



**TERNA S.P.A. FINANCIAL STATEMENTS
AND TERNA GROUP ANNUAL REPORT**
2007

OUR PRESENT



PROVIDING SERVICES BASED ON CONCESSIONS AND GUARANTEEING
THEIR SAFETY, QUALITY, AND COMPETITIVE VALUE OVER TIME.

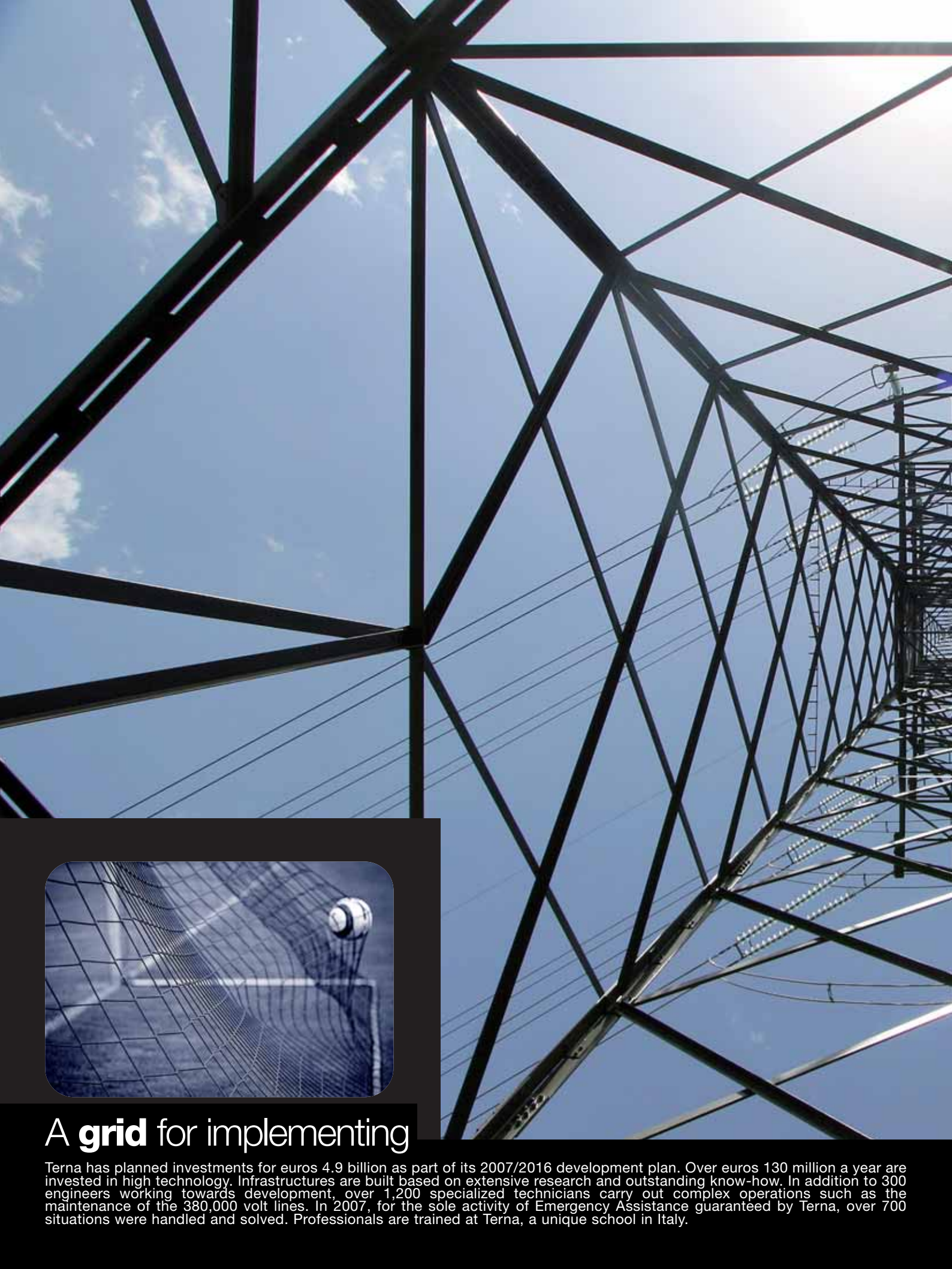
GUARANTEEING EQUAL ACCESS CONDITIONS TO ALL GRID USERS.

DEVELOPING MARKET ACTIVITIES AND NEW BUSINESS OPPORTUNITIES WITH EXPERIENCE
AND TECHNICAL KNOWLEDGE ACQUIRED THROUGH THE MANAGEMENT OF COMPLEX SYSTEMS.

CREATING VALUE FOR SHAREHOLDERS WITH A STRONG COMMITMENT TOWARDS PROFESSIONAL EXCELLENCE
AND WITH A SENSE OF RESPONSIBILITY TOWARDS THE COMMUNITY, WHILE RESPECTING THE ENVIRONMENT.



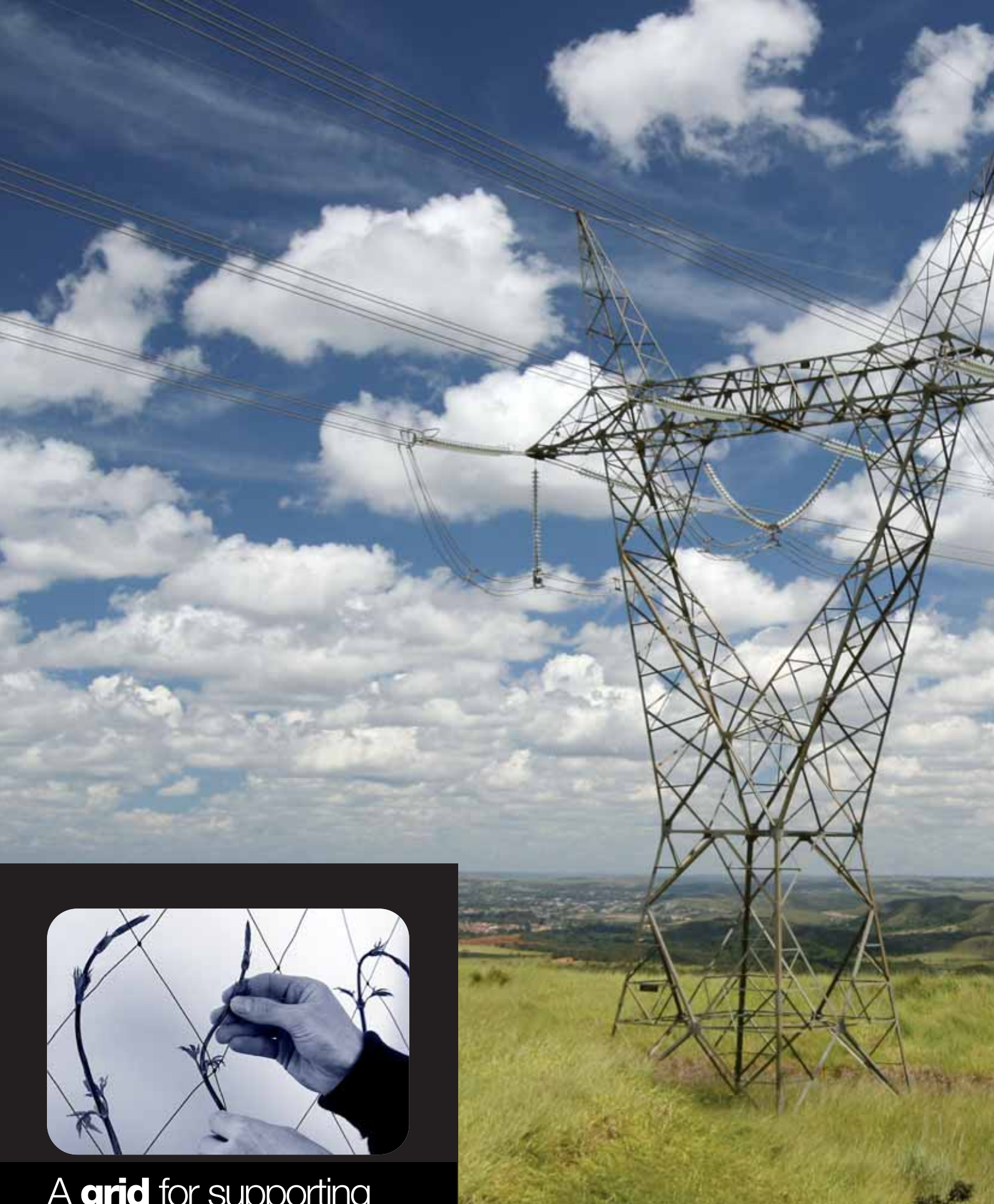
**TERNA S.P.A. FINANCIAL STATEMENTS
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A **grid** for implementing

Terna has planned investments for euros 4.9 billion as part of its 2007/2016 development plan. Over euros 130 million a year are invested in high technology. Infrastructures are built based on extensive research and outstanding know-how. In addition to 300 engineers working towards development, over 1,200 specialized technicians carry out complex operations such as the maintenance of the 380,000 volt lines. In 2007, for the sole activity of Emergency Assistance guaranteed by Terna, over 700 situations were handled and solved. Professionals are trained at Terna, a unique school in Italy.

(Valcamonica) Views of the 380 kV San Fiorano-Robbia line



A **grid** for supporting

Terna Rete Elettrica Nazionale is responsible for the transmission and dispatching of electricity on the high and extra high voltage electricity grid in Italy. Terna supports the Country's development: it owns over 39 thousand kilometers of power lines, over 98% of the total. Terna meets the electricity needs and provides the highest quality transmission service in line with the best European practices. The Company guarantees all users equal access to the grid.



High Voltage Power Line of the Terna Participações Grid in Samambaia (Brazil)



A **grid** for defending

Terna defends the grid's sustainable development. The procedure for Strategic Environmental Assessment (SEA) was introduced in 2002 to identify, for the new lines, the best solutions shared by Institutions and territorial organizations. Terna also takes action with regards to materials and projects' characteristics: in the next few years it will remove 1,200 km of old lines to reduce the grid's environmental impact. Terna considers its Code of Ethics a founding element of its company identity and publishes its social and environmental Sustainability Report.



After the storm. The Ala (TN)-Bussolengo (VR) line



A **grid** for protecting

Protection also means safety and being defended from possible critical situations. Terna's task is to guarantee, 24 hours a day, 365 days a year, the transmission of electricity throughout Italy. Each year, the National Control Center safely manages over 340 billion kWh of electricity used throughout Italy. Terna publishes statistics on electricity in Italy and collects data relative to the major aspects of the national electricity sector.



High Voltage Power Line of the Terna Participações Grid in Samambaia (Brazil)



A **grid** for collecting

Terna has collected great results with the growth of the most important indicators. Objectives have been reached that created value for shareholders and stakeholders through an attractive dividend policy, supported by stable cash flows. 2007 was an important year for financial results obtained both in terms of revenues and margins and of objectives reached as part of the strategic plan, such as the first agreements signed for interconnection projects with the Balkan countries and the acquisition of other portions of the National Transmission Grid.



A **grid** for going a long way

Terna's grid is connected to the network of the European electricity grids. To and from Europe, 18 high voltage lines allow exchanging and regulating the electricity balance with the other countries. Terna also works outside of Italy. In Brazil, its subsidiary Terna Participações, listed in the São Paulo Stock Exchange, operates in the electricity transmission sector and is the second private company in terms of market share.



High Voltage work carried out in Colle del Piccolo San Bernardo (Aosta)-Villeneuve/Albertville interconnection line (France)

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⁽¹⁾ Pursuant to art. 89 *bis*, codicil 5, CONSOB's Issuer Regulations (separate report published jointly to the Director's Report)

CHAIRMAN'S MESSAGE

Dear Terna Shareholders and Stakeholders,

in the pages of Terna's 2007 Annual Report you will find a single unifying element: development as seen in all of the activities and commitments taken on by our Company. If in 2006 we focused mainly on consolidation, today we look at Terna as being in full development by strengthening what has already been consolidated, not only in its core business, which is transporting electricity, but also in major issues such as responsibility, value production and the relationship with the community, the regions and the institutions.

In terms of strategy, this year has been significant. First of all, 2007 was based on Terna's commitment for projects considered as being more strategic for Italy. Concerning Terna's presence in the national and international markets, the strategy within the Mediterranean area is particularly interesting. Due to its geographical position and characteristics, Italy can represent the ideal electricity hub for the Mediterranean countries and the European electricity system and at the same time - through the many land and sea interconnections- can in turn obtain greater safety for its own national grid.

For Terna, developing the grid does not only mean building new power lines, but also carrying out rationalization measures with positive effects in terms of functionality and environmental and landscape impact. It means promoting the right balance between electricity needs and environmental and territorial protection to guarantee the country's electricity needs at the best reliability, cost and sustainability conditions. On this hand, we already reached important results. For example, the work carried out in Sardinia, in the Molentargius-Saline park, by removing 12 km of high voltage power lines and 28 pylons, stands to witness our commitment. The same approach has been used to identify ten strategic projects having a high environmental value, which will permit to remove 1,200 km of old lines and build 450 km of new power lines. An example of this is represented by the Valcamonica case, where the newly built S. Fiorano-Robbia power line (a euros 60 million investment for a power line that allows importing electricity at lower costs) led to the largest grid rationalization project ever carried out in Italy, both in extent and investments.

For a company like Terna, environmental sustainability is a duty, but is also a strategic factor, a concept which is very similar to that of development. For Terna, sustainability is not limited to statements of principles but is carried out through direct actions that are then included and accounted for in the yearly Sustainability Report. Sustainability means reducing waste, preventing any problem with the bodies that will host the electricity infrastructures on their territory and improving service quality. It also means focusing on the environment fully respecting the principles and values of the Code of Ethics. Above all, sustainability means establishing a constant dialogue with stakeholders.



With the institutions, the desire to protect the territory and implement sustainability policies is expressed through preventive dialogue in order to include the environment in the grid planning and improve the placement of power lines throughout the territory. We voluntarily initiated this dialogue some time ago and this has led us to signing agreements with 13 regions in Italy by applying, first in Italy, the Strategic Environmental Assessment.

For Terna, a rapid change occurred in the past few years both in terms of trust and reputation and of identity. We achieved results and offered concrete elements to be judged by the market and by the stakeholders. We created value, increased our service level, our investments, returns and growth in both Italian and foreign markets, with the virtuous example of Terna Participações in Brazil.

We then announced and shared this value, thanks to a team that was capable of recognizing and managing the change that was occurring. Today, Terna is a well-known company with a strong identity that was obtained thanks to its professionalism and daily work and to its awareness activity regarding ethics and sustainability. Moreover, today Terna attracts talents. Requests keep growing from those who wish to work with us. This too is trust, reputation and identity. In my opinion, it is also a sign of a virtuous development.

The Chairman
LUIGI ROTH

A handwritten signature in black ink, which appears to read 'Luigi Roth'. The signature is stylized and fluid, with a large 'L' and 'R'.

LETTER TO SHAREHOLDERS

Dear Shareholders,

In 2007, Terna demonstrated that it can achieve important results by applying a strategy aimed at obtaining operative efficiency while also keeping its objectives of top quality service and optimization of investments. These key instruments, together with the commitment and professionalism of the Company's resources, have strongly contributed to the growth of the Group's value.

All the objectives set by the Industrial Plan announced last year were met or reached earlier. We are firmly convinced that the large electricity grids are a priority for both Italy and Brazil and for economic development. Therefore, we have accelerated the strengthening infrastructures and continued consolidating the electricity grid in our country as well as increasing the assets managed in Brazil. In Italy, Terna tripled its investments compared to the past years' average confirming the timely implementation of the announced Development Plan.

The Company continued its growth trend also in 2007:

- on the one hand, as the transmission grid's operator and in charge of the activity aimed at guaranteeing the national electricity system's balance, Terna has pursued safety, reliability, efficiency and lower cost objectives for the transmission and dispatching service established by the concession it holds and by the Grid Code, operating according to neutral and impartial criteria towards other company's in the electricity sector;
- on the other hand, Terna finalized a series of acquisitions in Italy and in Brazil that also guarantee future increased revenues expected for industrial activities without modifying the Group's risk profile. In Brazil, the operations carried out and those underway have particularly increased the expected growth through the utilization of the resources acquired through the listing of Terna Participações.

2007 was a year filled with important results both strategically and financially.

In fact, the Group's revenues reached euros 1,348.2 million, with a 5.6% growth compared to 2006; the consolidated gross operating margin amounted to euros 977.8 million, with a 12.6% growth. The

operating result increased to euros 722.7 million, with a 10% increase. Net profits reached euros 432.8 million with a 10.5% increase.



These results, obtained also thanks to the important contribution of the Brazilian companies, allow us to grant a distribution of dividends per share increased by 7.86% compared to last year, among the highest in the electricity sector, confirming Terna's share as one of the most remunerative in the sector with a dividend yield higher than 5%.

Assets solidity and the limited risk level that characterizes the Group continue to be confirmed by the evaluations of the rating agencies, which consider Terna one of the most solid companies within the Italian corporate scenario.

During 2007, Terna was also involved with the Authority for Energy and Gas in reviewing the tariff structure for the next regulatory period, which will cover the 2008-2011 five years period and which will allow us to plan, for the next years, the timely implementation of investments established in the Development Plan. New indicators were introduced by the regulatory authority in order to measure the objectives of the service quality and the Company will refer to them in order to maintain its leadership in the sector at the European level.

The CEO
FLAVIO CATTANEO

A handwritten signature in black ink, which appears to read 'Flavio Cattaneo'. The signature is written in a cursive, flowing style. Below the signature, there are some faint, vertical lines that look like a date or a reference number, possibly '11/11'.

CALL OF ORDINARY SHAREHOLDERS' MEETING

The ordinary Shareholders' meeting is convened for the dates of April 27th and April 28th, on first and second call, respectively, at 11:00 AM in Rome at the "Centro Convegni Matteo Ricci", Piazza della Pilotta 4, in order to discuss and resolve on the following

AGENDA

1. Financial Statements as of December 31, 2007. Reports of the Board of Directors, of the Board of Statutory Auditors and of the Independent Auditors. Related resolutions. Presentation of the Consolidated Financial Statements as of December 31, 2007;
2. Allocation of the net income for the fiscal year;
3. Number of members in the Board of Directors;
4. Term of office of the Board of Directors;
5. Appointment of the members of the Board of Directors;
6. Appointment of the Chairman of the Board of Directors;
7. Compensation for the members of the Board of Directors;
8. Appointment of the Board of Statutory Auditors;
9. Remuneration for the effective members of the Board of Statutory Auditors.

All of the shareholders for which the company has received timely notice made by an authorized intermediary pursuant to the applicable provisions of law shall be entitled to attend the Shareholders' Meeting. In this respect, it is pointed out that art. 10.1 of the bylaws provides that only those shareholders who have deposited their shares at least two days prior to the dates set for the meeting on first call and did not withdraw the shares before the Shareholders' meeting has taken place, may participate in the Shareholders' meeting.

The informative reports by the Directors on the items included in the Agenda, provided by the applicable law provisions, will be made available to the public at the company's registered office and at the registered office of Borsa Italiana S.p.A. on April 12, 2008 or before; the shareholders may obtain copies thereof. The same documentation will also be published in the Company's website: www.terna.it.

With regard to the appointment of the members of the Board of Directors and of the members of the Board of Statutory Auditors, it is pointed out that in compliance with the terms of the bylaws, the procedure will be through voting lists. The lists of candidates for Directors and Auditors may be submitted by the shareholders that, either alone or jointly with other shareholders, represent at least 1% of the shares having the right to vote in the Shareholders' Meeting. For the election of each one of the above-mentioned corporate bodies, every Shareholder may submit or take part in the submission of only one list and each candidate may be included in only one list, under penalty of ineligibility. The lists must be submitted, deposited and published at least 15 days prior to the date set for the first call of the Shareholders' Meeting (i.e. within Saturday, April 12, 2008) according to the provisions and terms respectively articles 14.3 and 26.2 of the bylaws published in the Company's website (www.terna.it - "Investor Relations – Corporate Governance – Corporate Bylaws"). The lists, with the information on the profile of each candidate, will be immediately published in the Company's website. In order to prove the ownership of the number of shares necessary for the submission of the lists, shareholders must submit and/or forward to the company's registered office, at least five days prior to the date set for the first call of the Shareholders' Meeting, copy of the documentation proving the ownership of the number of shares required.

With regard to the appointment of the Board of Directors, it is specifically pointed out that the provisions stated in the bylaws are applied to the issues (I) of limits regarding the right to vote for the appointment of the above-mentioned Directors as stated in art. 14.3, letter e) and (II) of requirements of honorability, professionalism and independence of the latter, as stated in art. 15.

The lists for the Board of Directors will include those candidates having the independence requirements pursuant to the law and to art. 15.4 of the bylaws. For this purpose, it is pointed out that art. 6 of the Self Regulation Code of listed companies published by Borsa Italiana, which TERNA joined, states that in addition to the lists, exhaustive information be deposited at the Company's registered office regarding the candidates' personal and professional profile, accompanied by an indication regarding their eligibility to qualify as independent directors pursuant to art. 3 of the Self Regulation Code, to be the subject of immediate publication in TERNA's website together with the lists.

It is noted that pursuant to art. 147 *ter*, paragraph 3, of Legislative Decree 58/98 (Consolidated Law on Finance-TUF), at least one of the members of the Board of Directors is proposed by the minority list that has obtained the majority of votes and is in no way connected, not even indirectly, with the shareholders that have submitted or voted the list that resulted as first for a number of votes.

With regard to the appointment of the Board of Statutory Auditors, it is pointed out that the lists must be divided into two sections, one for the candidates for the position of actual Auditors and the other for the candidates for the position of alternate Auditors. The first candidate for each section shall be chartered accountant and have exercised audit activities for no less than three years. The candidates for the position of Auditors shall have the professional and honorable requirements set forth – for auditors of listed companies – by Ministerial Decree No. 162, dated March 30, 2000 issued by the Ministry of Justice, integrated by the provisions of the art. 26.1 of the bylaws. Pursuant to the bylaws and to art. 144-terdecies of Consob Regulation n. 11971 dated May 14, 1999, the candidates, under penalty of ineligibility, cannot hold the position of effective Auditors in five or more listed companies.

It is also pointed out that art. 10 of the Self Regulation Code of listed companies published by Borsa Italiana states that, in addition to the lists, exhaustive information be deposited at the Company's registered office regarding the candidates' personal and professional profile, to be the subject of immediate publication in TERNAs website together with the lists. Considering that pursuant to art. 2400, last paragraph of the Civil Code, at the time of appointment and prior to the acceptance of the office, the Meeting must be informed of the administrative and auditing positions held by the Auditors with other companies, an appropriate statement must be provided for this purpose as part of the information regarding the candidates' personal and professional profile, with special care in updating this statement to the actual date the Shareholders' Meeting is held.

On the basis of the bylaws changes approved by the extraordinary Shareholders' Meeting on May 24, 2007, for implementing provisions of Law n. 262 dated December 28, 2005, the position of Chairman of the Board of Statutory Auditors will be assigned to the effective Auditor included in the minority lists pursuant to art. 26.2 of the bylaws. In compliance with art. 148, paragraph 2 of the Legislative Decree 58/98 (Consolidated Law on Finance - TUF), the effective member of the Board of Statutory Auditors appointed by the minority on the basis of the provisions stated in art. 26.2 of the bylaws, will be elected by the minority shareholders that are in no way connected, not even indirectly, with the shareholders that submitted or voted the list that resulted first by number of votes.

In order to facilitate the assessment of their right to participate in the Shareholders' Meeting, the shareholders and other holders of the voting right may send the documentation evidencing such right to the TERNAs S.p.A.'s Secretarial Office by mail (TERNAs S.p.A. – Segreteria Societaria – Via Arno 64 - 00198 Rome), also in copy or by fax to the number 06/83138317, at least two days prior to the date set down for holding the Shareholders' Meeting on first call.

Moreover, in order to facilitate verifying representation powers pertaining to them, those wishing to participate in the Shareholders' Meeting in legal or voluntary representation of shareholders or other holders of the voting right may send the documentation proving their powers to the Segreteria Societaria di TERNAs S.p.A. according to the procedure and within the terms stated in the above paragraph.

It should be noted that the offices in charge of the personal identification and verification of the right to participate in the Shareholder's Meeting will be available starting from 9.00 AM of the dates set respectively for the first and second call.

A service providing assistance for the Shareholders' Meeting is available for further information at the following numbers: telephone no. 06/88345112 - fax no. 06/88345203.

The Chairman of the Board of Directors
DOTT. LUIGI ROTH

THE NOTICE OF CALL OF THE ORDINARY SHAREHOLDERS' MEETING WAS PUBLISHED IN THE OFFICIAL GAZETTE OF THE REPUBLIC OF ITALY, PART II, OF MARCH 13, 2008 N. 31.

Terna S.p.A. - Registered office in Rome - Via Arno, n. 64
Share capital Euro 440,000,000 fully paid-in as of April 30, 2007
Rome Companies Register, Tax ID and VAT code n. 05779661007 - Rome R.E.A. n. 922416

SUMMARY OF THE RESOLUTIONS PASSED BY THE ORDINARY SHAREHOLDERS' MEETING

TERNA S.p.A.'s Ordinary Shareholders' Meeting that met on a second call on April 28, 2008 in Rome, at the "Centro Convegni Matteo Ricci", Piazza della Pilotta 4, resolved the following:

- Approved TERNA S.p.A.'s Financial Statements as of December 31, 2007;
- Examined the TERNA Group's consolidated Financial Statement, for the period up to December 31, 2007, which closed with the Group's net profits equaling 413.9 million euro;
- Approved allocating TERNA S.p.A. 2007's net profits equaling 406,693,032.87 as follows:
 - 112,026,801.60 euro to cover the interim dividend paid on November 22, 2007;
 - 190,060,059.00 euro as the final dividend to be distributed in the amount of 0.095 euro per each of the 2,000,632,200 ordinary shares to be paid – gross of any tax withholdings – on June 26, 2008 with "registration date" of coupon n. 8 on June 23, 2008. The total amount may vary owing to the possible increased number of ordinary shares that are effectively circulating on the scheduled registration coupon date for the final dividend for 2007;
 - 104,606,172.27, or the different amount that is left over from any and further previous allocations, as profits carried forward;
- Approved to appoint the Board of Directors – and its CEO on its behalf – to verify in due time with regard to the exact definitive number of shares to be remunerated, the amount of distributed profits and of profit carried forward.

The Ordinary Shareholders' Meeting also:

- Renewed the company's Board of Directors that will remain in office until the approval of the 2010 Financial Statements, in the persons of:
 - Luigi Roth – Chairman ⁽¹⁾
 - Flavio Cattaneo – Director ⁽¹⁾
 - Cristiano Cannarsa – Director ⁽¹⁾
 - Paolo Dal Pino – Director ^{(1) (2)}
 - Matteo del Fante – Director ⁽¹⁾
 - Claudio Machetti – Director ⁽³⁾
 - Salvatore Machì – Director ^{(4) (2)}
 - Michele Polo – Director ^{(1) (2)}
 - Vittorio Rispoli – Director ^{(4) (2)}

establishing the relative annual compensation of 50,000 euro gross for the Chairman and of 25,000 euro gross annually for each Director;
and

- Renewed the Board of Statutory Auditors that will remain in office until the approval of the 2010 Financial Statements, in the persons of:
 - Luca Aurelio Guarna – Chairman ⁽⁵⁾
 - Marcello Cosconati – Standing auditor ⁽⁶⁾
 - Lorenzo Pozza – Standing auditor ⁽⁶⁾
 - Stefania Bettoni – Substitute auditor ⁽⁵⁾
 - Mario Paolillo – Substitute auditor ⁽⁶⁾

establishing the relative annual compensation of 55,000 euro gross for the Chairman and of 45,000 euro gross annually for the other standing Auditors.

⁽¹⁾ Taken from the List presented by the Majority Shareholder Cassa Depositi e Prestiti S.p.A.

⁽²⁾ In possession of the independent requirements established by the Law and by TERNA S.p.A.'s By-Laws and by the Code of Self-Governance

⁽³⁾ Taken from the List presented by the Minority Shareholder ENEL S.p.A.

⁽⁴⁾ Taken from the List presented by the Minority Shareholder Assicurazioni Generali S.p.A. and its subsidiaries

⁽⁵⁾ Taken from the List presented by the Minority Shareholder Assicurazioni Generali S.p.A. and its subsidiaries

⁽⁶⁾ Taken from the List presented by the Majority Shareholder Cassa Depositi e Prestiti S.p.A.

COMPANY BODIES

Board of Directors

Chairman

Luigi Roth

CEO

Flavio Cattaneo

Standing auditors

Luigi De Paoli

Mario Garraffo

Claudio Machetti⁽¹⁾

Salvatore Machì

Carmine Macrì

Piero Giuseppe Maranesi

Vittorio Rispoli⁽²⁾

Franco Smurro

Secretary of the Board of Directors

Ernesto Calaprice

Board of Statutory Auditors

Chairman

Giovanni Ferreri

Standing auditors

Giancarlo Russo Corvace

Roberto Tasca

Alternate auditors

Vito Di Battista

Bruno Franceschetti

Independent Auditors

KPMG S.p.A.

⁽¹⁾ co-opted on March 21, 2007 to replace outgoing Director Massimo Romano and confirmed by the Shareholders' Meeting of May 24, 2007

⁽²⁾ co-opted on July 13, 2006 to replace outgoing Director Massimo Ponzellini and confirmed by the Shareholders' Meeting of May 24, 2007

TERNA'S MANAGEMENT



From left to right:

1. FRANCESCO DEL PIZZO Dispatching and Conduction Director
2. LUIGI DE FRANCISCI Regulatory Affairs Director
3. GIACOMO DONNINI Planning Manager and Energy Operations
4. STEFANO CONTI Institutional Affairs Director
5. GIOVANNI BUTTITTA External Relations and Communication Director
6. ELISABETTA COLACCHIA Investor Relations Manager
7. CESARE RANIERI Human Resource and Organization Director
8. UMBERTO COLONNA Plant Maintenance Director
9. GIUSEPPE LASCO Company Safety Director
10. FLAVIO CATTANEO Chief Executive Officer



11. LUIGI ROTH Chairman **12.** LUIGI CELANI Procurement Director **13.** FILOMENA PASSEGGIO Corporate Secretary and Legal Department Director **14.** LUCIANO DI BACCO Administration Department Director and Executive in charge of the preparation of accounting documents **15.** EVARISTO DI BARTOLOMEO Engineering Director **16.** FABIO TODESCHINI Chief Finance Officer **17.** GIANNI ARMANI Grid Planning and Development Director **18.** FULVIO DE LUCA Internal Audit Manager **19.** CARLO SABELLI Dispatching Manager **20.** ALESSANDRO FIOCCO Business Development and International Director

THE TERNA GROUP

The Company

Terna is a leading grid operator for the transmission of electricity. It is the main owner of the National Transmission Grid for high voltage electricity with over 98% of the national electricity infrastructures. It is also responsible for transmitting and dispatching electricity throughout the entire territory, safely managing the grid 365 days a year and managing the balance between electricity demand and offer. Furthermore, Terna is responsible for the Grid's planning and development activity, for providing grid maintenance and for its development while respecting the environment through technological expertise for improving its efficiency.

Terna has been listed in the Italian Stock Exchange since 2004. Presently, the reference stakeholder is Cassa Depositi e Prestiti with a 29.99% shareholding. 64% of the share capital is owned by Italian companies while 36% is held by foreign funds. The Company's principal shareholders include Enel with 5.1% and Pictet Asset Management S.A. with 5.2%. The remaining 59.7% is divided among institutional and retail investors. These shareholders guarantee the Company's mission to its fullest: on the one hand, ensuring a general interest service such as electricity transmission and on the other, creating value for shareholders focusing on results.



An international Group

Terna is an international Group: it has consolidated its position at the world level and is one of the leading players in the sector, the second Transmission System Operator in Europe after France and seventh in the world in terms of strategic assets. The Terna Group operates in the electricity transmission sector in Italy and in Brazil, provides consulting services abroad to other grid operators and evaluates development opportunities in other countries, compatibly with its own activities and focusing on quality of services offered and financial economic efficiency.

Terna is also a member of the Union for the Co-ordination of Transmission of Electricity (UCTE), one of the most important associations in this sector in the world that coordinates electricity transmission in continental Europe. The UCTE includes 26 Grid Operators belonging to 23 European countries with the objective of guaranteeing the safety of the interconnected electricity systems.

In **Italy**, Terna is the owner of the high voltage electricity National Transmission Grid, the whole of lines and electrical stations which form the infrastructure for the transmission of electricity from production points to distribution points. In particular, Terna owns the following assets:

- 39,446 km of power lines
 - 380 kV lines: 9,812 km
 - 220 kV lines: 9,771 km
 - < 150 kV lines: 19,863 km
- 366 transformation and switching stations
- 3 remote operation centers
- 18 interconnection lines with other countries

The grid is formed by the following elements: EHV transformers (extra high voltage) that draw electricity from the national electricity plants (or from border points for imported electricity); the EHV and HV (high voltage) lines that transport electricity; and lastly, the transforming and switching stations that supply electricity to the distribution companies who, in turn (through the sales companies) bring electricity to homes and industries.

Abroad, Terna's subsidiary **Terna Participações S.A.** is listed in the São Paulo Stock Exchange and operates in the electricity transmission sector in Brazil. The Brazilian Group operates through thirty-year concessions in planning, implementing, operating, maintaining and developing portions of the high voltage electricity grid in Brazil. With over 2,828 km* of grid that connect the central areas with the northern areas of Brazil, Terna Participações S.A. is the second private electricity transmission company listed in the Brazilian market with 9.3% of the total revenues for the sector. From the technical and operational point of view, it stands out for the high quality standards and the excellent performance levels of the service. Following the listing of Terna Participações in the São Paulo Stock Exchange in October 2006, the Group aims to further consolidating its technical presence in Brazil by evaluating other business opportunities in the country.

Growth opportunities abroad

Terna evaluates growth opportunities abroad through strategic and business initiatives in line with the Group's growth objectives. Initiatives located in areas that represent the natural extension of its present activities are considered strategic: first of all, the Balkan countries, Eastern Europe and Brazil. Particularly in the Balkan countries, any opportunities created by the opening of private investments of electricity transmission are considered strategic as are projects for underwater cable interconnection in the Adriatic Sea; in Brazil, the strategy that has led to the listing of Terna Participações in the stock exchange will be pursued.

Initiatives are considered as being opportunities when they concern investment possibilities with returns that are adequate with the risk profile and with Terna's limited direct financial exposure in countries that offer socio-economic and regulatory stability.



* including 188 km of lines belonging to the joint interest company ETAU; such properties, pursuant to international accounting principles, are not included in the measurement, and therefore in the number of assets recognized in the Group financial statements

History

Terna – Rete Elettrica Nazionale S.p.A. has been an industrial reality for years providing service to the country. The changes experienced in the past years in the electricity sector, including the liberalization of the electricity market, the privatization of the grid ownership, the establishment of many different market competitors in Italy and abroad have seen Terna as one of the leading protagonists of the national electricity scene.

The unification of the ownership and management of the National Transmission Grid which became effective on November 1, 2005 and the appointment of the new Board of Directors with Luigi Roth and Flavio Cattaneo, respectively as Chairman and CEO, marked the beginning of a new path that was already started long ago.

Below is a brief summary of Terna's most recent history:

May 31, 1999: the Terna company is established within the Enel Group in compliance with Legislative Decree no. 79/99 ("Decreto Bersani") that as part of the liberalization process of the Italian electricity sector authorized the separation between the ownership and the management of the National Transmission Grid. Terna's activities, operational since October 1 of that same year, concern the operation and maintenance of the plants belonging to the Enel Group that are part of the National Transmission Grid and the development of the grid according to the directives issued by the GRTN (Gestore della rete di trasmissione nazionale - National Transmission Grid Operator).

May 11, 2004: the Prime Minister's Decree is issued that defines criteria, methods and conditions for joining ownership and management of the National Transmission Grid as well as the system of corporate governance.

June 23, 2004: 50% of Terna's share capital is listed on the telematic market of the Italian stock exchange.

September 15, 2005: Enel transfers 29.99% of Terna's share capital to Cassa Depositi e Prestiti and the Company takes on its present shareholding structure.

May 24, 2005: the transmission, dispatching, development and grid safety code enters into effect (named the "Grid Code"), established by Prime Minister's Decree of May 11, 2004.

November 1, 2005: the unification of ownership and management of the transmission grid becomes effective: Terna – Rete Elettrica Nazionale S.p.A. is created.

November 2, 2005: the shareholders' meeting appoints the new Board of Directors for the 2005-2007 three year period; Luigi Roth as Chairman and Flavio Cattaneo as CEO.

Development and rationalization of the electricity grid and the environment: Terna's turning point

"10 projects for sustainable development": the results of the new approach based on the SEA

In the last three years, Terna significantly accelerated grid development: over 80 completed projects, **7 new power lines in operation**; over **40 authorization procedures completed** and 14 initiated.

Developing the grid does not only mean building new lines in addition to the already existing ones. The new plants allow **rationalization measures** that include the removal of obsolete parts of the grid (pylons, lines, supports) with obvious positive effects in terms of environmental impact. Rationalization measures were studied, planned and designed as part of a coordinated procedure defined case by case within specific agreements with Regions and Local Bodies. The removal of parts of the lines made it possible by the new power lines represents the most significant contribution in respect of the environment, deriving from the grid's development.

2007 marked a "turning point" for Terna

December 5: "10 projects for sustainable development"

The largest environmental clean-up activity of the electricity grid ever to be planned in Italy was presented. These are the numbers:

euros 1 billion invested

1,200 km of lines to be removed (4,800 pylons 161 of which in reinforced concrete)

450 km of new high-tech power lines

11 Regions, 20 Provinces, 100 Municipalities, 13 Mountain Communities and Park Administrations involved
4,000 hectares of freed land (an area as extended as the Parco dell'Aspromonte)

over 60 thousand tons of materials recovered (equal to the weight of nearly 10 Eiffel Towers)

nearly 300 million kWh the reduction of technical grid losses (equal to the yearly consumption of 100,000 families)

4,600 MW of investments avoided in new production facilities

September 22: Valcamonica (Lombardy)

Rationalization of the electricity grid in Valcamonica begun. The project includes removing 160 km of obsolete lines and pylons and the transformation of the area's electricity infrastructures into underground cables for a total of 110 km of electricity grid.

February 27: Molentargius Park (Cagliari)

12 km of high voltage lines in the Molentargius-Saline park were removed by pulling down 28 pylons to the benefit of the rich local avifauna, particularly, the pink flamingos that populate the water basin (10 pylons removed from the pond).

February 24: Turbigo-Rho (Milan)

In the west part of Milan, Terna built the new 380 kV "Turbigo-Rho" power line. The project allowed pulling down 10 km of old 220 kV lines (between Turbigo and Ospiate).

These results, recognized also at the highest government levels, were reached thanks to Terna's new

approach based on the ongoing search for the proper balance between electricity needs and meeting the interests of the community. The word is: coordination with the Regions and Local Bodies. A new tool: the SEA – Strategic Evaluation Assessment that Terna has been the first to apply in Italy.

According to the principle that the project's planning phase follows and does not come before the dialogue and agreement phase for implementing a common service, up to now, **Terna has signed SEA agreements with 13 Regions** (Piemonte, Calabria, Emilia-Romagna, Lombardy, Sicily, Campania, Basilicata, Umbria, Tuscany, Marche, Sardinia, Autonomous Province of Trento and Abruzzo).

Terna respects the environment: 7,500 MW wind power connection

The connection to the electricity grid of renewable source production plants is a top priority in the planning and development of the National Transmission Grid. In the next 5 years, Terna plans to build **a 7,500 MW wind power connection**, mainly in the South and in the islands with a significant reduction of CO₂ emissions in the atmosphere.

Geographical location of the new plants:

Sicily	2,000 MW	Sardinia:	800 MW
Puglia:	1,700 MW	Abruzzo:	300 MW
Campania:	1,000 MW	Basilicata:	300 MW
Calabria:	1,000 MW		

Terna respects the environment: the market response

- **for the fourth time in the FTSE4Good index**
- **+13% increase of ethical investors**

On **December 27, 2007** Terna obtained the ISO 14001 certification for environmental respect.

The new certification concerns all of Terna's fields of activities, both those carried out on existing plants and structures as well as the planning and implementing of new investments for developing the electricity transmission grid. This important international certification recognizes Terna's constant attention towards environmental respect. ISO 14001, issued by an independent verification body, stands to witness that Terna adopted management systems not only in line with the existing regulations, but also aimed at continuously improving its methods and results in the environmental field.

On **December 13, 2007** the FTSE Group confirmed Terna's inclusion in the FTSE4Good Index, the stock market index of the Financial Times Stock Exchange of London that groups the best European companies that stood out in sustainable development. The Company, headed by Luigi Roth and Flavio Cattaneo received this important recognition for the fourth consecutive time since 2005, the year in which it became the sole and independent National Electricity Transmission Grid Operator. 292 companies are included into the stock market index and only 14 of these are Italian firms. Terna was also included since **January 31, 2007** in the Ethical Index EURO, the index that groups the European companies with the greatest socially responsible capitalization.

A sustainable business model

In 2007, Terna accepted an important challenge regarding sustainability: that of demonstrating to its stakeholders the maturity reached in defining and implementing its own independent program for corporate social responsibility. This commitment was based on an important objective: building and maintaining over time a relationship based on trust with all those who had invested in the Company, particularly for improving performance also in the medium and the long term.

In 2007, following the adoption of a new Code of Ethics, Terna's second Sustainability Report was published, referring to 2006. Drawn up for the first time with a vision based on the Group, the Sustainability Report adopted the GRI (Global Reporting Initiative) international accounting standard in its new G3 version. The minimum number requested by the GRI for groups' performance indicators was 20, but Terna's Report included 24, with an additional 11 prepared with reference to the Italian context. Each category of indicators was also introduced by a paragraph on the Company's management policies and methods in order to guarantee greater reliability of information and an increased comparability of Terna's performance with that of other companies.

The work carried out was submitted to KPMG for external auditing.


The importance of the commitment undertaken regarding sustainability was also supported by another important result: at the end of 2007, Terna obtained the ISO 14001 and OHSAS 18001 certifications, regarding, respectively, environmental management and management of safety in the workplace and health protection. Together with the quality system that received the ISO 9001 certification, the two management systems form an Integrated Management System for Quality, Environment and Safety that confirms Terna's important role in using organizational systems for a proper risk assessment and management.

The importance of this recognition was confirmed by the fact that of the 40 S&P MIB companies, only 14 were awarded the ISO 14001 environmental certification and only 5 had an integrated system (data as of the end of 2007).

The ISO 14001 certification confirms the importance Terna gives to environmental respect. For years, Terna has already been adopting a coordination approach with the institutions in the territories to examine environmental aspects since the very early phases of planning new investments. A management system has been implemented also for existing lines that allows monitoring and reducing the environmental impact.

In the social field, Terna confirmed its responsibilities towards giving greater value to its human resources: in 2007, training hours increased by approximately 25% compared to 2006. Efforts also continued for greater involvement of human resources. The results of the People Satisfaction 2007 research were analyzed by various groups belonging to the different Departments. The Terna People Care plan that was created on the basis of that research has already been improved during the year with new initiatives in training and internal communication.

The sustainability issue which means full responsibility towards the Company's stakeholders is essential for Terna: primarily for the general interest service that Terna carries out in Italy. This requires us to operate by seeking new spaces that can host the new infrastructures to be built, accelerating, if possible, the authorization procedures. It is a fundamental issue also because a relationship based on reliability is essential in a field like ours that is so comprehensively regulated. It is also highly important for the growth prospects abroad, in countries where regulations that are consolidated for us, such as safety in the workplace, are not always respected.



THE CODE IS BASED ON THREE GENERAL PRINCIPLES:

- lawfulness** since respecting the law is mandatory
- honesty** that implies refusing corruption in every form
- responsibility** for one's own action, also towards the community and the environment

TERNA RECOGNIZES FOUR PRINCIPLES AS BEING PARTICULARLY SIGNIFICANT:

- sound** business management
- respect** personal and professional
- equal** treatment
- transparency** in conduct and in communication

Terna's numbers

Numbers can be important for understanding a company's size and field of activity. Below are the most significant numbers for understanding Terna's reality:

0.4	km in length of the 380 kV shortest line ("Ostiglia-Ostiglia C.le", in Lombardy)
1	National Control Center
1	Rome headquarters
1	Subsidiary in Brazil
2	Subsidiaries in Italy
2	Submarine interconnection cables (Italy-Greece and Italy-Corsica)
3	Remote control centers
8	Territorial Operational Areas
10%	Percentage of women employees
12%	Percentage of Total Shareholders Return
18	Interconnection lines with other countries
46	Average employee age
73	Wires inside a conductor or electricity cable
90%	Percentage of male employees
98%	Percentage of National Transmission Grid owned
218	km in length of the longest 380 kV line ("Matera Santa Sofia", in Campania)
276	Engineers
340	Billions of kWh demand in Italy in 2005
362	Transformation and switching stations
450	km of new hi-tech power lines



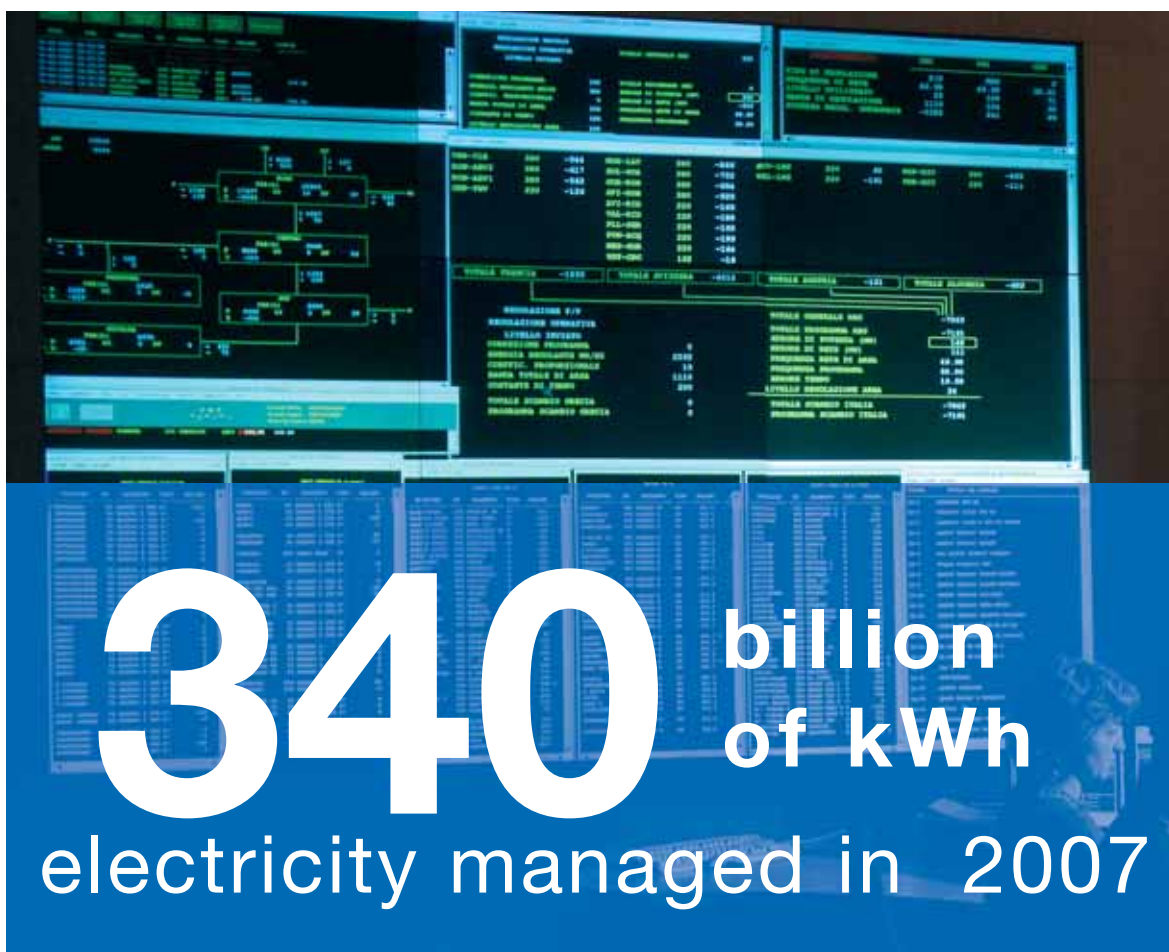
595	Transformers
1,000	MW of transportation capacity of the most powerful lines
1,098	Workers and technicians
1,200	km of grid that will be removed in 10 regions
1,600	Metres below sea level, the depth of the submarine SAPEI cable (between Sardinia and the Italian peninsula)
3,602	Employees (Italy and Brazil)
4,111	Bays
4,800	Pylons to be removed
9,771	km of 220 kV lines
9,812	km of 380 kV lines
19,863	km of 150 kV lines
39,446	km of total transmission lines (nearly 3 times the earth's diameter)
56,810	MW representing the national demand on December 17, 2007 (historical record)
114,145	MVA (MegaVoltAmpers) of transformation capacity
600,000	Tons of iron pylons that form Terna S.p.A.'s grid (82 times greater than the quantity of iron used in the Eiffel Tower)
2,500,000,000	Investments in euros for developing the grid
3,100,000,000	Investments in euros envisaged in the 2008-2012 Strategic Plan

TERNA'S HIGHLIGHTS

The National Control Center

Terna's National Control Center is the heart of the national electricity system

From the high security central control room on the outskirts of Rome, capillary control can be carried out while having a complete vision of the entire high voltage and extra high voltage grid that transmits electricity to all of Italy. Instant by instant, this center controls the electricity flow produced in our country or imported from other countries. It is here that the transmission of electricity is safely managed on a daily basis carrying out activity that is necessary for balancing the demand and offer of electricity. The monitoring activity is carried out non-stop, 24 hours a day, 365 days a year to manage the energy flow of approximately 340 billion kWh a year.



