

RETE ELETTRICA NAZIONALE



Highlights

Two power lines acquired in Brazil

In 2003 Terna acquired Enelpower SpA's equity investments in Novatrans and TSN, taking stakes of 100% and 99.74% respectively. The companies operate in the electricity transmission sector under 30-year concessions expiring on December 20, 2030 granted by the Brazilian national electricity regulator (ANEEL).

In particular, TSN (Transmissora Sudeste Nordeste SA) is responsible for the design, construction, operation, maintenance and development of the Northeast-Southeast transmission line, which has a voltage of 500 kV and is about 1,062 km long, beginning at the Serra da Mesa substation, in the state of Goiás, and ending at the Sapeaçu substation, in the state of Bahia.

Novatrans is responsible for the design, construction, operation, maintenance and development of the North-South transmission line, which has a voltage of 500 kV and is about 1,280 km long, beginning at the Imperatriz substation, in the state of Maranhão, and ending at the Samambaia substation, in the Federal District. The line is divided into five segments, of which three, covering 761 km, entered service in 2003; the final two segments, totaling 519 km, are being completed.



Commitment to the environment

In 2003 Terna began:

- > work on the environmental enhancement of Roma Est, one of the four main transformer plants supplying Rome. The design was developed in collaboration with the architect De Lucchi, implementing innovative architectural solutions in an industrial environment;
- > a review of design criteria for new lines and the use of low-environmental-impact pylons;
- > a project to develop an environmental management system for network infrastructure. The management system will be ISO 14001 certified and EMAS registration will be initiated at the same time;
- > negotiating with local authorities to rationalize existing networks.



High-voltage power substations

An electricity transmission and transformer substation is part of an electricity network. Located in a specific part of the network, it serves to dispatch electricity among the various power lines in the network and to transfer electricity between different voltage networks.



295

high- and very-high-voltage

transmission substations across the country



High-voltage power lines

An electricity power line links two electricity transmission substations or a substation and a point where electricity enters or leaves the system. It is formed of electrical conductors (three-phase alternating conductor power lines, one or two direct current conductors, etc.), support structures (pylons, insulators, etc.) for above-ground lines and the other components needed for the proper electrical and mechanical operation of the plant.

A line normally carries one or more electrical power lines (single or double-power lines).

The length of power lines (linear kilometers) is expressed as the length of the projection of the power line on the ground (geographical length).



38,577 kilometers

of high- and very-high-voltage power lines



Diagnostic technologies

In 2003 Terna introduced a support system for plant maintenance decisions based on the automated processing of remote signals from the field. It involves the widespread use of palm-top computers by the field workers responsible for technical monitoring of plant. The palm-top is used to guide workers through the checks to be carried out. The results of the checks are stored in the palm-top for subsequent transmission to the automated processing system.

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Board of Directors, Board of Statutory Auditors and Independent Auditors

Board of Directors

Chairman

Piero Gnudi

Chief Executive Officer

Sergio Mobili

Directors

Fulvio Conti

Paolo Ruzzini

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 the Shareholders' Meeting of Terna SpA

The Shareholders' Meeting is called at the registered office of the Parent Company Enel SpA in Rome, Viale Regina Margherita 137 on March 3, 2004 at 10:00 a.m. at first calling to discuss and resolve the following

AGENDA

Ordinary business:

1. Financial Statements at December 31, 2003 – Reports of the Board of Directors and the Board of Statutory Auditors – Related resolution;

OMISSIS

Summary of Shareholders' resolutions

The Ordinary Shareholders' Meeting of Terna SpA held on March 3, 2004 and attended by the Board of Directors and Board of Statutory Auditors, as well as the representative of the sole shareholder Enel SpA, resolved the approval, following the presentation of the reports of the Board of Directors, the Board of Statutory Auditors and the independent auditors, of the Financial Statements for 2003 as well as the allocation of net income, equal to € 123,489,604.50, as follows:

- > € 6,174,480.23 (equal to 5%) to the "Legal reserve";
- > € 36,907,614.34 to the "Provision for accelerated depreciation";
- > € 80,220,370.00 to be distributed as dividends;
- > € 187,139.93 to "Retained earnings".

Report on Operations

Report on Operations

In 2003 Terna improved on its performance of past years. In its core business of operating, maintaining and developing high and very-high-voltage electricity networks, the initiatives undertaken in corporate operations helped boost financial performance and quality levels, raising the plant availability level for events under the responsibility of the company to 99.12%, compared with 99.03% in 2002. Terna also continued to develop diversified business activities in unregulated sectors in the field of high-voltage plant operation, maintenance, engineering and construction for other Group companies and non-Group customers. Terna's share of the external customer market (percentage of customers in the potential market served by the company) reached 56% – 260 customers out of 455 – with a 74% customer retention rate.

Highlights of the most significant events of 2003 are summarized below:

- > acquisition of equity investments in TSN and Novatrans;
- > redefinition of the NTN perimeter;
- > redefinition of the useful life of plants;
- > law 290 ratifying Legislative Decree no. 239 of August 29, 2003;
- > extraordinary events.

Acquisition of equity investments in TSN and Novatrans

On December 23, 2003, Terna signed two contracts with Enelpower SpA for the acquisition of Enelpower's entire equity investments in Novatrans and TSN, effective as of December 31, 2003. The two companies build and operate electricity transmission lines in Brazil under thirty-year concessions. Specifically, Terna acquired a 100% stake in Novatrans and a 99.74% stake in TSN, with the remaining 0.26% belonging to Inepar SA.

At the same time, Terna took over a loan contract between Novatrans and Enelpower related to financing granted by Enelpower for the construction of an electricity transmission line, as well as a pledge contract regarding all TSN shares as security for a loan issued to the latter by BNDES (Banco Nacional de Desenvolvimento) as part of a project financing scheme.

The acquisition of the equity investments was completed by payment of the price agreed upon between the parties and appraised by an independent expert, in the amount of: € 155,532 thousand for the 99.74% stake in TSN; € 717 thousand for the 100% stake in Novatrans; and € 284,760 thousand for taking over the loan mentioned above.

The purchase price will be subject to adjustment in an amount to be determined by March 30, 2004, but this is not expected to have a significant impact on the amounts specified above.

The characteristics of the two Brazilian companies can be summarized as follows:

1. TSN – Transmissora Sudeste Nordeste SA

The company was incorporated on October 11, 2000 for the sole purpose of performing the public utility contract for the transmission of electricity through the construction, operation and maintenance of the plant of the base network of the Brazilian integrated electrical system for group "C" – Southeast-Northeast Connection – under the terms of tender no. 02/2000 called by ANEEL, the Brazilian national electricity regulator.

The company signed contract no. 097/2000 with ANEEL on 20 December 2000 in a 30-year agreement for the commercial operation of the line. The nominal voltage of the transmission line is 500 kV, and it is about 1,062 km long, beginning at the Serra da Mesa substation, in the state of Goiás, and ending at the Sapeaçu substation, in the state of Bahia.

Operations for nearly the entire line began on March 9, 2003, while full operations for the entire system, including a static compensator and a number of minor 230 kV lines, initiated on June 9, 2003.

Under the license agreement, the company is entitled to annual revenues, adjusted annually based on the IGP-M price index, of about R\$ 210 million (€ 57 million at the exchange rate on December 31, 2003). Revenues do not depend on the amount of energy transported, but on the availability of the line for the national integrated system. Penalties are applied in the event of reduced availability for technical reasons.

For the construction of the plant, the company signed turnkey contracts on March 1, 2001 with Enelpower do Brasil Ltda and Enelpower SpA with a value of R\$ 597,200,000 (around € 163 million), adjusted annually based on the IGP-M price index. An addendum to the contract with a value of R\$ 36,061,502.13 was signed on August 29, 2003, after receiving authorization from ANEEL.

On December 11, the parties agreed a second addendum with a value of R\$ 9,646,250.62, for which ANEEL authorization has been requested.

During 2003, the company received the final disbursements of the loan granted as part of a project financing scheme by BNDES, Banco Nacional de Desenvolvimento Econômico e Social, with a value of R\$ 596,556,000 (about € 163 million), with interest based on Brazilian indexes for tranche "A" (R\$ 138,600,000) and tranche "B" (R\$ 279,700,000) and on a basket of currencies for tranche "C" (R\$ 138,500,00). The loan is to be repaid in 144 monthly installments beginning on October 15, 2004. For the activities of line operation and maintenance, the company has signed a nine-year service contract with one of the main South American transmission line operators. The annual cost for 2003, which is adjusted annually based on the IGP-M index, was R\$ 8,689,000.

2. Novatrans Energia SA

The company was incorporated on October 18, 2000 for the sole purpose of performing the public utility contract for the transmission of electricity through the construction, operation and maintenance of the plant of the base network of the Brazilian integrated electrical system for group "C" – North-South II Connection – under the terms of tender no. 02/2000 called by ANEEL, the Brazilian national electricity regulator.

The company signed contract no. 095/2000 with ANEEL on 20 December 2000 in a 30-year agreement for the commercial operation of the line. The nominal voltage of the transmission line is 500 kV, and it is about 1,280 km long, beginning at the Imperatriz substation, in the state of Maranhão, and ending at the Samambaia substation, in the Federal District.

Construction of the line began in 2002 and is expected to be completed in April 2004.

On June 3, 2003, operation of the first 248 km segment, Samambaia-Serra da Mesa, began. The 255 km section between Gurupí and Miracema became operational on December 8, 2003 and the third 257 km section between Serra da Mesa and Gurupí on December 23, 2003.

Under the licensing agreement, the company is entitled to annual revenues for the whole line, adjusted annually based on the IGP-M price index, of about R\$ 230 million (about € 63 million). Revenues do not depend on the amount of energy transported, but on the availability of the line for the national integrated system. Penalties are applied in the event of reduced availability for technical reasons.

For the construction of the plants, the company signed turnkey contracts on April 30, 2002 with Enelpower do Brasil Ltda and Enelpower SpA with a value of R\$ 737,415,000 (about € 201 million), adjusted annually based on the IGP-M price index. In December 2003, the parties signed an addendum to the contract with a value of R\$ 24,334,756.72, for which ANEEL authorization has been requested.

The company has procured the funds needed to build the line through a loan of € 284,784,811.25 granted by Enelpower SpA. In November and December 2003, the company received the approval of the boards of directors of two development banks for the long-term financing of the investments on a project financing basis. The terms of the agreement are currently being negotiated. The two banks are BNDES, for an amount of R\$ 550,565,000 (about € 150 million) based on Brazilian indexes and the Inter-American Development Bank (IDB) for an amount of US\$ 66 million. The financing is to be repaid in 144 monthly installments after a grace period following the start of operations for the entire line.

The related contracts are currently being finalized.

The company carries out the activities of line operation and maintenance using its own staff under the supervision of Terna SpA.

Redefinition of the NTN perimeter

Implementing the Decree of 23 December 2002 with which the Ministry for Productive Activities expanded the perimeter of the Italian National Transmission Network (NTN) from that set out in the Ministerial Decree of June 25, 1999, Enel Distribuzione, Enel Produzione SpA and Enel Green Power SpA transferred a total of 874 kilometers of high-voltage power lines and 18 power stations, with a total value of about € 36 million, to Terna.

Redefinition of the useful life of plants

The useful life of Terna's high and very-high-voltage transmission plant was originally determined in 1994 based on a specific study.

More modern diagnostic methods, aided by sophisticated calculation tools, now make it possible to assess the condition of plant more accurately. Specifically, the condition of the components that make up the plant can be ascertained, permitting predictive maintenance on individual components and more accurate calculation of residual life. Equipment is also more reliable than in the past thanks to the feedback that Terna has provided to manufacturers, using its operating experience to make suggestions or specific requests for improvements.

These developments, in conjunction with the application of risk analysis methods to components, the useful life of Terna plant has been adjusted (and extended). The depreciation rates based on the new useful life are indicated in the notes to the Financial Statements.

Law 290 ratifying Legislative Decree no. 239 of August 29, 2003

On October 22, 2003, Law 290 was approved, ratifying Legislative Decree no. 239 of August 29, 2003 regarding electrical emergencies. Following the blackout of September 28, 2003, the Ministry for Productive Activities decided to use this measure to accelerate the approval of a number of provisions contained in the industry reform bill (the so-called Marzano Bill) which were considered top priority.

Of particular interest are the provisions for the unification of the ownership and management of the NTN and the establishment of a 20% ceiling on the stake that companies operating in the production, importing, distribution and sale of electrical energy and natural gas and publicly controlled companies can hold in the entity resulting from the unification. The limit will apply as of July 1, 2007.

Law 290 also establishes that within 60 days of its entry into force the criteria, methods and conditions for the unification of ownership and management of the NTN and the management of the entity resulting from this unification – including the regulation of voting rights and subsequent privatization – shall be defined by decree of the Prime Minister issued on the basis of a proposal by the Minister of Economic Affairs and the Minister for Productive Activities.

This decree has yet to be issued.

Extraordinary events in 2003

Last year was characterized by a number of critical events in the Italian electricity system that had significant repercussions on the management of the National Transmission Network.

We refer to the events of June 26 and September 28.

In the first case, due to extreme weather conditions (excessive heat and lack of rain), the Independent System Operator (ISO) implemented major, albeit scheduled, interruptions in the supply of electricity. In the second case, a series of problems with the Swiss network caused a nearly total blackout of the entire Italian electricity system.

Although all Terna assets were available at the moment of the blackout and remained fully functional throughout the resumption of service, Terna's organizational and operational efforts, like those of the other Enel Group companies, were enormous.

276 stations were immediately manned by about 420 employees for a total of 5,040 man-hours, with the use of 244 vehicles.

During the resumption of service, due to the significant electrical stress suffered by the equipment, five autotransformers were damaged in the Roma Ovest and Valmontone power stations in the province of Rome.

After the emergency was over, an in-depth analysis was carried out of the performance of assets, the operation of remote monitoring centers and the response of the company's organization to the stress of the first ever nation-wide blackout in order to identify any further improvements to be made.

Operating and financial review

Terna closed fiscal year 2003 with net income of € 123.5 million after depreciation of about € 291 million (of which € 139.6 million based on the new ordinary depreciation rates and € 151.4 million in excess of ordinary charges), net financial expense of € 35.1 million and income taxes of € 93.9 million. Total revenues amounted to about € 877.2 million, of which € 843.9 million for revenues from the sale of goods and services, primarily relating to fees paid to the company for the use of the Italian National Transmission Network (NTN). In particular, based on calculations resulting from the application of Electricity and Gas Authority resolution no. 228/01 and taking account of the provisions of the operating license signed with GRTN SpA (the independent system operator), fees received for the use of the network amounted to about € 782.3 million, an increase of € 52.3 million, or 7.2%, with respect to 2002.

Operating costs amounted to about € 281.7 million, of which € 163.8 million in personnel costs. Net extraordinary charges came to about € 15 million and include the recovery of grants for plant recorded in previous years for the adjustment of the useful life of related assets (€ 6.1 million), early retirement incentives (€ 4.4 million) and contractual penalties for the early termination of leases (Enel Real Estate, € 4 million).

Income taxes amounted to € 93.9 million for the year, consisting of € 75.2 million for IRPEG (corporate income tax) and € 19.0 million for IRAP (a regional tax on productive activities), while deferred tax assets amounted to € 8.4 million and deferred tax liabilities € 8.1 million.

Net fixed assets at the end of the year amounted to € 3,220.0 million, while net capital employed was equal to € 2,735.9 million, of which Shareholders' Equity covered € 2,533.9 million (92.6%, compared with 91.8% at December 31, 2002) and net financial debt € 202.0 million (7.4% compared with 8.2% at December 31, 2002).

The Reclassified Income Statement for 2003 is shown below:

Reclassified Income Statement			
Millions of euro	Dec. 31, 2003	Dec. 31, 2002	Change
NTN usage fees	782.3	730.0	52.3
Other sales and services	61.6	65.8	-4.2
Change in contract work in progress	4.7	-0.4	5.1
Other revenues	28.6	34.4	-5.8
Total revenues	877.2	829.8	47.4
Personnel costs	163.8	165.9	-2.1
Goods and services and use of third-party assets	105.0	113.8	-8.8
Materials	14.4	18.8	-4.4
Other costs	15.9	17.4	-1.5
Capitalized costs	-17.4	-14.9	-2.5
Total operating costs	281.7	301.0	-19.3
GROSS OPERATING MARGIN	595.5	528.8	66.7
Depreciation and amortization	139.6	242.2	-102.6
Accruals and write-downs	37.0	6.7	30.3
Total depreciation, amortization and accruals	176.6	248.9	-72.3
OPERATING INCOME	418.9	279.9	139.0
Interest and other charges payable to Parent Company	-21.2	-26.4	5.2
Interest on long-term debt	-14.2	-13.2	-1.0
Other financial income	0.3	0.4	-0.1
INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES	383.8	240.7	143.1
Extraordinary items	-15.0	-44.6	29.6
Additional depreciation	151.4	45.1	106.3
INCOME BEFORE TAXES	217.4	151.0	66.4
Income taxes	93.9	62.9	31.0
NET INCOME	123.5	88.1	35.4

The gross operating margin rose sharply on the previous year (€ 66.7 million or 12.6%), due primarily to the combined effect of the increase of € 47.4 million in revenues and the reduction of € 19.3 million in operating costs:

- > the 5.7% increase in revenues was the net result of:
 - > an increase of € 52.3 million in NTN usage fees as a result of the rise in electricity consumption and the consequently larger quantity of energy distributed by the network, as well as the increase in energy rates for 2003 in accordance with Authority resolution no. 152/02;
 - > a reduction of € 4.2 million in sales and services, which breaks down into a decline of € 5.4 million for Group companies and an increase of € 1.2 million in respect of various activities for third parties;
 - > an increase in the change in contract work in progress (€ 5.1 million);
 - > a decline in other revenues, essentially attributable to the Italy-Greece sale of fiber optic cable in 2002;
- > the reduction of 6.4% in operating costs was the result of:
 - > a reduction of € 2.1 million in personnel costs, entirely due to employee retirement;
 - > considerable savings (about € 8.8 million) on tendered contracts for ordinary plant management and maintenance and on services provided by Group companies, especially building maintenance, rentals and information technology;
 - > a decline of € 1.1 million in purchases of materials and equipment for ordinary operating activities;
 - > an increase in internal work (personnel + € 1.5 million and materials + € 1.0 million).

Operating income jumped by € 139 million, largely owing to lower depreciation and amortization (down € 102.6 million) following the adjustment of the useful life of the plant. However, provisions for risks increased by € 30.3 million, essentially in order to take account of the estimated likely adjustment to the NTN usage fee based on a more conservative estimate of Terna's percentage ownership of the NTN.

Net financial expense also fell by about € 4.1 million, mainly the net effect of:

- > an increase in interest income on the current account with Enel SpA as a result of larger balances;
- > an increase in interest expense in respect of subsidized loans with the EIB (€ 1.0 million) and the related swaps to hedge interest rate risk.

The decrease of about € 29.6 million in net extraordinary charges is due to the third and final payment in 2002 of the extraordinary contribution due upon the suppression of the Electricity Sector Employee Pension Fund (ESEPF).

Income taxes for the period increased by about € 31 million, giving the company an effective tax rate of 43.2% (compared with 41.7% in 2002). The rise is attributable to higher taxable income and the absence of the tax relief (envisaged by the so-called Tremonti bis Law) enjoyed in 2002.

The Reclassified Balance Sheet at December 31, 2003 ¹ is shown below:

Reclassified Balance Sheet			
Millions of euro	Dec. 31, 2003	Dec. 31, 2002	Change
Tangible and intangible assets	3,051.4	3,122.0	-70.6
Long-term financial assets	168.6	13.2	155.4
Total fixed assets, net	3,220.0	3,135.2	84.8
Trade receivables	202.8	222.9	-20.1
Inventories	27.7	17.3	10.4
Other assets	19.4	30.5	-11.1
Trade payables	158.4	165.6	-7.2
Taxes payable	34.5	48.6	-14.1
Other liabilities	235.8	228.6	7.2
Net current assets	-178.8	-172.1	-6.7
GROSS CAPITAL EMPLOYED	3,041.2	2,963.1	78.1
Employee termination indemnities	70.7	75.7	-5.0
Retirement benefits	38.3	39.4	-1.1
Net deferred taxes	137.1	137.2	-0.1
Other provisions	59.2	36.4	22.8
Total provisions	305.3	288.7	16.6
NET CAPITAL EMPLOYED	2,735.9	2,674.4	61.5
Shareholders' Equity	2,533.9	2,454.4	79.5
Total financial debt*	202.0	220.0	-18.0
TOTAL	2,735.9	2,674.4	61.5
* Total financial debt			
> EIB loans	325.0		
> Debt taken over from Enel SpA	456.2		
> Loan to Novatrans	-289.8		
> Cash and intercompany current account	-289.4		
	202.0		

¹ For greater clarity, the main reclassifications are as follows:

- > Payables and receivables vis-à-vis the Parent Company and Group companies have been included in trade payables and receivables;
- > Deferred tax assets were offset against the provision for deferred taxes;
- > Payables to the Parent Company resulting from taking over the Enel executive supplementary pension fund have been posted under retirement benefits.

The increase in net fixed assets is the result of the following two factors: the net decrease in plant and equipment of € 70.6 million, which is essentially ascribable to new investments (+ € 240.8 million) offset by depreciation for the period (- € 291.4 million), in addition to grants for plant (- € 16.4 million) and divestments (- € 4 million); and the increase of € 155.4 million in long-term financial assets in respect of the investment in Brazil, with the acquisition at the end of the year of two companies which develop, maintain and operate electricity transmission systems.

Trade receivables continued their decline (down € 20.1 million), which was partially offset by a drop in trade payables, largely related to Group companies (€ 7.2 million).

Net taxes payable decreased due to the sharp decline in the VAT liability for December.

The decrease in the provision for employee termination indemnities is entirely due to the utilization in respect of the employee retirement incentive scheme (which ended as of December 31) by comparison with accruals for the period and the related revaluation.

The provision for net deferred taxes is in line with 2002.

The change in provisions for risks and charges is largely due to the risk of adjustments to the NTN usage fees received by the company.

