	376.3	142.2	234.1
Inventories	15.2	14.8	0.4
Other assets and net receivables	11.2	11.9	-0.7
Trade payables	206.2	114.9	91.3
Taxes payable	-8.6	49.5	-58.1
Other liabilities	255.6	256.6	-1.0
NET CURRENT ASSETS	**-50.5**	**-252.1**	**201.6**
GROSS CAPITAL EMPLOYED	**3,254.5**	**3,166.2**	**88.3**
Employee termination indemnities	73.1	66.9	6.2
Retirement benefits	40.2	36.0	4.2
Net deferred taxes	128.1	110.9	17.2
Other provisions	24.9	33.2	-8.3
Total provisions	**266.3**	**247.0**	**19.3**
NET CAPITAL EMPLOYED	**2,988.2**	**2,919.2**	**69.0**
Shareholders' Equity	2,381.3	2,320.0	61.3
Total financial debt	606.9	599.2	7.7
TOTAL	**2,988.2**	**2,919.2**	**69.0**

Main reclassification criteria are summarized below:
- amounts applicable to the Parent Company and to subsidiaries have been recorded under related items (e.g., Trade receivables and payables);
- tax receivables were netted out in the deferred tax provision;
- payables to the Parent Company for the transfer of the liability towards the Enel Employee Pension Fund were recorded under the Provision for retirement benefits.

Fixed assets decreased, due primarily to the dynamics of depreciation and investment items, while a related increase in trade receivables can be ascribed to delays in the ISO's payments to Terna SpA for use of its portion of the NTN.
Trade payables increased, due to a concentration of investments in the latter part of the year.
Net tax liabilities declined, mostly as a result of an increase in IRPEG advances paid in 2001.
Employee termination indemnities increased as a result of the acquisition of Enel Distribuzione's corporate division, while an increase in the Provision for retirement benefits can be ascribed to lower use of funds with respect to accruals.
For a more accurate evaluation of gross capital employed, it is important to note that the net value of technical fixed assets includes accumulated depreciation in excess of ordinary depreciation, recorded up to the maximum amount allowed for tax purposes. Therefore, on total provisions amounting to euro 503 million, gross capital employed net of these tax elements would be about 3,757 million euro.
The deferred tax provision increased due to accruals for accelerated depreciation made in 2001, while a reduction in Other provisions can be

ascribed to use of the Provision for risks and charges to cover expenses related to early retirement incentives.

A Statement of Cash Flows for fiscal years 2001 and 2000 is provided below:

In thousands of euro	2001	2000	Change
A) FINANCIAL DEBT (-) NET SHORT-TERM FINANCIAL ASSETS (+)	**57,770**	**20,616**	**37,154**
Cash and banks	61	-144	205
Intercompany current account balance	57,709	20,760	36,949
B) CASH FLOW FROM OPERATIONS			
Net Income	67,992	58,695	9,297
Amortization and depreciation	283,127	272,523	10,604
Net write-downs (revaluations)	976	5,090	-4,114
Net change in provisions	5,886	16,846	-10,960
Net change in Employee Termination Indemnities	6,129	-711	6,840
Loss (capital gain) on disposal of assets	-391	2,536	-2,927
Cash generated by operations	**363,720**	**354,980**	**8,740**
Changes in current assets:			
- (Increase) decrease in current receivables	-240,390	1,993	-242,383
- Increase (decrease) of trade and other payables	42,623	-57,349	99,972
- Change in other Balance Sheet items	27,629	5,411	22,218
Total B) - Operating cash flow	**193.582**	**305,035**	**-111,453**
C) CASH FLOW FROM INVESTING ACTIVITIES			
Investments in:			
- Intangible assets			0
- Tangible assets	-190,951	-219,333	28,382
- Other long-term financial assets	117	419	-302
- Change in equity investments	-968	-591	-377
Total C)	**-191,803**	**-219,505**	**27,703**
D) CASH FLOW FROM FINANCIAL ACTIVITIES			
New medium- and long-term debt	250,000	0	250,000
Repayment of medium- and long-term debt	-56,947	-37,848	-19,099
Dividends	-6,719	-10,528	3,809
Total D)	**186,334**	**-48,376**	234,710
E) CASH FLOW GENERATED IN THE YEAR	**188,113**	**37,154**	**150,959**
F) FINANCIAL DEBT (-) NET SHORT-TERM FINANCIAL ASSETS	**245,884**	**57,770**	**188,114**
Cash and banks	65	61	4
Intercompany current account balance	245,819	57,709	188,110

Cash flow from operations
About euro 194 million of liquidity was generated in 2001, as compared to about euro 305 million in the previous fiscal year.
Cash flow before changes in net current assets was about euro 364 million, increasing by about euro 9 million over 2000, due mainly to:
- an increase in depreciation, related to new plants that went into operation in 2001;
- a net increase in provisions;
- higher Net Income.

Net current assets on the other hand were down about euro 1,000 million as compared to the previous fiscal year, due primarily to an increase in receivables from the ISO, offset by an increase in trade payables.

Cash flow from investing activities
In 2001 cash employed in investing activities decreased by about euro 28 million, due in part to savings generated by e-procurement.

Cash flow from financial activities
Financial debt showed an increase of about euro 235 million, resulting from:
- new EIB loans amounting to euro 250 million;
- higher repayments of medium- and long-term loans.

Cash flow generated in the year
Cash flow generated in the year increased by about euro 151 million as compared to the previous year.

CAPITAL EXPENDITURE AND ENVIRONMENTAL IMPACT

In 2001 capital expenditure amounted to euro 190.95 million. The breakdown of capital expenditure by type of plant is shown below:

Total capital expenditure	2001	2000
- Power lines	56.21	59.08
- Transformer stations	126.06	132.92
- Other	8.68	27.33
Total capital expenditure	**190.95**	**219.33**

Other capital expenditure includes primarily investments related to the Integrated Control and Management System (ICMS).

Highlights of projects completed by Terna SpA in 2001 are provided below:

- ICMS Integrated Control and Management System
- Galatina station as part of the 400 kV Italy - Greece link
- 220 kV Doganella - Napoli connection
- Completion of the 220 kV Taranto ILVA station
- Restructuring of Foggia station
- Restructuring of Sondrio station
- Upgrade of Porto Tolle station
- Restructuring of Baggio station
- Restructuring of Poggio a Caiano station
- Upgrade of Villabona station
- Benevento II - Montefalcone line
- Malpensata secondary cabin - Boccaleone primary cabin line
- Bulciago - Soazza line

Highlights of main projects underway are described below.

E-NET project

Backbone - Phase C extensions required were completed in the first half of 2001, resulting in a 190-kilometer network extension.
Pursuant to contract signed with Enel.it on July 26, 2001 Terna SpA will build an additional 250 kilometers by December 31, 2001.
At December 31, 2001, the fiber optic network extended over 9,160 kilometers on power lines owned by Terna SpA and in part by Enel Distribuzione.
In 2001, the addition of about 45 kilometers of lines to be constructed in the first half of 2002 was resolved, in addition to further 85 kilometers to be constructed on demand.
Finally, additional work totaling about 40 kilometers was planned for future expansion.

Italy - Greece connection

Work for the construction of a direct current connection between Italy and Greece able to carry 500 MW of direct current ±400 kV was nearly completed in 2001.
The connection is carried out according to single-pole design, with the current returning by sea through two marine electrodes, of which the cathode in Italy and the anode in Greece, in addition to a 163 kilometer long underwater direct current cable that crosses the Otranto Channel linking

Puglia Region with Epirus, respectively at Otranto and Aethos, reaching depths of up to 1,000 meters.
On the Italian territory, the link is completed by a terrestrial cable (43.5 kilometers in length) laid between Otranto and the existing Galatina electrical station which houses a plant transforming alternate current to direct current.
On Greek territory, the link consists of a direct current aerial line (100 kilometers in length) linking Aethos and Arachthos, linked further by two alternate current lines to the Trikala (110 kilometers) and Acheloos (80 kilometers) stations.
The project represents the link between the Greek electricity grid with the European one, allowing a more efficient operation of electricity systems in the two areas, favouring the linking of electricity systems in all of the Mediterranean Basin. It represents one of the priorities of the European Union that has therefore financed about 40% of the project as part of the REGEN and INTERREG II projects. The Italy-Greece link absorbed a total investment of euro 339 million.
The project is in provisional operation since the end of December 2001.
Terna SpA, which owns 75% of the project, has contracted its construction to Enel Power, supervising and coordinating activities, managing relationships with the European Commission on matters of financing, and those with Greek energy authorities as part of bilateral relations.
At December 31, 2001, work on the Italian side was 100% complete. The land cable was laid in 2000, followed by completion of the Galatina conversion station, provisionally in operation since December 2001. Minor work to complete a conversion station at Arachthos is currently underway.

Measures taken to reduce environmental impact

In building new electricity lines, Terna SpA has taken initiatives to reduce the environmental impact of new installations through innovative design aimed at ensuring minimal impact on the landscape, accompanied by ongoing research for new technological solutions aimed at reducing or mitigating the visual impact of installations.
Plans for the installation of all new equipment are drawn by making use of maps of the site obtained through aerial photography, allowing to evaluate with more accuracy the future impact of proposed installation on the territory.
The same mapping system will be used to submit plans for new projects to local authorities - as early as the initial planning stage - who will therefore be able to contribute to the design and help to improve key aspects relating to environmental issues, landscaping and visual impact.
In addition, in 2001 Terna SpA continued to develop the engineering design of contest-winning power line pylons (De Lucchi and Foster design) in the context of the “Support the environment” international competitions, setting technical specifications, drafting executive drawings and making prototypes of the supports, in line with research conducted by architects De Lucchi and Foster.
Based on agreements reached with Lombardy regional authorities and Italy’s Environment Minister, Terna SpA began construction of an alternate segment for the 380 kV Gorlago - S. Fiorano power line situated in Capo di Ponte and the Concarena park.
In addition, the Company engineered solutions to reduce magnetic fields generated by power lines. A first application was implemented in Genoa, consisting in the adoption of a metal shielding in compliance with limits set by Liguria regional regulations.

Streamlining of electric power network

In addition to the use of innovative design techniques aimed at determining the best location of new power lines on the territory, as part of new projects, Terna SpA, in agreement with the ISO, has been active in streamlining the network by eliminating where possible existing power lines having a particularly negative impact on the territory.

Main projects in 2001 included:
- a plan prepared in the context of a project to build a new 380 kV line connecting Laino and Rizziconi, a fundamental segment allowing to complete the 380 kV loop in the Calabria Region, for which authorization is pending. According to the plan, a 35-kilometer segment of the new line running inside the Pollino Natural Park and the existing 380 kV line connecting Laino and Rossano 2 will be merged into a single pylon structure. This will involve the dismantling of a segment of equal length, located in an area of greater scenic value;
- Terna SpA elaborated a project in accordance with a protocol of understanding reached with the Tuscany Region, providing for relocation of the existing high-voltage network in an area situated between the Calenzano station (Florence Province) and a plant under construction at S. Barbara (Arezzo Province). The project involves the dismantling of the area's entire 220 kV network, the transfer of a number of 132 kV line segments underground, and, most importantly, the rebuilding, as a simple three-phase line - with lower and less visually obtrusive supports - of a segment of the existing "Raccordi di Tavarnuzze" double three-phase power line located in the scenic Chianti hills. Authorization applications and environmental impact studies for these power lines have been submitted to the Tuscany Region.

Legal issues

Legal action involving Terna SpA on environmental matters relates to power plant installation and operation, whose key environmental issue relates to the effects of electric and magnetic fields.
Law no. 36 of February 22, 2001 calls for protection from exposure to electric, magnetic and electromagnetic fields. Pursuant to this law, decrees will subsequently be issued by the President of the Council of Ministers establishing parameters (exposure limits, levels, thresholds of concern and quality targets) relating to electrical equipment in operation. As these decrees have not yet been issued, the law's impact on current legal proceedings is still limited to general principles.
Terna SpA was a party in a number of civil and administrative proceedings requesting the transfer or changes in the operation of power lines, based on allegedly hazards posed by such lines, even though in almost all cases the equipment was installed in full compliance with existing laws.
Only in a very limited number of cases have claims, for health related damages caused by electromagnetic fields, been filed.
Regarding decisions taken on the matter, only sporadically have there been pronouncements unfavorable to the Company, while no health damages have ever been granted.
Finally, it is important to note that the ISO is, along with Terna SpA, a party in an increasing number of these legal proceedings, as the ISO is entrusted by law with all matters regarding to energy flows transiting on the network owned by Terna SpA.

