

2002 Annual Report

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Board of Directors and Board of Statutory Auditors

Board of Directors

Chairman

Piero Gnudi

Managing Director

Sergio Mobili

Directors

Fulvio Conti

Angelo Delfino

Carlo Tamburi

Board of Statutory Auditors

Chairman

Giovanni Ferreri

Auditors

Bruno Franceschetti

Giancarlo Russo Corvace

Substitute Auditors

Daniela Gallucci

Fabrizio Orazi

Independent Auditors

KPMG SpA

Notice of Meeting

The Shareholders' Meeting of Terna SpA is called on March 13, 2003 at 11:00 a.m. at the Parent Company Enel SpA registered office in Rome, viale Regina Margherita no.137, on first call, and occurring on second call on March 14, 2003 at the same time and place, to discuss and resolve on the following items of the

AGENDA

Ordinary business:

1. Financial Statements for the fiscal year ended December 31, 2002 - Report of the Board of Directors and Board of Statutory Auditors - Related resolutions;
2. Appointment of chairman and members of the Board of Directors, determination of their number, term of service and related compensation.

The Chairman of the Board of Directors

Piero Gnudi

Published in the Official Gazette (*Gazzetta Ufficiale*) of the Italian Republic no. 44, February 22, 2003.

Ordinary Shareholders' Meeting resolutions

The Shareholders' Meeting of Terna SpA, held on March 13, 2003 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 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, 2002, and the allocation of the net income amounting to euro 88,119,868.02 as follows:

- euro 4,405,993.40 (equal to 5%) to be accrued to the "Legal Reserve";
- euro 39,614,690.17 to be accrued to the "Provision for accelerated depreciation";
- euro 43,978,680.00 to be distributed as dividends;
- euro 120,504.45 accrued to "Retained earnings".

Report on operations

Report on operations

In a year in which economic indicators had a poor performance, Terna improved its performance. In its core activities consisting of managing, maintaining and developing high and very high-voltage electricity networks, the company registered a good economic and financial performance, with an improvement in quality standards and achieving a 99.027% plant and equipment availability level (as compared with 98.754% in 2001).

In 2002, Terna continued to develop diversified business activities in unregulated environments, in the field of high-voltage plant operation, maintenance and installation, for other Group companies as well as clients external to the Enel Group. With regards to the latter, revenues increased by about euro 3 million, while the market share in terms of total potential customers served by the company reached 41%, equal to 187 customers on 455, with a 74% customer loyalty index.

Main events occurred in 2002 are summarized below.

- > **Adoption of the Code of Ethics**
- > **Operating License from the ISO (Independent System Operator, *Gestore della Rete di Trasmissione Nazionale*)**
- > **Regulatory framework changes**
- > **Contracts for the development of the network awarded by the ISO**
- > **Italy-Greece link**
- > **E-Net Project**

Adoption of the Code of Ethics

On May 21, 2002, Terna's Board of Directors resolved the implementation of the Code of Ethics adopted by Parent Company Enel. The Code of Ethics defines the commitments and the ethical and social responsibilities that all persons operating in the name and on behalf of the Enel Group are required to assume in the conduction of business and the management of corporate activities, establishing the commitment according to which stakeholders may evaluate the reputation of the Group.

The Code of Ethics represents an effective tool to prevent illicit or unethical behavior on the part of persons operating in the name or on behalf of Enel, and represents the main tool for the implementation of ethics throughout the Group, inducing confidence on the outside community.

Operating License from the ISO

On December 16, 2002, an Operating License Agreement was signed by Terna and the ISO. The license is in line with the General License guidelines approved on December 22, 2000 through the issue of a specific decree of the Italian Ministry of Industry.

The License Agreement regulates technical and economic relationships between Terna, owner of about 94% of the infrastructure that make up the National Transmission Network (NTN), and the ISO, a company to which the State has entrusted a license for the management of activities relating to the transmission and dispatching of electricity, including the unified management of the NTN.

From a technical point of view, the Operating License defines the relationships between the

parties in terms of the exercise, maintenance and development of the NTN according to a system of prizes and penalties based on the level of service provided.

At the current time, the incentive/penalty mechanism is suspended until the setting by the ISO, and the subsequent approval by the Authority for Electricity and Gas (the Authority), of the base parameters for the calculation of prizes and penalties.

The ISO remunerates Terna for the exercise, maintenance and development carried out through an annual fee, as defined by the specific resolutions of the Authority, covering operating costs, depreciation charges and a remuneration for capital employed.

With regard to network elements provided in the context of development projects, the yearly fee paid is determined according to a specific economic offer submitted by Terna, through the direct awarding by the ISO of the contract (in case of development of portions of the already existing network owned by Terna) or in the context of a bidding contest (new construction). The ISO determines the appropriateness of bids made.

The annual fee is paid out in monthly installments, bearing interest in case of late payment, and provides for an annual adjustment based on the final amount of revenues received by the ISO on behalf of the owners of the network (Authority Resolution no. 228/01) and the amount of prizes and penalties to be applied. In 2002, the part relating to prizes and penalties shall not be applied.

Regulatory framework changes

Authority Resolution no. 228/01 introduced changes effective January 1, 2002 in the remuneration of the transmission of electricity for free market customers, bringing it into line with that for regulated market customers.

Remuneration is paid to the ISO by electricity distribution companies connected to the NTN and by producers, and is then transferred to the owners of the electricity transport network. Pursuant to article 14 of Resolution no. 228/01, distribution companies pay to the ISO a fee determined by applying the CTR (transmission cost) component (according to the time band) of net electricity withdrawn from the NTN.

Pursuant to article 16 of Resolution no. 228/01, producers pay to the ISO a fee calculated based on electricity generated and delivered to the NTN according to the correspondent tariff component.

Contracts for the development of the network awarded by the ISO

In 2002 the ISO solicited bids for 5 contracts for the development and subsequent ownership of Transformer Stations (4) and power lines (1). Terna has currently been awarded contracts for the construction of 150 kV stations at Nurri (Nuoro) and Tula (Sassari), in addition to the construction of the 200 kV station located in Busachi (Oristano).

Italy-Greece link

The very high-voltage power line linking Italy and Greece came into operation in 2002. The power line has a transport capacity of 500 MW of ± 400 kVcc continuous current.

The link consists of an underwater continuous current cable measuring 163 kilometers that, crossing the Otranto channel, links the coast of Apulia and that of Epirus, respectively at

Report on operations

Otranto and Aethos, reaching a maximum depth of about 1,000 meters.

On the Italian side, the link is completed by a continuous current terrestrial cable of about 43.5 kilometers in length linking Otranto and the Galatina electricity station where the plant converting alternate and direct current is located.

On Greek territory, the link consists of an aerial continuous current line (110 km) linking Aethos and Arachthos.

The project represents the link between the European and the Greek electricity networks that will improve efficiency in the management of the electricity systems in the two areas and favor the linking of electricity networks in the whole Mediterranean Basin. It represents one of the primary objectives of the European Union that has provided about 40% of financing for the project in the context of the REGEN and INTERREG II programs.

The project required a total investment of euro 339 million and was inaugurated in July 2002 by Terna and PPC (Greek Energy Agency), with the participation of local authorities involved and videoconferencing links with the Italian Prime Minister, Berlusconi, and the Greek Prime Minister, Simitis.

Terna owns 75% of the power line and contracted the work to Enelpower, supervising and coordinating activity, managing relations with the EU with regards to financing and PPC with respect to bilateral relations.

In compliance with Greek statutory and tax regulations applicable to Terna's equipment on Greek territory, Terna established a branch in Greece. The branch has registered office at the D.A. Konstantinopoulos & Partners' office in Athens, that is responsible for the upkeep of the accounting records and the various administrative requirements vis-à-vis local authorities.

E-Net Project

At December 31, 2002, Terna's fiber optic network laid alongside its power lines measured about 9,578 kilometers, of which 424 kilometers completed in 2002. Among the most important projects completed in 2002 were the fiber optic link with Greece, measuring about 206 kilometers. The link is made up by a 44 kilometers line on Italian territory stretching between Galatina and Otranto, and an underwater stretch of about 162 kilometers between Otranto (Italy) and Aethos (Greece). The fiber optic line was transferred to Enel.it in December, 2002.

Operating and financial review

Terna closes fiscal year 2002 reporting a net income of euro 88.1 million, after tangible asset depreciation amounting to about euro 287.3 million (of which euro 242.2 million of ordinary depreciation and euro 45.1 million in excess of ordinary charges), net financial expense amounting to euro 39.2 million and taxes amounting to euro 62.9 million.

Total revenues amount to about euro 844.8 million, of which euro 795.8 million represented by revenues from the sale of goods and services, relating primarily to fees on the use of the NTN. Based on parameters resulting from the application of Authority Resolution no. 228/01 and keeping into account the provisions of the General License and the Operating License, in addition to the content of the Authority letter dated January 11, 2001 relating to the setting of NTN ownership shares, revenues from the use of the network amounted to about euro 730 million.

Operating costs amount to about euro 301 million, of which euro 165.9 million relating to personnel costs.

Net non-recurrent charges, amounting to euro 44.6 million relate primarily (euro 35.4 million) to charges on the suppression of the Electricity Sector Employee Pension Fund (ESEPF) and to incentives offered for the early retirement of personnel (euro 12.7 million).

Income taxes amounted to euro 62.9 million and consist of euro 35.6 million of IRPEG (corporate tax), euro 16.1 million of IRAP (local) and euro 11.2 million of net deferred taxes.

Net fixed assets at the end of the year amounted to euro 3,135 million while net capital employed was equal to euro 2,674.4 million, of which shareholders' equity covers euro 2,454.4 million (91.8%, against 79.7% at December 31, 2001) and net financial debt accounting for euro 220 million (8.2%, as compared with 20.3% at December 31, 2001).

Operating and financial review

A Reclassified Income Statement for 2002 is included below:

Reclassified Income Statement

In millions of euro

	2002	2001	Change
NTN usage fees	730.0	708.7	21.3
Other sales and services	65.8	54.6	11.2
Change in contract work in progress	-0.4	0.2	-0.6
Other revenues	34.4	29.2	5.2
Total revenues	829.8	792.7	37.1
Personnel costs:			
- Wages and salaries	116.8	115.8	1.0
- Social security contributions	31.5	31.7	-0.2
- Employee termination indemnities	9.9	9.5	0.4
- Retirement benefits	1.3	1.6	-0.3
- Other costs	6.4	5.9	0.5
Goods and services:			
- Leases and rentals	113.8	129.4	-15.6
- Materials	18.8	14.4	4.4
- Other costs	17.4	16.9	0.5
- Capitalized costs	-14.9	-12.5	-2.4
Total operating costs	301.0	312.7	-11.7
GROSS OPERATING MARGIN	528.8	480.0	48.8
Depreciation and amortization	242.2	235.4	6.8
Accruals and write-downs	6.7	10.5	-3.8
Total depreciation, amortization and accruals	248.9	245.9	3.0
OPERATING INCOME	279.9	234.1	45.8
Interest and other charges payable to Parent Company	-26.4	-33.4	7.0
Interest on long-term debt	-13.2	-8.7	-4.5
Other financial income	0.4	0.5	-0.1
INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES	240.7	192.5	48.2
Extraordinary items	-44.6	-38.3	-6.3
Additional depreciation	45.1	47.7	-2.6
INCOME BEFORE TAXES	151.0	106.5	44.5
Income taxes	62.9	38.6	24.3
NET INCOME	88.1	67.9	20.2

Gross operating margin registers a marked increase on the previous year, up about euro 48.8 million, due primarily to:

- > a euro 37.1 million increase in revenues due to the following:
 - higher fees received on the use of the NTN (up euro 21.3 million) due primarily to the effect of the application of Authority Resolution no. 228/01, unifying tariffs for the transport of electricity applied to regulated and free market customers and establishing an increase in tariffs as a result of higher transmission costs recognized to Terna;
 - higher revenues from sales and diversified activities carried out with third parties and other Group companies, among which Enel Distribuzione for the maintenance of high-voltage power lines owned by the company (up euro 12.7 million), and Enel.it for the supply of the Italy-Greece link fiber optic cable (about euro 9 million);
- > a euro 11.7 million reduction in operating costs due to:
 - strong savings (about euro 15.6 million) on services received from third parties and other Group companies, mainly regarding telecommunications, building maintenance, rentals, and information technology;
 - slight increase in personnel costs (euro 1.4 million) due mainly to the payment of the second installment due on the renewal of the labor contract for 2001 starting from July 2003.