The statement of cash flows for 2002 and 2003 is provided below:

Statement of cash flows			
Millions of euro	Dec. 31, 2003	Dec. 31, 2002	Change
A) OPENING NET SHORT-TERM FINANCIAL DEBT (-) / ASSETS (+)	583.6	245.9	337.7
Cash and banks	0.1	0.1	0.0
Intercompany current account	583.5	245.8	337.7
B) CASH FLOW FROM OPERATIONS			
Net income	123.5	88.1	35.4
Amortization and depreciation	291.0	287.3	3.7
Net write-downs (revaluations)	0.0	6.3	-6.3
Net change in provisions	18.8	19.8	-1.0
Net change in employee termination indemnities	-5.0	2.6	-7.6
Net gain (loss) on the disposal of assets	1.4	6.2	-4.8
Cash generated by operations	429.7	410.3	19.4
Change in net current assets:			
(Increase) decrease in current receivables	22.9	150.4	-127.5
Increase (decrease) of trade and other payables	-21.3	-5.2	-16.1
Changes in other Balance Sheet items	7.8	11.8	-4.0
Total B) - Cash flow from operations	439.1	567.3	-128.2
C) CASH FLOW FOR INVESTING ACTIVITIES			
Investments in			
> Tangible assets	-240.8	-163.9	-76.9
> Other changes in tangible assets	19.0	0.0	19.0
> Other long-term financial assets	0.9	0.5	0.4
> Change in equity investments	-156.2	-1.9	-154.3
Total C)	-377.1	-165.3	-211.8
D) CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of medium- and long-term debt	-22.4	-49.2	26.8
Medium/long-term financing issued	-289.8	0.0	-289.8
Dividends	-44.0	-15.1	-28.9
Total D)	-356.2	-64.3	-291.9
E) CASH FLOW GENERATED	-294.2	337.7	-631.9
F) CLOSING NET SHORT-TERM FINANCIAL DEBT (-) / ASSETS (+)	289.4	583.6	-294.2
Cash and banks	0.1	0.1	0.0
Intercompany current account	289.3	583.5	-294.2

Cash flow from operations

Cash flow from operations amounted to about € 439 million, compared with € 567 million in the previous year.

Cash flow before changes in net current assets (pure self-financing) was about € 429 million, an increase of about € 19 million, due entirely to the marked improvement in EBITDA.

Cash flows in respect of net current assets generated a further € 10 million to bring operating cash flow to about € 439 million. The decrease of € 128 million with respect to 2002 is entirely attributable to the significant payments received from the GRTN in the previous year regarding a series of past receivables that were settled late.

Cash flow for investing activities

In 2003, significant cash flows have been employed in investing activities. The total of about € 377 million was about € 212 million, or 128%, higher than the previous year. The use of these resources was mainly associated with the core business of plant development and renewal, which increased by about € 77 million, or 47%, on 2002 and, above all, with the acquisition of the two Brazilian companies, TSN and Novatrans, in the amount of about € 156 million.

Cash flow for financing activities

Cash flow for financing activities jumped by about € 292 million, entirely owing to the company's taking on the loan to Novatrans as part of the acquisition of this equity investment. The other changes are in line with 2002 (an increase of € 2 million in uses), varying only within the individual component parts: lower loan repayments (- € 27 million) were offset by higher dividends paid to the Parent Company (+ € 29 million).

Cash flow generated

Cash flow generated in the year resulted in a net use of funds of about € 294 million, marking a decrease of about € 632 million compared with the previous year.

Capital expenditure and environmental impact

In line with the company's type of business and the provisions of the operating license with the GRTN, capital expenditure can be divided into the following categories:

Development for operational requirements: changes or enhancements in transport, transformation and/or interconnection capacity, which can either be commissioned directly by the GRTN or awarded through a tender process. This category also includes the acquisition of portions of the national transmission network.

Changes: changes to plant configuration as requested by third parties.

Rationalization: changes to plant configuration in order to improve operating efficiency.

Upgrades: upgrades to plants owned by Terna to meet regulatory or authorization requirements, with a special focus on electromagnetic field regulations and environmental impact.

Renovation: substantial modifications to the technical and operational characteristics of plant to significantly increase useful life.

Capital expenditure		
Millions of euro	2003	2002
Total capital expenditure		
Development for operational requirements	163.2	84.4
> assigned directly	120.2	81.4
> by tender	7.6	3.0
> acquisition of portions of the NTN	35.4	0.0
Changes	13.3	11.5
Rationalization	10.4	7.0
Upgrades	1.5	1.5
Renovation	49.4	55.3
Other	3.0	4.3
Total	240.8	164.0

The breakdown of capital expenditure by plant type is as follows:

Total capital expenditure		
Millions of euro	2003	2002
Power lines	106.1	62.1
Transformer stations	127.2	95.8
Other	7.5	6.1
Total capital expenditure	240.8	164.0

The main capital expenditure projects for the year were as follows:

Lines		
Plant	Description	Amount (€/mln)
Various	Network expansion MAP Decree 22/12/03	31.8
Laino – Feroletto Rizziconi 1 st lot	Construction of 380 kV power line	11.7
Laino – Feroletto Rizziconi 4 th lot	Construction of 380 kV power line	9.7
S.Giacomo Teramo	Construction of new power line	3.7

Stations

Plant	Description	Amount (€/mln)
Rondissone	Installation of phase shifters on the 380 kV "Rondissone-Albertville" line	22.5
Chivasso	Construction of a 380 kV power station	6.6
Various	Network expansion MAP Decree 22/12/03	3.6
San Benedetto del Querceto	Construction of a delivery station for connection to high-speed train line	3.2
Sannazzaro	New power station 380 kV	2.6

Measures to reduce environmental impact

In building new power lines, Terna has taken initiatives to reduce the environmental impact of new installations through the increasing use of innovative design tools that ensure minimal impact on the landscape, accompanied by ongoing research into new technologies.

The designs for all new equipment are developed by using maps of the terrain obtained through aerial photography, which make it possible to assess the impact of future works on the entire area involved with great accuracy.

The same mapping system is used to submit plans for new works to local authorities from the initial planning stage, enabling them contribute to the design and help to improve key aspects of the environmental, landscape and visual impact issues involved.

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

In 2003, Terna continued to develop the engineering design of the power line pylons (De Lucchi and Foster design) that won the "Supports for the Environment" competition, for which the detailed engineering has been prepared and the first prototypes tested. The new pylons will be ready for the construction of the new 380 kV Tarnuzze-Casellina power line, in accordance with environmental regulations.

At the same time, the first round-section pylons for 380 kV double-circuit power lines for the Laino-Rizziconi 380 kV power line in the Pollino National Park were produced and installed. The installation

ensured compliance with Environmental Impact Assessment specifications and was agreed upon with the Park's authorities.

Rationalization of the electricity network

In addition to the use of innovative design techniques aimed at determining the best location of new power lines in the territory they cross, Terna, in agreement with the ISO, has continued to seek ways of rationalizing the network by eliminating existing power lines, which frequently have a particularly negative environmental impact.

The main projects in 2003 included:

- > as part of the construction of the new 380 kV Laino-Rizziconi line, which is essential to closing the 380 kV ring in Calabria, work on merging a 35-kilometer segment of the new line running inside the Pollino Natural Park and the existing 380 kV Laino-Rossano 2 line into a single pylon structure is at an advanced stage. This will make it possible to dismantle a segment of equal length of the Laino-Rossano 1 power line, which is located in an area of greater scenic value. With this solution, the area employed in the Pollino Natural Park will remain unchanged even after the completion of the Laino-Rizzicono connection. As mentioned earlier, in one section of the power line within the Park, round-section pylons with a reduced footprint have been used for the first time in Italy, as agreed with local authorities;
- > under a protocol of understanding with the Tuscany Region, which calls for the relocation of the existing high-voltage network in the area between the Calenzano station (Florence) and a plant under construction at S. Barbara (Arezzo), Terna has developed a project for 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 single-circuit line with lower and less visually-obtrusive pylons, of a segment of the existing "Raccordi di Tavarnuzze" double-circuit power line located in the scenic Chianti hills. For the section of greatest visual impact, the new supports designed by Foster and De Lucchi, winners of the international "Supports for the Environment" contest, are to be used;
- > construction of the S. Giacomo-Teramo power line has been completed. Following the completion of the entire project, including the Teramo power station and 220 kV cable connections between the S. Giacomo power plant and the Collepiano station, it will be possible to continue with an extensive program of construction of the high-voltage electricity network within the Gran Sasso and Monti della Lega Natural Park, including the demolition of the 220 kV Villavalle-S. Giacomo power line and the Collepiano station;
- > the first phase of the plan to rationalize the high-voltage network in the area north of Val D'Ossola between the towns of Verampio and Pallanzeno (Verbania) has been completed. The network was rebuilt along routes located outside of residential areas, paying particular attention to environmental impact. As agreed with the regional authorities, the color of the pylons has been selected to minimize visual impact and, while transport capacity has been increased, the overall length of the line has been reduced.

Legislation governing electrical and magnetic fields

The framework law on electrical and magnetic fields enacted on February 22, 2001 requires the State to adopt specific provisions setting the parameters (exposure limits, thresholds of concern and quality targets) with which electrical plant must be compliant.

It should be noted in this respect that the framework law envisages a mechanism for the recovery of related costs in accordance with criteria determined by the Authority for Electricity and Gas (the Authority) pursuant to Law 481/1995, since such costs are incurred in the general interest.

On August 29, 2003 the Prime Minister's Decree of July 8, 2003 setting "Exposure limits, thresholds of concern and quality targets for the protection of the public from the effects of electromagnetic fields" and thereby establishing the parameters with which electrical plant must comply was published in the Official Journal. However, the rules laid down by the framework law are not yet complete, since the decree setting out clean-up arrangements has not yet been issued.

The potential impact of the provision on the company is currently being assessed.

A number of regions have proposed bills on this subject that establish tighter limits than those envisaged by the Prime Minister's Decrees of 1992 or July 8, 2003.

However, Constitutional Court ruling no. 307 published on October 7, 2003 declared some regional laws concerning electromagnetic fields (including the Campania Region's Law 12 of November 24, 2001) to be unconstitutional. The ruling enunciates the principle that restrictions based on national legislation cannot be modified by regional legislation, even if it sets more stringent limits, since health protection must be safeguarded in a uniform manner throughout the country.

Plant and equipment

The following table shows the number of installations and the extent of the network:

Plants	Dec. 31, 2003		Dec. 31, 2002	
	no.	km	no.	km
Stations	295	-	275	-
Transformers	565	-	554	-
Bays	3,864	-	3,678	-
Lines	-	34,824	-	33,884
Double-circuit lines	1,906	38,577	1,814	37,583

The main change in 2003 resulted from the extension of the NTN in the course of the year to implement the Ministry of Productive Activities' Decree of 23 December 2002.

On the basis of the decree, Enel Distribuzione, Enel Produzione and Enel Green Power transferred a total of 874 km of high voltage lines and 18 electricity stations to Terna.

Two new stations (Pieve Albignola and Tula) also began operating during the year as part of the development of the NTN decided by the ISO.

The programs for the replacement of existing transformers with higher power versions continued during the year. At December 31, 2003 total transformer capacity was 107,485 MVA (compared with 101,493 at December 31, 2002).

Transactions with related parties

Transactions with Enel Group companies are all covered by specific contracts.

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

- > assumption of debt and the pension fund liability for management;
- > provision of institutional or on-request assistance and consulting services;
- > communication services.

As for other Group companies, contracts producing expenses related primarily to:

- > the operation of in-house cafeterias (Enel Real Estate SpA);
- > rental of buildings and related maintenance services (Enel Real Estate SpA);
- > supply and management of IT services (Enel.it SpA);
- > supply of telephony and telecommunications services (Wind SpA);
- > staff training services (Sfera SpA);
- > research (CESI SpA);
- > human resource management services (Ape SpA).

Contracts generating revenues related to:

- > operation and maintenance of high-voltage network (Enel Distribuzione SpA);
- > development, laying and maintenance of fiber optics (Enel.it/ Enel.Net SpA);
- > housing activities (Wind SpA).

The figures for Group companies are reported in the Notes to the Financial Statements. The following tables show expenses and revenues for the year, in millions of euro.

Expenses			
Company	2003	2002	Change
Ape SpA	5.2	4.4	0.7
Enel Distribuzione SpA	4.7	4.3	0.4
Enel Produzione SpA	0.6	0.9	-0.2
Enel Real Estate SpA	9.1	11.6	-2.5
Enel SpA	8.1	7.9	0.2
Enel.it SpA	10.4	12.9	-2.5
Enel.net SpA	0.1	0.0	0.1
Enelpower SpA	0.0	0.1	-0.1
Sfera SpA	0.7	1.3	-0.6
Enel Sole SpA	0.0	0.0	0.0
Wind Telecomunicazioni SpA	24.7	23.7	1.0
Total	63.6	67.1	-3.5

Revenues

Company	2003	2002	Change
Deval SpA	0.2	0.3	-0.1
Enel Distribuzione SpA	34.0	33.5	0.5
Enel Green Power SpA	0.2	0.3	-0.2
Enel Produzione SpA	1.5	1.0	0.5
Enel Real Estate SpA	0.7	0.0	0.7
Enel.it SpA	4.5	21.2	-16.7
Enel.Net SpA	5.7	0.0	5.7
Enelpower SpA	0.3	0.4	-0.1
Eurogen	0.0	2.1	-2.1
Interpower SpA	0.0	0.2	-0.2
Novatrans	0.1	0.0	0.1
TSN	0.1	0.0	0.1
Wind Telecomunicazioni SpA	3.6	5.8	-2.1
Total	51.0	64.8	-13.8

Human resources and training

The following table shows the changes in payroll numbers and a breakdown of the workforce by category.

Breakdown of workforce			
Terna	at Dec. 31, 2003	at Dec. 31, 2002	Change
Senior management	30	27	3
Middle management	204	214	-10
Office staff	1,422	1,488	-66
Workers	1,165	1,377	-212
Total	2,821	3,106	-285

The figures for both years are net of terminations taking effect at December 31, 2003 (amounting to 227 in 2003 and 83 in 2002).

The decline in the headcount for 2003 is mainly the result of personnel, particularly technical staff and blue-collar staff, taking advantage of the voluntary early retirement program.

With a view to managing turnover so as to maintain and develop the company's distinctive expertise, an analysis of recruitment needs was initiated at the beginning of 2003.

This produced a recruitment plan focusing on the need for technical skills in the operational areas most affected by the departures. At the same time a need to promote generational turnover emerged, not least to support technological developments in core working processes.

Accordingly, in the last quarter of the year a selection campaign was initiated to recruit new university and secondary school graduates on trainee contracts for placement in technical or blue-collar positions. The planning of training for 2003 was also inspired by the aim of maintaining and developing the company's expertise base, with a focus on specialized initiatives for core skills in the operations and engineering areas.

Most of the specialized training initiatives were designed and implemented by in-house working groups to foster the "sedimentation" and dissemination of the company's typical know-how, a process that was underpinned by the integrated use of the corporate intranet as a depository for knowledge and technical documentation.

Greater use was also made of on-the-job training to supplement traditional training and the Enel Distance Learning System (EDLS).

Specialized training was addressed mainly to designers, monitoring and testing specialists, and the technicians and workers in the operational units.

These categories were selected through a survey of training needs that involved all line managers in a careful assessment of their staff's technical-professional skills.

Some elements of the training program involved the updating and consolidation of skills regarding the use of existing equipment, working methods and techniques. The program also focused on training to accompany the introduction of new technologies and working methods.

In the last quarter of 2003 refresher/training courses on live working methods were also introduced through a new course that utilizes an innovative format and delivery method, combining multimedia support and virtual reality sessions with training in the field at the Viverone Center.

Most of the training provided for staff employees was customized, drawing on targeted external courses and the EDLS catalogue.

In keeping with the focus of the plan, the heads of operational groups and units (stations and lines) took part in an outdoor training initiative designed to consolidate and develop their human resource management and performance supplementation/improvement skills.

Training on safety issues continued to be provided for all technical and operational workers, with a special emphasis on measures to prevent electrical risk.

Workers in operational units also took part in the customary regular training activities tailored specifically to their needs, covering working methods, safety and the operational implications of the quality management system.

Finally, at the beginning of 2003 all staff took part in a training campaign on Enel's Code of Ethics, which has been adopted by Terna. The campaign was implemented through EDLS for office staff and middle managers and as part of the regular training provided for operational workers.

In the course of the year, 3,056 employees took part in traditional or EDLS training activities.

Research

In the area of research, Terna works with CESI SpA, in which it holds a 15% equity stake.

The main research projects in 2003 concerned:

- > the development of new technologies to monitor the technical condition of high-voltage equipment and transformers;
- > research on specifications for new types of XPLE high-voltage cable terminals;
- > technical specifications for tempered glass insulators coated with silicon-based paint;
- > definition of an online monitoring and diagnostic system for stationary lead batteries for stations;
- > study of electrical and magnetic fields in transmission plant, with the development of new calculation software;
- > technical support for problems connected with electrical and magnetic fields;
- > projections of atmospheric conditions associated with faults.

Research costs amounted to about € 3 million.

Growth and innovation

Terna continued throughout 2003 to place a special emphasis on growth and innovation, focusing on:

> Innovation involving **Stations** and **Power lines** (systems, components and working methods).

Stations:

- > innovative methods for locating SF6 gas leaks in gas insulated systems and equipment using laser cameras;
- > partial discharge monitoring system for gas insulated systems using ultrasound diagnostic tools;
- > CESI monitoring systems for ATR;
- > monitoring systems for surge arresters (MOSCA and MOSCHINO);
- > partial discharge monitoring systems (Bologna University TechImp).

Power lines:

- > live insulator cleaning device (response to operational needs in highly polluted areas);
- > line conductor temperature monitoring system, supplied by conductor induction and remote signal transmission using GMS;
- > testing of tempered glass insulators coated with silicon-based paint;
- > review of atmospheric conditions associated with faults.

Station automation

The unified Terna project developed in the 1990s and implemented at over 100 facilities introduced an automated system for the adoption of multiple-action commands with congruity checks that has made it possible to optimize the remote operation of the network.

Terna has also developed a new project as part of the Integrated Station Control and Automation System (SICAS), using a digital platform that is already up and running at a number of facilities. The company has also completed the European tender based on the SICAS Standard project specification. This is a development of the system designed to unify its functional, constructive and communication aspects in conformity with the most recent international standards.

SCTI-Net remote control infrastructure

As part of the Remote Plant Control and Operation System (SCTI), Terna has created SCTI-Net, a WAN for remote control operations that enables significant economies of scale for all operational data exchanges and provides resources at marginal cost for intercompany or third party services.

The network is able to channel the traffic flows generated by the remote operating and control system as well as those relating to the monitoring of the electricity system.

A new platform provided by Wind for secure access to the network has also been installed and is now up and running. The system is equipped with firewalls and authentication systems.

Digital Power Line Carriers

In the new technologies sector, after the satisfactory results of tests on the first pilot networks in 2002, work on Digital Power Line Carriers on high and very high-voltage power lines focused in 2003 on completing the network for Sicily.

The network, which has been operating since the end of the year, is equipped with smart automatic error correction nodes and provides a complete infrastructure for data transmission and telephony.

Monitoring Business Intelligence (MBI)

The aim of the MBI project, which was launched in 2002, is to provide an instrument for the automation of decision-making processes connected with the maintenance of electricity components and plant renovation. MBI is a predictive maintenance information system developed using a system of diagnostic models and a centralized data warehouse. Maintenance operators access the system through the company's intranet. The project is linked to the SAP system (see description) and with the SCTI (see description) for the complete automation of the process.

Monitor Project

The Monitor Project has achieved its objective of replacing paper logs to record checking and fault-recording information in the field. The system uses palm-top computers that record data and transfer the results to the MBI system (see description) using the Monitor application.

E-Procurement and Internet-based purchasing technologies

This is a technological platform designed to manage repeat purchasing processes, typically based on a Web catalogue, for products and services for which contracts are already in place or for which all the supply specifications are known.

The main functions supported are: catalogue management, generation of purchase requests and document flow management.

ISO 9001:Vision 2000 Certification	<p>Terna uses an ISO 9001:2000-certified quality management system (QMS) for the process-based organization of company activities. Processes are configured from a network perspective that can enhance interrelationships and reduce inefficiencies through an integrated overview of the company's management systems. The dedicated distributed-access Vision 2000 application has been introduced to support this system. This enables users to track processes and document availability on a constantly updated basis.</p>
Integrated SAP	<p>All company processes, both operational and management-related, are supported by a single SAP ERP system.</p> <p>The system centralizes and correlates the information involved in process activities to enable the complete integration of company processes. The SAP modules adopted in Terna are: SAP CO (control), SAP FI (financial), SAP PM (maintenance), SAP PS (projects), SAP SD (sales), SAP MM (passive cycle) and SAP WCM (plant security).</p>
Balanced Scorecards and the incentive system	<p>Terna has acquired a business intelligence system to support strategic company decision-making. By gathering financial, technical and management data organized in a process-based format, it is able to record the numerical values achieved for specified measurable aspects of the processes in question. The company's incentive schemes are based on this Balanced Scorecard system.</p>
Innovations nearing completion	<p>> Network geo-referencing system (GIS)</p> <p>GIS enables the electricity network to be displayed graphically in a geographical information system at different levels of scale. The system uses a geo-referenced network model to support the activities involved in running, maintaining and designing high and very high-voltage aerial and cable power lines owned or operated by the company.</p> <p>> Computerized station design system (SDSA)</p> <p>This system supports the planning, budgeting and design stages of the station construction process. It covers: budgeting for the contract administrator (ISO/third parties); formulation of technical specifications; drawing up quotes and managing tenders for external resources needed to carry out works; preparation of the detailed engineering for the construction stage.</p>

> **Contract management support system (CMS)**

System for budgeting, contracting, execution and quality measurement of works. The system is able to draw up an elementary cost component chain for the services involved (personnel, instruments, equipment, etc), facilitate the cost-accounting stage, and insert and integrate vendor rating in the implementation process, thus enabling efficient, constantly updated calculations of the cost of "non-quality" associated with any given project.

> **Systems to support safety procedures for work on plant (SAP-WCM and VTS)**

This system, which uses palm-top devices and voice recognition telephone responders, supports the exchange of observations by operators involved in the process, ensures that information concerning plant safety can be certified and documented, and provides for the centralized availability of the documents produced and integration with SAP systems.

Internet portal

Internet

In 2003 Terna continued to develop its Internet portal, which has restricted access areas designed to optimize relations with suppliers and customers. The system enables new forms of interaction with the company's interlocutors, characterized by speed and customization, but also by the need to implement constant updating and management processes to ensure continuity in terms of operations and results.

Supplier area: in the course of the year trials were completed with suppliers of high-voltage disconnecting switches for the e-monitoring project through Terna's Internet site, where suppliers update the state of progress of orders to enable the company to take prompt corrective action in the event of changes to the original program.

Customer area: a mini-site is generated for each third-party customer's high-voltage plant. Information and documents regarding the operation and management of the facility that may be of interest to customers are held in a protected, restricted area of these sites. The mini-sites are also designed to support technical back-up and business communication services, develop customer loyalty, create new business opportunities and provide technological support for the delivery of new services.

To this end, new services have been developed (tracking and messaging for prompt intervention, plant documentation management, road-book and order management, webcam monitoring) that will be introduced and commercialized in 2004.

**Intranet, knowledge
management and
internal
communication**

The new version of Terna's intranet was tested at the end of 2002 and entered operation in 2003, with new services and content designed to integrate a comprehensive range of actions in the training and management areas from a knowledge management perspective, seeking to enhance expertise and skills. On the internal communication front, the use of "quality control cards" became more firmly established. These are designed to enable all staff to follow the company's operations and results through regular monitoring of quality and productivity indicators.