Station innovation

The following projects were implemented as part of power station installations:

- Compact 170 kV systems: these are compact, high-voltage multifunction systems based on innovative but consolidated technologies. They offer many advantages in terms of their reduced size, fewer civil works requirements, faster testing and installation speed, lower maintenance expenses, and reduced environmental impact.
  In 2001 the Company reviewed requirements in compliance with technical standards issued by the ISO. Subsequently, it purchased equipment to be installed as a priority in the Vellai and Pietrafitta plants where, due to insufficient space and the need to limit power supply disruptions, this type of equipment holds special advantages compared to conventional solutions. Product certification has been completed and delivery of materials is currently expected.

- 170, 220 and 380 kV switches and control sections: a new technical standard specific to high voltage switches, bringing it into line with new international IEC standards, was issued in 2001. New specifications define better the equipment's operating standards to ensure compliance with requirements set by the ISO. On the other hand, the producer is given responsibility for manufacturing details, partly with the aim of encouraging the use of innovative, market-based technologies and solutions. In 2001, this resulted in an expanded pool of suppliers and sharper focus on market products, which led to major reductions in supply costs. The equipment acquired by the Company is more reliable and performs better, especially in terms of lower costs over the equipment's full life cycle.

- Static condenser batteries: a new operating standard was adopted by the Company in 2001 for static condenser batteries to be installed in strategic points of the network to regulate voltage. The new specification, which complies with international regulations, provides for equipment to be built using an "all-film technology", technology, in materials lacking dedicated elements, imbued with non-polluting, environment-friendly substances to prevent harmful spills effects. In addition, the new systems are characterized by smaller dimensions than those previously in use, quicker installation and lower maintenance requirements.

- Definition of new criteria for plant upgrades: new upgrading criteria were defined for power plant management, involving primarily the following:
  - review of plant's technical status, based on appropriate criteria; an analysis is conducted on all plant components and equipment;
  - identification of targeted actions for each component and actual technical conditions;
  - assessment of malfunction costs;
  - optimal planning of actions, also with respect to profitability.

- Setting of new maintenance criteria: within the context of implementation of ISO 9001 procedures, new maintenance criteria were set following new control procedures for all plant components.

- MBI launch: models for the automatic identification of maintenance activities based on information gathered through operation and controls were defined for all equipment and machinery. In cooperation with CESI, the Company launched MBI for autotransformers and switches.

PLANT AND EQUIPMENT

The table below shows the breakdown of plants owned by the Company:

	Dec. 31, 2001		Dec. 31, 2000	
	N.	km	N.	km
Stations	268	-	261	-
Transformers	550	-	548	-
Bays	3,649	-	3,588	-
Lines		33,580	-	33,626
Three-phase lines	1,786	37,218	1,755	3,216

The increase in stations is due primarily to electricity delivery points / linkages with producers other than Enel Group companies, while the increase in three-phase lines is due mainly to the construction of new connections and the abandonment of segments no longer usable.

RELATIONS WITH RELATED PARTIES

All relations with Enel Group companies are governed by specific contracts stipulated among the various parties involved.
Contracts stipulated with the Parent Company generating expenses for Terna SpA relate primarily to:
• quotas of mortgages, financing and the Employee Pension Fund;
• provision of institutional or on-demand assistance and consulting services;
• communications services.

For what concerns other group companies, contracts generating expenses relate primarily to:
• operation of corporate canteens (Sei SpA);
• rental of corporate vehicles (Sei SpA);
• rental of residential real estate (Sei SpA);
• supply and management of data processing services (Enel.it SpA);
• plant construction (Enelpower SpA);
• supply of telephone and telecommunications services (WIND SpA);
• personnel training services (Sfera SpA);
• research (CESI SpA);
• human resource management services (Ape SpA);

while contracts generating revenues relate to:
• operation and maintenance of high-voltage network (Enel Distribuzione);
• upgrade of the electricity generation control system (Enel Produzione SpA, Elettrogen SpA);
• laying and maintenance of fiber optics (Enel.it);
• housing activities (WIND, through an outsourcing contract with Sei).
Related operating and Balance Sheet items are commented in the notes to the Financial Statements.

HUMAN RESOURCES AND TRAINING

The table below shows the breakdown of employees by category.

Terna SpA personnel at year-end	Dec. 31, 2001	Dec. 31, 2000	Change
Total	**3,214**	**3,001**	**213**
Managers	25	25	0
Officers	225	216	9
Employees	1,506	1,497	9
Workers	1,458	1,263	195

Data for 2000 and 2001 is net of terminations for each year (amounting to 177 in 2001 and 107 in 2000).
Personnel grew in 2001 due to the transfer of 455 employees from Enel Distribuzione, partly offset by retirement and other personnel outflow.

In 2001, following an evaluation of personnel qualifications and potential for advancement, conducted on a part of Human Resources in the previous year, the Company held a series of training courses and staff development initiatives.
For personnel entrusted with important managerial/operating and professional responsibilities (some company executives and all managers), the Company carried out training in common fields. Training was aimed at the development, at the level required for each position, of process management techniques, problem solving, managerial communications and human resource management, the latter with particular in-depth treatment of coaching as an instrument to promote employees' professional growth.
Professional resources, already identified as "talents" through an earlier assessment, participated in a staff development project aimed at building management competencies, with particular reference to relationship and management capabilities (teamwork, creativity and innovation, change management, etc.) through group training as well as individual counseling.

The Company made significant investments in training activities aimed at developing core competencies and Information Technology and Innovation destined primarily to personnel in operating areas and holding technical positions. The Company developed training programs aimed at rehiring former shift workers, blue collar workers, company employees and programs to retrain former Enel Distribuzione personnel transferred to the Company in 2001.
Intensive training supported the introduction of a quality management system.

On the theme of security, the Company concentrated its efforts on updating technical and blue-collar personnel in the field of new procedures to prevent electric risk; and training for work on live lines at the Viverone center.
Operating personnel was involved in regular training sessions on safety and working methods, held at different operating facilities.

Through the use of EDLS, the Enel Group's new long-distance training system launched in early 2001, two general staff training campaigns were carried out: the first to raise awareness on behavior to be adopted for security and handling of personal data; the second to support the adoption of the euro. Other courses available on EDLS were used to integrate learning and traditional training.

In sum, training activities in 2001 involved 11,599 participants, of which 1,548 through EDLS and 6,615 involving workers.

In the latter part of 2001, the Company conducted a survey among all first and second-level personnel, executives and heads of operating groups, in addition to a significant sample of white- and blue-collar employees.
The survey's objective was to assess perceptions, judgments and orientations of people with regard to changes that occurred in the Company, in order to gain insights for internal communications plans and training in 2002.

RESEARCH

In the area of research, Terna SpA cooperates with CESI SpA, an Enel subsidiary in which Terna SpA holds an equity interest.
Major projects in 2001 relate to the following:

- development of new technologies to monitor technical conditions of high-voltage equipment and transformers;
- research on specifications of new types of high-voltage cables to be manufactured in XPLE;
- technical specification of insulators for high-voltage electricity lines made in composite materials;
- definition of an online monitoring and diagnostic system of stationary lead batteries for stations;
- study of electric and magnetic fields in transmission plants, with the development of new calculation models for stations;
- technical support on problems relating to electric and magnetic fields.

GROWTH AND INNOVATION

Throughout 2001, Terna SpA placed particular emphasis on growth and innovation, focusing on the following:

- e-procurement and Internet-based technologies for purchasing activities;
- ISO 9001 certification;
- launch of a new Internet portal and a new intranet for Terna;
- launch of Balanced Scorecards;
- initial implementation of MBI;
- station automation;
- restructuring of Engineering and Plant Operation areas (November 2001).

E-Procurement and Internet-based technologies for purchasing activities

Terna SpA's purchasing activities in 2001 featured the implementation of key objectives within the e-procurement and BAP projects, both of which are Internet-based.

Through e-procurement, Terna SpA worked to achieve, in the immediate term, concrete reductions in time spent on bidding procedures, and in prices of goods and services supplied to the Company. In the 48 online auctions held in 2001 the Company obtained significant results, with extremely strong economic benefits: total savings totaled euro 8 million (a 12% reduction on benchmark prices) while negotiation time was cut to 4 days from a previous average of 41 days.

In addition to online bidding, aimed to e-procurement Terna launched the Enel.it portal for supplier identification - aimed to new supplier searches and expansion of suppliers participating in bids - and for eligibility, to expedite and render more efficient supplier eligibility procedures.

E-procurement implementation also translated into a significant positive contribution to Terna SpA's image, portraying the Company as a clear, balanced and direct commissioner. Terna SpA has therefore acquired an additional tool to demonstrate transparency in competition procedures.

In 2001 the Company also launched BAP project activities, for procurement of material that was acquired until recently through a simplified procedure known as *Buoni di Acquisto su Piazza*.

Two new instruments were created: Internet catalogue purchases, essentially for electric materials and appliances, and traditional general contracts, now managed on the Internet, for office supplies, computers and similar goods.

Catalogue purchases through two multiproduct, multibrand vendors (Elettroclick and Distrelec) amounted to euro 444,000.

Through these contracts, Terna SpA was able to rapidly acquire materials from a catalog through direct Internet access to the supplier, based on pre-set contractual supply terms that allow to select the location for the delivery of goods. Prices, billing terms and other procurement conditions are contractually defined, with favorable conditions applying to larger volumes, to which however Terna SpA is not bound. With regards to materials for consumption, the Company activated general contracts which will in the future be managed through the Internet.

ISO 9001 certification

On January 31, 2001 Terna SpA - along with its operating headquarters in Italy - obtained CSQ certification for the following activities:

- planning, implementation, operation, maintenance, specialized services and related support activities for high-voltage networks and related plants;
- planning, implementation, and maintenance of network remote operation and control systems.

As an activity downstream from certification, the Company planned monitoring and verification actions aimed at assessing the impact of procedures on organizational systems, in order to gain insights into ways of improving the system itself.
Internal verifications showed a full implementation of the Quality System in central and regional operating facilities, both as a result of a new management culture and the application of procedures.
Further confirmation of compliance with certification was provided by an external verification conducted by the CSQ supervisory authority in September 2001.

Launch of new Internet portal and new Terna Intranet

Terna SpA's portal was initially released on November 30, 2001 on a pilot basis in three national operating areas.
The portal's main institutional functions are the following:

- publishing tool;
- online services;
- interactive infrastructure;
- e-procurement.

At the end of 2001 the Company began implementing "virtual inventories" and test-marketed the portal with selected clients.
Terna SpA's new Intranet was launched on November 26, following an initial transfer of information and key functions from the previous site, with particular emphasis on the new site as a knowledge-sharing instrument, through identification of a process to support data management (creation of an editing committee, identification of knowledge "promoters", etc.).

Launch of Balanced Scorecards

The corporate Balanced Scorecard, whose function is to support the Company's strategic and operational decision-making process, became operational in October 2001.
This innovative system was introduced to meet the following objectives:

- translate Terna SpA's mission and strategy into tangible and measurable objectives;
- communicate and link strategic objectives and action plans;
- improve feedback mechanisms, stimulating and steering change toward desired strategic results.

Balanced Scorecards were structured for the Company as a whole, at the process/functional areas and the sub-process level. They were organized under the headings: "Operating-financial", "Clients" (markets), "Internal" (processes), "Growth and Innovation".
Based on the first few months of implementation, these instruments have proven to be effective in ensuring overall regulation of corporate processes, and have been a valid support in improving definition and communication of corporate mission and strategy.

MBI initial implementation

The purpose of the MBI system, a modern e-maintenance platform, is to support Terna SpA network operation and maintenance activities through the creation of instruments to evaluate the conditions of components and to establish maintenance control and preventive maintenance actions.

Objectives achieved by Terna SpA in 2001 were consistent with internal plans:
- to complete basic planning for the system;
- to test engineering models for key components (switches and transformers);
- to launch experimental system operation in the operating structures;
- to define a plan for completion and development of applications for the full deployment of the system in 2002.