Operating income increases strongly (up euro 45.8 million) despite higher plant and equipment depreciation charges (up euro 6.8 million) following the coming into service of the Italy-Greece power line, partly offset by lower accruals to the provision for risks and charges (down euro 3.8 million).

Net financial expense declines by about euro 2.4 million due mainly to:

- > higher interest on current account balances held with the Parent Company (up euro 4.2 million) and a decline in the interest expense on long-term loans extended by Enel (down euro 2.8 million);
- > an increase in the interest expense on subsidized loans extended by the EIB (up euro 4.5 million).

The euro 6.3 million net increase in extraordinary charges is due primarily to the cost of early retirement incentives, partly offset by extraordinary gains recorded on the restitution of excess taxes paid in the previous year.

The effective tax rate is equal to 41.67% (as compared with 36.23% in 2001), while taxes payable increase by about euro 24 million due to the higher taxable income and lower benefits resulting from the application of Law no. 383/01, amounting to about euro 32.2 million in 2002, as compared with euro 53.6 million in 2001.

Operating and financial review

A Reclassified Balance Sheet at December 31, 2002⁽¹⁾ is included below:

Reclassified Balance Sheet

In millions of euro

	at Dec. 31, 2002	at Dec. 31, 2001	Change
Tangible and intangible assets	3,122.0	3,293.2	-171.2
Long-term financial assets	13.2	11.8	1.4
Total fixed assets, net	3,135.2	3,305.0	-169.8
Trade receivables	222.9	373.3	-150.4
Inventories	17.3	15.2	2.1
Other assets	30.5	14.2	16.3
Trade payables	165.6	206.2	-40.6
Taxes payable	48.6	-8.6	57.2
Other liabilities	228.6	255.6	-27.0
NET CURRENT ASSETS	-172.1	-50.5	-121.6
GROSS CAPITAL EMPLOYED	2,963.1	3,254.5	-291.4
Employee termination indemnities	75.7	73.1	2.6
Retirement benefits	39.4	40.2	-0.8
Net deferred taxes	137.2	128.1	9.1
Other provisions	36.4	24.9	11.5
Total provisions	288.7	266.3	22.4
NET CAPITAL EMPLOYED	2,674.4	2,988.2	-313.8
Total shareholders' equity	2,454.4	2,381.3	73.1
Total financial debt*	220.0	606.9	-386.9
TOTAL	2,674.4	2,988.2	-313.8
*Total financial debt			
EIB loan	325.0		
Debt assumed by Enel SpA	478.5		
Intercompany current account	-583.5		
	220.0		

⁽¹⁾ Main adjustments included the following:

- > Receivables and payables relating to the Parent Company and other Group companies were reclassified under Trade receivables and payables;
- > Deferred tax assets were netted off under item Deferred tax provision;
- > Payables to the Parent Company resulting from the transfer of the Enel Managers Pension Fund were included under the Provision for retirement benefits.

The decline in fixed assets is due primarily to the difference between capital expenditure and depreciation for the year, more marked at the end of the year due to the coming into operation of the Italy-Greece power line. The strong decline in trade receivables is due to the payment of overdue fees by the ISO.

The decline in trade receivables (from third parties and other Group companies) results from the high capital expenditure carried out in the last months of the previous year.

Higher taxes payable result from the higher tax expense for the year.

The increase in Employee termination indemnities can be attributed in full to accruals made in the year, while the decline in the Retirement benefits provision is due to higher uses with respect to the accrual made in the year.

The increase in the Tax provision is caused by accruals made for accelerated depreciation, while the increase in Other provisions is due to the Provision for early retirements benefits.

Operating and financial review

A Statement of Cash Flows for fiscal years 2002 and 2001 is provided below:

Statement of Cash Flows

In millions of euro

	at Dec. 31, 2002	at Dec. 31, 2001	Change
A) SHORT-TERM FINANCIAL DEBT			
(NET SHORT-TERM FINANCIAL ASSETS)	245.9	57.8	188.1
Cash and banks	0.1	0.1	0.0
Intercompany current account balance	245.8	57.7	188.1
B) CASH FLOW FROM OPERATIONS			
Net income	88.1	68.0	20.1
Amortization and depreciation	287.3	283.1	4.2
Net write-downs (revaluations)	6.3	1.0	5.3
Net change in provisions	19.8	5.9	13.9
Net change in Employee Termination Indemnities	2.6	6.1	-3.5
Loss (capital gain) on disposal of assets	6.2	-0.4	6.6
Cash generated by operations	410.3	363.7	46.6
Changes in current assets:			
- (Increase) decrease in current receivables	150.4	-240.4	390.8
- Increase (decrease) of trade and other payables	-5.2	42.6	-47.8
- Change in other Balance Sheet items	11.8	27.7	-15.9
Total B) – Operating Cash Flow	567.3	193.6	373.7
C) CASH FLOW FROM INVESTING ACTIVITIES			
Investments in:			
- Intangible assets	0.0	0.0	0.0
- Tangible assets	-163.9	-190.9	27.0
- Other long-term financial assets	0.5	0.1	0.4
- Change in equity investments	-1.9	-1.0	-0.9
Total C)	-165.3	-191.8	26.5
D) CASH FLOW FROM INVESTING ACTIVITIES			
New medium- and long-term debt	0.0	250.0	-250.0
Repayment of medium- and long-term debt	-49.2	-57.0	7.8
Dividends	-15.1	-6.7	-8.4
Total D)	-64.3	186.3	-250.6
E) CASH FLOW GENERATED	337.7	188.1	149.6
F) FINANCIAL DEBT			
(NET SHORT-TERM FINANCIAL ASSETS)	583.6	245.9	337.7
Cash and banks	0.1	0.1	0.0
Intercompany current account balance	583.5	245.8	337.7

Cash flow from operations

Cash flow from operations amounted to about euro 567 million, as compared with about euro 194 million in the previous year.

Cash flow before changes in net current assets was about euro 410 million, increasing by about euro 47 million due primarily to the improvement in the Gross Operating Margin.

Net current assets increased sharply from the previous year by about euro 327 million due primarily to the more efficient collection of receivables from the ISO, despite a strong decline in trade payables.

These components (cash generated by operations + changes in net current assets) resulted in an overall increase in the operating cash flow on 2001, growing by about euro 374 million, up 193%.

Cash flow from investing activities

In 2002 cash employed in investing activities decreased by about euro 27 million.

Cash flow from financing activities

The marked decline of about euro 250 million on the previous year is due to the loan extended by the EIB in 2001.

Cash flow generated

Cash flow generated in the year increased by about euro 150 million as compared to the previous year.

Capital expenditure and environmental impact

Capital expenditure for the year amounted to euro 163.96 million and relates to the following:

Capital expenditure

In millions of euro

	2002	2001
- Power lines	62.12	56.21
- Transformer stations	95.76	126.06
- Other	6.08	8.68
Total capital expenditure	163.96	190.95

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

Highlights of projects completed by Terna in 2002 are provided below:

- > Italy-Greece link
- > Restructuring of the Villavalle station 380 kV section
- > Villavalle links
- > Restructuring of Baggio station
- > Concarena by-pass to the 380 kV Gorlago-S. Fiorano power line
- > Rebuilding of the 132 kV Verampio-Pallanzeno power line
- > Derivation of the Ovaro primary cabin
- > Rebuilding of the Vellai station
- > Upgrade of Martignone station
- > Restructuring of the Poggio a Caiano station
- > Replacement of disconnectors at the Valmontone station
- > Upgrade of the Candia station
- > Benevento Il-Fogliano link to the Campania-Apulia wind generation park.

Measures taken to reduce environmental impact

In building new electricity lines, Terna 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.

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 same mapping system will be used to submit plans for new works to local authorities – as early as the initial planning stage – that will therefore be able to contribute to the design and help to improve key aspects relating to environmental issues, landscaping and visual impact.

With regard to the issue of magnetic fields, a program for the mapping of magnetic fields generated by power lines was prepared in cooperation with CESI.

In 2002 Terna continued to develop the engineering design of contest-winning power line pylons (De Lucchi and Foster design) in the context of the "Supports for the environment" international competitions, assigning the preparation of executive plans and the construction of prototypes to specialized companies. The engineering program will allow the

start of production in time for the construction of the new 380 kV Tarnuzze-Casellina power line.

The production of the first round section pylons for 380 kV DC power lines for the Laino-Rizziconi 380 kV power line in the Pollino National Park started. The installation will allow to comply with Environmental Impact Assessment (V.I.A.) specifications and was agreed upon with the Park's authorities.

Based on agreements reached with Lombardy regional authorities and Italy's Environment Ministry, Terna began construction of an alternate segment for the 380 kV Gorlago-S. Fiorano power line for the stretch that currently lies within the Capo di Ponte and the Concarena park where archeological sites are present.

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

Main projects in 2002 included:

- > 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, the construction of the new power line was approved by the competent Ministry in October 2002. 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 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) and a plant under construction at S. Barbara (Arezzo). 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 the rebuilding, as a simple three-phase line – with lower and less visually-obtrusive supports – of a segment of the existing "Raccordi di Tarnuzze" 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;
- > a number of activities allowing the transmission of electricity generated by the new S. Giacomo hydroelectric station (260 MW), owned by Enel Produzione, on the 380 kV network are planned. These will allow the safe operation of the power plant at capacity. The decree authorizing the construction and subsequent exercise of the "S. Giacomo-Teramo" 380 kV power line, the new Teramo station and the related links to the "Rosara-Villanova" 380 kV power line was issued in May 2002. Construction of the new power line started in November 2002 and are expected to be completed, after the coming into operation of the Teramo substation whose construction will start in the first months of 2003, in the spring of 2004;
- > the new Pietrafitta (Perugia) 220/132 kV transformer station, linked to the 220 kV NTN through double three-phase lines to the 220 kV "Arezzo-Villa Valle" line, was completed and put into operation.

Streamlining of the electricity network

Capital expenditure and environmental impact

Legal issues regarding the environment

Legal action involving Terna on environmental matters relates to power plant installation and operation, where the key environmental issue relates to the effects of electric and magnetic fields.

Decrees to be issued by the President of the Council of Ministers pursuant to Law no. 36 of February 22, 2001 establishing parameters (exposure limits, thresholds of concern and quality targets) relating to electrical equipment in operation are still pending, and the law's impact on current legal proceedings is still limited to general principles.

Terna 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.

Regarding decisions taken on the matter, only sporadically have there been pronouncements unfavorable to the company, for all of which appeals made by the company are still pending, while no health damages have ever been granted.

Finally, it is important to note that the ISO is, along with Terna, 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.

Plant and equipment

Plant and equipment

	Dec. 31, 2002		Dec. 31, 2001	
	no.	km	no.	km
Stations	275	-	268	-
Transformers	554	-	550	-
Bays	3,678	-	3,649	-
Lines	-	33,884	-	33,580
Three-phase lines	1,814	37,583	1,786	37,218

The increase in *Stations* is due primarily to electricity delivery points / linkages with producers other than Enel Group companies, and the construction of the Arachthos converter station in Greece.