Outlook for operations in 2004

In addition to the consolidation of the company's leading position in the development and maintenance of the NTN, most notably in relation to the award of the tender called by the ISO for the development of the network, operations in 2004 will be characterized by initiatives designed to safeguard and create value for the company and, consequently, for shareholders. This aim will be pursued through the following lines of action:

Regulated activities

With regard to its core business, Terna's strategy in 2004 will be to continue in the pursuit of excellence in quality terms and in the technical-financial management of assets owned by the NTN, most notably in the areas of:

- > the operation and management of high and very high-voltage plant;
- > network monitoring, remote control and automation;

with a view to achieving the greatest possible satisfaction for external (ISO) and internal customers (shareholder).

Terna will also continue to take part in the ISO's invitations to tender for the development of the NTN, in order to maintain its leadership in the "National Network Owners" sector.

In the course of the year the decrees implementing Law 290 of October 27, 2003 are expected to be issued. These will change the structure of the electricity transmission sector in Italy and in particular the time scale and arrangements for the re-bundling of the ownership and operation of the NTN.

Unregulated activities

The key developments envisaged for unregulated activities in 2004 are:

- > an greater emphasis on design and construction services for high and very high-voltage plants as a result of the development of new production initiatives and the opportunities provided by Authority resolution no. 151/2002, which envisages the possibility for private investors to develop new cross-border interconnection lines with a view to increasing energy trading with neighboring countries;
- > an expansion of the reference market in order to capitalize on the company's skills and know-how in the construction, operation and maintenance of high and very high-voltage plant abroad as well as in Italy. Terna is looking in particular to countries where considerable efficiency gains are possible in the technical and operational management of the transmission network and where considerable synergies can be achieved, not least as a result of geographical and cultural proximity (with improved margins for equivalent levels of investment);
- > the development of commercial supply by expanding the range of services provided, especially specialized, high-margin products.

Merchant Lines

In 2003 the ISO implemented the provisions of Authority resolution no. 151/2002 by initiating the technical procedure for the selection of new cross-border interconnection lines to be developed through private funding.

Terna grasped this opportunity to capitalize on its expertise and know-how in the design and construction of high and very high-voltage transmission plant and took part in 11 different initiatives in partnership with Enel Produzione and other private operators in the electricity sector.

In the course of 2003 Terna developed outline projects for new initiatives on behalf of these partnerships and the results of the ISO's evaluation of the projects are expected in 2004.

Those initiatives approved by the ISO will then move on to the detailed engineering stage and will therefore provide a source of revenue for Terna in 2004 for plant design services.

Albania

As part of the liberalization of electricity markets currently under way in the Balkans, aimed first at creating a South-East European market and then at integrating this market with the European Union's internal electricity market, Albania will be required by the end of the first half of 2004 to unbundle the management and accounting elements of the electricity transmission arm of KESH, the national electricity company.

Electricity transmission over the high and very high-voltage network (particularly the operation and maintenance of transmission assets) and dispatching (which involves coordinating the operation of generating plant, the national transmission grid and connected networks, and the electricity system's ancillary services) will therefore need to be unbundled and given decision-making autonomy.

The Albanian government is assessing the possibility of entrusting transmission and dispatching activities to a third party on a relatively long-term licensing basis.

As part of its strategy of seeking international business in the area of the Mediterranean basin, Terna is putting together a proposal to submit to the Albanian government for the concession for the Albanian transmission network's transmission and dispatching activities.

Staff development

In the area of training and human resource development, the focus in 2004 will continue to be on enhancing skills, with particular reference to developing and maintaining the company's distinctive area of expertise.

To this end, the targeted recruitment campaign drawn up in 2003 will be implemented from the start of the year.

The training program, which follows on from and reinforces the objectives set for 2003, envisages training/refresher-course initiatives integrated with the company's intranet and designed to:

- > support updating and innovation projects involving technology, working methods and ICT-based management systems, as elements of a knowledge management system based on the integration and sharing of information/knowledge to support planning, management and operations;
- > promote the transformation of “specialist” knowledge into more widely disseminated awareness/knowledge.

As regards the expected changes in the company's institutional framework, initiatives designed to develop and disseminate management skills in keeping with the new scenarios will be developed for the key roles and resources involved in the process of change.

With regard to these resources, specialized skill and potential assessment initiatives will be used to select and guide training options.

Events following the close of the financial year

On October 1, 2003, pending the definition of the new tariff regime and the definitive approval of the new regulations for reorganizing the energy market, the Board of Directors of the Parent Company, Enel SpA, authorized the opening of preparatory procedures for an initial public offering of a substantial proportion of Terna's capital.

On October 15, 2003 the Board examined the plan and approved a resolution authorizing the completion of the preparatory procedures. On January 28, 2004 Terna's Board of Directors approved a resolution authorizing the continuation of the preparatory procedures involving Terna.

Reduction of share capital

In the light of the envisaged placement, a number of problem areas in the company's financial structure were pointed out, as noted also by the advisors.

In view of these problem areas, the Board of Directors proposed to the Shareholders' Meeting that Terna's financial structure should be changed by increasing leverage.

On January 28, 2004 the Shareholders' Meeting approved the reduction of Terna SpA's share capital pursuant to Article 2445 of the Civil Code, from € 2,036,050,000.00 to € 440,000,000.00, by repaying capital of € 1,200,000,000.00 and transferring € 396,050,000.00 to the reserves, subject to the cancellation and consequent reduction of the number of ordinary shares comprising the share capital from 2,036,050,000 to 2,000,000,000 and the concurrent reduction of their par value from € 1.00 to € 0.22 each. This resolution was recorded in the Company Register on January 29, 2004 and will therefore take full effect from April 29, 2004, as long as there are no objections from creditors.

Refinancing of debt to Parent Company in respect of assumption of debt

Again in the light of the planned stock market listing, discussions are under way with the Parent Company to redefine the liabilities that the company assumed at the time of its establishment by taking on a part of Enel's debt as well as the liability in respect of the Pension Fund for Enel managers, which was also transferred at the time of establishment.

**New regulatory
period: 2004-2007**

With resolution no. 5/2004 of January 30, 2004 the Authority set the tariffs for the 2004-2007 regulatory period. In so doing, the Authority took into due consideration the principles set forth in Law 290/2003 according to which tariffs for the transmission and distribution networks for the regulatory period in question must take into account the following criteria:

- > infrastructure revaluation;
- > a risk-free rate of return that is at least in line with that of long-term government securities;
- > a symmetric distribution between users and operators of the efficiency gains achieved with respect to the objectives set through the price cap mechanism, applied only to those tariff components intended to cover operating costs and depreciation.

More specifically, the Authority has established:

- > a rate of return on net capital employed of 6.7% for transmission activity, compared with 5.6% for the previous regulatory period (2000-2003);
- > an increase in Terna's regulatory asset base (RAB);
- > a price cap on operating costs of 2.5% in real terms, compared with 4% on operating costs and the return on capital employed for the previous period;
- > an additional 2% on the return on net capital employed for development initiatives over and above the 6.7% rate for transmission activity.

Shareholders,

The Financial Statements for 2003 close with net income of € 123,489,604.50 which we propose to allocate as follows:

- > € 6,174,480.23 to the "Legal reserve";
- > € 36,907,614.34 to the "Accelerated depreciation reserve";
- > € 80,220,370.00 as a dividend of € 0.0394 for each of the 2,036,050,000 shares;
- > € 187,139.93 as "Retained earnings".

Following the approval of the Board's proposal by the Shareholders' Meeting, Shareholders' Equity posted in the Financial Statements will appear as follows:

Shareholders' Equity

Euro

Share capital	2,036,050,000.00
Legal reserve	84,491,220.25
Accelerated depreciation reserve - previous years	295,709,417.07
Accelerated depreciation reserve - current year	36,907,614.34
Other reserves	16,444.56
Retained earnings	522,937.09
Total	2,453,697,633.30

The Chief Executive Officer
Sergio Mobili

Rome, February 17, 2004

**Financial Statements
of Terna SpA
at December 31, 2003**

Balance Sheet - Assets

Euro	at Dec. 31, 2003	at Dec. 31, 2002	Change
A) SHARE CAPITAL NOT PAID IN	0	0	0
B) FIXED ASSETS			
I. Intangible assets			
(1) incorporation costs	0	31,124	-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	0	0
Total	0	31,124	-31,124
II. Tangible assets			
(1) land and buildings	311,708,785	313,747,276	-2,038,491
(2) plant and machinery	2,410,199,587	2,513,320,098	-103,120,511
(3) commercial and industrial equipment	10,903,912	10,918,068	-14,156
(4) other assets	863,301	1,013,958	-150,657
(5) work in progress and advances	317,721,236	282,980,843	34,740,393
Total	3,051,396,821	3,121,980,243	-70,583,422
III. Financial assets			
(1) equity investments in:			
(a) subsidiaries	156,248,804	0	156,248,804
(b) affiliates	0	0	0
(c) Parent Company	0	0	0
(d) others	3,468,129	3,468,129	0
(2) receivables from:			
(a) subsidiaries	289,825,446	0	289,825,446
(b) affiliates	0	0	0
(c) Parent Company	0	0	0
(d) others	8,858,481	9,711,727	-853,246
> due within 12 months	290,266,554	415,393	289,851,161
(3) Other securities	0	0	0
Total	458,400,860	13,179,856	445,221,004
TOTAL FIXED ASSETS (B)	3,509,797,681	3,135,191,223	374,606,458
C) CURRENT ASSETS			
I. Inventories			
(1) raw materials	8,385,769	2,650,461	5,735,308
(3) contract work in progress	19,306,148	14,615,926	4,690,222
(5) advances	0	0	0
Total	27,691,917	17,266,387	10,425,530

Euro	at Dec. 31, 2003	at Dec. 31, 2002	Change
II. Receivables			
(1) trade:			
> third parties	182,813,694	193,474,321	-10,660,627
> other Enel Group companies	20,181,570	30,708,711	-10,527,141
(2) subsidiaries	228,379	0	228,379
(3) affiliates	0	0	0
(4) Parent Company	289,269,197	583,469,195	-294,199,998
(5) others	37,294,747	29,680,843	7,613,904
> due beyond 12 months	35,380,224	28,330,523	7,049,701
Total	529,787,587	837,333,070	-307,545,483
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	103,447	93,380	10,067
Total	103,447	93,380	10,067
TOTAL CURRENT ASSETS (C)	557,582,951	854,692,837	-297,109,886
D) ACCRUED INCOME AND PREPAID EXPENSES			
(1) accrued income	0	10,910,745	-10,910,745
(2) prepaid expenses:			
> issue discounts	0	0	0
> other	4,206,737	2,712,909	1,493,828
TOTAL ACCRUED ASSETS AND PREPAID EXPENSES (D)	4,206,737	13,623,654	-9,416,917
TOTAL ASSETS	4,071,587,369	4,003,507,714	68,079,655

Balance Sheet - Liabilities and Shareholders' Equity

Euro	at Dec. 31, 2003	at Dec. 31, 2002	Change
A) SHAREHOLDERS' EQUITY			
I. Share capital	2,036,050,000	2,036,050,000	0
II. Share premium reserve	0	0	0
III. Revaluation reserve	0	0	0
IV. Legal reserve	78,316,740	73,910,747	4,405,993
V. Reserve for own shares	0	0	0
VI. Statutory reserves	0	0	0
VII. Other reserves:			
> accelerated depreciation reserve	295,709,417	256,094,727	39,614,690
> other	16,445	16,445	0
VIII. Retained earnings	335,797	215,292	120,505
Net income	123,489,605	88,119,868	35,369,737
Total	2,533,918,004	2,454,407,079	79,510,925
B) PROVISIONS FOR RISKS AND CHARGES			
(1) retirement benefits	773,975	838,114	-64,139
(2) taxes	159,279,912	151,126,916	8,152,996
(3) other	59,246,224	36,354,164	22,892,060
Total	219,300,111	188,319,194	30,980,917
C) EMPLOYEE TERMINATION INDEMNITY	70,731,513	75,696,571	-4,965,058
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	318,181,818	325,000,000	-6,818,182
> short-term loans	0	0	0
(4) other loans	0	0	0
(5) advances	47,709,419	48,913,761	-1,204,342
> due beyond 12 months	30,512,678	36,271,286	-5,758,608
(6) trade payables:			
> third parties	127,506,399	101,237,406	26,268,993
> due beyond 12 months	833,605	806,336	27,269
> other Enel Group companies	29,899,194	63,572,019	-33,672,825
(7) payables represented by credit instruments	0	0	0
(8) payables to subsidiaries	0	0	0
(9) payables to affiliates	0	0	0
(10) payables to Parent Company	495,417,212	518,619,151	-23,201,939
> due beyond 12 months	470,408,497	491,414,218	-21,005,721
(11) taxes payable	34,746,727	48,849,196	-14,102,469
(12) social security payables	7,463,674	7,335,662	128,012
(13) other payables	30,561,790	16,752,386	13,809,404
Total	1,098,304,415	1,130,279,581	-31,975,166

Euro	at Dec. 31, 2003	at Dec. 31, 2002	Change
E) ACCRUED LIABILITIES AND DEFERRED INCOME			
(1) accrued liabilities	6,704,200	7,221,080	-516,880
(2) deferred income:			
> premium on bond issues	0	0	0
> other	142,629,126	147,584,209	-4,955,083
Total	149,333,326	154,805,289	-5,471,963
TOTAL LIABILITIES	1,537,669,365	1,549,100,635	-11,431,270
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,071,587,369	4,003,507,714	68,079,655
COMMITMENTS			
Guarantees granted	7,377,074	2,200,132	5,176,942
Other commitments	356,139,539	340,034,663	16,104,876
Total	363,516,613	342,234,795	21,281,818

Income Statement

Euro	2003	2002	Change
A) VALUE OF PRODUCTION			
(1) Revenues from sales and services:			
> network usage fees	782,314,486	729,960,565	52,353,921
> other sales and services	61,593,295	65,834,054	-4,240,759
(3) change in contract work in progress	4,690,222	-426,700	5,116,922
(4) capitalized expenses	17,412,026	14,931,901	2,480,125
(5) other income and revenues:			
> contributions received	20,284,739	11,313,951	8,970,788
> other	8,262,719	23,151,020	-14,888,301
Total value of production	894,557,487	844,764,791	49,792,696
B) OPERATING COSTS			
(6) raw materials	20,206,333	21,319,228	-1,112,895
(7) services	90,369,743	99,929,503	-9,559,760
(8) leases and rentals	14,559,846	13,826,600	733,246
(9) personnel:			
> wages and salaries	114,533,015	116,872,768	-2,339,753
> social security contributions	31,335,493	31,511,355	-175,862
> employee termination indemnities	9,703,462	9,897,305	-193,843
> retirement benefits	1,673,776	1,274,949	398,827
> other costs	6,569,479	6,374,017	195,462
(10) amortization, depreciation and writedowns			
> intangible assets	31,124	31,124	0
> tangible assets	291,014,907	287,338,813	3,676,094
> other writedowns of fixed assets	0	432,768	-432,768
> writedowns of current receivables	1,018,552	1,104,378	-85,826
(11) change in inventories	-5,826,326	-2,397,870	-3,428,456
(12) accruals to provisions for risks and charges	35,962,521	5,157,372	30,805,149
(13) other provisions	0	0	0
(14) other operating costs	15,866,843	17,315,144	-1,448,301
Total operating costs	627,018,768	609,987,454	17,031,314
OPERATING INCOME	267,538,719	234,777,337	32,761,382
C) FINANCIAL INCOME AND EXPENSE			
(15) from equity investments in:			
> subsidiaries	0	0	0
> affiliates	0	0	0
> other companies	0	96,753	-96,753
(16) other financial income:			
(a) from long-term receivables:			
> subsidiaries	0	0	0
> affiliates	0	0	0
> other companies	274,225	320,615	-46,390
(b) from long-term financial assets	0	0	0
(c) from marketable securities	993	88	905
(d) other income:			
> subsidiaries	0	0	0
> affiliates	0	0	0
> Parent Company	15,783,429	10,910,745	4,872,684
> others	60,149	23,940	36,209

Euro	2003	2002	Change
(17) Interest and other financial expense:			
> subsidiaries	0	0	0
> affiliates	0	0	0
> Parent Company	36,990,959	37,342,663	-351,704
> others	14,180,961	13,204,874	976,087
Total financial income (expense)	-35,053,124	-39,195,396	4,142,272
D) ADJUSTMENTS OF FINANCIAL ASSETS			
(18) revaluations:			
(a) of equity investments	0	0	0
(b) of long-term financial assets	0	0	0
(c) of marketable securities	0	0	0
(19) writedowns:			
(a) of equity investments	0	0	0
(b) of long-term financial assets	0	0	0
(c) of marketable securities	0	0	0
Total adjustments of financial assets	0	0	0
E) EXTRAORDINARY ITEMS			
(20) income:			
> gains on disposals of assets	0	0	0
> other	2,178,561	3,537,158	-1,358,597
(21) expense:			
> losses on disposal of assets	0	0	0
> prior-year taxes	2,787,655	0	2,787,655
> other	14,427,861	48,104,897	-33,677,036
Total extraordinary items (net)	-15,036,955	-44,567,739	29,530,784
INCOME BEFORE TAXES	217,448,640	151,014,202	66,434,438
(22) income taxes	93,959,035	62,894,334	31,064,701
> current	94,174,558	51,723,577	42,450,981
> prepaid	-8,368,518	-3,981,862	-4,386,656
> deferred	8,152,995	15,152,619	-6,999,624
(23) NET INCOME	123,489,605	88,119,868	35,369,737

**Notes to the
Financial Statements
of Terna SpA
at December 31, 2003**

Form and content of the Financial Statements

The form, content and classification of items in the Balance Sheet, Income Statement and the accompanying notes comply with the regulations set forth in the Italian Civil Code. The statements also contain additional information that, although not required by law, is deemed necessary to provide a true and fair view of the company's situation.

The statement of cash flows is included in the Report on Operations.

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

The figures in the notes to the Balance Sheet and Income Statement are expressed in millions of euro.

As required by law, the company, which holds significant controlling interests, has also prepared Consolidated Financial Statements that is presented with its statutory Financial Statements.

Accounting policies

The accounting policies used in the preparation of the Financial Statements at December 31, 2003 are the same as those used in the Financial Statements for the previous year. Such policies are in line with provisions of Art. 2426 of the Italian Civil Code, if necessary, supplemented by the accounting principles issued by the National Council of the Italian Accounting Profession. The most significant policies are illustrated below.

Balance Sheet

Intangible assets

Intangible assets are recorded at cost and reflect the residual value of expenditures whose economic utility spans over several years. Amortization is calculated on a straight-line basis with reference to the expected useful economic life of the assets.

Incorporation and related costs are amortized over five years. The final charge for amortization of this item was recorded to the Income Statement in 2003.

The extraordinary contribution paid to INPS (the national social security institute) in 2000, 2001 and 2002 pursuant to Law 488 of 23 December 1999 (the Finance Act for 2000) could be amortized over either 20 or three years, and the Company opted for the latter. The third and last installment was recognized in the Income Statement in 2002.

Tangible assets

Tangible assets are recorded at cost of purchase or production cost, inclusive of any additional expenses and monetary revaluations carried out by Enel SpA pursuant to the applicable regulation. The above defined cost is written down to reflect any permanent impairment in value. If the conditions causing the impairment cease to exist, the cost value (net of depreciation) is restored.

The value of tangible assets excludes costs incurred in maintaining or restoring the efficiency and proper operation of plant. As these expenses do not modify the magnitude or potential of plant, they are charged to the financial year in which the maintenance and repair work is carried out.

Tangible assets are depreciated on a straight-line basis at the following rates, which are determined based on the estimated useful life of the assets.

Depreciation rates		
	2002	2003
Buildings	2.50%	2.50%
Power lines	2.85%	2.50%
Switching substations:		
> Electrical equipment	5.00%	2.38%
> Other electrical equipment	5.00%	3.13%
> Automation and control systems	10.00%	6.70%
Central systems for management and control:		
> Electronic equipment	5.00%	5.00%
> Computers	20.00%	10.00%

The residual useful life of Terna's high and very-high-voltage transmission plants, which reflects the depreciation rates that the company used until the 2002 financial year, was determined in 1994 by a working group from Enel SpA.

Recent diagnostic methods, aided by sophisticated calculation tools, made possible a more accurate determination of the plant's technical condition. Accordingly, in 2003, the depreciation rates were revised in order to better reflect the estimated economic useful life of the assets. As a result of the analysis, which took account of specific factors such as predictive maintenance and the increased reliability of components, the economic useful life of the assets was extended, especially with regards to the facilities that forming National Transmission Network (lines and stations) and auxiliary plant (remote monitoring and control systems).

The new depreciation rates were applied starting January 1, 2003, and are reduced by half for assets acquired during the year. The revised economic rates reduced the depreciation charge for the year by € 104.2 million compared with the charge that would have occurred had the prior years' rates been applied, gross of the theoretical tax effect of € 39.9 million. The revised economic rates have therefore affected the comparability of the depreciation charges for 2002 and 2003, as well as the amounts of depreciation on future years.

In accordance with rules governing the preparation of financial statements, and in application of tax regulation, the company also recognized additional depreciation up to the maximum allowed for tax purposes.

Starting from 2000, accelerated depreciation (pursuant to Art. 67, paragraph 3 of Presidential Decree 917/1986) is charged directly to a Shareholders' Equity reserve, determined at the time the Shareholders' Meeting appropriates the company's earnings. The related deferred tax is recognized to the Income Statement for the year, in accordance with Accounting Principle 25 of the National Council of the Italian Accounting Profession.

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

Financial assets

Equity investments

Equity investments in subsidiaries and other companies are accounted for under the cost method. The investment is written down in the event of a permanent impairment in value. If the factors causing the impairment cease to exist, the value of the equity investment is restored to the original amount and the revaluation is recognized in the Income Statement as a write-up.

Inventories

Raw material, auxiliary and consumption goods used in the operation of plant and equipment are valued at their purchase price calculated by the weighted average method. Obsolete and slow-moving inventories are written down to their estimated realizable value, with the amount posted to a specific provision.

Contract work in progress is valued at the amounts of the contractually agreed payments, according to the percentage-of-completion method. Advances received from customers for contractual work not yet completed are recorded as deferred revenues.

Receivables

Receivables are recorded at their estimated net recoverable value and classified under "Financial assets" or "Current assets", according to their use and to the nature of the debtor.

Accruals and deferrals

Accruals and deferrals are recorded based on the accrual method of accounting.

Provisions for risks and charges

Provision for retirement benefits

The provision includes compensation payable in lieu of notice to employees who are entitled to the compensation under the terms of the national collective bargaining agreement and union agreements currently in force.

Provisions for risks and charges

These provisions are recorded against known or probable losses and liabilities whose amount or timing is undetermined at the end of 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 employees pursuant to the Italian law and collective bargaining agreements in force at the balance sheet date, net of advances made and pension fund contributions withheld.