Monitoring of transformers

Consistent with MBI architecture, the Company launched in 2001 a project for an online system for the monitoring of transformers at five Terna SpA stations. The system was developed jointly with General Electric Control Systems, world leader in the sector, and installed in the stations of Roma Nord, Villavalle, Turbigo, Martignone and Vignole.
It consists of sensors to monitor and measure the main operating magnitudes of transformers; local networks to collect signals with intelligent station equipment; and a centralized management system, installed at Roma Nord. The latter will be connected - in line with 2002 plans - with the MBI platform. Expected advantages relate to streamlining of actions, prompt monitoring and minimization of service interruptions.

Station automation

With regard to stations' local automation and control systems, while pursuing the development of its first project (STADIO), which led to adoption of the first system connected through SCTI (Dugale), the Company completed planning of a new ISCAS platform (Integrated Station Control and Automation System), which adopts innovative standards currently under development (IEC, EPRI, IEEE).
The objective, reached in 2001, enabled the Company to obtain technical specifications for the acquisition of advanced technology systems through competitions, with potential extending to joint use by different manufacturers, to enhance competitiveness and carry out a operational standardization policy.
In the second half of 2001 SICAS bids were solicited for stations at Tavazzano, Montorio and Calenzano. Factory testing was positive.

Reorganization of Engineering and Plant Operation areas

The Company streamlined its "Plant Engineering and Development" and "Plant Operation and Monitoring" functions, to make the structure more consistent with its strategic objectives and maximize efficiency of processes monitored.
This adjustment process followed the guidelines outlined below.

Plant Engineering and Development Function
- Identification of two areas of innovation and work methodology, for power lines and stations respectively, to stimulate innovative momentum and retain cutting-edge technological know-how while ensuring adequate management of global maintenance and renovation processes.
- Identification of a specific relationship management area for relations with the ISO and with third parties.

- With regard to installations, project leaders are now directly supervised by heads of functional departments, while power line and station activities have been integrated within the Teams.

Plant Operation and Monitoring Function

- The Operating Plan Unit will directly oversee the three remote Plant Operation Centers.
- Management of telecommunications systems, remote control and automation, including preparation and management of long-term plans and budgets, will be merged under a support and implementation area.

MANAGEMENT EXPECTATIONS OF OPERATIONS IN 2002

Management efforts in 2002 will focus on actions aimed at safeguarding and creating value for the Company and its Shareholders. To this end, Terna SpA will pursue the following actions:

- **Personnel professional enhancement** (competencies and empowerment): through the enhancement of technical and managerial competencies via the use of new technologies (EDLS long-distance training and Learning organization project), rigorous observance of training programs and development of key resources and talent.
  Training will focus on development and consolidation of strategic competencies: managerial and operating capabilities, core professional competencies, information technology and innovation. To this end, it is expected that EDLS use will increase, through targeted training modules as well as blended training sessions or self-training. Within the project of work on power lines in operation, the Company will test a new innovative approach organized in sessions at the multimedia classrooms of operating facilities that integrate multimedia support and virtual operating simulations, combined with intensive field training sessions at the Viverone Center.
- **Innovation**: use of digital technologies to operate stations through complete rollout of SCTI and STADIO (digital station objective) projects, which have already been launched; development of a system for remote plant operation and maintenance (MBI project); widespread adoption of SICAS integrated system for station control/automation, local automation system, electric equipment protection, data collection for remote monitoring and network control through new "intelligent" devices distributed throughout the plant. Full rollout of the system to map network plants on geo-referenced cartography basis (GIS).
- **Diversification**: increase in market shares and profitability, through the offer of a wide range of integrated services in the sectors of high-voltage plant management, plant engineering, network services management or asset enhancement. With regards to unregulated businesses, in 2002 Terna SpA will focus on developing control and automation of gas and water networks, further developing activities already launched in the field of network control and automation, developing product and service profiles and updating the range of potential clients, partly through synergies with other Enel Group companies (Enel Hydro, Enel Distribuzione Gas, Enel.FTL).
- **Continuous improvement in operating capabilities**: by exploiting the potential of the new organizational/operating system organized by process, balanced scorecards and performance management, the new remote control system (SCTI) and SAP. This will enable the Company to reduce operating costs in 2002 over 2001 and offset the effects of the price cap established by the authorities. This will have to be achieved while ensuring that corporate conduct is in compliance with current laws and regulations, and that the quality management system is in compliance with ISO9001 requirements. In the coming year Terna SpA will have to follow scheduled plans and timelines by making extensive use of Project Management techniques (PDCA, Gantt) to maximize program implementation.
- **Communications**: in the field of internal communications, the Company will consolidate use of the new Terna Intranet, emphasizing its end use as a knowledge management instrument; on the front of external communications, the new portal will be market-tested by early 2002 and subsequently rolled out.

These initiatives are expected to increase Terna SpA's profitability in 2002, thus offsetting a projected reduction of 4% in real terms in tariff levels resulting from the application of price-cap mechanisms imposed by the authorities.

BOARD OF DIRECTORS' PROPOSAL

To our Shareholders:
the Financial Statements for fiscal year 2001 show profit of euro 67,992,484, which we propose to allocate as follows:

- euro 3,399,625 to legal reserves;
- euro 42,767,620 to the provision for accelerated depreciation, equal to the value resulting from calculation of accelerated depreciation for the year, considered as a deduction of 2001 taxable income;
- euro 6,718,965 to cover interim dividends distributed in 2001;
- euro 15,066,400 to dividends, equal to 0.0074 per share;
- euro 39,874 to retained earnings.

Upon Shareholders' approval of the allocation proposed by the Board of Directors, the Company's Shareholders' Equity will break down as follows:

Shareholders' Equity		
Capital Stock	euro	2,036,050,000
Legal reserve	euro	73,910,747
Provision for accumulated accelerated depreciation	euro	213,327,107
Provision for accumulated depreciation expense for the year	euro	42,767,620
Other reserves	euro	16,445
Retained earnings	euro	215,292
Total	**euro**	**2,366,287,211**

The Managing Director
Sergio Mobili

Rome, March 26, 2002

FINANCIAL STATEMENTS AT DECEMBER 31, 2001

BALANCE SHEET

ASSETS		Balance items at Dec. 31, 2001	Balance items at Dec. 31, 2000	Change
A)	SHARE CAPITAL NOT PAID-IN	0	0	0
B)	FIXED ASSETS			
I.	Intangible assets			
	1) Incorporation costs	62,248	93,372	-31,124
	2) Research, development and advertising	0	0	0
	3) Industrial patents and intellectual property rights	0	0	0
	4) Concessions, licenses and trademarks	0	0	0
	6) Work in progress and advances	0	0	0
	7) Other	34,772,527	57,941,051	-23,168,524
Total		34,834,775	58,034,423	-23,199,648
II.	Tangible assets			
	1) Land and buildings	316,292,070	315,804,509	487,561
	2) Plant and machinery	2,502,676,392	2,523,189,334	-20,512,942
	3) Industrial and commercial equipment	10,604,045	6,773,775	3,830,270
	4) Other assets	1,282,740	2,100,929	-818,189
	5) Work in progress and advances	427,427,214	501,547,148	-74,119,934
Total		3,258,282,461	3,349,415,695	-91,133,234
III.	Financial assets			
	1) Equity investments in:			
	a) subsidiaries	0	0	0
	b) affiliated companies	0	0	0
	c) Parent Company	0	0	0
	d) other companies	1,570,029	601,672	968,357
	2) Receivables from:			
	a) subsidiaries	0	0	0
	b) affiliated companies	0	0	0
	c) Parent Company	0	0	0
	d) others	10,189,219	10,303,980	-114,761
	3) Short-term investments	0	1,958	-1,958
Total		11,759,248	10,907,610	851,638
Total fixed assets (B)		3,304,876,484	3,418,357,728	-113,481,244
C)	CURRENT ASSETS			
I.	Inventories			
	1) Raw materials	252,591	0	252,591
	3) Contract work in progress	15,042,626	14,810,827	231,799
	5) Advances	0	0	0
Total		15,295,217	14,810,827	484,390
II.	Receivables			
	1) Trade:			
	- from third parties	346,134,558	85,859,755	260,274,803
	- from other Enel Group companies	30,184,374	62,885,332	-32,700,958
	2) From subsidiaries	0	0	0
	3) From affiliated companies	0	0	0
	4) From Parent Company	246,495,216	57,747,633	188,747,583
	5) From others	26,482,913	14,789,177	11,693,736
Total		649,297,061	221,281,897	428,015,164

ASSETS	Balance items at Dec. 31, 2001	Balance items at Dec. 31, 2000	Change
III. Short-term investments			
4) Other equity investments	0	0	0
6) Other securities	0	0	0
Total	**0**	**0**	**0**
IV. Cash and cash equivalents			
1) Bank and Post Office deposits	0	0	0
3) Cash	65,259	61,476	3,783
Total	**65,259**	**61,476**	**3,783**
Total current assets (C)	**664,657,537**	**236,154,200**	**428,503,337**
D) ACCRUED INCOME AND PREPAID EXPENSES			
1) Accrued income	6,757,855	1,985,220	4,772,635
2) Prepaid expenses:			
- issue discounts	0	0	0
- other	1,996,320	1,398,382	597,938
Total accrued income and prepaid expenses (D)	**8,754,175**	3,383,602	5,370,573
TOTAL ASSETS	**3,978,288,196**	**3,657,895,530**	**320,392,666**

SHAREHOLDERS' EQUITY		Balance items at Dec. 31, 2001	Balance items at Dec. 31, 2000	Change
A)	**SHAREHOLDERS' EQUITY**			
I.	**Capital Stock**	**2,036,050,000**	**2,103,064,139**	**-67,014,139**
II.	**Paid-in capital in excess of par value**	**0**	**0**	**0**
III.	**Revaluation reserves**	**0**	**0**	**0**
IV.	**Legal reserve**	**70,511,122**	**562,225**	**69,948,897**
V.	**Reserve for own shares**	**0**	**0**	**0**
VI.	**Statutory reserves**	**0**	**0**	**0**
VII.	**Other reserves:**			
	- restatement reserve (Law no. 292/1993)	0	0	0
	- accelerated depreciation reserve	213,327,107	157,575,156	5,751,951
	- other	16,445	16,445	0
VIII.	**Retained earnings**	**175,418**	**166,962**	**8,456**
IX.	**Advances on 2001 dividends (or interim dividends)**	**-6,718,965**	**0**	**-6,718,965**
	Net Income	**67,992,484**	**58,695,164**	**9,297,320**
Total		**2,381,353,611**	**2,320,080,091**	**61,273,520**
B)	**PROVISIONS FOR RISKS AND CHARGES**			
	1) Retirement benefits	451,506	869,489	-417,983
	2) Taxes	138,284,852	123,871,352	14,413,500
	3) Other	24,952,699	33,061,766	-8,109,067
Total		**163,689,057**	**157,802,607**	**5,886,450**
C)	**EMPLOYEE TERMINATION INDEMNITY**	**73,056,890**	**66,927,704**	**6,129,186**
D)	**PAYABLES**			
	1) Bonds	0	0	0
	2) Convertible bonds	0	0	0
	3) Bank loans:			
	- medium- and long-term loans	325,000,000	75,000,000	250,000,000
	- short-term loans	0	42	-42
	4) Other loans	0	0	0
	5) Advances	75,847,234	78,161,667	-2,314,433
	6) Trade payables:			
	- others	125,791,701	48,299,535	77,492,166
	- other Enel Group companies	76,691,342	62,356,502	14,334,840
	7) Secured debt	0	0	0
	8) Payable to subsidiaries	0	0	0
	9) Payable to affiliated companies	0	0	0
	10) Payable to Parent Company	571,367,565	634,188,625	-62,821,060
	11) Taxes payable	5,796,395	49,507,094	-43,710,699
	12) Social security payables	42,236,567	66,343,745	-24,107,178
	13) Other payables	22,636,921	19,002,649	3,634,272
Total		**1,245,367,725**	**1,032,859,859**	**212,507,866**