Transformers, increasing slightly in number on the previous year, were included in a program for the replacement of existing ones with more powerful equipment, increasing total transformation capacity to 101,493 MVA (as compared with 99,505 MVA at December 31, 2001).

The increase in *Three-phase lines* is due mainly to the construction of new connections and the abandonment of segments no longer usable.

Relationships with related parties

All relationships with Enel Group companies are governed by specific contracts stipulated among the various parties involved at market conditions.

Contracts stipulated with the Parent Company generating expenses for Terna relate primarily to:

- > quotas of mortgages, financing and the Management 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 cafeterias (Enel Real Estate);
- > rental of residential real estate and related maintenance services (Enel Real Estate);
- > supply and management of data processing services; (Enel.it);
- > plant construction (Enelpower);
- > supply of telephone and telecommunications services (Wind);
- > personnel training services (Sfera);
- > research (CESI)
- > human resource management services (Ape).

While contracts generating revenues relate to:

- > operation and maintenance of high-voltage network (Enel Distribuzione);
- > laying and maintenance of fiber optics (Enel.it);
- > housing activities (Wind, through an outsourcing contract with Enel Real Estate).

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 headcount at year-end

	at Dec. 31, 2002	at Dec. 31, 2001	Change
Managers	27	25	2
Officers	214	225	-11
Employees	1,488	1,506	-18
Workers	1,377	1,458	-81
TOTAL	3,106	3,214	-108

Figures for 2001 and 2002 are net of terminations for each year (amounting to 83 in 2002 and 177 in 2001).

The decline in the headcount for 2002 is due mainly to personnel taking advantage of incentives for early retirement.

Despite the overall reduction in personnel, in the last Quarter of 2002 Terna started a program for the hiring of personnel from other Group companies to fill vacancies in operating personnel, more affected than technical staff by the outflow resulting from early retirement.

In 2002 Terna committed considerable resources in the training of personnel at all levels, increasing the use of the Enel Distance Learning System (EDLS).

Training activities focused on the strengthening of managerial and technical skills, key factors for the development of human resources more suited to the company's objectives and strategies. The results of a survey on corporate climate carried out at the end of 2001 were kept into account.

In the context of a strengthening of Project Management skills, Terna organized base and advanced level courses involving both classroom training and EDLS resources (focused on the MS Project), targeted at technical and Area Operating Units (AOU) personnel.

All middle managers of the company followed two training paths: EDLS training aimed at strengthening Project Management and Problem Solving skills, and a mixed program (classroom and EDLS) diversified according to the professional position or AOU, aimed at strengthening team working, time management and communications skills.

Professional resources, both middle managers and employees, already identified as "talents" through an earlier assessment carried out in 2000-2001, participated in a staff development project involving individual participation in external training and initiatives promoted by Enel. Training programs involving all employees were organized through the EDLS. Training focused on the strengthening of commonly used computer skills (office automation) and issues regarding safety in the workplace.

Specialized courses focused on core competencies (operations, quality management system, etc.), information technology and innovation skills (SAP, special applications, etc.) were offered to personnel in operating areas and holding technical positions, both for updating skills and developing professional competencies.

On the theme of safety, all workers and technicians were involved in an information campaign regarding Safety Rules on Terna's Electrical Risk (DPRET), accompanied by the

Human resources and training

distribution of an information leaflet and publication on the Group's Intranet of all documents involved. A training course on CD-ROM was distributed to all personnel involved.

Operating personnel was involved in regular training sessions on safety and working methods organized in group teams.

Finally, with regard to training on live working, a first phase of an innovative training program that uses both traditional and on the job training, supported by multimedia and virtual reality training aids, was introduced experimentally in late 2002 at one of the company's centers. Work for the preparation of multimedia and virtual reality supports for the course continued.

Training activities in 2002 involved 3,095 participants, of which about 2,200 through EDLS.

Research

In the area of research, Terna cooperates with CESI SpA, an Enel Group subsidiary in which Terna holds an equity interest.

Main projects in 2002 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 on line 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 for problems connected with electric and magnetic fields.

Growth and innovation

Throughout 2002, Terna placed particular emphasis on growth and innovation, focusing on the following:

- > Innovation in the field of stations and power lines
- > Station automation
- > SCTI-Net remote control infrastructure
- > Carrier lines
- > Monitor Business Intelligence (MBI)
- > Monitor Project
- > E-Procurement and Internet-based technologies for purchasing activities
- > ISO 9001 certification
- > New SAP/SD module
- > Internet portal
- > Intranet, knowledge management and internal communications
- > Balanced Scorecards and incentive system.

Innovation in the field of stations and power lines

The following projects in the field of electric station design were started:

- > with the help of Studio De Lucchi, a number of environmental improvements involving electric stations were developed for future applications. The following stations were involved:
 - Roma Est , for which work has already been completed,
 - Carpi, for which work is underway,
 - Tarnuzze, for which authorization is pending;
- > compact 170 kV systems: These are multi-functional compact systems built using an innovative but consolidated technology. They offer numerous advantages in terms of size, lower construction work, fast testing and installation, low maintenance costs and environmental impact. In 2002, they were installed at the Vellai and Pietrafitta stations where, due to lack of space and the need to limit power disruptions, compact systems proved particularly useful vis-à-vis conventional equipment.
- > Redefinition of technical specifications for 400 kV and 230 kV ATRs of all sizes to bring them into line with international regulations, simplify documentation, liberalize the choice of accessories, induce technological innovation, gain a more in-depth knowledge of the specific design features of the equipment to improve diagnostics in operation and the related maintenance (see MBI), extending warranties to the coming into service and first operation.
- > Redefinition of technical specifications for TRs, in line with Enel Distribuzione and with the same approach used for ATRs.
- > GIS Project: the GIS project will allow the geo-referencing of network components (power lines and stations), and their representation on maps of various types and scales. Technical specifications for the project have been issued and the contract for its construction was activated. The system, currently being constructed, will allow to manage themes relating to the design, construction and maintenance of plant and equipment, through interfaces with other internal information systems.

In the context of the new Integrated Station Control and Automation System (SICAS) for which the first bids were solicited in 2001, the activity concentrated in the management of contract work awarded in 2001.

Due to the late delivery and difficulties encountered by suppliers, a review of contracts was carried out in the second half of 2002, rescheduling the activity of plant and equipment that is not critical in light of commitments taken, continuing to utilize for critical plants technologies currently in use (SPCC).

A new project denominated "SICAS Standard" was launched. The project aims at standardizing operations and complying with new international standards (IEC 61850).

In 2002, remote control equipment for the SCTI-Net connection system allowing to achieve economies of scale in the field of operating data exchange, providing resources at a marginal cost for intercompany services or the provision of services to third parties. The said architecture will be used extensively also in all information flows regarding diagnostics and maintenance, particularly in the context of the MBI Project.

The future development of the technology adopted is to progressively transfer the system to two basic standards:

- > IEC, in relation to safety and remote control quality standards
- > Internet/Intranet and web-based applications, in line with current trends in the automation market.

In the context of this project, the duplication of station routers, increase of transmission capacity, insertion of Firewall systems for the protection of access, were concluded. The project was assigned to Wind in view of its direct impact on the SCTI communications network.

In the sector of new Digital Carrier Power Lines on high and very-high voltage power lines, in 2002, activity concentrated on the installation and testing of the first pilot networks, used to test the functioning, limits to employment and operating characteristics of the new technologies.

A sub-network connecting the Bellolampo, Caracoli, Ciminna and Partinico, in Sicily, was put into operation and tested at a connection speed of 64,000 bits/sec. Positive results achieved – in a climate of strong international interest, as demonstrated by CIGRE study groups – led to a wider project aimed at the development of a remote control dedicated network. The basis of such project (general specifications, executive specifications, equipment) was completed at the end 2002.

The purpose of the MBI system, a modern e-maintenance platform, is to support Terna 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.

The system was activated through the use of a platform located at CESI. At the end of 2002, Terna's final platform was activated at the Roma Nord station. With regard to electric stations, the MBI system was completed with a range of engineering models and tuned-up to user needs. Initial procedures were developed.

Station automation

SCTI-Net remote control infrastructure

Carrier lines

Monitor Business Intelligence (MBI)

Growth and innovation

With the connection of MBI to the SAP and SCTI environments, completed in the second half of 2002, MBI's software platform was completed, providing an information system for the intelligent management of maintenance.

The development of the new MBI system for power lines started.

In the field of line monitoring of major electrical components, a high-voltage transformer monitoring system involving the installation of sensors and equipment on plant was activated. The system is installed by Terna personnel and allows to monitor main chemical and physical parameters of high-voltage transformers located at the Roma Nord, Villa Valle, Martignone, Vignole and Turbigio stations.

Monitor Project

Terna's Monitor Project is aimed at developing the use of new computing technologies (palm-held computers, pocket PCs, laptops, etc.) in the recording of plant status check reports in place of paper logs.

Activity in 2002 involved exclusively Terna personnel and led to the creation of an information system supporting status reports on electric stations.

The newly developed system will be implemented in all operating areas starting from the first half of 2003.

E-Procurement and Internet-based technologies for purchasing activities

Terna's purchasing activities in 2002 featured the consolidation of the use of systems developed within the E-Procurement and BAP projects, both of which are Internet-based, exploiting the medium to its full potential.

In the 93 online auctions held in 2002 the company obtained significant results, consolidating the positive results achieved in the previous year.

The product catalog was enriched with the inclusion, from the second half of 2002, of consumables.

In 2002, Terna started a trial application of the E-Monitoring project through an Internet site on which the supplier is able to report the status of orders assigned, allowing Terna to make adjustments in case of changes from the original schedule.

ISO 9001 certification

In October 2002 the Agency supervising Quality System Certifications (QSC) audited Terna. Checks made at the company's Departments and operating units on the territory allowed it to confirm its quality standard certification, extending it to the UNI EN ISO 9001:2000 standard.

The extension of the certification was obtained thanks to the good results achieved in the audit that have shown a widespread and punctual application of the quality system standard (SGQ), and the acknowledgment of the strong commitment to improve the quality system shown by the company's management who launched in the year a review of the company's entire quality system, based on the Vision 2000 program.

A project for the replacement of the legacy application for the management of sales with the SAP-SD module was launched in the second half of 2002.

The project was completed on schedule and the new application has been operational since December 2. All the phases of the project (analysis, setting of the business blueprint, design and testing) featured the strong involvement of internal resources, and included training for sales, technical and administrative personnel.

The data warehouse feeding system was completely redesigned to develop data extraction and reporting systems equivalent to those previously available, allowing the feeding of management reporting systems (control panels and BSC) with sales information. The development phase is expected to be complete in the first months of 2003.

The SAP-SD approach led to the complete revision of the Quality System, to keep into account the different data entry and tracking procedures provided for by the mentioned regulations.

New SAP/SD module

Internet

Terna's portal became operational at the end of May 2002. The new portal is characterized by a new graphic design, in line with that of the Group, in addition to the introduction of reserved access areas, aimed at developing optimal relationships with suppliers and customers.

The system induces the development of a new type of relationship between Terna and its business counterparts, characterized by speed and customization, in addition to responding to the need to continuously update information and management processes, ensuring continuity and results.

Internet portal

Suppliers

The area dedicated to relationships with suppliers is designed to manage the following processes:

- > solicitation of bids and periodical issue of notices
- > access to the Ariba platform for online bidding through reserved access areas
- > management of on line eligibility processes (RFI, RFQ)
- > vendor rating management
- > management of orders (road book) through reserved access areas, monitoring progress and allowing to detect rapidly together with the supplier, critical situations and related corrective action.

Customers

A mini site, in a reserved and protected area, containing information and documents relating to a specific plant of a customer, is generated automatically for each unregulated activity customer. Mini sites contain document and information of interest for the customer, enhance technical support and business communications, develop customer loyalty, create new business opportunities, providing technological support for the offer of new services.