Accounts payable

Accounts payable are stated at face value.

Memorandum accounts

Guarantees granted are recorded at an amount equal to the percentage of the contract guaranteed. Commitments with suppliers are determined on the basis of contracts in force at the end of the year that do not fall within the normal operating cycle, limited to the part of the contract not yet executed.

Income Statement

Expenses and revenues are recognized on an accruals basis.

Revenues

Revenues from the National Transmission Network (NTN) are recognized in accordance with the method set forth in the Operating License Agreement between the company and the Independent System Operator (ISO), and determined based on the tariff set by the Authority for Electricity and Gas. Other revenues are recorded at the time services are provided or when the title of ownership of the goods is transferred.

Capital grants

Grants received for the execution of specific works requested by third parties, whose value is recorded among tangible assets, are recorded (for facilities already in operation at December 31, 2002) 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, under other income and revenues, over the depreciable life of the assets to which they relate.

As from the current financial year, grants for new plant put in service are recognized as a reduction in book value of the assets. Advance payments received are recognized in a separate caption under liabilities.

Income taxes

Current taxes on income are recorded under taxes payable on the basis of estimated taxable income in conformity with tax regulations, net of advances paid.

Deferred tax assets and liabilities are calculated on temporary differences between the values recognized in the statutory Financial Statements and the corresponding values recognized for tax purposes, on the basis of the applicable tax rate at the time the differences are reversed.

Deferred tax assets are carried under "Other receivables" to the extent that it is reasonably certain that they can be recovered. Deferred tax liabilities are provided to the extent such liability is expected to occur.

Environmental costs

Environmental costs refer to the prevention, reduction and monitoring of the environmental impact of production activities. If the costs are recurrent, they are recognized to Income Statement when incurred. Cost relating to increase of the useful life, capacity or safety of tangible assets, are capitalized as part of the costs of the respective assets. Provisions for risks and charges associated with disputes connected with environmental matters are accrued when it is probable or certain that a liability will be incurred and the amount can be reasonably estimated.

Hedging activity

In order to hedge against the risk of fluctuations in interest rates, the company, through Enel SpA, has entered into derivative contracts to hedge both the risk associated with specific transactions and its overall exposure.

The interest differentials to be received or paid on interest rate swaps are recognized under financial income or expense in a manner consistent with the charges in respect of the underlying liabilities.

Assets

Share capital not paid in At December 31, 2003, this item had a balance of zero.

Intangible assets At December 31, 2003, this item had a balance of zero. The table below shows the changes during the year.
Euro 0.0 million

Millions of euro	Dec. 31, 2002	Increase	Amortization	Other changes	Dec. 31, 2003
Incorporation costs	31,124	0	31,124	0	0
Total	31,124	0	31,124	0	0

Incorporation costs include the costs incurred in incorporating the company and carrying out the capital increase following the transfer of the relevant business activities from Enel. The fifth and final amortization charge was recognized in 2003.

Tangible assets Tangible assets amount to € 3,051.4 million (€ 3,122.0 million at December 31, 2002). The following table shows the values and the changes for each category of asset:
Euro 3,051.4 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, 2002						
1. Historical cost	450,034,599	5,347,239,474	34,757,188	11,112,636	282,980,843	6,126,124,740
2. Revaluations	60,761,792	875,673,270	153,514	27,770	0	936,616,346
3. Book value (1+2)	510,796,391	6,222,912,743	34,910,702	11,140,407	282,980,843	7,062,741,086
4. Accumulated depreciation	-197,049,115	-3,709,592,645	-23,992,634	-10,126,449	0	-3,940,760,843
5. Balance A) at Dec. 31, 2002 (3-4)	313,747,276	2,513,320,098	10,918,068	1,013,958	282,980,843	3,121,980,243
B) CHANGES IN 2003						
6. Capital expenditure	6,546,181	105,194,253	1,888,950	118,743	127,039,270	240,787,397
7. Net reclassifications:						
> Book value	7,149,109	84,872,693	2,579	-2,579	-92,021,802	0
> Accumulated depreciation	-85,265	85,265	-1,184	1,184	0	0
Total	7,063,844	84,957,958	1,395	-1,395	-92,021,802	0
8. Net disposals:						
> Book value	-309,118	-45,892,567	-22,776	-21,632	-277,075	-46,523,168
> Accumulated depreciation	234,366	42,252,314	19,959	21,632	0	42,528,271
Total	-74,752	-3,640,253	-2,817	0	-277,075	-3,994,897
9. Depreciation	-15,070,592	-273,774,626	-1,901,684	-268,005	0	-291,014,907
10. Write-downs and revaluations	0	0	0	0	0	0
11. Capital grants	-503,172	-15,857,843	0	0	0	-16,361,015
12. Balance B)	-2,038,492	-103,120,511	-14,156	-150,657	34,740,394	-70,583,422
C) BALANCE AT DEC. 31, 2003 (A+B)						
13. Historical cost	463,077,087	5,482,696,546	36,626,033	11,207,197	317,721,236	6,311,328,099
14. Revaluations	60,602,305	868,532,732	153,422	27,742	0	929,316,201
15. Book value	523,679,392	6,351,229,278	36,779,455	11,234,939	317,721,236	7,240,644,300
16. Accumulated depreciation	-211,970,607	-3,941,029,691	-25,875,543	-10,371,638	0	-4,189,247,479
D) BALANCE AT DEC. 31, 2003	311,708,785	2,410,199,587	10,903,912	863,301	317,721,236	3,051,396,821

The caption "Plant and machinery" includes the electricity transport network, transformer stations and centralized systems for the remote monitoring and control of equipment. In September 2003, the company acquired plant from Enel Distribuzione SpA, Enel Produzione SpA and Enel Green Power SpA (all part of the Enel Group), in compliance with a Decree of 23 December 2002 in which the Ministry for Productive Activities designated the facilities as components of the National Transmission Network and ordered their transfer to the company, which thus acquired around 874 kilometers of high-voltage power lines and 18 transformer stations with a total value of € 35.4 million.

As regards work in progress and advances, projects for the development and upgrading of the network with a value of more than € 5 million are indicated below:

Euro	
Power lines	
> kV 380 Matera - S. Sofia	64,247,550
> kV 380 Laino - Feroletto - Rizziconi	28,564,014
> kV 380 S. Giacomo - Teramo	7,498,238
380 kV switching substations	
> Villavalle	20,630,531
> Calenzano	11,523,920
> Chivasso	7,348,683
> Foggia	6,254,484
> Sorgente	5,956,749
220 kV switching substations	
> S. Benedetto del Querceto	5,650,487
> Oristano	6,167,937
150 kV switching substations	
> Carpi Sud	5,922,045

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

Euro	
Capital expenditure	
> Power lines	106,100,118
> Switching substations	127,166,861
> Other	7,520,418
Total capital expenditure	240,787,397
Depreciation	
> ordinary	139,615,671
> additional	151,399,236
Total depreciation	291,014,907

The main capital expenditure included: the 380 kV Feroletto-Laino power line (€ 23.4 million), the 120-150 kV Cagliari Centro-Porto Canale power line (€ 5.4 million), the 120-150 kV Molentargius-Cagliari Centro power line (€ 4.1 million), the 380 kV Rondissone switching substation (€ 17 million), the 380 kV Chivasso switching substation (€ 7.4 million), the Carpi Sud 120-150 kV switching substation (€ 4.6 million), the 380 kV Calenzano switching substation (€ 4.2 million) and the 220 kV San Benedetto del Querceto switching substation (€ 4.1 million).

In order to highlight differences in depreciation caused by the application of tax regulations, depreciation has been recalculated at ordinary rates applied to the book value of individual assets, net of grants. Based on these criteria, accumulated depreciation and the depreciation charge for the year would be lower by about € 690 million and € 146 million respectively compared with the values contained in the current Financial Statements. Shareholders' Equity and net income would consequently be around € 432 million and € 97 million higher, net of the estimated tax effect.

At December 31, 2003, accumulated depreciation accounted for 60.15% of fixed assets subject to depreciation, compared with 58.13% at December 31, 2002.

As noted above, accelerated depreciation for the year, amounting to € 36.9 million, net of capital grants, is not reflected in the Income Statement and will be recorded in the "Accelerated depreciation reserve" by the Shareholders' Meeting at the time of appropriation of earnings.

Financial assets Euro 458.4 million

Financial assets break down as follows:

Euro	Book value at Dec. 31, 2002	Increase	Decrease	Book value at Dec. 31, 2003
Equity investments				
> in subsidiaries	0	156,248,804	0	156,248,804
> in other companies	3,468,129	0	0	3,468,129
Total equity investments	3,468,129	156,248,804	0	159,716,933
Receivables from subsidiaries	0	289,825,446	0	289,825,446
Receivables from others				
> tax advance on employee termination indemnities (Law 662/1996)	6,275,079	164,268	1,144,898	5,294,449
> loans to employees and other items	3,436,648	2,603,500	2,476,116	3,564,032
Total receivables from others	9,711,727	2,767,768	3,621,014	8,858,481
TOTAL	13,179,856	448,842,018	3,621,014	458,400,860

Equity investments

At December 31, 2003, Terna acquired controlling interests in two Brazilian companies from Enelpower SpA in order to leverage the company's know-how in the operation of transmission plant and to rationalize the activities of the Enel Group. The companies, details of which are shown below, were created for the purpose of installing and operating around 2,338 kilometers of power lines in Brazil:

Name/ Registered office	Share capital (R\$ 000,000)	Shareholders' equity at Dec. 31, 2003 (€/000,000)	Net income/loss for the year ended Dec. 31, 2003 (€/000,000)	% ownership	Book value (€/000,000)	Value as per art. 2426 point 4 of Civil Code (€/000,000)	Difference
Transmissora Sudeste Nordeste SA Rio de Janeiro	250.0	147.3	10.2	99.74%	155.5	76.1	79.4
Novatrans Energia SA Rio de Janeiro	2.0	-3.4	-3.9	100.00%	0.7	-35.4	36.1

Shareholders' Equity of Transmissora Sudeste Nordeste SA (TSN) is stated net of R\$ 17,713,000 that its board of directors voted to distribute in 2004, in accordance with Brazilian regulations.

The price of € 156.2 million was validated by two due diligence reports: one prepared by the company's own personnel and another prepared by a leading international consultancy firm that assesses the legal, accounting, fiscal and valuation aspects of the transaction. The acquisition price will be adjusted by an amount to be decided by March 30, 2004, but this is not expected to have a significant impact on the amounts specified above.

The shares in TSN have been pledged to Banco Nacional de Desenvolvimento (BNDES) as collateral for a loan that BNDES granted to TSN for the project financing of its plant. TSN shareholders retain their voting and dividend rights.

Other equity investments held by the company total € 3.5 million. They consist of interests in Sfera SpA (an Enel Group company) and CESI SpA. In both cases, the size of the investment has not changed from the previous financial year, namely, 15% of CESI SpA and 4.713% of Sfera SpA.

Receivables from subsidiaries

This item includes financial receivables of € 289.8 million due from Novatrans Energia SA in respect of a loan (paying interest at 6-month Euribor + 5.25%) that was originally granted by Enelpower. On the basis of the Shareholder's Loan Agreement, Terna took over the loan when it acquired its interest in Novatrans Energia SA. The loan was made to finance the construction of plant in Brazil, pending the receipt of loans from BNDES (around R\$ 550 million) and the Inter-Development Bank (around \$66 million), which are expected to be disbursed in the first half of 2004.

**Receivables from
others**

Withholding taxes on employee termination indemnities, paid pursuant to the provisions of law and remunerated at the rate used to adjust employee termination indemnities, declined by € 1.2 million, mainly as a result of normal separations; the increase of € 0.2 million is attributable to the revaluation for the year.

The increase of € 0.1 million in other receivables refers to loans made to employees.

Current assets

Inventories Euro 27.7 million

Contract work in progress (€ 19.3 million) refers to long-term work carried out by Terna for various clients. Projects include: work done for the ISO to upgrade the SCTI control system (€ 11 million), which is due for completion in 2004; work for Edipower SpA relating to the remote control of hydroelectric plant (€ 1.8 million); work for Ferrovie dello Stato SpA (the state railway company) involving the upgrading and renovation of transmission plant (€ 1.8 million); and works for SEAP Srl regarding the installation of a electric bus system in Chieti (€ 1.5 million).

Inventories also include stocks of materials and equipment to be used in the operation, maintenance and construction of plant (€ 8.4 million). The increase in inventories is mainly the result of the acquisition of spare transformers, which are strategically located throughout the country, ready to be brought into service in the event of breakdowns.

Euro	Dec. 31, 2003	Dec. 31, 2002	Change
Raw materials	8,385,769	2,650,461	5,735,308
Contract work in progress	19,306,148	14,615,926	4,690,222
Total	27,691,917	17,266,387	10,425,530

Receivables Euro 529.8 million

A breakdown of receivables by maturity is shown in the table at the end of asset section of the notes.

Trade receivables Euro 182.8 million

Most (€ 168.4 million) of the total consists of invoices to be issued to the ISO for the National Transmission Network (NTN) usage fees for the year.

Specifically, with reference to the operating agreement signed between Terna and the ISO on 16 December 2002, the receivables mainly consist of usage fees for the last two months of 2003, falling due in January and February 2004.

The Company collected a total of around € 77 million of these fees in January 2004.

The receivable in respect of the ISO for the residual unpaid usage fees for 2000 (€ 5.1 million) was written down, using the entire provision for doubtful accounts as well as part of the provision for risks and charges.

Receivables are recorded net of the provision for doubtful accounts, which amounts to € 1.0 million. Changes in the provision for doubtful accounts are shown in the following table:

Euro	
Balance at Dec. 31, 2002	3,860,020
Changes in 2003	
> use	-3,860,020
> accruals	1,018,552
Total changes	-2,841,468
Balance at Dec. 31, 2003	1,018,552

The provision covers all doubtful accounts by a wide margin.

Trade receivables from other Enel Group companies Trade receivables from Enel Group companies are as follows:

Euro	Trade receivables at Dec. 31, 2003	Trade receivables at Dec. 31, 2002	Change
Enel Distribuzione SpA	11,397,156	11,137,926	259,230
Enel Produzione SpA	1,150,965	408,759	742,206
Enel Green Power SpA	773,957	198,914	575,043
Interpower SpA	0	30,571	-30,571
Enelpower SpA	209,594	310,089	-100,495
Deval Spa	81,080	241,476	-160,396
Sfera SpA	0	600	-600
Enel Real Estate SpA	8,304	4,343	3,961
Dalmazia Trieste SpA	31,001	20,504	10,497
Enel.it SpA	401,880	17,051,410	-16,649,530
WIND Telecomunicazioni SpA	1,131,288	1,288,530	-157,242
Enel Sole SpA	6,912	6,912	0
Enel.Si SpA	15,576	8,676	6,900
Ape SpA	0	0	0
Enel.net SpA	4,973,857	0	4,973,857
Total	20,181,570	30,708,711	-10,527,141

The decline in receivables from Enel.it SpA is attributable both to collections on invoices in respect of the sale of fiber optic cables for the Italy-Greece link (around € 10.8 million), and to the spin-off of Enel.it's telecommunications activities to Enel.net, with consequent assignment of receivables of € 2.6 million. The increase in the receivables from Enel.net, therefore, regards the laying of fiber optic lines as well as

their operation, maintenance and development. Relations with the other Enel Group companies are detailed in a section of the Report on Operations.

Receivables from subsidiaries This item consist of trade receivables from the two Brazilian companies, Transmissora Sudeste Nordeste SA and Novatrans Energia SA, for the services provided by Terna staff.

Receivables from the Parent Company These consist of financial receivables of € 289.3 million relating to the current account (bearing interest of 2.011% at December 31, 2003) held with the Parent Company for the purposes of centralized treasury management.
The item also includes € 15.8 million in accrued interest that in the previous financial year had been posted under accrued income.

Other receivables This item shows a balance of € 37.3 million consisting mainly of deferred tax assets (€ 22.3 million) and credits with the Greek revenue authorities for indirect taxes (VAT - € 12.7 million) in relation to the activities carried out by the Terna branch in Greece. It also includes other minor items, most of which regard various types of advances paid to employees and third parties.

The changes in deferred tax assets are shown below:

Euro	Dec. 31, 2002	Net change	Change in rate	Total	Dec. 31, 2003
Provision for doubtful accounts	103,144	-100,197	-2,947	-103,144	0
Provisions for risks and charges	13,657,702	8,750,743	-314,046	8,436,697	22,094,399
Other components: > depreciation of buildings not used in operations	165,219	43,186	-8,221	34,965	200,184
Total	13,926,065	8,693,732	-325,214	8,368,518	22,294,583

The increase is largely attributable to accruals for the period, notably the taxed provision for risks and charges.

**Cash and cash
equivalents**
Euro 0.1 million

This item consists entirely of cash held by the company's eight operating facilities in Italy.

**Accrued income
and prepaid
expenses**
Euro 4.2 million

Euro	at Dec. 31, 2003	at Dec. 31, 2002	Change
Interest	0	10,910,745	-10,910,745
Other	4,206,737	2,712,909	1,493,828
Total	4,206,737	13,623,654	-9,416,917

Accrued income and prepaid expenses total € 4.2 million, and are made up of prepaid insurance premiums, prepaid charges arising from the transfer of contracts from Enel Distribuzione, fees paid to Enel.net for the lease of fiber optic lines for use by Terna, and fees paid for the use of telephone lines and radio relays.

The decrease in accrued interest reflects the reclassification of this item as a receivable from the Parent Company.

The table below gives a breakdown of receivables and accrued income by maturity:

Euro	Within 1 year	From 2 to 5 years	Over 5 years	Total
LONG-TERM FINANCIAL RECEIVABLES				
Receivables from subsidiaries	289,825,446			289,825,446
Receivables from others	441,108	6,927,742	1,489,631	8,858,481
Total long-term financial receivables	290,266,554	6,927,742	1,489,631	298,683,927
CURRENT RECEIVABLES				
Trade receivables	182,813,694			182,813,694
Receivables from Parent Company	289,269,197			289,269,197
Receivables from other Enel Group companies	20,181,570			20,181,570
Receivables from subsidiaries	228,379			228,379
Other receivables:				
> receivables from others	1,914,523	35,380,224		37,294,747
Total current receivables	494,407,363	35,380,224		529,787,587
Accrued income	0			0
TOTAL	784,673,917	42,307,966	1,489,631	828,471,514

Liabilities and Shareholders' Equity

Shareholders' Equity Euro 2,533.9 million

The changes in Shareholders' Equity are as follows:

Euro	Share capital	Legal reserve	Other reserves	Retained earnings	Net income	Total
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:						
> to Legal reserve		3,399,625			-3,399,625	
> to Other reserves (accelerated depreciation)			42,767,620		-42,767,620	
> to Retained earnings				39,874	-39,874	
> to Dividends					-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
Allocation of 2002 net income:						
> to Legal reserve		4,405,993			-4,405,993	
> to Other reserves (accelerated depreciation)			39,614,690		-39,614,690	
> to Retained earnings				120,505	-120,505	
> to Dividends					-43,978,680	-43,978,680
Net income for 2003					123,489,605	123,489,605
BALANCE AT DEC. 31, 2003	2,036,050,000	78,316,740	295,725,862	335,797	123,489,605	2,533,918,004

Share capital

Share capital consists of 2,036,050,000 ordinary shares with a par value of € 1 each and is unchanged from the previous year.

Allocation of net income for 2002

On March 13, 2003, the Ordinary Shareholders' Meeting unanimously approved the Financial Statements and report on operations for 2002 and allocated net income as follows:

- > € 4,405,993, equal to 5% of net income, to the "Legal reserve";
- > € 39,614,690 as the accrual for the year to the "Accelerated depreciation reserve";
- > € 43,978,680 for dividends in the amount of € 0.0216 per share, paid out on April 10, 2003;
- > the remainder of € 120,505 as "Retained earnings".

Other reserves

Other reserves amount to € 295.7 million and regard the reserve for accelerated depreciation, which includes accruals made in previous years. The reserves released in 2003 corresponded to the tax recovery of deductible accelerated depreciation for the period (€ 5.2 million). Available reserves therefore total € 12.3 million.

**Provision for risks
and charges**

Euro 219.3 million

Euro	at Dec. 31, 2002	Accruals	Utilization	at Dec. 31, 2003
Provision for retirement benefits	838,114	1,673,776	1,737,915	773,975
Deferred tax liabilities	151,126,916	8,152,996		159,279,912
Other:				
> litigation	12,016,651	1,736,365	1,563,686	12,189,330
> sundry risks	16,835,718	34,226,156	4,004,980	47,056,894
> early retirement incentives	7,501,795	0	7,501,795	0
Total	36,354,164	35,962,521	13,070,461	59,246,224
TOTAL	188,319,194	45,789,293	14,808,376	219,300,111

**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.

**Deferred tax
liabilities**

Euro 159.3 million

The following table shows changes in deferred tax liabilities by type of temporary difference:

Euro	Dec. 31, 2002	Ordinary changes	Change in rate	Total	Dec. 31, 2003
Accelerated depreciation	151,126,916	10,531,720	-2,378,724	8,152,996	159,279,912
Total	151,126,916	10,531,720	-2,378,724	8,152,996	159,279,912

The provision refers to deferred tax liabilities resulting from accelerated depreciation accrued until December 31, 1999, as well as accruals for deferred tax liabilities (€ 13.8 million in 2003) relating to accelerated depreciation deducted up to December 31, 2003, net of the effect of accelerated depreciation reversed for taxation (€ 3.2 million in 2003), and net of the effect of changes in the tax rate (€ 2.4 million).

Provision for litigation <i>Euro 12.2 million</i>	The provision, broadly unchanged from the previous year (a net rise of € 0.2 million), covers potential liabilities in respect of litigation or other disputes, relating mainly to plant supply, work and operation, based on the advice of external and internal counsel. It does not include provisions for litigation for which a positive outcome is expected, nor provisions for which a potential charge cannot reasonably be quantified. The latter are described under "Off-balance-sheet items".
Provision for sundry risks and charges <i>Euro 47.0 million</i>	The provision has been increased by additional accruals made to cover the estimated costs of a likely adjustment to the NTN adjustment fees based on a more conservative estimates of company's percentage ownership of the NTN. The provision was also increased to cover pending disputes with third-party producers relating to the grants received by the company for network connections. The provision also includes accruals made against the risk of transformer breakdown and exceptional events affecting high-voltage power lines, in addition to charges arising from the retirement of plant.
Provision for early retirement incentives <i>Euro 0.0 million</i>	The provision for early retirement incentives, which represents the estimated value of the extraordinary expenses related to the efforts made to employees for early termination of their employment, shows a balance of zero as a result of the utilization of the provision during the year.