The organization

Structure and human resources

In 2007 the Terna Group acquired the wholly owned subsidiaries RTM1 and RTM2, and finalized the acquisition of AEM Trasporto Energia expanding and consolidating the National Transmission Grid's field of activity. In Brazil, through Terna Participações S.A., listed in the São Paulo Stock Exchange, the Terna Group owns two companies, TSN - Transmissora Sudeste - Nordeste S.A. and Novatrans Energia S.A., that operate in the country's electricity transmission sector. During the year, Terna further consolidated its position in Brazil through the acquisition of the companies GTESA, PATESA, ETEO and ETAU.

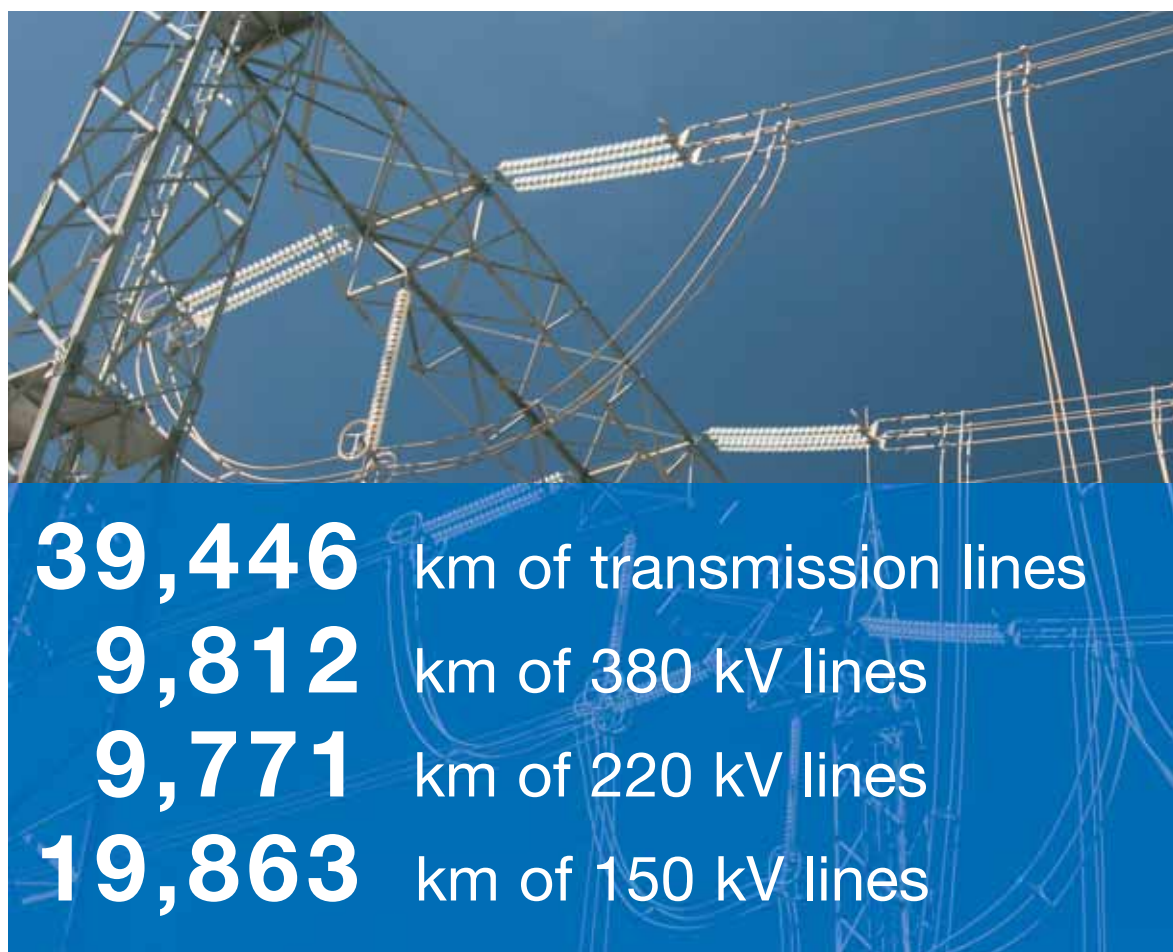
People are Terna's most important capital. A large team of 3,602 employees that support the Italian and Brazilian electricity system. Professionals motivated by passion and by the awareness of the deep social value of their work, in continuous human and professional growth.



The grid

High voltage electricity lines

An electricity line is a system that connects two electricity stations, or one station and one point of input or drawing of energy. It is formed by electricity conductors (direct three-phase current conductor double circuit, one or two direct current conductors, etc.) support units (pylons, insulators, etc.) in overhead lines, guard wires and other elements required for the proper electrical and mechanical functioning of the system. A line can be single or double circuit (single or double circuit lines). The length of a line (km/line) is expressed as the length of the circuit projection over the land (geographical length).



High voltage electricity stations

An electricity transportation station is the part of the grid concentrated in a specific location that is used both for distributing electricity among the grid lines and for transferring electricity among grids having different voltage. Terna has 362 high voltage and extra high voltage electricity stations. These stations represent another strong point of the service that also for 2007 has been pointed out by the main quality indicators for its high levels. These results were obtained thanks to the organization, procedures and work methods used as well as technological innovation that has steadily reduced costs for activities.



98.28% the result according to the ASA quality index (Average System Availability) that measures the average availability of all the grid elements during the period under examination

0.97 min/year the result according to the AIT quality index (Average Interruption Time) that measures the average interruption time in the supply of the electricity system during the period under examination

Grid development: SAPEI, the record cable 420 km, the longest electricity line ever built in Italy

Euros 700 million invested, 1,600 metres in depth, 420 km in length, 1,000 megawatt of power. These are the main figures for SAPEI, the direct power submarine 500 kV double cable that will connect Sardinia and Lazio starting in mid 2009.

The SAPEI is one of the most important strategic works planned by Terna to strengthen the national electricity system. With its length and depth, it will probably be included in the Guinness world records: 1,600 metres in depth: the lowest ever reached in the world for placing a submarine cable. 420 km: the longest electricity line ever built in Italy and the second longest connection in the world, shorter only than the one connecting The Netherlands and Norway.

Work in progress: authorized in only 12 months (also representing a record), work began in October 2006 with geophysical and geotechnical surveys on the sea floor where the cable will be placed. During 2007 the cable laying tests were conducted successfully for 10 km of cable at a depth of 1,600 metres. In December the first sea activity began in Nettuno and in Sardinia, in the area between Fiumesanto and Punta Tramontana for placing the first 150 km of underwater cable. The general time frame for the project expects work to be completed for the 1st cable, with the entrance into operation of the system at half power (500 MW) within the middle of 2009, and the completion of the 2nd cable within 2010. In total, up to now 300 km of cable have been produced for the first pole, while the remaining 120 km are under construction. Activity has been completed for planning and building of the transforming and switching stations for which the main equipment is under construction, whose assembly is scheduled for February 2008 in line with the established time frame.

SAPEI's benefits and advantages:

- increased safety of the Sardinia electricity system (the 1,000 MW of the SAPEI correspond to over 50% of the island's electricity demand);
- possibility of exporting towards the peninsula more efficient thermo-electric production (1/3 of the electricity plants are fuelled by coal) and renewable source production, in particular wind power, which is strongly developing;
- opportunities for electricity operators in Sardinia for participating with fewer constraints in negotiating exchanges on the Electricity Market while guaranteeing greater flexibility and safety of the system's operation;
- possibility of removing within the next few years the present direct power 200 kV connection between Sardinia, Corsica and Italy (SACOI), for obsolescence of the cable that has been operating for over 40 years.

Obtaining the required authorization in only one year, a short amount of time if compared to the 4 years that were necessary for the Italy-Greece cable, was possible thanks to Terna's innovative coordination approach with all the administrations involved. In this way, every technical and environmental aspect was faced in preliminary phases prior to the project's implementation. In order to assess the effects of the work on "Santuario dei Cetacei" marine park in the Mediterranean Sea, Terna also relied on **successful international experiences such as the Basslink, the direct power connection between the state of Victoria in Australia and the island of Tasmania, based on studies conducted by the Tethys Research Institute demonstrating that cables do not generate negative interference on marine mammals**. To further reduce the visual impact of the work, high-tech architectural solutions were used.

With regard to the environment, a monitoring program was implemented on the state of health of the "Posidonia oceanica", a seagrass representing the Mediterranean Sea's most important ecosystem. Terna has also planned the environmental redevelopment of the Foglino Park. The two cables that form the connection will be built by Prysmian Cable & Systems. The transforming and switching stations along the two coasts will be built by the ABB Group. The civil engineering works will be carried out by the temporary company association Pellegrini Acmar.

SAPEI in numbers

2	marine cables, land cables, transforming and switching stations
12	centimetres of cable diameter
22	metres in height of the buildings hosting transforming and switching stations
50	tonnes of pull of the cable-laying ship
70	technical and environmental regulations
90	total resources involved in the project
420	km of length
500	kV of voltage
1,000	MW of power
1,600	lowest depth for cable placing
5,000	project plans
7,000	tonnes of capacity of the cable-laying ship
35,000	m ² the Latina station area
48,000	m ² the Fiumesanto (SS) station area
50,000	m ³ of land moved
700,000,000	euros invested

TERNA AND THE FINANCIAL MARKETS

FINANCIAL INDICATORS

		31 Dec 2007
WEIGHT OF TERNA SHARES ⁽¹⁾		
> on the MIB30 (%) index		1.01%
> on the S&PMIB (%) index		0.99%
RATING		
Standard & Poor's	Outlook	Negative
	M/L term	AA -
	Short term	A-1+
Moody's	Outlook	Stable
	M/L term	Aa3
	Short term	Prime - 1
Fitch	Outlook	Negative
	M/L term ⁽²⁾	AA -
	Short term	F1+

⁽¹⁾ Source: Italian Stock Exchange. Figures at December 31, 2007

⁽²⁾ Issuer Default Rating

Performance of the Terna S.p.A. share

Terna share has closed 2007 at euros 2.758 per share, up 6.1% from the beginning of the year. Relative performance with respect to the Italian average market has gone up by 14 % (S&PMIB -8.2% and Mibtel - 8.8%), allowing Terna to win sixth place for share appreciation among the Blue Chips listed in Milan and second place among Italian Utilities. Total shareholder return (inclusive of both share ongoing trend, and dividends paid in the reporting period) is 12%.



In the first months of 2007, in line with the sector trend, Terna has recorded a positive performance, reaching maximum peak for 2007, at euros 2.85 per share, on June 1. Already from the month of May, though, concerns related to subprime loans crisis have determined a growing instability on stock exchanges, starting a lowering trend on major stock markets. Within this little favourable macro-economic scenario, Terna too has inverted its trend and has reached, on August 16, its minimum peak at euros 2.39 per share.

In spite of repeated interventions of Central Banks to support market cash flow and interest rates reductions in USA, the last months of 2007 were characterised by uncertainty and instability, worsened by commodities price growth (oil rose from dollars 58 to 96 per barrel). Such scenario has favoured utilities sector, typically defensive, and also Terna, that has actually caught up.

In 2007, average daily exchange volume on markets was equal to 12 millions of shares, up 10% on 2006 (11 millions).

Further concerns on global economy slow-down have conveyed significant profit also in the first weeks of 2008. In this period, the main stock exchange reference indexes have registered significant falls: S&PMIB and Mibtel, both -12%, and DJ Stoxx Utilities, -8%.

Terna, also because of the positive conclusion of the tariff revision process and the expectations arising by the strategic targets presentation, succeeded in maintaining parity, after updating – on January 3 – the peak at euros 2.928 per share.

From placement in June 2004, Terna's shares have grown by 64%, three times the average appreciation of S&PMIB (+20%). Also total shareholder return was significantly higher than the average of Italian companies (99% vs +36% of S&PMIB)⁽³⁾.

⁽³⁾ from February 15, 2008

Performance of the Terna Participações share

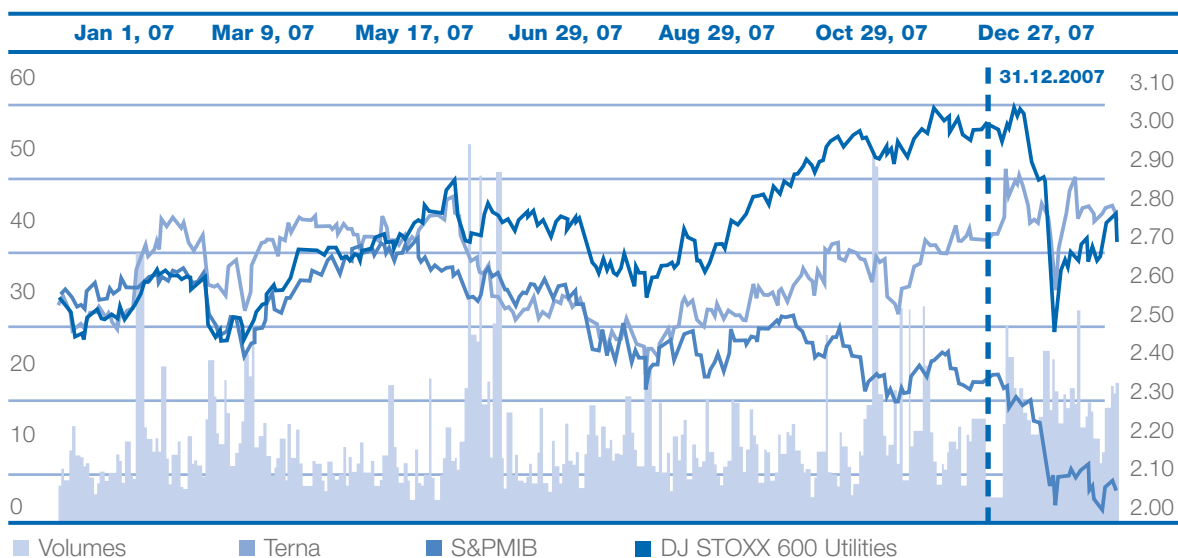
In 2007, Terna Participações S.A. certificates, representing one ordinary and two preference shares each, have grown by 29.2% in comparison to 40.8% of IBOV, while total shareholder return is substantially in line with market average (41.9% vs 40.8% of the index). Also the comparison with Índice de Energia Elétrica (IEE), made up by the main electricity production and distribution companies, is significant, since also here Terna Participações shows a better performance (29.2% vs 23.1%).

Total shareholder return from IPO at the end of 2007 is 62%, in line with Brazilian market, but higher than the sector trend (+61% and +49%, respectively).

Average capitalization in December 2007 is more than real 2.8 billion, corresponding to circa euros 1.1 billion⁽⁴⁾.

PERFORMANCE OF TERNA SHARE AND S&PMIB AND DJ STOXX 600 UTILITIES INDEXES

Volumes (mn)



Source: Bloomberg

⁽⁴⁾ calculated considering an average cost of 31.63 real/certificate

Shareholders

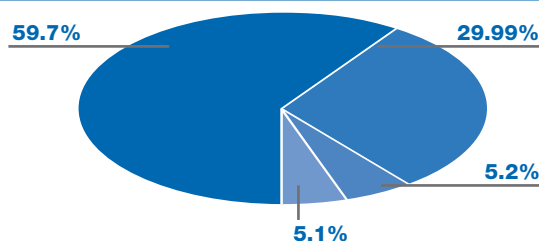
Terna S.p.A. share capital in February 2008 amounts to euros 440,139,084, made up of 2,000,632,200 ordinary shares with a nominal value of euros 0.22 each.

On the basis of the shareholders' book and other information gathered at the date these financial statements were prepared, Terna S.p.A. shares are held by the following:

- Cassa Depositi e Prestiti S.p.A. (CdP): 29.99%;
- Enel S.p.A.: 5.1%;
- Significant institutional investors: Pictet Asset Management S.A. with 5.2%;
- Other institutional and retail investors: 59.7%.

SHAREHOLDING STRUCTURE

■ Other Institutional and Retail Investors
■ CdP
■ Major Institutional Investors (Pictet)
■ Enel

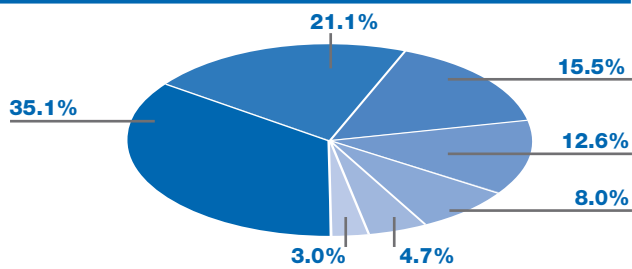


Total 100%

In comparison to the end of 2006, there is a rise in Other institutional and retail investors, now at 59.7% of share capital, justified by a growth in Other institutional investors (risen from 27.2% to 38.6% of share capital) and by a slight fall of Retail (from 23.6% to 21.1%). Based on the Company's periodic surveys, 64% of Terna S.p.A. shares are held by Italian shareholders, while the remaining 36% are held by foreign institutional investors, mainly in Europe and the US (UK 5%, Germany 5%, Switzerland 6%, and the US/Canada 3%).

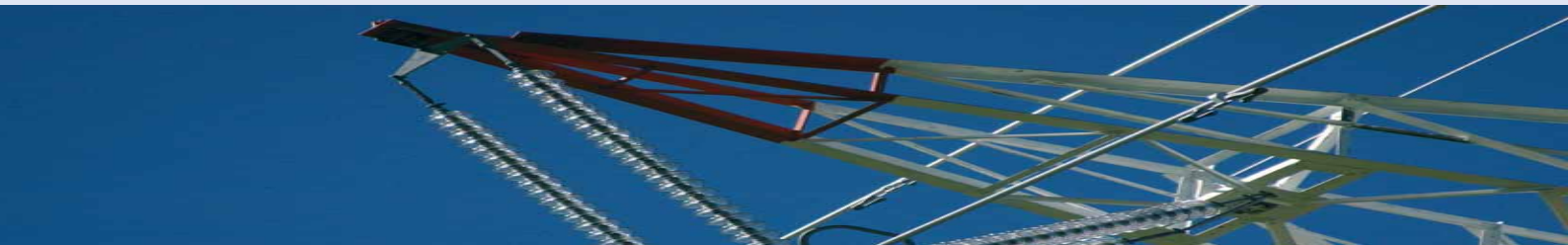
SHAREHOLDING STRUCTURE BY TYPOLOGY AND GEOGRAPHIC AREA

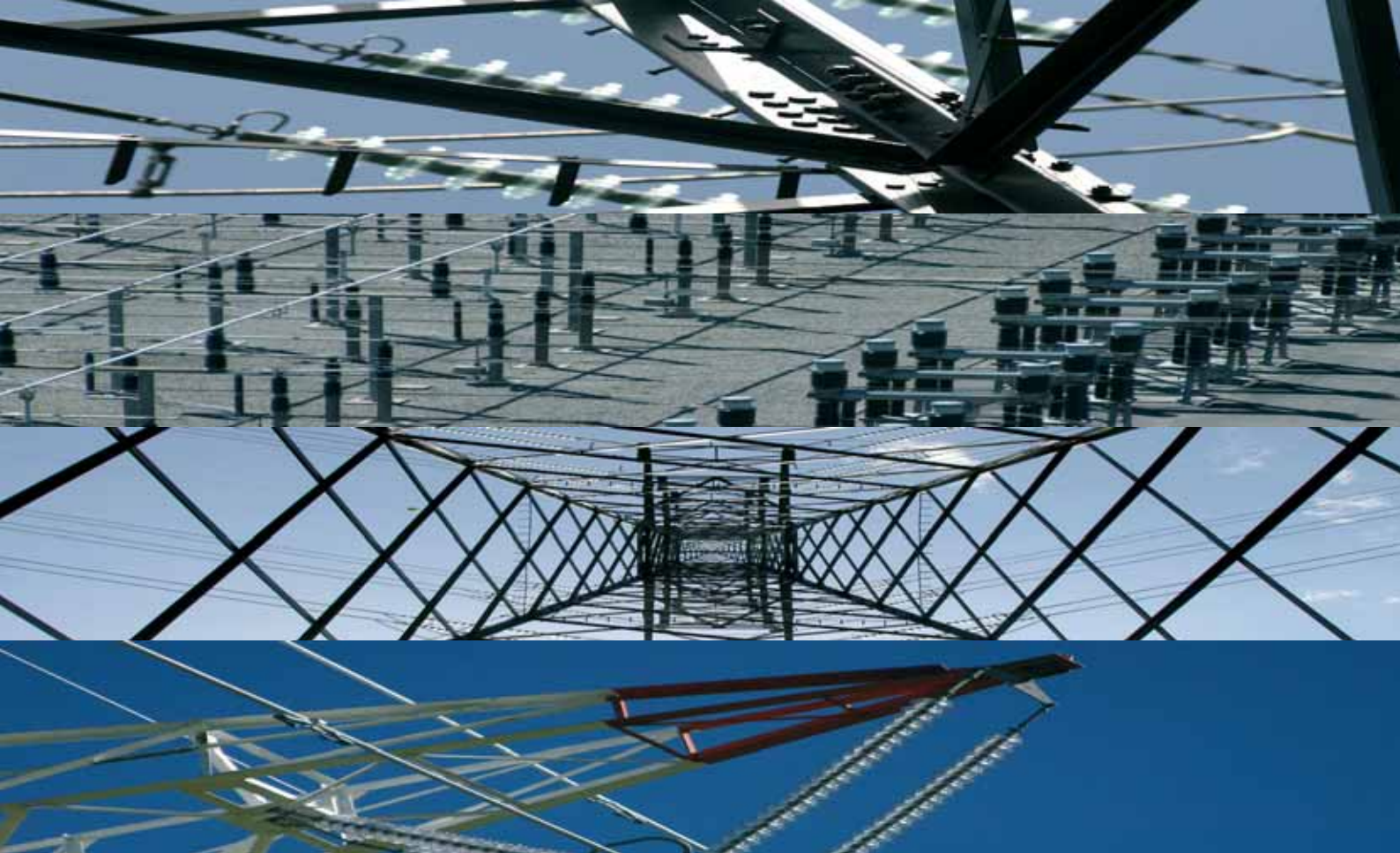
■ "Core" (CdP + Enel)
■ Retail
■ Institutional Investors Europe
■ Others
■ Institutional Investors Italy
■ Institutional Investors UK
■ Institutional Investors US/CANADA



Total 100%

HAVING VALUES CREATES VALUE





TERNA S.P.A. FINANCIAL STATEMENTS 2007

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DIRECTORS' REPORT

INTRODUCTION

Following Legislative Decree no. 38 of February 28, 2005, exercising the power granted by EEC Regulation no. 1606/2002, Terna S.p.A. prepares its separate financial statements for the year ended December 31, 2007, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Commission (IFRS-EU).

HIGHLIGHTS

	2007	2006	Change	%
ELECTRICAL ENERGY HIGHLIGHTS (GWh) *				
Net production of electrical energy	301,545	301,226	319	0.1
Net electrical energy imported	45,930	44,985	945	2.1
Demand for electrical energy	339,839	337,459	2,380	0.7
Maximum demand (MW)	56,822	54,387	2,435	4.5
FINANCIAL STATEMENTS HIGHLIGHTS (in millions of euros)				
Revenues	1,121.4	1,110.2	11.2	1.0
Gross operating profits	795.2	740.9	54.3	7.3
Operating profit	586.6	550.8	35.8	6.5
Profit for the year	406.7	355.8	50.9	14.3
Net non-current assets	5,349.9	4,978.2	371.7	7.5
Net working capital	-469.0	-455.9	-13.1	2.9
Net invested capital	4,334.7	3,907.4	427.3	10.9
Provisions for termination benefits, taxes and contingencies and charges	-546.2	-614.9	68.7	-11.2
Equity	2,026.0	1,901.7	124.3	6.5
Net financial position	2,308.7	2,005.7	303.0	15.1
Investments	572.6	345.0	227.6	66.0
OTHER FIGURES AND RATIOS				
Average number of employees	3,449	3,370	79	2.3
Number of employees at year end	3,495	3,367	128	3.8
Earnings per share	0.203	0.178	0.025	14.0

* energy figures for 2007 are provisional

SIGNIFICANT EVENTS OF 2007

Optic fibres

On March 28, 2007, an agreement was signed with Wind Telecomunicazioni S.p.A. Group to acquire the right of exclusive use, for 20 years, of a pair of optic fibre, for a total length of circa 11,000 km throughout the Italian territory.

The amount is euros 43.5 million.

The data transmission infrastructure is a fundamental element of the safety and efficiency of control, conduction and defence processes for the high voltage grid, because it makes it possible to improve supervision of the grid and carry out work on Terna plants and allows the development of advanced solutions for the defence of the electric system. The operation will enable Terna to strengthen safety of the system and falls within the scope of the investment programme provided for by the Strategic Plan.

Cassa Depositi e Prestiti *de-facto* control of Terna S.p.A.

On April 19, 2007, Cassa Depositi e Prestiti S.p.A., which owns 29.99% of Terna S.p.A. share capital, announced to have determined that it controlled Terna S.p.A. The assessment was basically related to:

- the composition and breakdown of the shareholding structure;
- the trend of particularly significant shareholders' meetings;
- the composition of the Board of Directors, in which are present 7 directors out of 10, of which 5 are independent.

Establishment of inTERNAtional S.p.A.

On September 10, 2007, Terna S.p.A. established *inTERNAtional* S.p.A., based in Rome and with a share capital of euros 120,000. The scope of the company is the planning, construction, development, management and maintenance of networks and other infrastructures in the electricity transmission and dispatching sectors in Italy and abroad, as well as the related research, consultancy and assistance activities.

2007 interim dividend

During its meeting of September 12, 2007, the Board of Directors resolved to distribute an interim dividend for 2007, after having obtained an opinion in this respect from the independent auditors KPMG, as required by art. 2433 *bis* of the Italian Civil Code.

Considering Terna S.p.A.'s net profit for the first half of 2007 of euros 192.8 million, the Board of Directors, also in the light of present year's possible evolution resolve to distribute an interim dividend equal to euros 0.056 per share.

The interim dividend, gross of any legal withholdings, was paid out on November 22, 2007, with ex-dividend date no. 7 on November 19, 2007.

Terna's inclusion in FTSE4Good Europe sustainability index confirmed by FTSE

On September 13, 2007, the Financial Times Stock Exchange Group of London confirmed Terna's inclusion in its FTSE4Good Europe, an index of Europe's leading companies in terms of sustainable economic development.

Inflation-linked bond

On October 23, 2007 Terna S.p.A. issued an inflation-linked bond adding up to euros 500 million, in order to guarantee part of the financial resources necessary to cover the needs of the Company as provided for by the Company's industrial plan.

The bond's expiry date is September 15, 2023 and coupon at 2.731% (reference index: FOI index, equal to the consumer price index without tobaccos for blue and white collar workers' families).

The issue falls within the scope of the "Euro Medium Term Notes" Programme (EMTN) for a total of euros 2 billion, renewed on September 26, 2007. The programme was attributed an AA- rating by Standard and Poor's, Aa3 by Moody's and AA by Fitch.

Agreement with Transelectrica (Romania)

On October 18, 2007, Terna S.p.A. and the Romanian operator Transelectrica signed a Memorandum of Understanding (MoU) that provides for the start of a collaboration with Transelectrica for a project of joint finalization of technical, commercial and regulatory feasibility, of two new 400 kV interconnections on the Romania-Moldavia border.

Agreement with HEP-OPS (Croatia)

On October 26, 2007, Terna S.p.A. signed an agreement with HEP-OPS, Croatian national grid operator, for the planning and construction of an underwater connection between Italy and Croatia. The connection is among the works provided for by the National Transmission Grid development plan.

Development of France-Italy interconnection

On November 30, 2007, Terna and RTE, French national transmission grid operator, signed a Memorandum of Understanding aiming at increasing energy interconnection capacity between Italy and France, so as to allow growing safety in future energy exchanges between the two countries.

This Memorandum expresses commitment of both Transmission System Operators (TSO) for the development of wider interconnection between France and Italy, in order to increase existing interconnection capacity by at least 60%.

Electricity demand all-time peak

On December 18, electricity demand reached 56,822 MW, new all-time record of electricity demand in Italy. The amount is 233 MW higher than previous record (56,589 MW, July 20, 2007) and more than 2,400 MW higher than winter peak of 2006 (54,387 MW, December 13, 2006).

New Terna headquarters

At the end of December 2007, Terna completed the acquisition of a real estate where the headquarters of the Company will move.

The new headquarters, placed in the north-western part of Rome (the same as National Control Centre and Roma Nord station) will make it possible to reunite all the Directions and staff now distributed in three non contiguous rented seats.

Sustainability Report 2006

In 2007 the Terna 2006 Sustainability Report, which illustrates programmes, actions and initiatives in the economic, social and environmental fields, developed by Terna as a consequence of its responsibility towards stakeholders was revised. The 2006 Report offers two major innovations from the 2005 edition. It was indeed prepared following the Sustainability Reporting Guidelines defined in 2006 by GRI - Global Reporting Initiative, also known as G3; moreover, it was audited by KPMG.

Both these innovations aim at facilitating evaluation of Terna's performance for readers as regards social and environmental responsibility, by offering them comparable and trustworthy information.

SUMMARY OF FINANCIAL ACTIVITIES

The separate financial statements as of and for the year ended December 31, 2007 show profit for the year of euros 406.7 million, after amortization and depreciation of approximately euros 208.6 million, net financial expenses of euros 32.9 million and income taxes of euros 147.0 million.

Revenues amounted to approximately euros 1,121.4 million, including euros 1,037.9 million in relation to the consideration due to the Company for the use of the National Transmission Grid and other profitable energy items (DIS, MIS and the consideration pursuant to AEEG Resolution no. 34/05).

Operating expenses amounted to approximately euros 326.2 million, including personnel expenses of euros 187.2 million.

The operating profit totalled euros 586.6 million.

Income taxes of the year amounted to euros 147.0 million and included current IRES tax of euros 185.1 million and current IRAP tax of euros 42.0 million. In addition, the Company recorded net deferred tax assets of euros 76.3 million and sundry taxes of previous years totalling euros 3.8 million.

The balance sheet includes net property, plant and equipment and intangible assets of euros 4,680.3 million and net invested capital of euros 4,334.7 million, including euros 2,026.0 million (46.7%) covered by equity and euros 2,308.7 million (53.3%) covered by financial indebtedness.

Reclassified income statement

The 2007 and 2006 income statements of Terna S.p.A. for management purposes are summarized below. Figures have been reclassified.

RECLASSIFIED INCOME STATEMENT

(a)

In millions of euros	2007	2006	Change	%
REVENUES				
Grid transmission consideration ⁽¹⁾	994.6	994.3	0.3	0.0
Other energy items ⁽¹⁾	43.3	41.9	1.4	3.3
Other revenues from sales and services ⁽¹⁾	49.4	42.4	7.0	16.5
Other revenues and income	34.1	31.6	2.5	7.9
Total revenues	1,121.4	1,110.2	11.2	1.0
OPERATING EXPENSES				
Personnel expenses ⁽²⁾	187.2	209.5	-22.3	-10.6
Services and use of third party assets	112.0	123.7	-11.7	-9.5
Materials ⁽²⁾	9.6	9.0	0.6	6.7
Other ⁽³⁾	17.4	27.1	-9.7	-35.8
Total operating expenses	326.2	369.3	-43.1	-11.7
GROSS OPERATING PROFIT	795.2	740.9	54.3	7.3
Amortization and depreciation ⁽⁴⁾	208.6	190.1	18.5	9.7
OPERATING PROFIT	586.6	550.8	35.8	6.5
Net financial income (expenses) ⁽⁵⁾	-32.9	16.1	-49.0	-304.3
PROFIT BEFORE TAXES	553.7	566.9	-13.2	-2.3
Income taxes	147.0	211.1	-64.1	-30.4
PROFIT FOR THE YEAR	406.7	355.8	50.9	14.3

(a) in accordance with Communication no. DME/6064291 of July 28, 2006, the reclassified income statement is unaudited

In the financial statements:

⁽¹⁾ the balance was classified as "Revenues from sales and services"

⁽²⁾ includes "Capitalized expenses" equal to euros 42.3 million under "Personnel expenses" and euros 6.6 million under "Materials"

⁽³⁾ this corresponds to the captions "Other costs" and "Amortization, depreciation and impairment losses" for the value of impairment (euros 1.6 million) and the accrual to the provision for bad debts (euros 0.6 million)

⁽⁴⁾ the balance corresponds to the caption "Amortization, depreciation and impairment losses", net of the impairment and the accrual to the provision for bad debts

⁽⁵⁾ this corresponds to the balance of the captions described in points 1 and 2 of "Financial income and expenses"

Gross operating profit in comparison with the previous year increased by euros 54.3 million (up 7.3%), due to the combined effect of higher revenues equal to euros 11.2 million and lower operating expenses, decreased by euros 43.1 million.

Revenues equal to euros 1,121.4 million, increased by euros 11.2 million (up 1.0%) due to the following main changes:

- higher revenues from National Transmission Grid utilization fee (up euros 0.3 million) attributable to:
 - higher revenues equal to euros 51.8 million due to tariff evolution and higher grid transmission consideration mainly originated by higher release of portions of profit related to Strategic Plan (euros 9.0 million);
 - lower revenues from net adjustments of previous years for euros 51.5 million; in the previous year euros 47.3 million were attributed to the effects of AEEG Resolution no. 162/06 referring to integration of 2005 tariff yield, while the current year is affected by negative adjustments totalling euros 4.3 million;
- higher revenues from Other energy items (up euros 1.4 million), related basically to compensation acknowledged for the assessment of measures (MIS component – up euros 0.7 million) and compensation acknowledged for the dispatching service (DIS component – up euros 0.7 million);
- higher revenues from Other revenues from sales and services (up euros 7.0 million), basically due to higher revenues from activities such as service, exercise and maintenance of plants, performed on behalf of the subsidiary RTL S.p.A.;
- higher revenues from Other revenues and income (up euros 2.5 million), mostly due to the joint effect of:
 - higher rentals (up euros 4.4 million) deriving mostly from the contract signed in the year with Enel Distribuzione for the use of Terna infrastructures for conveyed waves communication;
 - lower grants for plant construction by Terna (down euros 4.3 million);
 - higher insurance compensations for damages (up euros 1.4 million);
 - higher profit from fiscal treatment of interest on equity in Italy paid out by the subsidiary Terna Participações (up euros 0.7 million).

Operating expenses, equal to euros 326.2 million, decreased by euros 43.1 million on 2006 (down 11.7%) and are basically identifiable as:

- “Personnel expenses” (down euros 22.3 million) attributable to, at large, the joint effect of the following events:
 - curtailment of termination benefits (down euros 8.7 million) as difference in the actuarial calculations pursuant to the new rule coming into effect this year;

- release of higher allowances at December 31, 2006 for INPS payments for the amount, not owed, referring to insurances against involuntary unemployment (circa down euros 3.9 million);
 - lower expenses related to consensual early termination of employment contract for employees that have achieved the right to retire (down euros 5.5 million);
 - higher personnel expenses related to Italian subsidiaries' employees transferred to the Company from April 1, 2007, as regards RTL and RTM2 employees, and, from June 1, and July 1, 2007, as regards RTM1 and RTT employees, respectively (circa euros 6.5 million);
 - higher capitalized expenses for internal works (up euros 14.8 million).
- “Services and use of third party assets” (down euros 11.7 million), mostly due to the rationalization policy of acquired services which caused savings, in particular in IT services (down euros 6.4 million previously acquired from Enel Group), telephone and remote transmission (down euros 5.5 million), vehicle rental (down euros 3.8 million) and insurance services (down euros 0.3 million). There are also higher contract costs and costs related to ordinary plant maintenance activities and general services expenses, accounting for approximately euros 4.3 million;
 - “Other expenses”, decreased by euros 9.7 million, mostly due to the effect of:
 - higher accruals in 2006 for financial receivables related to doubtful accounts in energy items (down euros 11.5 million);
 - depreciation of technical properties (NTG rationalization, up euros 1.6 million);
 - higher net accruals for provisions for contingencies and charges (up euros 4.8 million);
 - lower capital loss deriving from plant divestment (down euros 2.1 million) and reduction of contract penalties for the enjoyment of goods and services (down euros 2.1 million).

Amortization and depreciation, equal to euros 208,6 million, increased by circa euros 18.5 million, mostly due to new plants start-up in 2007.

Hence, **Operating profit** amounted to euros 586.6 million, increasing by circa euros 35.8 million (up 6.5%).

Net financial expenses, equal to circa euros 32.9 million, increased by euros 49.0 million on 2006. This change is mostly due to:

- lower financial income (euros 38.4 million), due to net appreciation obtained through Terna Participações listing in 2006;
- negative net economic effects (euros 5.2 million) in the adjustment to fair value of bonds and relative hedgings (up euros 3.2 million) and trading derivatives (down euros 8.4 million);
- higher loan interests on short and long-term loans and on related hedging derivatives (euros 31.6 million), due both to the upsurge of market interest rate curve and the additional debt;
- higher net financial income from subsidiaries (euros 19.9 million), deriving mostly from higher dividends (euros 9.5 million from Brazilian companies and euros 0.8 million from RTL) and interest on equity (euros 7.4 million) owed to the Company;
- increase of financial income (euros 3.3 million), referred to the financial component deriving from uplift adjustment;
- positive impact of exchange rates differences (euros 1.6 million), due to clearing of previous year's negative differences;
- lower financial expenses (euros 1.0 million), deriving from employees benefits discounting.

Profit before taxes amounted to euros 553.7 million, down euros 13.2 million (down 2.3%) on 2006.

Income taxes for the year amounted to euros 147.0 million weighing on profit before taxes for 27.23% (net of tax adjustments related to previous years); in 2006 taxes amounted to euros 211.1 million weighing on profit before taxes for 37.80% (net of tax adjustments related to previous years). Tax rate reduction is basically due to the effects recognised in the income statement of deferred tax assets and liabilities adjustments to new IRES and IRAP rates, introduced by Law no. 244 of December 24, 2007 (2008 Financial Act).

In millions of euros	2007	2006	Change
Current taxes	227.1	234.3	-7.2
Net deferred tax (assets)/liabilities	-76.3	-20.0	-56.3
Taxes of previous years	-3.8	-3.2	-0.6
TOTAL	147.0	211.1	-64.1

Lower current taxes (down euros 7.2 million) compared to the prior year are mainly due to taxation (approximately euros 9.1 million) at December 31, 2006 of surplus from ownership interest transfer from TSN and Novatrans to the Brazilian subsidiary Terna Participações, as well as to the listing of Terna Participações on São Paulo stock exchange, partially offset by the tax uplift in 2007 of higher non-deductible depreciation (taxes up euros 3.6 million).

Deferred tax assets and liabilities, equal to euros -76.3 million, recorded a strong net decrease equal to euros 56.3 million, mostly due to the adjustments of deferred tax assets and liabilities to the new rates introduced by 2008 Financial Act, which caused tax reduction totalling euros 62.8 million.

Hence, **Profit for the year** amounted to euros 406.7 million, increasing by circa euros 50.9 million on 2006.

Financial position

Terna S.p.A. 2007 and 2006 balance sheet is summarized below. Figures have been reclassified.

(a)

In millions of euros	at Dec. 31, 2007	at Dec. 31, 2006	Change
NET NON-CURRENT ASSETS			
Intangible assets	160.7	159.2	1.5
Property, plant and equipment	4,519.6	4,149.0	370.6
Non-current financial assets ⁽¹⁾	669.6	670.0	-0.4
Total	5,349.9	4,978.2	371.7
NET WORKING CAPITAL			
Trade receivables	1,513.6	1,163.7	349.9
Inventories	12.6	7.7	4.9
Other assets ⁽²⁾	18.1	16.3	1.8
Trade payables	1,779.2	1,282.9	496.3
Net tax liabilities ⁽³⁾	-7.1	114.4	-121.5
Other liabilities ⁽⁴⁾	241.2	246.3	-5.1
Total	-469.0	-455.9	-13.1
Gross invested capital	4,880.9	4,522.3	358.6
Sundry provisions ⁽⁵⁾	546.2	614.9	-68.7
Net invested capital	4,334.7	3,907.4	427.3
Equity	2,026.0	1,901.7	124.3
Net financial indebtedness ⁽⁶⁾	2,308.7	2,005.7	303.0
TOTAL	4,334.7	3,907.4	427.3

^(a) in accordance with Communication no. DME/6064291 of July 28, 2006, the reclassified balance sheet is unaudited

In the financial statements the captions correspond to:

⁽¹⁾ "Non-current financial assets" for the amount of investments and "Other non-current assets"

⁽²⁾ "Other current assets", net of tax assets (euros 16.2 million) and "Current financial assets" for the amount of accrued financial income (euros 0.9 million)

⁽³⁾ "Other current assets" for the amount of tax assets (euros 16.2 million) and "Other current liabilities" for the amount of other tax liabilities (euros 9.0 million)

⁽⁴⁾ "Other non-current liabilities", "Current financial liabilities" and "Other current liabilities" net of other tax liabilities (euros 65.3 million)

⁽⁵⁾ "Termination benefits and other employee-related provisions", "Provisions for contingencies and charges", "Deferred tax liabilities" and "Deferred tax assets"

⁽⁶⁾ "Cash and cash equivalents", "Long-term loans", "Current portion of long-term loans" and "Non-current financial liabilities"

Net financial indebtedness is detailed below:

(a)

In millions of euros	at Dec. 31, 2007	at Dec. 31, 2006	Change
Bond	1,840.4	1,406.6	433.8
EIB loans + current portion	540.9	570.5	-29.6
Short-term loans	-	50.0	-50.0
Short-term loans from Terna Participações	-	-0.5	0.5
Intercompany current account balance	-7.5	0.2	-7.7
Bank account balances and cash	-123.1	-15.3	-107.8
Derivative financial instruments	58.0	-5.8	63.8
TOTAL FINANCIAL INDEBTEDNESS	2,308.7	2,005.7	303.0

(a) in accordance with Communication no. DME/6064291 of July 28, 2006, these reclassified data are unaudited

Intangible assets

The increase of euros 1.5 million is due to ordinary changes of the year in relation to investments for the development of software or the purchase of software as part of system development programmes (euros 24.9 million) and amortization and depreciation (euros 23.4 million), including euros 5.6 million on the concession for transmission and dispatching activities.

Property, plant and equipment

The following table summarizes changes in Property, plant and equipment during the year:

In millions of euros	
INVESTMENTS	
Transmission lines	180.2
Transformation stations	221.4
Other	146.1
Total investments	547.7
Intercompany acquisitions within the Group	28.4
Total acquisitions	576.1
Depreciation	-185.2
Disposals and other changes	-20.3
TOTAL	370.6

Apart from ordinary changes in the year, the caption records the acquisition (for euros 28.4 million) of transmission plants from the subsidiary RTL. Transfer act, signed on December 12, 2007, falls within the scope of the rationalization plan of Valcamonica and Valtellina electrical grid agreed by the parent Terna with local administrations and the Ministry for Economic Development.

In the course of the year, **net working capital**, a negative euros 469.0 million, generated further financial resources in the amount of euros 13.1 million over 2006.

The main changes are listed below.

Trade receivables

The increase of euros 349.9 million on 2006 is mainly due (in the amount of euros 358.1 million) to receivables for electrical energy transmission and dispatching activities. Receivables relating to energy items include, in particular, the growth of stock exchange items (euros 150 million from unbalance of the consumption units, euros 105.7 million from the compensation to cover the costs for the procurement of resources on the dispatching service market) and the items generated outside the perimeter of stock market determined in large part by the increase in receivables (euros 54.3 million) already waiting for definition by the Authority at December 31, 2006, following adhesion of Terna to ETSO-CBT (European Transmission System Operators – Cross Board Trade) agreements and from the receivables from the Cassa Conguaglio per il Settore Elettrico (euros 29.9 million) assigned to cover the higher payables from interruptibility service.

Trade payables

The increase of euros 496.3 million in trade payables relates, in the amount of euros 442.3 million, to payables for energy in transit, including euros 107.3 million related to maturity of liabilities, already waiting for definition by AEEG at the end of 2006, for interconnection, CCT and UESS – essential units income. Moreover, non-energy related items increased by euros 49.5 million, due to increased purchases and services with respect to 2006, due to plant maintenance and investing activities carried out at the end of 2007.

Net tax (assets)/liabilities

Decrease of euros 121.5 million in net tax liabilities is mostly due to Company's assets at December 31, 2007 for VAT as well as to higher advance payments for IRES and IRAP in comparison to ascertained tax rate at year end. Reduction is basically due to lower net tax liabilities for current taxes on 2006 (euros 74.9 million) as well as lower net VAT liabilities (euros 44.7 million).

Gross invested capital, equal to euros 4,880.9 million, increased by euros 358.6 million.

Reduction in **provisions** (down euros 68.7 million), due basically to reduction in net deferred taxes (down euros 71.1 million) following adjustments of deferred tax assets and liabilities to the new rates introduced by 2008 Financial Act, brought net invested capital to euros 4,334.7 million, up euros 427.3 million on 2006.