In this context, a number of free services were offered starting in June 2002, while a number of pay services will be offered starting in 2003 (tracking & messaging for

Growth and innovation

operational fast support, management of plant documents, etc.).

The following are already available:

- > virtual warehouse: searches for high-voltage equipment used
- > critical factors: indicates main critical situations for plants belonging to the customer, determined according to the impossibility to extend activities beyond the term prescribed by the norm or in light of relevant anomalies detected by our technicians upon access to the premises
- > technical reports: makes technical reports on diagnostic or maintenance activities at the customers plants available online.

Intranet, knowledge management and internal communications

Terna's new Intranet was launched at the end of 2001 and was enriched with new contents in 2002. Among these are more detailed technical information and an improved exposure and focusing of sections. Resources that manage the implementation of content were also improved to provide more timely and complete updates.

Terna's Intranet represents an internal information and communication instrument, aimed at providing a platform for the sharing of information and supporting activities through knowledge management. A new project aimed at adding new services and uses in line with such objectives was launched in the year.

The project aims at providing, among other things:

- > a data base of operating case studies and best practices based on forums dedicated to the study of significant operating cases
- > news letters
- > a banner for the launch of internal communications initiatives, training and corporate events
- > e-mail services linked to specific sections acting as direct links for work groups, projects, etc.

The new release, introduced on a trial basis at the end of 2002, will be made available at the beginning of 2003 and will result in larger back office resources dedicated to its implementation.

Internal communications in 2002 were characterized by a wide communications campaign involving meetings on the territory with all personnel aimed at the sharing of corporate objectives and strategies. On the same occasion, a "quality control cards" project was launched with the aim of allowing all personnel to follow the company's operating and financial performance through the periodic monitoring of quality and productivity indicators. Department heads and all middle managers were also involved in a series of meetings aimed at analyzing and discussing the results of a survey on corporate climate carried out in 2001 for the purpose of developing a feeling of sharing of values and responsibility towards future improvement.

Balance Scorecards and incentive system

The existence within Terna of a consolidated managerial model supported by a set of performance indicators for all business units – Balanced Scorecards and Terna Control Panel – allowed the adoption of an innovative incentive system based on known and shared criteria that makes use of a set of targets, certified results and objectives.

The system is structured around a set of indicators relating to the Economic, Processes, Clients and Growth and Innovation fields of the Balanced Scorecards and Terna Control Panel, whose performance determines the assessment of results achieved by the persons to which the individual incentive system is targeted or by the units for which performance is assessed.

The use of indicators, targets and results in line with the management control system of the company, with results updated and published in the year, determines the full alignment of actions performed by all of the company's business units with the achievement of Terna's objectives.

Management expectations of operations in 2003

In addition to the consolidation of the leadership of the Company in the sector of the development and maintenance of the NTN, with particular reference to the winning of bidding procedures solicited by the ISO, management efforts in 2003 will focus on the safeguard and the creation of value for the company and its shareholders. To this end, Terna will pursue the following:

Personnel professional enhancement

With regard to Training and Professional Development, in 2003 Terna will focus on professional skills, with particular reference to the development and maintenance of distinctive competencies. Training includes, in fact, specialized courses aimed prevalently to personnel active in the Operations and Engineering areas. Many of the courses will be organized and held internally, allowing to create *momentum* for the spreading of know-how within the company. The integration between training and the Intranet is aimed in the same direction, acting as a depository for knowledge and technical documentation (the new released of the company's Intranet, improved with regard to contents and services, developing in the direction of knowledge management, is expected to be launched at the beginning of 2003). On-field training procedures will be strengthened to facilitate the transfer of know-how. In the field of safety, a series of courses, many of which make use of multimedia supports created for the purpose in 2002 and covering all areas of interest, will be made available. Personnel holding managerial and professional positions will be involved in personalized training through the selection of selected courses and the use of EDLS courses offered by Sfera. In 2003, surveys for the assessment of competencies of professional areas and specific positions considered key for the development of the company, in line with Terna's focus on distinctive competencies, will be carried out. Such actions will provide indications for the organization of personalized training paths (for individuals or groups) aimed at both training and development.

The safeguard and development of distinctive competencies is the guiding factor for a hiring plan – both of personnel of other Group companies and from the outside – for technical areas to be implemented in 2003, to satisfy the needs of turnover management and generational change.

In the context of the continuous development of operating skills, the implementation of computer applications supporting operating activities, having an impact on the organization and technologies employed, is an important factor. The objective pursued is a progressive reduction of repetitive actions with low value added and the consequent stronger growth of personnel in terms of professional qualifications. Ideas and proposals for innovation are transferred from the outside of the company towards its core, and vice versa, and are translated into applications through a Committee for Information Technology that overviews their flow.

Innovation

With regard to innovation, which is one of the issues on which the company is most focused, the following main events took place in the year: the development and first solicitation of bids for the new SICAS Standard Project, the completion of the MBI for power lines, the integration of high-voltage components monitoring systems in the context of the MBI platform, the installation of the first remote control digital sub-network, the coming into service of the upgrade for the SCTI-Net.

Unregulated activities

The development of unregulated activities in 2003 will include primarily:

- > the strengthening of relationships with customers through the enhancement of the Internet portal and of the mini sites dedicated to the customers' plant and equipment, in addition to a stronger focus on long-term full-service contracts;
- > development in the sector of network automation, exploiting opportunities offered by synergies with Enel.Hydro in the water sector and participating to auctions for orders in the gas sector;
- > the achievement of additional profit margins through the selection of business opportunities featuring high specialization, through which to achieve an optimal use of the competencies of our personnel.

The above mentioned actions are expected to allow the company to achieve in 2003 a higher productivity level than in 2002.

Financial Statements
at December 31, 2002

Balance Sheet

Euro

ASSETS	at Dec. 31, 2002	at Dec. 31, 2001	change
A) SHARE CAPITAL NOT PAID-IN	0	0	0
B) FIXED ASSETS			
I. Intangible assets			
1) Incorporation costs	31,124	62,248	-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	0	34,772,527	-34,772,527
Total	31,124	34,834,775	-34,803,651
II. Tangible assets			
1) Land and buildings	313,747,276	316,292,070	-2,544,794
2) Plant and machinery	2,513,320,098	2,502,676,392	10,643,706
3) Industrial and commercial equipment	10,918,068	10,604,045	314,023
4) Other assets	1,013,958	1,282,740	-268,782
5) Work in progress and advances	282,980,843	427,427,214	-144,446,371
Total	3,121,980,243	3,258,282,461	-136,302,218
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	3,468,129	1,570,029	1,898,100
2) Receivables from:			
a) subsidiaries	0	0	0
b) affiliated companies	0	0	0
c) Parent Company	0	0	0
d) others	9,711,727	10,189,219	-477,492
<i>- due within 12 months</i>	<i>415,393</i>	<i>401,462</i>	<i>13,931</i>
3) Other securities	0	0	0
Total	13,179,856	11,759,248	1,420,608
Total fixed assets (B)	3,135,191,223	3,304,876,484	-169,685,261
C) CURRENT ASSETS			
I. Inventories			
1) Raw materials	2,650,461	252,591	2,397,870
3) Contract work in progress	14,615,926	15,042,626	-426,700
5) Advances	0	0	0
Total	17,266,387	15,295,217	1,971,170
II. Receivables			
1) Trade:			
- third parties	193,474,321	346,134,558	-152,660,237
- other Enel Group companies	30,708,711	30,184,374	524,337
2) Subsidiaries	0	0	0
3) Affiliated companies	0	0	0
4) Parent Company	583,469,195	246,495,216	336,973,979
5) Others	29,680,843	26,482,913	3,197,930
<i>- due beyond 12 months</i>	<i>28,330,523</i>	<i>23,566,107</i>	<i>4,764,416</i>
Total	837,333,070	649,297,061	188,036,009
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 on hand	93,380	65,259	28,121
Total	93,380	65,259	28,121
Total current assets (C)	854,692,837	664,657,537	190,035,300
D) ACCRUED INCOME AND PREPAID EXPENSES			
1) Accrued income	10,910,745	6,757,855	4,152,890
2) Prepaid expenses:			
- issue discounts	0	0	0
- other	2,712,909	1,996,320	716,589
Total accrued income and prepaid expenses (D)	13,623,654	8,754,175	4,869,479
TOTAL ASSETS	4,003,507,714	3,978,288,196	25,219,518

Euro

LIABILITIES AND SHAREHOLDERS' EQUITY	for the year ended Dec. 31, 2002	for the year ended Dec. 31, 2001	change
A) SHAREHOLDERS' EQUITY			
I. Capital stock	2,036,050,000	2,036,050,000	0
II. Paid-in capital in excess of par value	0	0	0
III. Revaluation reserves	0	0	0
IV. Legal reserve	73,910,747	70,511,122	3,399,625
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	256,094,727	213,327,107	42,767,620
- other	16,445	16,445	0
VIII. Retained earnings	215,292	175,418	39,874
IX. Advance on 2001 dividends	0	-6,718,965	6,718,965
Net income	88,119,868	67,992,484	20,127,384
Total Shareholders' Equity	2,454,407,079	2,381,353,611	73,053,468
B) PROVISIONS FOR RISKS AND CHARGES			
1) Retirement benefits	838,114	451,506	386,608
2) Taxes	151,126,916	138,284,852	12,842,064
3) Other	36,354,164	24,952,699	11,401,465
Total	188,319,194	163,689,057	24,630,137
C) EMPLOYEE TERMINATION INDEMNITIES	75,696,571	73,056,890	2,639,681
D) PAYABLES			
1) Bonds	0	0	0
2) Convertible bonds	0	0	0
3) Bank loans:			
- medium- and long-term loans	325,000,000	325,000,000	0
- due beyond 12 months	325,000,000	325,000,000	0
- short-term loans	0	0	0
4) Other loans	0	0	0
5) Advances	48,913,761	75,847,234	-26,933,473
- due beyond 12 months	36,271,286	28,718,725	7,552,561
6) Trade payables:			
- others	101,237,406	125,791,701	-24,554,295
- due beyond 12 months	806,336	1,282,481	-476,145
- other Enel Group companies	63,572,019	76,691,342	-13,119,323
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	518,619,151	571,367,565	-52,748,414
- due beyond 12 months	491,414,218	515,562,114	-24,147,896
11) Taxes payable	48,849,196	5,796,395	43,052,801
12) Social security payables	7,335,662	42,236,567	-34,900,905
13) Other payables	16,752,386	22,636,921	-5,884,535
Total	1,130,279,581	1,245,367,725	-115,088,144
E) ACCRUED LIABILITIES AND DEFERRED INCOME			
1) Accrued liabilities	7,221,080	7,442,020	-220,940
2) Deferred income:			
- premium on bond issues	0	0	0
- other	147,584,209	107,378,893	40,205,316
Total	154,805,289	114,820,913	39,984,376
Total liabilities	1,549,100,635	1,596,934,585	-47,833,950
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,003,507,714	3,978,288,196	25,219,518
COMMITMENTS			
Guarantees given	2,200,132	1,979,288	220,844
Other commitments	340,034,663	282,240,578	57,794,085
Total	342,234,795	284,219,866	58,014,929