**Employee
termination
indemnities**
Euro 70.7 million

The changes in the balance in 2003 are shown below:

Euro	
Balance at Dec. 31, 2002	75,696,571
Accruals	9,703,462
Pension fund contributions	-2,130,913
Indemnities paid	-13,006,381
Acquisition/sale of contracts	468,774
Total	70,731,513

The provision represents the accrued entitlement of employees for termination indemnities, net of advances and contributions to the pension funds. The amount is carried net of the 11% flat withholding tax on the revaluation of employee termination indemnities, pursuant to Legislative Decree 47/2000. The significant decrease compared with the previous year is the result of the departure of employees who participated in the early retirement scheme by December 31, 2003.

Payables
*Euro 1,098.3
million*

A breakdown of payables by maturity is included in a separate schedule at the end of the liabilities section of the notes.

**Medium/long term
bank loans**
Euro 325 million

The total value of this item is € 325 million and refers to two EIB loans denominated in euro:

Millions of euro	Repayment period	Balance at Dec. 31, 2003	Current portion	Long-term portion	2005	2006	2007	2008	Beyond
EIB no. 20271	2004/2014	75.0	6.8	68.2	6.8	6.8	6.8	6.8	41.0
EIB no. 21159	2005/2016	250.0		250.0	11.4	22.7	22.7	22.7	170.5
Total		325.0	6.8	318.2	18.2	29.5	29.5	29.5	211.5

The first loan, of € 75 million, was granted on October 22, 1999 for the “Italy-Greece electricity network interconnection” project, and has the following terms:

- > floating interest rate: Euribor + 0.15% (2.110% at the end of the 2003);
- > interest payments made on half-yearly basis (March 15 and September 15);
- > repayment of principal: in 22 equal installments paid half-yearly from March 15, 2004 to September 15, 2014.

At balance sheet date, the loan is completely hedged by interest rate swaps from fluctuations in interest rate.

The second loan, of € 250 million, was granted on July 6, 2001 for the design, building and bringing into service of around 200 electricity transmission facilities, and has the following terms:

- > floating interest rate: Euribor + 0.25% (2.210% at the end of the 2003);
- > interest payments made on half-yearly basis (June 15 and December 15);
- > repayment of principal: in 22 equal installments paid half-yearly from 15 December 2005 to June 15 2016.

This loan is hedged by interest rate swaps with a nominal value of € 217.5 million, leaving 13% of the total loan exposed to interest rate risk.

Advances

Euro 47.7 million

Advances include contributions received for work under way at December 31, 2003.

A breakdown of advances is provided below:

- > contributions on expected costs of linkages to high-voltage network (€ 30.5 million);
- > supply of a new integrated control system for the ISO (€ 9.8 million);
- > creation of remote control system for Edipower SpA's hydroelectric stations (€ 1.9 million);
- > other advances on contract work in progress (€ 5.5 million).

The decline of € 1.2 million with respect to 2002 mainly reflects the entry into service of plant in 2003 and the settlement of liabilities with external producers under agreements completed at the end of the year in respect of contributions received by the company in the past.

Trade payables

Euro 127.5 million

Trade payables regard invoices received and to be received for contracts, services and purchases of material and equipment. The sharp increase on the previous year is due to the significant volume of capital expenditure in the last quarter of the year.

The item reflects the non-recourse assignment of € 32.8 million in payables to Enel.Factor.

**Payables to other
Enel Group
companies**
Euro 29.9 million

The following table shows payables for services rendered by other companies in the Enel Group:

Euro	Trade payables at Dec. 31, 2003	Trade payables at Dec. 31, 2002	Change
Enel Distribuzione SpA	6,187,875	5,197,707	990,168
Enel Produzione SpA	346,544	611,557	-265,013
Enel Green Power SpA	8,195	50,154	-41,959
Enelpower SpA	5,087,763	35,470,069	-30,382,306
CESI SpA	0	1,738,969	-1,738,969
Deval Spa	37,079	40,016	-2,937
Sfera SpA	250,068	808,513	-558,445
Enel Real Estate SpA	4,265,753	4,362,930	-97,177
Dalmazia Trieste SpA	4,648	4,648	0
Enel.it SpA	2,147,235	3,637,723	-1,490,488
WIND Telecomunicazioni SpA	10,702,450	10,378,588	323,862
Ape SpA	732,021	1,243,832	-511,811
Enel Sole SpA	8,640	0	8,640
Enel.Hydro	7,200	25,200	-18,000
Interpower SpA	0	2,113	-2,113
Enel.net SpA	41,001	0	41,001
Newreal SpA	72,722	0	72,722
Total	29,899,194	63,572,019	-33,672,825

The reduction of € 33.7 million is mainly attributable to the settlement of the final balance due to Enelpower for works for the Italy-Greece interconnection. The fall of € 1.5 million in the payable to Enel.it is partly related to a decline in costs following the reduction of service charges, and partly to the conclusion of the SAP Global project, as well as the spin-off of Enel.it's telecommunication activities (fiber optics) to Enel.net, which was finalized on July 1, 2003. Although no significant variations have yet appeared in Enel.net's accounts, it should be noted that on March 1, 2003 the latter acquired the "Fee Outsourcing Wind" contract for housing services from Enel Real Estate, for which the Company will be invoiced.

The payable of € 5.1 million to Enelpower refers to an adjustment to the loan to Novatrans Energia SA (Addendum to the agreement for the sale of shares between Enelpower and Terna).

Payables to Parent Company
Euro 495.4 million

The payables to Enel SpA consist of the following:

Euro	at Dec. 31, 2003	at Dec. 31, 2002	Change
Trade payables:	1,016,197	786,677	229,520
Financial payables:	493,709,810	517,193,900	-23,484,090
> assumed liability for Enel pension fund	37,555,056	38,596,920	-1,041,864
> assumption of loans and financing	456,154,754	478,596,980	-22,442,226
Sundry payables	691,205	638,574	52,631
Total	495,417,212	518,619,151	-23,201,939

The trade payables are mainly made up of fees for management, communication and e-procurement services.

The financial payables refer to debts in respect of the Parent Company for the supplementary pension fund, as well as to loans and financing, as described in the following paragraphs.

As regards the Enel Management Pension Fund, the following points should be noted:

- > as specified when Enel's business activities were transferred to Terna, the company contributes both to the payment of benefits disbursed by Enel and to ordinary expenses (remuneration of the fund), as well as extraordinary expenses (adjustments to financial and actuarial parameters);
 - > during the year, the utilization of the fund amounted to € 3.4 million and accruals to € 2.4 million.
- Interest for loans and financing refer to payables to the Parent Company for the share of bond issues and other loans that Terna assured at the time of transfer of the corporate division. At the time of the division, Terna became liable for the portion of the interest costs arising from the inherited loans, as well as for the repayment of principal at maturity of each transferred loan. Similarly, the company also participates in the interest income and expenses accrued on interest rate hedging contracts entered into by Enel SpA.

A breakdown of debt as of December 31, 2003 is provided below:

Millions of euro	Repayment period	Balance at Dec. 31, 2003	Current portion	Long-term portion	2005	2006	Maturity 2007	2008	Beyond
Fixed-rate loans	2004/2006	87.4	7.2	80.2	79.5	0.7	-	-	-
Floating-rate loans	2004/2019	368.8	12.7	356.1	12.5	1.7	11.6	10.6	319.7
Total		456.2	19.9	436.3	92.0	2.4	11.6	10.6	319.7

Changes during the year were as follows:

Euro

Balance at Dec. 31, 2002	478,596,980
Repayments	-22,614,700
Foreign exchange differences	172,474
Balance at Dec. 31, 2003	456,154,754

Broken down by currency, debt at December 31, 2003 was as follows:

Millions of euro	Repayment period	Average interest rate at Dec. 31, 2003	Balance at Dec. 31, 2003
Euro area currencies	2004-2019	6.65%	452.9
Other currencies	2004-2006	6.46%	3.3
Total		6.65	456.2

At the end of the year, floating-rate debt accounted for 88.8% of total medium and long-term debt, including the financing from the EIB. However, at the same date, the company had hedges in the form of interest rate swaps transferred from Enel totaling a nominal € 534.7 million. Allowing for the hedges, the proportion of debt exposed to interest rate risk was about 20.4%.

Tax payables
Euro 34.7 million

The tax payables item for 2003 shows the company's tax liability in respect of € 75.2 million in corporate income tax (IRPEG) and € 19.0 million in local tax (IRAP), net of advances totaling € 63.3 million paid in June and November 2003. It also includes a payable of around € 3.8 million in tax withheld by the company.

Payables to social security institutions
Euro 7.5 million

The item refers to payables to INPS for the month of December 2003. The item also includes contributions paid on staff incentives to be distributed in the following financial year.

Sundry payables
Euro 30.6 million

Sundry payables can be broken down as follows:

Euro	at Dec. 31, 2003	at Dec. 31, 2002	Change
Payables to employees	25,745,647	15,489,459	10,256,188
Payables to others for amounts withheld from employees' pay	332,478	370,088	-37,610
Other payables	4,483,665	892,839	3,590,826
Total	30,561,790	16,752,386	13,809,404

The sharp rise in payables to employees is a result of the increase in employee termination indemnities to be paid to those who had agreed to participate in the early termination scheme at December 31, 2003.

The balance also includes staff incentives (for senior and middle management, office staff and workers) that were accrued in the year and will be distributed in 2004.

The increase in "other payables" is essentially ascribable to the payments due for disputes with third parties that are currently in the process of resolution.

Accrued liabilities and deferred income
Euro 149.3 million

Accrued liabilities and deferred income consist of the following:

Euro	at Dec. 31, 2003	at Dec. 31, 2002	Change
Interest payable on loans	5,399,809	6,096,689	-696,880
Capital contributions	142,051,584	146,887,588	-4,836,004
Other accrued liabilities and deferred income	1,881,933	1,821,012	60,921
Total	149,333,326	154,805,289	-5,471,963

The decrease in deferred income in respect of capital contributions is mainly the result of the collection of revenues in the period from plant that began operating in previous years.

The following table provides a breakdown of payables and accrued liabilities by maturity:

Euro	Within 1 year	From 2 to 5 years	Over 5 years	Total
FINANCIAL PAYABLES TO THIRD PARTIES				
Medium and long-term bank loans	6,818,182	106,818,182	211,363,636	325,000,000
Total financial payables	6,818,182	106,818,182	211,363,636	325,000,000
OTHER PAYABLES				
Advances	17,196,741	30,512,678	0	47,709,419
Trade payables	126,672,794	833,605	0	127,506,399
Payables to Parent Company for:				
> medium- and long-term debt assumed	19,892,000	116,600,000	319,662,754	456,154,754
> pension fund liability assumed	3,409,312	13,637,250	20,508,493	37,555,055
> other	1,707,403	0	0	1,707,403
Total payables to Parent Company	25,008,715	130,237,250	340,171,247	495,417,212
Payables to other Enel Group companies	29,899,194	0	0	29,899,194
Tax payables	34,746,727	0	0	34,746,727
Social security payables	7,463,674	0	0	7,463,674
Other payables	30,561,790	0	0	30,561,790
Total other payables	271,549,635	161,583,533	340,171,247	773,304,415
Accrued liabilities	6,704,200	0	0	6,704,200
TOTAL	285,072,017	268,401,715	551,534,883	1,105,008,615

Commitments

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

Euro	at Dec. 31, 2003	at Dec. 31, 2002	Change
Guarantees granted: > guarantees given to third parties	7,377,074	2,200,132	5,176,942
Other commitments: > Commitments with suppliers for:			
- sundry supplies	193,437,214	205,657,737	-12,220,523
- contract work	162,702,325	134,376,926	28,325,399
Total	356,139,539	340,034,663	16,104,876
TOTAL	363,516,613	342,234,795	21,281,818

The guarantees given refer to guarantees granted to third parties in respect of contracts for works and services rendered by the company.

The commitments to suppliers refer to the total of orders/contract work commissioned, net of supplies and services already invoiced.

Off-balance sheet items

Environmental litigation

Environmental litigation involving Terna relates to the installation and operation of electrical plant, and, especially, the effects of electrical and magnetic fields.

Terna is a defendant in a number of civil and administrative proceedings requesting the relocation of power lines or changes in operational conditions. The claims are based on the alleged health hazards posed by the power lines, even though they have been installed in full compliance with regulatory requirements. Only a very limited number of suits have been filed against the company seeking damages for personal injury caused by electromagnetic fields.

On July 8, 2003, a Prime Minister's Decree was enacted to complete the implementation of framework Law 36 of February 22, 2001. It establishes values for three parameters (exposure limits, thresholds of concern and quality targets) that electrical plant must meet. The decree had a favorable impact on pending disputes, because the scope of the framework law was limited to laying down general principles only.

Only a few adverse rulings have been issued against the company in this area, and these have all been appealed (the cases are still pending). No claim for damages for personal injury has ever been upheld.

Finally, it should be noted that, in addition to Terna, the ISO has increasingly been called as a defendant in these proceedings, because the ISO is legally responsible for all matters relating to energy flows transiting on the network owned by Terna.

Other pending litigation

A number of legal disputes are pending in relation to urban planning and environmental issues associated with the construction and operation of a number of transmission lines. Adverse rulings could have negative repercussions, but since the impact cannot be quantified at present they have not been included under the provisions for litigations. An assessment of the suits, which included taking advice from external legal counsel, suggests that unfavorable rulings are remote, though for a limited number of cases this cannot be ruled out completely. The effects of an adverse ruling could include not only the payment of damages but also the costs involved in modifying power lines and the temporary unavailability of the lines.

In any case, an adverse outcome would not jeopardize the operation of the power lines.

Income Statement

Value of production

This item comprises the following.

Revenues from sales and services

Euro 843.9 million

They include the following:

Euro	2003	2002	Change
NTN usage fees	782,314,486	729,960,565	52,353,921
Other sales and services	61,593,295	65,834,054	-4,240,759
Total	843,907,781	795,794,619	48,113,162

Revenues from sales and services totaled € 843.9 million and largely consist (€ 782.3 million) of fees paid to the company for the use of the National Transmission Network. The total also includes € 10.1 million collected by the Greek branch as its share of the fees paid for the use of plant in Greece. The pronounced increase in revenues, which rose by € 52.4 million with respect to the previous year, is the combined result of higher demand for energy (+2.9% compared with 2002), which led to greater flows on the NTN, and an increase in the transport charges implemented with Authority resolution 152/02. The operating agreement signed with the ISO on 16 December 2002 to regulate the technical and economic aspects of the operation, maintenance and development of the NTN paved the way to the full normalization of relations between Terna and the ISO in 2003, especially as regards the definition/payment of the fees owed to Terna. In exchange for the activities outlined above, the ISO pays the network owners an annual fee to cover operating costs and depreciation and remunerate capital employed in the manner established by Authority resolution 228/01.

Revenues from other sales and services amount to € 61.6 million, of which € 47.9 million from the sale of goods and services to companies in the Enel Group, and € 13.7 million from services provided to third parties. The company increased its market share in the delivery of specialized services relating to high-voltage plant.

In respect of services rendered to Group companies, revenues were in line with the previous year and

were generated from contracts for the maintenance of high-voltage lines owned by Enel Distribuzione SpA (€ 28.6 million), and contracts with Enel.net SpA (€ 5.7 million for the second half of 2003) for the laying of fiber optic lines in its plant, as well as the maintenance and development of the same. Revenues from housing equipment for remote transmission/telephony in company facilities invoiced to Wind Telecomunicazioni SpA. A declined by € 1.9 million.

**Change in contract
work in progress**
Euro 4.7 million

The change in contract work in progress is the net result of work was still pending at December 31, 2003 (€ 3.7 million) and work completed and tested in the year (- € 1.0 million). The main increases regarded the construction of a remote control system for the hydroelectric installations of Edilpower Spa (+ € 1.5 million), the installation of the electrical bus system in Chieti on behalf of SEAP (+ € 0.5 million) and a series of power line renovations on behalf of Rete Ferroviaria Italiana (+ € 1.2 million). The company also carried out work for the creation of a number of delivery points for the networking of wind power stations in Sardinia requested by Enel Green Power SpA, an Enel Group company (+ € 0.9 million). The negative changes in contract work included, in particular, the completion of the construction of a 150 kV transformer station for Exxon Mobil SpA (- € 0.5 million).

**Increase in
capitalized expenses
for internal projects**
Euro 1.4 million

Capitalized costs refers to labor costs (€ 13.1 million) and the consumption of materials and machinery (€ 4.3 million).

**Other income and
revenues**

Euro 28.5 million

Other income and revenues is detailed below:

Euro	2003	2002	Change
Fees for high-voltage connections	20,284,739	11,313,951	8,970,788
Damages and similar compensation	1,828,585	5,688,590	-3,860,005
Sundry sales	4,192,031	9,513,235	-5,321,204
Penalties imposed on suppliers	0	710,270	-710,270
Other revenues and prior-year gains	2,242,103	7,238,925	-4,996,822
Total	28,547,458	34,464,971	-5,917,513

The increase in the fees paid by third parties for connections to the NTN came to € 9.0 million.

The decline in other revenues compared with the previous year is essentially attributable to the sale to Enel.it, completed in 2002, of the underwater Italy-Greece fiber optic cable (around € 9 million), and to lower insurance indemnities for damage to plant (€ -3.9 million).

Operating costs

Raw materials Euro 20.2 million

The item consists of the costs incurred for the purchase of various materials and equipment used for the operation and maintenance of facilities. The total shows a decline of around 5% compared with 2002.

Services Euro 90.4 million

The item consists of the following:

Euro	2003	2002	Change
Maintenance and repairs	21,223,500	27,046,871	-5,823,371
Insurance	5,128,803	4,328,991	799,812
Transport and leasing	795,561	923,877	-128,316
Other services	12,799,470	10,743,350	2,056,120
Services from other Enel Group companies	50,422,409	56,886,414	-6,464,005
Total	90,369,743	99,929,503	-9,559,760

In the year, the company achieved general cost savings, particularly in respect of contracts with third parties (- € 5.8 million) for the ordinary maintenance, repair and operation of plant.

The services received from other Enel Group companies include charges for telephony, telecommunications and general services. The total shows a considerable decrease with respect to the previous year, especially in relation to telephony, IT and real estate services.

Leases and rentals Euro 14.6 million

The item primarily consists of property rent payable to third parties (€ 2.9 million), leasing costs (€ 3.4 million) and miscellaneous fees (€ 2.0 million). With respect to Group companies, the company incurred further property rental costs of € 4.1 million, and paid government telephone licensing fees of € 2.1 million.

Personnel

Euro 163.8 million

The gradual but steady reduction in personnel costs, which came to € 163.8 million at the end of the year, is the direct consequence of employees opting for the redundancy incentive scheme by December 31, 2003. The total also includes the additional costs sustained in the period for staff incentives. Both the average number of employees by category of employment and their number at December 31, 2003 are shown in the table below:

	Average number in 2003	Number at Dec. 31, 2003
Senior management	28	30
Middle management	215	204
Office staff	1,492	1,422
Workers	1,337	1,165
Total	3,072	2,821

Compared with 2002, the Company reduced staff by 285.

Amortization, depreciation and writedowns

Euro 291.0 million

Amortization of intangible assets

Amortization came to € 0.03 million and regarded incorporation and related costs. The fifth and final installment of amortization of incorporation costs was recognized in 2003.

Depreciation of tangible assets

This item includes accruals for the year calculated on the basis of the new depreciation rates, which were revised during the year and now provide a more accurate representation of the remaining useful life of the company's plant (€ 139.6 million), as well as additional depreciation recognized up to the limit allowed by tax law (€ 151.4 million).

Writedowns of current receivables

These amount to € 1.0 million, and relate to ordinary accruals to the provision for doubtful accounts.

Change in inventories This shows the net positive change in inventories during the year.

Euro -5.8 million

Provisions for risks These include accruals made at December 31, 2003, as described in the section on the provision for risks and charges.

Euro 36.0 million

Other operating expenses This item includes the liability towards the Enel Management Pension Fund (€ 2.4 million), losses due to the retirement of power lines (€ 2.1 million), discounts on electricity supplied to retired personnel (€ 2.0 million), easement fees for power lines (€ 1.8 million) and sundry local indirect taxes (€ 3.1 million). The item also includes the remuneration of the members of the Board of Statutory Auditors (€ 120,870) and the Board of Directors (€ 513,654).

Euro 15.9 million

Financial income and expense **Other financial income**
A breakdown of other financial income is provided below:

Euro 35.1 million

Euro	2003	2002	Change
Income from investments	0	96,753	-96,753
Interest accrued on tax credits	164,268	212,453	-48,185
Other financial income	171,099	132,189	38,910
Interest on current account with Parent Company	15,783,429	10,910,745	4,872,684
Total	16,118,796	11,352,140	4,766,656

Interest and other financial expense

Euro	2003	2002	Change
Interest on loans and other medium and long-term financing from Parent Company	36,961,128	37,332,380	-371,252
Interest on current account with Parent Company	29,831	10,283	19,548
Interest on EIB financing	8,019,618	11,106,847	-3,087,229
Financial expense on derivatives (swaps)	6,138,743	2,080,081	4,058,662
Other interest and financial charges	22,600	17,945	4,655
Total	51,171,920	50,547,536	624,384

Extraordinary items

Euro 15.0 million

Extraordinary income amounted to € 2.2 million and derive from excess income taxes (€ 2.1 million) recorded in the previous year in relation to the liability recognized in the company's accounts as well as legal expenses recovered thanks to court rulings in the company's favor (€ 0.1 million).

Extraordinary expenses totaled € 17.2 million and regard the tax amnesty (€ 2.8 million) pursuant to Law 27/2003, the temporarily early retirement incentives for employees (€ 4.4 million) and fines incurred for breach of contract relating to property rentals charged to Enel Real Estate SpA (€ 4.0 million). The item also includes expenses (€ 6.1 million) arising from the recovery of excess capital contributions received in the previous year to align them to the effective economic life of the assets. The decrease in extraordinary expenses with respect to the previous year is mainly ascribable to the payment of the extraordinary contribution to INPS due upon the suppression of the FPE. The third and final payment was taken to income in 2002.

Income taxes

Euro 94.0 million

Euro	2003	2002	Change
Current taxes:			
> IRPEG	75,185,039	35,599,594	39,585,445
> IRAP	18,989,519	16,123,983	2,865,536
Prepaid taxes	-8,368,518	-3,981,862	-4,386,656
Deferred taxes	8,152,996	15,152,619	-6,999,623
Total	93,959,036	62,894,334	31,064,702

Taxes for the year, which amount to 43.21% of pre-tax income, (41.67% in 2002) rose by € 31.1 million entirely owing to the increase in the pre-tax profit and the fact that the tax relief provided under the "Tremonti bis" Law ended in 2002.

The company made use of the amnesty provisions of Law 289 of 27 December 2002. In respect of direct taxes, the Company accepted an automatic one-off charge, as specified in Article 9, for 1999, 2000 and 2001. The financial years 2002 and 2003 are therefore not covered.

In respect of indirect and withholding taxes, the company opted to use the simple additional charges as set forth by Article 8 of the same law for the years 1999, 2000 and 2001.