SHAREHOLDERS' EQUITY	Balance items at Dec. 31, 2001	Balance items at Dec. 31, 2000	Change
E) ACCRUED LIABILITIES AND DEFERRED INCOME			
1) Accrued liabilities	7,442,020	8,149,610	-707,590
2) Deferred income:			
- discount on bond issues	0	0	0
- other	107,378,893	72,075,659	35,303,234
Total	**114,820,913**	**80,225,269**	**34,595,644**
Total liabilities	**1,596,934,585**	**1,337,815,439**	**259,119,146**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3,978,288,196**	**3,657,895,530**	**320,392,666**
COMMITMENTS			
Guarantees given	1,979,288	314,639	1,664,649
Other commitments	282,240,578	215,831,268	66,409,310
Total	**284,219,866**	**216,145,907**	**68,073,959**

INCOME STATEMENT

	Balance items at Dec. 31, 2001	Balance items at Dec. 31, 2000	Change
A) REVENUES			
1) Revenues from sales and services:			
- network usage fees	708,728,540	708,561,448	167,092
- other sales and services	54,608,626	31,693,736	22,914,890
3) Change in contract work in progress	231,799	14,810,827	-14,579,028
4) Increase in work in progress	12,505,524	9,839,516	2,666,008
5) Other income and revenues:			
- contributions received	16,927,555	0	16,927,555
- other	12,278,492	15,514,641	-3,236,149
Total revenues	**805,280,536**	780,420,168	24,860,368
B) OPERATING COSTS			
6) Raw materials and merchandise	14,646,186	21,012,434	-6,366,248
7) Services	114,134,851	97,887,098	16,247,753
8) Leases and rentals	15,341,590	15,731,260	-389,670
9) Personnel:			
- wages and salaries	115,774,969	107,880,029	7,894,940
- social security contributions	31,744,713	29,828,248	1,916,465
- employee termination indemnities	9,514,572	9,313,486	201,086
- retirement benefits	1,557,572	1,108,293	449,279
- other costs	5,912,087	5,957,156	-45,069
10) Depreciation, amortization and write-downs:			
- intangible asset amortization	31,124	31,124	0
- tangible asset depreciation	283,095,849	272,492,344	10,603,505
- other write-down of fixed assets	2,210	0	2,210
- write-down of current receivables	1,744,044	712,566	1,031,478
11) Change in inventories	-252,591	0	-252,591
12) Accruals to provisions for risks and charges	8,689,825	2,148,461	6,541,364
13) Other accruals		2,169,119	-2,169,119
14) Other operating costs	16,888,567	14,457,746	2,430,821
Total operating costs	**618,825,568**	580,729,364	38,096,204
OPERATING INCOME	**186,454,968**	**199,690,804**	**-13,235,836**
C) FINANCIAL INCOME AND EXPENSE			
15) From investments in other companies:			
- subsidiaries	0	0	0
- affiliated companies	0	0	0
- other companies	0	0	0
16) Other Financial Income:			
a) from long-term receivables:			
- subsidiaries	0	0	0
- affiliated companies	0	0	0
- other companies	335,617	368,149	-32,532
b) from long-term financial assets	0	0	0
c) from marketable securities	0	0	0
d) income other than the above:			
- subsidiaries	0	0	0
- affiliated companies	0	0	0
- Parent Company	6,757,855	1,928,022	4,829,833
- others	138,396	20,330	118,066

	Balance items at Dec. 31, 2001	Balance items at Dec. 31, 2000	Change
17) Interest and other financial expense :			
- subsidiaries	0	0	0
- affiliated companies	0	0	0
- Parent Company	40,140,379	44,104,556	-3,964,177
- other Enel Group companies	0	0	0
- others	8,701,071	3,146,842	5,554,229
Total Financial Income (expense)	**-41,609,582**	**-44,934,897**	**3,325,315**
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS			
18) Revaluations:			
a) of investments	0	0	0
b) of long-term financial assets	0	0	0
c) of marketable securities	0	0	0
19) Write-downs:			
a) of investments	0	0	0
b) of long-term financial assets	0	0	0
c) of marketable securities	0	0	0
Total adjustments to the value of financial assets	**0**	**0**	**0**
E) EXTRAORDINARY ITEMS			
20) Income:			
- capital gains on disposal of assets	0	3,029	-3,029
- other	547,982	699,444	-151,462
21) Expense:			
- losses on disposal of assets	0	0	0
- previous years' taxes	502,914	0	502,914
- other	38,263,486	35,226,667	3,036,819
Total extraordinary items	**-38,218,418**	**-34,524,194**	**-3,694,224**
INCOME BEFORE TAXES	**106,626,968**	**120,231,713**	**-13,604,745**
22) Income taxes	38,634,484	61,536,549	-22,902,065
- current	18,865,709	34,912,486	-16,046,777
- prepaid	2,982,484	4,741,423	-1,758,939
- deferred	16,786,291	21,882,640	-5,096,349
23) NET INCOME	**67,992,484**	**58,695,164**	**9,297,320**

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

The Financial Statements for the year ended December 31, 2001 were prepared in euro, following the Company's adoption of the euro as accounting currency effective May 1, 2001. Lire amounts referring to the 2000 Financial Statements were also converted into euro, applying a fixed exchange rate of 1936.27 lire per euro. The transition to the euro was completed following the approval of the Company's Financial Statements for the year preceding the conversion. The Company opted for a "big bang" methodology, that is, simultaneous and non-gradual conversion of accounting values, since no critical processes were identified that would require multiple-currency accounting. Lire/euro "translation differences" amounting to euro 1.19 were recorded in a special Balance Sheet account, as shown on the Company's general ledger. Costs incurred in the switch to the new currency were entirely related to information technology services and were equal to euro 0.8 million. The Balance Sheet and Income Statement were prepared in euro, without decimals, as established under article 16, 8 comma, Law decree no. 213/98 and article 2423, 5 comma, of the Civil Code.

FORM AND CONTENT OF THE FINANCIAL STATEMENTS

The structure, composition and classification of Balance Sheet, Income Statement and accompanying notes are in compliance with specific Civil Code provisions on the matter. All complementary information deemed necessary to provide a truthful and accurate representation is also provided, even when not required by specific laws.

“In the year no exceptional events occurred that would require recourse to derogations provided under article 2423, 4th comma of the Civil Code”.

Notes to the Balance Sheet and Income Statement are expressed in millions of euro.

ACCOUNTING PRINCIPLES

Financial Statements for fiscal year 2001 were prepared adopting the same accounting principles used to prepare Financial Statements for fiscal year 2000. Such principles are in line with provisions of article 2426 of the Civil Code, integrated by Accounting Principles elaborated by the National Council of Certified Public Accountants. The most significant principles are illustrated below.

Balance Sheet

Intangible assets

They are recorded at cost, determined according to criteria specified for intangible assets, and reflect residual amounts of long-term expenses to be depreciated. Depreciation is calculated on a straight line basis according to the expected useful economic life of the assets.

Plant and expansion costs are depreciated over a five-year period.

Extraordinary contributions due upon suppression of the Electricity Sector Employee Pension Provision, pursuant to Law no. 488 of December 23, 1999 (2000 Budget Law) can be depreciated over a period of 20 years, as specifically provided by law. As also allowed by law, the Company depreciated contributions in three years, primarily to benefit from the related tax advantages. The third installment, which is yet to be amortized, will be recorded in the Income Statement at the time of payment, expected in November 2002.

Tangible assets

Tangible assets are recorded at their historical or production cost, inclusive of any additional expense incurred and of revaluations made pursuant to applicable regulations. The above defined cost is devalued in the event of lasting loss of value and restored in the event that conditions for such loss of value no longer apply.

The value of tangible assets excludes costs incurred in maintaining or restoring the state of efficiency and proper functioning of plants; since they do not affect the magnitude or potential of plants, such costs are charged to the fiscal year in which related work is carried out.

Tangible assets are depreciated on a straight line basis according to depreciation rates specified below, determined based on the estimated useful life of the assets.

Depreciation rates	
Buildings	2.5%
Power lines	2.85%
Transformer station:	
- equipment and auxiliary electrical equipment	5.0%
- automation and control systems	10.0%

The above rates are reduced by half for assets acquired during the fiscal year. In addition, as allowed by regulations regarding the preparation of Financial Statements and exclusively in application of tax norms, additional depreciation was recorded up to the maximum allowed for tax purposes.

Accelerated depreciation was calculated in line with Accounting Principle no. 25 of the National Council of Certified Public Accountants. Accelerated depreciation (as per article 67, 3 comma of Law decree no. 917/86), was charged directly to a Shareholders' Equity reserve at the time of appropriation of 2001 earnings by the Shareholders' Meeting, recording the related deferred tax amount in the Income Statement.

Financial assets
Equity investments
Equity investments in other Group companies are recorded at the acquisition cost.

Inventories
Work in progress is valued at the amounts set in order contracts accrued with reasonable certainty, according to the percentage of completion method.
Raw material, auxiliary and consumption goods are valued at the weighted average acquisition cost.

Receivables
Receivables are recorded at their expected redemption value and classified among "Financial assets" and "Current assets" based on their nature and end use. Non-interest bearing long-term receivables are recorded at their current value, calculated using the interest rate applicable at the time they are recorded.
Prepaid taxes are also included among receivables, up to the amount expected to be recovered by the Company.

Accruals and deferrals
They are recorded on the accrual method.

Provisions for risks and charges
Provisions for retirement benefits
This provision includes compensation paid in lieu of notice to existing personnel who has accrued such right, pursuant to applicable collective labor contracts and union agreements.

Other provisions for risks and charges
Accruals to these provisions are recorded against known or probable losses and charges whose amount and timing is undetermined at the closing date of the Financial Statements. Amounts accrued reflect the best possible estimate made according to available information.

Provision for employee termination indemnity
Accruals to the provision are made in compliance with current laws and labor contracts, and reflect amounts accrued to all employees as of the Balance Sheet date, net of advances made according to law and of Pension Provision contributions withheld by the Company.

Accounts payable
Accounts payable are recorded at face value.

Commitments
Items included under commitments and their valuation criteria are in compliance with Accounting Principle no. 22 of the National Council of Certified Public Accountants and refer to guarantees, risks and other commitments assumed by the Company.

Income Statement

Revenues and expenses are recorded in the Financial Statements based on the accrual method.

Capital grants
Grants received for execution of specific work, whose value is recorded among tangible assets, are recorded at the time at which legal title to the grant is recognized and the amount can be reasonably determined. Grants are deferred and recorded in the Income Statement over the depreciable life of the assets to which they relate.

Contributions received
They are recorded in the Income Statement at the time at which legal title to them is recognized and the amount may be determined with reasonable certainty.

Revenues
Revenues from the sale of goods and services are recorded at the time services are rendered or at the time of transfer of ownership.

Income Taxes
Current income taxes are recorded among tax liabilities according to estimated taxable income, in compliance with current laws, taking into account, where available, applicable exemptions and tax credits.
Deferred and prepaid income taxes on income are calculated on temporary differences between amounts recorded in the Balance Sheet and the corresponding amounts applicable for tax purposes.
Prepaid taxes are recorded among assets to the extent that the Company is reasonably certain that such amounts can be recovered.
The tax provision includes deferred tax liabilities, excepting those related to tax-suspended reserves, which are accounted for at the time of taxation, up to the amount of taxes payable. It includes the share of deferred taxes relating to previous years' as well as current accelerated depreciation.

Environmental costs
Environmental costs relate to prevention, reduction and monitoring of the environmental impact of production activities. They are recorded in the Income Statement in the year they are incurred, in the case of recurring costs, and are recorded as an increase in the value of fixed assets to which they relate if they extend the useful life, capacity or safety of such assets. Provisions for risks and charges are allocated when it is probable or certain that the liability will be incurred and the amount can be reasonably estimated.

ASSETS

Share capital not paid in

The item has a zero balance at December 31, 2001.