Income Statement

Euro

INCOME STATEMENT	2002	2001	Change
A) REVENUES			
1) Revenues from sales and services:			
- network usage fees	729,960,565	708,728,540	21,232,025
- other sales and services	65,834,054	54,608,626	11,225,428
3) Change in contract work in progress	-426,700	231,799	-658,499
4) Capitalized expenses	14,931,901	12,505,524	2,426,377
5) Other income and revenues:			
- contributions received	11,313,951	16,927,555	-5,613,604
- other	23,151,020	12,278,492	10,872,528
Total revenues	844,764,791	805,280,536	39,484,255
B) OPERATING COSTS			
6) Raw materials	21,319,228	14,646,186	6,673,042
7) Services	99,929,503	114,134,851	-14,205,348
8) Leases and rentals	13,826,600	15,341,590	-1,514,990
9) Personnel:			
- wages and salaries	116,872,768	115,774,969	1,097,799
- social security contributions	31,511,355	31,744,713	-233,358
- employee termination indemnities	9,897,305	9,514,572	382,733
- retirement benefits	1,274,949	1,557,572	-282,623
- other costs	6,374,017	5,912,087	461,930
10) Depreciation, amortization and write-downs:			
- intangible assets, amortization	31,124	31,124	0
- tangible assets, depreciation	287,338,813	283,095,849	4,242,964
- other write-downs of fixed assets	432,768	2,210	430,558
- write-downs of current receivables	1,104,378	1,744,044	-639,666
11) Change in inventories	-2,397,870	-252,591	-2,145,279
12) Accruals to provisions for risks and charges	5,157,372	8,689,825	-3,532,453
13) Other accruals	0	0	0
14) Other operating costs	17,315,144	16,888,567	426,578
Total operating costs	609,987,454	618,825,568	-8,838,114
OPERATING INCOME	234,777,337	186,454,968	48,322,369
C) FINANCIAL INCOME AND EXPENSE			
15) From investments in:			
- subsidiaries	0	0	0
- affiliated companies	0	0	0
- other companies	96,753	0	96,753
16) Other financial income:			
a) From long-term receivables			
- subsidiaries	0	0	0
- affiliated companies	0	0	0
- other companies	320,615	335,617	-15,002
b) From long-term financial assets	0	0	0
c) From marketable securities	88	0	88
d) Income other than the above:			
- subsidiaries	0	0	0
- affiliated companies	0	0	0
- Parent Company	10,910,745	6,757,855	4,152,890
- others	23,940	138,396	-114,456
17) Interest and other financial expense:			
- subsidiaries	0	0	0
- affiliated companies	0	0	0
- parent company	37,342,663	40,140,379	-2,797,716
- other Enel Group companies	0	0	0
- others	13,204,874	8,701,071	4,503,803
Total financial income (expense)	-39,195,396	-41,609,582	2,414,186

Euro

INCOME STATEMENT	2002	2001	Change
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	0	0
- other	3,537,158	547,982	2,989,176
21) Expense:			
- losses on disposal of assets	0	0	0
- previous years' taxes	0	502,914	-502,914
- other	48,104,897	38,263,486	9,841,411
Total extraordinary items	-44,567,739	-38,218,418	-6,349,321
INCOME BEFORE TAXES	151,014,202	106,626,968	44,387,234
22) Income taxes	62,894,334	38,634,484	24,259,850
- current	51,723,577	18,865,709	32,857,868
- prepaid	-3,981,862	2,982,484	-6,964,346
- deferred	15,152,619	16,786,291	-1,633,672
23) NET INCOME	88,119,868	67,992,484	20,127,384

Notes to the Financial Statements

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 provisions of the Italian Civil Code 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.

A Statement of Cash Flows is included in the "Report on operations".

No recourse was made to derogations provided under art. 2423, 4th comma of the Italian Civil Code.

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

Accounting principles

The accounting principles used in the preparation of the Financial Statements at December 31, 2002 are consistent with those applied in the Financial Statements of the previous year. Such principles are in line with provisions of art. 2426 of the Italian Civil Code, supplemented by the accounting principles issued by the National Council of Certified Public Accountants. The most significant principles are illustrated below.

Intangible assets

They are recorded at cost and reflect residual amounts of investments whose economic life spans over several years. Amortization is calculated on a straight line basis according to the expected useful economic life of the assets.

Incorporation and related costs are amortized over a five-year period.

The extraordinary contribution due upon suppression of the Electricity Sector Employee Pension Fund, pursuant to Law no. 488 of December 23, 1999 (2000 Budget Law) as specifically provided by law can be amortized respectively over a period of 20 years or 3 years, the company amortized contributions in three years. The third and last installment was recorded in the Income Statement in the year.

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 by the conferring Enel SpA. The above defined cost is written-down in the event of a permanent impairment in value and restored, net of depreciation, in the event that conditions for such impairment cease to exist.

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 stations:	
- 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 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.

Starting from 2000, accelerated depreciation (as per art. 67, 3rd comma of Presidential Decree no. 917/86) is charged directly to a Shareholders' Equity reserve at the time of appropriation of earnings by the Annual Shareholders' Meeting, recording the related

Balance Sheet

Accounting principles

deferred tax amount in the Income Statement, in line with Accounting Principle no. 25 of the National Council of Certified Public Accountants.

Accelerated depreciation accumulated up to 1999 was reclassified in 2000 in a specific reserve, net of the related tax effect. The reserve is progressively transferred to other equity reserves upon taxation of the said accelerated depreciation charges.

Financial assets

Equity investments

Equity investments in other Group companies are accounted for under the acquisition cost method.

Inventories

Raw material, auxiliary and consumption goods used in the operation of plant and equipment are valued at the weighted average acquisition cost.

Contract work in progress is valued at the amounts set in order contracts accrued with reasonable certainty, according to the percentage of completion method.

Receivables

Receivables are recorded at their expected redemption value and classified among "Financial assets" and "Current assets", according to their nature and use.

Accruals and deferrals

They are recorded based on the accrual method.

Provisions for risks and charges

Provisions for retirement benefits

The provision includes compensation paid in lieu of notice to existing personnel entitled to the same 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 the amount and timing of which are undetermined at the balance sheet date. Amounts accrued reflect the best possible estimate based on available information.

Provision for employee termination indemnities

The provision covers amounts owed to the employees pursuant to the Italian law and labor contracts, in force at the balance sheet date, net of advances made and contributions to Pension Funds of the Enel Group withheld by the company.

Accounts payable

Accounts payable are stated 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 relate to commitments, guarantees and other commitments assumed by the company.

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

Capital grants

Grants received for execution of specific work, whose value is recorded among tangible assets, are recorded as deferred income when 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.

Other grants

They relate to grants received against expenses for studies carried out and are recorded in the Income Statement when 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 taxes on income are recorded among tax liabilities based on estimated taxable income, in compliance with current laws.

Deferred tax assets and liabilities are recognized on temporary differences between the financial reporting and tax bases of assets and liabilities at each balance sheet date.

Deferred tax assets are recorded among assets to the extent that the company is reasonably certain that such amounts can be recovered.

Environmental costs

Environmental costs relate to prevention, reduction and monitoring of the environmental impact of production activities. Cost relating to the extension of the useful life, capacity or safety of tangible assets are capitalized. Provisions for risks and charges are accrued when it is probable or certain that the cost will be incurred and the amount can be reasonably estimated.

Income Statement

Assets

Share capital not paid-in

The item has a zero balance at December 31, 2002.

**Intangible assets
Euro 0.03 million**

Changes in intangible assets are summarized below:

Euro					
	Dec. 31, 2001	Increases	Amortization	Other changes	Dec. 31, 2002
<i>Incorporation costs</i>	62,248		-31,124		31,124
Other:					
- Electricity Sector Employee Pension Fund charges	34,772,527	590,310	-35,362,837		0
Total	34,834,775	590,310	-35,393,961	0	31,124

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.

The extraordinary contribution due upon the suppression of the Electricity Sector Employee Pension Fund (ESEPF) is reduced to zero after the recognition in the Income Statement of the payment of the last installment, as provided by law. The adoption of an amortization period in line with that used by the Parent Company – that is in turn consistent with accounting principles adopted – would have resulted in a balance of euro 85 million at December 31, 2002 (as compared with euro 90 million at December 31, 2001) as extraordinary contribution on the suppression of the ESEPF.

Tangible assets amount to euro 3,122.0 million (euro 3,258.3 million at December 31, 2001). Changes by individual category are summarized in the table that follows:

Tangible assets Euro 3,122.0 million

Euro	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Work in progress and advances	Total
A) BALANCE AT DEC. 31, 2001						
1. Historical cost	437,470,779	5,078,910,538	32,384,387	11,446,388	427,427,214	5,987,639,306
2. Revaluations	60,820,057	885,781,865	153,585	28,643	0	946,784,150
3. Book value (1+2)	498,290,836	5,964,692,403	32,537,972	11,475,031	427,427,214	6,934,423,456
4. Accumulated depreciation	-181,998,766	-3,462,016,011	-21,933,927	-10,192,291	0	-3,676,140,995
5. Balance A)						
at Dec. 31, 2001 (3-4)	316,292,070	2,502,676,392	10,604,045	1,282,740	427,427,214	3,258,282,461
B) CHANGES IN 2002						
6. Capital expenditure	7,133,814	158,707,449	1,798,388	131,956	-3,812,438	163,959,168
7. Net reclassifications:						
- Book value	5,480,899	128,694,737	592,064	-370,504	-134,397,196	0
- Accumulated depreciation	-378,000	378,000	-326,108	326,108	0	0
Total	5,102,899	129,072,737	265,956	-44,396	-134,397,196	0
8. Net disposals:						
- Book value	-109,158	-29,181,845	-17,722	-96,077	-5,771,294	-35,176,097
- Accumulated depreciation	84,849	22,534,674	9,186	90,256	0	22,718,965
Total	-24,310	-6,647,171	-8,536	-5,821	-5,771,294	-12,457,132
9. Depreciation	-14,757,198	-270,489,308	-1,741,786	-350,522	0	-287,338,813
10. Write-downs and revaluations	0	0	0	0	-432,768	-432,768
11. Other	0	0	0	0	-32,673	-32,673
12. Net changes occurred in 2002 B)	-2,544,794	10,643,707	314,022	-268,782	-144,446,369	-136,302,218
C) BALANCE AT DEC. 31, 2002 (A+B)						
13. Historical cost	450,034,599	5,347,239,474	34,757,188	11,112,636	282,980,843	6,126,124,740
14. Revaluations	60,761,792	875,673,270	153,514	27,770	0	936,616,346
15. Book value	510,796,391	6,222,912,743	34,910,702	11,140,407	282,980,843	7,062,741,086
16. Accumulated depreciation	-197,049,115	-3,709,592,645	-23,992,634	-10,126,449	0	-3,940,760,843
D) BALANCE AT DEC. 31, 2002	313,747,276	2,513,320,098	10,918,068	1,013,958	282,980,843	3,121,980,243

Assets

"Plant and machinery" includes the Electricity Transport Network, Transformer Stations and centralized systems for the remote control of equipment, 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 5 million) are highlighted below:

Euro

Power lines:

- 380 kV Matera-S. Sofia	63,824,859
- 380 kV Porto Corsini-Ravenna C.	5,711,605

380 kV transformer stations:

- Sorgente	6,474,185
- Verderio	5,025,111
- Calenzano	13,415,795
- Villavalle Vocabolo	19,422,402

Distribution stations:

- Santa Barbara	11,082,305
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Changes in tangible assets occurred in the year are summarized below:

Euro

Capital expenditure:

- Power lines	62,117,546
- Transformer stations	95,759,673
- Other	6,081,949
Total capital expenditure	163,959,168

Depreciation:

- ordinary	242,234,478
- additional	45,104,335
Total depreciation	287,338,813

Main capital expenditure includes the 132 kV Verampio-Pallanzeno power line (euro 2.8 million), the 380 kV Gorlago-S. Fiorano power line (euro 6.7 million), the 380 kV Raccordi di Villavalle power line (euro 4.1 million), the 380 kV Matera-S. Sofia power line (euro 3.0 million), the 380 kV Rondissone station (euro 4.3 million), a 380 kV station at Verderio (euro 3.7 million), the 380 kV Calenzano station (euro 3.2 million), a 220 kV station at Pietrafitta (euro 1.8 million), and the Villavalle 220 kV station (euro 3.6 million).