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:

Millions of euro	2003	2002	Change
Statutory income	217.4	151.0	66.4
> Tax benefit under Law 383/01	0.0	-32.2	32.2
> Accelerated depreciation	-28.4	-39.6	11.2
> Changes in provisions	22.7	11.5	11.2
> Other increases	9.4	8.2	1.2
Taxable income	221.1	98.9	122.2
Tax expense (34%) for the year	75.2	35.6	

The breakdown of prepaid taxes is represented by provisions for:

- > tax recovered amounting to € 4.8 million, due to the use of provisions taxed in previous years to cover early retirement incentives and the settlement of litigation in the year;
- > tax prepayments relating to temporary differences of € 13.5 million that emerged in the year for accruals to the risk provision for litigation and the provisions for future risks and charges;
- > the effect of the variation in the tax rate, which led to a recovery of € 0.3 million.

Deferred taxes relate to accelerated depreciation, net of grants, accrued for tax purposes. The total (€ 13.8 million), adjusted to reflect the change in the tax rate (- € 2.4 million) and the utilizations arising from the taxation of depreciation in excess of the deductible limit (€ 3.2 million) is quantified on the basis of the current tax rate in the financial year in which reversal will take place.

**Transactions with
related parties**

Transactions with related parties are illustrated in the Report on Operations.

Other information

The table below outlines the key figures from the latest financial statements approved by the Group parent (millions of euro):

Key figures	2002
Value of production	1,971.0
Operating costs	1,809.0
Net financial income (expense) and value adjustments	122.9
Net extraordinary income (expense)	2,882.3
Net income (loss) for the year	2,405.4
Total assets	31,077.5
> of which financial	23,099.4
Shareholders' Equity	13,572.5

Pension fund expense

The charge taken in respect of the extraordinary contribution due upon the suppression of the Electricity Sector Employee Pension Fund with Law 488 of 23 December 1999 (the Finance Act for 2000), which was originally recognized as an intangible asset, has been nil since 2002 because the company opted to amortize it in income over three years (2000, 2001 and 2002), in accordance with the provisions of the same law. If the company had opted to amortize the charge over 20 years, which was also an option under the law and in line with that of the Parent Company, intangible assets would have shown an additional liability of around € 80 million at December 31, 2003 (about € 85 million at December 31, 2002).

Reports

Report of the Board of Statutory Auditors to the Shareholders' Meeting of Terna SpA pursuant to Art. 153 of Legislative Decree 58/1998 and Article 2429, paragraph 3, of the Italian Civil Code

To the Shareholders' Meeting of Terna,

Shareholders,

Pursuant to Article 153 of Legislative Decree 58/1998, we inform you that in the year ended December 31, 2003, the Board of Statutory Auditors performed the monitoring activities provided for by law, in accordance with the guidelines issued by the National Council of the Italian Accounting Profession.

In particular the Board:

- > participated in all meetings of the Board of Directors, receiving from the Board periodic information on its activities and major economic, financial and equity operations carried out by the Company, ensuring that the related resolutions were not only implemented but also complied with the provisions of law and the bylaws and were not manifestly imprudent or excessively risky, did not give rise to potential conflicts of interest or conflict with the resolutions of the Shareholders' Meeting;
- > gathered information and monitored, within the scope of our responsibilities, the adequacy of the Company's organizational structure, including its evolution over time, and the administrative and accounting system, assessing the reliability of the latter in providing an accurate representation of the company's operations and the application of sound management criteria. These activities were conducted both through direct observation and information gathered from management. Our activity in 2003 focused on analyzing the procedure for sureties issued and received, examining the active cycle of new businesses and monitoring the implementation of the new management information system;
- > held meetings with the Company's independent auditors, exchanging information with them on a reciprocal basis;
- > assessed and monitored the internal control system through information received from management, including the specific report prepared annually by the head of the internal control department;
- > verified, through direct checks and information obtained from the independent auditors, compliance with the provisions of law regarding the preparation of the financial statements, with a particular focus on the form of presentation, content and accounting policies adopted. We also verified the completeness of the report on operations prepared pursuant to Article 2428 of the Italian Civil Code.

The only significant developments that the Board of Statutory Auditors feels should be reported regard:

- > the redefinition of the useful economic life of high and very-high-voltage transmission plant, the duration of which was determined by a specific working group established by Enel SpA, the Parent Company, in 1994. The advisability of the operation was confirmed both by an assessment conducted by an external consultant, delivered on February 16, 2004, and by an internal technical study;
- > the acquisition of equity investments in the Brazilian companies TSN and Novatrans;
- > the accrual of risk provisions in respect of the likely adjustment to the fees for network use following

the still-unofficial recalculation of the size of the ownership interest in the National Transmission Network.

In the course of the monitoring activity described above and, on the basis of information obtained from the Independent Auditors, no significant facts have emerged that would need to be reported to the appropriate authorities or mentioned in the present report.

We also report that:

- > the Board of Directors met seven times in 2003 (February 18, April 3, June 19, July 23, September 2, October 15 and November 27), and the Board of Statutory Auditors attended all meetings. In 2003 the Board of Statutory Auditors met five times;
- > the Board of Statutory Auditors did not issue any opinions in 2003;
- > the independent auditors' report does not contain any exceptions;
- > no report pursuant to Article 2408 of the Italian Civil Code was received, nor was any complaint filed by third parties;
- > the Board of Directors supplied the Board of Statutory Auditors with the information required by Consob communication of April 6, 2001.

We also report the following:

1. in 2003, no atypical, unusual or related-party transactions were carried out with other Group companies or third parties. As regards Group companies, we note only the acquisition of the equity investments in the Brazilian companies TSN and Novatrans from Enelpower. The operation took effect as from December 31, 2003 and involved the payment of €155,532 thousand to acquire 99.74% of TSN and €717 thousand for the entire share capital of Novatrans. The price will be adjusted on the basis of the value of the Shareholders' Equity of the Brazilian companies at December 31, 2003 and the value provisionally set on the basis of acquisition forecasts. The transaction regarded the operation of transmission lines in Brazil and forms part of the core business of the Company, contributing to enhancing its value;
2. with reference to ordinary transactions between Group companies, these relate primarily to the operation and maintenance of high-voltage power lines, the development, laying and maintenance of optical fiber, housing, services received (information technology, telecommunications, personnel training, leasing of buildings, etc.), while those with other related parties mainly regard treasury management, the transfer of debt and of supplementary pension benefits for management, institutional consulting and assistance or other assistance on request, and communication services. Sample checks carried out by the Board of Statutory Auditors have ascertained that the transactions were conducted in the Company's own interest;

3. as indicated in a express declaration of the Managing Director of Terna and confirmed by the independent auditors, no other engagements have been granted to KPMG or any of its related parties;
4. following the decision to seek a listing on the stock exchange, the Company has initiated all of the necessary procedures.

In view of the foregoing, the Board of Statutory Auditors, within the scope of its responsibility, finds no impediment to the approval of the Financial Statements of the Company and the allocation of net income proposed by the Board of Directors.

Rome, March 1, 2004

The Board of Statutory Auditors

Giovanni Ferreri
Bruno Franceschetti
Giancarlo Russo Corvace



Revisione e organizzazione contabile

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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with article 156 and article 165 of legislative decree no. 58 of 24 February 1998

To the shareholder of
T.E.R.Na. Trasmissione Elettricità Rete Nazionale S.p.A.

- 1 We have audited the accompanying financial statements of T.E.R.Na. Trasmissione Elettricità Rete Nazionale S.p.A. as at and for the year ended 31 December 2003. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to our report dated 26 February 2003 for our opinion on the prior year figures which are presented for comparative purposes as required by law.

- 3 In our opinion, the financial statements of T.E.R.Na. Trasmissione Elettricità Rete Nazionale S.p.A. as at and for the year ended 31 December 2003 comply with the Italian regulations governing their preparation; therefore they are clearly stated and give a true and fair view of the financial position and results of the company.
- 4 We draw your attention to the disclosures provided by the directors in the notes to the financial statements on the following matters:
 - The company is a defendant in certain lawsuits and is involved in other uncertainties relating primarily to environmental and urbanistic matters, the outcome of which could result in losses for the company, at present not objectively quantifiable.



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Società per azioni
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N. 00709600159
R.E.A. Milano N. 512867
Part. IVA 00709600159
Sede legale: Via Vittor Pisani, 25 - 20124 Milano MI

- The useful lives of high and very high power lines were reviewed during the year, with a consequent modification to the estimates of such lives and the depreciation rates of the assets. These new rates have been applied from 1 January 2003. The rationale behind such change in estimate and its effects are described in the notes to the financial statements.
- The notes to the financial statements disclose the effect on the financial statements of items recorded solely for fiscal purposes, regarding the recognition of depreciation in excess of that required to write off assets over their estimated useful lives, and the effect of accounting for the extraordinary contribution due upon the suppression of the Electricity Sector Employee Pension Fund, pursuant to Law 488/1999.
- The company holds controlling interests in a number of companies and, in accordance with current legislation, has prepared consolidated financial statements. Such statements are presented in addition to its own financial statements in order to furnish adequate information on the financial position and results of both the company and the group. We have audited the consolidated financial statements and these (with our audit report thereon) are presented together with the statutory financial statements. The effects that would have arisen on the financial statements had the company accounted for the investments using the equity method are disclosed in the notes.

Rome, 27 February 2004

KPMG S.p.A.

(Signed on the original)

Bruno Mastrangelo
Director

**Consolidated Financial
Statements of the Terna Group
at December 31, 2003**

Report on Operations

Report on Operations

Following the acquisition of controlling interests in the Brazilian companies Transmissora Sudeste Nordeste SA and Novatrans Energia SA on December 31, 2003, Terna SpA has for the first time drawn up Consolidated Financial Statements. Given that it is the first year that consolidated accounts have been prepared, no comparative figures for the previous year are presented.

In view of the fact that the acquisition of the equity investments took place on December 31, 2003, the consolidated figures include only the balance-sheet figures of the subsidiaries.

The main consolidation criteria and methods are described in the notes to the Financial Statements.

For more information on key developments in 2003, please consult the Report on Operations in the statutory financial statements of the Group Parent.

The following information is provided as required by law to supplement that in the Group Parent's Report on Operations.

Consolidated Balance Sheet

The Reclassified Balance Sheet at December 31, 2003¹ is shown below:

Reclassified Balance Sheet	
Millions of euro	at Dec. 31, 2003
Tangible and intangible assets	4,311.3
Long-term financial assets	12.8
Total fixed assets, net	4,324.1
Trade receivables	226.7
Inventories	34.9
Other assets	19.7
Trade payables	232.5
Taxes payable	40.1
Other liabilities	197.4
Net current assets	-188.7
GROSS CAPITAL EMPLOYED	4,135.4
Employee termination indemnities	70.7
Retirement benefits	38.3
Net deferred taxes	394.9
Other provisions	59.7
Total provisions	563.6
NET CAPITAL EMPLOYED	3,571.8
Shareholders' Equity - Group	2,966.2
Shareholders' Equity - minority interests	0.2
Total financial debt*	605.4
TOTAL	3,571.8
* Total financial debt	
> EIB loans	325.0
> Debt taken over from Enel SpA	456.2
> BNDS loans	164.2
> Cash and intercompany current account	-340.0
	605.4

¹ For greater clarity, the main reclassifications are as follows:

- > Payables and receivables vis-à-vis the Parent Company and Group companies have been included in trade payables and receivables;
- > Deferred tax assets were offset against the provision for deferred taxes;
- > Payables to the Parent Company resulting from taking over the Enel executive supplementary pension fund have been posted under retirement benefits.

The following section outlines the main changes in the Group Parent's financial situation.

Intangible assets include € 115.5 million in respect of goodwill (consolidation reserve) generated by the elimination of the value of the equity investments in the Brazilian subsidiaries with the related Shareholders' Equity. Tangible assets regard:

- > Terna SpA in the amount of € 3,747.0 million;
- > TSN in the amount of € 203.2 million;
- > Novatrans in the amount of 245.6 million.

Consolidated debt, net of eliminations, reflects the debt of the Brazilian subsidiaries, which have cash or cash equivalents of about € 44 million, € 6.6 million in tied funds and debts vis-à-vis other lenders of about € 164 million .

The statement of cash flows for 2003 is provided below:

Statement of cash flows Millions of euro	at Dec. 31, 2003
A) OPENING NET SHORT-TERM FINANCIAL DEBT (-) / ASSETS (+)	583.6
Cash and banks	0.1
Intercompany current account	583.5
B) CASH FLOW FROM OPERATIONS	
Net income	220.4
Amortization and depreciation	139.6
Net write-downs (revaluations)	0.0
Net change in provisions	67.9
Net change in employee termination indemnities	-5.0
Net gain (loss) on the disposal of assets	1.4
Cash generated by operations	424.3
Change in net current assets:	
> (Increase) decrease in current receivables	22.9
> Increase (decrease) of trade and other payables	-21.3
> Changes in other Balance Sheet items	13.2
Total B) - Cash Flow from Operations	439.1
C) CASH FLOW FROM (FOR) INVESTING ACTIVITIES	
Investments in:	
> Intangible fixed assets (goodwill)	-115.5
> Tangible assets	-240.8
> Other changes in fixed assets	19.8
> Acquisition of fixed assets	-449.3
> Acquisition of net current assets	+5.2
Total C)	-780.6
D) CASH FLOW FROM (FOR) FINANCING ACTIVITIES	
New medium/long-term financing acquired	164.3
Repayment of medium- and long-term debt	-22.4
Dividends	-44.0
Total D)	97.9
E) CASH FLOW GENERATED	-243.6
F) CLOSING NET SHORT-TERM FINANCIAL DEBT (-) / ASSETS (+)	340.0
Cash and banks	50.7
Intercompany current account	289.3

Cash flow from operations	<p>Cash flow from operations amounted to about € 439 million.</p> <p>Cash flow before changes in net current assets was about € 424 million. Cash flows in respect of net current assets generated about € 15 million</p>
Cash flow for investing activities	<p>Last year saw significant cash flows employed in investing activities, totaling about € 780 million. The use of these resources was mainly associated with the core business of plant development and renewal at the Group Parent, which came to about € 241 million, and, above all, with the acquisition of the two Brazilian companies and changes in the related current assets, in the amount of about € 540 million (of which € 155.5 million for goodwill).</p>
Cash flow from financing activities	<p>Cash flow from financing activities includes the acquisition of the TSN loan in the amount of about € 164 million.</p>
Cash flow generated	<p>Cash flow generated in the year resulted in a net use of funds of about € 244 million.</p>
Transactions with related parties	<p>Relations between both subsidiaries and the other companies of the Enel Group mainly regard transactions with Enelpower SpA and Enelpower do Brasil Ltda as part of engineering, procurement and construction contracts (EPC) for the construction of power lines and the outsourcing of management and administrative tasks.</p>

The values of the transactions, in millions, at December 31, 2003 are as follows

TSN

Company	Revenues	Expenses
Enelpower do Brasil Ltda	0.0	1.5
Enelpower SpA	0.0	3.6
Total	0.0	5.1

Novatrans

Company	Revenues	Expenses
Enelpower do Brasil Ltda	0.0	0.2
Enelpower SpA	0.0	0.2
Total	0.0	0.4

Personnel

The workforces of the Group Parent and the subsidiaries at December 31, 2003 are given below.

	Terna	TSN	Novatrans	Total
Total	2,821	2	14	2,837
Senior management	30			30
Middle management	204	2	1	207
Office staff	1,422		13	1,435
Workers	1,165			1,165

Outlook for operations in 2004

TSN and Novatrans will be working to meet the following objectives in 2004:

- > for Novatrans, the completion in the early months of 2004 of the final segment of the connection (about 517 km) from Miracema to Imperatriz;
- > for Novatrans, the definition of the terms of the project financing scheme with BNDES (Banco Nacional de Desenvolvimento Economico e Social) and IDB (Inter-American Development Bank), as well as the disbursement of the funding;
- > for TSN and Novatrans, performance of all obligations envisaged in their contracts with ANEEL and ONS to avoid incurring penalties, and the limitation of plant unavailability to the annual target of 3%;
- > for Novatrans, the development of an effective and efficient maintenance process based on the decision-making criteria established by Terna and executed by local resources selected with the aim of maximizing efficiency while guaranteeing quality.

The Chief Executive Officer
Sergio Mobili

Rome, February 17, 2004

**Consolidated Financial
Statements at December 31, 2003**

Balance Sheet - Assets

Millions of euro	Consolidated total Terna Group
A) SHARE CAPITAL NOT PAID IN	0.00
B) FIXED ASSETS	
I. Intangible assets	
(1) incorporation costs	0.00
(2) research, development and advertising	0.00
(3) industrial patents and intellectual property rights	0.00
(4) concessions, licenses and trademarks	0.00
(6) work in progress and advances	0.00
(7) goodwill arising on consolidation	115.45
Total	115.45
II. Tangible assets	
(1) land and buildings	326.75
(2) plant and machinery	3,419.86
(3) commercial and industrial equipment	10.98
(4) other assets	1.12
(5) work in progress and advances	437.13
Total	4,195.85
III. Financial assets	
(1) equity investments in:	
(a) subsidiaries	0.00
(b) affiliates	0.00
(c) Parent Company	0.00
(d) others	3.47
(2) receivables from:	
(a) subsidiaries	0.00
(b) affiliates	0.00
(c) Parent Company	0.00
(d) others	9.31
> due within 12 months	0.00
(3) other securities	0.00
Total	12.77
TOTAL FIXED ASSETS (B)	4,324.07
C) CURRENT ASSETS	
I. Inventories	
(1) raw materials	15.62
(3) contract work in progress	19.31
(5) advances	0.00
Total	34.92

Millions of euro	Consolidated total Terna Group
II. Receivables	
(1) trade	
> third parties	190.76
> other Enel Group companies	20.18
(2) subsidiaries	0.00
(3) affiliates	0.00
(4) Parent Company	289.27
(5) others	52.89
> due beyond 12 months	0.00
Total	553.11
III. Short-term investments	
(4) other equity investments	0.00
(6) other securities	0.00
Total	0.00
IV. Cash and cash equivalents	
(1) bank and post office deposits	50.60
(3) cash on hand	0.11
Total	50.71
TOTAL CURRENT ASSETS (C)	638.74
D) ACCRUED INCOME AND PREPAID EXPENSES	
(1) accrued income	0.00
(2) prepaid expenses:	
> issue discounts	0.00
> other	4.93
TOTAL ACCRUED ASSETS AND PREPAID EXPENSES (D)	4.93
TOTAL ASSETS	4,967.74

Balance Sheet - Liabilities and Shareholders' Equity

Millions of euro	Consolidated total Terna Group
A) SHAREHOLDERS' EQUITY	
I. Share capital	2,036.05
II. Share premium reserve	0.00
III. Revaluation reserve	0.00
IV. Legal reserve	78.32
V. Reserve for own shares	0.00
VI. Statutory reserves	0.00
VII. Other reserves:	0.00
> accelerated depreciation reserve	295.71
> other	335.59
VIII. Retained earnings	0.14
Net income (Group)	220.40
Consolidated Shareholders' Equity - Group	2,966.20
IX. Capital and reserves - minority interests	0.20
Consolidated Shareholders' Equity - Group and minority interests	2,966.40
B) PROVISIONS FOR RISKS AND CHARGES	
(1) retirement benefits	0.77
(2) taxes	417.22
(3) other	59.67
Total	477.66
C) EMPLOYEE TERMINATION INDEMNITY	70.73
D) PAYABLES	
(1) bonds	0.00
(2) convertible bonds	0.00
(3) bank loans:	
> medium and long-term loans	489.24
> due beyond 12 months	318.18
> short-term loans	0.00
(4) other loans	0.00
(5) advances	47.71
> due beyond 12 months	30.51
(6) trade payables:	
> third parties	149.46
> due beyond 12 months	0.83
> other Enel Group companies	35.30
(7) payables represented by credit instruments	0.00
(8) payables to subsidiaries	0.00
(9) payables to affiliates	0.00
(10) payables to Parent Company	495.42
> due beyond 12 months	470.41
(11) taxes payable	40.16
(12) social security payables	7.46
(13) other payables	33.52
Total	1,298.26

Millions of euro	Consolidated total Terna Group
E) ACCRUED LIABILITIES AND DEFERRED INCOME	
(1) Accrued liabilities	6.70
(2) Deferred income:	
> issue premium	0.00
> other	147.98
Total	154.68
TOTAL LIABILITIES	2,001.34
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,967.74
COMMITMENTS	
Guarantees granted	7.38
Other commitments	356.14
Total	363.52

Income Statement

Millions of euro	Consolidated total Terna Group
A) VALUE OF PRODUCTION	
(1) Revenues from sales and services:	
> network usage fees	782.31
> other sales and services	61.59
(3) change in contract work in progress	4.69
(4) capitalized expenses	17.41
(5) other income and revenues	
> contributions received	14.93
> other	8.26
Total value of production	889.21
B) OPERATING COSTS	
(6) raw materials	20.21
(7) services	90.37
(8) leases and rentals	14.56
(9) personnel:	
> wages and salaries	114.53
> social security contributions	31.34
> employee termination indemnities	9.70
> retirement benefits	1.67
> other costs	6.57
(10) amortization, depreciation and writedowns	
> intangible assets	0.03
> tangible assets	139.61
> other writedowns of fixed assets	0.00
> writedowns of current receivables	1.02
(11) change in inventories	-5.83
(12) accruals to provisions for risks and charges	35.96
(13) other provisions	
(14) other operating costs	15.87
Total operating costs	475.62
OPERATING INCOME	413.59
C) FINANCIAL INCOME AND EXPENSE	
(15) from equity investments in:	
> subsidiaries	0.00
> affiliates	0.00
> other companies	0.00
(16) other financial income:	
(a) from long-term receivables:	
> subsidiaries	0.00
> affiliates	0.00
> other companies	0.27
(b) from long-term financial assets	0.00
(c) from marketable securities	0.00
(d) other income:	
> subsidiaries	0.00
> affiliates	0.00
> Parent Company	15.78
> others	0.06

Millions of euro	Consolidated total Terna Group
(17) interest and other financial expense:	
> subsidiaries	0.00
> affiliates	0.00
> Parent Company	36.99
> other Enel Group companies	0.00
> others	14.18
Total financial income (expense)	-35.05
D) ADJUSTMENTS OF FINANCIAL ASSETS	
(18) revaluations:	
(a) of equity investments	0.00
(b) of long-term financial assets	0.00
(c) of marketable securities	0.00
(19) writedowns:	
(a) of equity investments	0.00
(b) of long-term financial assets	0.00
(c) of marketable securities	0.00
Total adjustments of financial assets	0.00
E) EXTRAORDINARY ITEMS	
(20) revaluations:	
> of equity investments	0.00
> of long-term financial assets	2.18
(21) expense:	
> losses on disposal of assets	0.00
> prior-year taxes	2.79
> other	14.43
Total extraordinary items (net)	-15.04
INCOME BEFORE TAXES	363.50
(22) Income taxes:	
> current	143.10
> prepaid	94.17
> deferred	-8.37
	57.29
NET INCOME (including minority interests)	220.40
NET INCOME - MINORITY INTERESTS	
NET INCOME - GROUP	220.40

**Notes to the
Consolidated Financial
Statements of the Terna Group
at December 31, 2003**

Introduction

Following the acquisition on December 31, 2003 of controlling interests in the Brazilian companies Transmissora Sudeste Nordeste SA and Novatrans Energia SA, Terna SpA has for the first time prepared consolidated Group Financial Statements. Given that it is the first year that consolidated accounts have been prepared, no comparative figures for the previous year are presented.