CASH FLOWS

Cash flow analysis

^(a) In millions of euros	Cash flow Dec. 31, 2007	Accounting prospects reconciliation	Cash flow Dec. 31, 2006	Accounting prospects reconciliation	Change
OPENING CASH AND CASH EQUIVALENTS AND INTERCOMPANY CURRENT ACCOUNT	15.1		10.9		4.2
Profit for the year	406.7		355.8		50.9
Amortization and depreciation	208.6		190.1		18.5
Net change in provisions	-68.7		-1.2		-67.5
Deferred tax assets		6.6		-2.9	
Termination benefits and other employee related provisions		-8.4		-6.3	
Provisions for contingencies and charges		10.8		18.6	
Deferred tax liabilities		-77.7		-10.6	
Losses/(Profit) on net property disposal ⁽¹⁾	-0.5		1.1		-1.6
Self-financing	546.1		545.8		0.3
Changes in net working capital	13.1		264.6		-251.5
Inventories		-4.9		-0.6	
Trade receivables		-349.9		-178.0	
Current financial assets		1.3		2.3	
Other current assets		-16.1		33.1	
Other non-current liabilities		-14.0		-5.4	
Trade payables		496.3		346.8	
Tax liabilities		-72.2		57.8	
Current financial liabilities		5.1		-0.4	
Other current liabilities		-32.5		9.0	
Operating cash flows	559.2		810.4		-251.2
INVESTMENTS					
Property, plant and equipment ⁽²⁾	-547.7		-318.5		-229.2
Intercompany acquisitions, within the Group ⁽²⁾	-28.4				
Intangible assets ⁽³⁾	-24.9		-26.5		1.6
Other changes in non-current assets	21.2		-353.6		374.8
Property, plant and equipment		20.8		17.5	
Non-current financial assets		-0.1		-371.6	
Other non-current assets		0.5		0.5	
Total cash flows generated by/(used in) investing activities	-579.8		-698.6		118.8
Change in loans	418.5		144.4		274.1
Current financial assets		0.5		-0.5	
Non-current financial assets		12.0		94.0	
Non-current financial liabilities		51.8		-22.8	
Long-term loans		404.2		78.6	
Current portions of long-term loans		0.0		0.0	
Short-term loans		-50.0		-4.9	
Other changes in Group equity	3.6		14.0		-10.4
Equity - Other reserves ⁽⁴⁾		3.6		14.0	
Dividends ⁽⁴⁾	-286.0		-266.0		-20.0
Total cash flows generated by/(used in) financing activities	136.1		-107.6		243.7
Total cash flows of the year	115.5		4.2		111.3
CLOSING CASH AND CASH EQUIVALENT AND INTERCOMPANY CURRENT ACCOUNT	130.6		15.1		115.5

^(a) in accordance with Communication no. DME/6064291 of July 28, 2006, these reclassified data are unaudited
In the accounting prospects of Terna S.p.A.:

⁽¹⁾ included in the balances of "Other revenues" and "Other operating costs" respectively, in the accounting prospects

⁽²⁾ see note to the financial statements no. 12

⁽³⁾ see note to the financial statements no. 13

⁽⁴⁾ see prospect of changes in equity

Change in net financial position

(a)

In millions of euros

	2007	2006
OPENING NET FINANCIAL INDEBTEDNESS	-2,005.7	-1,865.5
Self-financing	546.1	545.8
Change in net working capital	13.1	264.6
Cash flows generated by operating activities	559.2	810.4
Investments in property, plant and equipment	-547.7	-318.5
Intercompany acquisitions within the Group	-28.4	0.0
Investments in intangible assets	-24.9	-26.5
Sales (acquisition) of investments	-0.1	-371.6
Other changes in non-current assets	21.3	18.0
Cash flows used in investing activities	-579.8	-698.6
Dividends distributed/collected	-286.0	-266.0
Other changes in equity	3.6	14.0
Self-financing flows	-282.4	-252.0
Self-financing flows	-303.0	-140.2
CLOSING NET FINANCIAL INDEBTEDNESS	-2,308.7	-2,005.7

^(a) in accordance with Communication no. DME/6064291 of July 28, 2006, these reclassified data are unaudited

The cash flows generated by operating activities during the year amounted to approximately euros 559.2 million and were due to self-financing (profit for the year, amortization and depreciation, and accruals totalling euros 546.1 million) and the contribution of cash flows (euros 13.1 million) generated by the management of working capital.

Investing activities used net financial resources of approximately euros 579.8 million and mainly related to investments in property, plant and equipment (euros 547.7 million) and intangible assets (euros 24.9 million) of the year.

Cash outflows for self-financing were mainly due to the distribution of final dividend of 2006 (euros 174.0 million) and 2007 interim dividend (euros 112.0 million) paid by the Company during the year.

Accordingly, total cash flows used by investing activities and self-financing flows generated a total requirement for the year of euros 862.2 million, which was partially covered (euros 559.2 million) by cash flows generated by operating activities and residually (euros 303.0 million) by new indebtedness.

Net financial indebtedness

The following table details net financial indebtedness (euros 2,308.7 million) at December 31, 2007, with an analysis of timing:

(a)

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Change
A) MEDIUM AND LONG-TERM INDEBTEDNESS			
Bond ⁽¹⁾	1,840.4	1,406.6	433.8
EIB loans ⁽¹⁾	511.4	540.9	-29.5
Derivative financial instruments ⁽²⁾	58.0	-5.8	63.8
Total A	2,409.8	1,941.7	468.1
B) SHORT-TERM INDEBTEDNESS (FUNDS)			
Bond (current portion)	0.0	0.0	0.0
EIB loans (current portion)	29.5	29.5	0.0
Short-term loans	0.0	50.0	-50.0
Net balance of intercompany accounts:			
subsidiary RTL ⁽³⁾	-7.5	0.2	-7.7
Cash and cash equivalents ⁽³⁾	-123.1	-15.3	-107.8
Short-term loan to Terna Participações	0.0	-0.5	0.5
Total B	-101.1	64.0	-165.1
TOTAL A + B	2,308.7	2,005.7	303.0

(a) in accordance with Communication no. DME/6064291 of July 28, 2006, these reclassified data are unaudited

As regards Company's exposition to interest rate, exchange rate, liquidity and credit risks, as well as responsibilities and operating measures for management of such risks, reference should be made to the "Risk Management" paragraph in the Notes to the financial statements.

In the accounting prospects of Terna S.p.A.:

⁽¹⁾ the balance is included in "Long-term loans"

⁽²⁾ this corresponds to "Non-current financial liabilities"

⁽³⁾ the balance is included in "Cash and cash equivalents"

SUBSIDIARIES

ITALY

RTL

With a business combination agreement signed on July 24, 2007, RTL S.p.A. incorporated its entirely controlled subsidiaries RTM1 S.p.A. and RTM2 S.p.A. (acquired on November 24, 2006). The merger is effective from July 31, 2007. The combination project was approved by the individual shareholders meetings of RTL, RTM1 and RTM2 on April 18, 2007, pursuant to art. 2501 *bis* of the Italian Civil Code, on the basis of annual reports at December 31, 2006, of merging companies, with cancellation of all merging companies shares, complying to the modalities provided in the same project and thus with no capital addition by the acquiring company and no exchange ratio or cash balance; accounting and fiscal effects of the RTM1 and RTM2 merger are retroactive as from January 1, 2007.

With reference to the National Transmission Grid (NTG) unification process as provided for by Law 290/2003 regarding reorganization of the electricity sector and by the following Prime Minister's Decree of May 11, 2004, RTL S.p.A. acquired, with effect from June 30, 2007, the entire share capital of AEM Trasporto Energia Srl (renamed Rete di Trasmissione Torino Srl - RTT) and the 220 kV Moncalieri (TO) electrical sub-station as part of National Transmission Grid (NTG).

Total amount is euros 49.4 million; it includes:

- euros 38.8 million for the acquisition of the entire AEM TE share capital, of which euros 2.8 million as compensation for positive net financial position (cash) of the company at December 31, 2006, and
- euros 10.6 million for the purchase of the Moncalieri (TO) electrical sub-station.

With a business combination agreement, signed on December 18, 2007, RTL S.p.A. incorporated RTT Srl, with effect from December 31, 2007, as provided for by the merger project approved on October 12 by RTL S.p.A. and RTT Srl shareholders meetings, on the basis of financial positions at June 30, 2007 with cancellation of all merging company's shares, complying to the same project and thus with no capital addition by the acquiring company and no exchange ratio or cash balance. Accounting and fiscal effects of the RTT merger are retroactive as from July 1, 2007.

The following table provides the highlights of the subsidiary RTL. The figures relate to the approved financial statements as of and for the year ended December 31, 2007, which have been reclassified in accordance with the subsidiary's financial statements.

HIGHLIGHTS

In millions of euros

RTL**FINANCIAL STATEMENTS HIGHLIGHTS AT DEC. 31, 2007**

Revenues	71.9
Gross operating profit	52.8
Operating profit	19.1
Profit for the year	12.8
Net non-current assets	492.9
Net working capital	5.7
Net invested capital	469.4
Termination benefits and provision	29.1
Equity	462.0
Net financial position	-7.4
Investments	33.3

OTHER FIGURES AND RATIOS

Number of employees at year end	0.0
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InTERNAtional

The company was set up on September 10, 2007 by Terna S.p.A., as described in the section on significant events of 2007. InTERNAtional in 2007 did not carry out any operating activity, limiting its management solely to functioning; possible industrial activities are being evaluated so as to allow the company to develop coherently with the given mission.

BRAZIL**New acquisitions**

Some important acquisitions were defined in 2007 by Brazilian subsidiaries.

Empresa de Transmissão do Alto Uruguai S.A. - ETAU

Terna Participações signed an agreement with two Brazilian industries for the acquisition of 52.58% of share capital of Empresa de Transmissão do Alto Uruguai S.A. - ETAU. The operation closing, subject to suspending conditions, such as right of pre-emption and ETAU minor shareholder consent and approval of the operation by local regulation authority (Agência Nacional de Energia Elétrica, ANEEL) and by the financing bank (Banco Nacional de Desenvolvimento Econômico e Social, BNDES), was implemented on December 28, 2007.

ETAU is concessionaire of a 188 km-long, 230-kV transmission line with 4 sub-stations situated in southern Brazil, in Santa Catarina and Rio Grande do Sul. Annual revenues (RAP – Receita Anual Permitida), adjusted to IGPM, are approximately R\$ 22.4 million (approximately euros 9 million) and the line became operative on April 1, 2005.

Goiana Transmissora de Energia S.A. - GTESA and Paraíso Açu for Transmissora de Energia S.A. - PATESA

On August 21, 2007, Terna Participações, through the subsidiary TSN, signed an agreement for the acquisition for R\$ 92.8 million (approximately euros 35 million) of the entire share capital of Goiana Transmissora de Energia S.A. – GTESA and Paraíso Açu for Transmissora de Energia S.A. – PATESA. The two companies are concessionaries, in the whole, of 186 km of 230 kV lines. Revenues for 2006 were approximately R\$ 14.6 million (circa euros 6 million).

The operation closing was defined on November 30, 2007, following approval by ANEEL (Agência Nacional de Energia Elétrica) and BNDES (Banco Nacional de Desenvolvimento Econômico e Social).

Contextually to the acquisition, as better described in the Director's Report on the Terna's consolidated financial statements as of and for the year ended December 31, 2007, GTESA and PATESA were merged into TSN.

Lovina Participações (Lovina)

On September 13, 2007, Terna Participações acquired 99.99% of Lovina Participações Ltda., a newly set-up company, with R\$ 1,000 share capital, based in Rio de Janeiro – Brazil. On December 13, 2007, the company was transformed into “Sociedade Anônima” (S.A.) and named Lovina Participações S.A.

Energia do Oeste Ltda. - ETEO

On September 17, 2007, Terna Participações signed, through the subsidiary Lovina Participações Ltda., a newly set-up company, the agreement for the acquisition of the entire share capital of Empresa de Transmissão de Energia do Oeste Ltda. (ETEO), concessionaire of 502 km of 440 kV transmission lines in the state of São Paulo. The enterprise value amounted to R\$ 562.2 million (approximately euros 217 million). ETEO, who holds a thirty-year concession, in 2006 had revenues for R\$ 92.1 million (circa euros 35 million) with EBITDA equal to R\$ 71.3 million (circa euros 27 million) and profit for the year equal to R\$ 45.8 million (circa euros 17 million).

Closing of the operation is subject to the approval by ANEEL.

Adjustment of concession fee

On June 26, 2007, ANEEL issued the Omologation Resolution no. 496 providing new concession fees (RAP) with effect from July 1, 2007 to June 30, 2008. The fee amounts for Novatrans to R\$ 280,272,132.39 (circa euros 107 million), for TSN to R\$ 254,919,385.38 (circa euros 98 million) and for Munirah to R\$ 19,123,815.03 (circa euros 7 million) and reflects the adjustment for inflation (IGPM rate) from June 2006 to May 2007, equal to +4.04%.

Total 2007/2008 amount is equal to R\$ 549.8 million, up 7.95% compared to 2006/2007. ANEEL also applied a negative one-time fee (Parcela de Ajuste or PA) to be paid in 12 monthly tranches from July 2007, equal to R\$ 5,042,075.37 (circa euros 2 million).

The following table provides the highlights of the subsidiaries Terna Participações, TSN and Novatrans fully consolidated. The figures relate to the subsidiaries' approved financial statements as of and for the year ended December 31, 2007, which are presented in accordance with the parent's accounting policies and in euro, and have been reclassified according to the subsidiaries' financial statements.

HIGHLIGHTS

In millions of euros	Terna Part.	TSN	Novatrans
Revenues	-	84.1	84.5
Gross operating profit/(loss)	-2.4	66.8	65.6
Operating profit/(loss)	-2.4	57.7	54.7
Profit/(Loss) for the year	55.7	32.7	22.9
Net non-current assets	401.2	357.8	354.3
Net working capital	-2.6	-102.6	-84.1
Net invested capital	398.6	322.5	318.7
Termination benefits, taxes and provisions		67.3	48.6
Equity	467.7	115.9	122.6
Net financial position/(indebtedness)	-69.1	206.7	196.1
Investments	-	3.3	6.7
OTHER FIGURES AND RATIOS			
Number of employees at year end	-	39	68

ITALY'S REGULATORY FRAMEWORK

Regulatory framework

Below is a brief description of the main normative measures relevant for the Company that were adopted in 2007.

Decree of the Ministry of Labour no. 40777 of April 13, 2007 carrying "Release concerning measures regarding exemption from obligation of contributing to the involuntary unemployment insurance"

published in the Official Journal of May 15, 2007, no. 111.

INPS (the national social security institute), by way of Memorandum no. 63 of May 6, 2005, affirmed deletion of assumptions and requirements for the acknowledgement of exemption from some of the obligations related to contributions (involuntary unemployment, ordinary and extraordinary CIG, and mobility contributions), acknowledged until then to the Company by INPS specifying that the new contributory regime ought to be applied starting from the date of "changed legal status of companies".

Upon bestowal of involuntary CIG after request from INPS to the Company, an assessment was conducted by the Ministry of Labour, on April 13, 2007, resulting in a decree stating "confirmation of the exemption from contributing to the involuntary unemployment insurance in favour of Terna S.p.A. employees [...] starting from the date of commencement of activities".

By means of message no. 18089 of July 10, 2007, INPS gave clarification about the scope of application, concerning retroactivity of obligatory contributions regarding ordinary and extraordinary CIG and mobility contributions for companies formed in compliance with Legislative Decree 79/99, among which Terna, following the opinion issued by the Council of State.

With the abovementioned message, INPS stated that contributory obligations concerning ordinary and extraordinary CIG and mobility contributions take effect for companies including Terna from May 2005, date of coming into effect of INPS Memorandum no. 63 of May 6, 2005, that intended its application towards "privatised industrial companies of State and of Public Corporations carrying out industrial activities".

Prime Minister's Decree no. 3598 of June 15, 2007 carrying "Urgent civil protection dispositions aiming at facing the state of emergency in progress in the Italian central and northern regions hit by water crisis that is determining a grave prejudicial situation for national interests"

published in the Official Journal of June 25, 2007, no. 145.

Following the declaration of the state of emergency until December 31, 2007 through Prime Minister's Decree of May 4, 2007, with Implementation Decree are indicated all institutional subjects and hereby the Commissioner delegated at Civil Protection and an institutional group of national coordination which Terna is part of, responsible for urgent measures against water crisis of and over regional relevance, guaranteeing minimum amounts of water supplies sufficient for the various environmental functions, including withdrawal for electricity production. Among the identified actions, art. 1, paragraphs 2 and 3, there are the definitions of:

- 1) "critical thresholds below which utilization other than drinking must be limited or prohibited";
- 2) "temporary exception to limitations of thermal drainages' temperatures";
- 3) "verification of adoption of opportunely programmed extraordinary measures for the regulation of electricity distribution to users".

Law no. 125 of August 3, 2007 "Conversion into law, with modifications, of Legislative Decree no. 73 of June 18, 2007, carrying urgent measures for the compliance with communitarian dispositions concerning liberalization of energy markets"

published in the Official Journal - General Series no. 188 of August 14, 2007.

Through the decree, urgent dispositions are adopted for the opening of the free market to domestic users as from July 1, 2007 following European Regulation.

On this occasion, the Ministry of Economic Development is expected to adopt initiatives for the electric system safety also through triennial frameworks of agreements on system research in the electric field, to be stipulated, among others, with Cesi Ricerca, as stated by the Decree of the Ministry of Productive Activities of March 23, 2006, for the performance of which the activities are extended to the years 2007 and 2008 for amounts of euros 35 million per year.

Decree of the President of the Republic no. 90 of May 14, 2007 “Regulation for the reordering of organizations operating at the Ministry of the Environment, under art. 29 of Legislative Decree no. 223 of July 4, 2006, converted, with modifications, by Law no. 248 of August 4, 2006”

published in the Official Journal of July 10, 2007, no. 158 - Ordinary Supplement no. 157.

With the Decree, the **“technical commission for the verification of environmental impact” is established; it shall release opinions over the evaluation of new electric lines projects** as part of the National Transmission Grid within the framework of the authorization process both pursuant to Law no. 239/04 and the procedures as per the Objective Law, formerly Law no. 443/01.

The new commission substitutes the previous commissions for the evaluation of the environmental impact and the special commission for the environmental impact in compliance with the Objective Law.

The commission, made up of 62 members, will remain in office for about 3 years and its members have been appointed by the Ministry of Environment.

Legislative Decree no. 152 of April 3, 2006, “Environmental regulations”

published in the Official Journal of April 14, 2006, no. 88.

The new discipline that regulates authorisation and implementation of long distance power lines, Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA) provided for by Part II of the Environmental Code became effective on July 31, 2007.

The SEA states that plans and works concerning some sectors including the electric one, must undergo an environmental sustainability assessment before approval. The Ministry of Environment is in charge of the parts of the procedure attributable to the State, i.e. the Electric Grid Implementation Plan, and states that an Environmental Report commenting all works comprised in the Implementation Plan must be presented, followed by a public consultation phase with all concerned Ministries and Regions.

The Environmental Impact Assessment, on the other hand, is the procedure to which all single interventions on the National Transmission Grid are subject.

The Environmental Impact Assessment regards:

- projects for the construction of aerial external long distance power lines for the transport of electric energy with more than 100 kV nominal tension and a track longer than 10 km;
- projects for aerial long distance power lines for the transport of electric energy with more than 100 kV nominal tension and a track longer than 3 km that fall – even partially – inside protected natural areas.

Decree of October 17, 2007 “Minimum uniform criteria for the definition of conservation measures concerning Special Conservation Zones and Special Protection Zones”

published in the Official Journal of November 6, 2007, no. 258.

The ministerial decree indicates the minimum uniform criteria for later definition by Regions of the conservation measures concerning certain environmentally relevant areas, the Special Protection Zones. Terna is interested in this subject since the decree, as far as these special protection zones are concerned, states the following:

- obligation to adopt security measures to prevent electrocution and impact of birds for the new long distance power lines and aerial high- and medium-voltage lines and for those undergoing ordinary maintenance and renovation (art. 5, paragraph 2, lett. a);
- removal of dismissed long distance power lines must be encouraged (art. 5, paragraph 3, lett. b).

These guidelines will be applied once Regions have provided detailed implementation indications.

Legislative Decree no. 113 of July 31, 2007 “Further corrective and integrative dispositions of Legislative Decree no. 163 of April 12, 2006, containing the works, services and supplies public contracts’ regulating code, under art. 25, paragraph 3, of Law no. 62 of April 18, 2005”

published in the Official Journal of July 31, 2007, no. 176 - Ordinary Supplement no. 173.

The decree introduces modifications and integrations to the discipline of tenders as reformed by Legislative Decree no. 163/06.

More specifically, the decree clarifies that rules for ordinary sectors that are not included in art. 206 of the Code, that regulates coordination of ordinary and special sectors, the latter including the electric one, are not to be applied to activities concerning the construction of long distance power lines.

The rider to art. 206 excludes application to infrastructures belonging to special sectors, as for example long distance power lines, of the discipline that regulates the design of ordinary sectors’ works. The integrated article closes indeed with the following phrase: “No other rule [of ordinary sectors] is to be applied to the design and implementation of special sectors’ works” (art. 2, lett. ddd) no. 2 of Decree no. 113/07).

Legislative decree no. 257 of November 19, 2007 containing “Implementation of the 2004/40/EC directive that regulates minimal safety and health prescriptions concerning exposition of employees to risks caused by physical elements (i.e. electromagnetic fields)”

published in the Official Journal of January 11, 2008, no. 9.

The decree, adopted to implement 2004/40/EC directive, integrates employees’ safety legislative framework as per Decree no. 626/94, by means of obligation for employers to assess that workers’ exposition to electromagnetic fields at workplace is below fixed limits.

More specifically, the scheme of the decree indicates minimal prescriptions for the protection of employees by fixing maximum levels of:

- action limits (threshold quantities of electric and magnetic induction);
- exposition limits that must be assessed, measured and calculated by employers.

The employer is in charge of the assessment of the abovementioned quantities and must enter the results of the assessments, measurement and calculation in the risk assessment document, in compliance with Decree no. 626/94.

If these limits are exceeded, companies will have to implement an action plan where they will indicate measures and action to be carried out in order to guarantee conformity with the abovementioned limits.

The rule becomes effective on April 30, 2008.

Law no. 244 of December 30, 2007 “Measures for the preparation of annual and multi-year financial statements of the Government (2008 Finance Act)”: discipline of the class action introduced

published in the Official Journal of December 28, 2007, no. 300.

With the 2008 Finance Act becomes effective the discipline of the class action that allows associations and committees to act in the name of a plurality of customers and users in order to obtain assessment of the right to compensation for damage and the compensation itself as a consequence, among others, of extracontractual illicit actions, unfair commercial praxis, or anticompetitive behaviours, when the rights of a plurality of customers and users are harmed.

Class actions can be carried out by associations, appointed by the Ministry of Economic Development, and by “associations and committees that adequately represent the claimed collective interests” before the

Court in the place of jurisdiction of the sued company.

The cause is made up of an initial assessment of the eligibility requirements, which a judge can disallow in case of: clear inconsistency of the request; conflict of interests and absence of a collective interest defensible by means of a class action.

In case the request is accepted, the cause is concluded by a decree in which the judge indicates the minimum amount to be paid or the criteria to be used to determine it, followed by a tender of amends from the company that, if not accepted, gives way to the composition phase before the Court.

These dispositions will become effective after 180 days from the date the law itself has been approved, on January 1, 2008.

Legislative Decree no. 195 of November 6, 2007 “Implementation of 2004/109/EC directive concerning harmonization of obligations for transparency of information about issuers whose listed securities are admitted to trading on a regulated market, and which modifies the 2001/34/EC directive”

published in the Official Journal of November 9, 2007, no. 261 – Ordinary Supplement no. 228.

The decree includes a few changes to the Legislative Decree no. 58/98, and more specifically:

- art. 1, paragraph 4, introduces art. 113 *ter* with reference to the notion of regulated information, that is information that must be published by listed companies. The disposition states that this type of information must be deposited at CONSOB and the market management company, which the issuer has asked or approved the admission to trade for its listed securities or share of closed account.

CONSOB, exercising its powers, dictates modes and terms of public circulation of regulated information in order to ensure a quick and fair access that is also reasonably apt to guarantee its transmission throughout the European Community. Moreover, CONSOB can make public any violation of obligations concerning communication of regulated information.

- art. 1, paragraph 9, modifies art. 154 *bis* and instructs the delegate administrative body and the Executive in charge of the preparation of the accounting documents to maintain, by means of an appropriate report to the financial statements, half year reports, and consolidated financial statements, that: documents are written in compliance with the international accounting standards recognised by the European Community under Regulation (EC) no. 1606/2002; documents' correspondence to the outcomes of account books and

records; suitability to provide a truthful and correct representation of the financial position and economic situation of the issuer and of the group of companies included in the consolidation, etc. This attestation is made in compliance with the regulated model provided by CONSOB.

- art. 1, paragraph 10, introduces art. 154 *ter* with reference to statutory reports and instructs that: I) within 120 days from the closing of the accounting period, listed issuers having Italy as member state of origin, approve the financial statements, and publish the annual report including financial statements, consolidated financial statements, directors' report and the attestation as per 154 *bis*; II) within 60 days from the closing of the first half, listed issuers having Italy as member state of origin publish a half-year report including abridged half-year financial statements and the attestation as per 154 *bis*.
- as regards effectiveness of articles 154 *bis* and 154 *ter*, art. 2 instructs that these articles apply to financial statements concerning accounting years, half-years and periods starting immediately after the decree has come into effect. The deadline for CONSOB to issue measures as provided for in this decree is six months from its coming into effect.
- Finally, art. 2 establishes abrogation of paragraph 4 of art. 2428 of the Italian Civil Code that provides for the directors' report to indicate: "within three months from the closing of the first half of the accounting period, managers of companies listed on regulated markets must submit to the board of auditors a report, written in compliance with the criteria established by the national commission for companies and stock exchange with regulation published in the Official Journal of the Italian Republic. The report must be published in accordance with the terms and modes established by the Commission itself in the abovementioned regulation".

Law no. 222 of November 29, 2007 "Conversion into law, with modifications, of the Decree Law no. 159 of October 1, 2007, containing urgent provisions in economic-financial areas, for social equity and development"

published in the Official Journal of November 30, 2007, no. 279 - Ordinary Supplement no. 249

The law modifies the measures concerning public administration payments as provided for by art. 48 *bis* of Presidential Decree no. 602 of September 29, 1973, introduced by Law no. 286/06.

More specifically, the applicability of the rule is referred to the coming into effect of a regulation act of the

Ministry of Economy and Finance that disciplines application of the rule whereby “public administrations... and state-controlled companies, before making any payment higher than euros 10,000, assess, also via electronic means, whether the beneficiary is defaulting as regards obligation to pay as consequence of one or more collection notices adding up to at least the same amount and, if so, do not go on to pay and give notice to the collection agent with territorial jurisdiction in order to perform collection of assessed amounts”. The Regulation at December 31, 2007 was not implemented.

Summary of AEEG (Italian Authority for Electricity and Gas) Resolutions

Reported below is a brief summary of the main resolutions of the Italian Authority for Electricity and Gas (AEEG) that affected Terna's activities in the course of 2007.

Resolution no. 11/07

With this resolution, concerning “Obligatory requirements for administrative and accounting unbundling for companies operating in the electricity and gas sectors”, the Authority for Electricity and Gas approved the integrated code of measures concerning functional and accounting unbundling requirements for companies operating in the electricity and gas sectors.

The measure supersedes previous resolutions relating to administrative and accounting unbundling (Resolutions nos. 310/01 and 311/01).

As previously outlined in the consultation document published on March 16, 2006, the resolution introduces two unbundling systems:

1. functional unbundling for vertically integrated companies;
2. accounting unbundling for all electricity and gas operators.

Vertically integrated companies are expected to grant decisional and organizational autonomy to each activity the Authority considers essential to liberalization, by separating its administration from all other activities. As far as Terna is concerned, the obligation of functional unbundling is explicitly limited as regards transmission, dispatching and metering, that can therefore be jointly managed without being individually bound to functional unbundling.

The resolution becomes effective in the course of the first year beginning after December 31, 2006; the functional unbundling requirements become effective from January 1, 2008.

Resolution no. 37/07

With this resolution, concerning "Approval of the required service quality levels for the transmission service for 2007", the Authority approved the required service quality levels for the transmission service for 2007 as drawn up by Terna, implementing pt. 3 of Resolution no. 6/06.

Decision of March 23, 2007

With this decision by Markets Department Director, the amendment proposals to A13 and A54 documents, attached as part and parcel to the Grid Code, were approved, in accordance with AEEG Resolution no. 39/06 of February 23, 2006 and with the Grid Code.

Resolution no. 73/07

With this resolution concerning "Amendments to the provisions of AEEG Resolution no. 111 of June 9, 2006 for the purpose of introducing new registration systems for forward purchases and sales, and related programmes", the Authority for Electricity and Gas decided:

- the abrogation of Resolution no. 168/03 as from May 1, 2007;
- taking effect of Regulation no. 111/06 as from April 1, 2007, only with reference to transactions related to relevant periods starting from May 1, 2007 (full effectiveness of PCE is therefore delayed until May 1, 2007, but operators can accredit for registration to the platform already from April 1);
- the determination of the interruptibility service fee.

Moreover, the resolution confirmed the validity of provisions as per Resolutions no. 165/06, no. 183/06 and no. 314/06, concerning *inter alia*:

- the possibility, for Terna, to submit integrative offers, in case the forecast of supply in Terna's charge results superior/inferior of at least 2% to the total amount of electric energy related to the demand on the Day-Ahead Market and Terna can exhibit a sufficient offer;
- the new procedures for calculation and billing of dispatching fees determined on a quarterly basis;
- the 3% franchise for the calculation of the displacement of the energy consumption units' holders;
- the possibility for Terna to access procurement of term dispatching resources through bargaining outside the dispatching service market;
- confirmation, throughout 2007, of the prohibition to take part in the withdrawal dispatching points market; hence, the operation of the PAB platform (a platform for the preliminary withdrawal programmes variation regulated by Resolution no. 168/03) was extended throughout 2007.

Decision of April 5, 2007

With this decision by Markets Department Director, the amendments and additions proposed by Terna S.p.A. to the network transmission, dispatch, development and safety code putting into effect Resolution no. 111/06 and later amendments and additions were approved, in accordance with Authority Resolution no. 39 of February 23, 2006 and with the Grid Code.

Resolution no. 95/07

With this resolution concerning “Exceptional provisions concerning the definition of adjustment payments pursuant to paragraph 29.2 of the integrated code and general equalisation procedures and procedures for the application of the Authority for Electricity and Gas provisions on electricity generation and distribution cooperatives, pursuant to Art. 4 (8) of Law no. 1643 of December 6, 1962” the Authority set exceptional measures for:

- the definition in fixed time, of the items as per paragraph 29.2 of the integrated code for the years 2004 and 2005;
- the close of transactions concerning general equalisation operations for 2004 and 2005;
- the opening of a fact-finding investigation to ascertain cause and responsibility of the delays in completion of procedures of general equalisation mechanisms, herein those having reference to communication as provided for by the load profiling discipline and by the amendments brought about by distribution companies on measurement data, with reference to 2004 and 2005.

Resolution no. 98/07

With this resolution concerning “Guidelines for Terna S.p.A. concerning the compensation mechanism for costs relative to electricity transits on foreign electricity grids and resulting from cross-border exchanges of electricity for the second quarter of 2007”, the Authority acknowledged Terna, with reference to April and May 2007 until the ETSO 2006 agreement is in effect and, anyhow, no later than June 30, 2007, the obligations deriving from the new extension of the ETSO 2006 agreement, abiding by the conditions under Resolution no. 283/05 and requested Terna to forward the undersigned copy of the new ETSO 2006 agreement extension to the Authority, as well as, as soon as they are available, further technical elements about a provisional ITC method 2007.

Resolution no. 122/07

With this resolution concerning “Additional provisions for the procurement of resources to ensure the interruptibility of electricity withdrawals as per AEEG Resolution no. 289 of December 15, 2006”, the Authority amended Resolution no. 289/06, envisaging the possibility for Terna to acquire in 2007, in case of emergency, a further 1,000 MW of immediately interruptible resources in comparison to the capacity provided for by Resolution no. 289/06; moreover, in order to guarantee availability of additional interruptible resources, the regulation defines a discipline for the supply of interruptibility service that applies also to the three-year period after 2007.

Resolution no. 128/07

With this resolution concerning “Instructions to Terna S.p.A. regarding the compensation mechanism for costs relating to electricity transits on foreign electricity grids deriving from cross-border trading of electricity for the period June-December 2007”, the Authority decided to acknowledge Terna the costs relating to participation in the provisional ITC 2007 agreement as long as the sum concerned does not entail an overall annual cost higher than that incurred in 2006 for having complied to ETSO agreement, without prejudice to adjustments attributable to differences in the volumes of electricity traded in the two years. These costs are allowed for the period in which the mechanism applies, and in any case for a period not extending beyond than December 31, 2007. The Authority also asked Terna for information on the mechanism in question in Europe for the years following 2007.

Resolution no. 130/07

With this resolution concerning “Approval of Terna’s proposal containing the technical, economic and procedural arrangements for forward procurement contracts for dispatching resources, in accordance with art. 60.6 of AEEG Resolution no. 111 of June 9, 2006”, the Authority approved Terna’s proposal regarding the advance procurement of resources for the power reserve, on condition that:

- a) the contracts do not extend beyond December 31, 2007.
- b) the Authority must approve the contracts in case the spending ceilings previously indicated by Terna were to be entailed or these offers were inadequate to requirements.

Resolution no. 151/07

With this resolution, concerning “Closing of the formal investigation opened into Gestore della rete di trasmissione nazionale S.p.A., Terna S.p.A., Acea Trasmissione S.p.A., Edison Rete S.p.A. and Ise Rete S.r.l., in accordance with Authority for Electricity and Gas Resolution no. 152 of September 9, 2004”, the Authority closed the formal investigations, opened with Resolution no. 152/04, into Gestore della rete di trasmissione nazionale S.p.A., Terna S.p.A., Acea trasmissione S.p.A., Edison Rete S.p.A. and Ise Rete S.r.l. The Authority declared the procedure for the application of penalties to be extinguished after the companies opted to pay the reduced rate fine.

Resolution no. 155/07

With this resolution, concerning “Opening of a fact-finding investigation into electricity supply service failings which occurred in Sicily on June 25 and 26, 2007”, the Authority opened a fact-finding investigation with a view to obtaining information and data to reconstruct the events in question. The mandate was given to the Director of the Markets Department with the support of the Quality and Consumer Affairs Department to proceed to all formal requests, summoning of subjects and organization of necessary meetings.

Resolution no. 168/07

With this resolution, concerning “Amendment of the deadline as per paragraph 6.5 and suspension of the deadlines as per Articles 7 and 9 of Resolution no. 95 of April 23, 2007”, the Authority extended the deadline in question also by virtue of Terna’s recommendations regarding the assessment activities of measurement data communicated by distribution companies, resulting as non compliant to the terms provided for by Resolution no. 95/07.

Resolution no. 177/07

With this resolution, concerning “Opening of a fact-finding investigation into recent anomalies found in the determination of electricity items withdrawn from the National Transmission Grid and not correctly attributed to dispatching users”, the Authority opened a fact-finding investigation into the anomalies found in the metering of energy withdrawn from the National Transmission Grid in the first three months of 2007. The investigation is intended to:

- a) identify any mistake made in the metering service and responsibilities of involved subjects;
- b) assess whether mistakes were made in the energy metering also before 2007 and, if so, go on to recalculation;

- c) identify any operative or procedural deficiency that Terna and distribution companies must overcome in order to directly assess the physical measurement of electric energy transits on the National Transmission Grid and an adequate verification apt to guarantee minimizing of errors in input and withdrawal energy metering, as well as a well-timed recognition and correction of the error itself.

Deadline for the close of the fact-finding investigation was October 31, 2007 then extended until June 30, 2008 (see 336/07).

Resolution no. 184/07

With this resolution, concerning “Arrangements for the procurement of dispatching resources from abroad in order to ensure continuity of supply to the national electricity system in exceptionally critical conditions”, the Authority gave Terna the option to enter into forward supply contracts with operators with available capacity from cross-border imports, with due respect for the principles of transparency, neutrality and non discrimination.

The intention is to procure resources for the dispatching service deemed to be necessary to protect the security of the national electricity system in exceptionally critical situations, in suitable and economical ways. By means of this measure, Terna is asked to constantly inform the Ministry of Economic Development and the Authority about signed contracts and characteristics of the counterparts.

Resolution no. 193/07

With this resolution, concerning “Provisions for the period September-December 2007 concerning the management of import and exports congestions on the interconnection grid with Slovenia”, also in order to bring the transport capacity allocation mechanism on the Slovenian border, for the period between September and December 2007, into line with the provisions of Resolution no. 288/06 applied on other borders with countries expected to adopt Regulation no. 1228/2003, the Authority made provisions so that allocation of capacity available on the Slovenian border for the period September-December 2007 is carried out by means of joint allocation of capacity, based on rules indicated by Terna and attached to the provisions.

Resolution no. 236/07

With this resolution, concerning “Amendment to Annex A of Authority for Electricity and Gas Resolution no. 156 of June 27, 2007 concerning the ‘Approval of the Authority for Electricity and Gas Code for the delivery of the electricity sales service for enhanced consumer protection pursuant to Decree Law 73 of June 18, 2007’ and suspension of the deadline referred to in art. 22 of that resolution”, the Authority provided that, in order to guarantee continuity of energy dispatching to end users, companies exercising protection who

supply service to one or more end users and who did not acquire the status of dispatching user with effects from October 30 may, as an exception, continue to obtain their supplies from the Single Buyer, for the month of October only, paying a price set by the Authority. These operators may request the status of dispatching user by October 15, 2007 (suspending, due to urgency, deadlines stated by art. 9, paragraph 2, of Resolution no. 118/03, concerning dispatching user variation for one or more withdrawal points).

Resolution no. 253/07

With this resolution, introducing additional provisions to Resolution no. 11 of January 18, 2007, the Authority amended the integrated code of measures concerning functional and accounting unbundling of companies operating in the electricity and gas sectors.

Apart from formal amendments due to the adaptation of Resolution no. 11/07 to the new structure of the energy market (more specifically with reference to electricity sales to regimes of protection and safeguard with separated accounting compartments), the measure introduced an application of the functional unbundling also to merchant lines as well as a new application through which suppliers can implement mandatory unbundling, alternative to that provided for by Resolution no. 11/07, which provides that, under certain conditions, not all administrators are part of the independent operator.

In consideration of these amendments, the deadline for implementation of mandatory functional unbundling was postponed to June 30, 2008.

Resolution no. 257/07

With this resolution, concerning “Instructions to Terna S.p.A. regarding the compensation mechanism for the costs relating to electricity transits on foreign grids deriving from cross-border exchanges of electricity for 2008 and 2009”, the Authority acknowledged Terna euros 50 million as compensation for costs deriving from 2008-2009 participation in ITC (Clearing and Settlement Agreement) under the annual ceiling for costs, determined on the basis of electricity transits resulting from cross-border exchanges in 2005, and provided that Terna gives the Authority any useful information for the assessment of the compensation mechanism for the costs relating to electricity transits on foreign grids deriving from cross-border exchanges of electricity, currently discussed at European level with regards to years following 2009.

Resolution no. 267/07

With this regulation, concerning “Instructions to Terna S.p.A. to draw up forward supply contracts for the dispatching service pursuant to Authority for Electricity and Gas Resolution no. 111 of June 9, 2006”, the Authority allowed Terna S.p.A. to draw up the first contracts for the forward supply of dispatching resources to December 31, 2007 and also asked Terna to submit a new procedure for the forward supply of dispatching resources, for implementation in 2008, pursuant to art. 60, paragraph 2 of Resolution no. 111/06.

Resolution no. 278/07

With this resolution, concerning “Approval of the integrated code setting out the Authority for Electricity and Gas provisions concerning the determination by hourly bands of electricity withdrawal profiles corresponding to final users whose electricity withdrawals are not handled on hourly basis (load profiling by hourly bands)”, the Authority introduced the load profiling methodology by bands, in order to guarantee the best possible transfer of price signal in all reference areas of the national system compatibly with technological characteristics of meters and remote handling systems used in the various reference areas. The new measure, abrogating Resolution no. 118/03 as from April 1, 2008:

- a) indicates characteristics of withdrawal points handled on hourly basis;
- b) regulates modalities for conventional determination of energy withdrawn on hourly basis from the withdrawal points not handled on hourly basis for measuring the same energy to allow economic regulation of dispatching service;
- c) defines informational obligations for distribution companies and for Terna related to conventional measurement as abovementioned in letter b).

Resolution no. 280/07

With this resolution, concerning “Technical-economic terms and conditions for electricity withdrawals pursuant to article 13, paragraphs 3 and 4, of Legislative Decree no. 387 of December 29, 2003, and paragraph 41 of Law no. 239 of August 23, 2004”, the Authority entrusted the role of commercial intermediary, in charge of the withdrawal of the energy produced, to the Gestore del sistema elettrico (the electrical service manager), who therefore undertakes functions previously carried out by Terna.

Resolution no. 281/07

With this resolution, concerning “Obligatory requirements to record interruptions of the electricity service applicable to electricity distribution companies for 2008-2011 regulatory period and amendments to Annex A to Resolution no. 250 of December 30, 2004”, the Authority approved the rules on recording interruptions to the electricity supply that will apply to electricity distribution companies for 2008-2011 regulatory period, with effect from January 1, 2008, amending, with the same effective date the definition of relevant accident, pursuant to Resolution no. 250/04.

Decision of December 6, 2007

With this decision, concerning “Assessment of compliance of proposals concerning procedures for the procurement of resources for the immediate interruptibility and emergency dispatching service and amendments and additions to the grid transmission, dispatching, development and safety code implemented by Terna S.p.A. pursuant to AEEG Resolution no. 289/06 of December 15, 2006”, the Authority approved the amendments and additions to the Grid Code implemented by Terna pursuant to Resolution no. 289/06 and the procedures for the procurement of resources for the immediate interruptibility and emergency dispatching service for the 2008-2010 three-year period, implemented by Terna pursuant to the same Resolution no. 289/06.

Resolution no. 308/07

With this resolution, concerning “Instructions to Terna S.p.A. for the procurement of term dispatching resources, as provided for by Resolution no. 111/06 of June 9, 2006”, the Authority approved Terna's proposal concerning procurement of term dispatching resources for 2008, providing, moreover, that Terna, in case of non-fulfillment of contractual obligations on the part of dispatching users, along the payment of nonfulfillment expenses as provided for by the procedure, carries out a monitoring activity intended to bring out any opportunistic behaviour, with specific reference to possible situations where the same non-fulfilling subjects are the only ones who can supply certain resources to Terna, informing the Authority of any anomaly encountered.

Resolution no. 329/07

With this resolution, concerning “2008 measures for the management of foreign imports and exports congestions on the interconnection grid”, the Authority passed the Access Rules as prepared by Terna in collaboration with the other networks' owners participating in the ERGEG workgroup (Regional Initiative for Central-Southern Europe) and gave provisions for 2008 concerning management of congestions on the

interconnection grid, pursuant to the Ministry of Economic Development Decree of December 18, 2007, providing that the proceeds from assignation procedures are used for the equivalent abatement of interconnection grid access prices for all end users of the national electricity system.

Resolution no. 330/07

With this resolution, concerning “Condition for the handling of dispatching priority concerning renewable energy production plants in critical situations of the national electricity system”, the Authority set conditions for the handling of dispatching priority concerning renewable energy production plants in critical situations of the national electricity system, with particular reference to wind power, imposing Terna some subsequent requirements. More specifically, the Authority, assuming that “modulation” actions of the production by nonprogrammable renewable sources should only be carried out in case of emergency due to maintenance of safety and operation of the electricity system, Terna is therefore asked to amend the Grid Code in order to implement provisions as in Appendix 6, rule CEI 11-32.

Resolution no. 336/07

With this resolution, concerning “Postponement of the deadline for the close of the fact-finding investigation opened with AEEG Resolution no. 177/07 of July 16, 2007, concerning anomalies encountered in the metering of energy withdrawal from the National Transmission Grid and incorrectly attributed to dispatching end users”, the Authority postponed the deadline for the close of the fact-finding investigation, opened with AEEG Resolution no. 177/07 of July 16, 2007, to June 30, 2008, and asked Terna to submit a detailed report on the errors, causes and resulting bill-balances, as well as to pay those bill-balances.

Resolution no. 341/07

With this resolution, concerning “Regulation of the transmission service quality for 2008-2011 regulatory period”, the Authority introduced for the first time a benefit/penalty system for Terna to spur improvement of the service quality. The regulation, the resolution specifies, is experimental and the economic effects (benefit/penalty) will take effect only from 2010. The resolution provides for three indicators to “measure” the quality of transmission service: (unsupplied energy of reference), amount of supply disconnections per National Transmission Grid user and rate of National Transmission Grid users with no supply disconnections. In case of better effective indicators’ levels than Terna’s target levels, Terna has the right to receive a benefit; if unable to reach the target levels, Terna is expected to pay a fine on the specific account at the electricity bill-balance fund.

Resolution no. 343/07

With this resolution, concerning “Urgent measures concerning dispatching metering aggregation as provided for by Resolution no. 111/06 and institution of proceedings for the definition of subsequent expenses”, the Authority postponed until 2010 the deadline for Terna’s aggregation of the work of distribution companies for the dispatching metering aggregation in order to set subsequent dispatching expenses, instituting moreover a proceeding concerning a) assessment of modalities of upcoming aggregation of the work of subjects other than distribution companies by Terna and subsequent public evidence selection modalities of the same, and b) definition of the unit cost of metering aggregation for 2008 and 2009.

Resolution no. 348/07

With this resolution, concerning “Integrated code of AEEG provisions for the transmission, distribution and metering services for the 2008-2011 regulatory period and provisions concerning economic conditions for the supply of connection service”, the Authority defined tariff rules for the third regulatory period, as well as the remuneration owed to Terna for the supply of transmission service. More specifically:

- following regulation as per the integrated code as per Resolution no. 5/04, remuneration owed to Terna ensues from transportation expenses paid by distributors and producers. At this regard, the resolution provides for the update of transportation costs covering tariffs;
- it provides for the opening, of a procedure intended to define investment effectiveness indicators (to be experimented possibly from 2011) and on monitoring of electricity transmission, distribution and metering companies’ debt ratio;
- investment remuneration rate is fixed at 6.9%;
- for the new development interventions, the resolution introduces a benefit regime for National Transmission Grid development and implementation investments, based on differentiation of the benefit depending on the different types of investment (+2% or +3%).

Resolution no. 350/07

With this resolution, concerning “Amendments to Resolution no. 111/06 of June 9, 2006, and to Resolution no. 205/04 of November 19, 2004,” the Authority confirmed for 2008 some of the provisions contained in Resolution no.111/06 concerning 2007 (for example, the possibility for Terna to submit additional offers in the Day-Ahead Market, operation of the platform for the preliminary variation of withdrawal programmes and the transitory application, to non-relevant Consumption Units, of the 3% threshold below which

effective displacements are measured according to the Day-Ahead Market's price). At the same time, amendments were introduced concerning, *inter alia*, the introduction of loss factors in Resolution no. 111/06 – amending those factors with effect from January 1, 2008 – and application of the displacement fees as per art. 40.1, 40.3 and 40.4 of Resolution no. 111/0 solely to the Relevant Production Units having access to the Ancillary Service Market (ASM).

Resolution no. 351/07

With this resolution, concerning “Determination of the compensation for electricity dispatching activities and definition of benefit/penalty mechanisms for Terna S.p.A. in the same activity”, the Authority:

- defined the DIS fee, owed to Terna, covering costs ensuing from dispatching activities and subsequent update activities;
- defined benefit/penalty mechanisms for electricity requirement forecast and forecast of the energy produced by wind power plants for the 2008-2011 period.