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 net of grants, assuming their steady application over time. Based on these criteria, accumulated depreciation and the depreciation expense for the year would be lower, respectively, by about euro 544.2 million and by euro 42.9 million than the amounts reported in the current Financial Statements. As a result, Shareholders' Equity and net

income would be higher by about euro 325.2 million and euro 25.6 million respectively, net of the estimated tax effect.

At December 31, 2002, accumulated depreciation accounted for 58.13% of fixed assets subject to depreciation, as compared to 56.50% at December 31, 2001.

As noted above, accelerated depreciation for the year, amounting to euro 39.6 million, net of grants, 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 appropriation of earnings by the Shareholders' Meeting.

Euro

	at Dec. 31, 2001	Increases	Decreases	at Dec. 31, 2002
Other investments	1,570,029	1,898,100	0	3,468,129
Receivables from others:				
- tax advance on employee termination indemnities (Law 662/1996)	7,215,097	212,453	1,152,471	6,275,079
- loans to employees and other items	2,974,122	1,282,719	820,193	3,436,648
Total receivables from others	10,189,219	1,495,172	1,972,664	9,711,727
Other securities	0	0	0	0
TOTAL	11,759,248	3,393,272	1,972,664	13,179,856

**Long-term
financial assets
Euro 13.2 million**

Equity investments

Equity investments, amounting to euro 3.5 million, consist of shares held in the capital stock of Group companies Sfera SpA and Cesi SpA.

The 10% interest in Sfera is unchanged from the previous year, while on September 4, 2002, Terna finalized the acquisition of a further 10% interest in Cesi SpA, 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, 2002 (euro 1.9 million). The interest in the company at the end of 2002 is therefore equal to 15% of its capital stock.

Receivables

With-holding taxes on employee termination indemnities, paid in compliance with current laws and remunerated at the rate used to adjust employee termination indemnities, declined by euro 1.2 million due primarily to normal employment terminations. The increase (euro 0.2 million) is due to the revaluation of indemnities in the year.

The change in other receivables can be attributed to euro 0.1 million of advances made to personnel, and euro 0.4 million due to a guarantee deposit made with the Bank of Italy for the construction of the new Caorso - S. Damaso power line.

Assets

Current assets

Inventories - Euro 17.3 million

"Contract works in progress" (euro 14.6 million) consists of long-term work carried out by Terna for various clients. Projects include work carried out for the ISO to upgrade the SCTI control system (euro 10.8 million), for Ferrovie dello Stato (the national railway company) for the expansion and upgrade of electricity lines (euro 1.4 million), and for SEAP for work relating to the construction of the Chieti electrical bus system (euro 1 million).

Inventories include materials and equipment for plant operation, maintenance and construction (euro 2.7 million).

Euro

	Dec. 31, 2002	Dec. 31, 2001	Change
Raw materials	2,650,461	252,591	2,397,870
Contract work in progress	14,615,926	15,042,626	-426,700
Total	17,266,387	15,295,217	1,971,170

Receivables - Euro 837.3 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 178.5 million) of invoices to be issued to the ISO for usage of the National Transmission Network (NTN) in 2002.

Following the underwriting of the operating license between Terna and the ISO on December 16, 2002, leading to a normalization of collections, the mentioned receivables relate primarily to fees due for the last two months of 2002, falling due in January and February 2003.

A total of euro 157.4 million was collected in the first two months of 2003.

Receivables are recorded net of provision for doubtful accounts amounting to euro 3.9 million.

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

Euro

Balance at Dec. 31, 2001	2,755,642
Changes occurred in the year:	
- uses	-
- accruals	1,104,378
Total changes	1,104,378
BALANCE AT DECEMBER 31, 2002	3,860,020

The provision covers by a wide margin all doubtful accounts.

Receivables from Parent Company

They consist primarily of financial receivables (euro 583.5 million) relating to the current account held with the Parent Company in the context of centralized treasury management.

Receivables from other Enel Group companies

The breakdown of receivables by company is provided below:

Euro

	at Dec. 31, 2002	at Dec. 31, 2001	Change
Enel Distribuzione	11,137,926	10,965,629	172,297
Enel Produzione	408,759	1,198,276	-789,517
Enel Green Power	198,914	210,143	-11,229
Eurogen	0	367,744	-367,744
Interpower	30,571	0	30,571
Enelpower	310,089	604,336	-294,247
CESI	0	12,395	-12,395
Deval	241,476	114,805	126,671
Sfera	600	1,808	-1,208
Enel Real Estate	4,343	112,852	-108,509
Dalmazia Trieste	20,504	25,381	-4,877
Enel.it	17,051,410	12,077,908	4,973,502
Wind Telecomunicazioni	1,288,530	4,483,097	-3,194,567
So.I.e.	6,912	0	6,912
Enel.si	8,676	0	8,676
Ape	0	10,000	-10,000
Total	30,708,711	30,184,374	524,337

The increase in receivables from Enel.it is due to the combined effect of the sale at the end of the year of fiber optic cable for the Italy-Greece link (about euro 10.8 million) and better collection on contracts currently underway.

Other receivables

Other receivables amount to euro 29.7 million, consisting of corporate tax advances for the year (euro 13.9 million), a credit on Greek VAT for invoices issued by Enelpower's branch to Terna's branch for the sale of the cable for the Italy-Greece link (euro 14.2 million) and other minor items.

Changes in credits on tax advances are illustrated below:

Euro

Credits on tax advances	
Balance at Jan. 1, 2002	9,944,203
Uses of provision	1,641,844
Accruals	5,623,706
BALANCE AT DEC. 31, 2002	13,926,065

The increase is due primarily to accruals made in the year for charges relating to early retirement incentives offered to personnel.

Assets

Cash and cash equivalents
Euro 0.09 million

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

Euro

	at Dec. 31, 2002	at Dec. 31, 2001	Change
Interest	10,910,745	6,757,855	4,152,890
Other	2,712,909	1,996,320	716,589
Total	13,623,654	8,754,175	4,869,479

Accrued income and prepaid expenses
Euro 13.6 million

Accrued income and prepaid expenses amount to euro 13.6 million. They consist essentially of 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	415,393	8,041,687	1,254,647	9,711,727
Total long-term financial receivables	415,393	8,041,687	1,254,647	9,711,727
CURRENT RECEIVABLES				
Trade receivables	193,474,321			193,474,321
Receivables from Parent Company	583,469,195			583,469,195
Receivables from subsidiaries	30,708,711			30,708,711
Other receivables:				
- Receivables from others	1,350,320	28,330,523		29,680,843
Total current receivables	809,002,547	28,330,523		837,333,070
Accrued income and prepaid expenses	10,910,745			10,910,745
TOTAL	820,328,685	36,372,210	1,254,647	857,955,542

Liabilities and Shareholder's Equity

Changes in the year are shown below:

Shareholders' Equity
Euro 2,454.4 million

Euro	Capital stock	Legal reserve	Other reserves	Retained earnings	Net income	Total
Balance at Dec. 31, 2000	2,103,064,139	562,225	157,591,602	166,962	58,695,164	2,320,080,092
Reduction of capital stock as a result of conversion into euro	-67,014,139	67,014,139				
Allocation of 2000 net income:						
- accrued to legal reserve		2,934,758			-2,934,758	
- accrued to other reserves			55,751,950		-55,751,950	
- accrued to retained earnings				8,456	-8,456	
Net income for 2001					67,992,484	67,992,484
Advance on 2001 dividends					-6,718,965	-6,718,965
Balance at Dec. 31, 2001	2,036,050,000	70,511,122	213,343,552	175,418	61,273,519	2,381,353,611
Allocation of 2001 net income:						
- accrued to legal reserve		3,399,625			-3,399,625	
- accrued to other reserves			42,767,620		-42,767,620	
- accrued to retained earnings				39,874	-39,874	
- Dividends paid					-15,066,400	-15,066,400
Net income for 2002					88,119,868	88,119,868
Balance at Dec. 31, 2002	2,036,050,000	73,910,747	256,111,172	215,292	88,119,868	2,454,407,079

Capital stock

The capital stock is represented by 2,036,050,000 ordinary shares of par value 1 euro and is unchanged from the previous year.

Allocation of 2001 net income

On March 26, 2002, the Ordinary Shareholders' Meeting unanimously resolved to approve the Financial Statements at December 31, 2001 and the related Report on operations, allocating net income as follows:

- > euro 3,399,625, equal to 5%, to the Legal reserve;
- > euro 42,767,620 accruing to the Accelerated depreciation reserve;
- > euro 6,718,965 to cover the advance on dividends paid out in 2001;
- > euro 15,066,400 as dividends payable to shareholders, paid out in April 2002;
- > the residual amount of euro 39,874 to be retained.

Liabilities and Shareholder's Equity

Provisions for risks and charges Euro 188.3 million

Other reserves

Other reserves amount to euro 256.1 million and consist of the Reserve for accelerated depreciation which includes depreciation accrued in previous years. In 2002, the freeing-up of reserves determined the reversal of euro 3.5 million in deferred tax liability. Available reserves currently amount to euro 7.1 million.

Euro				
	At Dec. 31, 2001	Accruals	Uses	At Dec. 31, 2002
Provision for retirement benefits	451,506	1,274,949	888,341	838,114
Tax provision	138,284,852	15,152,619	2,310,555	151,126,916
Other:				
- legal proceedings	10,074,286	2,808,002	865,637	12,016,651
- sundry risks	14,647,165	2,349,371	160,818	16,835,718
- early retirement incentives	231,248	7,421,941	151,394	7,501,795
Total	24,952,699	15,843,123	4,441,658	36,354,164
TOTAL	163,689,057	29,006,882	4,376,745	188,319,194

Provision for retirement benefits - Euro 0.8 million

The provision includes accruals for indemnities in lieu of notice and additional monthly payments accruing to personnel.

Tax provision - Euro 151.1 million

The tax provision is accrued for deferred taxes resulting from accelerated depreciation accrued up to December 31, 2001. The balance includes euro 15.2 million of deferred taxes accrued on accelerated depreciation for the year, to be recorded at the time of appropriation of 2002 net income. It also includes euro 2.3 million of uses of the provision in excess of the amount deductible for tax purposes.

Provision for legal proceedings - Euro 12.0 million

The provision covers potential liabilities arising from current legal proceedings or other disputes, relating mainly to plant supply, work and operation, based on advices provided by internal and external legal counsel. It excludes the effects of litigation for which a positive outcome is expected 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 16.8 million

The provision includes primarily accruals made against the risk of transformer breakdown and exceptional events affecting high-voltage power lines, in addition to charges connected with the discontinuation of such equipment.

Provision for early retirement incentives - Euro 7.5 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 their employment. Provision uses relate to employees who agreed to such offers and terminated their employment in the year.

Changes in the year are shown below:

Euro	
Balance at Dec. 31, 2001	73,056,890
Accruals	9,897,304
Pension Fund contributions	-2,104,773
Indemnities paid and other incentives	-5,485,918
Acquisition /sale of contracts	333,068
Total	75,696,571

The provision includes amounts accrued in favor of personnel for employee termination indemnities due pursuant to the law, net of advances made to employees, as well as quotas earmarked for the Group pension funds, paid out annually. The amount is net of the 11% substitute tax on the revaluation of employee termination indemnities, as provided by Legislative Decree no. 47/2000.

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									
	Repayment period	Dec. 31, 2002	Current portion	Long-term portion	2004	2005	2006	2007	Over
BEI									
no. 20271	2004 - 2014	75,000,000		75,000,000	6,818,182	6,818,182	6,818,182	6,818,182	47,727,272
BEI									
no. 21159	2004 - 2014	250,000,000		250,000,000	11,636,363	22,727,272	22,727,272	22,727,272	191,818,183

The first loan, amounting to euro 75 million, was extended for the "Italy-Greece electricity network interconnection" project, 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 2.880%)
- > Interest payments are half-yearly in arrears (March 15 – September 15)
- > Repayment of principal: 20 yearly equal installments starting on March 15, 2004 and ending September 15, 2014.