Intangible Assets - Euro 34.8 million

Changes in intangible assets are summarized below:

Euro	Dec. 31, 2000	Increases	Amortization	Other changes	Dec. 31, 2001
Incorporation costs	93,372		31,124		62,248
Other:					
- software development	0	0	0	0	0
- Elec. Sector Employee Pension Provision charges	57,941,051	12,449,566	35,618,090		34,772,527
Total other	**57,941,051**	**12,449,566**	**35,618,090**	**0**	**34,772,527**
TOTAL	**58,034,423**	**12,449,566**	**35,649,214**	**0**	**34,834,775**

Incorporation costs relate to costs incurred in incorporating the Company and in carrying out an increase in Capital Stock following the transfer of a corporate division from Parent Company Enel.
Item "other" includes an extraordinary contribution made during the fiscal year due to suppression of the Electricity Sector Employee Pension Provision, pursuant to Law no. 488 of December 23, 1999 (2000 Budget Law) for an original amount of euro 86.9 million, calculated based on the amount due for the first installment. The increase is related to the adjustment due for year 2000 (euro 0.8 million) and the acquisition of a corporate division from Enel Distribuzione, resulting in the transfer of 455 employees, for which Terna SpA - in line with current laws providing for the amount to be contributed to the Provision to be calculated on the number of personnel employed in the month preceding the payment - has undertaken the related expense, equal to euro 11.6 million.
The balance at December 31, 2001, equal to euro 34.8 million, is recorded among Social Security payables and represents residual amount payable to INPS.

Tangible assets - Euro 3,258.3 million

Tangible assets amount to euro 3,258.3 million, as compared to euro 3,349.4 million at December 31, 2000. Changes in tangible assets by individual category are shown below:

Euro	Land and buildings	Plant and machinery	Commercial and industrial equipment	Other assets	Work in progress and advances	Total
Balance at Dec. 31, 2000						
1. Historical cost	483,157,530	5,729,300,262	28,004,596	11,467,604	501,547,148	6,753,477,140
2. Accumulated depreciation	-167.353.021	-3,206,110,928	-21,230,821	-9,366,675	0	-3,404,061,445
3. Balance at Dec. 31, 2000	**315,804,509**	**2,523,189,334**	**6,773,775**	**2,100,929**	**501,547,148**	**3,349,415,695**
Changes in the year						
4. Capital expenditure	4,395,334	72,694,104	2,110,534	214,862	111,536,363	190,951,197
5. Net reclassifications:						
Book value	10,886,717	173,817,915	15,367	-39,909	-184,680,090	0
Accumulated depreciation	-361,441	360,254	-4,848	6,035		0
Past years' accelerated depreciation	0	0	0	0	0	0
Total	**10,525,276**	**174,178,169**	**10,519**	**-33,874**	**-184,680,090**	**0**
6. Net disposals:						
Book value	-148,745	-11,119,879	-788,877	-167,526		-12,225,027
Accumulated depreciation	84,459	10,034,979	756,476	140,386		11,016,300
Total	**-64,286**	**-1,084,900**	**-32,401**	**-27,140**	**0**	**-1,208,727**
7. Depreciation	-14,368,763	-266,300,315	-1,454,734	-972,037		-283,095,849
8. Write-downs	0	0	0	0	0	0
9. Other			3,196,352		-976,207	2,220,145
10. Net changes occurred in 2001	**487,561**	**-20,512,942**	**3,830,270**	**-818,189**	**-74,119,934**	**-91,133,234**
11. Historical cost	498,290,836	5,964,692,402	32,537,972	11,475,031	427,427,214	6,934,423,455
12. Revaluations	0	0	0	0	0	0
13. Write-downs						
14. Book value	498,290,836	5,964,692,402	32,537,972	11,475,031	427,427,214	6,934,423,455
15. Accumulated depreciation	-181,998,766	-3,462,016,010	-21,933,927	-10,192,291	0	-3,676,140,994
16. Balance at Dec. 31, 2001	**316,292,070**	**2,502,676,392**	**10,604,045**	**1,282,740**	**427,427,214**	**3,258,282,461**

"Plant and machinery" includes the Electricity Transport Network and Transformer Stations, while item "other goods" consists primarily of computers, furniture and other office equipment.
Work in progress and advances, major projects (valued at more than euro 10 million) are highlighted below:

Euro	
Power lines:	
- kV 380 - Italy - Greece link	108,724,176
- kV 380 - Matera - S. Sofia	61,901,244
380 kV transformer stations:	
- ARACHTHOS - (Greece)	55,793,747
220 kV transformer stations:	
- STAZIONE kV 220 VILLA VALLE	30,716,957
Distribution stations:	
- SANTA BARBARA	10,727,901

Changes in tangible assets occurred in the year are summarized below:

Euro	
Capital expenditure	
- power lines	56,204,620
- transformer stations	126,061,616
- other	8,684,961
Total investments	**190,951,197**
Depreciation:	
- ordinary	235,363,965
- additional	47,731,884
Total depreciation	**283,095,849**
Disposals	1,208,727
Write-downs	0
Other	2,220,145
TOTAL CHANGES	**-91,133,234**

Main capital expenditure includes a 380 kV transformer station at Calenzano (euro 12.5 million), a 220 kV station at Villavalle (euro 2.9 million), a distribution station at Santa Barbara (euro 2.3 million) and the Italy - Greece link (euro 25.9 million for the conversion station at Arachthos) to be completed in 2002; the corresponding station at Galatina in Italy (Puglia Region) is already in operation and connected with the National Transmission Network since December 2001.

Depreciation for the year was calculated by applying depreciation rates deemed representative of the useful life of assets; additional quotas were allocated up to the limit of ordinary tax rates allowed under current accounting and tax laws.

As noted above, accelerated depreciation for the year, amounting to euro 42.8 million, is not reflected in the Income Statement and will be recorded in the Balance Sheet under the "Provision for accelerated depreciation", at the time of allocation of earnings by the Shareholders' Meeting.

In order to show differences in depreciation generated by the application of tax regulations, depreciation has been recalculated using the above ordinary rates, applied to the book value of individual assets, assuming their steady application over time. Based on these criteria, taking into account also the different recording method of accumulated and current accelerated depreciation, accumulated depreciation and the depreciation expense for the year would be lower, respectively, by about euro 503 million and by euro 47.7 million than the amounts reported in the 2000 Financial Statements. As a result, Shareholders' Equity and Net Income would be higher by about euro 300.5 million and euro 28.5 million respectively, net of the estimated tax effect.
At December 31, 2001, the accumulated depreciation accounted for 56.50% of fixed assets subject to depreciation, as compared to 54.45% at December 31, 2000.

Finalcial assets - Euro 11.8 million

Receivables
This item includes the following:

Euro	Balance at Dec. 31, 2000	Increases	Decreases	Balance at Dec. 31, 2001
From other companies in which Terna SpA holds an investment	601,672	968,357		1,570,029
Receivable from subsidiaries				
Receivable from affiliated companies				
Receivable from Parent Company				
Receivable from others:				
- tax advance on employee termination indemnities (Law 662/1996)	7,334,085	903,798	1,022,786	7,215,097
- loans to employees and other items	2,969,895	2,707,992	2,703,765	2,974,122
Total receivable from others	**10,303,980**	**3,611,790**	**3,726,551**	**10,189,219**
Other securities	1,958	0	1,958	0
TOTAL	**10,907,610**	**4,580,147**	**3,728,509**	**11,759,248**

Equity investments, amounting to euro 1.6 million, relate to shares held in the Capital Stock of Group companies Sfera and CESI.
The 10% interest in Sfera is unchanged from the previous year, while Terna SpA finalized the acquisition of a 5% share in CESI, a Company with headquarters in Milan and Capital Stock of euro 8,550,000, based on the value of its Shareholders' Equity at June 30, 2000 (euro 19.4 million).
Tax advances on employee termination indemnities, deposited in compliance with current laws and remunerated at the rate used to adjust employee termination indemnities, declined by euro 0.1 million. The decrease can be traced to the combined effect of staff turnover and the acquisition of the high-voltage power line management corporate division from Enel Distribuzione, with the subsequent transfer of 455 employees to Terna SpA.
This event also explains the generalized increase in other receivables from personnel.
Other securities decrease due to the retrieval of a guarantee deposit made against costal land concessions issued by the Public Administration.

Current assets

Inventories - Euro 15.3 million
"Contract works in progress" consists of long-term work carried out by Terna SpA for various clients. Projects include work carried out for the ISO to upgrade the SCTI control system (euro 10.8 million), work for Eurogen - a company recently sold by the Enel Group - to build a control system for the implementation of the SCP production plan (euro 1.9 million), and construction for Ferrovie dello Stato (the national railway company) for the expansion and upgrade of electricity trasmission lines (euro 1 million).
The valuation was done based on the percentage of completion (cost to cost) method.
Inventories include materials and equipment for plant operation, maintenance and construction (euro 0.3 million).

Receivables - Euro 649.3 million
The breakdown of receivables by maturity is shown in the table included in the asset section of the notes.

Trade receivables
They consist almost entirely (euro 329.9 million) of invoices issued and to be issued to the ISO for usage of the National Transmission Network (NTN).
The operating convention between Terna SpA and the ISO was not underwritten in 2001, as a number of legal aspects were finalized only at the end of the year. As a result, during the year Terna SpA issued invoices for advance payments - based on indications given by the ISO itself - for the use of the NTN. In the first two months of 2002 additional invoices totaling euro 44.6 million were issued.
Other receivables from third parties include invoices issued for high-voltage network linkages and for miscellaneous goods and services provided to third parties as part of the Company's growth of diversified activities.
Receivables are recorded net of doubtful accounts provision amounting to euro 2.8 million.

Changes in the provision for doubtful accounts are shown in the table below:

Euro	
Balance at Dec. 31, 2000	**1,011,598**
Changes occurred in the year:	
- uses	
- accruals	1,744,044
Total changes	**1,744,044**
BALANCE AT DEC. 31, 2001	**2,755,642**

Increases relate to accruals made in the year.

Receivables from Parent Company
They consist primarily of financial receivables (euro 245.8 million) relating to the current account held with the Parent Company and of Value Added Tax advances for the month of December (euro 0.7 million).

Receivables from other Enel Group companies
The breakdown of receivables by type and company is provided below:

Euro	Trade receivables at Dec. 31, 2001	Trade receivables at Dec. 31, 2000	Change
Enel Distribuzione	10,965,629	44,195,270	-33,229,641
Elettrogen		1,455,095	-1,455,095
Enel Produzione	1,198,276	1,430,373	-232,097
Erga Energie Rinnovabili	210,143		210,143
Eurogen	367,744	1,011,752	-644,008
Interpower		157,385	-157,385
Enelpower	604,336	236,848	367,488
CESI	12,395	49,030	-36,635
Deval	114,805		114,805
Sfera	1,808		1,808
Sei	112,852	1,604,146	-1,491,294
Dalmazia Trieste	25,381	15,494	9,887
Enel.it	12,077,908	9,298,071	2,779,837
WIND Telecomunicazioni	4,483,097	3,431,868	1,051,229
Ape	10,000		10,000
Total	**30,184,374**	**62,885,332**	**-32,700,958**

The considerable reduction in receivables from Enel Distribuzione is due to the Company's residual debt payable to Terna SpA at December 31, 2000 relating to fees for the use of the transmission network and transport services (euro 44 million). The fee was accrued by the ISO, at that time in charge of the network, in 2000. The amount was collected only in the following year, on February 8, 2001.
On the other hand, a significant amount of receivables was generated as a result of the completion of a contract for the maintenance and operation of high-voltage lines owned by Enel Distribuzione. Under the terms of the contract, Terna SpA has full responsibility within the Group for the management and maintenance of high-voltage lines against payment of a set amount. For what concerns Sei, the reduction is due to conclusion of legal proceedings originating in 2000, with the resulting collection of related amounts.
The increase in receivables from Enel.it is due to maintenance and laying of protection conducts containing fiber optics (owned by Enel.it, but installed on Terna SpA power lines) as part of the e-net project, while the increase in receivables from WIND Telecomunicazioni relates to the lease of telephone equipment and penalties incurred in data transmission (Service Credits) for which litigation is currently pending.

Other receivables
Other receivables amount to euro 26.5 million, consisting of an IRPEG (corporate) tax credit for the year (euro 13.7 million), receivables on prepaid income taxes (euro 9.9 million), a VAT credit for December (euro 0.5 million) and other minor items. Changes in credits on prepaid taxes are illustrated below:

Euro	
Credits on prepaid taxes	
Balance at Jan. 1, 2001	12,926,687
Uses of provision	7,276,153
Accruals	4,293,669
Balance at Dec. 31, 2001	**9,944,203**

The full amount of tax receivables was included in calculating tax advances, given the reasonable certainty of their recoverableness. The decrease is essentially due to adjustments in taxed provisions included in the calculation of tax credits.