Form, structure and scope of consolidation

The Consolidated Financial Statements have been prepared in compliance with the provisions of Legislative Decree 127/1991 and consist of the Balance Sheet and the Income Statement, which have been prepared using the formats envisaged by the relevant legislation, and of the accompanying notes, supplemented by a number of schedules that are an integral part of the notes and have been prepared in compliance with the relevant legislation.

The consolidated statement of cash flows is included in the Report on Operations.

As regards information on Group activities, significant events subsequent to the balance-sheet date and transactions with related parties, please refer to the Report on Operations accompanying the Consolidated Financial Statements.

All amounts are stated in millions of euro.

The scope of consolidation includes the Parent Company, Terna SpA, and those in which it directly or indirectly holds a majority of voting rights or exercises control at ordinary shareholders' meeting as defined by art. 2359 of the Italian Civil Code.

The list of fully-consolidated companies is provided in the Annex and constitutes an integral part of these notes. The financial years of all of the companies coincide with the calendar year. In view of the fact that the acquisition of the equity investments took place on December 31, 2003, the consolidated figures include only the balance-sheet figures of the subsidiaries.

Method of consolidation

The Consolidated Financial Statements have been prepared using the approved Financial Statements at December 31, 2003 of the consolidated subsidiaries. The figures have been adjusted where necessary to eliminate the effects of tax-basis reporting and to comply with the accounting policies of Terna SpA. Where applicable, these adjustments reflect the related tax effect, which is recorded in the appropriate item.

The main consolidation principles and procedures are as follows:

- > the difference between the acquisition cost of the interests and the related portion of Shareholders' Equity at the time of purchase adjusts the specific asset and liability items on the basis of the valuation conducted at the time of purchase or acquisition of control, if obtained as the result of subsequent

acquisitions. Any positive differences are recorded as "Goodwill"; negative differences are booked under the "Consolidation reserve" in the consolidated Shareholders' Equity;

- > minority interests in the income and Shareholders' Equity of consolidated subsidiaries are recorded in a specific item of the Income Statement and Shareholders' Equity in the Balance Sheet;
- > significant unrealized gains and losses from transactions between Group companies as well as receivables and payables, costs and revenues generated between consolidated companies are eliminated;
- > dividends distributed between Group companies are eliminated from income and reallocated to initial equity reserves;
- > balance-sheet items of companies operating in countries outside the euro area are translated into euro at the exchange rate applicable at the balance-sheet date (Brazilian real = 3.6627). Income Statement items are translated at the average exchange rate for the year (Brazilian real = 3.46804). Exchange rate differences arising from the application of this method are posted under a specific equity item.

The Group does not currently operate in hyperinflationary countries.

Accounting policies

The accounting policies used in the preparation of the Consolidated Financial Statements for 2003 are in conformity with art. 2426 of the Italian Civil Code, supplemented by the accounting principles of the National Council of the Italian Accounting Profession or, where necessary and applicable, the International Financial Reporting Standards (IFRS) issued by the ISAB. The most significant policies are illustrated below.

Balance Sheet

Intangible assets

Intangible assets are recorded at cost and reflect the residual value of expenditures whose economic utility spans over several years. Amortization is calculated on a straight-line basis with reference to the expected useful economic life of the assets. Incorporation and related costs are amortized over five years. The final charge for amortization of this item was recorded to the Income Statement in 2003. Goodwill is recognized under assets if acquired for consideration and is amortized on a straight-line basis over 30 years, a period that is deemed to be representative of its effective economic utility. The same policy is used for goodwill arising on consolidation.

Tangible assets

Tangible assets are recorded at cost of purchase or production cost inclusive of any additional expenses incurred and monetary revaluations carried out by Enel SpA pursuant to the applicable regulation. The above defined cost is written down to reflect any permanent impairment in value. If the conditions causing the impairment cease to exist, the cost value (net of depreciation) is restored. The value of tangible assets excludes costs incurred in maintaining or restoring the efficiency and proper operation of plant. As these expenses do not modify the magnitude or potential of plant, they are charged to the financial year in which the maintenance and repair work is carried out. Tangible assets are depreciated on a straight-line basis at the following rates, which are determined based on the estimated useful life of the assets.

Depreciation rates

	Terna	Foreign subsidiaries
Buildings	2.50%	4.00%
Power lines	2.50%	2.50 – 4.50%
Switching substations:		
> Electrical equipment	2.38%	2.00 – 3.00%
> Other electrical equipment	3.13%	2.80 – 4.50%
> Automation and control systems	6.70%	5.00 – 6.70%
Central systems for management and computer:		
> Electronic equipment	5.00%	-
> Computers	10.00%	-

The depreciation rates are reduced by half for assets acquired during the year.

In accordance with rules governing the preparation of financial statements, and in application of tax regulation, until 2003 Terna SpA also recognized additional depreciation up to the maximum allowed for tax purposes. This depreciation was eliminated in preparing the Consolidated Financial Statements.

Accelerated depreciation (pursuant to art. 67, paragraph 3 of Presidential Decree 917/1986) has been charged directly to a Shareholders' Equity reserve, determined at the time the Shareholders' Meeting appropriates the company's earnings. The related deferred tax is recorded to the Income Statement for the year, in accordance with Accounting Principle 25 of the National Council of the Italian Accounting Profession. Accelerated depreciation accumulated to 1999 was reclassified in 2000 in a specific non-distributable reserve, net of the related tax effect. The reserve is progressively transferred to a distributable equity reserve upon taxation of the said accelerated depreciation charges.

Financial assets

Equity investments

Equity investments in other unconsolidated companies are accounted for under the cost method. The investment is written down in the event of a permanent impairment in value. If the factors causing the impairment cease to exist, the value of the equity investment is restored to the original amount and revaluation is recognized in the Income Statement as a write up.

Inventories

Raw material, auxiliary and consumption goods used in the operation of plant and equipment are valued at their purchase price calculated by the weighted average cost method. Obsolete and slow-moving inventories are written down to their estimated realizable value, with the amount posted to a specific provision.

Contract work in progress is valued at the amounts of the contractually agreed payments, according to the percentage-of-completion method.

Advances for contract work in progress are recorded under a liability item.

Receivables	Receivables are recorded at their estimated net recoverable value and classified under "Financial assets" or "Current assets", according to their use and to the nature of the debtor.
Accruals and deferrals	Accruals and deferrals are recorded based on the accrual method of accounting.
Provisions for risks and charges	<p>Provision for retirement benefits</p> <p>The provision includes compensation payable in lieu of notice to employees who are entitled to the compensation under the terms of the national collective bargaining agreement and union agreements currently in force.</p> <p>Provisions for risks and charges</p> <p>These provisions are recorded against known or probable losses and liabilities whose amount or timing is undetermined at the balance sheet date. Amounts accrued reflect the best possible estimate based on available information.</p> <p>Provision for employee termination indemnities</p> <p>The provision covers amount owed to employees pursuant to the Italian law and collective bargaining agreements in force at the balance sheet date net of advances made pursuant to the law contributions withheld.</p>
Accounts payable	Accounts payable are stated at face value.
Memorandum accounts	<p>Guarantees in respect of the successful completion of works are recorded at the contractually agreed amount.</p> <p>Commitments with suppliers are determined on the basis of contractually-agreed purchase commitments at the end of the year that do not fall within the normal operating cycle, limited to the part of the contract not yet ordered.</p>

Income Statement

Revenues and expenses are recognized on an accruals basis.

Revenues

Regulated activities in Italy

Revenues from the National Transmission Network (NTN) are recognized in accordance with the method set forth in the Operating License Agreement between the Parent Company and the Independent System Operator (Gestore della Rete di Trasmissione Nazionale SpA - ISO), and determined based on the tariff set by the Authority for Electricity and Gas.

Regulated activities in Brazil

Revenues are determined on the basis of the fixed fee established in the license for the operation of transmission lines issued by the local energy authority (ANEEL).

Other revenues

Other revenues are recorded at the time services are provided or when the title of ownership of the goods is transferred.

Capital grants

Grants received for the execution of specific works requested by third parties, whose value is recorded among tangible assets, are recorded (for facilities already in operation at December 31, 2002) 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, under other income and revenues over the depreciable life of the assets to which they relate.

As from the current financial year, grants for new plant put in service are recognized as a reduction in the book value of the assets. Advance payments received are recognized in a separate caption under liabilities.

Income taxes

Current taxes on income are carried as taxes payable on the basis of estimated taxable income in conformity with tax regulations, net of advances paid.

Deferred tax assets and liabilities are calculated on temporary differences between the values recognized in the statutory Financial Statements and the corresponding values recognized for tax purposes, on the basis of the applicable tax rate at the time the differences are expected to reverse.

Deferred tax assets are carried under "Other receivables" to the extent that it is reasonably certain that they can be recovered.

Deferred tax liabilities provided to the extent such liability is expected to occur.

Translation of foreign currency amounts	Receivables and payables denominated in currency other than Euro are translated into Euro at the exchange rate at the time of the transaction. At the end of the year, are translated into Euro at the exchange rates at the balance-sheet date, and differences are recorded in the Income Statement under financial income, taking account of any hedges.
Environmental costs	Environmental costs refer to the prevention, reduction and monitoring of the environmental impact of operations. If the costs are recurrent, they are recorded to Income Statement when incurred. Costs relating to increase of the useful life, capacity or safety of tangible assets, are capitalized as part of the costs of the respective assets. Provisions for risks and charges associated with disputes connected with environmental matters are accrued when it is probable or certain that a liability will be incurred and the amount can be reasonably estimated.
Hedging activity	<p>In order to hedge against the risk of fluctuations in interest rates, the company, through Enel SpA, has entered into derivative contracts to hedge both the risk associated with specific transactions and its overall exposure.</p> <p>The interest differentials to be received or paid on interest rate swaps are recognized under financial income or expense in a manner consistent with the charges in respect of the underlying liabilities.</p>

Assets

Share capital not paid in

At December 31, 2003, this item had a balance of zero.

Intangible assets Euro 115.5 million

At December 31, 2003 there were no movements in this item.

Millions of euro	Dec. 31, 2003
Incorporation costs	0
Other:	115.5
> goodwill arising on consolidation	0
Total	115.5

Incorporation costs include the costs incurred by the Parent Company at the time the company was established and in carrying out the capital increase following the transfer of the relevant business activities from Enel SpA. The fifth and final amortization charge was recognized in 2003.

The "goodwill arising on consolidation" recognized following the acquisition of the equity investments in TSN and Novatrans on December 31, 2003 regards the difference between the price paid and Shareholders' Equity. The goodwill will be amortized over the residual term of the concession, originally set at 30 years, beginning from next year.

Tangible assets Euro 4,195.9 million

Tangible assets amount to € 4,195.9 million and break down as follows:

Millions of euro	Dec. 31, 2003
Land and buildings	326.8
Plant and machinery	3,419.9
Industrial and commercial equipment	11.0
Other assets	1.1
Total	3,758.8
Works in progress and advances	437.1
Total	4,195.9

The caption "Plant and machinery" includes the electricity transport networks in Italy and Brazil, transformer stations and centralized systems for the remote monitoring and control of equipment. In September 2003, the company acquired plant from Enel Distribuzione SpA, Enel Produzione SpA and Enel Green Power SpA (all part of the Enel Group), in compliance with a Decree of 23 December 2002 in which the Ministry for Productive Activities designated the facilities as components of the National Transmission Network and ordered their transfer to the Parent Company, which thus acquired around 874 kilometers of high-voltage power lines and 18 transformer stations with a total value of € 35.4 million.

The Brazilian assets include the Northeast-Southeast transmission line, which has a nominal voltage of 500 kV and is about 1,062 km long, beginning at the Serra da Mesa substation, in the state of Goiás, and ending at the Sapeaçu substation, in the state of Bahia (began operations in March 2003), and the North-South II Transmission line, which has a nominal voltage of 500 kV and is about 1,280 km long, beginning at the Imperatriz substation, in the state of Maranhão, and ending at the Samambaia substation, in the Federal District. The first segment of the latter entered service in June 2003, while the remainder is due to be completed in April 2004.

The following table shows the book values at December 31, 2003 of assets subject to depreciation, the related accumulated depreciation and the resulting net values. It also gives the percentage incidence of depreciation with respect to book values:

Millions of euro	Book value	Accumulated depreciation	Net value	Percentage incidence of depreciation at Dec. 31, 2003
Land and buildings	523.7	196.9	326.8	37.6%
Plant and machinery:				
> Italian assets	6,351.2	3,260.8	3,090.4	51.3%
> Brazilian assets	335.7	6.2	329.5	1.8%
Industrial and commercial equipment	36.8	25.8	11.0	70.1%
Other assets	11.2	10.1	1.1	90.2%
TOTAL	7,258.6	3,499.8	3,758.8	48.2%

As regards work in progress and advances, the main projects for the development and upgrading of the network are indicated below:

Millions of euro	
ITALY	
Power lines:	
> kV 380 Matera - S.Sofia	64.2
> kV 380 Laino - Feroletto - Rizziconi	28.6
380 kV switching substations:	
> Villavalle	20.6
> Calenzano	11.5
BRAZIL	
Power lines:	
> North-South II	116.4

The Group Parent's main capital expenditure during the year regarded the 380 kV Feroletto-Laino line (€ 23.4 million) and the 380 kV station at Rondissone (€ 17 million).

Financial assets Euro 12.8 million

Financial assets break down as follows:

Millions of euro	Book value at Dec. 31, 2003
Equity investments:	
> in other companies	3.5
Total equity investments	3.5
Receivables from others:	
> tax advance on employee termination indemnities (Law 662/1996)	5.3
> loans to employees and other items	3.6
> other	0.4
Total receivables from others	9.3
TOTAL	12.8

Equity investments	Equity investments total € 3.5 million and comprise the Parent Company's stakes in Sfera SpA (an Enel Group company), equal to 4.713% of share capital, and CESI SpA, equal to 15% of share capital.
Receivables from others	This item mainly regards withholding taxes on employee termination indemnities (€ 5.3 million), paid by the Group Parent pursuant to the provisions of law and remunerated at the rate used to adjust employee termination indemnities, loans to employees (€ 3.6 million), paying interest at market rates, for the purchase of principle residences or serious family needs.

Current assets

Inventories Euro 34.9 million

Contract work in progress (€ 19.3 million) refers to long-term work carried out by the Group Parent for various clients. Projects include: work done for the ISO to upgrade the remote monitoring and control system - SCTI (€ 11 million), which is due for completion in 2004; work for Edipower SpA relating to the remote control of hydroelectric plant (€ 1.8 million); work for Ferrovie dello Stato SpA (the state railway company) involving the upgrading and renovation of transmission plant (€ 1.8 million); and works for SEAP Srl regarding the installation of a electric bus system in Chieti (€ 1.5 million).

Inventories also include stocks of materials and equipment to be used in the operation, maintenance and construction of plant (€ 15.6 million).

Millions of euro	Dec. 31, 2003
Raw materials	15.6
Contract work in progress	19.3
Total	34.9

Receivables Euro 553.1 million

A breakdown of receivables by maturity (due before or after 5 years) is shown in the table at the end of the discussion of assets.

Trade receivables Euro 190.8 million

Most (€ 168.4 million) of the total consists of invoices to be issued by the Group Parent to the ISO for the National Transmission Network (NTN) usage fee the year.

Specifically, the receivables mainly consist of usage fees for the last two months of 2003, falling due in January and February 2004. A total of around € 77 million of these fees were collected in January 2004. They also include the share of fees for the operation of the Brazilian lines, both invoiced and to be invoiced (€ 7.9 million).

Receivables are recorded net of the provision for doubtful accounts, which amounts to € 1.0 million and covers doubtful accounts by a wide margin.

Trade receivables from other Enel Group companies

Trade receivables from Enel Group companies are as follows:

Millions of euro	Trade receivables at Dec. 31, 2003
Enel Distribuzione SpA	11.4
Enel.net SpA	5.0
Enel Produzione SpA	1.2
Wind Telecomunicazioni SpA	1.1
Enel Green Power SpA	0.8
Enel.it SpA	0.4
Other	0.3
Total	20.2

Receivables from Enel Distribuzione SpA primarily regard fees falling due at 90 days for the last three months of the year under the maintenance contract for lines owned by the latter.

Receivables vis-à-vis Enel.net SpA comprise items not yet due in respect of the contract for the maintenance, development and laying of fiber optic cable owned by Enel.net on a part of the Terna network.

Relations with the other Enel Group companies are detailed in a section of the Report on Operations.

Receivables from the Parent Company

These consist of financial receivables of € 289.3 million relating to the current account (paying interest of 2.011% at December 31, 2003) held for the purposes of centralized treasury management. The item also includes € 15.8 million as accrued interest.

Other receivables

This item shows a balance of € 52.9 million consisting mainly of credits in respect of advance tax payments (€ 22.3 million), credits with the Greek revenue authorities for indirect taxes (VAT - € 12.7 million) in relation to the activities carried out by the Terna branch in Greece and positive differences (€ 11.9 million) on the derivatives contracts used to hedge the interest rate risk on the Novatrans loan. It also includes other minor items, most of which regard various types of advances paid to employees and third parties.

Credits in respect of tax advances are shown below:

Millions of euro	Dec. 31, 2003
Taxed provisions for risks and charges	22.1
Other components: > depreciation of buildings not used in operations	0.2
Total	22.3

Cash and cash equivalents
Euro 50.7 million

The item mainly comprises balances on current accounts held by the Brazilian subsidiaries.

Accrued income and prepaid expenses
Euro 4.9 million

Millions of euro	Dec. 31, 2003
Other accrued income and prepaid expenses	4.9
Total	4.9

Accrued income and prepaid expenses total € 4.9 million, and are made up of prepaid insurance premiums, prepaid charges arising from the transfer of contracts from Enel Distribuzione, fees paid to Enel.net for the lease of fiber optic lines for use by Terna, and fees paid for the use of telephone lines and radio relays.

The table below gives a breakdown of receivables and accrued income by maturity.

Millions of euro	Within 1 year	From 2 to 5 years	Over 5 years	Total
LONG-TERM FINANCIAL RECEIVABLES				
Receivables from others	0.4	7.3	1.6	9.3
Total long-term financial receivables	0.4	7.3	1.6	9.3
CURRENT RECEIVABLES				
Trade receivables	190.8			190.8
Receivables from Parent Company	289.3			289.3
Receivables from other Enel Group companies	20.2			20.2
Other receivables:				
> Receivables from others	24.1	35.4		59.5
Total current receivables	524.4	35.4		559.8
Accrued income	0			0
Total	524.8	42.7	1.6	569.1

Liabilities and Shareholders' Equity

Shareholders' Equity Euro 2,966.2 million

Shareholders' Equity at December 31, 2003:

Millions of euro	Total
Share capital	2,036.1
Legal reserve	78.3
Other reserves:	
> Accelerated depreciation	295.7
Retained earnings	335.7
Net income for 2003	220.4
BALANCE AT DEC. 31, 2003	2,966.2

Share capital

Share capital consists of 2,036,050,000 ordinary shares with a par value of € 1 each, entirely held by Enel SpA.

Legal reserve Euro 78.3 million

The legal reserve amounts to 3.8% of the share capital of the Group Parent.

Other reserves

Other reserves amount to € 295.7 million and regard the reserve for accelerated depreciation, which includes accruals made by the Group Parent up to 1999, as well as those deducted from income as from 2000.

Retained earnings

The item mainly consists of the consolidation adjustment of the additional depreciation allocated in the current and previous years by the Group Parent.

Reconciliation of the Shareholders' Equity of the Group Parent and consolidated equity.

Millions of euro	Net income 2003	Shareholders' Equity at Dec. 31, 2003
Group parent Financial Statements	123.5	2,533.9
Equity of consolidated companies	0	41.0
Elimination of book value of consolidated equity investments	0	(156.2)
Goodwill arising on consolidation	0	115.4
Minority interests	0	(0.2)
Goodwill arising on consolidation in respect of accelerated depreciation	96.9	432.3
Consolidated Financial Statements	220.4	2,966.2

**Provision for
risks and charges
Euro 477.7
million**

Millions of euro	at Dec. 31, 2003
Provision for retirement benefits	0.8
Deferred tax liability	417.2
Other:	
> litigation	12.2
> sundry risks	47.5
Total	59.7
TOTAL	477.7

**Provision for
retirement benefits
Euro 0.8 million**

The provision includes accruals effected by the Parent Company for indemnities in lieu of notice and additional monthly payments accruing to personnel.

Deferred tax liabilities
Euro 417.2 million

The provision for deferred tax liabilities is detailed below by type of temporal difference:

Millions of euro	Dec. 31, 2003
Accelerated depreciation	417.2
Total	417.2

Of the total provision, € 257.9 million regard deferred taxes on consolidation adjustments of depreciation accrued by the Group Parent.
The provision also includes € 159.3 million in deferred tax liabilities resulting from accelerated depreciation accrued until 31 December 1999, as well as accruals for deferred taxes relating to accelerated depreciation deducted up to December 31, 2003, net of the effect of taxation of accelerated depreciation.

Provision for litigation
Euro 12.2 million

The provision covers potential liabilities in respect of litigation or other disputes relating mainly to plant supply, work and operation based on the advice of external and internal legal counsel. It does not include provisions for litigation for which a positive outcome is expected, nor provisions for which a potential charge cannot reasonably be quantified. The latter are described under “Off-balance-sheet items”.

Provision for sundry risks and charges
Euro 47.5 million

The provision has been increased by additional accruals made to cover the estimated costs of a likely adjustment to the NTN fees based on a more conservative estimate of the company’s percentage ownership of the NTN. The provision was also increased to cover pending disputes with third-party producers relating to the grants received by the Group Parent for network connections.
The provision also includes accruals made against the risk of transformer breakdown and exceptional events affecting high-voltage power lines, in addition to charges arising from the retirement of plant.

**Employee
termination
indemnities**
Euro 70.7 million

The provision represents the amount accrued by the Group Parent in respect of its employees termination indemnity entitlement, net of advances and contributions to Enel Group pension funds. The amount is carried net of the 11% flat withholding tax on the revaluation of employee termination indemnities, pursuant to Legislative Decree 47/2000.

Payables
*Euro 1,298.3
million*

A breakdown of payables by maturity is included in a separate schedule at the end of the liabilities section of the notes.