Employee termination indemnities
Euro 75.7 million

Payables
Euro 1,130.3 million

Liabilities and Shareholder's Equity

The second loan, amounting to 250 million euro, was 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 2.980%)
- > interest payments are half-yearly in arrears (June 15 – December 15)
- > repayment of principal: 20 yearly equal installments starting on December 15, 2005 and ending June 15, 2016.

Advances - Euro 48.9 million

Advances include contributions collected for work under way at December 31, 2002.

A breakdown of advances is provided below:

- > contributions on expected costs of linkages to high-voltage network (euro 36.1 million);
- > supply of new integrated control system for the ISO (euro 9.2 million);
- > control system for the implementation of production plans for Edipower (euro 2.1 million), in which the former Eurogen company was merged;
- > other contributions (euro 1.5 million).

The decline on the previous year is due primarily to the coming into service of the continuous current link between Italy and Greece in July 2002.

Payables to suppliers - Euro 101.2 million

Payables to suppliers relate to invoices received and to be received for bids, services and purchase of material and equipment. The strong decline is due to the strong concentration of capital expenditure in the last months of the previous year.

The item includes euro 22.5 million of receivables factored to Group company Enel.Factor.

Payables to Parent Company - Euro 518.6 million

Payables to Parent Company Enel SpA are shown below:

Euro			
	at Dec. 31, 2002	at Dec. 31, 2001	Change
Trade payables	786,677	3,728,800	-2,942,123
Financial payables:	517,193,900	567,638,765	-50,444,865
- Assumption of Enel Employee Pension Fund	38,596,920	39,789,743	-1,192,823
- Assumption of loans and financing	478,596,980	527,849,022	-49,252,042
Other payables	638,574		638,574
Total	518,619,151	571,367,565	-52,748,414

Trade payables consist primarily of management fees, telecommunications costs and E-Procurement costs.

Financial payables relate to the assumption of Pension Fund commitments from the Parent Company, in addition to the assumption of debt, as explained more in detail below.

With regard to Enel Management 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 indexes);
- > in the year, uses of the provision totaled euro 3.4 million while accruals amounted to euro 2.2 million.

Interest payable on loans and financing relates to the company's share in bond issues and other financing assumed within the Group at the time of transfer of the corporate division. Under the terms of the transfer of debt, Enel charges Terna 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. In the same way, to income and expenses accrued on interest rate hedging contracts concluded by Enel on behalf of Terna and charged to the Company.

A breakdown of debt as of December 31, 2002 is provided below:

In millions of euro

		Expiration							
	Repayment period	Balance at Dec. 31, 2002	Current portion	Long-term portion	2004	2005	2006	2007	Over
Fixed-rate									
Loans	2002-2006	107.1	19.6	87.5	7.3	79.5	0.7	0	0
Floating-rate									
Loans	2002-2019	371.5	2.7	368.8	12.7	12.5	1.7	11.6	330.2
TOTAL		478.6	22.3	456.3	20.0	91.9	2.4	11.6	330.2

Changes in 2002 are shown below:

Euro

Balance at Dec. 31, 2001	527,849,022
Repayments	-49,316,560
Foreign exchange differences	64,518
Balance at December 31, 2002	478,596,980

Liabilities and shareholder's equity

The breakdown of debt by currency as of December 31, 2002 is provided in the table that follows:

In millions of euro

	Repayment period	Average interest rate for 2002	Balance at Dec. 31, 2002
Euro area currencies	2002-2019	7.02%	471.7
Other currencies	2002-2006	6.75%	6.9
TOTAL		7.02	478.6

With regard to interest rates at December 31, 2002, floating rate debt represents 86.7% 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 496.5 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 24.9% of the total.

Payables to other Enel Group companies - Euro 63.6 million

They consist of payables for services rendered by other Group companies, and their breakdown is provided below:

Euro

	at Dec. 31, 2002	at Dec. 31, 2001	Change
Enel Distribuzione	5,197,707	13,545,160	-8,347,453
Enel Produzione	611,557	404,230	207,327
Enel Green Power	50,154	50,229	-75
Eurogen	0	31,218	-31,218
Enelpower	35,470,069	29,240,358	6,229,711
CESI	1,738,969	1,336,483	402,486
Deval	40,016	70,378	-30,362
Sfera	808,513	143,488	665,025
Enel Real Estate	4,362,930	3,766,095	596,835
Dalmazia Trieste	4,648	3,814	834
Enel.it	3,637,723	4,573,223	-935,500
Wind	10,378,588	23,180,651	-12,802,063
Ape	1,243,832	311,929	931,903
Enel.si	0	34,086	-34,086
Enel.Hydro	25,200	0	25,200
Interpower	2,113	0	2,113
Total	63,572,019	76,691,342	-13,119,323

The euro 6.2 million increase in payables to Enelpower is mainly due to the balance due on work for the Italy-Greece power line and the power line linking Villa Valle and the Montalto di Castro power station.

The euro 12.8 million decline in payables to Wind can be attributed to the strong decrease in transmission costs borne by Terna.

Tax payables - Euro 48.9 million

This item relates to payables for substitute taxes withheld amounting to euro 3.7 million, and VAT payables for the month of December amounting to euro 12.1 million.

The euro 33.1 million balance relates to income taxes for the year, of which euro 37.7 million relating to IRPEG (corporate), and euro 16.4 million to IRAP (local), net of advances paid in June and November 2002, amounting to euro 17.5 million, and of IRPEG receivable on the previous year (euro 3.5 million).

Payable to Social Security institutions - Euro 7.3 million

They consist primarily of payables to INPS (employee) and INPDAl (management) social security institutions for the month of December 2002. The provision includes contributions on personnel incentives, to be paid in 2003.

Other payables - Euro 16.8 million

Other payables break down as follows:

Euro			
	Dec. 31, 2002	Dec. 31, 2001	Change
Payable to employees	15,489,459	22,185,185	-6,695,726
Payables to others for amounts withheld from employees' pay	370,088	276,353	93,735
Other payables	892,839	175,383	717,456
Total	16,752,386	22,636,921	-5,884,535

The decline in payables to personnel can be attributed to lower employee termination indemnities paid out and to be paid to personnel terminating their employment at December 31, 2002. The balance includes incentives to personnel (managers, middle management, employees and workers) accrued in the year and payable in 2003.

Accrued liabilities and deferred income break down as follows:

Euro			
	Dec. 31, 2002	Dec. 31, 2001	Change
Interest payable on loans	6,096,689	7,122,131	-1,025,442
Capital contributions	146,887,588	107,341,588	39,546,000
Other accrued liabilities and deferred income	1,821,012	357,194	1,463,818
Total	154,805,289	114,820,913	39,984,376

The increase in capital contributions is due to the accrual of euro 54.7 million EU contribution for the construction of the Italy-Greece connection.

Accrued liabilities and deferred income
Euro 154.8 million

Liabilities and Shareholder's Equity

A 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		85,454,544	239,545,456	325,000,000
Short-term bank loans				
Total financial payables		85,454,544	239,545,456	325,000,000
OTHER PAYABLES				
Advances	12,642,475	36,271,286		48,913,761
Trade payables	100,431,070	806,336		101,237,406
Payables to Parent Company for:				
- Medium- and long-term debt assumed	22,346,000	126,010,000	330,240,980	478,596,980
- Pension Fund liability assumed	3,433,682	13,734,728	21,428,510	38,596,920
- Other	1,425,251			1,425,251
Total payables to Parent Company	27,204,933	139,744,728	351,669,490	518,619,151
Payables to other Enel Group companies				
	63,572,019			63,572,019
Taxes payable	48,849,196			48,849,196
Social Security payables	7,335,662			7,335,662
Other payables	16,752,386			16,752,386
Total other payables	276,787,741	176,822,350	351,669,490	805,279,581
Accrued liabilities and deferred income	7,221,080			7,221,080
TOTAL	284,008,821	262,276,894	591,214,946	1,137,500,661

Commitments

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

Euro

	at Dec. 31, 2002	at Dec. 31, 2001	Change
Guarantees given:			
- Unsecured guarantees given to third parties	2,200,132	1,979,288	220,844
			0
Other commitments:			
- Commitments with suppliers for:			0
- Sundry supplies	205,657,737	188,746,470	16,911,267
- Contract work	134,376,926	93,494,108	40,882,818
Total	340,034,663	282,240,578	57,794,085
TOTAL	342,234,795	284,219,866	58,014,929

Off-balance sheet items

Environmental disputes involving Terna relate to installation and operation of electric plants, where the key environmental issue relates to the effects of electric and magnetic fields. Terna 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 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.

Given growing public awareness on these matters, however, 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.

Regarding decisions taken on the matter, only sporadically have there been pronouncements unfavorable to the company, for all of which appeals made by the company are still pending, while no health damages have ever been granted.

Finally, it is important to note that the ISO is, along with Terna, 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.

A law regulating this matter, issued on February 22, 2001, assigns to the State the responsibility for establishing parameters (exposure limits, thresholds of concern and quality targets) applicable to plant and equipment through specific regulations to be introduced. 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 normally call for stricter limitations than those set by Decree of the President of the Council of Ministers dated 1992, to remain effective until the new law decrees are issued.

In particular, the Campania Region recently adopted Law no. 13 of November 24, 2001, which calls for particularly strict limitations and has been appealed by the Government before the Constitutional Court.

Environmental disputes

Norms relating to electric and magnetic fields

Off-balance sheet items

**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 advices provided by legal counsel, the possibility of adverse outcomes is deemed as remote, though for a limited number of cases this cannot be ruled out completely. Consequences could consist, in addition to the possible payment of damages, in costs relating to the modification of power lines and the temporary unavailability of the same.

An adverse outcome of litigation would not in any case jeopardize the operation of power lines.

Income Statement

Revenues include the following items:

Revenues from sale of goods and services - Euro 795.8 million

They include the following:

Euro

	2002	2001	Change
NTN usage fees	729,960,565	708,728,540	21,232,025
Other sales of goods and services	65,834,054	54,608,626	11,225,428
Total	795,794,619	763,337,166	32,457,453

Revenues from sale of goods and services amount to euro 795.8 million and relate almost entirely (euro 730 million) to fees generated by the company for the use of the National Transmission Network (NTN), increasing by euro 21.2 million on the previous year.

On December 22, 2000, the Italian Ministry of Industry approved a General License regulating relationships between the ISO and the owners of the of the NTN and, on December 16, 2002, an Operating License agreement was signed by Terna and the ISO. The license sets the technical and economic conditions between the two companies with regards to the exercise, maintenance and development of the NTN.

For such activity, Terna receives from the ISO an annual fee aimed at covering operating costs, depreciation charges and a remuneration for capital employed, in accordance with the terms set in Authority Resolution no. 228/01.

Revenues from the sale of "Other goods and services" amount to euro 65.8 million and are represented by euro 54.3 million from the sale of goods and services to other Enel Group companies, and euro 11.5 million relating to services provided to third parties.

Among activities involving other Group companies are contracts for the maintenance of the high-voltage lines stipulated with Enel Distribuzione (euro 29.4 million) and contracts with Enel.it for laying fiber optic on its power lines (euro 11.8 million), and those with Wind for the housing of equipment on equipment owned by Terna (euro 3.9 million).

Change in contract work in progress - Euro (0.4 million)

Change in contract work in progress, amounting to euro 0.4 million, represents the balance between work that Terna is still conducting (up euro 2.3 million) and work completed and tested in the year (down euro 2.7 million). Main contract work in progress includes the construction of an electric bus line for the Chieti Municipality (for SEAP, up euro 1 million) and the renovation of power lines for RFI – Rete Ferroviaria Italiana (up euro 0.5 million), in addition to other minor construction work carried out for third parties (up euro 0.8 million). Work completed includes the supply of a Production Plan Monitoring System for Edipower (down euro 1.9 million), former Group companies and other minor work (down euro 0.8 million).