Grid Code

With reference to the amendments to the grid transmission, dispatching, development and safety code (Grid Code), notice is given that:

- on March 28, 2007, updated versions of the A.13 “Criteria of connection to Terna control system” and A.54 “Classification and record of supply disconnections and temporary interruptions of end users directly connected to the National Transmission Grid”, attached to the Grid Code as part and parcel of the same, were published;
- on April 6, 2007, updated versions of chapter 4 (dispatching rules) and 7 (regulation of dispatching and transmission service items) and of some attached documents as part and parcel of the Grid Code, implementing Resolution no. 111/06 were published;
- on July 20, 2007, the English version of the Grid Code was published;
- on November 8, 2007, the updated version of the A.53 “Technical and functional characteristics of load balancing equipment” document attached as part and parcel of the Code was published in the specific section of the Grid Code;
- on December 10, 2007, updated versions of chapter 4 and of some of the documents attached as part and parcel of the Grid Code, were published, as provided for by Resolution no. 289/06 concerning interruptibles.

As regards Users Consultation Committee provided for by art. 1, paragraph 4 of Prime Minister’s Decree of May 11, 2004, notice is given that, during the Committee’s meetings held up to the date of this report, the Committee carried out the following:

- approval of Annex A.53 of the Grid Code;
- preparation of an opinion on the new measures provided for by the draft 2008 development plan;
- preparation of an opinion on the definitive draft of Terna’s 2008 development plan;
- approval of the consultation documents relating to the implementation of Resolution no. 289/06 in the Grid Code.

ENERGY FRAMEWORK

Italy's energy demand

Energy demand in Italy in 2007 reached, according to preliminary consolidated results, 339,839 GWh, with a 0.7% increase on 2006 (see following table). The result in 2007 was affected by the way the dates fell (3 working days more than in 2006) and different weather. Counting out calendar and temperature – particularly relevant throughout the year – variation of energy demand consists in a +0.9%.

In the course of the year, 86.5% of the demand for energy on the grid was satisfied by domestic production (86.7% in 2006), equal to 293,909 GWh, net of the consumption of ancillary services and pumping, with a 0.5% increase on 2006. The remaining demand (13.5%) was met through trading abroad equal to 45,930 GWh, compared to 44,985 GWh in the previous year (up 2.1%).

An analysis of the trend in trading abroad shows that imports increased by 4.2%, reaching 48,570 GWh compared to 46,595 GWh in 2006.

Exports, on the other hand, rose from 1,610 GWh to 2,640 GWh, with an increase of 64.0%.

ENERGY IN ITALY

GWh	BALANCE (OFFER)			
	2007 *	2006	Change	%
Gross production	314,353	314,090	263	0.1
Ancillary services	12,808	12,864	-56	-0.4
Net production	301,545	301,226	319	0.1
Received from foreign suppliers	48,570	46,595	1,975	4.2
Offered to foreign customers	2,640	1,610	1,030	64.0
Pumping	7,636	8,752	-1,116	-12.8
TOTAL ITALIAN DEMAND	339,839	337,459	2,380	0.7

* provisional data

Consumption

In 2007 total consumption of energy rose by 0.4% to 318,700 GWh. Analyzing energy market destinations (see following table), it must be remembered that from 2007 all energy customers can access free market. In the table, the usual definition for the two markets is maintained, although under the caption “captive market” are classified from July 1 the “protected customers”. In 2007, consumptions for this sector was equal to 117,700 GWh, representing 36.9% of the total, decreasing by 17.7% on 2006. Consumption on

the free market rose to 180,700 GWh, with an increase of 17.0% on 2006 and reaching a 56.7% portion. The table shows, moreover, a light growth of internal consumption (up 0.6), which made up 6.4% of total consumption in 2007. Distribution losses as a percentage of total demand were also substantially unchanged (6.2% in 2007).

ELECTRIC ENERGY CONSUMPTION IN ITALY BY MARKET

	BALANCE (DEMAND)			
GWh	2007 *	2006	Change	%
Captive market	117,700	142,939	-25,239	-17.7
Free market	180,700	154,425	26,275	17.0
Own consumption	20,300	20,169	131	0.6
Total consumption	318,700	317,533	1,167	0.4
Loss	21,139	19,926	1,213	6.1
% of demand	(6.2%)	(5.9%)		
TOTAL ITALIAN DEMAND	339,839	337,459	2,380	0.7

* provisional data

The breakdown of electrical energy consumption by sector, shown in the table below, underscores above average increases (up 1.5%) for the service sector, which used 89,600 GWh, making up 28% of total consumption. The production sector is in the doldrums, reaching 156,200 GWh, and accounted for 49% of total consumption in 2007. The household sector decreased by 0.4% – especially due to weather – reaching 67,300 GWh, making up 21% of the total. Agricultural sector increased by 1.8% to 5,600 GWh.

ITALY'S ELECTRICAL ENERGY CONSUMPTION BY SECTOR

	CONSUMPTION			
GWh	2007 *	2006	Change	%
Agriculture	5,600	5,503	97	1.8
Industry	156,200	156,151	49	0.0
Services	89,600	88,276	1,324	1.5
Household	67,300	67,603	-303	-0.4
TOTAL CONSUMPTION	318,700	317,533	1,167	0.4

* provisional data

Electric energy generation

In 2007, net domestic generation was substantially in line with the previous year (up 0.1%) (see following table that integrates Gestore dei Servizi Elettrici, GSE). An analysis of the production figures by source net of ancillary services, shows an increase in thermoelectric production of 1.4% on 2006.

In 2007 hydroelectric production was inferior to 2006, decreasing by 10% circa.

The annual hydroelectric production index was indeed inferior in comparison to the previous year, coming in at 0.70 compared to 0.80 in 2006.

Wind and photovoltaic net production increased considerably, up 40.7 %, while geothermal energy production increased by 0.8%.

ITALIAN PRODUCTION OF ELECTRIC ENERGY

GWh	2007 *	2006	Change	%
Gross hydroelectric production	39,043	43,425	-4,382	-10.1
Gross thermal production	265,556	262,165	3,391	1.3
Gross geothermal production	5,570	5,527	43	0.8
Gross wind production	4,144	2,971	1,173	39.5
Gross photovoltaic production	40 ⁽¹⁾	2	38	
Total gross production	314,353	314,090	263	0.1
Hydroelectric ancillary services	494	542	-48	-8.9
Thermal ancillary services	11,982	11,996	-14	-0.1
Geothermal ancillary services	322	319	3	0.9
Wind ancillary services	10	7	3	42.9
Photovoltaic ancillary services	0	0	0	
Total ancillary services	12,808	12,864	-56	-0.4
Net hydroelectric production	38,549	42,883	-4,334	-10.1
Net thermal production	253,574	250,169	3,405	1.4
Net geothermal production	5,248	5,208	40	0.8
Net wind production	4,134	2,964	1,170	39.5
Net photovoltaic production	40 ⁽¹⁾	2	38	
TOTAL NET PRODUCTION	301,545	301,226	319	0.1

* provisional data

⁽¹⁾ including photovoltaic plants with contributions for energy production of GSE source

More in detail, the production quotas from renewable source comprise, beyond the said wind, geothermal and photovoltaic productions, a part of the hydroelectric and thermal productions (see following table).

As far as the renewable hydroelectric production – only from natural sources – is concerned, it turns out in 2007 a decrease of 9.5% on 2006; thermal production from biomasses and waste increased by 6.4%. Since the hydro production quota is a preponderant part (67.2% in 2007) of the renewable production, the complete picture of the renewable production shows a reduction of 3.6% on 2006.

ELECTRIC ENERGY PRODUCTION FROM RENEWABLE SOURCES

GWh	2007 *	2006	Change	%
Hydroelectric production from natural sources	33,045	36,532	-3,487	-9.5
Theormol production obtained with biomasses and waste	6,700	6,295	405	6.4
Geothermal production	5,248	5,208	40	0.8
Wind production	4,134	2,964	1,170	39.5
Photovoltaic production	40 ⁽¹⁾	2	38	
TOTAL NET PRODUCTION FROM RENEWABLE SOURCES	49,167	51,001	-1,834	-3.6

* provisional data

⁽¹⁾ including photovoltaic plants with contributions for energy production of GSE source

Generation plants

Maximum net capacity reached about 93.6% GW in 2007, up 4,117 MW (up 4.6%) on 2006 (see following table that integrates GSE).

The sharpest increases were seen in the thermoelectric sector, with growth of 3,303 MW in net power, up 5.0% on 2006. In percentage terms, the sharpest increases were recorded in the wind and photovoltaic sector, up 41.1% or 791 MW. Net hydroelectric capacity recorded a more modest increase, up 23 MW (up 0.1%). Geothermal production capacity remained unchanged on 2006.

ITALIAN PRODUCTION CAPACITY

MW	2007 *	2006	Change	%
Gross hydroelectric power	21,450	21,429	21	0.1
Gross thermal power	71,800	68,350	3,450	5.0
Gross geothermal power	711	711	0	-
Gross wind power	2,650	1,908	742	38.9
Gross photovoltaic power	60 ⁽¹⁾	7	53	-
Total gross power	96,671	92,405	4,266	4.6
Net hydroelectric power	21,095	21,072	23	0.1
Net thermal power	69,100	65,797	3,303	5.0
Net geothermal power	671	671	0	-
Net wind power	2,640	1,902	738	38.8
Net photovoltaic power	60 ⁽¹⁾	7	53	-
TOTAL NET POWER	93,566	89,449	4,117	4.6

* provisional data

⁽¹⁾ including photovoltaic plants with contributions for energy production of GSE source

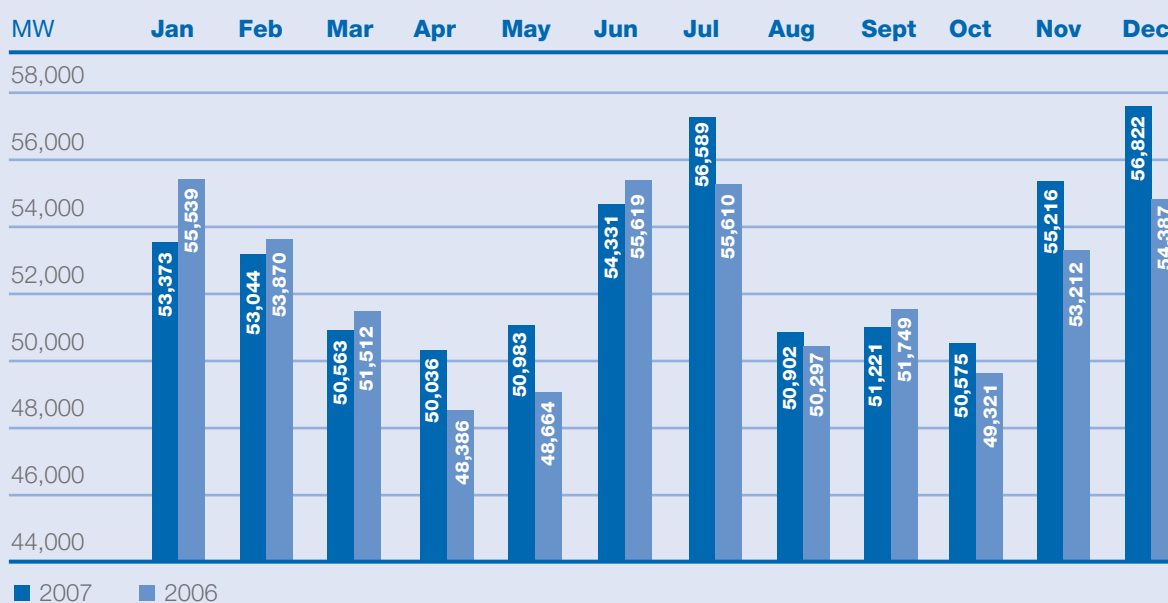
DISPATCHING AND TRADE

Electricity business

The trend in peak power demand is shown in the following table. In 2007, the power demanded from national electrical system recorded its new historical maximum with a value of 56,822 MW, recorded on December 18, with an increment of 2.2% on previous year (55,619 MW, Tuesday, June 27, 2006, at 11) and with an increment of 0.4% on the 2007 summer peak (56,589 MW Friday, July 20, 2007, at 11; 2007 first record).

On July 20, 2007 a new record of 1,142,144 GWh for the daily demand of energy was set (up 2.5% on 2006).

PEAK LOADS BY MONTH



Water

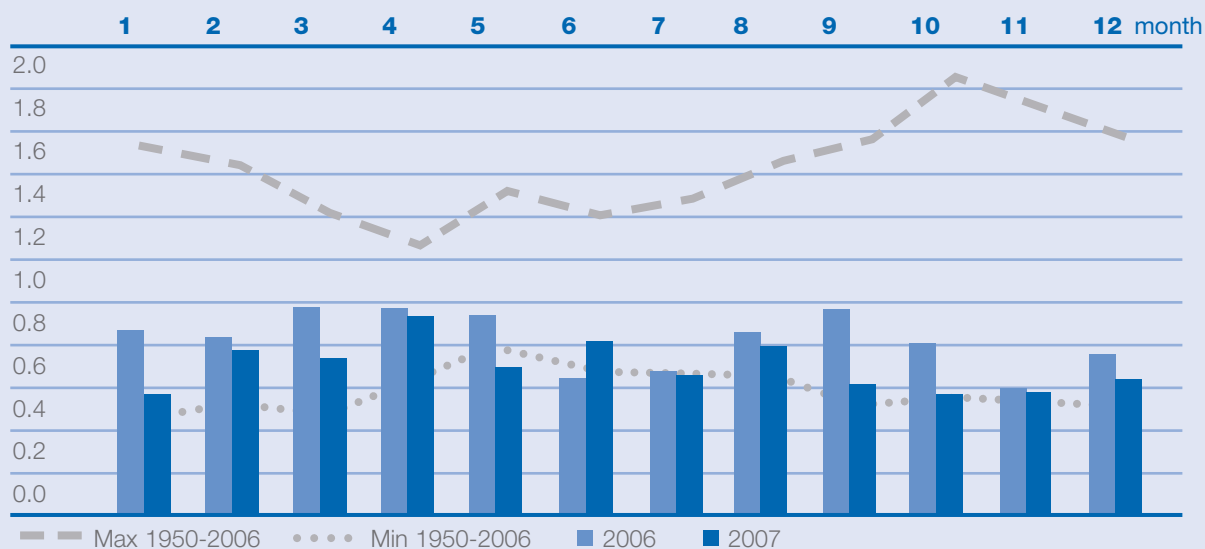
Situation of the seasonal basins and Monthly Production Coefficient

2007 was affected by low water indexes in comparison to the average of 2006 (exception made for the month of June, see Pict. 1). In May in particular, the water index recorded an all-time low.

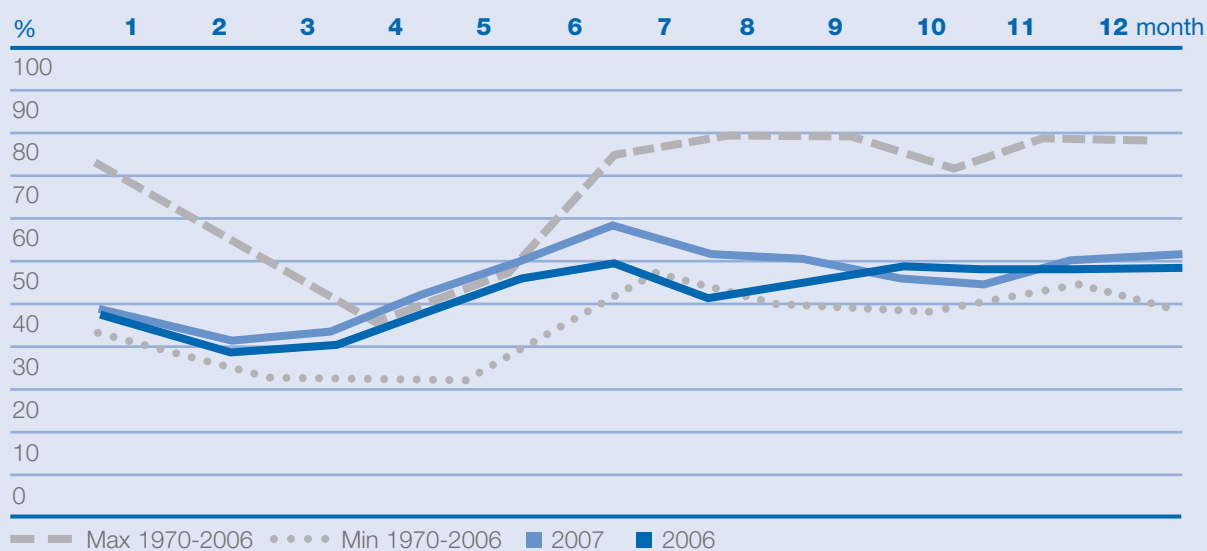
On the whole, the annual hydroelectric production index went down from 0.80 of 2006 to 0.70.

As far as average reservoir capacity levels are concerned, levels resulted higher between April and August, with an all-time peak in April (Pict. 2).

WATER INDEXES (PICT. 1)



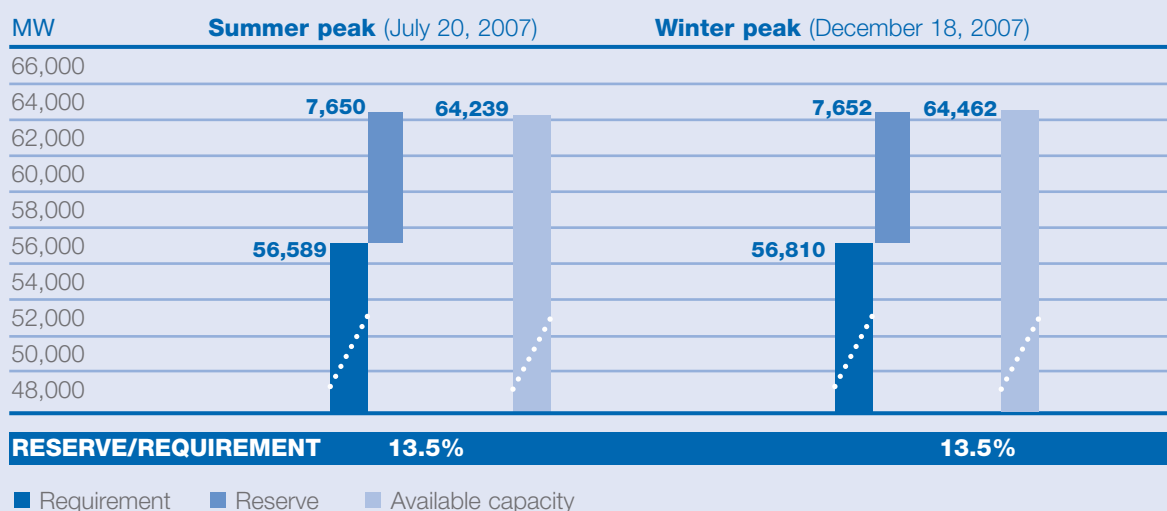
AVERAGE RESERVOIR CAPACITY LEVELS AT MONTH END (PICT. 2)



Meeting power demand

The forecasting and maintenance coordination measures implemented by Terna, in addition to the implementation of new generation plants, enabled it to meet power demand with adequate margins of reserve during 2007. Especially during the summer and winter peaks, the margins were superior to 2006 margins.

RESERVE MARGINS AT 2007 SUMMER PEAK VS. 2007 WINTER PEAK



With reference to the summer peak in electricity demand, and as a consequence of the scarce snowfalls during the winter period, Terna underscored the significant risk of unavailability of production capacity due to possible off duty of important thermoelectric plants located in the Po basin for lacking of water to be used in the cooling cycle, in shallow water conditions, as already happened in the summer of 2003.

Consequently, Terna implemented a programme for water saving in the Po basin in order to obtain a reserve in hydroelectric basin and in the prealpine lakes to be used in case of emergency to sustain the level of the river. The water resources deficit to be recovered, in comparison to 2006, was equal to 270 Mmc to compensate the lack of snow and 130 Mmc necessary to guarantee sufficient water level in the Po River. Implemented actions, shared by the steering committee of the Po Basin Water Crisis, involving all the institutional subjects (Ministry of the Economic Development, Civil Protection, Regions, Po Basin Authority, Lakes Regulators, Producers, Land Reclamation Authority) were basically about:

- larger flows from reservoirs and lakes to be implemented by May 31, 2007, in comparison to the same

period of 2006, for amounts of water equal to 145 Mmc and 70 Mmc, respectively;

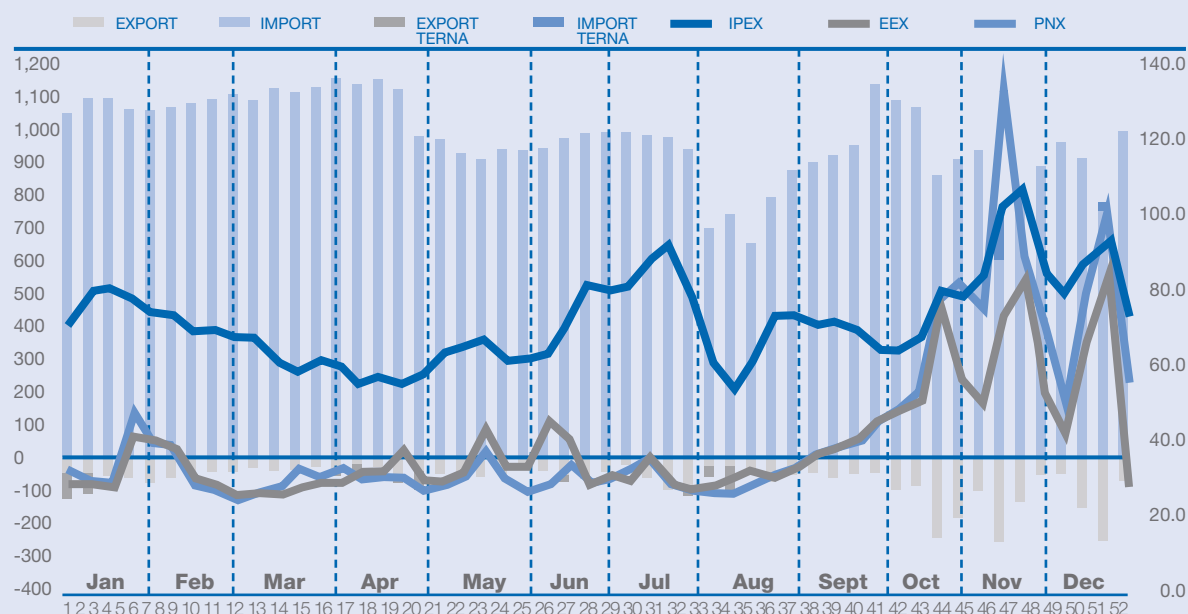
- lesser use of water for agriculture between June 1, 2007 and July 31, 2007, equal to 130 Mmc.

Specific actions were also implemented to guarantee a better performance of particularly vulnerable plants, such as intervening on the river's water pumps and the possible creation of an artificial weir level at La Casella plant, and to guarantee also sufficient capacity in the Muzza and Naviglio Grande channels.

Apart from the implementation of the saving plan for April and May, characterized by reduced natural contributions, heavy rain fallen between the end of May and the first half of June allowed replenishing of hydroelectric basins and great lakes, guaranteeing the overcoming of risk situation for the electric system.

As far as trading abroad is concerned, it must be noted that in the first 9 months of 2007 the average hourly price differential between the Italian, French and German markets was up 63% on 2006 (euros 37/MWh compared to euros 23/MWh). Such price movement led to an increase of net imported energy balance in comparison to 2006, making it unnecessary for Terna to resort to appropriate agreements with the main foreign suppliers in order to guarantee availability of the imported energy necessary for the maintenance of reserve margins of the Italian system during the month of July.

In the last quarter, on the other hand, foreign markets' prices were characterized by a rapid growth that consequently determined a high volatility of import flows. On December 17, during the all-time record peak, cross border import on the northern border was equal to 2000 MW, in comparison to a maximum import capacity of 7190 MW.



As regards availability of natural gas, in the first part of 2007/2008 winter, in spite of higher consumption for thermoelectric generation implied by the decrease of foreign flows, no critical elements were underscored, due mostly to the actions implemented by the Ministry of Economic Development in order to maximize imports.

Procurement of dispatching resources

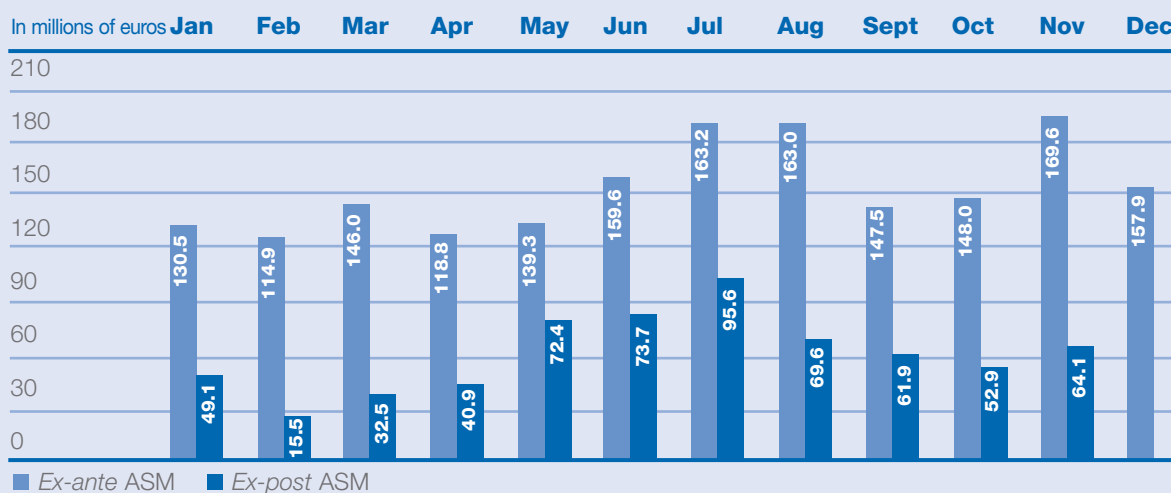
The structure of the Electricity Market did not change significantly in 2007. Terna operated on the Day Ahead Market on a daily basis, selling approximately 3.3 TWh and acquiring approximately 5.6 TWh.

With reference to the procurement of dispatching resources, in October Terna signed the first term-contracts for November and December. This new procurement method, complementary to the Ancillary Services Market (ASM) was introduced by AEEG Resolution no. 111/06, which Terna complied to by submitting a proposal approved by the Authority in June 2007 (Resolution no. 130/07). The possibility of hiring dispatching resources makes it possible for Terna, as a system operator, to pursue cost stabilization objectives for dispatching, otherwise affected by volatility of the Ancillary Services Market.

Contracts were signed in this initial phase on limited quantities and for a duration of just two months for a maximum total amount of euros 26 million.

As regards the Ancillary Services Market, Terna operated in the planning phase, which takes place on the day before the flow, buying and selling energy for 14.7 TWh and 12.4 TWh, respectively, for a net total

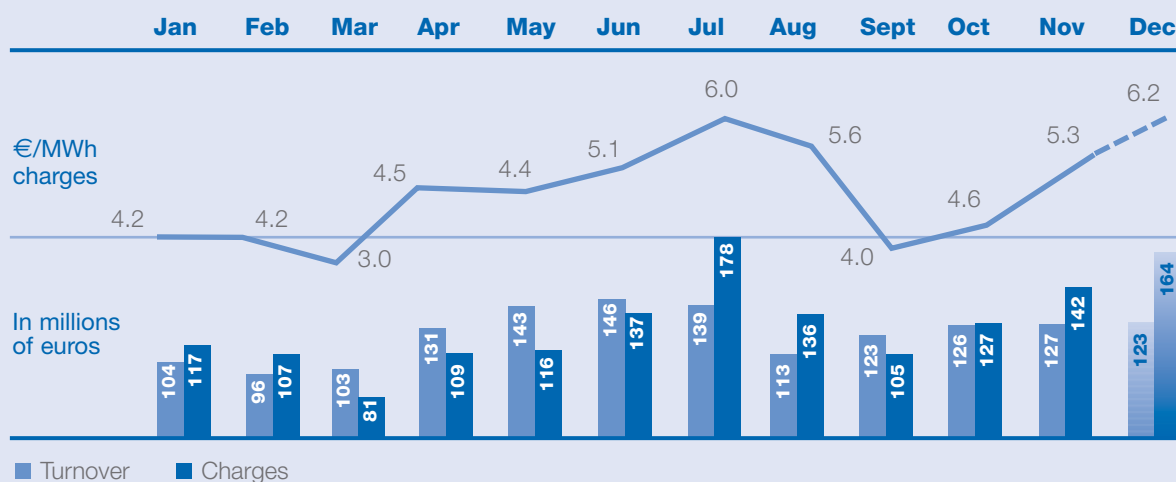
amount of euros 1,783 million. The net balance, equal to 0.2 TWh per month, is devoted to the correction of the forecast error incurred by demand operators. The volumes of purchase and sale concerning real time balancing phase up to November were equal to 8.6 TWh and 9.9 TWh, respectively, for a net total charge of euros 628 million.



Downstream of real time, Terna verifies that operators have correctly performed their commercial obligations, both in terms of generation and demand. To this end, with the support of distributors, it reads the metres at each issue and withdrawal point and calculates the differences with respect to defined outcome schedules of the energy markets. These differences, which are called unbalancing, are measured using algorithms defined by the regulatory framework. The net charge resulting from the measurement of the unbalancing and the purchases and sales carried out by Terna on the Day Ahead Market and the Ancillary Services Market is charged on a pro quota basis to each consumer with an appropriate fee called uplift.

From January 2007 the Authority, by means of Resolutions nos. 111/06 and 314/06, modified the uplift determination mechanism in comparison to the previous year. This fee is no longer determined on a monthly final balance basis, but rather on a quarterly basis, by the first month of each quarter, based on the forecast of issues and withdrawals of the current quarter. This calculation considers also the differences between forecasts and effective outcomes of the previous quarter.

DISPATCHING CONSIDERATION



Interruptibility service

In 2007 two major allocations of interruptibility service were assigned.

In June, in order to guarantee safety of the electrical system in predictable critical summer situations, Terna, in accordance with what provided for by Resolution no. 122/07, assigned new interruptible capacity in comparison to what provided for by Resolution no. 289/06.

In December, Terna assigned interruptibility service for the 2008-2010 period in accordance with what provided for by Resolution no. 289/06. The procedure provides for the assignment of:

- 2,400 MW of instantaneous interruptibility service with an annual fee decided by the Authority;
- 900 MW of instantaneous interruptibility service whose fee is based on tender;
- 39 MW of emergency interruptibility service.

The table below shows the evolution of contractually agreed interruptibility power in 2007 for the interruptibility service.

	Interruptible customers at May 31, 2007	Interruptible customers at June 1, 2007	Interruptible customers at Jan. 1, 2008	Assigned power at May 31, 2007 [MW]	Assigned power at June 1, 2007 [MW]	Assigned power at Jan. 1, 2008 [MW]
Instantaneous	89	101	120	1,920	2,871	3,300
With notice	81	79	0	1,080	788	0
Emergency	0	7	9	-	47	39
Total	170	187	129	3,000	3,706	3,339

Quality of service, unsupplied energy and faults

In 2007, energy not supplied, with respect to the relevant grid, totalled approximately 3,835 MWh, net of interruptions on the contractually-agreed loads with interruptibility clauses. This figure, which is significantly higher than that recorded in 2006, is due to the amount of disconnection of supplies catalogued as relevant accidents according to AEEG Resolution no. 250/04. Unsupplied energy resulting from customers' disconnections, due to causes attributable to Terna and net of relevant accidents, is 621.11 MWh.

Interruptibility with and without notice was used following accidents and to restore a sufficient reserve, as well as safety conditions in the energy system. The main events were:

- on January 19, 2007 at 10:51, the BMI EDA defence system was activated following the signal on the 380 kV Rondissone-Albertville 1 line;
- on April 21, 2007 at 20:09, the BMI EDA defence system was activated following the signal on 380 kV Venaus-Piosasco line;
- on May 27, 2007 at 05:32, the BMI EDA defence system was activated following the signal on 380 kV Musignano-Lavorgo line;
- on June 4, 2007 at 18:37, the BMI EDA defence system was activated following the signal on 380 kV Rondissone-Albertville 1 line;
- on June 21, 2007 at 08:12, the BMI EDA defence system was activated following the signal on 380 kV Rondissone-Albertville 1 line;
- on June 21, 2007 at 14:18, the BMI EDA defence system was activated following the signal on 380 kV Soazza-Sils line;
- on June 25, 2007 at 16:12 and at 16:43, disconnection of supplies that can be interrupted with and without prior notice to restore sufficient reserve due to the fault of a relevant production group in Sicily;
- on June 26, 2007 from 11:00 to 20:50, disconnection of supplies that can be interrupted with and without prior notice to restore sufficient reserve due to faults in western Sicily;
- on July 2, 2007 at 09:46, the BMI EDA defence system was activated following the signal on 380 kV Musignano-Lavorgo line;
- on July 6, 2007 at 16:29 and at 12:36, the BMI EDA defence system was activated following the signal on 380 kV S.Fiorano-Robbia line;
- on July 16, 2007 at 13:06, the BMI EDA defence system was activated following the signal on 380 kV Musignano-Lavorgo line;

- on July 19, 2007 at 15:05, the BMI EDA defence system was activated following the signal on 380 kV Bulciago-Soazza line;
- on August 8, 2007 at 07:03, the BMI EDA defence system was activated following the signal on 380 kV Bulciago-Soazza line;
- on August 14, 2007 at 08:40, the BMI EDA defence system was activated following the signal on 380 kV S.Fiorano-Robbia line;
- on September 8, 2007 from 18:50 to 23:16, disconnection of supplies that can be interrupted with and without prior notice to restore sufficient reserve due to the fault of a production group in Sardinia;
- on September 9, 2007 from 03:46 to 05:35, disconnection of supplies that can be interrupted with and without prior notice to restore sufficient reserve due to the fault of a production group in Sardinia;
- on September 18, 2007 at 22:27, the BMI EDA defence system was activated following the signal on 380 kV Bulciago-Soazza line;
- on September 26, 2007 at 05:37, the BMI EDA defence system was activated following the signal on 380 kV Gorlago-Robbia line;
- on November 19, 2007 from 17:46 to 20:18, disconnection of supplies that can be interrupted with prior notice to restore sufficient reserve due to the fault of a relevant production group in Sardinia;
- on November 20, 2007 from 17:03 to 20:30, disconnection of supplies that can be interrupted with and without prior notice to restore sufficient reserve due to the fault of a relevant production group in Sicily;
- on November 20, 2007 from 17:44 to 19:50, disconnection of supplies that can be interrupted with prior notice to restore sufficient reserve due to the fault of a relevant production group in Sardinia;
- on November 21, 2007 at 08:24 and at 17:17, disconnection of supplies that can be interrupted with prior notice to restore sufficient reserve due to the fault of a relevant production group in Sardinia;
- on November 21, 2007 from 17:47 to 19:55, disconnection of supplies that can be interrupted with and without prior notice to restore sufficient reserve due to the fault of a relevant production group in Sicily;
- on November 22, 2007 at 08:24 and 20:05, disconnection of supplies that can be interrupted with prior notice to restore sufficient reserve due to the fault of a relevant production group in Sardinia;
- on November 24, 2007 at 09:29, the BMI EDA defence system was activated following the signal on 380 kV Bulciago-Soazza line.

Here are the three “quality of service and behaviour of Terna’s National Transmission Grid plants” reference indexes, evaluated in accordance with what provided for by AEEG Resolution no. 250/04 and Terna’s Grid Code:

- AIT (average interruption time for reasons attributable to Terna) = 0.97 min/period; domestic annual target = 1.00 min/year;
- SAIFI + MAIFI (average number of short-term and long-term interruptions per user connected directly to Terna’s National Transmission Grid, for reasons attributable to Terna) = 0.22; domestic annual target = 0.23;
- ENS (energy not supplied due to users’ interruptions for reasons attributable to Terna) = 621.11 MWh; domestic annual target = 550 MWh;
- ASA (total system availability of Terna grid) = 98.28 %; domestic annual target = 99.050%.

NATIONAL TRANSMISSION GRID

Number of plants

The number of Terna plants at December 31, 2007, compared to the situation at December 31, 2006, is reported below:

	Dec. 31, 2007		Dec. 31, 2006	
Stations	no. 319		no. 315	
Transformers	no. 586	115,221 MVA	no. 576	112,333 MVA
Bays	no. 4,111		no. 4,046	
Lines	36,142 km		35,316 km	
Triads	no. 1,995	40,034 km	no. 1,968	39,222 km

Stations

Stations increased by a total of 4 on December 31, 2006, as follows:

- the new Gissi station (380 kV) became operational on the National Transmission Grid;
- the new Francofonte station (150 kV) became operational;
- the new Troia delivery plant (150 kV) became operational;
- the two Poggio Imperiale and Pisciola (150 kV) delivery plants, acquired from third party producer, became operational;
- disposal of the Domo Toce Smistamento sectioning plant from the number of plants, reclassified as non-standard plant.

The total number of working bays increased by a total of 65 in the year.

Transformers

Transformers increased by a total of 10 in the year, as follows:

- installation of three new 380/220 kV autotransformers with 400 MVA each in the Vado Ligure, Colunga and Chiaramonte Gulfi stations;
- installation of one new 380/150 kV autotransformer with 250 MVA in the Roma Ovest station;
- installation of four new 380/132 kV autotransformers with 250 MVA each in the Carpi Fossoli (two devices), La Casella and Marginone stations;
- installation of one new 220/150 kV autotransformer with 160 MVA in the Partinico station;
- activation of one 220/132 kV autotransformer with 160 MVA, already available, in the Somplago station;
- activation of one 150/60 kV transformer with 75 MVA, already available, in the Fratta station;

- transfer of one 220/132 kV transformer with 50 MVA in Cardano station to Enel GEM.

Total transformation capacity increased by 2,888 MVA during the year.

Long distance power lines

In terms of long distance lines, the total length of triads increased by approximately 812 km compared to December 31, 2006. This increase is mainly due to the following:

- construction of the 380 kV Matera-S. Sofia link (approximately 220 km);
- acquisition from RTL of the 220 kV Taio-Cedegolo (approximately 77 km) and Glorencia-Cesano with shunt at Premadio lines (approximately 196.5 km), as well as the 132 kV Ricevitrice Nord-Grosotto 1 and 2 lines (in double triad for a total of approximately 300 km), Villa di Tirano-Campocologno with shunt at Poschiavino (approximately 3.1 km) and Stazzona-Villa di Tirano (approximately 1.5 km);
- construction of the shunt towards the future Gissi station in the 150 kV Villanova-Larino line (approximately 4.7 km);
- 150 kV Morino-Canistro line (approximately 1.5 km out of a total of 10.4 km) rebuilt on a new track;
- construction of the 150 kV lines' bypasses in the Stagno di Molentargius area, with subsequent modification of the number and route and reduction of the total length of the lines (approximately 18 km less);
- construction of the Concesio and Lucca Ronco primary station and input cable bypass at Nave station (all 132 kV) (approximately a total of 0.6 km less);
- construction of the in-and-out link on the existing lines in the Gissi (380 kV), S. Benedetto del Querceto (220 kV), Francofonte, Piscioli and Troia (150 kV) plants and of the Castione Andevenno, Monteviale, Cementilce (132 kV), Miglianico, Oppido Mamertina and Iglesias 2 (150 kV) primary closets (approximately a total of 16.4 km);
- in-and-out transformation of the existing rigid shunts towards Somplago station (132 kV), Cairo plant (132 kV) and Rubiera Nord (132 kV), Belpasso and Isili (150 kV) primary closets (approximately a total of 10 km);
- demolition of the rigid shunt towards Napoli Levante plant on the 220 kV Casoria-Castelluccia line (approximately 2 km less).

Total working triads increased by a total of 27 in the year.

National Transmission Grid Development Plan

On December 19, 2007, Terna's Board of Directors approved the new 2008 Development Plan.

The 2008 Development Plan, aiming at meeting field stakeholders' main objectives, was previously submitted to the evaluation of the Users Consultation Committee⁽¹⁾, who, on November 30, 2007, had expressed favourable opinion on the same.

The 2008 National Transmission Grid Development Plan presents numerous innovations in comparison to the past editions.

The structure of the document was modified in order to underscore the new infrastructures cited in the plan and, in the single events' description, the electrical benefits were better explained; more specifically, the document is made up of two sections. The first section ideally retraces the decisional process leading to the definition and planning of the National Transmission Grid development solutions and are described both new development needs that surfaced in the course of 2007 and those already presented in the previous Development Plans – the last being the 2007 Development Plan approved by the Ministry of Economic Development on April 11, 2007 – , which underwent substantial modifications from the electrical point of view, with the addition of one or more grid elements to the original formulation.

The second section is intended to provide a detailed picture of the progress of development interventions as provided for by previous Plans already approved, so as to represent an integrated support to the definition of the reference framework for future National Transmission Grid Development Plans. The interventions provided for by past Development Plans have already been considered in Terna's pre-emptive and voluntary negotiation talks with local and central administrations, aiming at developing the planning process so as to obtain preliminary territorial and environmental verification of planned works, in a period previous to the taking effect of Legislative Decree no. 152/06 "Environmental regulations".

The new Development Plan provides for new interventions in the 2008-2012 period for a total of euros 2.4 billion (up 13% in comparison to 2007 Development Plan).

Bringing all interventions to an end means a growth of approximately 42% of the number of high voltage lines and the construction of 104 new stations, increasing by 19% National Transmission Grid transformation power, for a total of approximately 22000 MVA. With a view to an environmentally sustainable electrical development, the construction of new infrastructure goes with rationalization projects that will bring territory occupation down by approximately 1200 km of old lines.

The 2008 Development Plan, which will be submitted for approval to the Ministry of Economic Development

⁽¹⁾ Users Consultation Committee, created with Prime Minister's Decree of May 11, 2004, following what provided for by Anti-trust Authority with Decision no. 14542 of August 4, 2005, expresses a non-binding opinion on the Development Plan

pursuant to Ministerial Decree of April 20, 2005, for the first time will also be submitted to strategic environmental compatibility pursuant to Legislative Decree no. 152/06 "Environmental Regulations".

Strategic Environmental Assessment (SEA) and the Integrated Planning Process

The 2001/42/EC Directive, concerning the assessment of the effects of certain plans and programmes on the environment, extends the environmental assessment, previously limited to the sole Environmental Impact Assessment for single projects having potential impact on the environment, to the planning and programming processes.

Already from 2002, Terna started experimentation of SEA, through protocol and framework agreements with Regions. Among the objectives of these instruments we find: sharing of the localizing choices of interventions, information and data exchange, predisposition of environmental report, expression of regional opinion on the Development Plan's contents in a more conscious and informed way, streamlining of the licensing process of projects positively evaluated by SEA.

The first Region to sign an agreement protocol for SEA experimentation was Piemonte in 2002, followed, up to now, by eleven Regions and the Autonomous Province of Trento (Picture 1). Agreement protocols with Liguria, Puglia, Latium and the Autonomous Province of Bolzano are currently in progress.

REGIONS SIGNING SEA AGREEMENT PROTOCOL OF NATIONAL TRANSMISSION GRID (PICT. 1)



The 2001/42/EC Directive was acknowledged on national level by Part 2 of Legislative Decree no. 152 of April 3, 2006 “Environmental Regulations”, which, after two postponements, became effective on July 31, 2007. With respect to this, on October 15, 2007 Terna activated the SEA procedure applied to its National Transmission Grid Development Plan, and, at the same time, the scoping phase, aiming at defining how to integrate environmental aspects within the Integrated Planning process, setting the criteria for the plan’s decisions. This scoping phase ended in January 2008 with positive judgement with observations by the Ministry for Environment – SEA sub-commission. The plan evaluation phase will follow, which will have to be joined to environmental report so as its environmental sustainability can be pre-emptively assessed.

The National Transmission Grid Development Plan is a peculiar plan, because it comes on a yearly basis and because it is complex, due to the need to coordinate and manage decision making processes both at national and regional level.

The articulation of the Integrated Planning process that leads to the definition of the development interventions can be formulated as follows.

The grid development needs are defined on the basis of energy demand forecasts, evolution of the production base, transmission grid progress conditions, present and pre-emptive electricity-related critical points.

Primal requirements are electricity-related and derive from grid studies on complex models. Infrastructures, in this phase, are not located unambiguously on the territory.

Later, through a shared process, the electrical requirement is translated into actions that can be at different stages, which, for long distance lines, are defined as follows (similar phases can be encountered in station planning):

- Macro alternatives: general localizing solution/s of an electrical requirement at strategic level, i.e. electrical hypothesis characterized by different electric input schemes of the intervention on the grid;
- Corridors: localizing solutions of an electrical requirement at a structural level, i.e. hypothesis, on equal terms of electric scheme, for the introduction of the intervention in the territory. It is a more detailed analysis aiming at identifying alternative corridors in the territory chosen by the strategically agreed macro alternative;
- Feasibility belts: localizing solutions of an electrical requirement at implementation level: inside a preferential corridor, portions of territory are defined, where it is possible to draw the path. It is a more detailed analysis for the choice of the preferential feasibility belt.

Once the preferential feasibility belt is agreed with the use of the EELL system, the intervention abandons the Integral Planning Process and enters the project phase, in which the procedures for environmental impact assessment and the request for construction and exercise permit are activated.

Agreements with bordering operators

During 2007 the following main agreements were signed:

- agreement on coordinated implementation of investments for reducing problems related to bottleneck in electrical power transmission on the Slovenian-Italian border, between Terna and ELEKTRO-SLOVENIJA, July 2, 2007;
- Memorandum of Understanding between Terna and French electrical operator RTE aiming at increasing electricity interconnection capacity between Italy and France and thus allowing growing safety in energy exchanges between the two countries, November 30, 2007;
- agreement with TIWAG-Netz AG “Supplement to the Declaration of Intention” for the construction of the new 110 kV IT-AT interconnection line, December 3, 2007.

Agreements with EELL on national level

- Memorandum of understanding with Region of Campania and Province of Napoli on the development interventions on the cable lines of future 220 kV S.E. Napoli Levante line, July 30, 2007;
- Agreement protocol with 9 out of 13 interested Municipalities, for the location of the feasibility belt of the 380 kV long distance line Redipuglia-Udine Ovest, July 30, 2007;
- Agreement between Province of Cosenza and Municipalities of Acri and Rossano for the implementation of works regarding the 150 kV Acri-Rossano line and the 220 kV Rotonda-Mucone line, July 31, 2007;
- Agreement protocol on SEA and Programme Agreement with Region of Abruzzo for the Canistro Morino bypass and the main works of Development Plan (“Villanova-Gissi” and “Fano-Teramo”), September 6, 2007;
- Agreement protocol with Municipality of Castegnaro for the location of 380/220 kV station and compensation works, September 6, 2007;
- Agreement protocol with Province of Reggio Calabria, Municipality of Scilla and ARPACAL, on the works for the 380 kV “Sorgente-Rizziconi” long distance line, as regards retrieval of material produced by the excavation of the tunnel for the cables of the new long distance line, September 13, 2007;
- Agreement protocol between Terna, Rome Municipality and ACEA for the reorganization of the National Transmission Grid and the HV distribution grid in the Rome Municipality, November 29, 2007.

State of authorizations

In 2007, 32 procedures were initiated, 18 of which are included in the Development Plan. Main Development Plan interventions are listed below.