Cash and Cash equivalents - Euro 0.06 million

The item consists entirely of cash held by the Company's eight area operating facilities located throughout Italy.

Accrued income and prepaid expenses - Euro 8.8 million

Euro	Balance at Dec. 31, 2001	Balance at Dec. 31, 2000	Change
Discount on bond issues			
Interest	6,757,855	1,985,220	4,772,635
Other	1,996,320	1,398,382	597,938
Total	**8,754,175**	**3,383,602**	**5,370,573**

Accrued income and prepaid expenses amount to euro 8.8 million. The increase is due essentially to interest accrued on the current account held with the Parent Company and prepaid insurance premiums, in addition to fees for the use of telephone lines and radio transmission equipment.

The table below shows a breakdown of receivables, accrued income and prepaid expenses by maturity.

Euro	Within one year	2 to 5 years	Over 5 years	Total
LONG-TERM FINANCIAL RECEIVABLES				
Receivable from others	401,462	8,580,156	1,207,601	10,189,219
Total long-term financial receivables	**401,462**	**8,580,156**	**1,207,601**	**10,189,219**
CURRENT RECEIVABLES				
Trade receivables	346,134,558			346,134,558
Receivable from Parent Company	246,495,216			246,495,216
Receivable from subsidiaries	30,184,374			30,184,374
Other receivables:				
- receivable from others	2,916,806	23,566,107		26,482,913
Total current receivables	**625,730,954**	**23,566,107**		**649,297,061**
Accrued income and prepaid expenses	**8,754,175**			**8,754,175**
TOTAL	**634,886,591**	**32,146,263**	**1,207,601**	**668,240,455**

LIABILITIES AND SHAREHOLDERS' EQUITY

Shareholders' Equity - Euro 2,381.4 million

Changes in the year are shown below:

Euro	Balance at Dec. 31, 2000	Allocation of Net Income	Other changes	Net income	Balance at Dec. 31, 2001
Capital Stock	2,103,064,139		-67,014,139		2,036,050,000
Legal reserve	562,225	2,934,758	67,014,139		70,511,122
Other reserves	16,445				16,445
Reserve for accelerated depreciation	157,575,156	55,751,951			213,327,107
Retained earnings	166,962	8,456			175,418
Net Income	58,695,164	-58,695,164	-6,718,965	67,992,484	61,273,519
Total	**2,320,080,091**	**0**	**-6,718,965**	**67,992,484**	**2,381,353,611**

Capital Stock
The Extraordinary Shareholders' Meeting held on March 21, 2001, resolved to convert the Company's Capital Stock from lire to euro, changing the par value of ordinary shares from lire 1,000 to euro 0.5. At the same time, the assembly resolved a grouping of shares in the ratio of 1 share of par value 1 euro for every two shares of par value 0.5 euro. As a result, Capital Stock is now represented by 2,036,050,000 ordinary shares of par value 1 euro. The rounding resulted in a reduction in Capital Stock from euro 2,103 million to euro 2,036 million, with the subsequent transfer of euro 67 million to Legal reserve (a percentage of about 3.1%, which is within the 5% ceiling established by article 17, 6 comma of Law Decree no. 213 of June 24, 1998, as integrated by Law Decree no. 206 of June 15, 1999).

Allocation of 2000 Net Income
The Ordinary Shareholders' Meeting unanimously resolved to approve the Financial Statements at December 31, 2000 and the related management report, allocating Net Income as follows:
- euro 2,934,758, equal to 5%, to the legal reserve;
- euro 55,751,951 accruing to the "Accelerated depreciation reserve";
- the residual amount of euro 8,456 to be retained.

Other reserves
Other reserves amount to euro 213.3 million and consist of the Reserve for accelerated depreciation which includes depreciation accrued in previous years. In 2001, the availability of reserves determined the reversal of euro 3.5 million in deferred tax liability.

2001 interim dividend
Pursuant to provisions contained in article 2433 bis of the Italian Civil Code and article 29.3 of the corporate By-Laws, the Board of Directors convened on September 28, 2001, resolved the distribution of an interim dividend on 2001 in favor of Shareholders, based on the Company's strong Balance Sheet, income and financial situation as of August 31, 2001. The amount was established at a total of euro 6.7 million and was fully paid out on September 28, 2001.

Provisions for risks and charges - Euro 163.7 million

Euro	Balance at Dec. 31, 2000	Accruals	Uses	Other changes	Balance at Dec. 31, 2001
Provision for retirement benefits	869,489	1,557,572	2,023,978	48,423	451,506
Tax provision	123,871,352	16,786,291	2,372,791		138,284,852
Other:					
- legal proceedings	11,711,164	106,755	2,301,036	557,403	10,074,286
- sundry risks	13,358,148	8,582,284	4,566,746	-2,726,521	14,647,165
- early retirement incentives	7,992,454	743,672	9,472,880	968,002	231,248
Total	**33,061,766**	**9,432,711**	**16,340,662**	**-1,201,116**	**24,952,699**
TOTAL	**157,802,607**	**27,776,574**	**20,737,431**	**-1,152,693**	**163,689,057**

Provision for retirement benefits - Euro 0.5 million
The provision includes accruals for indemnities in lieu of leave and extra monthly payments accruing to personnel.

Tax provision - Euro 138.3 million
The tax provision is accrued for deferred taxes resulting from accelerated depreciation accrued up to December 31, 2000. The balance includes euro 16.8 million of deferred taxes accrued on accelerated depreciation for the year, to be recorded at the time of allocation of 2001 Net Income. It also includes euro 2.4 billion of uses of the provision in excess of the amount deductible for tax purposes.

Provision for legal proceedings - Euro 10.1 million
The provision covers potential liabilities deriving from judicial rulings or other litigation, relating mainly to plant supply, work and operation. It includes estimated potential charges to be incurred for legal proceedings originating in the year, in addition to updated estimates on positions that emerged in previous fiscal years, based on indications supplied by internal and external legal counsel. It excludes the effects of litigation expected to have a positive outcome and those for which a potential charge cannot reasonably be quantified, which are described under off-Balance Sheet item "risks and charges".

Provision for sundry risks and charges - Euro 14.6 million
The provision includes accruals made against various types of risks, determined by using updated estimates at December 31, 2000 as well as other potential liabilities that emerged in 2001. The provision includes primarily accruals made against exceptional events affecting plants and transformers and fees for State concession licenses. It also includes a euro 6 million provision against probable dismantlement of plants in 2002.

Provision for early retirement incentives - Euro 0.3 million
The provision for early retirement incentives includes the accrual for estimated extraordinary expenses related to offers made to employees for mutually-agreed early termination of working relationships. Provision uses relate to employees who agreed to such offers and terminated their employment in the year.

Employee termination indemnity - euro 73.1 million

Changes in the year are shown below:

Euro	
Balance at Dec. 31, 2000	66,927,704
Accruals	9,523,302
Pension Fund contributions	-2,032,880
Indemnities paid and other incentives	-11,637,159
Acquisition/assignment of contracts	10,275,923
Total	**73,056,890**

The provision includes amounts accrued in favor of personnel for employee termination indemnities due pursuant to the law, net of advances made to employees for health expenses, purchase of a first home and purchase of Enel SpA shares, as well as provision for Enel Manager Pension Fund (Fondenel) and Enel Employee Pension Fund (Fopen).
The increase in the provision is due to a net inflow of personnel transferred from Enel Distribuzione following the acquisition of the corporate division handling the management of high-voltage lines (euro 9.2 million).

Payables - Euro 1,245.4 million

The breakdown of payables by maturity, net of bank loans which are recorded under a specific item, are provided in a table included in the liabilities section of the notes.

Medium- and long-term bank loans - Euro 325 million
They amount to euro 325 million and relate to two loans extended by the European Investment Bank.

Euro	Expiration	Balance at Dec. 31, 2001	Current portion	Long-term portion	2003	2004	Expiration 2005	2006	Over
BEI no. 20271	2004 - 2014	75,000,000		75,000,000		6,818,182	6,818,182	6,818,182	54,545,454
BEI no. 21159	2004 - 2014	250,000,000		250,000,000			11,363,636	22,727,272	215,909,092

The first loan, amounting to euro 75 million, was extended for the “Italy-Greece electricity network interconnection” project currently underway, on October 22, 1999, under the following terms:
- floating interest rate: Euribor + 0.15% (equal, at the end of the year, to a current rate of 4.090%);
- interest payments are half-yearly in arrears (March 15 - September 15);
- repayment of principal: starting on March 15, 2004 (first installment) and ending September 15, 2014.

The second loan, amounting to 250 million euro, extended for the “Planning, implementation and operating launch of about 200 electricity transmission plants” on July 6, 2001, under the following terms:
- floating interest rate: Euribor + 0.25% (equal, at the end of the year, to a current rate of 4.190%);
- interest payments are half-yearly in arrears (June 15 - December 15);
- repayment of principal: starting on December 15, 2005 (first installment) and ending June 15, 2016.

Advances - Euro 75.8 million
Advances include contributions collected for work under way at December 31, 2001.
A breakdown of advances is provided below:
- Italy-Greece direct current interconnection (euro 34.7 million);
- contributions on expected costs of linkages to high-voltage network (euro 28.7 million);
- supply of new integrated control system for the ISO (euro 9.2 million);
- control system for the implementation of production plans for Eurogen (euro 1.7 million);
- other contributions (euro 1.5 million).

Payables to suppliers - Euro 125.8 million
Payables to suppliers relate to invoices received and to be received for bids, services and purchase of material and equipment.

Payables to Parent Company - Euro 571.4 million
Payables to Parent Company Enel are shown below:

Description	Dec. 31, 2001	Dec. 31, 2000	Change
Trade payables:	**3,728,800**	**4,314,332**	**-585,532**
- Parent Company	3,728,800	4,032,780	-303,980
- former CESAP		281,552	-281,552
Financial payables:	**567,638,765**	**617,021,589**	**-49,382,824**
- interest on short-term loans			
- assumption of Enel Employee Pension Fund	39,789,743	35,099,739	4,690,004
- assumption of loans and financing	527,849,022	581,921,850	-54,072,828
Other payables		**12,852,704**	**-12,852,704**
TOTAL	**571,367,565**	**634,188,625**	**-62,821,060**

Trade payables consist primarily of amounts due to the holding company for trademark use, the disposal of telecommunications equipment originally transferred to WIND by the Parent Company, and a management fee contract. Amounts due in 2000 to CESAP for personnel administration services, were reclassified as a debt payable to APE.

With regards to Enel Manager Pension Fund:
- the Company contributes to the payment of services rendered by Enel and to ordinary expenses (interest accruing to the Fund) as well as extraordinary expenses (adjustments in financial and actuarial indexes);
- in the year, uses of the provision totaled euro 2.8 million while accruals amounted to euro 7.5 million.

Interest payable on loans and financing relates to the Company's share in bond issues and other financing assumed within the Group exclusively for internal purposes, carried out in 1999 at the time of transfer of the corporate division.
Under the terms of the transfer of debt, Enel will charge the portion of the interest expense relating to debt transferred, and will be entitled to reimbursement of principal payments at the dates established under each loan. The same applies to income and expenses accrued on interest rate hedging contracts.

The breakdown of debt as of December 31, 2001 is provided below:

In millions of euro	Repayment period	Balance at Dec. 31, 2001	Current portion	Long-term portion	2003	2004	Expiration 2005	2006	Over
Fixed-rate loans	2002-2006	131.3	24.3	107.0	19.6	7.3	79.5	0.7	-0.0
Floating-rate loans	2002-2019	396.5	25.0	371.5	2.7	12.7	1.2	1.7	353.1
Total		**527.8**	**49.3**	**478.5**	**22.3**	**20.0**	**80.7**	**2.4**	**353.1**

Changes in 2001 are shown below:

Euro	
Balance at Dec. 31, 2000	**581,921,850**
Repayments	-54,178,933
Foreign exchange differences	106,105
Balance at December 31, 2001	**527,849,022**

The breakdown of debt by currency as of December 31, 2001 is provided in the table that follows:

In millions of euro	Repayment period	Average interest rate at Dec. 31, 2001	Balance at Dec. 31, 2001
Euro area currencies	2002-2019	6.92%	516.6
Other currencies	2002-2006	6.90%	11.2
Total		**6.92%**	**527.8**

With reference to foreign exchange risk on debt denominated in non-euro currencies (euro 11.2 million), totaling euro 7.3 million, exchange rate differences are fully covered by the Italian Government. With regards to interest rates at December 31, 2001, floating rate debt represents 85% of total medium and long-term debt. At the same date, the Company had received title from Enel of derivative instruments on interest rates for a total nominal amount of euro 344.5 million in the form of interest rate swaps. Taking into account these hedging instruments, the share of debt that is subject to interest rate fluctuations can be estimated at about 44% of the total.