**Medium/long term
bank loans**
Euro 489.2 million

The total value of this item includes € 325 million in respect of two EIB loans denominated in euro:

Millions of euro	Repayment period	Balance at Dec. 31, 2003	Current portion	Long-term portion	2005	2006	2007	2008	Beyond
BNDES	2002/2016	164.2	1.7	162.5	7.8	8.6	9.4	10.2	126.5
EIB no. 20271	2004/2014	75.0	6.8	68.2	6.8	6.8	6.8	6.8	41.0
EIB no. 21159	2005/2016	250.0		250.0	11.4	22.7	22.7	22.7	170.5
Total		489.2	8.5	480.7	26.0	38.1	38.9	39.7	338.0

The BNDES loan, with an original amount of R\$ 556.8 million, granted to finance the construction of the Southeast-Northwest power line and disbursed in October 2002, has the following terms:

- > Interest rate: floating rate of TJLP + 3.50% on the original amount of R\$ 418,3 million (TJLP is the long-term lending rate published by the Brazilian central bank). If the annual TJLP should rise above 6.00%, the excess will be capitalized. The remaining original amount of R\$ 138.5 million is indexed to a basket of currencies determined by the funding mix of the BNDES. The floating rate is based on the BNDES' average cost of foreign currency plus 3.50%. The debt denominated in R\$ at December 31, 2003 totaled 601.5 million;
- > Interest payments: monthly;
- > Repayment of principal: in 144 monthly installments starting on October 15, 2004.

All the TSN shares owned by the Group Parent have been pledged to secure the loan.

The first EIB loan, of € 75 million, was granted on October 22, 1999 for the "Italy-Greece electricity network interconnection" project, and has the following terms:

- > Floating interest rate: Euribor + 0.15% (2.110% at the end of the 2003);
- > Interest payments made on half-yearly basis (March 15 and September 15);
- > Repayment of principal: in 22 equal installments paid half-yearly from March 15, 2004 to September 15, 2014.

At year-end, the loans was fully hedged against interest rate risk with interest rate swaps.

The second loan, of € 250 million, was granted on July 6, 2001 for the design, building and bringing into service of around 200 electricity transmission facilities, and has the following terms:

- > Floating interest rate: Euribor + 0.25% (2.210% at the end of 2003);
- > Interest payments made on half-yearly basis (June 15 and December 15);
- > Repayment of principal: in 22 equal installments paid half-yearly from 15 December 2005 to June 15 2016.

This loan is hedged by interest rate swaps with a nominal value of € 217.5 million, leaving 13% of the total loan exposed to interest rate risk.

At the end of the year, floating rate debt accounted for 90.5% of medium and long-term debt, including that towards Enel SpA. However, at the same date, the company had hedges in the form of interest rate swaps transferred from Enel totaling a nominal € 534.7 million. Allowing for the hedges, the proportion of debt exposed to interest rate risk was about 32.2%.

Advances

Euro 47.7 million

Advances include contributions received by the Group Parent for work under way at December 31, 2003.

A breakdown of advances is provided below:

- > contributions on expected costs of linkages to high-voltage network (€ 30.5 million);
- > supply of a new integrated control system for the ISO (€ 9.8 million);
- > creation of remote control system for Edipower SpA's hydroelectric stations (€ 1.9 million);
- > other advances on contract work in progress (€ 5.5 million).

Trade payables
Euro 149.5 milion

Trade payables regard invoices received and to be received for contracts, services and purchases of material and equipment.

The item reflects the non-recourse assignment of € 32.8 million in payables to Enel.Factor (an Enel Group company).

**Payables to other Enel
 Group companies**
Euro 35.3 milion

The following table shows payables for services rendered by other companies in the Enel Group:

Millions of euro	Trade payables at Dec. 31, 2003
Wind Telecomunicazioni SpA	10.7
Enel Distribuzione SpA	6.2
Enelpower SpA	8.8
Enel Real Estate SpA	4.3
Enel.it SpA	2.1
Enelpower do Brasil	1.7
Ape SpA	0.7
Enel Produzione SpA	0.3
Sfera SpA	0.3
Other	0.2
Total	35.3

The payables vis-à-vis Wind Telecomunicazioni regard costs for transmission and telephony services provided to the Group Parent; those in respect of Enel Distribuzione regard electricity discounts for employees (€ 3.6 million) and sundry technical services for the remainder.

The payable to Enelpower includes € 5.1 million in respect of an adjustment to the loan to Novatrans Energia SA (Addendum to the agreement for the sale of shares between Enelpower and Terna) and, for the remainder, amounts accrued on the EPC contract with TSN and Novatrans.

**Payables to Parent
Company**
Euro 495.4 milion

The payables to Enel SpA consist of the following:

Millions of euro	at Dec. 31, 2003
Trade payables:	1.0
Financial payables:	493.7
> Assumed liability for Enel pension fund	37.5
> Assumption of loans and financing	456.2
Sundry payables	0.7
Total	495.4

The trade payables are mainly made up of fees for management, communication and e-procurement services.

The financial payables refer to debts in respect of the Parent Company for the supplementary pension fund, as well as to loans and financing, as described in the following paragraphs.

As regards the Enel Management Pension Fund, it should be noted that as specified when Enel's business activities were transferred to Terna, the company contributes both to the payment of benefits disbursed by Enel and to ordinary expenses (remuneration of the fund), as well as extraordinary expenses (adjustments to financial and actuarial parameters).

Interest for loans and financing refer to payables to the Parent Company for the share of bond issues and other loans that Terna took on when it was spun off from its parent. At the time of the division, Terna became liable for the portion of the interest costs arising from the inherited loans, as well as for the repayment of principal at maturity of each transferred loan. Similarly, the company also participates in the interest income and expenses accrued on interest rate hedging contracts entered into by Enel SpA.

A breakdown of debt as of December 31, 2003 is provided below:

Millions of euro	Repayment period	Balance at Dec. 31, 2003	Current portion	Long-term portion	2005	2006	Maturity 2007	2008	Beyond
Fixed-rate loans	2004/2006	87.4	7.2	80.2	79.5	0.7	-	-	-
Floating-rate loans	2004/2019	368.8	12.7	356.1	12.5	1.7	11.6	10.6	319.7
Total		456.2	19.9	436.3	92.0	2.4	11.6	10.6	319.7

Broken down by currency, debt at December 31, 2003 was as follows:

Millions of euro	Repayment period	Average interest rate at Dec. 31, 2003	Balance at Dec. 31, 2003
Euro area currencies	2004-2019	6.65%	452.9
Other currencies	2004-2006	6.46%	3.3
Total		6.65	456.2

Tax payables
Euro 34.7 million

The tax payables item for 2003 shows the Group Parent's tax liability in respect of € 75.2 million in corporate income tax (IRPEG) and € 19.0 million in local tax (IRAP), net of advances totaling € 63.3 million paid in June and November 2003. It also includes a payable of around € 3.8 million in tax withheld by the Group Parent and other liabilities of the Brazilian subsidiaries for local taxes and social security contributions totaling about € 5.0 million.

Payables to social security institutions
Euro 7.5 million

The item refers to payables of the Group Parent to INPS for the month of December 2003. The item also includes contributions paid on staff incentives to be distributed in the following financial year.

Sundry payables
Euro 33.5 million

Sundry payables can be broken down as follows:

Millions of euro	at Dec. 31, 2003
Payables to employees	25.7
Other payables	7.8
Total	33.5

The balance of "payables to employees" includes termination indemnities due from the Group Parent to be disbursed to employees who had left the company at December 31, 2003; it also includes staff incentives (for senior and middle management, office staff and workers) that were accrued in the year and will be distributed in 2004.

Accrued
liabilities and
deferred income
Euro 154.7 million

Accrued liabilities and deferred income consist of the following:

Millions of euro	Dec. 31, 2003
Interest payable on loans	5.4
Other accrued liabilities	1.3
Capital contributions	147.4
Other deferred income	0.6
Total	154.7

The following table provides a breakdown of payables and accrued liabilities by maturity:

Millions of euro	Within 1 year	From 2 to 5 years	Over 5 years	Total
FINANCIAL PAYABLES TO THIRD PARTIES				
Medium and long-term bank loans	8.5	142.7	338.0	489.2
Total financial payables	8.5	142.7	338.0	489.2
OTHER PAYABLES				
Advances	17.2	30.5	0	47.7
Trade payables	148.7	0.8	0	149.5
Payables to Parent Company for:				
> Medium- and long-term debt assumed	19.9	116.6	319.7	456.2
> Pension fund liability assumed	3.4	13.6	20.5	37.5
> Other	1.7	0	0	1.7
Total payables to Parent Company	25.0	130.2	340.2	495.4
Payables to other Enel Group companies	35.3	0	0	35.3
Tax payables	40.1	0	0	40.1
Social security payables	7.5	0	0	7.5
Other payables	33.5	0	0	33.5
Total other payables	307.3	161.5	340.2	809.0
Accrued liabilities	6.7	0	0	6.7
Total	322.5	304.2	678.2	1,304.9

Commitments

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

Millions of euro	at Dec. 31, 2003
Guarantees granted: > Guarantees given to third parties	7.4
Other commitments: > Commitments with suppliers for: > Sundry supplies > Contract work	193.4 162.7
Total	356.1
TOTAL	363.5

The guarantees given refer to guarantees granted to third parties in respect of contracts for works and services rendered by the company.

The commitments to suppliers refer to the total of orders/contract work commissioned, net of supplies and services already invoiced.

Off-balance-sheet items

Environmental litigation

Environmental litigation involving Terna relates to the installation and operation of electrical plant, and, especially, the effects of electrical and magnetic fields.

Terna is a defendant in a number of civil and administrative proceedings requesting the relocation of power lines or changes in operational conditions. The claims are based on the alleged health hazards posed by the power lines, even though they have been installed in full compliance with regulatory requirements. Only a very limited number of suits have been filed against the company seeking damages for personal injury caused by electromagnetic fields.

On July 8, 2003, a Prime Minister's Decree was enacted to complete the implementation of framework Law 36 of February 22, 2001. It establishes values for three parameters (exposure limits, thresholds of concern and quality targets) that electrical plant must meet. The decree had a favorable impact on pending disputes, because the scope of the framework law was limited to laying down general principles only.

Only a few adverse rulings have been issued against the company in this area, and these have all been appealed (the cases are still pending). No claim for damages for personal injury has ever been upheld. Finally, it should be noted that, in addition to Terna, the ISO has increasingly been called as a defendant

in these proceedings, because the ISO is legally responsible for all matters relating to energy flows transiting on the network owned by Terna.

Legislation governing electrical and magnetic fields

The framework law on electrical and magnetic fields enacted on February 22, 2001 requires the State to adopt specific provisions setting the parameters (exposure limits, thresholds of concern and quality targets) with which electrical plant must be compliant.

It should be noted in this respect that the framework law envisages a mechanism for the recovery of related costs in accordance with criteria determined by the Authority for Electricity and Gas (the Authority) pursuant to Law 481/1995, since such costs are incurred in the general interest.

On August 29, 2003 the Prime Minister's Decree of July 8, 2003 setting "Exposure limits, thresholds of concern and quality targets for the protection of the public from the effects of electromagnetic fields generated at network frequency (50 Hz)" and thereby establishing the parameters with which electrical plant must comply was published in the Official Journal.

The potential impact of the provision on the company is currently being assessed.

A number of regions have proposed bills on this subject that establish tighter limits than those envisaged by the Prime Minister's Decrees of 1992 or July 8, 2003.

However, Constitutional Court ruling no. 307 published on October 7, 2003 declared some regional laws concerning electromagnetic fields (including the Campania Region's Law 12 of November 24, 2001) to be unconstitutional. The ruling enunciates the principle that restrictions based on national legislation cannot be modified by regional legislation, even if it sets more stringent limits, since health protection must be safeguarded in a uniform manner throughout the country.

Other pending litigation

A number of legal disputes are pending in relation to urban planning and environmental issues associated with the construction and operation of a number of transmission lines. Adverse rulings could have negative repercussions, but since the impact cannot be quantified at present they have not been included under the provisions for litigation. An assessment of the suits, which included taking advice from external counsel, suggests that unfavorable rulings are remote, though for a limited number of cases this cannot be ruled out completely. The effects of an adverse ruling could include not only the payment of damages but also the costs involved in modifying power lines and the temporary unavailability of the lines.

In any case, an adverse outcome would not jeopardize the operation of the power lines.

Income Statement

Value of production

This item comprises the following:

Revenues from sales and services Euro 843.9 million

They include the following:

Millions of euro	2003
NTN usage fees	782.3
Other sales and services	61.6
Total	843.9

Revenues from sales and services totaled € 843.9 million and largely consist (€ 782.3 million) of fees to the Parent Company for the use of the National Transmission Network. The total also includes € 10.1 million collected by the Greek branch as its share of the fees paid for the use of plant in Greece. Revenues from other sales and services amount to € 61.6 million, of which € 47.9 million from the sale of goods and services to companies in the Enel Group, and € 13.7 million from services provided to third parties.

In respect of services rendered to Group companies, revenues were generated from contracts for the maintenance of high-voltage lines owned by Enel Distribuzione SpA (€ 28.6 million), and contracts with Enel.net SpA (€ 5.7 million for the second half of 2003) for the laying of fiber optic lines in its plant, as well as the maintenance and development of the same.

All revenues for 2003 regard the operations of the Group Parent.

Change in contract work in progress Euro 4.7 million

The change in contract work in progress is the net result of work still pending at December 31, 2003 (€ 3.7 million) and work completed and tested in the year (- € 1.0 million).

Capitalized expenses Euro 17.4 million

Capitalized expenses refers to labor costs (€ 13.1 million) and the consumption of materials and machinery (€ 4.3 million).

Other income and revenues Euro 23.2 million

Other income and revenues is detailed below:

Millions of euro	2003
Fees for high-voltage connections	14.9
Damages and similar compensation	1.8
Sundry sales	4.2
Other revenues and prior-year gains	2.3
Total	23.2

Fees regard the accrued portion for the year of contributions posted under liabilities at "Deferred income"; other revenues mainly regard insurance indemnities, intercompany rents and sales of materials.

Operating costs

Raw materials Euro 20.2 million

The item consists of the costs incurred for the purchase of various materials and equipment used for the operation and maintenance of facilities.

Services
Euro 90.3 million

The item consists of the following:

Millions of euro	2003
Maintenance and repairs	21.2
Insurance	5.1
Transport and leasing	0.8
Other services	12.8
Services from other Enel Group companies	50.4
Total	90.3

Maintenance and repairs regards contracts, works and services for the ordinary maintenance of plant; services received from other Enel Group companies include charges for telephony, telecommunications and general services.

Leases and rentals
Euro 14.6 million

The item primarily consists of property rent payable to third parties (€ 2.9 million), leasing costs (€ 3.4 million) and miscellaneous fees (€ 2.0 million). With respect to Group companies, the company incurred further property rental costs of € 4.1 million, and paid government telephone licensing fees of € 2.1 million.

Personnel
Euro 163.8 million

Both the average number of employees by category of employment and their number at December 31, 2003 are shown in the table below:

	Average number in 2003	Number at Dec. 31, 2003
Senior management	28	30
Middle management	215	204
Office staff	1,492	1,422
Workers	1,337	1,165
Total	3,072	2,821

Amortization,
depreciation and
writedowns
Euro 139.6 million

Amortization of intangible assets

Amortization came to € 0.03 million and regarded incorporation and related costs. The fifth and final installment of amortization of incorporation costs was recognized in 2003.

Depreciation of tangible assets

This item includes accruals for the year calculated on the basis of the new depreciation rates, which were revised during the year and now provide a more accurate representation of the remaining useful life of the company's plant (€ 139.6 million).

Writedowns of current receivables

These amount to € 1.0 million, and relate to accruals to the provision for doubtful accounts.

Change in inventories
Euro -5.8 million

This shows the net positive change in inventories during the year.

Provisions for risks
Euro 36.0 million

These include accruals made at December 31, 2003, as described in the section on the provision for risks and charges.

Other operating
expenses
Euro 15.9 million

This item includes the liability vis-à-vis the Enel Management Pension Fund (€ 2.4 million), losses due to the retirement of power lines (€ 2.1 million), discounts on electricity supplied to retired personnel (€ 2.0 million), easement fees for power lines (€ 1.8 million) and sundry local indirect taxes (€ 3.1 million).

Financial income and
expense
Euro 35.1 million

Other financial income

A breakdown of other financial income is provided below:

Millions of euro	2003
Interest accrued on tax credits	0.1
Other financial income	0.2
Interest on current account with Parent Company	15.8
Total	16.1

Interest and other financial expense

Millions of euro	2003
Interest on loans and other medium and long-term financing from Parent Company	37.0
Interest on current account with Parent Company	0
Interest on EIB financing	8.0
Financial expense on derivatives (swaps)	6.1
Other interest and financial charges	0.1
Total	51.2

Extraordinary items
Euro 15.0 million

Extraordinary income amounted to € 2.2 million and derive from excess income taxes (€ 2.1 million) paid in the previous year in relation to the liability recognized in the company's accounts as well as legal expenses recovered thanks to court rulings in the company's favor (€ 0.1 million).

Extraordinary expense totaled € 17.2 million and regard the tax amnesty (€ 2.8 million) pursuant to Law 27/2003, the temporarily early retirement incentives for employees (€ 4.4 million) and fines incurred for breach of contract relating to property rentals charged to the Group company Enel Real Estate SpA (€ 4.0 million). The item also includes expenses (€ 6.1 million) arising from the recovery of excess capital contributions received in the previous year to align them to the effective economic life of the assets.

Income taxes
Euro 143.1 million

Millions of euro	2003
Current taxes:	
> IRPEG	75.2
> IRAP	19.0
Prepaid taxes	-8.4
Deferred taxes	57.3
Total	143.1

Income taxes, which amount to 43.21% of pre-tax income, are composed of current taxes and net temporary differences for the year.

The reconciliation between expected and effective income taxes is given below:

Millions of euro	2003
Statutory income:	217.4
> Net change in accelerated depreciation	-28.4
> Net change in temporarily non-deductible provisions	22.7
> Other increases	9.4
Taxable income	221.1
Tax expense (34%) for year	75.2

The balance of prepaid taxes is represented by provisions for:

- > tax recovered amounting to € 4.8 million, due to the use of provisions taxed in previous years to cover early retirement incentives and the settlement of litigation in the year;
- > tax prepayments relating to temporary differences of € 13.5 million that emerged in the year for accruals to the risk provision for litigation and the provisions for future risks and charges;
- > the effect of the variation in the tax rate, which led to a recovery of € 0.3 million.

Deferred taxes relate to accelerated depreciation, net of grants, accrued for tax purposes. The total (€ 13.8 million), adjusted to reflect the change in the tax rate (– € 2.4 million) and the utilizations arising from the taxation of depreciation in excess of the deductible limit (€ 3.2 million) is quantified on the basis of the current tax rate in the financial year in which reversal will take place. The consolidated figures reflect the deferred taxes in respect of excess depreciation accrued during the year by the Group Parent (€ 49.1 million).

Transactions with related parties

Transactions with related parties are illustrated in the Report on Operations.

Other information

Pension fund expense

The charge taken in respect of the extraordinary contribution due from the Parent Company following the suppression of the Electricity Sector Employee Pension Fund, which was originally recognized as an intangible asset, has been nil since the previous year because the company opted to amortize it over three years (2000, 2001 and 2002), in accordance with the provisions of the same law. If the company had opted to amortize the charge over 20 years, which was also an option under the law, deferred expenses would have shown an additional liability of around € 80 million at December 31, 2003 in respect of the charge for the Electricity Sector Employee Pension Fund.

Reports

Report of the Board of Statutory Auditors on the Consolidated Financial Statements at December 31, 2003 of Terna SpA

To the Shareholders' Meeting of Terna SpA.

The Consolidated Financial Statements of the Terna Group at December 31, 2003 have been drawn up by the Group Parent in compliance with the provisions of Legislative Decree no. 127 of April 9, 1991 and consist of the Balance Sheet and the Income Statement, supplemented by the report on operations, specifying that information on Group activities, significant events subsequent to the balance-sheet date and transactions with related parties is provided in the report on operations of the Group Parent. The notes to the Financial Statements contain the information required by Article 2427 of the Civil Code and Article 38 of Legislative Decree 127/1991, specifying that:

- > the scope of consolidation includes the controlling interests, pursuant to Article 2359 of the Civil Code, in the Brazilian companies Trasmisora Sudeste Nordeste SA and Novatrans SA, whose acquisition took effect as of December 31, 2003. Accordingly, only the balance-sheet figures of the two subsidiaries are reflected in the Consolidated Financial Statements at that date;
- > the accounting policies adopted are those used by the Parent Company in drawing up its own financial statements; where necessary, adjustments have been made to harmonize policies and to eliminate tax effects;
- > consolidation has been carried out on a full, line-item basis, under which:
 1. consolidated equity investments have been eliminated against the recognition of the assets and liabilities of the consolidated companies and the booking of minority interests in Shareholders' Equity and income;
 2. positive differences arising on consolidation are posted under "Goodwill arising on consolidation", while negative differences are taken to the "Consolidation reserve";
 3. significant receivables and payables and costs and revenues, as well as unrealized gains and losses, generated in transactions between consolidated companies are eliminated.

The Report on Operations was drawn up in accordance with the provisions of Article 2428 of the Civil Code and Article 40 of Legislative Decree 127/1991. Our checks were completed with the examination of the report of the independent auditors, which certified that the Consolidated Financial Statements for 2003 were clear and provided a true and fair view of the economic and financial situation of the Group. In conclusion, no significant facts emerged that would require discussion in this report.

Rome, March 1, 2004

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



Revisione e organizzazione contabile

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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with article 156 and article 165 of legislative decree no. 58 of 24 February 1998

To the shareholder of
T.E.R.Na. Trasmissione Elettricità Rete Nazionale S.p.A.

- 1 We have audited the accompanying consolidated financial statements of T.E.R.Na. Trasmissione Elettricità Rete Nazionale S.p.A. and subsidiaries (the “group”) as at and for the year ended 31 December 2003. These consolidated financial statements are the responsibility of the management of T.E.R.Na. Trasmissione Elettricità Rete Nazionale S.p.A.. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 In our opinion, the consolidated financial statements of the T.E.R.Na. Trasmissione Elettricità Rete Nazionale S.p.A. as at and for the year ended 31 December 2003 comply with the Italian regulations governing their preparation; therefore they are clearly stated and give a true and fair view of the consolidated financial position and results of the group.
- 4 We draw your attention to the disclosures made by the directors in the notes to the consolidated financial statements on the following matters.
 - The parent company is a defendant in certain lawsuits and is involved in other uncertainties relating primarily to environmental and urbanistic matters, the outcome of which could result in losses for the group, at present not objectively quantifiable.



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- The notes to the consolidated financial statements disclose the effect of accounting for the extraordinary contribution due upon the suppression of the Electricity Sector Employee Pension Fund, pursuant to Law 488/1999.

Rome, 27 February 2004

KPMG S.p.A.

(Signed on the original)

Bruno Mastrangelo
Director

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