Development Plan interventions started in 2007	Authorization request
Villeneuve-Avise, 220 kV no. 319 (EL-83/2007)	Law 239 - 16.03.2007
Underground cable bypass to the 132 kV "Boretto-S. Ilario" (EL-86/2007) long distance line	Law 239 - 23.03.2007
SE Troia (EL-87/2007)	Law 239 - 26.04.2007
New 220/132 kV S.E. of "Castegnaro" and long distance line link to 220 kV "Cittadella-Este" T. 22.268; "Dugale-Marghera 1a" T.22.209 (EL-92/2007)	Law 239 - 26.06.2007
Junctions (part of which in double circuit) for the introduction of the in-and-out link of the future 132 kV C.P. "SPIP" to the 132 kV "Parma V. San Quirico" long distance line, no. 607 (EL-93/2007)	Law 239 - 02.07.2007
150 kV links for the in-and-out introduction of the future 132 kV C.P. "S. Liberato" to the double circuit 150 kV long distance line "Attigliano-Nera Montoro", no. 23-044B1. (EL-94/2007)	Law 239 - 23.07.2007
New underground cable links to the C.P. Ionadi (VV) from the 150 kV "Feroletto-Gioia T. Ind.le c.d. Francavilla A." line (EL-95/2007)	Law 239 - 22.06.2007
Link between 380 kV "Marginone-Poggio a Caiano" and "Poggio a Caiano-Calenzano" long distance lines (EL-97/2007)	Law 239 - 31.07.2007
220 kV (on users' end) shunt bypass RIVA ACCIAIO (formerly known as "Galtarossa connection") in Verona and S. Giovanni Lupatoto (EL-98/2007)	Law 239 - 16.10.2007
New 220 kV underground cable long distance line "S.E. Grugliasco - S.E.132 kV Sud Ovest" (first part of the "Grugliasco-To Ovest") (EL-99/2007)	Law 239 - 30.08.2007
Reorganization and implementation of National Transmission Grid in Monfalcone (GO) and Trieste areas by means of technical adjustments and interventions on the 220 kV long distance lines	Law 239 - 29.11.2007
Renovation of the end sections of HV 220 kV long distance lines connecting National Transmission Grid and the future thermoelectric "Napoli Levante" plant	Law 239 - 06.12.2007
National Transmission Grid development intervention by means of construction of the new 132 kV underground cable duct "Randaccio-Lisert" line, in Montalcone (GO) and Duino-Aurisina (TS) municipalities; demolition of the 132 kV "Randaccio-Opicina" line, Carso Triestino area	Reg./Prov. - 10.12.2007
New Aliano power plant and 380 kV Laino-Matera long distance line and 150 kV line link to the station	Law 239 - 11.12.2007
Rearrangement of the 220 kV Vomano lines	Law 239 - 14.12.2007
Reorganization of the HV Electric Line in Venezia and Padova areas	Law 239 - 20.12.2007
132 kV cable long distance lines Fusina 2 - C.P. Sacca Fisola and "C.P. Sacca Serenella-C.P. Cavallino"	Law 239 - 20.12.2007
380 kV double triad long distance line, from the new S.E. in Chignolo Po to the new S.E. of Maleo and related works	Law 239 - 20.12.2007

In 2007, 27 decrees were authorised, 17 of which are included in the Development Plan; interventions pursuant to Law 387 and Region/Province laws are not included in the count.

The main Development Plan interventions are listed below.

Development Plan interventions authorised in 2007	Decree of Authorization
Renovation and upgrading of 132 kV line: "Bussolengo S. Salvar-Bussolengo M.A.-Bussolengo C.P.-Chievo C.P.-Chievo"	02.02.2007 Decree no. 239/EL-19/19/2007
132 kV "Fossano-Ut. Michelin Cuneo-S. Giacomo", T. 738 and "Magliano Alpi-Busca", T. 750 line exchange	02.02.2007 Decree no. 239/EL-25/20/2007
New 132 kV underground cable line: "Chievo-AGSM Verona Ricevitrice Sud"	02.02.2007 - Decree no. 239/EL-45/18/2007
220 kV switching station + 220 kV "Bussolengo-Marcara" line links, no. 254. In-and-out connection of Asm Del Mincio thermoelectric plant	03.04.2007 - Decree no. 239/EL-51/22/2007 Decree no. 239/EL-51/23/2007
132 kV line exchange "Fossano-Ut. Michelin Cuneo-S. Giacomo", T. 738 and "Magliano Alpi-Busca", T. 750	04.06.2007 Decree no. 239/EL-32/25/2007
Construction of links for the implementation of 132 kV "Bussolengo S. Salvar-Garda-Rivoli-Lizzana" line	20.06.2007 Decree no. 239/EL-21/26/2007
132 kV "C.P. Cairo Montenotte-Ut. Imation" long distance line, no. 814: link to "Cementilce" UT connection closet	20.06.2007 Decree no. 239/EL-67/27/2007
Implementation of the 132 kV line in the Lucca area	21.06.2007 - Decree no. 239/EL-50/29/2007
Transformation with total burying of the 132 kV "Forno-Edolo CP" aerial long distance line, no. 608	06.07.2007 Decree no. 239/EL-13/31/2007
Transformation with total burying of the 132 kV aerial long distance lines: "Forno-S. Fiorano C.P." no. 606 (with link to Cedegolo Edison), "S. Fiorano C.P.-Cedegolo" no. 609 + new cable "S. Fiorano C.P.-UT Fornileghe"	06.07.2007 Decree no. 239/EL-14/32/2007
Transformation with total burying of the 132 kV aerial long distance lines: "Temù-Sonigo all." no. 7001, "Sonigo all.-Edolo C.P." no. 7003; with link to Sonigo Edison	06.07.2007 Decree no. 239/EL-15/33/2007
220 kV "Taio-Cedegolo" line, T. 202 burying interventions on the "Sonico-Cedegolo" (BS) line	16.07.2007 Decree no. 239/EL-31/34/2007
S. Barbara-Tavarnuzze-Casellina	03.08.2007 - CIPE Resolution
Underground cable bypass HV 150 kV long distance line "C.P. Porto-Raffinerie", no. 422 and connection to future C.P. of "Interporto"	05.09.2007 Decree n. 239/EL-54/36/2007
Underground cable bypass of 150 kV "Candia-Camerata Picena 1" line no. 163, in "Baraccola"	05.09.2007 Decree no. 239/EL-57/37/2007
New Cedegolo station and connection of the aerial line	04.10.2007 - Decree no. 239/EL-35/40/2007
Reorganization of the National Transmission Grid in Val d'Ossola Sud, consisting in reconstruction of six 132 kV long distance lines	21.12.2007 - Decree no. 239/EL-39/44/2007

Undertaken initiatives for the reduction of environmental impact

In 2007, Terna carried on its many initiatives for the reduction of environmental impact of its plants.

More specifically:

- construction of nine new Foster pylons (winner of the “Sostegni per l’ambiente - Pylons for the environment” award), which will be placed on the new 380 kV Tavernuzze-Casellina long distance line in Autumn 2008;
- construction sites for important reorganizations are about to open, for example in Val d’Ossola Sud and Valcamonica, which will work at demolition of old existing lines and construction of new lines that adopt recent technologies and upgraded routes and set-ups, using, if necessary, underground cables; in particular, in Val d’Ossola, more than 40 compact, low land occupation and environmental impact pylons will be installed.
- as regards Fiumesanto SAPEI conversion station, a drainage of a vast area of the Nationally Relevant Polluted Site of Porto Torres was conducted; the activity is in line with Terna’s policy of maximum collaboration with local administrations and the Ministry for Environment; to this end, a collaboration with Cesi started, for the mapping of Nationally Relevant Polluted Sites falling into or by Terna’s plants’ areas;
- experimentation of high temperature conductors continues, allowing better use of existing lines without further land occupation, track modifications or bigger pylons;
- the low acoustic emission pylon project was outlined; in particular, 4-bundle conductors will be used, thus allowing the abatement of losses due to the so-called “crown effect” and subsequent abatement of acoustic emissions, which become particularly annoying in certain humidity or pollution conditions.

Implementation activities

Terna is committed to improvement of characteristics and reliability of the National Transmission Grid, through interventions deliberated and described by Development Plan interventions. The state of interventions in 2007 is listed below:

- under-water connection between Sardinia and peninsular electric grid named SAPEI: in the two conversion stations of Latina and Fiumesanto, civil works are currently being carried out for the construction of buildings that will host technologically advanced electric equipment. Under-water cables are being laid: more than 50 km cables have been laid up to now;
- 400 kV Matera-S. Sofia long distance line: works for the construction of Matera-S. Sofia long distance line

was completed and it became operational in June 2007. Construction of the S. Paolina bypass is in progress;

- Val d'Ossola reorganization: executive design is over; at the same time the procurement of necessary materials was almost completed, and predisposition of tenders for the construction is in progress. Construction sites will open in 2008;
- connection of Moncalieri Iride plant: preliminary design activities begun; procurement of materials is in progress, including cables, which were already tested and delivered. Construction sites will open in 2008;
- new 400 kV Priolo station: construction of the station are about to be completed; the station will become operational in 2008;
- new 400 kV Palo del Colle station: 70% of the construction work was carried out; the station will become operational in 2008;
- S. Barbara-Tavarnuzze-Casellina: procedures for authorization, as well as materials procurement, are in progress. Designing was completed;
- new Sorgente-Rizziconi alternating current connection: executive design has begun.

Relevant O&M activities

The following operating and maintenance activities were commenced or completed in 2007, for the purposes of a safe and high-quality electrical service:

- full operational use of the MBI system, both for stations and lines (expert system to support maintenance activities), which optimizes maintenance work, carried out almost exclusively through diagnostic check-ups. In particular, diagnostic models were updated and improved from experience both for stations and lines;
- continuance of the pluriennial plan to replace old high-voltage machinery, in order to reduce the overall age of machines;
- a massive campaign was commenced to replace oil break with analogue SF6-isolated equipment, essentially safer;
- continuance of the campaign to replace glass insulators with insulators in other composite material or in glass precoated with silicon resin to eliminate their vulnerability in highly polluted areas (saline-industrial/agricultural pollution);
- increase in maintenance or renovation to be carried out with the live technique;
- experimentation and laboratory analysis propedeutical to the full utilization of prognostic techniques in diagnosis the integrity of composite material insulators through equipment based on ultra-violet rays to measure the "crown effect";

- the first phase of the remotization campaign of the information related to localization of faults on the HV lines was completed, where the potentialities of the oscilloperturbography machinery already installed in stations could be used; moreover, a plurennial implementation plan was commenced, through the installation of new equipment or utilization of existing numeric protection, for the complete coverage of the HV network;
- a plurennial campaign was commenced for the implementation of local communication infrastructures in electric stations, allowing the introduction at riser level of remote monitoring and diagnosis equipment;
- a work group is active in securing lines using remote technologies, by changing station and control system equipment, so that line and ground knife switches and the “special operating mode” function can be secured remotely. This was done so that work could be carried out on the lines using traditional methods or live safely, without having to send personnel to the relevant stations. Experimental installation of the first device was carried out at year end.

COMPANY SAFETY

Terna manages vulnerability of the electrical system with cutting-edge and high-level technical and organizational solutions, which apply both through internal processes and systems and procedures and prescriptions valid for all national electricity operators.

In order to respond to growing security demands, in 2007 Terna created the Company Safety Department, aiming at creating a significant plan for boosting its safety instruments and defining a structured analysis, management and control system of company risks.

The approach used by Terna appears to be totally in line, if not even preceeding, with upcoming trends, at European level, on protection and safety policies for Critical Infrastructures, which are being formally defined following the resolution of European Commission at the end of 2006 and the substantially positive opinion of the European Parliament on a uniform regulation of the matter.

Security Operations Center

In 2007, the Security Operations Center project was started, aiming at:

- **continuous monitoring** of all company safety aspects;
- **centralization and integration of control**, with reference both to logical security (safety of systems and management and process applications, of telecommunication networks and distributed IT and office automation infrastructures), and physical safety (anti-intrusion and video-surveillance systems, access control systems, etc.);
- **measuring** of actually achieved performances;
- start of **continuous improvement** of the safety process.

The first phase of the SOC site preparation was completed, with the predisposition of the control room, the server room and all the technological equipment necessary to operate the centre.

Control of management systems

In 2007, Terna obtained from IMQ certification on the following management systems:

- environment (UNI EN ISO 14001:2004);
- security at work and health protection (standard OHSAS 18001:1999).

Physical safety

Terna defined new protection and surveillance systems, coherent with their level of importance for the functioning of the electrical system and adequate for the number and type of hostile events which they must actually or potentially face.

For this purpose, and for the first time in Italy, Terna applied a risk analysis methodology to evaluate Physical Risk, related to the actual or potential intentional damages, and Electric Risk to all 357 stations; on the base of the “role” that each plant plays in the national electricity system, derived by assigning a risk index to each station according to effective criticality, a pluriennial plan of interventions was developed.

Fraud Management

In 2007, in the framework of the Company Safety Department, the Fraud Management Function was created. Its main objective is to carry out all necessary actions for the protection and safeguard of Company assets (tangible and non tangible resources, direct and induced benefits) and to support all Departments/Functions in compliance activities aiming at verifying their correct implementation of laws, regulations, procedures, codes of conduct, and best practices, in order to reduce and/or prevent risks of fines, protecting Company image.

INFORMATION TECHNOLOGY

2007 was a significant year as regards Information & Communication Technology for Terna, leading to results that are summarised below:

1. achievement of benefits for business deriving from completion of important plurennial projects;
2. boost to ICT infrastructure development as key asset for security and implementation of the National Transmission Grid;
3. achievement of business benefits and efficiency in the ICT management.

1. Achievement of benefits for business deriving from completion of important plurennial projects

- **Improvement of National Electricity System security** - National Electricity System security was strengthened through a series of interventions that allowed improvement of Control and Conduction system efficiency as regards both directly controllable grid perimeter, grown by more than 10,000 MW, and the enrichment of the functional component as regards introduction of instruments to support the operator in the re-boot phase of grid portions following a disconnection.

Moreover, effectiveness of Defence System was improved, through the extension of disconnectable loads (i.e. pumping plants) and improvement of disconnection logic.

- **Operating continuity** - Continuity of critical operations for the electricity system was strengthened through the Disaster Recovery project. Real time control activity continuity, carried out at National Control Centre and at the regional control and conduction centres, is guaranteed through a series of geographical redundancies and business continuity management systems that allowed to enable a functioning model without interruption.

Also the telecommunication infrastructure was strengthened through the activation of a back-up network completely independent from the main network, making it possible to raise significantly the general availability level of the network infrastructure.

- **Quality of service for dispatching users** - A series of interventions allowed improvement for the dispatching users, with particular reference to settlement and metering processes. As regards settlement, procedures were updated following a series of AEEG resolutions concerning surety bond calculations, interruptibility service invoicing, invoicing of economic items related to rights over the transport capacity with foreign countries and management of term contracts. Metering was significantly improved as regards both performance and functioning, with benefits for planning of requirement and wind generation forecasting.

- **Process improvement** - Significant improvements were achieved in operating process and, in particular, in grid elements and production unavailability management, with reference to operating activities integration between Dispatching and Conduction and Plant Maintenance.

2. Boost to ICT infrastructure development as key asset for security and implementation of the National Transmission Grid

- **Proprietary data transport infrastructure** - In 2007 Terna invested euros 43.5 million for obtaining the right to use exclusively, for 20 years, a pair of optic fibres, for a total length of approximately 11,000 km over the national territory. Such a transmission capacity will allow the implementation of a new grid that will reach 70% of electric stations (100% of the 380/220 kV stations). The main objective of the grid infrastructure of the proprietary fibre network is to strengthen data transmission security and improve the supervision capacity and the performance of manoeuvres on plants, especially in critical situations.
- **Data Centres rationalisation** - A series of initiatives was carried out to rationalise data elaboration centres both as regards the number of centres, and IT systems in the centres. In particular, as regards the latter, rationalisation actions focused on: 1) dismissal of proprietary systems and adoption of standard platform allowing a better ratio between performance and costs; 2) adoption of virtualized environments that allow better exploitation of resources.
- **Digital conveyed waves** - In 2007, Terna, together with the main market operator for routing systems, developed a technology that allows integration of digital conveyed waves systems – radio connections that use electric grid conductors as a propagation medium – into Terna's WAN. This makes it possible to exploit the whole national electric backbone as data transmission network, increasing reachable stations via direct connection and improving general reliability on data transport infrastructure. The new technology is already working in Sicily, and extension to the rest of Italy is planned for the next few years.

3. Achievement of business benefits and efficiency in the ICT management

- 2007 final statements saw a significant reduction of ICT costs. The main intervention area is that of telecommunications, down 40% on 2006, due to a series of interventions for both technical optimization and contractual aspects. The main optimization interventions referred to dismissal of the old telegraphic data transmission network, used in the old Control and Conduction system, and to the gradual introduction of a proprietary data infrastructure based on the optic fibre network and on the conveyed waves network.

Further efficiencies were achieved in the operation and maintenance of IT systems, where adoption of an insourcing strategy allowed improvement of both intervention effectiveness and cost of service.

Information Technology - company processes

In 2007 important projects for the improvement of company processes were commenced.

The most significant are listed below:

- SAP
 - upgrade of SAP to 6.0 release with a total renovation of technological infrastructures supporting SAP and upgrade of software to 6.0 version;
 - SAP Brazil project, that will make it possible for Terna Participações to use SAP corporate systems without further costs but for the initial start-up for the localization of the system;
- design of new e-procurement systems, replacing existing ones inherited from ENEL (ARIBA + custom solutions for suppliers master);
- over the territory, many renovation projects were started for workstations aiming at transferring server rooms in the single AOT headquarters;
- completing of the spin-off phase for the systems/applications at ENEL with take-charge of cartographic and e-procurement systems by Terna; this determined the total cancellation of OPEX to be paid to ENEL for operation activities.

Some of these projects have been fully implemented in 2007 and others, due to their complexity, will be completed in 2008.

Information Technology - logic security

Protection of information has always been a strategic element for Terna, fundamental for efficiency, and business continuity, for the compliance with regulations and for image protection.

As regards security improvement of information and IT and communication support technologies, in 2007 Terna made a concrete decision, starting, under Safety Department guidance, a virtuous path for a boost to information security governance that follows best practices and most adopted international standards.

This choice is based on the introduction of a structured model of Information Security Management System (ISMS), which follows the ISO/IEC 27000 standard, allowing, once fully operational, to facilitate

management and control of company information and the instruments that process them, safeguarding basic confidentiality, integrity and availability requirements.

This model also allows Terna to be in optimal conditions for obtaining the ISO/IEC 27001 (formerly BS7799) certification, which demonstrates Company's real sensitivity towards information security and privacy and therefore further added value for the Company.

The model implemented in 2007, characterized by an organic collection of procedural, organizational, physical and logical measures adapted to Terna's context, will be progressively adopted by Terna from 2008, giving priority to critical ICT processes and platforms.

This decision is particularly important for Terna because, in the market and relations scenario in which the Company operates, are growing both dependency of the national electricity system on ICT infrastructures and, progressively, the number of internal and external subjects that must be granted access to information and, accordingly, the need to facilitate secure modes of exchange.

HUMAN RESOURCES AND ORGANIZATION

Organizational structure

At the end of 2007 Terna's organizational structure is operative as follows:

- Audit Department, reporting directly to the Chairman
- Departments reporting directly to CEO
 - Procurement and Tenders
 - Administration
 - Finance and Control
 - Communications and External Relations
 - Regulatory Affairs
 - Institutional Affairs
 - Personnel and Organization
 - Corporate Office and Legal Affairs
 - International and Business Development
 - Company Safety
 - Italian Operations, which includes the following Departments:
 - Grid Planning and Development
 - Engineering
 - Dispatching and Conduction
 - Plant Maintenance
 - Investor Relations Department, reporting directly to the CEO.

This organizational structure is the result of a series of changes made during the year.

In particular:

- on February 1, 2007 the Company Safety Department was created, aiming at:
 - defining company risks management and control methodology;
 - developing policies and implementing plans for the protection of Company's tangible, human and financial assets;
 - defining policies and direction to guarantee continuity, confidentiality, integrity and authenticity of information;
 - monitoring the state of operating security of the various ICT platforms.

In 2007, the same Department was assigned the Safety, Company Assets and Facility Management;

- on March 1, 2007, the new structure of the Dispatching and Conduction Department was approved, which, moreover, was assigned the activities related to process IT from the former Systems and Technologies Department; activities related to management IT, on the other hand, passed to Personnel and Organization Department, whose new organizational structure was approved on May 1, 2007;
- on July 1, 2007, within the Administration, Finance and Control Department, the Administrative and Accounting Procedures and Systems Function was established, in line with the dispositions regarding the “Executive in charge of the preparation of the accounting documents” as provided for by Law no. 262 of December 28, 2005 “Measures for the safeguard of savings and discipline of financial markets” and following;
- on September 17, 2007, within the Company Safety Department, the Management System Support was established and was assigned the activities of: Environment Management System Support, Company Quality Management System Support, as well as verifications for the quality and monitoring of preventive and corrective actions;
- on October 15, 2007, finally, pursuant to the Board of Directors' Resolution of May 24, 2007 and following the appointment of the Executive in charge of the preparation of company's accounting records, the Administration, Finance and Control Department was divided into two Departments, reporting directly to the CEO: “Administration” and “Finance and Control”.

Human resources

Changes in the number of Terna S.p.A. employees are shown below.

Change in the workforce	TERNA		
	at Dec. 31, 2007	at Dec. 31, 2006	Change
Managers	68	71	-3
Junior managers	464	431	33
White collars	1,875	1,816	59
Blue collars	1,088	1,049	39
TOTAL	3,495	3,367	128

The figures for both years are net of retirement with effect from December 31.

Increase in number is mostly imputable to integration, in Terna S.p.A. personnel, of RTM1, RTM2, RTL and RTT personnel (for a total of 115 resources), as well as to the empowerment of the organizational units deployed in facing the requirements of the investment plan, which was possible also thanks to the integration of new resources and continuance of the Plan for leaving incentives.

In line with the Company's strategic directions, in 2007 the main training activities for managers and junior managers were focused on the development of excellence skills and support to the "sustainable" growth of the Company, both internally, and externally.

In particular, using the competitive team business game method, a group of junior managers was involved in an initiative aiming at consolidating/developing skills and sensibilities on value generation dynamics within the Company.

Moreover, a group of managers and junior managers from all Departments was assigned to a "training and training on the job" path, aiming at supporting the Company's internationalization. With the support of external consultants and Company's top management, as discussant, themes related to internationalization trend and creation of value, with particular reference to the electric sector, were treated.

Finally, a training plan on the management and development of human resources was implemented, addressed with specific instruments to the Company managers, and whose completion is due in 2008. In particular, in the last part of 2007 an initiative addressed to the top management started with a cycle of thematic workshops to which international experts contributed.

Training initiatives were addressed to develop soft skills addressed to the newly hired personnel. In particular, the Development Center activity was completed; it involved all graduates hired between 2003 and 2005 and on the basis of the results, a plan of focused training activities was implemented and will be

addressed to them in 2008. The support activity for young graduates and graduated hired between 2006 and 2007 through specific training initiatives and the usual company presentation activity, with the intervention of Company managers and experts and salutation by the Company top management.

Specialised training is significant and growing on 2006, aiming at supporting the technical-professional skills and/or introduction of new systems and technologies that involved junior managers and most of the white and blue collars of the Italian Operations Department.

Notable is the training attention devoted to safety and environment, which are part of a specific plan that will be started in 2008.

A training campaign, both traditional and online, on Model 231 involved all personnel.

In brief, in 2007, 3,394 resources participated in at least one training course. Training hours increased by more than 24% on 2006.

People Satisfaction

At the beginning of 2007, the first People Satisfaction Survey on the organisational environment was carried out; it involved all employees, using both the online platform and paper. Results were published on the Company intranet and later submitted to focus groups in which all managers participated.

Following what came out of the survey, an action plan was implemented for 2007-2008, called "Terna People Care", to carry out improvement initiatives on various issues (communication, people management, etc.), partly implemented at the end of 2007 and to be further developed throughout 2008.

Managerial incentive plans

Short-term managerial incentive schemes include an MBO plan for 2007 addressed to senior and middle management, related to the achievement of individual, department and Company performance objectives. As regards long-term incentive schemes, Terna S.p.A. Board of Directors, on the meeting of March 21, 2007, verified fulfillment of exercise conditions for the options assigned to the 2006 stock option plan. Following this control, all assigned options resulted to be exercisable (within the vesting limits of the plan). In particular, 30%, equal to 2,997,600 options, of total assigned options (9,992,000), became exercisable in 2007. The number of options exercised in 2007 was 478,600.

A long-term cash-based incentive plan based on the achievement of long-term objectives was set up for managers not benefiting from the 2006 stock option plan.

Relationships with the unions

As regards sector, in the second half of 2007, talks with the unions led to negotiations to renew the national labour contract for employees in the electricity sector, from July 1, 2007 to June 30, 2009.

The agreement for this renewal – signed on December 18, 2007 by Assoelettrica, Federutility, Enel S.p.A., Terna S.p.A., GSE S.p.A. and Sogin S.p.A. – provides for an average increase in the minimum contractual remuneration of euros 116, with the payment of a lump-sum average of euros 400.

According to the agreement, from January 1, 2009 companies will pay in an additional fixed amount of euros 3 per month to employee pension funds (FOPEN, for Terna), for each employee who subscribed to those funds.

As regards Company negotiation, on May 17, 2007 an agreement record was signed with the national unions which defined the amounts for 2007 and 2008 to be allocated to the result prize. The total allocation, which in 2006 was an average of euros 1,330, increased up to euros 1,430 for 2007 (with reference to 2006 results) and to euros 1,550 for 2008 (with reference to 2007 results).

Developments

In order to emphasize Company human resources and skills, Terna will adopt a new integrated model of human resources management and development, the Performance Management System (PMS). The PMS is a system through which Terna will establish a relation between business strategy and people value. It makes indeed possible to: communicate, by clearly stating Company expectations and translating business objectives into individual/team objectives; steering behaviours coherently with business strategies; measure performance focusing on objective results and observable behaviours.

The Performance Management System is a development instrument aiming at stimulating constant dialogue between employees and company, supporting managers and collaborators in the performance feedback process, necessary for the achievement and improvement of Company results.

As regards human resources development and training, in 2008 it will be fulfilled what provided for by “Terna People Care” plan. In particular, on the one hand all specific initiatives for people management, involving all resources heads at various levels, will be deployed, and on the other hand all specialised training activities will be developed through the “Campus Terna” project.

“Campus Terna” will propose focused and qualifying training courses (basic level, functional area level and specialised) for both new and existing employees, through enhancement and systematization of resident

know-how and activation of virtuous circles of collaboration between the Company and the external excellence centres.

Moreover, the commitment to sustainable growth training will go on, with dedicated initiatives and events. The Development Center methodology will be extended as training/development instrument of “young” resources to consolidate a focused and personalized approach, according to their education background and their soft skills.

In the first months of 2008, finally, a new survey on the organization environment involving all personnel will be carried out; its results will be used to further develop the existing action plan.

EXECUTIVE IN CHARGE OF THE PREPARATION OF THE ACCOUNTING DOCUMENTS

Law no. 262 of December 28, 2005, and subsequent modifications, introduced new measures for the protection of savings and the discipline of the financial markets.

The reform of savings instituted the new mandatory role of the Executive in charge of the preparation of the accounting documents, who is in charge of key auditing functions (new art. 154 *bis* of Consolidated Finance Act).

In particular, fifth paragraph of art. 154 *bis* of Consolidated Finance Act, introduced with Law no. 262/2005, demands from delegated bodies and the Executive in charge of the preparation of the accounting documents to attest with appropriate attachments to the financial statements, half-year report, consolidated financial statements, the adequacy and the effective application of the administrative and accounting procedures.

In such normative context, Terna made all necessary bylaws modifications, introducing the figure of the Executive in charge and delegating the appointment to the Board of Directors with the prior approval of the Board of Auditors.

In order to concur in the release of the attestations pursuant to paragraphs 2 and 5 of art. 154 *bis* of Consolidated Finance Act, in 2007, Terna started and completed a specific plan with the objective to define the operating modalities for the appraisal of Internal Control System that supervises the writing of the financial statements. Such plan involved all Group Departments and brought to the preparation of the administrative/accounting procedures pursuant to paragraph 3 of art. 154 *bis* of the Consolidated Finance Act, through an identification, management and monitoring process of primary risks related to the preparation of financial statements.

RESEARCH AND DEVELOPMENT

Terna focuses on research and development with the aim of introducing technological solutions for plants, instruments and methods in order to boost the reliability of plants and, consequently, service quality, while making company processes more efficient.

A group of experts works in the field of engineering by carefully monitoring the functioning of equipment, with the support of a specialized IT system (MBI). This group constantly looks for improvements to be made to the equipment.

In particular, in 2007, the following projects were identified and implemented, or are being implemented:

- improvement of seals to reduce SF6 gas leaks (and reduce faults in equipment as well as gas emissions);
- use of containers made of composite materials (silicones) to replace porcelain, to reduce the effects of faults and, accordingly, damage to people and things;
- specification of new machinery to regulate voltage (reactors and capacitors) and to regulate flows (PSTs - Phase Shift Transformers);
- introduction in the Brugherio 400 kV station of three new transformers of energy and voltage metering with highly innovative, safe and almost maintenance-free electrooptic transmission;
- introduction of compact integrated high-voltage equipment systems, to reduce the amount of space they occupy, as well as construction and management costs;
- new diagnostic methods for line insulators;
- new types of line conductors to increase transmission capacity;
- new station design software.

These activities were carried out by internal resources also operating in work groups – to encourage the spread of knowledge throughout the Company – and with the specialized assistance of builders, universities and especially the associate Cesi S.p.A.

With reference to the accounting treatment of Research and Development expenses, reference should be made to the “Intangible assets” paragraph under section “A) Accounting principles and measurement criteria” in the Notes to Terna S.p.A. Financial Statements at December 31, 2007.

RELATED PARTY TRANSACTIONS

On April 19, 2007, as described earlier, Cassa Depositi e Prestiti S.p.A., which owns 29.99% of Terna S.p.A., notified to the CONSOB that it had verified that it controlled S.p.A.. The assessment was based on the following elements:

- the composition and breakdown of the shareholding structure;
- events at particularly significant shareholders' meetings;
- the composition of the Board of Directors.

In consideration of what stated beforehand, Terna's 2007 related party transactions are represented - apart from subsidiaries and associates and pension funds for employees (Fondenel and Fopen) - by relations with companies of the:

- GSE Group;
- Enel Group;
- Eni Group;
- Ferrovie dello Stato Group;

and with ANAS S.p.A..

The Company's corporate governance rules, which are detailed in the specific report published jointly to this Director's Report and attached to the present Financial Statements, to which reference should be made, establish the necessary conditions to ensure that related party transactions are carried out correctly, in terms of procedure and substance and at the same conditions that would be applied to transactions with third parties.

The nature of Terna's assets and liabilities in related party transactions at December 31, 2007 are indicated in the notes to the individual financial statements captions and in the specific section "Related party transactions" to which reference should be made.

The relations with members of the Board of Directors and the Board of Auditors of the Parent Company, with particular reference to remuneration, bonuses and incentives, are detailed in the notes to the captions "Personnel cost" and "Services", respectively.

Shares held by Directors, Statutory Auditors, General Managers and Key Managers

As required by the provision of art. 79 of CONSOB Resolution no. 11971/99, the following table lists the shares of Terna S.p.A. and the companies under its control held by Directors, Statutory Auditors, and General Managers, in addition to their spouses (unless legally separated) and minor children, either directly or indirectly through subsidiaries, trustees or nominees, as per the shareholders' book, communications received or other information obtained from the members of the Boards of Directors and Statutory Auditors, and General Managers. These include all those persons who, in 2007, filled the office of Director, Statutory Auditor, and General Manager.

INFORMATION ON SHARES HELD BY DIRECTORS AND STATUTORY AUDITORS

	Company in which the investment is held	Number of shares at the end of the previous year (2006)	Number of shares acquired (in 2007)	Number of shares sold (in 2007)	Number of shares at the end of the current year (2007)	Type of ownership ⁽¹⁾
Luigi Roth	Terna S.p.A.	0	0	0	0	-
	Terna Participações	1	0	0	1	Ownership
Flavio Cattaneo	Terna S.p.A.	0	0	0	0	-
	Terna Participações	1	0	0	1	Ownership
Luigi De Paoli	Terna S.p.A.	9,341 ⁽²⁾	679	0	10,000 ⁽³⁾	Ownership
Mario Garraffo	Terna S.p.A.	0	0	0	0	-
Claudio Machetti ⁽⁴⁾	Terna S.p.A.	0	0	0	0	-
Salvatore Machì	Terna S.p.A.	0	20,000 ⁽⁵⁾		20,000 ⁽⁶⁾	Ownership
Carmine Macrì	Terna S.p.A.	0	0	0	0	-
Piero Giuseppe Maranesi	Terna S.p.A.	0	0	0	0	-
Vittorio Rispoli	Terna S.p.A.	0	0	0	0	-
Franco Smurro	Terna S.p.A.	0	0	0	0	-
Massimo Romano ⁽⁷⁾	Terna S.p.A.	13,200	0	0	13,200	Ownership
Giovanni Ferreri	Terna S.p.A.	0	0	0	0	-
Giancarlo Russo Corvace	Terna S.p.A.	0	0	0	0	-
Roberto Tasca	Terna S.p.A.	3,000	0	0	3,000	Ownership
Vito Di Battista	Terna S.p.A.	0	0	0	0	-
Bruno Franceschetti	Terna S.p.A.	0	0	0	0	-

⁽¹⁾ this column - which is in addition to the format provided by appendix 3C) of art. 79 of CONSOB Resolution no. 11971/99 to indicate the information required - is shown if the investment is held as a result of ownership, a pledge, beneficial ownership, on deposit, as collateral, etc.

⁽²⁾ including: 6,740 personally and 2,601 held by his spouse

⁽³⁾ including: 7,000 personally and 3,000 held by his spouse

⁽⁴⁾ in office since March 21, 2007

⁽⁵⁾ including: 20,000 held by his spouse

⁽⁶⁾ including: 20,000 held by his spouse

⁽⁷⁾ in office until March 16, 2007

OTHER INFORMATION

Treasury shares

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

Personal data protection code (Legislative Decree no. 196 of June 30, 2003)

In 2007, Terna S.p.A. updated, within the term provided for by law, the Personal Data Protection Code (Legislative Decree no. 196 of June 30, 2003) and during the year prepared a newer version (revision 0.1 – 2007) to consider some organizational changes occurred in the first half of 2007.

Information on shareholding structure

Information demanded by art. 123 *bis* “Information on shareholding structure” of the Single text containing the provisions concerning financial intermediation is presented in one separate relation (Attachment - Corporate Governance) published jointly to the Directors' Report.

Significant non-recurring events and operations, atypical or unusual transactions

In 2007, no significant, non-recurring events and operations, atypical or unusual transactions were carried out, either with third parties or with related parties.

SUBSEQUENT EVENTS

2008-2012 Business Plan

On January 31, 2007, Terna presented financial analysts with its 2008-2012 Business Plan, approved by the Company's Board of Directors.

The Terna Group's 2008-2012 Business Plan focuses on four main guidelines:

- development of the National Transmission Grid: the investment plan provides for total expenditure of euros 3.1 billion from 2008 to 2012 with an increase of euros 400 million on the previous plan.
Development investments account for 80% of total investments, up from euros 2.2 billion to euros 2.5 billion;
- cost cutting with an increase in profit margins: in particular, by rationalizing costs for regulated activities in Italy. In the plan period, costs related to the Business Unit Italy will be reduced by approximately euros 50 million on 2006 on a like-for-like basis. Gross operating margin is expected to grow by 71% to 75% at the end of the plan period due to gradual growth of revenues;
- guaranteed high security of the electrical system and reliability of the domestic transmission grid in line with the provisions of Regulation Authority and the international best practices;
- Brazil: creation of value by developing operating efficiencies, also related to recent acquisitions.

Credit rating confirmation

On February 13, 2008, Standard & Poor's Ratings Services confirmed Terna's long-term rating of AA- and short-term rating of A-1+. Outlook was changed from stable to negative.

Standard & Poor's, following presentation of the new business plan, highlights the possible negative financial impact of the investments scheduled for the development of the National Transmission Grid and of the growth strategy of the Company.

Agreement with Region of Piemonte for the sustainable development of the transmission grid

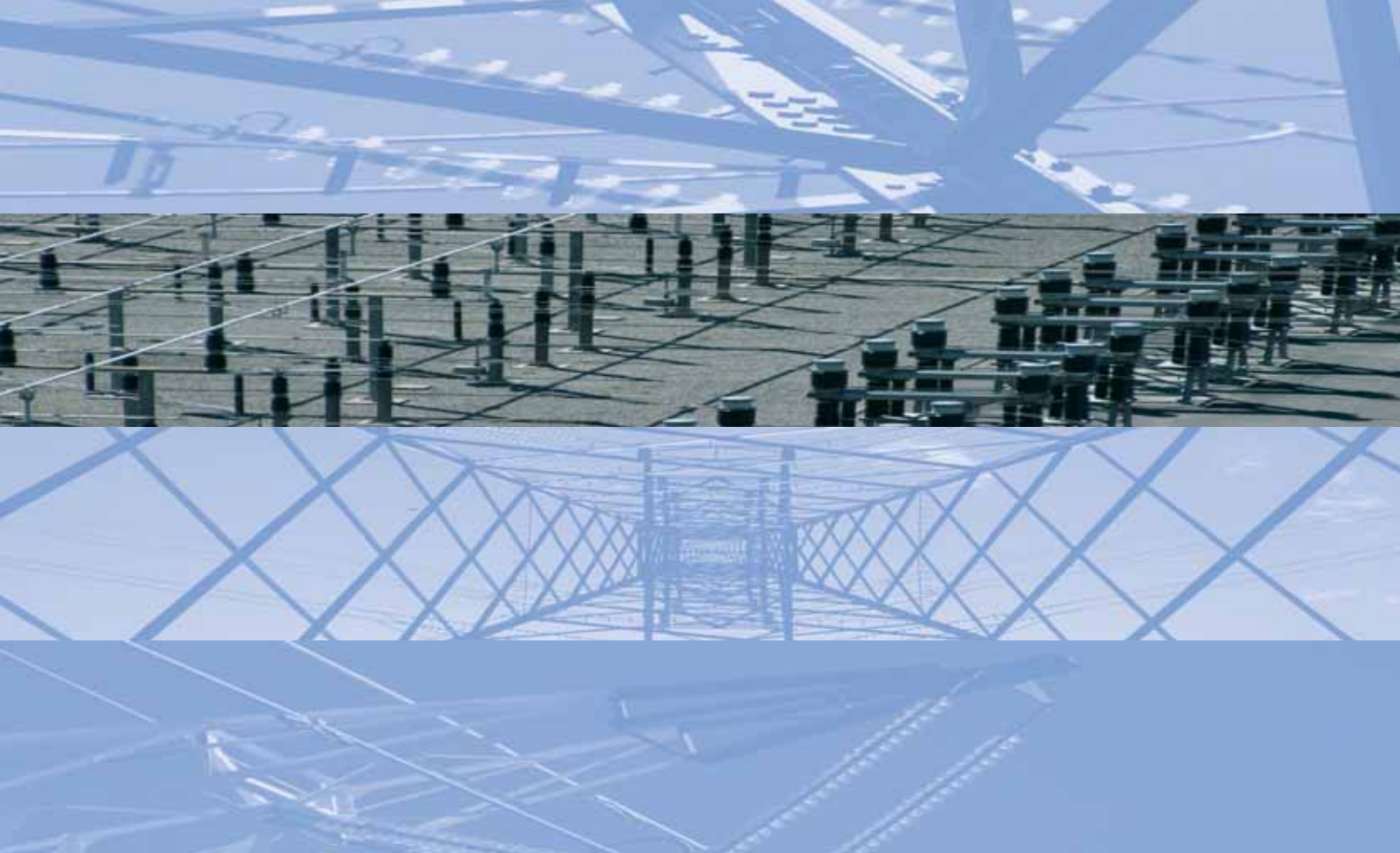
On February 27, 2008 Region of Piemonte and Terna signed a Programmatic Agreement on strategic objectives for the powering and rationalisation of the transmission electric grid in Piemonte. The aim of this agreement is to increase safety and quality of service and to eliminate congestions, increasing transported power, improving grid accountability and reducing environmental impact of long distance power lines. Terna scheduled investments in Piemonte amounting to more than euros 600 million in the next years, which accounts for more than 11% of the total amount allocated for interventions on safety, renovation and accountability on the high-voltage transmission grid in Italy.

OUTLOOK

2008 will be focused on the implementation of 2008-2012 Business Plan, approved by the Board of Directors and described in “Subsequent events”. In particular, the Company will be engaged in the accurate implementation of the investments under the Development Plan and in the achievement of operating efficiencies maintaining at the same time the objective of maximum quality of service.

Terna will continue in pursuing the objective of the unification of the National Transmission Grid by acquiring the remaining portions of the grid owned by other operators and will continue to seek **investments opportunities abroad**, with particular focus on profitability and low-risk profiles.

As widely described in the specific section, Terna will aim at empowering and **developing human resources** through the implementation of the Performance and Talent Management systems.



ACCOUNTING PROSPECTS 2007

INCOME STATEMENT

In euros	Notes	2007	2006	Change
A) REVENUES				
Revenues from sales and services	1	1,087,315,715	1,078,595,744	8,719,971
<i>of which from related parties</i>		1,110,324,530	2,010,860	1,108,313,670
Other revenues and income	2	34,076,725	31,616,824	2,459,901
<i>of which from related parties</i>		4,488,575	185,944	4,302,631
Total revenues		1,121,392,440	1,110,212,568	11,179,872
B) OPERATING EXPENSES				
Raw materials and consumables	3	16,219,229	18,138,373	-1,919,144
<i>of which to related parties</i>		1,127,560	0	1,127,560
Services	4	111,997,091	123,699,941	-11,702,850
<i>of which to related parties</i>		13,864,583	865,350	12,999,233
Personnel expenses	5	229,542,678	236,964,485	-7,421,807
<i>of which to related parties</i>		2,972,236	1,653,877	1,318,359
Amortization, depreciation and impairment losses	6	210,807,937	202,185,248	8,622,689
Other operating expenses	7	15,202,598	15,035,562	167,036
<i>of which to related parties</i>		825,044	0	825,044
Capitalized internal work	8	-48,912,822	-36,578,279	-12,334,543
Total expenses		534,856,711	559,445,330	-24,588,619
OPERATING PROFIT A-B		586,535,729	550,767,238	35,768,491
C) FINANCIAL INCOME/EXPENSES				
Financial income	9	69,395,413	92,276,709	-22,881,296
<i>of which to related parties</i>		59,703,674	40,138,958	19,564,716
<i>of which non-recurring</i>		0	38,372,363	-38,372,363
Financial expenses	9	-102,253,116	-76,202,356	-26,050,760
<i>of which to related parties</i>		-535,388	-243,128	-292,260
D) PROFIT BEFORE TAXES		553,678,026	566,841,591	-13,163,565
E) INCOME TAXES	10	146,984,993	211,084,064	-64,099,071
F) PROFIT FOR THE YEAR		406,693,033	355,757,527	50,935,506
Basic earnings per share	11	0.203	0.178	0.025
Diluted earnings per share	11	0.202	0.177	0.025

BALANCE SHEET ASSETS

In euros	Notes	at Dec. 31, 2007	at Dec. 31, 2006	Change
A) NON-CURRENT ASSETS				
Property, plant and equipment	12	4,519,613,676	4,148,983,318	370,630,358
<i>of which from related parties</i>		45,034,420	7,626,272	37,408,148
Intangible assets	13	160,679,527	159,220,967	1,458,560
Deferred tax assets	14	48,007,015	54,593,067	-6,586,052
Non-current financial assets	15	664,752,683	676,644,564	-11,891,881
Other non-current assets	16	4,814,880	5,335,162	-520,282
Total non-current assets		5,397,867,781	5,044,777,078	353,090,703
B) CURRENT ASSETS				
Inventories	17	12,565,123	7,740,090	4,825,033
Trade receivables	18	1,513,630,656	1,163,743,876	349,886,780
<i>of which from related parties</i>		189,471,856	1,778,030	187,693,826
Current financial assets	15	900,634	2,624,109	-1,723,475
<i>of which from related parties</i>		0	452,739	-452,739
Cash and cash equivalents	19	130,556,229	36,094,437	94,461,792
<i>of which from related parties</i>		7,446,167	20,760,682	-13,314,515
Other current assets	16	33,423,727	17,300,730	16,122,997
<i>of which from related parties</i>		2,647,215	0	2,647,215
Total current assets		1,691,076,369	1,227,503,242	463,573,127
TOTAL ASSETS		7,088,944,150	6,272,280,320	816,663,830

BALANCE SHEET LIABILITIES

In euros	Notes	at Dec. 31, 2007	at Dec. 31, 2006	Change
C) EQUITY				
Share capital		440,105,292	440,000,000	105,292
Other reserves		817,043,140	813,472,188	3,570,952
Retained earnings		474,178,657	398,436,016	75,742,641
Interim dividend		-112,026,802	-106,000,000	-6,026,802
Profit for the year		406,693,033	355,757,527	50,935,506
Total equity	20	2,025,993,320	1,901,665,731	124,327,589
D) NON-CURRENT LIABILITIES				
Long-term loans	21	2,351,735,716	1,947,525,103	404,210,613
Termination benefits and other employee-related provisions	22	153,429,443	161,837,391	-8,407,948
Provisions for contingencies and charges	23	65,038,042	54,255,480	10,782,562
Deferred tax liabilities	24	375,773,974	453,450,800	-77,676,826
Non-current financial liabilities	21	57,986,046	6,195,323	51,790,723
Other non-current liabilities	25	156,811,261	170,789,453	-13,978,192
<i>of which to related parties</i>		809,576	0	809,576
Total non-current liabilities		3,160,774,482	2,794,053,550	366,720,932
E) CURRENT LIABILITIES				
Short-term loans	21	0	70,993,113	-70,993,113
<i>of which to related parties</i>		0	20,993,114	-20,993,114
Current portion of long-term loans	21	29,545,454	29,545,200	254
Trade payables	26	1,779,221,004	1,282,947,226	496,273,778
<i>of which to related parties</i>		101,576,144	16,352,852	85,223,292
Tax liabilities	26	0	72,245,270	-72,245,270
Current financial liabilities	21	19,120,142	14,054,106	5,066,036
Other current liabilities	26	74,289,748	106,776,124	-32,486,376
<i>of which to related parties</i>		1,473,247	1,076,703	396,544
Total current liabilities		1,902,176,348	1,576,561,039	325,615,309
TOTAL LIABILITIES AND EQUITY		7,088,944,150	6,272,280,320	816,663,830

STATEMENT OF CHANGES IN EQUITY

DECEMBER 31, 2005 - DECEMBER 31, 2006

In millions of euros	TERNA S.P.A. SHARE CAPITAL AND RESERVES						Equity
	Share capital	Legal reserve	Other reserves	Retained earnings	Interim dividend	Profit for the year	
AT DECEMBER 31, 2005	440.0	88.0	716.9	387.4	-100.0	265.6	1,797.9
ALLOCATION OF PROFIT FOR 2005							
- Profit brought forward				5.6		-5.6	0.0
- Dividend					100.0	-260.0	-160.0
INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY							
- Effective portion of changes in the fair value of cash flow hedges			7.8				7.8
- Exercise of stock options			0.8				0.8
- Other movements				5.4			5.4
2006 interim dividend					-106.0		-106.0
Profit for the year						355.8	355.8
AT DECEMBER 31, 2006	440.0	88.0	725.5	398.4	-106.0	355.8	1,901.7

DECEMBER 31, 2006 - DECEMBER 31, 2007

In millions of euros	TERNA S.P.A. SHARE CAPITAL AND RESERVES						Equity
	Share capital	Legal reserve	Other reserves	Retained earnings	Interim dividend	Profit for the year	
AT DECEMBER 31, 2006	440.0	88.0	725.5	398.4	-106.0	355.8	1,901.7
ALLOCATION OF PROFIT FOR 2006							
- Profit brought forward				75.8		-75.8	0.0
- Dividend					106.0	-280.0	-174.0
INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY							
- Effective portion of changes in the fair value of cash flow hedges			2.2				2.2
- Exercise of stock options 0.1			1.3				1.4
2007 interim dividend					-112.0		-112.0
Profit for the year						406.7	406.7
AT DECEMBER 31, 2007	440.1	88.0	729.0	474.2	-112.0	406.7	2,026.0

CASH FLOW STATEMENT*

In millions of euros	Dec. 31, 2007	Dec. 31, 2006
Profit for the year	406.7	355.8
ADJUSTMENTS FOR		
Amortization, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and intangible assets**	202.4	178.0
Accruals to provisions (including employee-related provisions) and impairment losses	32.1	47.4
(Gains)/Losses on disposal of property, plant and equipment	-0.5	1.1
Financial (income)/expenses	32.9	-16.1
Income taxes	150.8	211.1
Cash flows generated by operating activities, before changes in net working capital	824.4	777.3
Decrease in provisions (including employee-related and tax provisions)	-31.3	-31.3
(Increase)/Decrease in inventories	-4.9	-0.6
(Increase)/Decrease in trade receivables and other current assets	-297.1	-112.7
Increase/(Decrease) in other non-current liabilities	-7.6	-4.5
Increase/(Decrease) in other non-current assets	-92.0	-102.4
Increase/(Decrease) in trade payables and other liabilities	496.0	454.8
Interest income and other financial income received	92.9	106.7
Interest expenses and other financial expenses paid	-125.5	-104.5
Income tax paid	-296.0	-226.6
Cash flows generated by operating activities [a]	558.9	756.2
Investments in property, plant and equipment, net of recognized grants	-560.0	-304.9
Revenues from sale of property, plant and equipment	3.1	4.0
Investments in intangible assets	-24.9	-26.5
(Increase)/Decrease in investments	-0.1	-415.9
Revenues from sale of non-current financial assets	0.0	82.7
Cash flows generated by investing activities [b]	-581.9	-660.6
Increase in Reserves	1.3	6.2
Dividends paid	-286.0	-266.0
Increase in share capital	0.1	0.0
Changes in medium/long-term financial payables (including short-term portion)***	473.1	173.4
Decrease in short-term financial payables and term credit lines	-50.0	-5.0
Cash flows generated by financing activities [c]	138.5	-91.4
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS [A+B+C]	115.5	4.2
Opening cash and cash equivalents	15.1	10.9
Closing cash and cash equivalents	130.6	15.1

* reference should be made to the specific paragraph in the notes "Notes to the cash flow statement" for comments"

** net of grants related to plant taken to income statement for the year

*** net of fair value hedges (FVH)



NOTES TO THE FINANCIAL STATEMENTS

A) ACCOUNTING POLICIES AND MEASUREMENT CRITERIA

Foreword

Terna S.p.A., which operates in the electrical energy transmission and dispatching sector, is a public limited company based in via Arno, 64, Rome.