Payables to other Enel Group companies - Euro 76.7 million
They consist of payables for services rendered by other Group companies, and their breakdown is provided below:

Euro	Trade payables at Dec. 31, 2001	Trade payables at Dec. 31, 2000	Change
Enel Distribuzione SpA	13,545,160	9,145,285	4,399,875
Elettrogen SpA		6,383	-6,383
Enel Produzione SpA	404,230	525,091	-120,861
Erga Energie Rinnovabili	50,229	72,511	-22,282
Eurogen SpA	31,218	25,224	5,994
Enelpower SpA	29,240,358	21,682,824	7,557,534
CESI SpA	1,336,483	1,418,886	-82,403
Deval SpA	70,378		70,378
Sfera SpA	143,488	543,564	-400,076
Sei SpA	3,766,095	8,813,865	-5,047,770
Dalmazia Trieste SpA	3,814		3,814
Enel.it SpA	4,573,223	7,017,827	-2,444,604
WIND Telecomunicazioni SpA	23,180,651	13,072,260	10,108,391
Ape SpA	311,929		311,929
Enel Trade SpA		22,303	-22,303
Enel.si SpA	34,086	7,646	26,440
Enel.Hydro SpA		2,833	-2,833
Total	**76,691,342**	**62,356,502**	**14,334,840**

The increase in payables to Enel Distribuzione (up euro 4.4 million) is due to work carried out on power lines.

The euro 7.6 million increase in payables to Enelpower is mainly due to the Italy - Greece electricity network link.
The euro 10.1 million increase in payables to WIND is tied to costs for telephone and remote control services and to costs related to disposal of obsolete equipment (RIAM - euro 3 million).
The euro 5 million decrease in payables to Sei is due to improved payment terms and lower expenses for services rendered by the Company.

Tax payables - Euro 5.8 million
This item relates to payables for substitute taxes withheld amounting to about euro 3.9 million, and IRAP taxes amounting to euro 1.9 million. With reference to IRPEG taxes, on the other hand, a credit accrued as a result of tax facilitations provided under the law known as "Tremonti bis".

Payable to Social Security institutions - Euro 42.2 million
They consist primarily of payables to the Electricity Sector Employee Pension Fund (ESEPF) and INPS. The provision includes extraordinary contributions per Law no. 488 of December 23, 1999 (ESEPF suppression charges) amounting to euro 34.7 million for the third and final installment to be paid in 2002.

Miscellaneous payables - Euro 22.6 million
Miscellaneous payables break down as follows:

Euro	Dec. 31, 2001	Dec. 31, 2000	Change
Payable to employees	22,185,185	18,430,537	3,754,648
Payables to others for amounts withheld from employees' pay	276,353	284,560	-8,207
Other payables	175,383	287,552	-112,169
Total	**22,636,921**	**19,002,649**	**3,634,272**

The increase is due primarily to severance payments to be made to personnel terminating employment in the year; it also includes payables for personnel incentives (executives, middle managers, white and blue collar employees), to be paid out in 2002.

Accrued liabilities and deferred income - Euro 114.8 million

Accrued liabilities and deferred income break down as follows:

Euro	Dec. 31, 2001	Dec. 31, 2000	Change
Interest payable on loans	7,122,131	7,912,742	-790,611
Capital contributions	107,341,588	72,067,413	35,274,175
Other accrued liabilities and deferred income	357,194	245,114	112,080
Total	**114,820,913**	**80,225,269**	**34,595,644**

The increase in capital contributions is due to completion and subsequent start of operation of assets to which they relate (including a EU contribution of euro 16.3 million for the construction of the Italy-Greece connection).

The breakdown of accrued liabilities and deferred income by maturity is provided below.

Euro	Expiring within one year	Between 2 and 5 years	Over 5 years	Total
FINANCIAL PAYABLES				
TO THIRD PARTIES				
Medium- and long-term				
bank loans		65,909,090	259,090,910	325,000,000
Short-term bank loans				
Total financial payables		**65,909,090**	**259,090,910**	**325,000,000**
OTHER PAYABLES				
Advances	47,128,509	28,718,725		75,847,234
Trade payables	124,499,220	1,292,481		125,791,701
Payables to Parent Company for :				
- Medium- and long-term				
debt assumed	49,308,651	136,656,232	341,884,138	527,849,021
- Pension Fund liability assumed	2,768,000	11,072,000	25,949,744	39,789,743
- Other	3,728,800			3,728,800
Total payables to Parent Company	**55,805,451**	**147,728,232**	**367,833,882**	**571,367,565**
Payables to other				
Enel Group companies	76,691,342			76,691,342
Taxes payable	5,796,395	0	0	5,796,395
Social Security payables	42,236,567		0	42,236,567
Other payables	22,636,921			22,636,921
Total other payables	**374,794,405**	**177,739,438**	**367,833,882**	**920,367,725**
Accrued liabilities and				
deferred income	23,817,703	91,003,210		114,820,913
TOTAL	**398,612,108**	**334,651,738**	**626,924,792**	**1,360,188,638**

Commitments

Commitments include amounts relating to guarantees, risks and other commitments, as detailed below:

Euro	Balance at Dec. 31, 2001	Balance at Dec. 31, 2000
Guarantees given:		
- unsecured guarantees given to third parties	1,979,288	314,639
Total	**1,979,288**	**314,639**
Other commitments:		
- commitments with suppliers for:		
. sundry supplies	188,746,470	169,155,936
. contract work	93,494,108	46,675,332
Total	**282,240,578**	**215,831,268**
TOTAL	**284,219,866**	**216,145,907**

OFF-BALANCE SHEET ITEMS

Environmental litigations

Environmental litigations involving Terna SpA relate to installation and operation of electric plants, where the key environmental issue relates to the effects of electric and magnetic fields.
Terna SpA was a party in a number of civil and administrative proceedings requesting the transfer or changes in the operation of power lines, based on hazards allegedly posed by such lines, even though in almost all cases the equipment was installed in full compliance with existing laws.
Only in a very limited number of cases have claims for health related damages caused by electromagnetic fields been filed.
However, given growing public awareness on these matters, recourse to urgent procedures is intensifying to obtain, on a precautionary basis, suspension or modification of plants' operating conditions by individuals residing near such plants, who lament alleged pathologies in connection with existing of electricity lines.
Regarding decisions taken on the matter, only sporadically have there been pronouncements unfavorable to the Company, while no health damages have ever been granted.

Finally, it is important to note that the ISO is, along with Terna SpA, a party in an increasing number of these legal proceedings, as the ISO is entrusted by law with all matters regarding to energy flows transiting on the network owned by Terna SpA.

Norms relating to electric and magnetic fields

A law regulating this matter was issued on February 22, 2001 and published on the official bulletin of March 7, 2001.
The new law entrusts the Authority for Electricity and Gas to establish standards (exposure limits, thresholds of attention and quality targets) to which plants must comply, to be subsequently applied in the general upgrade of the system.
In this regard, it is important to note that the legal framework on upgrades and renovation provides for a mechanism to recover related expenses, based on criteria determined by the Authority for Electricity and Gas, as per Law no. 481/95, since these are costs incurred in the public interest.
At present, however, no law decrees have yet been issued in application of the law establishing the above mentioned standards.
In terms of regional laws, law proposals have been formulated to regulate the matter in a number of regions. These proposals, as in the case of Veneto Region Law 27/93, normally call for stricter limitations that those set by Decree of the President of the Council of Ministers 1992, to remain effective until the new law decrees are issued.
In particular, the Campania region recently adopted Law no. 13 of January 24, 2001, which calls for particularly strict limitations and has been appealed by the Government before the Constitutional Court.

Other litigation pending

A number of rulings are pending on urban and environmental matters related to construction and operation of a number of transmission lines. Any adverse ruling could generate effects that cannot be estimated at present and are therefore not included under the "Provision for legal proceedings". Based on opinions issued by legal counsel, an examination of the above proceedings generally suggests that the possibility of adverse outcomes that would preclude the installation and operation of power lines is remote.

INCOME STATEMENT

Revenues

It includes the following items:

Revenues from sale of goods and services - Euro 763.3 million
Revenues from sale of goods and services amount to euro 763.3 million and relate almost entirely (euro 708.7 million) to fees generated by the Company for use of the National Transmission Network.
A Ministry of Industry Decree dated January 22, 2000 issued a general operating convention between the ISO and network owners.
An essential element to define the operating convention between Terna SpA and the ISO was the determination of "fi" parameters which set the fixed annual component of electricity transport fees for individual network segments that are part of the NTN.
The values of such parameters were approved by the Authority for Electricity and Gas only on January 13, 2001, through resolution no. 304/01. Their application widely confirms the amounts due to the Company in 2001, estimated to be at least euro 709 million. This amount represents a prudent estimate of revenues earned by Terna SpA for its activities, determined based on revenues generated in the previous year. Pending an assessment of the actual growth rate of demand for electricity in 2001 by the ISO, it is important to note that actual revenues for 2001 may exceed estimated values.
The determination of such revenues will be possible only following an accurate quantification by the ISO of actual volume of transported energy. Payments by the ISO during 2001 - representing advances on transportation revenues - amounted to about euro 393 million.
"Other goods and services" amounting to euro 54.6 million are represented by euro 44.6 million from the sale of goods and services to other Enel Group companies, euro 0.1 million relating to the Parent Company and euro 9.9 million represented by services to third parties.
Among activities involving other Group companies, an important one is represented by contracts stipulated with Enel Distribuzione (euro 19.8 million) and Enel.it (euro 17 million). Terna SpA charged to Enel.it a fee for laying fiber optic on its power lines, while handling their operation, maintenance and development. Contracts with Enel Distribuzione relate to the operation and management of high-voltage lines owned by the other Group company.
For what concerns revenues from services to third parties, the largest portion (euro 6.8 million) is represented by non-core business activities such as management of high-voltage power lines and equipment, plant engineering, diagnostic controls and remote network management.

Changes in contract work in progress - Euro 0.2 million
Contract work in progress, amounting to euro 0.2 million, represents the balance between work that Terna SpA is still conducting for the ISO (upgrading of control system) and other minor clients (up euro 1.4 million) and work with Group companies Enel Produzione and Elettrogen (the latter was recently acquired by the Spanish power company Endesa) to install a control system for the implementation of production plans, completed and tested in December 2001 (down euro 1.2 million). The valuation was based on percentage of completion.

Increases in fixed assets for internal work - Euro 12.5 million
Capitalized costs relate to labor costs and, to a lesser extent, consumption of material and equipment.

Other revenues and income - Euro 29.2 million
Other revenues and income can be summarized as follows:

Euro	2001	2000
Connection and increased supply fees	16,927,555	10,364,338
Damages received	4,034,555	1,712,166
Sale of materials	206,300	926,150
Penalties imposed on suppliers	178,601	426,221
Other revenues and gains	7,859,036	2,085,766
Total	**29,206,047**	**15,514,641**

The increase in contributions can be ascribed to the coming into operation of a number of power lines and plants, including the Galatina station and the Edison Porto Marghera link. With regards to other revenues, the increase is due mostly to insurance damage payments relating to equipment (accounting for an increase of euro 2.3 million), intercompany proceeds represented by surcharges applied by Sei in 2000 (accounting for a euro 2.1 million increase), and revenues from contractual penalties involving WIND (accounting for an increase of euro 1.2 million).

Operating costs

Raw materials and goods - Euro 14.6 million
This item includes costs incurred for the acquisition of materials and equipment for plant operation and maintenance.