Revenues

Income Statement

Increase in self-produced assets - Euro 14.9 million

Capitalized costs relate to labor costs and, to a lesser extent, consumption of material and equipment.

Other revenues and expenses - Euro 34.5 million

Other revenues and expenses can be summarized as follows:

Euro

	2002	2001	Change
Fees on high-voltage connections	11,313,951	16,927,555	-5,613,604
Damages received	5,688,590	4,034,554	1,654,036
Sundry sales	9,513,235	206,300	9,306,935
Penalties imposed on suppliers	710,270	178,601	531,669
Other revenues and gains	7,238,925	7,859,037	-620,112
Total	34,464,971	29,206,047	5,258,924

Among major components are the decline in fees from third parties for the construction, upgrade and relocation of plant and equipment owned by Terna (down euro 5.6 million). With regard to other revenues, the increase is mainly due to the sale of the underwater fiber optic cable laid between the Italian and Greek coast to Group company Enel.it (euro 9.3 million), damages on plant and equipment paid by insurance companies (up euro 1.6 million), and revenues from penalties imposed on suppliers (up euro 0.5 million). Revenues from the Greek branch, incorporated in June 2002, amount to euro 4.7 million and relate primarily to the sale of fiber optic cable laid on Greek territory.

Operating costs

Raw materials and goods - Euro 21.3 million

This item includes costs incurred for the acquisition of materials and equipment for plant operation and maintenance.

Services - Euro 99.9 million

The item includes the following costs:

Euro

	2002	2001	Change
Maintenance and repair	27,046,871	22,793,693	4,253,178
Insurance	4,328,991	3,071,187	1,257,804
Transport and leasing	923,877	617,699	306,178
Other services	10,743,350	9,421,002	1,322,348
Services received from other Enel Group companies	56,886,414	78,231,270	-21,344,856
Total	99,929,503	114,134,851	-14,205,348

The increase in item Maintenance and repair can be attributed mainly to contracts for the ordinary maintenance of equipment (up euro 3.0 million), and to higher costs incurred with third parties for maintenance and various vehicle-related services (up euro 1.3 million). Item Services received from other Enel Group companies includes costs relating to telephone, telecommunication and general services, declining strongly on the previous year particularly with regards to telephone, information technology and real estate services.

Leases and rentals - Euro 13.8 million

Leases and rental costs amount for the year to euro 13.8 million, consisting mainly of rent payable to Group companies (euro 5.2 million), other rent (euro 2.9 million), leasing costs (euro 3.3 million) and miscellaneous fees (euro 2.4 million). The item declines from 2001 due to savings achieved on rental costs and telephone services payable to other Group companies.

Personnel - Euro 165,9 million

Personnel costs amount to euro 165.9 million. The slight increase on 2001 (up euro 1.4 million) is due to costs resulting from contractually agreed increases becoming effective in July 2002 and additional personnel costs due to incentives offered.

The average number of employees by category of employment, and their number at December 31, 2002, is provided in the table below:

	Average no. of employees	No. of employees at Dec. 31, 2002
Managers	28	27
Officers	219	214
Employees	1,515	1,488
Workers	1,433	1,377
Total	3,195	3,106

Depreciation and write-downs - Euro 288.9 million

Amortization of intangible assets

It amounts to euro 0.03 million and relates to incorporation and related costs.

Depreciation of tangible assets

The amount includes ordinary depreciation for the year (euro 242.2 million) and accelerated depreciation up to the limit allowed by tax regulations (euro 45.1 million).

Other write-downs of fixed assets

They amount to euro 0.4 million and relate to abandoned projects.

Income Statement

Write-down of current receivables

They amount to a total of euro 1.1 million and relate to ordinary accruals to the Provision for doubtful accounts.

Change in raw material inventories - Euro (2.4 million)

The item shows the increase in raw material inventories for the year.

Provisions for risks and charges - Euro 5.2 million

They amount to euro 5.2 million and relate primarily to litigation resulting in a possible negative outcome for the company, in addition to the disposal of power lines and equipment, and to provisions for repairs and other risks.

Other operating expenses - Euro 17.3 million

This item includes the liability towards the Enel Management Pension Fund (euro 2.2 million), losses due to the discontinuation of power lines (euro 6.5 million), discounts on electricity supplied to retired personnel (euro 2.1 million), and local taxes (euro 3.5 million). The item also includes payments and contributions made by the company to members of the Board of Statutory Auditors (euro 118,500) and the Board of Directors (euro 209,956).

Financial income and expense Euro 39.2 million

Other financial income

A breakdown of other financial income is provided below:

Euro			
	2002	2001	Change
Income from investments	96,753	–	96,753
Interest accrued on tax credits	212,453	225,360	-12,907
Other financial income	132,189	248,653	-116,464
Interest on current account with Parent Company	10,910,745	6,757,855	4,152,890
Total	11,352,140	7,231,868	4,120,272

Interest and other financial expenses

Euro

	2002	2001	Change
Interest on loans transferred, medium- and long-term debt	37,332,380	40,112,992	-2,780,612
Interest charges on current account with Parent Company	10,283	27,387	-17,104
Interest on EIB financing	11,106,847	8,656,104	2,450,743
Financial charges on hedging transactions (swaps)	2,080,082	–	2,080,082
Other interest and financial charges	17,945	44,967	-27,022
Total	50,547,537	48,841,450	1,706,087

Extraordinary income amounts to euro 3.5 million and consist primarily of excess income taxes recorded in the previous year in relation the actual tax expense for the year (euro 3.4 million) and the retrieval of legal expenses for litigation concluded with a favorable outcome (euro 0.1 million).

Extraordinary expenses amount to euro 48.1 million and relate to charges for the suppression of the Electricity Sector Employee Pension Fund (euro 35.4 million) and temporary early retirement incentives offered to employees (euro 12.7 million).

Extraordinary items
Euro 44.6 million

Income taxes - Euro 62.9 million

Euro

	2002	2001	Change
Current taxes:			
- IRPEG	35,599,594	5,455,262	30,144,332
- IRAP	16,123,983	13,410,447	2,713,536
Prepaid taxes	-3,981,862	2,982,484	-6,964,346
Deferred taxes	15,152,619	16,786,291	-1,633,672
Total	62,894,334	38,634,484	24,259,850

The rate applied to income before taxes was 41.67% (36.23% in 2001), increasing by euro 24.3 million due to higher taxable income and lower facilitations as per Law 383/01, whose benefit for the year is equal to about euro 32.2 million (euro 53.6* million in 2001).

*Figure relating to the company's tax return.

Income Statement

Changes in income taxes from the previous year are shown in the reconciliation between the expected and the effective income taxes for the two years included below:

In millions of euro

	2002	2001	Change
Taxable income as per statutory accounts	151.0	106.6	44.4
- Tax benefit as per Law no. 383/01	-32.2	-46.1	13.9
- Accelerated depreciation	-39.6	-42.8	3.2
- Changes in provisions	11.5	-7.0	18.5
- Other increases	8.2	4.4	3.8
Taxable income	98.9	15.1	83.8
Tax expense (36%) for the year	35.6	5.4	

The breakdown of prepaid taxes is represented by provisions for:

- > tax refunds amounting to euro 1.6 million, due to the use in previous years of taxed provisions to pay for incentives for early retirement and settlement of litigation in the year;
- > tax prepayments relating to temporary differences that emerged in the year totaling euro 5.6 million for accruals to the risk provision relating to early retirement incentives, to the provision for legal disputes and the provision for risks and charges.

Deferred taxes relate to accelerated depreciation, net of grants, accrued for tax purposes.

Current rates were used to calculate related amounts.

Relationships with related parties

Relationships with related parties are illustrated in the Report on operations.

Reports

Report of the Board of Statutory Auditors to the Shareholders' Meeting of Terna SpA pursuant to art. 153, Legislative Decree no. 58/1998 and art. 2429, 3rd comma of the Italian Civil Code

To the Shareholders' Meeting of Terna

To our Shareholders,

Pursuant to art. 153 of Legislative Decree no. 58/1998, we inform you that in the year closed December 31, 2002, the Board of Statutory Auditors carried out monitoring activities provided by the Law, 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, receiving from the Board periodic information on major economic, financial and equity operations carried out by the Company, 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 2002 focused on the monitoring of the implementation of the new management information system, and the application of norms regarding safety in the workplace;
- 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 a specific report issued annually by the department head;
- verified, through direct checks and information obtained from the Independent Auditors, 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 on operations prepared pursuant to art. 2428 of the Italian Civil Code.

In the course of our monitoring activity described above, based on information obtained from the Independent Auditors, there has not emerged any significant fact that 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 7 times (respectively on February 12, 2002, February 19, 2002, March 26, 2002, April 9, 2002, May 21, 2002, September 4, 2002 and December 10, 2002), and the Board of Statutory Auditors attended all meetings. In 2002 the Board of Statutory Auditors met 6 times;
- on April 9, 2002, the Board of Statutory Auditors issued an opinion on the appointment of the Independent Auditors pursuant to art. 159 of Legislative Decree no. 58/98;
- the Independent Auditors' Report does not contain any exception;
- no issue has been reported pursuant to art. 2408 of the Italian Civil Code, or any complaint been filed by third parties;
- 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 2002, 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, it is acknowledged that these relate primarily to the operation and maintenance of high-voltage lines, the development, laying and maintenance of fiber optics, services provided (information technology, telecommunications, personnel training, leasing of buildings, etc.), while those with related parties relate mainly to treasury management, the transfer of financial debt and of management pension benefits, assistance on institutional issues or other assistance requested. 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. as resulting from a specific letter issued by the Managing Director of Terna and confirmed by the Independent Auditors, there do not exist other appointments given to KPMG or any of its related parties.

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, February 26, 2003

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

Relazione della società di revisione ai sensi dell'art. 156 e dell'art. 165 del D. Lgs. 24 febbraio 1998 n. 58

All'Azionista della
T.E.R.N.A. Trasmissione Elettricità Rete Nazionale S.p.A.

1 Abbiamo svolto la revisione contabile del bilancio d'esercizio di T.E.R.N.A. Trasmissione Elettricità Rete Nazionale S.p.A. chiuso al 31 dicembre 2002. La responsabilità della redazione del bilancio compete agli amministratori. È nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.

2 Il nostro esame è stato condotto secondo i principi e i criteri per la revisione contabile raccomandati dalla Consob. In conformità ai predetti principi e criteri, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio d'esercizio sia viziato da errori significativi e se risulti, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenuti nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli amministratori. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale.

Per il giudizio relativo al bilancio dell'esercizio precedente, i cui dati sono presentati ai fini comparativi secondo quanto richiesto dalla legge, si fa riferimento alla relazione emessa da altro revisore in data 26 marzo 2002.

3 A nostro giudizio, il bilancio d'esercizio della T.E.R.N.A. Trasmissione Elettricità Rete Nazionale S.p.A. al 31 dicembre 2002 è conforme alle norme che ne disciplinano i criteri di redazione; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria e il risultato economico della Società.

4 Si richiama l'attenzione sull'informativa fornita dagli amministratori nella nota integrativa sui seguenti aspetti.

4.1 La Società ha in essere controversie ed altre situazioni di incertezza, aventi principalmente natura ambientale ed urbanistica dalla cui definizione potrebbero derivare significativi oneri che, tuttavia, non sono al momento oggettivamente quantificabili.

- 4.2 La nota integrativa illustra gli effetti sul bilancio di esercizio delle interferenze fiscali, relative agli ammortamenti delle immobilizzazioni materiali, nonché gli effetti derivanti dall'applicazione della Legge 488/1999, relativa alla contabilizzazione dell'onere straordinario dovuto in conseguenza della soppressione del Fondo Previdenza Elettrici.

Roma, 26 febbraio 2003

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