The Directors approved the publication of these separate financial statements as of and for the year ended December 31, 2007 on March 11, 2008.

Compliance to International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)

These separate financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Commission (from here on “IFRS-EU”) on the above mentioned date.

This document was prepared following Legislative Decree no. 38 of February 28, 2005, the provisions of the Italian Civil Code, of CONSOB Resolutions no. 15519 and no. 15520 both of July 27, 2006, as well as the CONSOB Communication no. DEM/6064293 of July 28, 2006.

Presentation criteria

The separate financial statements are comprised of the income statement, balance sheet, statement of changes in equity, cash flow statement and the notes thereto.

The income statement is classified on the basis of the nature of costs, while the cash flow statement has been prepared using the indirect method.

In the balance sheet, assets and liabilities are classified on a current/non-current basis, with specific mention of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realization, sale or consumption in the Company’s normal operating cycle. Current liabilities are those expected to be settled in the Company’s normal operating cycle or within one year from the balance sheet date. The financial statements have been prepared in euros, while the figures in the notes are given in millions of euros, unless otherwise specified.

The financial statements have been prepared using the historic cost method, with the exception of captions that are recognized at fair value in accordance with IFRS, as indicated in the accounting policies for each caption.

Some of the final balances at December 31, 2006 were reclassified, so as to obtain a more correct exposition, without changing values of equity at December 31, 2006 and of 2006 income statement.

Use of estimates

The preparation of the balance sheet and income statement in accordance with IFRS-EU requires the use of estimates and assumptions that affect the carrying amounts of assets and liabilities and related disclosures, in addition to contingent assets and liabilities at the reporting date. The estimates and associated assumptions are based on previous experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. The results in the balance sheet and income statement may differ from such estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

The critical areas for key estimates and assumptions used by management in applying IFRS endorsed by the European Commission that could have significant effects on the financial statements or that could give rise to risks that would entail significant adjustments to the carrying amounts of assets and liabilities in subsequent years are summarized below.

Employee benefits

The liability for employee benefits paid upon or following termination of employment in relation to defined benefit plans or other long-term benefits is recognized net of any plan assets and is measured on the basis of actuarial assumptions, estimating the amount of future benefits that employees have vested at the reporting date.

Provisions for contingencies and charges

Accruals to the provisions for contingencies and charges are recognized when, at the reporting date, there is a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources

embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect is significant, accruals are measured by discounting estimated future cash flows at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability, if applicable.

Recoverable amount of non-current assets

Property, plant and equipment and intangible assets are analyzed at least once a year to check for indications of impairment. If there is an indication that an asset may be impaired, its recoverable amount is estimated.

Recoverable amount is the higher of an asset's fair value, net of costs to sell and its value in use, measured by discounting estimated future cash flows considering available information at the time of estimate and on the basis of subjective assessments of the performance of future variables, such as prices, costs, demand growth rates, production profiles - and discounted at a rate that reflects current market assessments of the time value of money with respect to the investment period and the risks specific to the asset.

Investments in subsidiaries and associates

Investments in subsidiaries are those over which Terna has the power to directly or indirectly govern financial and operating policies as to obtain benefits from their activities. Investments in associates are those over which Terna has significant influence.

In assessing whether or not the company has control or significant influence, potential voting rights that are presently exercisable or convertible are considered.

Investments in subsidiaries and associates are measured at cost, reduced to reflect impairment losses. If the reasons for the impairment losses no longer exist, the carrying amount of the investment reinstated within the limits of the impairment losses, and the reversal is taken to profit or loss.

In the event that an investee's losses attributable to the shareholders of the parent exceed that investments' carrying amount, the latter is written off and any excess is recognized in a specific provision, where the parent is required to meet the legal or construction obligations of the investee or, in any case, to cover its losses.

Translation of foreign currency captions

Terna S.p.A. prepares its financial statements in euros. In these financial statements, all transactions in currencies other than the functional currency are recognized at the exchange rate ruling on the date of the transaction.

Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate ruling at year end. Any exchange rate differences are taken to profit or loss.

Non-monetary assets and liabilities in foreign currency stated at historic cost are converted at the exchange rate ruling when the transaction was initially recognized. Non-monetary assets and liabilities in foreign currency stated at fair value are converted at the exchange rate ruling when fair value was measured.

Business combinations

All business combinations, including acquisitions of minority interests in entities over which control is already held, are recognized using the purchase method, where purchase cost is equal to the fair value, at the date of exchange, of assets given and liabilities assumed, plus any costs directly attributable to the combination.

This cost is allocated by recognizing the identifiable assets, liabilities and contingent liabilities of the acquired business at fair value. If the purchase cost exceeds the fair value of net assets acquired and attributable to the company, this excess amount is recognized as goodwill or, if negative, taken to profit or loss, after having verified once again that the current values of assets and liabilities acquired and the purchase price have been measured correctly.

Decreases in minority interests, following sale or dilution, in subsidiaries, without losing control, are accounted for accordingly. As a result, the portion of losses or gains realized on the disposal in excess of goodwill subsequently realized is taken to profit or losses.

Property, plant and equipment

Property, plant and equipment are recognized at historic cost, including directly costs attributable to putting the asset in the condition necessary for it to be capable of operating in the manner for which it was acquired. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of disposal or removal of the asset. The corresponding liability is recognized in the provisions for contingencies and charges.

Borrowing costs related to loans taken out to acquire assets are taken to profit or loss in the year to which they refer. Expenses incurred after purchase are recognized as an increase in the carrying amount of the

asset to which they relate if it is probable that the future benefits of that cost will flow to the Company and if the cost can be reliably measured. All other costs are recognized in profit or loss when incurred.

Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognized and depreciated separately.

Certain assets that were revalued at January 1, 2005 (transition date) or previously are recognized at the revalued amount, which is considered as deemed cost at the date of the revaluation.

Property, plant and equipment are shown net of accumulated depreciation and any impairment losses, which are measured as described below. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, which is reviewed annually, with revisions applied on a prospective basis. The depreciation of assets under construction begins when the assets become available for use.

Liabilities associated with items of property, plant and equipment are taken to a specific provision as a balancing entry to the related asset. The amount is taken to profit or loss through the depreciation of the asset.

The main depreciation rates calculated on the basis of the related asset's useful life are as follows:

DEPRECIATION RATE

%

Civil and industrial buildings	2.50%
Transmission lines	2.50%
TRANSFORMATION STATIONS	
Electrical machinery	2.38%
Electrical devices and equipment	3.13%
Automated and control systems	6.70%
CENTRAL SYSTEMS FOR REMOTE CONDUCTION AND CONTROL	
Devices, electrical equipment and ancillary plants	5.00%
Electronic calculators	10.00%

Land, regardless of whether it is free of construction or related to civil and industrial buildings, is not depreciated, since it has an indefinite useful life.

Property, plant and equipment acquired under finance lease, through which the Company has received substantially all the risks and rewards of ownership, are recognised as Company assets at the lower of fair

value and the present value of minimum lease payments due, including any amounts to be paid to purchase the asset at the end of the lease. The corresponding liability to the lessor is recognised under financial payables. Assets are depreciated using the criteria and rates described above.

Leases in which the lessor maintains substantially all the risks and rewards of ownership are classified as operating leases. Costs related to operating leases are taken systematically to profit or loss over the term of the lease.

The concession granted to the Company, with effect from November 1, 2005, on a free basis by the Ministry of Production Activities, to carry out electrical energy transmission and dispatching activities in Italy, runs for twenty-five years and is renewable for another twenty-five years. Under the provisions of articles 18 and 19 of the Decree issued by the Ministry of Production Activities on April 20, 2005, in the event of termination and revocation, or expiry of the concession, the Ministry has the right to purchase assets used directly for the transmission and dispatching activities included in the concession owned by the concession-holder, with the exclusion of plants (lines and stations) that make up the National Transmission Grid. If the Ministry decides to purchase the concession-holder's assets, it will pay the latter an amount, agreed upon by the parties, calculated on the basis of adequate parameters, averaging out the value of the assets with their profitability.

Accordingly, the assets directly related to the transmission and dispatching activities, including plants (lines and stations) that make up the portion of the electrical energy transmission grid owned by Terna are classified as property, plant and equipment and are depreciated over their useful lives.

As specified further down, in November 2006, the International Financial Reporting Interpretation Committee ("IFRIC") issued IFRIC Interpretation 12 Service Concession Arrangements. The Company is currently evaluating the applicability and any effects that would arise from the adoption of this accounting policy.

Intangible assets

Intangible assets, which all have finite useful lives, are recognized at cost and shown net of accumulated amortization and any impairment losses, measured as described below.

Amortization is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions are applied on a prospective basis.

Amortization begins when the asset becomes available for use.

The estimated useful lives of the main intangible assets are given in the specific notes to each caption.

Intangible assets are substantially comprised of the exclusive concession to carry out electrical energy transmission and dispatching activities and other intangible assets. In particular, Terna S.p.A. acquired the concession for electrical energy transmission and dispatching activities in Italy on November 1, 2005 when it acquired the TSO business activity. As established in the Decree issued by the Ministry of Production Activities on April 20, 2005, this concession runs for twenty-five years, renewable for another twenty-five years, from the date of effective transfer of the activities, functions, assets and legal arrangements of the concession from GSE S.p.A. (formerly GRTN) to Terna S.p.A.. This intangible asset was initially recognized at cost, which reflected fair value.

Other intangible assets mainly relate to the following:

- the development and innovation of application software to manage the energy invoicing process;
- the development and innovation of application software to protect the electrical energy system;
- software applications related to the development of the power exchange, particularly relating to the registration of operators, consumption units and the development of foreign procedures.

Development costs are capitalised by the Company only if all following conditions are met: costs can be estimated reliably and there are technical possibilities and intent to complete the intangible asset so as for it to be available for use; the asset can be used and it is possible to demonstrate that it will generate probable future economical benefits.

All other development costs and research expenses are recognised in the income statement when incurred.

The above-mentioned other intangible assets are amortized over their estimated residual useful lives, which are normally three years, given their rapid obsolescence.

Impairment losses

Property, plant and equipment and intangible assets with finite useful lives are tested at least once a year to check for indications of impairment. If there is an indication that an asset may be impaired, its recoverable amount is estimated.

The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated annually.

Recoverable amount is the greater of fair value, net of selling costs, and value in use. Value in use is

measured by discounting the expected future cash flows, estimated on the basis of available information considering subjective evaluation on future variables – prices, costs, demand growth rate, production profiles - discounted at a pre-tax rate that reflects the time value of money for the investment period and risks specific to the asset. If the intangible asset does not generate cash inflows that are largely independent, the asset's recoverable amount is calculated as part of the cash-generating (CGU) unit to which it belongs.

An impairment loss is recognized in the income statement when the asset's carrying amount or the net invested capital of the cash generating unit (CGU) to which it belongs, is greater than its recoverable amount. Impairment losses of CGUs are first taken as a reduction in the carrying amount of any allocated goodwill and then as a reduction in other assets of the CGU on a pro rata basis. Except for goodwill, impairment losses may be reversed, within limits of reversibility, if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure recoverable amount.

Inventories

Inventories are stated at the lower of purchase cost and net realizable value. Cost is calculated as the weighted average cost, including related charges. Net value of presumable realization stands for the sale price estimated in the normal activity net of the completion costs as well as costs estimated to fulfil the sale.

Contract work in progress

When the profit or loss of a contract can be reliably estimated, the related contract costs and revenues are recognized separately in profit or loss on a percentage of completion basis. Progress is measured based on the work carried out and measured proportionally to the costs of contracts faced up to the reporting date and estimated costs of total contract. Differences between the value of completed contracts and payments on account received are recognized under balance sheet assets or liabilities, considering any impairment losses on the work carried out so as to take into account the risks of customers' refusal to recognize the work performed.

Expected contract losses are immediately taken to profit or loss under contract costs.

Contract costs include all those costs that relate directly to the specific contract, as well as fixed and variable costs incurred as part of normal operations.

Financial instruments

Financial assets

Financial assets that the Company has the positive intention and ability to hold to maturity are recognized at the settlement date at fair value, including transaction costs. They are subsequently measured at amortized cost, using the effective interest method, net of any impairment losses, which are determined as the lower of the asset's carrying amount and the present value of estimated future cash flows, discounted using the original interest rate.

The amount of impairment losses is taken to profit or loss of the year. Financial assets are derecognized when, following their transfer or settlement, the Company is no longer involved in their management and no longer holds the risks and rewards of the transferred or settled instruments.

Trade receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method, and net of any impairment losses due to sums considered non-recoverable, which are taken to the specific provision for bad debts. Impairment losses are calculated on the basis of the present value of estimated future cash flows, discounted using the initial effective interest rate. Receivables with due dates that fall under normal commercial terms are not discounted.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value. They include cash on hand, i.e., amounts that are available on demand or with a very short maturity, subject to an insignificant risk and without redemption expenses.

Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortized cost. If their due date falls under normal commercial terms, they are not discounted.

Financial liabilities

Financial liabilities other than derivatives are stated at fair value at the settlement date, net of directly related transaction costs.

Subsequently, financial liabilities are measured at amortized cost, using the original effective interest method. If the liabilities are subject to fair value hedges, they are adjusted to reflect changes in fair value with respect to the hedged risk.

Derivative financial instruments

Derivatives are recognized at fair value at the trade date and classified as hedges if the relationship between the derivative and the hedged item is formally documented and the hedge is highly effective and ranging from 80% to 125%, as initially verified and periodically checked. When derivatives cover the risk of fluctuations in the cash flows of the hedged instruments (cash flow hedges), the effective portion of changes in the fair value is initially taken to equity and subsequently to profit or loss, in line with the effects of the hedged transaction.

When hedging derivatives cover the risk of fluctuations in the fair value of hedged instruments (fair value hedges), they are recognized at fair value through profit or loss. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk.

The ineffective portion of fair value is taken to profit or loss.

Fair value is measured with reference to official quotations for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve of interest rates at the reporting date, and by converting amounts in currency other than the euro at the year-end exchange rate.

Evaluation techniques related to derivatives in place at year end have not changed in comparison to those adopted in the previous year. Hence, the effects on the income statement and equity net of those evaluations are mainly due to normal market dynamics as well as to new derivatives contracts signed in the course of 2007.

Employee benefits

The liability related to employee benefits payable upon or after termination of employment relates to defined benefit plans (termination benefits, additional month's pay⁽¹⁾, indemnity for lack of notice⁽²⁾, energy discount, ASEM health benefits and other benefits) or other long-term employee benefits (loyalty bonus) is recognized net of any plan assets. It is measured separately for each plan on the basis of actuarial calculations that estimate the amount of future benefits employees have accrued at the reporting date.

The liability is recognized on an accruals basis over the vesting period. It is measured by independent actuaries.

Actuarial gains and losses at January 1, 2005 (date of transition to IFRS-EU) were recognized in equity. If, after that date, unrecognized actuarial gains and losses arise in excess of 10% of the greater of the present value of the defined benefit plan obligation and the fair value of plan assets, that portion is taken to profit or loss for the average expected term of service of employees participating in the plan. Otherwise, actuarial gains and losses are not recognized.

Provisions for contingencies and charges

Accruals to the provisions for contingencies and charges are recognized when, at the reporting date, the Company has a legal or constructive obligation towards others, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, accruals are measured by discounting estimated future cash flows using a pre-tax discount rate that reflects current market assessment of the time value of money and those risks specific to the liability. When the amount is discounted, the periodical adjustment due to time factor is recognised in the income statement as a financial expense. If the liability is related to property, plant and equipment (i.e. dismissal and re-construction of sites), the provision is recognised as compensation for the asset it refers to and the expense is recognised in the income statement through the amortization process of the asset itself.

Changes in the estimate are reflected in the income statement of the year in which the change occurs,

⁽¹⁾ "IMA"

⁽²⁾ "ISP"

except for those of costs expected for dismantling, removal and reclamation, which come as a result of change in time and use of economic resources necessary to extinguish the obligation or referable to a relevant change in the discount rate, which are recognised as an increase or reduction of the related assets and recognised in the income statement through the amortization process.

Share-based payments

The cost of employee service remunerated through stock option plans is measured at the fair value of the options granted to employees at the grant date. The fair value of options granted is recognized under personnel expenses over the vesting period, with a corresponding increase in equity, considering the best possible estimate of the number of options that employees will be able to exercise. Such estimate is reviewed, in case subsequent information indicates that the expected number of instruments representative of capital that will mature differs from the estimate previously carried out, independently from the attainment of the market conditions.

The measurement method used to calculate fair value considers all the characteristics of the options (duration, price and conditions, etc.), as well as the value of the Terna share at the grant date, the volatility of the share and the interest rate curve at the grant date, in line with the duration of the plan.

At maturity, the estimate is revised as compensation under income statement to register the amount corresponding to the number of instruments representative of capital effectively matured, notwithstanding achievement of market conditions.

Grants

Grants received in relation to specific assets whose value is recognized under non-current assets are, for plants operating before December 31, 2002, recognized under other liabilities and taken to the income statement over the depreciation period of the related assets. From 2003, grants for new plants going into use are taken as a direct reduction in the value of the related asset.

Grants for operating expenses are expensed in full when the conditions for recognition are satisfied.

Revenues

Revenues are recognised when it is probable that the economic benefits deriving from the operation will flow to the entity. However, when there is uncertainty on the recovery of value already comprised in the revenues, the non-recoverable value or the value whose recovery is not probable, is recorded as cost.

Depending on the type of transaction, revenues are recognized on the basis of the following specific criteria:

- revenues from the sale of goods are recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer and their amount can be estimated and collected;
- revenues from the rendering of services are recognized with reference to the stage of completion of the transaction. If revenues cannot be reliably measured, they are recognized to the extent of recoverable costs;
- revenues accrued during the year and relative to current values under construction are recognised following the amounts agreed for the progress of works using the cost-to-cost method. Contract revenues, beyond contract value, include variations, price revisions and recognition of incentives as long as it is probable that they represent revenues and if they can be reliably determined. Revenues can decrease, as a result of penalties deriving from delays caused by the Company;
- when recoverability of an amount already included in revenues becomes uncertain, the non-recoverable amount, or the amount whose recovery is no longer probable, is recognised as cost with compensation under provisions for contingencies and charges.

Considerations collected on behalf of third parties, such as the consideration paid to other non-Terna grid owners, as well as revenues recognized for managing activities related to the balancing of the national electrical energy system, which do not increase equity, are shown net of the related costs.

Financial income and expenses

Financial income and expenses are recognized on an accruals basis in line with the interest amount of related financial assets and liabilities, using the effective interest method.

Dividends

Dividends from subsidiaries and associates are recognized when the shareholders' right to receive payment is established.

Dividends and interim dividends payable to third parties are shown as changes in equity at the date in which they are approved by the shareholders and the Board of Directors, respectively.

Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to holders of ordinary shares by the weighted average of outstanding ordinary shares during the year.

Diluted earnings per share are calculated by dividing the profit for the year attributable to holders of ordinary shares by the weighted average of outstanding shares, adjusted to consider the effects all potential ordinary shares, which have a diluting effect.

Income taxes

Current income taxes are based on the estimated taxable income and in accordance with current legislation, taking applicable exemptions into account.

Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities recognized in the financial statements and the corresponding amounts recognized for tax purposes, in application of current tax rates, or rates expected to be in effect when the temporary differences reverse, based on current rates or those that are substantially approved at the reporting date.

Deferred tax assets are recognized when their recovery is considered probable, i.e., when future taxable profit will be available against which the asset can be used. The recoverability of deferred tax assets is reviewed at each year end.

Deferred tax liabilities are recognized in any case if they exist.

New reporting standards

As provided for by Regulation no. 108/2006 of European Commission, from January 1, 2007 IFRS 7 - Financial Instruments: Additional Disclosures has become effective.

IFRS 7 – Financial Instruments: Additional Disclosures

IFRS 7 requires additional disclosures on the relevance of financial instruments with respect to the company's performance and financial position. These disclosures incorporate certain requirements that were previously included in IAS 32 – Financial Instruments: Disclosure and Presentation. The new standard also requires information on the level of risk exposure arising from the use of financial instruments and a description of the objectives, policies and procedures implemented by management to manage such risks.

Apart from IFRS 7 no other international reporting standard became effective in 2007. Again in 2007 **IFRIC 10 – Interim Financial Reporting and Impairment** (Regulation no. 610/2007 of European Commission) became effective, and its effect is retroactive from November 10, 2006.

From the beginning of the year some interpretations take effect, which discipline facts and circumstances that are not present in the Company or, if present, were not effective on the Financial Statements ended December 31, 2007:

IFRIC 8 – Scope of IFRS 2 (applicable from January 1, 2007)

IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions (applicable from January 1, 2007)

IFRIC 9 – Revaluation of Embedded Derivatives (applicable from January 1, 2007)

In the course of 2007 and 2008 up to the date of preparation of these financial statements, the European Commission ratified only one international accounting standard, IFRS 8 - Operating Segments (Regulation no. 1358/2007 of European Commission). Terna is pondering possible impacts the application of IFRS 8 could have on the financial statements, considering the date they take effect.

IFRS 8 – Operating Segments

IFRS 8 establishes how a company should report on operating segments in the annual financial statements and, as an amendment to IAS 14 – Segment Reporting, requires the same information also in interim reports. In addition, it defines disclosure requirements with respect to products and services, the geographical areas in which the company operates and its key customers. The new standard is the result of the comparison of IAS 14 and SFAS 131 – Disclosures about Segments of an Enterprise and Related Information, as part of the IFRS and US GAAP convergence project, to reduce the discrepancies between the two.

IFRS 8 supersedes IAS 14 and is applicable to financial statements for years beginning on January 1, 2009. However, early application is allowed.

For amendments, standards and interpretations that have not yet concluded their ratification procedure by EU, but are related to facts currently or potentially present in Terna, the Company is pondering possible impacts their application could have on the financial statements considering the date they take effect. In particular, this consideration refers to the following standards and interpretations:

IFRIC 12 – Service Concession Arrangements

IFRIC 12 substantially confirms the recognition methods provided for by the previous three draft interpretations (D12, D13 and D14) concerning assets (freely transferable assets), liabilities (reclamation provisions), revenue and costs in connection with service concession arrangements between a public body and a private company. It excludes concessions between private companies.

This interpretation is applicable to financial statements for years beginning on January 1, 2008. However, early application is allowed.

IFRS 3 – Business Combinations (Revised in substance)

The revised version of IFRS 3 introduces various new features to the current version. Main changes relate to determination of competence of costs related to aggregation, determination of the moment from which starts the effect of an operation that causes an acquisition, measurement of goodwill, and, finally, accounting of the minority interests. Changes will become effective from July 1, 2009.

Non-substantial changes introduced to **IAS 1 – Presentation of Financial Statements** are awaiting ratification. These updates will allow the financial statements reader to compare and analyse in a more comfortable way the information in the financial statements itself.

Other standards interpretations and revisions presented earlier, which rule the facts and circumstances that are not present in the Company but are not yet ratified by the European Commission, are listed below:

IFRIC 14 – Defined Benefit Asset and Minimum Funding Requirements (applicable from January 1, 2008);

IFRIC 13 – Customer Loyalty Programmes (applicable from January 1, 2009);

IAS 23 – Borrowing Costs - Revised (applicable from January 1, 2009).

Risk management

Among its policies for financial risk management, approved by the Board of Directors on November 12, 2007, Terna defined responsibilities and operational modalities for market risk (in particular, fluctuation of interest and exchange rates) and liquidity risk management, with specific reference to the instruments to be used and to precise operating limits in their management.

Credit risk management is guided by application of AEEG Resolution no. 111/06, which, in art. 49, introduced instruments for the limitation of risks related to insolvency by dispatching customers, both as a form of precaution and in the event of manifest insolvency. In particular, the resolution provides for three instruments for the protection of electricity market: the guarantee system (bank guarantees released by individual dispatching customers with reference to their revenue), the option to cancel the dispatching contract (in the event of insolvency or non-reintegration of the enforced guarantees) and, finally, the possibility to collect uncollected debts, after having experimented all possible collection actions, through a specific fee that is suitably defined by AEEG.

In this section, all information regarding Terna's exposition to all the above mentioned risks are presented along with objectives, policies and management process of those risks and the methods used to evaluate them. These financial statements also include further quantitative information.

Terna's risk management policies aim at identifying and analysing the risks the Company is exposed to, establishing adequate limitation and controls and monitoring risks and the application of such limitations. These policies and related systems are revised on a regular basis in order to reflect potential changes in market conditions and Company's activities.

Market risk

Market risk is the risk that the fair value or future financial fluxes of a financial instrument fluctuate following changes in financial markets' conditions.

Risk management must be carried out with the objective of maximizing financial income and minimizing related risks selecting counterparts and instruments compatible with Company risk management policy. Rate speculation activity is not included in the Company's mission.

Terna S.p.A. aims at adopting a dynamic approach in the financial risk management. Such approach is characterised by risk aversion, aiming at minimizing risk through continuous monitoring of financial markets aimed at planning hedging transactions in favourable-looking market conditions. Dynamic approach allows to intervene with improving aims on the existing hedging, if changes in market conditions or in the hedged item make the latter unsuitable or excessively expensive. The concept of hedging transaction is not bound to qualifying the derivative instrument itself as hedging, but to the objective of total or partial hedging of the financial or patrimonial item from rate risk.

In any case, indebtedness bearing interest at fixed rates must be, as a policy, over 50%.

Terna generally uses derivatives that do not require payment of a premium.

All derivative contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, so that any change in the fair value and/or estimated cash flows of the contracts is offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

Fair value of financial derivatives reflects the amount estimated that Terna is supposed to pay or receive in order to pay off contracts at the accounting closing date.

Fair value is measured with reference to official quotations for instruments traded in regulated markets.

The fair value of instruments not traded in regulated markets is measured by means of appropriate evaluation models for each financial instrument category and using market data at accounting closing date (such as interest rate, exchange rate, volatility) by discounting projected cash flows along a yield curve of interest rates at the reporting date. Financial assets and liabilities related to derivative instruments in place in the course of the year can be classified as:

- cash flow hedge derivatives, essentially related to hedging the risk of changes in the cash flows associated with a number of long-term variable-rate loans (EIB loans);
- fair value hedge derivatives, essentially related to hedging the exposure to changes in the fair value of an asset or liability associated with fluctuations of interest rate (fixed-rate bonds);
- trading derivatives, related to hedging interest and exchange rate risk but which do not qualify for recognition under IAS 39 as hedges of specific assets, liabilities, commitments or future transactions.

Interest rate risk

In carrying out its operations, Terna is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk relates to items of net financial indebtedness and of related hedging positions in derivative instruments that generate interest expenses.

Terna's strategy for financial indebtedness is to focus on long-term loans, which reflect the useful life of company assets. It pursues an interest rate risk hedging policy that aims to combine this choice with the regulatory context, which every four years establishes the cost of debt as part of the formula to set Regulatory Asset Based (RAB) remuneration.

Accordingly, the hedging instruments used, at various maturity dates, include both derivatives that transform fixed rates into variable rates and derivatives that transform variable rates into fixed rates.

With the aim of reducing the amount of financial indebtedness exposed to the risks of fluctuations in interest rates and obtaining a better time correlation between average cost of the debt and regulatory rate taken out in the WACC formula, two types of plain vanilla derivatives have been used, i.e. interest rate swaps and interest rate collars.

Interest rate swaps are used in order to lower the debt subject to fluctuation of interest rates and to reduce volatility of indebtedness cost. By means of an interest rate swap, Terna agrees with a counterpart to exchange, on predetermined notional, at specific intervals, variable-rate flows against fixed-rate (agreed between the parts) flows, or vice versa.

Interest rate collars are used in order to lower the impact of volatility of interest rates on the debt cost and are considered as being appropriate in times of uncertainty on future trends of interest rates. The following table shows the financial instruments adopted by Terna, classified according to the type of rate, fixed or variable.

In millions of euros	CARRYING AMOUNT		
	Dec. 31, 2007	Dec. 31, 2006	Change
Fixed-rate financial instruments			
- assets	12.6	0.7	11.8
- liabilities	1,840.4	1,412.8	427.6
Variable-rate financial instruments			
- assets	130.6	26.9	103.7
- liabilities	611.3	620.5	-9.2
TOTAL	2,308.7	2,005.7	302.9

Sensitivity to interest rate risk

As regards interest rate risk, fixed-rate loans, valid until 2014 and 2024, are not exposed to interest rate fluctuations, since, being hedged by fair value derivatives, their variations are compensated in the income statement, by the hedging derivatives variations (as the relative hedging coefficient is close to 100%).

The interest rate risk on balance-sheet value of EIB loans and inflation-linked bond is not significant because, in these two cases, the amortized cost value is presented with marginal discrepancies with respect to the nominal value.

The effects on the profit or losses of estimating interest rate variations of 10% with respect to market interest rates at reporting date and constancy of inflation rate are listed below:

In millions of euros	PROFIT OR LOSSES		EQUITY	
	current rates +10%	current rates -10%	current rates +10%	current rates -10%
Dec. 31, 2007				
Positions sensitive to interest rates variations (trading derivatives, FVH, loans)	-1.4	9.8	-	-
Dec. 31, 2006				
Fixed-rate financial instruments	26.6	19.6	-	-

Inflation risk

As regards inflation rate risk, the fee provided for by the Regulator to compensate Terna's activities is calculated so as to allow hedging of sector acknowledged costs. Such cost components are updated on a yearly basis to consider matured inflation. On October 23, 2007, the Company, using an inflation-linked bond issue, obtained a strong and effective protection of the profit for the year in the income statement; a potential decrease in the expected revenue, due to a decrease in the inflation rate, can be offset by lower financial expenses.

Exchange rate risk

In order to lower exchange rate risk, Terna uses forward contracts and currency options so as to hedge cash flows in currencies other than Euro. In fact, items that could determine exchange rate risks for Terna S.p.A. refer to financial flows from Brazil associated with repatriations of funds and/or payments of dividends and interests on self-financing flows for which the opportunity to carry on or not specific hedging operations is analysed each time.

Generally Terna hedges exchange rate risk through sale or acquisition of fixed term currency (forward contracts) or options. Currency options give Terna the right and the obligation to buy or sell predetermined amounts of currency at a specific exchange rate and at the end of a specific period of time. Normally, both forward contracts and options do not last longer than 12 months.

Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flow, so that any change in the fair value and/or estimated cash flows, deriving from possible depreciation or rise of Euro against other currencies, is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

Terna's exposition to exchange rate risk at December 31, 2007 refers only to the receivables from Brazilian subsidiaries for interest on equity of R\$ 6.9 million (approximately euros 2.6 million).

At December 31, 2006, no financial instruments exposed to exchange rate risk were in the financial statements.

Sensitivity to exchange rate risk

The following table introduces the net financial income/(expenses) and the effects on equity referring to financial instruments exposed to exchange rate risk resulting from a 10% rise and depreciation of Euro against Brazilian Real, assuming that all other variables, in particular interest rates, are constant:

In millions of euros	DECEMBER 31, 2007	
	Profit or losses	Equity
10% Euro depreciation	-0.3	0.0
Current exchange rates at Dec. 31, 2007	0.0	0.0
10% Euro rise	0.2	0.0

Credit risk

Credit risk is the risk a customer or one of the counterparts of a financial instrument causes a financial loss by not complying with an obligation and mostly derives from trade receivables and financial investments of the Company.

Credit risk originated by open positions on operations in derived financial instruments is considered to be a marginal entity since counterparts, in compliance with what provided for by the financial risk management policy, are primary international credit institutions with high rating level and management of the abovementioned operations is fractioned off, in compliance with specific concentration limits.

At accounting period closing date the exposition was:

In millions of euros	CARRYING AMOUNT	
	Dec. 31, 2007	Dec. 31, 2006
FVH derivatives	0.0	11.3
Trading derivatives	0.0	0.7
Cash and cash equivalents	130.6	36.1
Trade receivables	1,513.6	1,163.7
TOTAL	1,644.2	1,211.8

The total amount of exposition to credit rate risk at December 31, 2007 is represented by the carrying amount of the financial assets (current and non current), trade receivables and cash and cash equivalents. Terna provides its services exclusively to counterparties considered solvent by the market, i.e., they have high credit ratings, and does not have concentrations of credit risk. As this regards, accruals were made to the provision for bad debts in the amount of euros 13.8 million, equal to 0.9% of trade receivables at December 31, 2007.

The following tables show qualitative information about not yet overdue customer receivables and which have not faced an enduring impairment:

GEOGRAPHICAL DISTRIBUTION

	CARRYING AMOUNT	
In millions of euros	2007	2006
National	1,393.3	1,144.7
Euro-zone countries	111.9	11.0
Other countries	8.4	8.0
TOTAL	1,513.6	1,163.7

CUSTOMER TYPE

	CARRYING AMOUNT	
In millions of euros	2007	2006
Distributors	206.8	206.2
Input dispatching contractors	532.4	503.4
Withdrawal dispatching contractor (non distributors)	736.2	405.9
Receivables from non-regulated activities	38.2	48.2
TOTAL	1,513.6	1,163.7

The following table breaks down customers receivables per expiry class, with subsequent potential impairment:

	PROVISION FOR BAD DEBTS		GROSS	PROVISION FOR BAD DEBTS		GROSS
In millions of euros	2007	2007		2006	2006	
Not yet expired	-	1,364.0		-	3.3	1,064.6
0-30 days overdue	-	107.5		-	-	76.6
31-120 days overdue	-	38.3		-	9.1	32.3
More than a year	-	13.8	17.6	-	0.8	3.4
TOTAL	-	13.8	1,527.4	-	13.2	1,176.9

Movements in the provision for bad debts in the course of the year were:

In millions of euros	2007	2006
Balance at January 1	13.2	1.0
Impairment in the year	0.6	12.2
BALANCE AT DECEMBER 31	13.8	13.2

The value of guarantees received by customers for trade receivables is illustrated below:

In millions of euros	2007	2006
Input dispatching activity	219.1	149.0
Withdrawal dispatching activity	610.0	264.4
BALANCE AT DECEMBER 31	829.1	413.4

Liquidity risk

Considering that there is normally a negative difference between interest received on loans granted and interest paid on loans received, financial optimization activities are geared towards minimizing liquidity positions in line with the Company's needs.

The liquidity risk is the risk Terna encounters difficulties to comply with obligations associated with financial liabilities and operational management cycle. Liquidity risk management ensures an adequate hedging of financial needs through subscription of suitable credit lines and an adequate management of potential liquidity surplus. At December 31, 2007 Terna had euros 1,733 million worth credit lines, totally unemployed at the reporting date (750 million of which are due in 2011). Such amount is sufficient to finance the debt due discussed in the paragraph on long-term loans.

B) SEGMENT REPORTING

The Company's operating segments were identified considering the organizational structure and internal reporting system. In particular, since the risks and rewards of the Company's investments are exclusively affected by differences in the services provided, the primary reporting segment is based on the activities performed.

Income and expenses not specifically attributable to individual sectors and related assets and liabilities (in particular, financial assets and liabilities, tax assets and liabilities and deferred tax assets and liabilities) are indicated separately.

In addition, intersegment transfers are measured at current market conditions. Terna S.p.A. carries out its operating activities only in Italy.

Reporting by business segment for 2007 and 2006 is provided below.

2007

In millions of euros	REGULATED ACTIVITIES			NON-REGULATED ACTIVITIES	Total
	Transmission	Dispatching	Metering		
Revenues	930.0	119.0	10.1	62.3	1,121.4
Segment results	618.0	24.2	9.0	27.7	678.9
Non-allocated expenses					92.3
Operating result					586.6
Financial income/(expenses)					-32.9
Taxes					147.0
Profit/(Loss) for the year					406.7
OTHER INFORMATION					
ASSETS/LIABILITIES ATTRIBUTABLE TO SEGMENT					
Segment assets	4,358.5	1,531.9	3.0	348.5	6,241.9
Segment liabilities	410.4	1,458.2	0.3	359.8	2,228.7
ASSETS/LIABILITIES NON ATTRIBUTABLE TO SEGMENT					
Financial assets and cash assets					796.3
Financial liabilities					2,458.4
Tax assets					50.7
Tax liabilities					375.8
Investments	481.2	91.2	0.2	-	572.6
Intercompany acquisitions within the Group	28.4	-	-	-	28.4
Amortisation and depreciation	184.2	26.4	0.2	-	210.8
Other non-monetary costs	5.0	-	-	-	5.0

2006

	REGULATED ACTIVITIES			NON-REGULATED ACTIVITIES	
	Transmission	Dispatching	Metering		Total
In millions of euros					
Revenues	943.2	105.0	9.3	52.7	1,110.2
Segment results	631.4	1.4	8.0	20.3	661.1
Non-allocated expenses					110.3
Operating result					550.8
Financial income/(expenses)					16.1
Taxes					211.1
Profit/(Loss) for the year					355.8
OTHER INFORMATION					
ASSETS/LIABILITIES ATTRIBUTABLE TO SEGMENT					
Segment assets	3,898.1	1,335.8	7.6	260.9	5,502.4
Segment liabilities	178.0	1,309.4	0.2	289.0	1,776.6
ASSETS/LIABILITIES NON ATTRIBUTABLE TO SEGMENT					
Financial assets and cash assets					715.3
Financial liabilities					2,068.3
Tax assets					54.6
Tax liabilities					525.8
Investments	324.2	20.7	0.1	-	345.0
Amortisation and depreciation	167.7	34.1	0.4	-	202.2
Other non-monetary costs	0.2	-	-	-	0.2

C) NOTES TO THE INCOME STATEMENT

Revenues

1) REVENUES FROM SALES AND SERVICES - euros 1,087.3 million

The table below details revenues of the year:

In millions of euros	2007	2006	Change
Grid transmission consideration	998.9	947.1	51.8
Adjustments for prior year grid transmission consideration	-4.3	47.2	-51.5
Other energy revenues	43.3	41.9	1.4
Other revenues from sales and services	49.4	42.4	7.0
TOTAL	1,087.3	1,078.6	8.7

Grid transmission consideration

This is revenue from the Company's core business. It is the consideration paid to the Company for use of the National Transmission Grid, and also includes the additional portion of the grid transmission consideration (AEEG Resolution no. 15/2005) paid to Terna with the integration of the TSO business activity (euros 81.0 million).

Considering adjustments referring to previous years, they are in line with 2006 (up euros 0.3 million) due to the effect of the following factors:

- increased revenues relating to the remuneration of the National Electricity Grid (up euros 41.8 million), following adjusted tariffs in 2007 and, to a lesser extent, the higher volumes of transmitted energy (up 0.7%);
- increased revenues (up euros 10.0 million) from compensation of TSO activities, mostly originated by higher release of revenue shares referred to protection plan;
- lower adjustments for previous years (down euros 51.5 million); 2006 benefitted of the effects of AEEG Resolution no. 162/06 that healed the 2005 "tariff deficit" for the owners of portions of National Transmission Grid (up euros 47.3 million), while the current year is affected by negative adjustments in the amount of euros -4.3 million.

Other energy revenues

This caption relates to the consideration due to the Company by operators for metering activities (MIS component - euros 10.1 million) and to the consideration for the acquisition of resources necessary for dispatching requirements (DIS component - euros 33.0 million).

The caption also includes the consideration as per AEEG Resolution no. 34/05 (euros 0.2 million) to cover the administrative and management costs incurred to withdraw energy from renewable sources producers with a power not exceeding 10 MVA and similar connected to the National Transmission Grid.

The three captions record a total increase of euros 1.4 million on 2006.

Other energy items - energy in transit revenues/costs

This caption includes the costs and revenues of energy in transit (the balance is nil) arising from daily purchases and sales with operators on the electricity market to carry out transmission and dispatching activities. It also includes the grid utilization fee which Terna pays to owners of the Grid.

The components of these transactions are detailed below.

In millions of euros	2007	2006	Change
REVENUES - POWER EXCHANGE			
Procurement of resources on the ancillary services market	1,519.8	1,502.4	17.4
Unbalancing and others	1,570.0	1,313.1	256.9
Sale of energy on the day-ahead market, adjustment market, ancillary services market and others	918.3	885.1	33.2
Foreign market - exports	8.5	2.9	5.6
Other items - Power Exchange	5.5	3.5	2.0
Total revenues - Power Exchange	4,022.1	3,707.0	315.1
REVENUES FROM OUTSIDE THE POWER EXCHANGE			
Revenues under Laws nos. 168/04, 237/04 and others	801.8	820.0	-18.2
Revenues from grid transport considerations of other owners	93.2	113.0	-19.8
Other items (returns, CBT, DCT)	808.7	389.5	419.2
Total revenues from outside the Power Exchange	1,703.7	1,322.5	381.2
TOTAL REVENUES FROM ENERGY IN TRANSIT	5,725.8	5,029.5	696.3
COSTS - POWER EXCHANGE			
To provide the dispatching service	3,047.9	2,800.6	247.3
For unbalancing	482.2	478.5	3.7
On the day-ahead and adjustment markets	423.3	323.3	100.0
On the foreign market - imports	45.6	91.7	-46.1
Electricity market operator fees	6.5	8.0	-1.5
Other items	16.6	4.9	11.7
Total costs - Power Exchange	4,022.1	3,707.0	315.1
COSTS FROM OUTSIDE THE POWER EXCHANGE			
Costs under Laws nos. 168/04, 237/04 and others	801.8	820.0	-18.2
Fees to be paid to National Transmission Grid owners	93.2	113.0	-19.8
Other items (returns, CBT, DCT)	808.7	389.5	419.2
Total costs from outside the Power Exchange	1,703.7	1,322.5	381.2
TOTAL COSTS FOR ENERGY IN TRANSIT	5,725.8	5,029.5	696.3

Other revenues from sales and services

Other revenues from sales and services amounted to euros 49.4 million (euros 42.4 million at December 31, 2006) and mainly relate to revenues from a variety of specialized high and extra high-voltage services, which the Company provides to third party customers; the abovementioned amount stands for:

- high-voltage plants maintenance (euros 18.8 million) in particular arising from the maintenance agreement for the high-voltage lines owned by Enel Distribuzione S.p.A. (euros 15.7 million, down euros 0.4 million on 2006);
- revenues from the Wind Group for the operating and maintenance of the optical fibre owned by Wind Group on Terna SpA plants (safety cables) (euros 2.2 million);
- a variety of specialized services in the maintenance of high-voltage plants owned by third parties for several customers (euros 15.1 million);
- requests to connect to the National Transmission Grid as per AEEG Resolution no. 281/05 (euros 3.6 million);
- management fee services (euros 1.8 million) and high-voltage plant operating and maintenance services (euros 7.9 million) arising from contracts signed with the subsidiary RTL S.p.A. and with the companies (RTM1 S.p.A., RTM2 S.p.A.) incorporated in the latter in the year.

This item increased by euros 7.0 million essentially for higher revenues from service, operation and maintenance of plants provided to RTL S.p.A..

2) OTHER REVENUES AND INCOME - euros 34.1 million

Other revenues and income is detailed as follows:

In millions of euros	2007	2006	Change
Rental income	16.1	11.7	4.4
Third party contributions for high-voltage connections	7.8	12.1	-4.3
Contingent assets	3.6	3.2	0.4
Capital gains on the sale of plant parts	1.2	1.7	-0.5
Insurance compensation for damage	1.9	0.5	1.4
Sales to third parties	1.2	1.0	0.2
Other revenues	2.3	1.4	0.9
TOTAL	34.1	31.6	2.5

This caption includes, in particular, rental income (mostly by Wind Group for the housing of optic fibre on the Parent Company's grids - euros 11.6 million), portions of third party contributions for connections to the National Transmission Grid pertaining to previous years (euros 7.8 million), ordinary contingent assets

(euros 3.6 million), insurance compensation for damage (euros 1.9 million), gains on the sale of plant parts to third parties (euros 1.2 million).

Other revenues and income increased by 2.5 million, mainly due to:

- rise in rental income (up euros 4.4 million) deriving in particular from the contract signed in the year with Enel Distribuzione for the use of Terna infrastructures for conveyed waves communication;
- lesser portions of grants related to plants recorded by the Company (down euros 4.3 million);
- higher insurance compensation for damage to plants (up euros 1.4 million);
- higher income for the fiscal treatment in Italy of the interest on equity paid by the subsidiary Terna Participações (euros 0.7 million).

Operating expenses

3) RAW MATERIALS AND CONSUMABLES - euros 16.2 million

In millions of euros	2007	2006	Change
Inventory procurement	7.8	10.1	-2.3
Supply of materials and equipment	4.8	5.3	-0.5
Other supplies	3.6	2.7	0.9
TOTAL	16.2	18.1	-1.9

This caption includes costs incurred to purchase materials and sundry equipment used in ordinary operations and plant maintenance. The change in the caption, down euros 1.9 million on 2006, is attributable to higher positive variation in the stock-in-trade during the year (euros 4.3 million).

4) SERVICES - euros 112.0 million

In millions of euros	2007	2006	Change
Tenders on plants	25.3	22.3	3.0
Sundry services	51.6	50.3	1.3
Insurance	3.6	3.9	-0.3
Remote transmission and telephone	12.5	18.0	-5.5
IT services	6.5	12.9	-6.4
Use of third party assets	12.5	16.3	-3.8
TOTAL	112.0	123.7	-11.7

This caption decreased by euros 11.7 million on the previous year, mainly due to lesser costs for IT services, remote transmission and telephone.