Service costs - Euro 114.1 million
The item includes the following costs:

Euro	2001	2000
Maintenance and repair	22,793,693	22,164,717
Insurance	3,071,187	2,551,275
Transport and leasing	617,699	509,768
Other services	9,421,002	7,662,573
Services received from other Enel Group companies	78,231,270	64,998,765
Total	**114,134,851**	**97,887,098**

"Services from other Enel Group companies" includes telephone and telecommunication costs in addition to general administrative costs. It also includes euro 0.8 million paid to Enel.it for information technology services provided in the context of the transition to the euro. The increase is due primarily to services rendered by WIND and Enel.it.

Leases and rentals - Euro 15.3 million

Leases and rentals consist of the following: rent payable to Group companies (euro 7 million), other rent (euro 3.5 million) and miscellaneous fees (euro 4.8 million). The balance is unchanged from 2000.

Personnel - Euro 164.5 million

Personnel costs amount to euro 164.5 million. The increase on 2000 is due to additional costs resulting from contract renewals in July 2001 and inflow of new personnel transferred from Enel Distribuzione following the sale of its corporate division handling operating of high-voltage lines.
The average number of employees by category of employment, and their number at December 31, 2001, is provided below:

	Average no. of employees	No. of employees at Dec. 31, 2001
Managers	26	25
Officers	224	225
Employees	1,531	1,506
Workers	1,437	1,458
Total	**3,218**	**3,214**

Depreciation and write-downs - Euro 284.8 million

Depreciation of intangible assets
It amounts to euro 0.03 million and relates to incorporation expenses.

Depreciation of tangible assets
The amount includes ordinary depreciation for the year (euro 235.4 million) and accelerated depreciation up to the limit allowed by tax regulations (euro 47.7 million).

Write-down of current receivables
They amount to a total of euro 1.7 million and relate to ordinary accruals to the Provision for doubtful accounts.

Provisions for risks and charges - Euro 8.7 million

They amount to euro 8.7 million and relate primarily to disposal of power lines and equipment, and to provisions for repairs and other risks.

Other operating expenses - Euro 16.9 million

This item includes expenses related to assumption of debt towards the Enel Management Pension Fund (euro 7.4 million), losses due to the discontinuation of power lines (euro 0.9 million), discounts on electricity supplied to retired personnel (euro 1.8 million) and local taxes (euro 3.7 million).
The item also includes payments and contributions made by the Company to members of the Board of Statutory Auditors (euro 88,830) and the Board of Directors (euro 6,885).

Financial Income and expense - Euro (41.6) million

Other Financial Income

Details on other Financial Income are provided below:

Euro	2001	2000	Change
Interest accrued on tax credits	225,360	250,320	-24,960
Other Financial Income	248,653	138,159	110,494
Interest on current account with Parent Company	6,757,855	1,928,022	4,829,833
Total	**7,231,868**	**2,316,501**	**4,915,367**

Interest expense and other financial expenses

Euro	2001	2000	Change
Interest on loans transferred and medium- and long-term debt	40,112,992	43,922,763	-3,809,771
Interest charges on current account with Parent Company	27,387	181,793	-154,406
Interest on EIB financing	8,656,104	3,135,926	5,520,178
Other interest and financial charges	44,967	10,916	34,051
Total	**48,841,450**	**47,251,398**	**1,590,052**

Extraordinary items - Euro (38.2) million

Extraordinary income amounts to euro 0.5 million.
Extraordinary expenses amount to euro 38.7 million and relate to charges for Electricity Sector Employee Pension Fund suppression (euro 35.6 million), a temporary early retirement incentives offered to employees (euro 2.6 million) and taxes relating to previous fiscal years (euro 0.5 million).

Income taxes - Euro 38.6 million

Euro	2001	2000	Change
Current taxes:			
- IRPEG	5,455,262	22,259,292	-16,804,030
- IRAP	13,410,447	12,653,194	757,253
Prepaid taxes	2,982,484	4,741,423	-1,758,939
Deferred taxes	16,786,291	21,882,640	-5,096,349
Total	**38,634,484**	**61,536,549**	**-22,902,065**

The decrease in current taxes is due to the use, for corporate purposes, of tax facilitations established under current laws.
The Company could opt for one of two alternative laws:
- Law Decree no. 466 of December 18, 1997 (Dual Income Tax);
- Law no. 383 of October 18, 2001 (Tremonti-bis Law).

Law decree no. 466 of December 18, 1997 (Dual Income Tax), allows application of a reduced tax rate of 19% to the portion of taxable income corresponding to the ordinary remuneration coefficient (CRO), calculated on the Shareholders' Equity at December 31, 2001 exceeding the amount of Shareholders' Equity at December 31, 1996.
Law no. 383 of October 18, 2001 (Tremonti-bis Law), aims at facilitating

investments and corporate capitalization. The facilitation is determined by comparing average net investments in the preceding five-year period[1] with the amount of net investments made in the period between July 1 and December 31, 2001, with 50% of the excess amount applied as a reduction in corporate income.
A comparison of the two laws showed that the so-called Tremonti-bis would be most favorable. Therefore, in determining the amount of taxes for 2001, Terna SpA applied the facilitations provided under article 4 of Law no. 383 of October 18, 2001.

The rate applied to income before taxes was 36.23%; the estimated tax rate determined based on Terna SpA's expected taxable income for IRPEG and IRAP purposes[2] is equal to 44.11%.

The breakdown of tax advances is represented by provisions for:
- taxes for 2001 amounting to euro 7.3 million, due essentially to use of taxable provisions related to early retirement incentives in previous years, TOSAP tax payments and exceptional events that occurred during the year (explosion at the Focomorto station, fire at the Matera station, floods in Piemonte and Val d'Aosta);
- tax advances related to temporary differences that emerged during 2001 for a total of euro 4.3 million for accruals to the risk provision and future expenses.

Deferred taxes - Euro (5.1) million
Deferred taxes decline by euro 5.1 million, due to lower accelerated depreciation applied during the fiscal year. Current rates were used to calculate related amounts.

Relationships with related parties

Relationships with related parties are illustrated under paragraph 4 of the Management Report.

[1] For Terna SpA, incorporated on May 31, 1999, only investments made in the two years of operation are considered. In its circular no. 4, paragraph 5) dated January 18, 2002, The Internal Revenue Service specified that "… in calculating the average, the receiving company will not keep into account invesments made in the prior five years by the transferring company. The conferral, also in case it is not taxed pursuant to article 4, Legislative Decree no. 358/97, is in fact a transaction that involves two companies, that retain their status following the conclusion of the transaction."
[2] Calculation of taxable income for IRPEG and IRAP purposes is carried out by applying IRPEG rates to income before taxes and IRAP rates to the "Difference between revenues and production costs" increased by the following Income Statement item amounts: personnel costs, other fixed asset write-downs, write-downs of current receivables, risk provisions, other provisions, and comparing the total of taxes determined according to this method to the amount of income before taxes.

REPORTS

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF TERNA SPA PURSUANT TO ART. 153, LGS. DECREE 58/1998 AND ART. 2429, 3RD COMMA OF THE ITALIAN CIVIL CODE

To the Meeting of Shareholders of Terna SpA

To our Shareholders:

pursuant to article 153 of legislative Decree no. 58/1998, we inform you that in the year closed December 31, 2001, the Board of Statutory Auditors carried out monitoring activities in accordance with the guidelines issued by the Italian Accounting Profession Association.
In particular the Board:

- participated to all meetings held by the Board of Directors and to all Shareholders' Meetings, receiving from the Board periodic information on major economic, financial and equity operations carried out by the Company and its Subsidiaries, ensuring that related resolutions were applied pursuant to the norms contained in the By-Laws and were not manifestly imprudent, exceedingly risky, causing a potential conflict of interest, or in contrast with resolutions taken by the Shareholders' Meeting;
- gathered information and monitored the adequacy of the Company's administrative and accounting system, in relation also to its evolution over time, assessing the reliability of the same in providing a correct representation of the Company's operations and the application of correct management criteria, through direct observation and information gathered from management. Our activity in 2001 focused on the monitoring of the implementation of the new management information system, in addition to the Passive Cycle, with particular attention paid to the implementation of the e-Procurement and BAP projects, based on the use of the Internet in procurement activities;
- held meetings with the Company's independent auditors, exchanging relevant information;
- assessed the adequacy of the internal control, administrative and accounting system, through information received from management, including specific reports;
- verified the compliance with laws regarding the preparation and format of the Financial Statements with particular reference to the format used, their content and accounting principles applied. We have also verified the completeness of the Report of the Board prepared pursuant to article 2428 of the Italian Civil Code. The examination of these aspects was carried out through direct verifications and information obtained through the Report of the Independent Auditors.

The only aspect relating to the preparation of the Financial Statements that the Board of Statutory Auditors deems relevant is the adoption of the "Tremonti-bis" norms providing tax benefits on investments made in the year.

In the course of our monitoring activity described above, there has not emerged any significant fact should be brought to the attention of appropriate authorities or worthy of mention in the present report.

We furthermore inform you that:
- the Board of Directors met 5 times (respectively on February 27, 2001, April 5, 2001, June 4, 2001, September 25, 2001 and September 28, 2001), and the Board of Statutory Auditors attended all meetings. In 2001 the Board of Statutory Auditors met 5 times;
- the Independent Auditors Report does not contain any exception;

• the Board of Directors supplied to the Board of Statutory Auditors through an appropriate report, all the information required by Consob communication dated April 6, 2001.

In particular, we acknowledge the following:

1. in 2001, no atypical or unusual transaction with related parties, with other Group company or third parties was carried out;
2. with reference to ordinary transactions between group companies and with related parties, it is acknowledged that these relate to assistance on institutional issues, treasury management, services provided (information technology, engineering, telecommunications, personnel training, etc.), the provision of services relating to the maintenance of high-voltage power lines and fiber optics. Sample checks carried out by the Board of Statutory Auditors have shown that market conditions were applied, in line with the Company's own interest.
3. there do not exist other appointments given to the Company's Independent Auditors.

In view of the above considerations, the Board of Statutory Auditors does not envisage any obstacle to the approval of the Financial Statements of the Company and the proposed allocation of Net Income made by the Board of Directors.

Rome, March 26, 2002

The Board of Statutory Auditors
Giovanni Ferreri
Bruno Franceschetti
Giancarlo Russo Corvace

ANDERSEN

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Report of the Independent Auditors on the Statutory Financial Statements pursuant to art. 156 of Legislative Decree no. 58 of February 24, 1998
(Translation from the original issued in Italian)

To the Shareholders of
T.E.R.NA. Trasmissione Elettricità Rete Nazionale S.p.A.:

1. We have audited the financial statements of T.E.R.NA. Trasmissione Elettricità Rete Nazionale S.p.A. as of and for the year ended December 31, 2001. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob"). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

   For our opinion on the prior year's financial statements, which are presented for comparative purposes as required by law, reference should be made to our auditors' report dated March 6, 2001.

3. In our opinion, the financial statements of T.E.RNA. Trasmissione Elettricità Rete Nazionale S.p.A. as of and for the year ended December 31, 2001 comply with the Italian statutory provisions related to financial statements; therefore they give a true and fair view of the financial position and results of operations of the Company.

4. For a better understanding of the financial statements, attention is drawn to the following matters which are described in the notes to the financial statements:

   a) the fees earned by the Company for use of the transmission network have been determined on the basis of a prudent estimate of the operating costs due to the Company and are in line with the fees earned in the previous year. These fees may change in relation to growth in demand for electricity in 2001, with respect to 2000, which will be ascertained by Gestore della Rete di Trasmissione Nazionale S.p.A.;

   b) as in previous years, the Company has allocated additional depreciation of tangible assets, up to the limits established by ordinary tax rates under current tax laws; the effects of this accounting treatment, in compliance with current accounting laws, are described in the notes to the financial statements;

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Roma Torino Treviso Verona

c) as of December 31, 2001, the financial statements includes provisions for disputes and other sundry risks made to cover potential liabilities deriving from court rulings or other litigation involving the Company or the division of Enel SpA conferred to the Company in 1999.
Moreover, the Company is party to a number of lawsuits and other uncertain situations relating primarily to urban planning and environmental matters, and linked to the construction and operation of certain plants and power lines. The outcome of the relevant proceedings could result in charges for the Company which are at present not objectively quantifiable. These matters are described in more detail in the notes to the financial statements.

Rome, Italy

March 26, 2002

Arthur Andersen SpA

Gabriele Rosa – Partner

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