This caption mainly includes the costs in relation to tenders and services for ordinary maintenance activities, as well as maintaining the efficiency of plants (the only rising items, up euros 4.3 million on the previous year); it also includes insurance (euros 3,6 million), remote transmission and telephone (euros 12.5 million), IT services (euros 6.5 million) and rentals, hiring and services (euros 12.5 million).

The following table summarizes fees paid to Terna S.p.A. Statutory Auditors. It shows their term of office and has been prepared on an accruals basis.

Surname and Name	Position	Term of office	End of office	Fees	Bonus and other incentives	Total
Ferreri Giovanni	Chairman	Jan. 07/Dec. 07	Approval of 2007 Financial Statements	55,000.00		55,000.00
Corvace Giancarlo	Statutory Auditor	Jan. 07/Dec. 07	Approval of 2007 Financial Statements	45,000.00		45,000.00
Tasca Roberto	Statutory Auditor	Jan. 07/Dec. 07	Approval of 2007 Financial Statements	45,000.00		45,000.00
TOTAL STATUTORY AUDITORS FEES				145,000.00		145,000.00

5) PERSONNEL EXPENSES - euros 229.5 million

In millions of euros	2007	2006	Change
SHORT-TERM EMPLOYEE BENEFITS			
Wages and salaries	166.4	155.8	10.6
Social security contributions	42.0	48.5	-6.5
Other	5.3	3.3	2.0
Directors	3.8	1.1	2.7
POST-EMPLOYMENT BENEFITS			
Defined benefit plans			
- electricity discount	1.1	2.5	-1.4
- Asem-Acem	-0.9	0.6	-1.5
Defined contribution plans			
- Fopen	1.5	1.3	0.2
- Fondenel	0.4	0.4	0.0
EMPLOYEES' TERMINATION BENEFITS			
Leaving incentives	7.6	13.1	-5.5
Employees' stock option plans	0.5	0.8	-0.3
Termination benefits	1.8	9.6	-7.8
TOTAL	229.5	237.0	-7.5

This caption includes the cost of wages and salaries, social security contributions and other costs incurred by the Company for leaving incentives, as well as benefits paid to employees who stay with the Company and termination benefits provided for by the current national labour contract for the electrical energy sector. Personnel expenses increased by euros 7.5 million mainly due to:

- curtailment of termination benefits (down euros 8.7 million) as a difference in the actuarial calculation pursuant to the new regulation having effects on the reporting period;
- release at December 31, 2006 of higher allowances for social security contributions (INPS) accounting for the portion, not owed, referring to the involuntary unemployment insurance (down approximately euros 3.9 million);
- lower expenses for consensual early termination of employment for those employees who are eligible for pension (down euros 5.5 million).
- higher personnel cost for employees of Italian subsidiaries moved to the Company from April 1, 2007 for RTL and RTM2 employees, from June 1, and July 1, 2007 for RTM1 and RTT personnel respectively (approximately euros 6.5 million).

The following table summarizes fees paid to Terna S.p.A. Directors. It shows their term of office and has been prepared on an accruals basis.

Surname and Name	Position	Term of office	Expiry	Fees	Bonus and other incentives**	Other fees	Total
Roth Luigi	Chairman/ Director	Jan. 07 Dec. 07	Approval of 2007 Financial Statements	380,000.00		67,572.97 ⁽¹⁾	447,572.97
Cattaneo Flavio	CEO	Jan. 07 Dec. 07	Approval of 2007 Financial Statements	200,000.00	250,000.00	500,000.00 ⁽²⁾	950,000.00
De Paoli Luigi	Director	Jan. 07 Dec. 07	Approval of 2007 Financial Statements	75,000.00			75,000.00
Garaffo Mario	Director	Jan. 07 Dec. 07	Approval of 2007 Financial Statements	135,000.00			135,000.00
Machetti Claudio ⁽³⁾	Director	Mar. 07 Dec. 07	Approval of 2007 Financial Statements	19,444.00			19,444.00
Machi Salvatore	Director	Jan. 07 Dec. 07	Approval of 2007 Financial Statements	75,000.00			75,000.00
Macri Carmine	Director	Jan. 07 Dec. 07	Approval of 2007 Financial Statements	117,500.00			117,500.00
Maranesi Piero Giuseppe	Director	Jan. 07 Dec. 07	Approval of 2007 Financial Statements	75,000.00			75,000.00
Rispoli Vittorio ⁽⁴⁾	Director	Jul. 07 Dec. 07	Approval of 2007 Financial Statements	85,000.00			85,000.00
Smurro Franco	Director	Jan. 07 Dec. 07	Approval of 2007 Financial Statements	75,000.00			75,000.00
Romano Massimo *	Director	Jan. 07 Mar. 07	⁽⁵⁾	11,459.00			11,459.00
TOTAL DIRECTORS FEES				1,248,403.00	250,000.00	567,572.97	2,065,975.97

* with respect to the positions held, fees totalling euros 30,903.00 were transferred to Enel S.p.A.

** this amount relates to the variable portion of the fee for 2006, approved and disbursed in 2007

⁽¹⁾ the amount refer to R\$180,000 as Director of the subsidiary Terna Participações S.A.

⁽²⁾ the amount refers to compensation for the position of executive

⁽³⁾ co-opted on March 21, 2007 under art. 14.5 of the Bylaws and art. 2386 of the Italian Civil Code and confirmed by Shareholders' Meeting of May 24, 2007

⁽⁴⁾ co-opted on July 13, 2006 under art. 14.5 of the Bylaws and art. 2386 of the Italian Civil Code and confirmed by Shareholders' Meeting of May 24, 2007

⁽⁵⁾ in charge up to March 16, 2007

The following table shows number of employees by category at year end and the average number for the year:

	AVERAGE NUMBER		NUMBER	
	2007	2006	Dec. 31, 2007	Dec. 31, 2006
Managers	72	72	68	71
Junior managers	450	419	464	431
White collars	1,844	1,810	1,875	1,816
Blue collars	1,083	1,069	1,088	1,049
TOTAL	3,449	3,370	3,495	3,367

The net change with respect to December 31, 2006 is equal to 128 employees, mostly due to RTM1 S.p.A., RTM2 S.p.A. and RTT Srl employees moved to Terna during the year.

Reference should be made to paragraph “22) Termination benefits and other employee-related provisions” for the reconciliation of the opening and closing present value of the liability for employee benefits and the main assumptions used in the actuarial estimate.

6) AMORTIZATION, DEPRECIATION AND IMPAIRMENT LOSSES - euros 210.8 million

These relate to accruals during the year calculated on the basis of amortization rates that reflect the useful lives of the Company's property, plant and equipment and intangible assets (euros 208,6 million), as well as and depreciation and impairment losses (euros 1.6 million). The caption also includes accruals to the provision for bad debts relating to receivables that are reasonably unlikely to be collected (euros 0.6 million).

The caption shows increases (euros 8.6 million) on 2006, mainly due to the following transactions:

- higher amortizations for new plants and intangible assets that began operating during the year (euros 18.5 million);
- depreciation (euros 1.6 million) of Property, plant and equipment (pursuant to rationalization of National Transmission Grid) with particular reference to a portion of high-voltage line in the Lucca area, which never began operating due to subsequent changes in the project (euros 1.2 million);
- higher accruals, in 2006, relating to receivables for energy items that are reasonably unlikely to be collected (euros 11.5 million).

7) OTHER OPERATING EXPENSES - euros 15.2 million

In millions of euros	2007	2006	Change
Accruals to provisions for contingencies and charges	5.0	0.2	4.8
Local taxes and duties	3.9	4.5	-0.6
Prior year expenses	2.2	2.4	-0.2
Losses on the sale/disposal of plants	0.7	2.8	-2.1
Other operating expenses	3.4	5.1	-1.7
TOTAL	15.2	15.0	0.2

The caption includes most of all allowances to the provision for legal disputes (euros 5.0 million), other indirect local taxes (euros 3.9 million), ordinary prior year expenses (euros 2.2 million), losses on the sale/disposal of plants and other residual operating expenses.

The increase of euros 0.2 million on 2006 is mainly due to:

- higher net allowances (up euros 4.8 million) allocated to cover potential losses at year end. In particular, these refer to the ongoing dispute between GSE and an electric market operator for the acknowledgement of special tariffs for energy withdrawal and emission. In case of positive acceptance of the dispute, Terna will have to refund all higher amounts received (from 2001 up to TSO branch acquisition) as National Transmission Grid compensation fee;
- lower capital losses deriving from plant sale/dismissal (down euros 2.1 million);
- reduction of contractual penalties for the enjoinderment of goods and services in charge of the Company (down euros 2.1 million).

8) CAPITALIZED INTERNAL WORK - euros -48.9 million

Capitalized expenses relate to personnel expenses (euros 42.3 million) and the consumption of materials and equipment in inventories (euros 6.6 million) for plants under construction at hourly rate. The euros 12.3 million increase is fully attributable to personnel expenses, which offset the reduction in the capitalization of consumed materials.

Financial income and expenses

9) NET FINANCIAL INCOME/(EXPENSES) - euros -32.9 million

This caption is detailed as follows:

In millions of euros	2007	2006	Change
FINANCIAL INCOME			
Interest income and other financial income	8.7	43.4	-34.7
Financial income from subsidiaries	59.7	40.1	19.6
Debt adjustment (P.O.) and related cover	0.6	0.0	0.6
Income on trading derivatives	0.4	8.8	-8.4
Total income	69.4	92.3	-22.9
FINANCIAL EXPENSES			
Interest expenses on medium/long-term loans and related cover	-92.7	-63.7	-29.0
Interest expenses on short-term loans and other financial expenses	-3.5	-0.9	-2.6
Financial expenses from subsidiaries	-0.5	-0.8	0.3
Exchange rate losses	0.0	-1.6	1.6
Debt adjustment (P.O.) and related cover	0.0	-2.6	2.6
Discounting of termination benefit and other personnel-related provisions	-5.6	-6.6	1.0
Total expenses	-102.3	-76.2	-26.1
TOTAL	-32.9	16.1	-49.0

Net financial expenses of the year amounts to euros 32.9 million, mostly due to debt cost and financial income (euros 102.3 million), basically from subsidiaries (euros 69.4 million). The increase of euros 49.0 million on the previous year is mostly due to:

- lower financial income (euros 34.7 million), due both to the net gain obtained in 2006 with the listing of Terna Participações (euros 38.4 million) and the margin obtained from the financial component of the related uplift (euros 3.3 million);
- higher financial income from subsidiaries of Terna Participações Group for dividends (euros 9.5 million) and interest on equity (euros 7.4 million) and of former RTL Group (now RTL) for dividends (euros 0.8 million) and net financial income accrued on the intercompany bank account (euros 2.2 million);
- positive net economic effects deriving from adjustment to fair value of bonds and related hedges in comparison to 2006 (euros 3.2 million);
- lower income on trading derivatives (euros 8.4 million);

- increase in financial expenses related to medium/long term loans due both to the uplift of market interest rate curve (euros 14.5 million) and the additional debt (euros 14.5 million);
- increase in interest expenses on short-term loans (euros 2.6 million) following uplift of market interest rate curve;
- positive impact of exchange rate differences (euros 1.6 million) due to cancellation of negative differences of 2006;
- lower financial expenses deriving from discounting of employee-related benefits (euros 1.0 million).

10) INCOME TAXES - euros 147.0 million

Income taxes of the year amount to euros 147.0 million, with an impact on profit before taxes of 27.23% (net of tax adjustments relating to previous years). In 2006 taxes of the year amounted to euros 211.1 million, with an impact on profit before taxes of 37.80% (net of tax adjustments relating to previous years). Tax rate decrease is mostly due to the effects recognized in the income statement of the adjustment of deferred taxes (income and expenses) to the new IRES and IRAP rates introduced by Law no. 244 of December 24, 2007 (2008 Financial Act).

Income taxes of the year are detailed as follows:

In millions of euros	2007	2006	Change
INCOME TAXES			
Current taxes			
- IRES	185.1	194.7	-9.6
- IRAP	42.0	39.6	2.4
Total current taxes	227.1	234.3	-7.2
Temporary differences			
- deferred tax income	-13.6	-13.7	0.1
- deferred tax expenses	6.7	9.2	-2.5
Reversal of temporary differences			
- deferred tax income	13.7	2.6	11.1
- deferred tax expenses	-20.3	-18.1	-2.2
- rate adjustment	-62.8	-	-62.8
Total deferred tax income (expenses)	-76.3	-20.0	-56.3
Adjustments to income taxes of previous years	-3.8	-3.2	-0.6
TOTAL	147.0	211.1	-64.1

Current taxes

Current taxes decreased by euros 7.2 million on 2006 mostly due to decrease of IRES tax (euros 9.6 million). To the IRES reduction concur both the decrease of profit before taxes and the following:

- taxation, in 2006, of the tax gain on the contribution of investments in TSN and Novatrans to the Brazilian subsidiary Terna Participações, as well as the gain realized on the listing of Terna Participações on the São Paulo stock exchange (total of euros -9.1 million);
- higher non-deductible amortizations (euros +3.1 million).

Adjustments to income taxes of previous years were also recognized, generating income of euros 3.8 million.

Deferred tax income and expenses

Deferred tax income and expenses, equal to euros -76.3 million, decreased by euros 56.3 million due to adjustment of deferred tax income and expenses to the new rates introduced by 2008 Financial Act, which determined the recognition of lower taxes for a total of euros 62.8 million. Net deferred tax income were higher than in 2006 (up 11.2 million), deriving basically from the release of allowances made in the previous year for leaving incentives and for additional CIG and CIGS (redundancy funds) expenses (euros 6.3 million) as well as liquidation of yield premiums and rewards for 2006 (euros 2.9 million).

For a better presentation of the differences between the theoretical and actual tax rates, the table below reconciles the profit before taxes with the taxable base for IRES purposes:

In millions of euros	2007			2006		
	Taxable base	Tax	% change	Taxable base	Tax	% change
Profit before taxes	553.7	-		566.8		
Theoretical tax charge (33%)		182.7	33.0		187.0	33.0
Change in provisions		0.5	0.1		6.4	1.1
Incentives and employee benefits		-2.2	-0.4		2.5	0.4
Dividends - non-taxable portion		-16.6	-3.0		-13.2	-2.3
Excess and accelerated depreciation		13.9	2.5		10.8	1.9
Non-deductible telephone and rental expenses		2.8	0.5		2.7	0.5
Other increases/decreases		4.0	0.7		-1.5	-0.3
Taxes for the year		185.1			194.7	
EFFECTIVE RATE			33.4			34.4

The table below shows the reconciliation between tax expenses and the current taxes recognised in the financial statements concerning IRAP:

In millions of euros	2007			2006		
	Taxable base	Tax	% change	Taxable base	Tax	% change
Operating profit	586.6			550.8		
Theoretical tax charge (4.75%)		27.9	4.8		26.0	4.7
Personnel expenses		10.2	1.7		10	1.8
Provision for bad debts		0.8	0.1		0.6	0.1
Excess and accelerated depreciation		2.0	0.3		2.4	0.4
Non-deductible telephone and rental expenses		0.4	0.1		-0.9	-0.2
Other increases/decreases		0.7	0.1		1.5	0.3
Taxes for the year		42.0			39.6	
EFFECTIVE RATE			7.2			7.2

11) EARNINGS PER SHARE

Basic earnings per share amount to euros 0.203 in which the numerator and denominator amount to euros 406.7 million and euros 2,000,478.6 thousand, respectively.

Diluted earnings per share amount to euros 0.202 in which the numerator and denominator amount to euros 406.7 million and euros 2,009,992.0 thousand, respectively.

D) NOTES TO THE BALANCE SHEET

Assets

12) PROPERTY, PLANT AND EQUIPMENT - euros 4,519.6 million

Property, plant and equipment amount to euros 4,519.6 million (euros 4,149.0 million at December 31, 2006).

They may be broken down as follows:

In millions of euros	Land	Buildings	Plant and machinery	Industrial commercial equipment	Other assets	Assets under construction and payments on account	Total
Cost at Jan. 1, 2007	24.8	603.1	6,980.7	44.2	45.1	374.0	8,071.9
Investments	1.4	72.3	104.6	2.6	13.2	353.6	547.7
Intercompany acquisitions within the Group			43.7			0.3	44.0
Plant start-up	0.1	13.2	187.0			-200.3	0.0
Disposals		-0.3	-13.9	-0.2	-0.1	-1.6	-16.1
Other changes			-7.4			-10.3	-17.7
Cost at Dec. 31, 2007	26.3	688.3	7,294.7	46.6	58.2	515.7	8,629.8
Accumulated depreciation and impairment losses at Jan. 31, 2007	-	-226.4	-3,640.7	-31.5	-24.3	0.0	-3,922.9
Depreciation of the year		-15.2	-160.3	-2.3	-7.4		-185.2
Intercompany acquisitions within the Group			-15.6				-15.6
Disposals		0.3	13.0	0.2			13.5
Accumulated depreciation and impairment losses at Dec. 31, 2007	-	-241.3	-3,803.6	-33.6	-31.7	0.0	-4,110.2
Carrying amount							
AT DECEMBER 31, 2007	26.3	447.0	3,491.1	13.0	26.5	515.7	4,519.6
AT DECEMBER 31, 2006	24.8	376.7	3,340.0	12.7	20.8	374.0	4,149.0

The caption "Plant and machinery" includes the electrical energy transmission grid and the transformation stations, the central systems for remote conduction and the national electrical energy control system.

Apart from ordinary changes occurred during the year, the caption includes the acquisition (for euros 28.4 million) of transmission plants from the subsidiary RTL. The transfer act, signed on December 12, 2007, falls within the scope of implementation of the Valcamonica and Valtellina grid rationalization plan, agreed by parent Terna with the involved local administrations and the Ministry of Economic Development.

A summary of changes in property, plant and equipment during the year is provided in the table below:

In millions of euros

Investments	
- transmission lines	180.2
- transformation stations	221.4
- other	146.1
Total investments	547.7
Intercompany acquisitions within the Group	28.4
Total acquisitions	576.1
Depreciation	-185.2
Disposals and other changes	-20.3
TOTAL	370.6

Investments of the year are mainly:

- progress in implementation of the SAPEI (Sardinia - Italian Peninsula) connection;
- purchase of new headquarters in Rome;
- purchase from Wind Group of exclusive use for 20 years of a pair of optic fibers;
- progress in implementation of the 380 kV Casellina-Tavarnuzze-S. Barbara long distance power line;
- powering of Brindisi Pignicelle station.

In terms of assets under construction and payments on account, the main grid development and repowering projects, worth more than euros 5 million, are listed below:

In millions of euros

LINES	
SAPEI	152,589,331
S. Barbara-Tavarnuzze-Casellina	25,034,237
Rationalization Bussolengo (VR) area	7,380,030
Valcamonica	6,500,332
Val D'Ossola Sud	6,440,244
Udine Ovest-Okroglo	5,050,050
380 kV STATIONS	
Brindisi Pignicelle	13,881,096
ERG NuCe Nord plant in Priolo	7,663,097
La Spezia - Station renovation	7,191,576
Bari Nord - New 380 kV station	5,100,169
220 kV STATIONS	
Frattamaggiore	9,353,413
S/E Pallanzeno - 220-132 kV plant renovation	5,213,854
Tirreno Power plant of Napoli Levante	5,260,741
OTHER INVESTMENTS	
Development of TLC optic fibre	45,473,511
SICAS Standard	5,160,296

13) INTANGIBLE ASSETS - euros 160.7 million

Changes during the year in intangible assets are detailed below:

In millions of euros	Concessions	Other assets	Assets under development and payments on account	Total
BALANCE AT DEC. 31, 2006	128.9	14.7	15.6	159.2
Investments	0.0	14.9	10.0	24.9
Plants start-up	0.0	11.1	-11.1	0.0
Amortization	-5.6	-17.8	0.0	-23.4
BALANCE AT DEC. 31, 2007	123.3	22.9	14.5	160.7
Cost	135.4	79.6	14.5	229.5
Accumulated amortization	-12.1	-56.7	0.0	-68.8
BALANCE AT DEC. 31, 2007	123.3	22.9	14.5	160.7

Intangible assets amount to euros 160.7 million (euros 159.2 million at December 31, 2007). The increase of the year (euros 1.5 million) is due to changes in investments (euros 24.9 million) and amortization (euros 23.4 million).

The caption mainly includes the concession for electrical energy transmission and dispatching activities in Italy.

Other intangible assets mainly relate to the following, apart from software applications and generic utilization licences:

- the development and innovation of application software to manage the energy invoicing process;
- the development and innovation of application software to protect the electrical energy system;
- software applications related to the development of the power exchange, particularly relating to the registration of operators, consumption units and the development of foreign procedures.

These software applications are amortized over their estimated residual useful lives, which are normally three years, given their rapid obsolescence.

14) DEFERRED TAX ASSETS - euros 48.0 million

Deferred tax assets relate to the following captions:

In millions of euros	Dec. 31, 2006	IMPACT RECOGNIZED IN PROFIT OR LOSS		OTHER FINANCIAL CHANGES	Dec. 31, 2007
		Accruals	Utilization		
Provisions for contingencies and charges	14.8	8.3	-7.4	0.0	15.7
Provision for bad debts	2.1	0.0	-0.2	0.0	1.9
Termination benefits and other employee-related provisions	34.3	5.3	-10.6	0.1	29.1
CFH derivatives	2.0	0.0	0.0	-2.0	0.0
Financial expenses	0.0	0.0	0.0	0.0	0.0
Other	1.4	0.0	-0.1	0.0	1.3
DEFERRED TAX ASSETS	54.6	13.6	-18.3	-1.9	48.0

The net decrease of deferred tax assets (euros 6.6 million) on 2006 is mainly due to the combined effect of the following:

- change, for euros 1.9 million, for utilization of termination benefits and other employee-related provisions and other financial changes;
- release, for euros 2.0 million, of the fiscal effect, having no direct impact on profit or losses recorded on cash flow hedge instruments extinguished during the year;
- net increase, for euros 1.9 million, due to higher allowances for provisions for contingencies and charges;
- adjustments for euros 4.6 million, of which euros 3.3 million attributable to termination benefits and other employee-related provisions, to the new IRES and IRAP rates applied to deferred tax assets, as better estimation of existing rates at the time the relative temporary differences will be paid.

15) FINANCIAL ASSETS

The following table details financial assets recognized in Terna S.p.A.'s financial statements:

In millions of euros	CARRYING AMOUNT		Change
	Dec. 31, 2007	Dec. 31, 2006	
Investments in subsidiaries	660.2	660.1	0.1
Investments in associates	4.6	4.6	0
FVH derivatives	0	11.3	-11.3
Trading derivatives	0	0.7	-0.7
Non-current financial assets	664.8	676.7	-11.9
Deferred assets on FVH derivative contracts	0	1.5	-1.5
Other current financial assets	0.9	1.1	-0.2
Current financial assets	0.9	2.6	-1.7
TOTAL	665.7	679.3	-13.6

“Non-current financial assets” amounts to euros 664.8 million; at December 31, 2007 the item accounts exclusively for investments, while in 2006 it accounted also for the fair value of financial derivatives instruments.

Decrease in the fair value of derivatives (euros 12.0 million) on December 31, 2006 is mostly due to changes in market conditions that caused recognition as financial liabilities (see “Loans and financial liabilities” for further details).

“Investments in subsidiaries” refers to investments in subsidiaries directly held by Terna S.p.A., of which further details are given below; since measuring was carried out at cost, the only change on 2006 is attributable to establishment in 2007, of InTernAtional S.p.A. for euros 0.1 million.

“Investments in associates” refers exclusively to the 24.4% portion of Cesi S.p.A. share capital, equal to euros 4.6 million, with no changes with respect to December 31, 2006. This company operates in the implementation and management of laboratories and plants for testing, trial, studies and experimental researches relating to the general electro-technical field and its technical and scientific progress in this area.

The following table summarizes Terna S.p.A.'s direct investments in subsidiaries and associates at December 31, 2007, compared to the last set of approved financial statements:

Company	Registered office	Business activity	Share capital	Currency	% of ownership	Carrying amount
SUBSIDIARIES						
Terna Participações S.A.	Rio de Janeiro (Brazil)	Holding company of investments in other companies active in the transmission of electrical energy	1,310,433,030	R\$	66%	210,757,389
RTL Rete Trasmissione Locale	Rome	Construction and maintenance of electrical energy transmission grids	20,600,000	euro	100%	449,304,530
InTERNAtional S.p.A.	Rome	Construction and maintenance of electrical transmission energy grids in Italy and abroad	120,000	euro	100%	120,000
ASSOCIATES						
Cesi S.p.A.	Milan	Experimental electro-technical research	8,550,000	euro	24.4%	4,570,764

"Current financial assets" amounts to euros 0.9 million (euros 2.6 million at December 31, 2006) and exclusively relates to accrued interests not yet collected at the reporting date for cash deposits on bank accounts.

Decrease (euros 1.7 million) on 2006 is mostly due to:

- decrease of deferred assets on fair value hedge derivatives following uplift of interest rate curve for euros 2.3 million (euros 1.5 million as reduction in current financial assets and euros 0.8 million as increase in current financial liabilities);
- early refund of intercompany loan signed between Terna S.p.A. and Terna Participações (euros 0.5 million);
- increase in deferred assets on bank accounts for euros 0.3 million.

16) OTHER ASSETS

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Change
Receivables due from others			
- loans and advances to employees	4.5	4.6	-0.1
- assets on deposit with third parties	0.3	0.2	0.1
- tax advance on termination benefits	0.0	0.5	-0.5
Other non-current assets	4.8	5.3	-0.5
Tax receivables	16.2	1.5	14.7
Receivables due from others			
- advances to employees	0.2	0.2	0.0
- others	17.0	15.6	1.4
Other current assets	33.4	17.3	16.1

Other non-current assets, detailed above, have not undergone any significant changes with respect to the previous year.

Other current assets amount to euros 33.4 million (euros 17.3 million at December 31, 2006) and mainly relate to the following:

- tax receivables (euros 16.2 million) mainly related to:
 - receivables due from the Treasury for liquidation of taxes pertaining to the current year (euros 2.6 million);
 - VAT receivables for advance payment of December (euros 9.3 million);
- receivables due from others (euros 17.2 million) mainly due to:
 - receivables from the Greek tax authorities for indirect taxes (euros 9.1 million) in relation to the activities carried out by Terna's branch in Greece;
 - assets in relation to portions of costs for insurance premiums already paid but pertaining to the subsequent year (euros 1.7 million);
 - other deferred costs (euros 1.8 million) mainly attributable to charges on contracts to use assets, which Terna took over following the transfer of plants from Enel Distribuzione;
 - sundry advances to employees (euros 0.2 million) and third parties (euros 0.2 million).

17) INVENTORIES - euros 12.6 million

Inventories under current assets include materials and devices used in the operating, maintenance and construction of plants of euros 12.6 million (euros 7.7 million at December 31, 2006); the euros 4.9 million increase is mainly due to the ordinary maintenance requirements of plants.

18) TRADE RECEIVABLES - euros 1,513.6 million

Trade receivables are composed as follows:

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Change
Non energy-related receivables			
- receivables from subsidiaries	2.3	1.7	0.6
- receivables from others	256.4	265.2	-8.8
Energy-related receivables	1,254.9	896.8	358.1
TRADE RECEIVABLES	1,513.6	1,163.7	349.9

Trade receivables amount to euros 1,513.6 million, up euros 349.9 million on 2006 exclusively due to electrical energy transmission and dispatching activities.

Receivables are measured net of impairment losses, relating to items considered uncollectible and recorded as an adjustment in the provision for bad debts (euros 12.9 million for energy items and euros 0.9 million for other items in 2007, in comparison to euros 12.8 million for energy related items and euros 0.4 million for other items in 2006).

Non energy-related receivables - euros 258.7 million

These mainly relate to the grid transmission consideration (euros 220.6 million) and related fees paid to the Company and other grid owners for use of the National Transmission Grid by distributors and producers. In particular, they refer to the last two months of 2007.

Other trade receivables include receivables due from Italian customers (euros 24.5 million), Enel Group companies (euros 6.1 million) and receivables for contract work in progress (euros 1.4 million) relating to long-term work that the Company is carrying out for third-party customers. The latter are listed below:

In millions of euros	Payments on account	Contract value	Balance at Dec. 31, 2007	Payments on account	Contract value	Balance at Dec. 31, 2006
Others	-5.10	6.50	1.40	-6.10	7.90	1.80
TOTAL	-5.10	6.50	1.40	-6.10	7.90	1.80

Energy-related receivables - euros 1.254,9 million

Energy items mainly include receivables in relation to energy in transit items arising on the dispatching of electrical energy. This caption also includes receivables for margin considerations payable by market operators for dispatching activities (DIS consideration as per AEEG Resolution no. 237/04) and metering activities (MIS consideration as per AEEG Resolution no. 05/04) and receivables for the consideration covering management and administrative costs, encountered for the energy withdrawal activity from producers of energy from renewable sources (below 10 MVA) connected to the National Transmission Grid (AEEG Resolution no. 05/04). This caption also includes deferred charges of euros 116.9 million relating to the signing of ETSO-CBT (European Transmission System Operators - Cross Board Trade) agreements governing the offsetting of energy in transit costs on foreign electricity grids. Under Resolution no. 15/2005, the AEEG ensured the coverage of the above charges and established that repayment terms will be set out in a specific provision.

The amount for guarantees by Terna towards third parties at the end of 2007 is euros 16.1 million. Of this amount, euros 7.1 million refer to passive bank guarantees for contractual obligations related to operating activity; euros 9.0 million refer to the bank guarantee requested for a tender for property purchase. This guarantee was released on January 14, 2008.

19) CASH AND CASH EQUIVALENTS - euros 130.6 million

At December 31, 2007, Terna S.p.A.'s cash and cash equivalents amounted to euros 130.6 million, including bank current account deposits of euros 123.0 million (bearing interest at an average rate of 4.73%), euros 7.5 million in the intercompany current account held with the subsidiary RTL and euros 0.1 million in cash on hand for operating areas.

Liabilities

20) EQUITY - euros 2,026.0 million

Share capital - euros 440.1 million

The share capital of Terna S.p.A. is comprised of 2,000,478,600 ordinary shares with a nominal value of euros 0.22 each. Increase of euros 0.1 million on 2006 is due to the issue of new shares for the stock option plan in 2007 (for a total of 478,600 shares) described and commented below.

Legal reserve - euros 88.0 million

The legal reserve is equal to 20% of the Company's share capital.

Other reserves - euros 729.0 million

Other reserves underwent a net change of euros 3.5 million, mainly as a result of the following:

- closing of hedging derivative instruments on EIB loans - cash flow hedge derivatives (up euros 4.3 million) and of the related tax effect (down euros 2.1 million);
- the recognition of the cost of stock options described below (down euros 0.4 million) and of the share premium reserve referred to the portion exercised during the year (up euros 0.9 million).

Retained earnings - euros 474.2 million

2007 changes in retained earnings mainly relate to the allocation of the residual 2006 profit for the year (euros 75.8 million) with respect to the distribution of 2006 dividend (for a total of euros 280.0 million).

2007 interim dividend

After receiving the report of the independent auditors as per article 2433 bis of the Italian Civil Code, on September 12, 2007, the Company's Board of Directors approved the distribution of an interim dividend of euros 112.0 million, equal to euros 0.056 per share which was paid beginning from November 22, 2007.

The following table shows individual equity captions at the balance sheet date, indicating their origin, availability and possibility of distribution:

In millions of euros	Amount	Possibility of use	Available portion
Share capital	440.1	-	-
Legal reserve	88.0	B	-
Other reserves			
- equity-related	397.0	A, B, C	397.0
- income-related	332.0	A, B, C	332.0
Retained earnings	116.2	A, B, C	116.2
Unavailable retained earnings	358.0	A, B	358.0
Interim dividend	-112.0	-	-
Profit for 2007	406.7	-	-
Total	2,026.0		
		TOTAL	1,203.2
Key:		Unavailable portion	357.4
A - to increase share capital		Residual available portion	845.8
B - to cover losses			
C - to be distributed to shareholders			

Residual available portion refers for euros 332.6 million to retained earnings before taxes.

Stock option plans

On December 21, 2005, based on the proposals put forth by the Remuneration committee, the Board of Directors resolved to adopt a 2006 stock option plan for Terna managers who hold the most important roles in terms of achieving the Company's strategic targets.

This plan is aimed at giving Terna - in line with international best practice and that of the leading publicly listed Italian companies - a management incentive and loyalty tool, capable of giving key resources a sense of corporate belonging, while ensuring they are constantly focused on creating value, so as to bring shareholders' and management's interests together.

The 2006 stock option plan may be analyzed as follows:

Regulation governing the 2006 stock option plan (Resolution dated December 21, 2005)

The plan provides for the distribution of a maximum of 10,000,000 options to approximately 20 Terna managers, who hold the most important roles in terms of achieving the Company's strategic targets, including the CEO, as a senior manager of the Company.

Under the approved regulation governing the stock option plan:

1. the strike price of each share shall be determined as the arithmetic mean of the reference prices of Terna ordinary shares as identified by the computer system of Borsa Italiana S.p.A. in the period ranging between the date of the offer and the same day on the previous calendar month;
2. the exercise of the options and consequently, the right to subscribe newly-issued Terna ordinary shares depends on two performance parameters. In particular:
 - a) Terna EBITDA for the grant year (2006), as shown in the budget approved by the Board of Directors was overcome;
 - b) the 2006 performance of each beneficiary must be positively assessed by the CEO, forecasting a 50% reduction in the options that the individual beneficiary can exercise, should this second condition not be met;

3. if the conditions underlying the exercise are met, individual beneficiaries can exercise their options by March 31, 2010 and up to the following maximum quantities:

- up to 30% of exercisable options, beginning from the date disclosed in the notice communicating the fact that the conditions underlying the exercise have been met;
- up to 60% of exercisable options, beginning from the first day of the first calendar year subsequent to the year in which the conditions underlying the exercise are met;
- up to 100% of exercisable options, beginning from the first day of the second calendar year subsequent to the year in which the conditions underlying the exercise are met.

Options can be exercised only when the stock exchange is open during the last 10 days of each month.

However, options cannot be exercised in the following days:

- in the period between antepenultimate and last the day of open stock exchange previous to the so called “detaching of the coupons”;
- in the period between the date planned for the approval of the financial statements by the Board of Directors and the same day of the previous month;
- in the period between the date planned for the approval of the half-year report by the Board of Directors and the same day of the previous month.

The 2006 stock option plan entailed the granting, on December 21, 2005, of 9,992,000 options with a strike price of euros 2.072, to 17 managers of the Company. The Board of Directors will verify that the conditions for exercise are met when it approves the financial statements at December 31, 2006.

The option granted under this plan at December 31, 2007 are as follows:

	2006 plan
Outstanding at January 1	9,992,000
Unopted during the year	9,513,400
Exercised during the year	478,600
Outstanding at December 31	6,994,400
Exercisable at December 31	2,519,000

Weighted average price of shares at the reporting date is:

- euros 2.812 at May 25, 2007;
- euros 2.848 at May 31, 2007;
- euros 2.486 at July 30, 2007.

The table below shows the residual life of options at December 31, 2007 and their fair value:

	Options granted (at December 21, 2005)	End of vesting period	Fair value* at grant date (euros)
	2,997,600	2008	0.121
	3,996,800	2009	0.115
TOTAL	6,994,400		

* factor of probability (100%)

The Cox-Rubinstein pricing method is used, which considers the value of the Terna share at the grant date, the volatility of the share, the interest rate curve at the grant date and throughout the duration of the plan. The pricing parameters applied are the following:

- closing price (underlying or spot price) of the share at the grant date (source: Bloomberg) of euros 2.058;
- strike price of euros 2.072;
- interest rate curve for the calculation of the discount factor at the grant date (source: Reuters);
- historic volatility of the share recorded at the grant date (source: Bloomberg) of 14.860%.

The following table is provided in accordance with disclosure requirements for stock options granted to members of the Board of Directors and General Managers:

Name and surname	Position	Number of options
Flavio Cattaneo	CEO	2,115,000

Other information on the stock option plan in place:

Other beneficiaries of the stock option plan	7,398,400
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21) LOANS AND FINANCIAL LIABILITIES

The following table details loans and financial liabilities recognized in Terna S.p.A.'s financial statements at December 31, 2007:

In millions of euros	CARRYING AMOUNT		
	Dec. 31, 2007	Dec. 31, 2006	Change
Bond	1,840.4	1,406.6	433.8
Bank loans	511.4	540.9	-29.5
Long-term loans	2,351.8	1,947.5	404.3
CFH derivatives	0.0	6.2	-6.2
FVH derivatives	57.5	0.0	57.5
Trading derivatives	0.5	0.0	0.5
Non-current financial liabilities	58.0	6.2	51.8
Short-term loans	0.0	50.0	-50.0
Current portion of long-term loans	29.5	29.5	0.0
Short-term loans and current portion of medium/long-term loans	29.5	79.5	-50.0
TOTAL	2,439.3	2,033.2	406.1

Carrying amount of liabilities for the year increased by euros 406.1 million reaching euros 2,439.3 million. Change in bond values (euros 433.8 million) is due for euros 502.8 million to Terna's new share issue of 2007 and for euros 69.0 million to the net decrease of 2014-2024 bonds due to changes in fair value of hedged risk. This change is offset by fair value increase of derivatives (for total euros 70.0 million, including euros 12.0 million as reduction of financial assets and euros 58.0 million as increase of financial liabilities). On October 23, 2007 Terna S.p.A. issued a 16 years-long bond adjusted to Italian inflation rate (FOI – consumer price index without tobaccos for white and blue collars' families) expiring on September 15, 2023, that is refinancing the short-term payable and covering further short-term needs. The share provides a fixed rate coupon (2.731%) calculated on a nominal value adjusted to inflation every semester and refunded on expiry.

Official Luxembourg stock exchange fair value quotations for Terna bonds are as follows:

- bond maturing 2024 price at December 31, 2007: 96.45(*) and price at December 31, 2006: 103.56;
- bond maturing 2014 price at December 31, 2007: 95.93(*) and price at December 31, 2006: 99.77;
- bond maturing 2023 price at November 12, 2007: 101.155(*)

(*) source: Bloomberg

Subsequently, with the carrying amount equal to euros 1,840.4 million (euros 1,406.6 million at December 31, 2006), fair value is euros 1,855.8 million (euros 1,427.1 million at December 31, 2006).

Long-term loans

The following table shows the carrying amount of medium/long-term indebtedness and the repayment plan at December 31, 2007, broken down by loan type, including amounts falling due within one year.

In millions of euros	Maturity	CARRYING AMOUNT AT		Due within one year	Due after one year	2009	2010	2011	2012	2013	After
		Dec. 31, 2006	Dec. 31, 2007								
Bonds	2014-2024	1,406.6	1,337.6	0.0	1,337.6	0.0	0.0	0.0	0.0	0.0	1,337.6
IL Bonds	2023	0.0	502.8	0.0	502.8	0.0	0.0	0.0	0.0	0.0	502.8
Total fixed rate		1,406.6	1,840.4	0.0	1,840.4	0.0	0.0	0.0	0.0	0.0	1,840.4
EIB no. 20271	2014	54.6	47.7	6.8	40.9	6.8	6.8	6.8	6.8	6.8	6.9
EIB no. 21159	2016	215.8	193.2	22.7	170.5	22.7	22.7	22.7	22.7	22.7	57.0
EIB no. 22947	2020	100.0	100.0	0.0	100.0	0.0	9.1	9.1	9.1	9.1	63.6
EIB no. 22947	2018	200.0	200.0	0.0	200.0	0.0	21.0	21.0	21.0	21.0	116.0
Total variable rate		570.4	540.9	29.5	511.4	29.5	59.6	59.6	59.6	59.6	243.5
TOTAL		1,977.0	2,381.3	29.5	2,351.8	29.5	59.6	59.6	59.6	59.6	2,083.9

The repayment of nominal value of 2014-2024 bonds (euros 1,400.0 million) provides for the settlement of euros 600.0 million at October 28, 2014 and euros 800.0 million at October 28, 2024. The inflation linked bond will be repaid at maturity, on September 15, 2023, with nominal value adjusted to inflation rate.

All other financial indebtedness items are stated at nominal value with the related repayment plan.

Terna S.p.A.'s total loans at December 31, 2007 amount to euros 2,381.3 million, including loans of euros 2,351.8 million due after one year and euros 2,083.9 million due after the fifth year.

The following table illustrates medium/long-term indebtedness, broken down by currency and average interest rate, including amounts due within one year, and with evidence of average interest rate for each type of financial liability.

In millions of euros	Maturity	Original currency	CARRYING AMOUNT AT		Due within one year	Due after one year	Average interest rate at Dec. 31, 2007
			Dec. 31, 2007				
Bonds	2014-2024	euro	1,337.6		0.0	1,337.6	4.62%
IL Bonds	2023	euro	502.8		0.0	502.8	4.84%
Total fixed rate			1,840.4		0.0	1,840.4	
EIB no. 20271	2014	euro	47.7		6.8	40.9	4.21%
EIB no. 21159	2016	euro	193.2		22.7	170.5	4.36%
EIB no. 22947	2020	euro	100.0		0.0	100.0	4.35%
EIB no. 22947	2018	euro	200.0		0.0	200.0	4.26%
Total variable rate			540.9		29.5	511.4	
TOTAL			2,381.3		29.5	2,351.8	

The table shows the average interest rate for each type of financial liability and later the same is commented also with reference to financial hedging operations carried out to protect the Company from the risk of interest rate fluctuation.

As regards 2014-2024 bonds whose average coupon is equal to 4.62% if FVH hedging operations are taken into account, the average interest rate is 4.51%. and it is equal to 4.40% if trading derivatives negotiated for “managerial hedging” are also taken into account.

Pursuant to Company financial risk management policies, as happened to long-term fixed rate bond issued in 2004 (2014 and 2024), also the 2023 inflation linked bond, issued at fixed rate, was synthetically brought to variable rate with derivative contracts with same maturity (inflation coupon swap derivatives) and, at the same time, at fixed rate with subsequent derivatives with maturity equal to the next regulatory period. Considering hedges and assuming a 2.10% inflation rate, average interest rate paid in 2007 was 4.92%.

As regards the two EIB loans hedged against interest rate fluctuations, considering the effect of stabilizing financial derivatives as cash flow hedge, emerges for EIB no. 20271 an average interest rate of 4.78% and for EIB no. 21159 an average interest rate of 4.81%.

The following table represents changes in long-term indebtedness of 2007:

In millions of euros

Type of loan	Notional debt at Dec. 31, 2006	Carrying value at Dec. 31, 2006	Repayments and capitalizations	New issues	Difference in the fair value Dec. 31, 2006 Dec. 31, 2007	Difference in the carrying value	Notional debt at Dec. 31, 2007	Carrying value at Dec. 31, 2007
Listed fixed rate bonds	1,400.0	1,406.6	0.0	0.0	(69.0)	(69.0)	1,400.0	1,337.6
Listed fixed rate IL bond	0.0	0.0	2.9	500.0	(0.1)	502.8	502.9	502.8
Total bonds	1,400.0	1,406.6	2.9	500.0	(69.1)	433.8	1,902.9	1,840.4
Bank loans	570.4	570.4	(29.5)	0.0	0.0	(29.5)	540.9	540.9
Total bank loans	570.4	570.4	(29.5)	0.0	0.0	(29.5)	540.9	540.9
TOTAL FINANCIAL INDEBTEDNESS	1,970.4	1,977.0	(26.6)	500.0	(69.1)	404.3	2,443.8	2,381.3

In comparison to December 31, 2006 long-term indebtedness present a general increase of euros 404.3 million, due for euros 500 million to the new inflation linked bond, for euros 2.9 million to capitalization of inflation for the period of IL bond, for euros 69.0 million to the decrease in bond fair value brought about by interest rate rise and for approximately euros 30 million to repayment of EIB loans portion.

At December 31, 2007 Terna has an additional debt capacity equal to more than euros 1,733.0 million, including more than euros 983.0 million for short-term credit lines and euros 750.0 million for the revolving syndicated line due within 5 years.

Non-current financial liabilities

The table below provides the maturity and average interest rate of non-current financial liabilities:

In millions of euros	Maturity	Dec. 31, 2007	Dec. 31, 2006	Change
FVH derivatives	2014-2024	57.5	0.0	57.5
Trading derivatives	2008-2011	0.5	0.0	0.5
CFH derivatives	2014-2016	0.0	6.2	-6.2
TOTAL		58.0	6.2	51.8

Non-current financial liabilities include the fair value of trading derivatives. Fair value is measured by discounting estimated future cash flows on the basis of the market interest rate curve at the reporting date. Trading derivatives impact on profit or losses, as the difference in the fair value of FVH derivatives neutralizes the effect of the difference in the fair value of non-inflation linked bonds.

The rise in the interest rate curve determined a euros 68.8 million negative change in fair value hedge derivatives (euros 57.5 million increase in liabilities and euros 11.3 million as reduction in non-current financial assets on 2006) and euros 1.2 million of trading derivatives (euros 0.5 million as increase in liabilities and euros 0.7 million as reduction in non-current financial assets on 2006), as already commented in "Financial assets".

Cash flow hedge derivatives decreased by euros 6.2 million after their closing in 2007.

Current financial liabilities

Current financial liabilities arising from financial expenses accrued but not settled in relation to financial items increased by euros 5.0 million mostly due to the inflation linked bond that pays with half-yearly coupons on March 15 and September 15.

The following table details deferred liabilities on the basis of the financial liabilities to which they relate:

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Change
DEFERRED LIABILITIES ON			
Derivative contracts			
- hedging	0.8	0.2	0.6
- trading	-0.4	0.0	-0.4
Total	0.4	0.2	0.2
Bond			
- inflation linked	4.1	0.0	4.1
- ten-year	4.5	4.5	0.0
- twenty-year	7.0	7.0	0.0
Total	15.6	11.5	4.1
Loans	3.1	2.3	0.8
TOTAL	19.1	14.1	5.0

The following table details the net financial position broken down by single components:

In millions of euros	Carrying amount Dec. 31, 2007
A. Cash	123.1
B. Other cash on hand (details)	0.0
C. Securities held for trading	0.0
D. Cash and cash equivalents (A)+(B)+(C)	123.1
E. Short-term loan to Terna Participações	0.0
F. Current financial receivables	0.0
G. Current bank debt	0.0
H. Current portion of long-term debt	29.5
I. Net balance of intercompany joint account with subsidiary RTL	-7.5
J. Current financial indebtedness (G)+(H)+(I)	22.0
K. Net current financial indebtedness (J)-(D)-(F)	-101.1
L. Non-current bank debt	511.4
M. Bonds	1,840.4
N. Derivative financial instruments in portfolio	58.0
O. Net non-current financial indebtedness (L)+(M)+(N)	2,409.8
P. Net financial indebtedness (K)+(O)	2,308.7

Except for intercompany joint account with RTL, there are no financial payables or receivable due from/to related parties; for further details see "G. Related Parties Transactions" in the notes.

The contractual clauses of loans in place at December 31, 2007 include negative pledges and default events in line with market standards (and, accordingly immaterial), while there are no financial covenants on existing debt.

22) TERMINATION BENEFITS AND OTHER EMPLOYEE-RELATED PROVISIONS

- euros 153.4 million

Terna offers its employees benefits during their employment with the Company (e.g., loyalty bonus), upon termination of employment (e.g., termination benefits, additional month's pay and indemnity for lack of notice) and after termination of employment (e.g., electricity discount and the ASEM health plan).

Loyalty bonus is due to Company employees and managers upon the achievement of specific seniority requirements (25 and 35 years of service).

Termination benefits are due to all employees, managers hired or appointed before February 28, 1999

(indemnity for lack of notice), and employees (blue collars, white collars and junior managers) hired before July 24, 2001 (additional month's pay).

Post-employment benefits consist of the following:

- discount on electrical energy consumed for domestic use. This benefit is offered to all Company employees hired before June 30, 1996 (electricity discount);
- health plan in addition to national healthcare, as provided for by the national industrial labour contract for managers (ASEM health plan).

The composition of and changes in termination benefits and other employee-related provisions at December 31, 2007 are detailed below:

In millions of euros	Dec. 31, 2006	Accruals	Interest cost	Utilizations and other changes	Dec. 31, 2007
Employee benefits					
Loyalty bonus	4,0	1,0	0,2	-0,1	5,1
Total	4,0	1,0	0,2	-0,1	5,1
Termination benefits					
Termination benefits	81,3	1,5	3,0	-12,0	73,8
Additional month's pay	7,0	0,4	0,4	-0,5	7,3
Substitutive benefits and other similar benefits	3,7	0,0	0,1	-0,2	3,6
Total	92,0	1,9	3,5	-12,7	84,7
Post-employment benefits					
Electricity discount	52,9	0,0	1,7	-3,0	51,6
ASEM	12,9	0,0	0,2	-1,1	12,0
Total	65,8	0,0	1,9	-4,1	63,6
TOTAL	161,8	2,9	5,6	-16,9	153,4

This caption amounts to euros 153.4 million at December 31, 2007 (euros 161.8 million at December 31, 2006), and shows a net decrease of euros 8.4 million compared to the previous year. This change is mainly due to termination benefits curtailment following pension reform of Law no. 296 of December 27, 2006 (2007 Financial Act) and subsequent decrees and regulations recognised in profit or losses along with the actuarial losses not recognised by the Company in previous years pursuant to the corridor approach.

In millions of euros	Termination benefits	Indemnity for lack of notice	Additional month's pay	Loyalty bonus	ASEM	Electricity discount	Electricity discount subst. indemnity	Total
DEC. 31, 2006	81.3	3.5	7.0	4.0	12.9	52.9	0.2	161.8
Cost	10.2	0.2	0.3	0.2	0.7	0.7	0.0	12.3
Interests	3.0	0.1	0.4	0.2	0.2	1.7	0.0	5.6
Curtailment	-3.0							-3.0
(Gains)/Losses	-5.7	-0.2	0.1	0.8	-0.7	-0.7	0.0	-6.4
Disbursements and transfers	-12.0	-0.2	-0.5	-0.1	-1.1	-3.0	0.0	-16.9
DEC. 31, 2007	73.8	3.4	7.3	5.1	12.0	51.6	0.2	153.4

The main assumptions made in the actuarial estimate of employee benefit obligations are the following:

%	2007	2006
Discount rate	4.6%	4.25%
Rate of increase in personnel expenses	2.0% - 4.0%	2.0% - 4.0%
Rate of increase in healthcare costs	3.0%	3.0%

23) PROVISIONS FOR CONTINGENCIES AND CHARGES - euros 65.0 million

The caption at December 31, 2007 and changes therein may be analyzed as follows:

In millions of euros	Provisions for disputes and litigations	Provision for contingencies and other charges	Provisions for leaving incentives	Total
BALANCE AT DEC. 31, 2006	13.2	29.2	11.9	54.3
Accruals	5.0	20.9	2.6	28.5
Utilizations	-2.5	-12.3	-4.0	-18.8
Other changes	0.0	1.0	0.0	1.0
BALANCE AT DEC. 31, 2007	15.7	38.8	10.5	65.0

Provision for disputes and litigation - euros 15.7 million

The caption is accrued mainly to cover year-end liabilities which could arise on lawsuits and out-of-court litigation relating to Company activities. The amount accrued takes into account the opinions of both the internal and independent lawyers. Compared to 2006 it shows a net increase of euros 2.5 million due to accruals (euros 5.0 million) and utilizations (euros 2,5 million) of the year.

Litigation for which no charge can be calculated is described under "Off-balance sheet items".

Provision for contingencies and other charges - euros 38.8 million

This caption shows a net increase of euros 9.6 million on the previous year, due to accruals (euros 20.9 million) and utilizations (euros 12.3 million), including in particular:

- accruals (euros 13.1 million) for probable adjustments for grid transmission considerations referred to 2005, 2006, 2007 following the technical litigation with a withdrawal dispatching operator;
- accruals for the long-term incentive plan for managers not benefiting from the stock option plan (euros 1.6 million);
- release of the provision for liquidation of additional CIG and CIGS (temporary unemployment compensations) by the Company (euros 5.9 million) pursuant to INPS memorandum no. 18089 of July 10, 2007, net of the not owed portion for the insurance against involuntary unemployment and mobility (approximately euros 3.9 million);
- charges (euros 1.4 million) that will be incurred by the Company in future years, related to tests (scheduled mandatorily and not until three years from the start-up) aiming at assessing the good functioning of the plants started up in 2007 and earlier.

Provision for leaving incentives - euros 10.5 million

This provision reflects the estimated non-recurring charges related to the agreed early termination of the working relationship of employees who are eligible for pension.

24) DEFERRED TAX LIABILITIES - euros 375.8 million

Changes in this caption are detailed as follows:

In millions of euros	Dec. 31, 2006	IMPACT RECOGNIZED IN PROFIT OR LOSS		OTHER CHANGES	Dec. 31, 2007
		Accruals	Utilizations		
Land related to buildings	3.7	0.0	0.0	-0.2	3.5
Amortization and depreciation	448.5	3.4	-87.7	1.6	365.8
Financial instruments	1.3	1.9	0.0	-1.3	1.9
Employee benefits	0.0	1.4	0.0	0.0	1.4
RTL plants acquisition	0.0	0.0	0.0	3.2	3.2
TOTAL	453.5	6.7	-87.7	3.3	375.8

Deferred tax liabilities decreased by euros 77.7 million on 2006 mainly due to the combined effect of the following events:

- net utilization of deferred taxes related to amortization in comparison to the economic-technical portions (euros 16.9 million);
- adjustment for euros -67.4 million to the IRES and IRAP rate applied to provisions for deferred taxation, to better reflect the rates that will be applicable as better estimation of existing rates at the time the relative temporary differences will be paid.
- take over of deferred taxes for euros 3.2 million following transfer of transmission plants from RTL, measured at their current value, and their deferred fiscal effect.

25) OTHER NON-CURRENT LIABILITIES - euros 156.8 million

This caption amounts to euros 156.8 million at December 31, 2007 and includes deferrals for grants related to plants (euros 151.3 million), as well as grid transport consideration to cover future costs of the National Transmission Grid safety plan (euros 5.5 million). The decrease on the previous year (down euros 14.0 million) is mainly due to:

- the release of portions of grants in connection with the depreciation of the year applicable to plants (euros 5.1 million);
- the release of portions of grants to cover costs in the year of the National Transmission Grid safety plan (euros 8.9 million).

26) CURRENT LIABILITIES

Current liabilities at December 31, 2007 are detailed as follows:

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Change
Short-term loans (*)	0.0	71.0	-71.0
Current portion of long-term loans (*)	29.5	29.5	0.0
Trade payables	1,779.2	1,282.9	496.3
Tax liabilities	0.0	72.3	-72.3
Current financial liabilities (*)	19.1	14.1	5.0
Other current liabilities	74.3	106.8	-32.5
TOTAL	1,902.1	1,576.6	325.5

(*) reference should be made to the comments in note "21) Loans and financial liabilities"

Trade payables - euros 1,779.2 million

Trade payables at December 31, 2007 are detailed as follows:

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Change
Suppliers			
Suppliers			
- non-energy related payables	268.9	219.4	49.5
- energy-related payables	1,489.2	1,046.9	442.3
Associates - Cesi	7.5	4.4	3.1
Subsidiaries	13.0	12.0	1.0
Payables for contract work in progress			
Payables for contract work in progress	0.6	0.2	0.4
TOTAL	1,779.2	1,282.9	496.3

SUPPLIERS

Non-energy related payables

Amounts due to suppliers relate to invoices received and to be received for tenders, services and the purchase of materials and equipment.

The increase on 2006 (euros 49.5 million) is due to greater purchases and services in the last few months of the year as part of ordinary investing activities and operations.

Energy-related payables

This caption includes the effects of amounts due for energy in transit on the balance sheet, mainly in connection with the purchase of energy and the transport consideration due to the owners of other portions of the National Transmission Grid. The increase (euros 442.3 million) on 2006 is mainly due:

- for euros 124.9 million to payables for the purchase of energy on the ancillary services market;
- for euros 96.7 million to payables related to assignment of rights of utilization of the transmission capacity for interconnections with abroad following AEEG Resolution no. 288/06;
- for euros 103.4 million to the increase of debt items yet to be defined by AEEG (already at December 31, 2006), for interconnection (euros 16.6 million), CCT returns (euros 82.4 million) and UESS – basic units (euros 8.3 million), also considering capacity payment payables decrease (down euros 3.9 million).

Payables to subsidiaries

This caption amounts to euros 13.0 million and includes invoices to be received, mainly in relation to the grid transmission consideration due to RTL for the portions of the National Transmission Grid that it owns; in particular the caption includes invoices to be received for October, November and December 2007 (euros 12.1 million) and adjustments for grid transmission consideration for 2005-2006 (euros 0.9 million).

Payables to associates

This caption amounts to euros 7.5 million and relates to payables to Cesi SpA for services provided to Terna in the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the general electro-technical field and its technical and scientific progress. Increase (euros 3.1 million) on 2006 is due to services implemented in the last part of the year. Commitments with suppliers for the 2008-2013 period amount to euros 1,723.4 and fall under normal operations.

PAYABLES FOR CONTRACT WORK IN PROGRESS

This caption amounts to euros 0.6 million at December 31, 2007, in line with December 31, 2006 and is composed as follows:

In millions of euros	Payments on account	Contract value	Balance at Dec. 31, 2007	Payments on account	Contract value	Balance at Dec. 31, 2006
Others	-3.3	2.7	-0.6	-2.1	1.9	-0.2
TOTAL	-3.3	2.7	-0.6	-2.1	1.9	-0.2

Tax liabilities

The caption is not commented because the Company did not perform any payment on account for revenue taxes for higher amounts than that of the expenses recorded at year end. Hence, the amounts of this caption are included in "Other current assets".

Other current liabilities - euros 74.3 million

Other current liabilities are detailed below:

In millions of euros	Dec. 31, 2007	Due within one year	Due after one year	Dec. 31, 2006	Change
Payments on account	6.2	0.3	5.9	19.7	-13.5
Other tax liabilities	9.0	9.0	0.0	43.8	-34.8
Amounts payable to social security institutions	14.6	14.6	0.0	12.0	2.6
Amounts payable to employees	30.6	30.5	0.0	25.1	5.5
Others					
- third parties	13.8	4.2	9.7	5.9	7.9
- subsidiaries	0.1	0.1	0.0	0.3	-0.2
TOTAL	74.3	58.6	15.6	106.8	-32.5

PAYMENTS ON ACCOUNT

This caption includes grants related to plants collected by the Company for non-current assets still under construction at December 31, 2007.

Compared to 2006 (euros 19.7 million), the item shows a net decrease of euros 13.5 million mainly due to new contributions received from third parties (euros 4.2 million) and the decrease (euros 17.7 million) in the contributions which directly reduce the carrying amount of the related assets, which became operational during the year.

OTHER TAX LIABILITIES

Other tax liabilities, which amount to euros 9.0 million, include euros 6.0 million for substitute tax withholdings as well as deferred indirect tax liabilities for completed acquisitions (euros 2.8 million).

The significant decrease (euros 34.8 million) on December 31, 2006 is mostly due to the cancellation (down euros 35.4 million) of Company's VAT payables, now receivable from Treasury at December 31, 2007.

AMOUNTS PAYABLE TO SOCIAL SECURITY INSTITUTIONS

This caption amounts to euros 14.6 million, substantially in line with the previous year. It relates to the amounts payable to INPS for December 2007 and settled in January 2008.

AMOUNTS PAYABLE TO EMPLOYEES

Amounts payable to employees amount to euros 30.6 million (euros 25.1 million at December 31, 2006) and mainly relate to:

- termination benefits due to employees whose employment was terminated before December 31, 2007 (euros 9.5 million);
- accruals made for incentives on the Company's results to be paid in 2008 (euros 11.3 million);
- payments due to employees for holiday pay and abolished public holidays pay (euros 6.3 million).

OTHER

This caption amounts to euros 13.8 million (euros 5.9 million at December 31, 2006) and mainly relates to the following:

- euros 9.7 million for guarantee deposits made in connection with the contractual obligations undertaken by electricity market operators with respect to dispatching contracts;
- euros 1.3 million for the incentive due to owners to unify the National Transmission Grid following manifestation of intention to sell the grid to the Company (AEEG Resolution no. 73/06).

E) COMMITMENTS AND CONTINGENCIES ARISING FROM OFF-BALANCE SHEET ITEMS

Environmental litigation

Environmental litigation relates to the installation and operating of electrical systems and, in particular, the effects of electric and magnetic fields.

The Parent Company was summoned in various civil and administrative cases in which requests were made for the transfer or change in operations of allegedly damaging electrical lines, even if installed in full compliance with current legislation to this regard. Only a very small number of cases include claims for compensation for damage to health due to electromagnetic fields.

The Prime Minister's Decree of July 8, 2003, which completed Outline Law no. 36 of February 22, 2001,

established the amounts of the three parameters (exposure limits, warning values and quality standards), provided for by law, with which electrical systems must comply. This decree had a favourable impact on the pending litigation, as until then, the scope of the outline law had been limited to general principles only. In terms of the decisions taken to this regard, in only a few rare cases were judgments passed against the Company. Moreover, these were appealed and the appeals are still pending. However, no claims of compensation for damage to health have been upheld.

Electric and magnetic field legislation

The outline law, passed on February 22, 2001, gives the government responsibility for establishing the reference parameters (exposure limits, warning values and quality standards) with which plants must comply under specific measures.

To this end, the outline law regarding reclamation provides for a recovery mechanism for reclamation costs, calculated by the Authority for Electricity and Gas pursuant to Law no. 481/95, as these are expenses incurred in the public interest.

On August 29, 2003, the Prime Minister's Decree of July 8, 2003 for the "Establishment of exposure limits, warning values and quality standards for the protection of the population from electric and magnetic fields at the grid frequency (50 Hz) used by long distance power lines", was published in the Official Journal of the Italian Republic. It established the amounts of the three parameters provided for by the outline law.

GSE (formerly GRTN) business activity litigation

Under the provisions of article 1 of the Prime Minister's Decree of May 11, 2004 and the transfer agreement signed by Terna and GSE on February 28, 2005, the litigation following events that occurred up to the date of the transfer of, and in relation to, the GSE business activity relating to electrical energy transmission and dispatching activities ("business activity") was not transferred. Accordingly, Terna has required indemnity from the former GRTN (now GSE SpA) from all liability, charges or liabilities to be incurred as a result or in connection with the litigation.

As it holds the concession for transmission and dispatching activities since November 1, 2005, Terna was summoned in certain cases appealing AEEG's and/or MAP's measures relating to the above issue. Only in those cases in which the plaintiffs claim not only defects in the measures, but also Terna's alleged violation of the rules established by such Authorities, is the Parent Company called to appear in court.

Other litigation

In addition, cases relating to urban planning and environmental issues are pending, following the construction and operating of certain transmission lines. Any unfavourable outcome to these cases could have adverse effects for the Company, which cannot be foreseen to date. Accordingly, no accruals have been made in this respect.

The outcome of a limited number of cases cannot be forecast as undoubtedly positive, and the possible consequences could consist of compensation for damage, as well as incurring, *inter alia*, charges to change lines and suspend their use temporarily. In any case, any unfavourable outcome would not jeopardise line operations.

The above litigation has been examined, also considering the opinion of independent legal experts, and any negative outcome is considered remote.

INPS Memorandum no. 63 of May 6, 2005 provided that government industrial companies and public bodies carrying out industrial, privatized activities, owed contributions to CIG, CIGS and DS, as well as amounts payable for redundancy, with retroactive effect, from the date of “mutated legal status of the company after privatization”, entailing charges of approximately euros 24.8 million for the 1999-2005 period.

Given the complexity of this issue, Terna, along with other companies operating in the electrical energy sector, initially took legal recourse before an administrative law judge, claiming the measure be suspended and declared null and void. The judge claimed it was not that court’s jurisdiction, since the issue concerned solely subjective rights. To date, Terna has taken its claims before the ordinary judicial authorities to claim that it has no obligation to pay the contributions. On February 8, 2006, the Council of State found that the contributions should not be applied retroactively, and that the Memorandum should be duly integrated and corrected.

INPS, notwithstanding negative opinion from the Council of State, unconventionally pursued in asking Terna for payment of these contributions.

Later, with Decree of April 13, 2007, the Ministry of Labour confirmed the exemption from the obligation of contributing to the involuntary unemployment insurance for Terna employees, with retroactive effect from start-up date, October 1, 1999.

With Memorandum of July 10, 2007, INPS provided that government industrial companies and public bodies with capital, even partially, private, must pay contribution for CIG, CIGS as well as amounts payable for redundancy (the latter due only as mandatory contribution to unemployment), with effect from current wage period at issue of Memorandum no. 63/2005 and, thus, from May 2005.

In October 2007 Terna paid CIG and CIGS contributions due from May 2005 up to August 2007. Starting from September 2007 monthly pay, moreover, Terna regularly pays CIG/CIGS contribution of its competence and charging employees with their portion.

The issue is before the ordinary judge and waiting for setting of the hearing.

Considering above mentioned payments and Terna's intention to renounce the application for the declaration of non-infringement of the obligation to pay CIG/CIGS contributions with effect from May 2005, the litigation could extinguish, due to discontinuance of the matter in issue, if INPS will renounce its request of a sentence aiming at condemning Terna to pay CIG and CIGS contributions for the period previous to May 2005 (in compliance with the opinion of the Council of State and with the above mentioned memorandum of INPS of July 10, 2007) and all DS and redundancy contributions (pursuant to the Decree of Ministry of Labour).

F) BUSINESS COMBINATIONS

There were no business combinations in 2007 other than the changes in controlling investments discussed above.

G) RELATED PARTY TRANSACTIONS

As already stated beforehand in the specific paragraph of the Directors' Report, Terna's 2007 related party transactions are basically represented – apart from subsidiaries, the associate Cesi S.p.A. and employee pension funds (Fondenel and Fopen) – by transaction with companies belonging to:

- GSE Group;
- Enel Group;
- Eni Group;
- Ferrovie dello Stato Group;

and with ANAS S.p.A..

The following table shows the nature of transactions, assets and liabilities with the related parties as well as the related total revenues and costs of the year and receivables and payables at December 31, 2007.

NATURE OF TRANSACTIONS

Related party	Assets	Liabilities
RTL S.p.A.	National Transmission Grid compensation Grid compensation Non-energy related items Operation and management of lines, management fee services, treasury, dividends	National Transmission Grid compensation Grid compensation Non-energy related items Purchase of transmission systems, material purchase in inventories
Brazil Group	Non-energy related items Dividends, interest on equity	
Cesi S.p.A.	Non-energy related items Lease of laboratories and other similar structures for specific use	Non-energy related items Technical consultancy, studies and research, projects and experimentation
GSE Group	Energy related items Remuneration of the grid and MIS component, energy sale, rights of withdrawal, rights of use of transport capacity for interconnection Non-energy related items Specialist services (remote console), leases, IT services	Energy related items Purchase of energy, rights of use of the transport capacity for interconnection
Enel Group	Energy related items Remuneration of National Transmission Grid and measures aggregation, energy sale, rights of withdrawal, cover of transmission costs, rights of use of transport capacity for interconnection Non-energy related items Leases and rents, lines maintenance	Energy related items Measures aggregation, energy issue, cover of transmission costs, rights of use of transport capacity for interconnection, cover of congestions costs, congestions unearned income Non-energy related items Restitution of electric power discount, personnel administration, IT services, building service, supply of MV to new stations, specialized services for control and defence of Terna
ENI Group	Energy related items Remuneration of National Transmission Grid and measures aggregation, energy sale, rights of withdrawal, cover of transmission costs, rights of use of transport capacity for interconnection Non-energy related items Lines maintenance	Energy related items Energy purchase, congestions costs cover, National Transmission Grid compensation
Ferrovie Group	-	Energy related items National Transmission Grid compensation Non-energy related items Crossing fees
ANAS S.p.A.	Non-energy related items Lines moving	Non-energy related items Crossing fees
Fondenel and Fopen		Non-energy related items Social security contributions borne by Terna Group

INCOME STATEMENT BALANCES

COMPANY	INCOME STATEMENT BALANCES						
	REVENUES				EXPENSES OF THE YEAR		
	Grid transm. consid. and other profitable energy items	Grid transm. consid. other owners and energy items in transit	Non energy related items	Dividends and interest on equity	Grid transm. consid. and other profitable energy items	Grid transm. consid. other owners and energy items in transit	Non energy related items
In millions of euros							
Subsidiaries							
RTL S.p.A.		69.3	12.0	1.6		69.3	1.7
Brazil Group				56.1			
Total subsidiaries	-	69.3	12.0	57.7	-	69.3	1.7
Associates							
Cesi S.p.A.			0.1				1.7
Total associates	-	-	0.1	-	-	-	1.7
Other associates							
GSE Group	14.0	1,870.8	1.1			797.0	
Enel Group	869.4	1,158.9	23.8		12.5	2,181.0	14.0
Eni Group	6.1	199.7	0.3		0.7	42.1	
Ferrovie Group			0.1		6.5		0.1
ANAS S.p.A.			0.3				
Total other associates	889.5	3,229.4	25.6	-	19.7	3,020.1	14.1
Pension funds							
Fondenel							0.4
Fopen							1.4
Total pension funds	-	-	-	-	-	-	1.8
TOTAL	889.5	3,298.7	37.7	57.7	19.7	3,089.4	19.3

BALANCE SHEET BALANCES

COMPANY	BALANCE SHEET					
	PROPERTY, PLANT AND EQUIPMENT		RECEIVABLES		Payables	Guarantees*
In millions of euros	Acquisitions	Capitalized costs	Other	Intercompany bank account		
Subsidiaries						
RTL S.p.A.	28.4	0.1	2.2	7.5	13.1	
Brazil Group			2.6		0.1	
Total subsidiaries	28.4	0.1	4.8	7.5	13.2	-
Associates						
Cesi S.p.A.		10.0	0.1		7.5	2.2
Total associates	-	10	0.1	-	7.5	2.2
Other associates						
GSE Group			6.3		1.5	
Enel Group		6.5	155.0		77.3	177.4
Eni Group			24.9		3.0	14.2
Ferrovie Group			0.1		0.1	
ANAS S.p.A.			0.8			
Total other associates	-	6.5	187.1	-	81.9	191.6
Pension funds						
Fondenel						
Fopen					1.3	
Total pension funds	-	-	-	-	1.3	
TOTAL	28.4	16.6	192.0	7.5	103.9	193.8

* the guarantees refer to the bank guarantees received on signed contracts

H) SIGNIFICANT NON-RECURRING TRANSACTIONS AND EVENTS AND ATYPICAL OR UNUSUAL TRANSACTIONS

No significant, non-recurring, atypical or unusual transactions were carried out during the year, either with third or related parties.

I) NOTES TO THE CASH FLOW STATEMENT

The cash flows generated by operating activities during the year amounts to approximately euros 558.9 million and include operating activities before the changes in net working capital (euros 824.4 million) and cash flows used by the change in working capital (approximately euros 265.5 million).

Investing activities used net financial resources of approximately euros 581.9 million. Investing activities in property, plant and equipment used net financial resources of approximately euros 560,0 million (total amount is euros 576.1 million, including euros 28.4 million for acquisitions within the Group from RTL, net of grants for plant construction collected in 2007 and amounting to euros 16.1 million) and euros 24,9 million were used for investing in intangible assets.

Net change in cash outflows for financing increased for approximately euros 138.5 million, mostly due to medium/long-term financial indebtedness increase, including short-term portion net of FVH derivatives, equal to euros 473.1 million, partially offset by the distribution of 2006 dividends, equal to euros 174.0 million, and 2007 interim dividend equal to euros 112.0 million.

Due to these changes, cash flows generated in 2007 is approximately euros 115.5 million.

L) SUBSEQUENT EVENTS

2008-2012 Business Plan

On January 31, 2007, Terna presented financial analysts with its 2008-2012 Business Plan, approved by the Company's Board of Directors.

The Terna Group's 2008-2012 Business Plan focuses on four main guidelines:

- development of the National Transmission Grid: the investment plan provides for total expenditure of euros 3.1 billion from 2008 to 2012, with a euros 400 million increase on the previous plan. Development investments account for 80% of total investments, up from euros 2.2 billion to 2.5 billion;
- cost cutting with an increase in profit margins: in particular, by rationalizing costs for regulated activities

in Italy. The plan provides for a reduction of approximately euros 50 million in total Business Unit Italy costs in the years covered on a like-for-like basis; gross operating margin is expected to increase from 71% to 75% at the end of the plan period due to gradual increase of revenue;

- guaranteed high security of the electrical system and reliability of the National Transmission Grid in line with international best practices;
- Brazil: creation of value through operating efficiencies, also related to recent acquisitions.

Credit rating confirmation

On February 13, 2008, Standard & Poor's Ratings Services confirmed Terna's long-term rating of AA- and short-term rating of A-1+. Outlook was changed from stable to negative.

Standard & Poor's, following presentation of the new business plan, highlights the possible negative financial impact of the investments scheduled for the development of the National Transmission Grid and of the growth strategy of the Company.

Agreement with Region of Piemonte for the sustainable development of the transmission grid

On February 27, 2008 Region of Piemonte and Terna signed a Programmatic Agreement on strategic objectives for the powering and rationalisation of the transmission electric grid in Piemonte. The aim of this agreement is to increase safety and quality of service and to eliminate congestions, increasing transported power, improving grid accountability and reducing environmental impact of long distance power lines. Terna scheduled investments in Piemonte amounting to more than euros 600 million in the next years, which accounts for more than 11% of the total amount allocated for interventions on safety, renovation and accountability on the high-voltage transmission grid in Italy.

Information under art. 149 *duodecies* of CONSOB's Issuer Regulation

The following table, pursuant to art. 149 *duodecies* of CONSOB's Issuer Regulation, shows compensations on an accruals basis of 2007 for auditing services and non-auditing services provided by the same auditing company to Terna S.p.A.. No services were granted by companies belonging to its network.

In thousands of euros	Company	Amounts due for 2007
Audit and financial statements	KPMG S.p.A.	165.9
Certification services	KPMG S.p.A.	196.7
TOTAL		362.6

Certification of the Statutory Financial Statements pursuant to art. 154 *bis* of Legislative Decree no. 58/98

Certification of the Statutory Financial Statements pursuant to Article 81 *ter* of CONSOB Regulation no. 11971 of May 14, 1999, as amended

1. The undersigned, Flavio Cattaneo (as Chief Executive Officer), and Luciano Di Bacco (as the Manager responsible for preparing Terna S.p.A.'s financial reports), hereby certify, having also taken into consideration the provisions of Article 154 *bis*, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of February 24 1998, that:

the administrative and accounting procedures for the preparation of the Statutory Financial Statements for the 2007 fiscal year:

- are adequate with respect to the company structure and
- have been effectively applied.

2. No significant issues arose.

3. The undersigned also certify that the Statutory Financial Statements at December 31, 2007:

- a) correspond to the results documented in the books, accounting and other records;
- b) have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (as well as with the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38/2005) and based on their knowledge, fairly and correctly present the financial condition, results of operations and cash flows of the issuer.

March 27, 2008

Chief Executive Officer

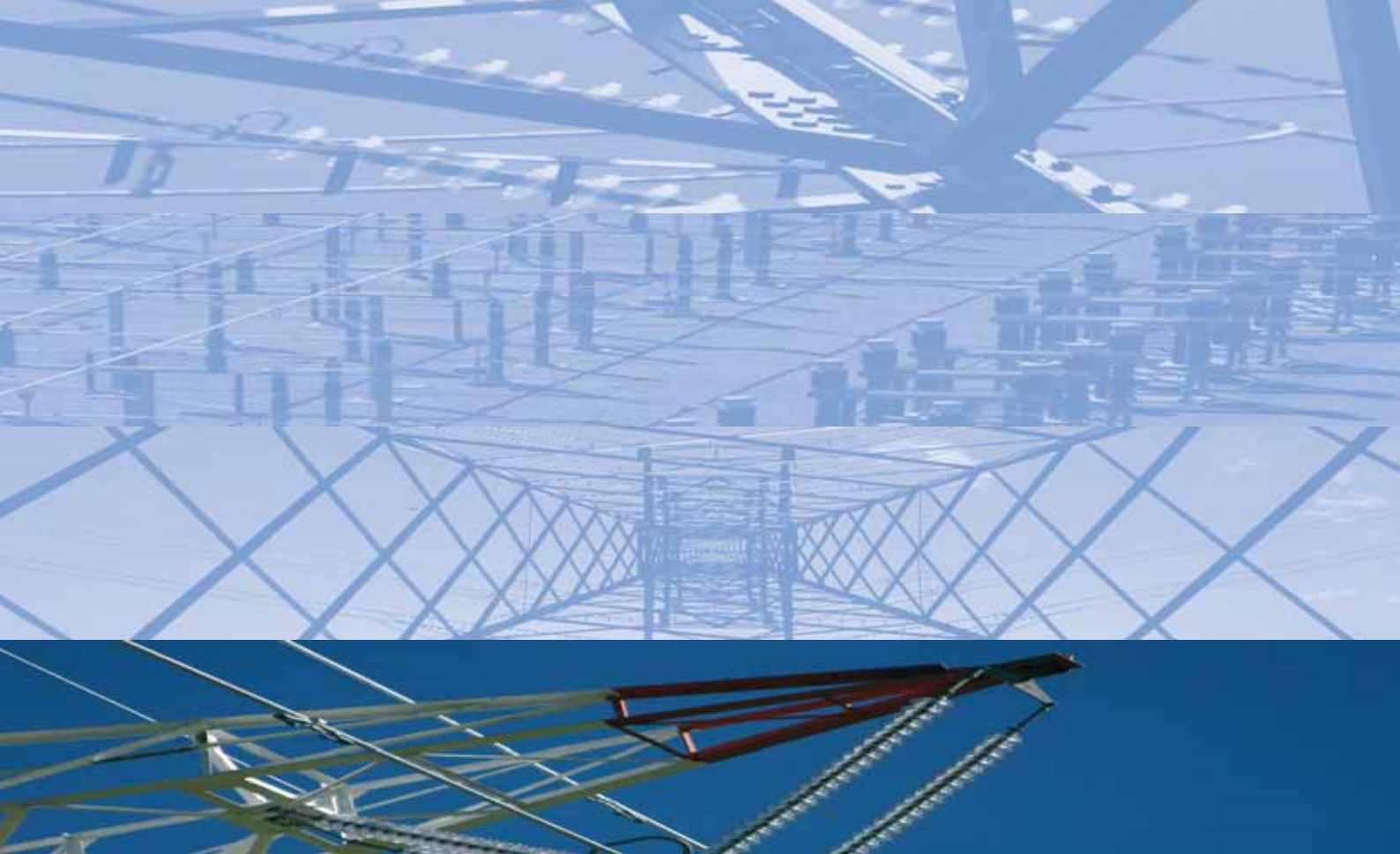
Flavio Cattaneo

**Manager responsible for preparing
Terna S.p.A.'s financial reports**

Luciano Di Bacco

(Signed on the original)

This report has been translated into the English language solely for the convenience of international readers.



REPORTS

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF TERNA S.P.A.

**PURSUANT TO ARTICLE 2429, PARAGRAPH 2 OF THE ITALIAN CIVIL CODE
AND TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/1998**

To the Shareholders' Meeting of TERNA S.p.A ("TERNA", "Company"),

Shareholders, pursuant to art. 153 of Legislative Decree no. 58/98, we inform you on our activity, specifying that during the year that ended on December 31, 2007, we performed the supervisory activity required by the law, according to the code of practice recommended by the National Board of Chartered Accountants.

In particular:

- we attended the meetings of the Board of Directors and were regularly informed by the Directors about the activities carried out and about the most significant economic, financial and equity transactions of the Company, and we were satisfied that the resolutions were not only implemented but were also in compliance with law provisions and the Bylaws and were not manifestly imprudent, risky, representing a potential conflict of interest, capable of compromising the Company's assets or in contrast with the resolutions passed by the Shareholders' Meeting;
- we gathered information and monitored, as far as our authority allowed, the organizational structure;
- we monitored the administrative and accounting system, assessing the reliability of the latter in providing a true and fair view of operations and we also monitored compliance with sound management practices. These activities were carried out both through direct observations and through information collected from the heads of the various sectors, with particular attention to the Expense Cycle Management;
- pursuant to art. 150 of Legislative Decree no. 58/98, we held meetings with the Independent Auditors for the purpose of mutually exchanging data and information. During the various meetings, no facts worthy to be mentioned in this Report emerged;
- we exchanged information with the corresponding sectors of subsidiaries, in compliance with art. 151, paragraph 2, of Legislative Decree no. 58/98;
- we assessed and monitored the existing internal control activity through information and special periodic reports received from the head of the sector. No facts worthy to be mentioned in this Report emerged thus proving the adequacy of the existing control system;
- we monitored the updating and implementation of the law on administrative responsibility of legal persons pursuant to Legislative Decree no. 231/01;
- with the collaboration of the Executive in charge of the preparation of the accounting documents, we assessed compliance with the provisions of Law no. 265/05;
- we monitored the adequacy of provisions issued by the holding company for its subsidiaries with regard

to the communication obligations in compliance with the law;

- we verified, through direct inspections and through information obtained from the Independent Auditors, compliance with law provisions regarding the drawing up of the financial statements, with a particular focus on the formats adopted, contents and accounting principles applied. We verified the completeness of the Director's Report prepared according to art. 2428 of the Civil Code and its adequacy in providing information regarding transactions with related parties and atypical and/or unusual transactions.

The only other aspects regarding the financial statement that the Board of Statutory Auditors deems relevant are the following:

- the increased value of the equity investments for approximately euros 370 million;
- the increased trade receivables for approximately euros 358 million, related to transmission and dispatching activity;
- the increased long-term debt through the issuance of the new loan for nearly approximately euros 503 million.

With regard to the Report of the Independent Auditors concerning the 2007 Financial Statement, no significant facts have emerged.

During the monitoring activities described above, and on the basis of information obtained from the Independent Auditors and from TERNA executives, no omissions, reproachable facts, or irregularities were found that required reporting to the control bodies or that were worthy to be mentioned in this Report.

Furthermore, we inform you that:

- the Board of Directors held 12 meetings and the Board of Statutory Auditors always attended these meetings. There is no Executive Committee. During 2007, the Board of Statutory Auditors held 12 meetings;
- during 2007, the Board of Auditors issued three opinions pursuant to art. 2389, paragraph 3 of the Civil Code, expressing its positive opinion regarding the appointment of the Executive in charge of the preparation of the accounting documents and submitted its own proposal for extending the auditing appointment in compliance with the provisions of art. 8, paragraph 7 of Legislative Decree no. 303/06. Viceversa, the Independent Auditors issued only one opinion for the distribution of interim dividends, pursuant to art. 2433 *bis* of the Civil Code;

- no reports were received pursuant to art. 2408 of the Civil Code, nor were any complaints filed by third parties;
- the Company complied with the new Code of Self-Governance issued by Borsa Italiana S.p.A., and the Board of Statutory Auditors verified the implementation of this Code; no facts worthy to be mentioned in this Report emerged.

Furthermore, with reference to the guidelines set forth in the Code of Self-Governance, that fall under the competence of this Board of Statutory Auditors, the following is pointed out:

- we verified the correct application of criteria and evaluation procedures for independence adopted by the Board of Directors, with no exception;
- as of 2006, we identified our independence criteria in those envisaged for the Directors, in compliance with the Code of Self-Governance and verified they were complied with;
- as of 2006, we adopted the transparency regulations and the information obligations set forth for Directors having an interest in a specific transaction;
- we complied with the provisions of the regulation for managing and handling confidential and classified company information;
- we participated in the activity of the Internal Control Committee;
- we monitored the independence of the Independent Auditors KPMG S.p.A. with nothing to report.

To comply with the recommendations set forth in CONSOB notice dated April 6, 2001, and subsequent amendments and integrations, we report the following:

1. during 2007, no atypical or unusual transactions were carried out with related companies or with third parties;
2. with reference to routine transactions with related parties (subsidiaries and associated companies, retirement funds and companies subject to the joint control of Cassa Depositi and Prestiti S.p.A.), they essentially concerned providing institutional assistance and consulting services (management fee contracts), services for routine operations and maintenance of the grid, measures to move power lines, the grid's remuneration, income from renting laboratories and other similar structures for specific uses as well as receiving technical consulting services, study and research services and rental payable for using the portion of the National Transmission Grid, rights for using the transportation capacity for interconnections, the payment of social security contributions, etc. Sample checks carried out by the Board of Statutory Auditors and information received indicate that these transactions are in line with the Company's interest.

As far as the economic outcome of the above-mentioned transactions is concerned, they have generated revenues equal to euros 4,283 million and costs equal to euros 3,128 million (both figures include the results of transported electricity lots).

As specifically indicated, in addition to the auditing assignment, KPMG performed also the following services:

- opinion on 2007 interim dividends for a total of euros 35,000.00;
- certification of the sustainability report for a total sum of euros 51,100.00;
- verification of the “Modello Unico 2007” (Income Statement) and of the “Modello 770/2006” for the sum of euros 4,500.00;
- auditing annual accounts for 2006 in compliance with Legislative Decree no. 310/01, for the sum of euros 40,000.00;
- assignment to issue a comfort letter for the medium term loan for the sum of euros 55,000.00, and to issue a comfort letter relating to the first issuance of bonds (EMTNP) for the sum of euros 35,000.00;
- reporting package for Cassa Depositi e Prestiti for the sum of euros 14,600.00 and for reliance for the sum of euros 6,000.00.

In addition to the activities listed, information obtained has not revealed that further assignments have been entrusted to subjects associated with the Independent Auditors.

In view of the foregoing, the Board of Statutory Auditors, based on its authority, finds no impediment to the approval of the 2007 Financial Statement as prepared by the Board of Directors.

Rome, April 7, 2008

THE BOARD OF STATUTORY AUDITORS

(Signed on the original italian version)



KPMG S.p.A.
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 00197 ROMA RM

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 e-mail: it-fmaudit@kpmg.it

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

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

To the shareholders of
 TERN A S.p.A.

- 1 We have audited the separate financial statements of TERN A S.p.A. as at and for the year ended 31 December 2007, comprising the income statement, balance sheet, statement of changes in equity, cash flow statement and notes thereto. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with 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 separate 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 directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 7 May 2007 for our opinion on the prior year separate financial statements, which included the prior year figures presented for comparative purposes.

- 3 In our opinion, the separate financial statements of TERN A S.p.A. as at and for the year ended 31 December 2007 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38 of 28 February 2005. Therefore, they are clearly stated and give a true and fair view of the financial position of TERN A S.p.A. as at 31 December 2007, the results of its operations, changes in its equity and its cash flows for the year then ended.

Rome, 7 April 2008

KPMG S.p.A.

(Signed on the original)

Bruno Mastrangelo
 Director of Audit

KPMG S.p.A., an Italian limited liability share capital company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

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 Palermo Parma Piacenza Pescara
 Roma Torino Treviso Trieste Udine
 Varese Verona

Società per azioni
 Capitale sociale
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 20124 Milano MI

HAVING FIRM BASIS MEANS GREATER MOVEMENT





TERNA GROUP FINANCIAL STATEMENTS 2007

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TERNA GROUP DIRECTORS' REPORT

INTRODUCTION

Pursuant to art. 82 of CONSOB Resolution no. 11971/1999, Terna Group is not required to publish a fourth quarter report at December 31, 2007.

Reference should be made to the Directors' Report on the separate financial statements of Terna S.p.A. for details on the significant events of the year, relevant regulations, energy highlights and other information.

CONSOLIDATION SCOPE

The consolidation scope includes:

- the wholly-owned Italian companies:
 - RTL S.p.A. (which on July 31, 2007 incorporated the subsidiaries RTM1 S.p.A. and RTM2 S.p.A. and, on December 31, 2007, the company RTT S.r.l., acquired in the course of the year) and
 - InTERNAtional S.p.A. (set up by the parent Terna on September 10, 2007);
- the Brazilian companies (66% owned):
 - Terna Participações S.A.;
 - TSN S.A.;
 - Novatrans S.A. and
 - Lovina Participações S.A. (acquired by Terna Participações on September 13, 2007).

The associated company CESI S.p.A., which is 24.36% owned, and the joint interest company ETAU S.A., acquired in the course of 2007 and of which Terna Participações owns 52.58% of the share capital, are measured using the equity method.

Subsidiaries

BRAZIL

Acquisitions

Acquisition of Empresa de Transmissão do Alto Uruguai S.A. – ETAU

On July 6, 2007, Terna Participações signed an agreement with Alcoa Alluminio S.A. and Camargo Correa Cimentos S.A. for the acquisition of 52.58% of the share capital of Empresa de Transmissão do Alto Uruguai S.A. (ETAU). The operation was completed on December 28, 2007 after the approval by the local regulation authority (Agência Nacional de Energia Elétrica, ANEEL) and by the financing bank (Banco Nacional de Desenvolvimento Econômico e Social, BNDES).

The total cost to acquire the ownership was R\$ 60.8 million (approximately euros 23 million).

ETAU holds a thirty-year concession on 188 km-long 230 kV transmission line Campos Novos - Santa Marta in southern Brazil, extending from the substation of Campos Novos in the state of Santa Catarina to the Santa Maria substation in the state of Rio Grande do Sul, with the intermediate substations of Barra Grande and Lagoa Vermelha.

The transaction will enable the Parent Company to consolidate its presence in Brazil and strategically increase the activities of Terna Participações, expressing its development potentialities in the energy infrastructures of the country.

Acquisition and merger of GTESA and PATESA and subsequent share capital increase of TSN

On November 30, 2007, TSN finalized the acquisition of the entire share capital of Goiana Transmissora de Energia S.A. - GTESA and Paraíso Açu per Transmissora de Energia S.A. - PATESA. The acquisition, which was governed by a sale and purchase agreement signed on August 21, 2007, was finalized once ANEEL and the financing bank BNDES had given their approval.

GTESA and PATESA hold concessions on 186 km of 230 kV lines including the Goianinha/Mussurê and Paraíso/Açu lines.

This transaction will enable Terna to consolidate its presence in Brazil. The acquired companies are granted concessions in the north-east of the country where Terna Group is already present through the subsidiary TSN.

The total cost to acquire the entirety of shares of GTESA and PATESA amounted to R\$ 92.8 million

(approximately euros 35 million). At November 30, 2007 the two companies had total assets of R\$ 48.2 million (approximately euros 16.9 million) and financial indebtedness of R\$ 23.1 million (approximately euros 8.8 million). GTESA and PATESA have the right to an annual fee of R\$ 4.8 million (approximately euros 1.8 million) and R\$ 11.2 million (approximately euros 4.2 million), respectively.

At the same time of the acquisition, GTESA and PATESA were merged into TSN, to streamline the investment structure and optimize administrative expenses. The difference (R\$ 67.2 million) between the price paid to acquire the companies (R\$ 92.8 million) and the fair value of the assets acquired and liabilities assumed and incurred (R\$ 25.6 million) was allocated provisionally to goodwill.

In order to finance the acquisition, TSN carried out a share capital increase, entirely subscribed by Terna Participações, for R\$ 93 million, fulfilled through the issue of 2,000,000 redeemable preference shares.

Lovina Participações (Lovina) - Empresa de Transmissão de Energia do Oeste Ltda (ETEO)

On September 13, 2007, Terna Participações acquired 99.99% of Lovina Participações Ltda., company of recent constitution, with share capital of R\$ 1,000 and headquarters in Rio de Janeiro - Brazil.

On September 17, Terna Participações signed, through the subsidiary Lovina Participações Ltda., the agreement for the purchase of the entire share capital of the company Empresa de Transmissão de Energia do Oeste Ltda (ETEO), concessionaire of 502 km of 440 kV transmission lines in the state of São Paulo.

The price of the operation was R\$ 562.2 million (approximately euros 217 million).

ETEO, holder of a thirty-year concession, in 2006 recorded revenues for R\$ 92.1 million (approximately euros 34.6 million) with an EBITDA of R\$ 71.3 million (approximately euros 26.8 million) and net profit of R\$ 45.8 million (approximately euros 17.2 million).

The closing of the operation is still subject to the approval of the local regulation authority (ANEEL, Agência Nacional de Energia Elétrica).

On December 13, 2007 the company was transformed into "Sociedade Anônima" (S.A.) and called Lovina Participações S.A.

Tender offer for Mato Grosso interconnection

On September 18, 2007, the subsidiary Terna Participações S.A. associated with Eletronorte and Bimetal in the Jaurú consortium constituted in order to participate in the public tender offer called by ANEEL to be awarded the concession for the construction, the operation, and the maintenance of the electrical interconnection lines in the state of Mato Grosso.

On November 7, 2007, the Jaurú consortium, in which Terna Participações holds a 35% ownership,

obtained the concession of 402 km of 230 kV transmission line and two substations in the state of Mato Grosso. The concession will last 30 years.

As provided for by the consortium constitution contract, following the achievement of the concession, the members of the consortium constituted in December, with the same ownership percentage held in the consortium, the new company Jaurú Transmissora de Energia S.A., which takes over all the rights and obligations of the consortium and whose exclusive aim is the exercise of the concession.

In January 2008, the company changed name to Brasnorte Transmissora de Energia S.A.

Regulatory aspects

Fee adjustment

On June 26, 2007 ANEEL issued the Standardization Resolution no. 496, which establishes the new amounts for the Annual Concession Fee (RAP) effective from July 1, 2007 to June 30, 2008.

The annual concession fee is set for Novatrans at R\$ 280,272,132.39 (circa euros 105.2 million), for TSN at R\$ 254,919,385.38 (circa euros 95.7 million) and for Munirah at R\$ 19,123,815.03 (circa euros 7.2 million) and reflects the adjustment for inflation (IGPM rate) accrued from June 2006 to May 2007, equal to +4.04%.

The total amount of 2007/2008 cycle is R\$ 549.8 million, +7.95% from the 2006/2007 cycle.

Moreover, ANEEL applied a negative one-off fee (Parcela de Ajuste or PA) equal to R\$ -5,042,075.37 (circa euros 1.9 million) to be paid in 12 monthly instalments beginning from July 2007.

Other regulatory aspects

Following ANEEL approval, Terna Participações obtained the authorization to take over to Terna S.p.A. in signing new concession agreements on behalf of TSN and Novatrans, Terna S.p.A. being thus exempted from any obligation in relation to the granter.

Novatrans started an environmental compensation plan demanded by IBAMA, and whose amount is equal to R\$ 3.1 million. The plan provides for the revitalization of the national park of Itatiaia in the state of Rio de Janeiro.

ANEEL issued and published the new Rule modifying the rules of application of the Parcela Variavel. The Rule will become effective on June 3, 2008.

Exchange rates in the year

In 2007 the Brazilian real appreciated against US dollar and, in a smaller measure, against euro.

In addition, foreign investors' risk perception gradually improved. The spread on Brazilian securities with respect to US treasury bonds, as calculated by JP Morgan, dropped from 193 points at year-end to 222 points. In comparison to 2006, the index increased by 15%.

EXCHANGE RATES AT THE END OF EACH QUARTER*

	Dec. 06	Mar. 07	Jun. 07	Sep. 07	Dec. 07
USD/BRL	2.1362	2.0392	1.9231	1.8441	1.7735
EUR/BRL	2.8133	2.7158	2.5972	2.6148	2.6108
EUR/USD	1.3170	1.3318	1.3505	1.4179	1.4721

* Source: Italian Exchange Bureau

Operating activities

NOVATRANS ENERGIA (NVT)

Following the consolidation entries and adjustments to adjust the company's accounting policies to the IFRS adopted by the parent, the contribution of the company to the consolidated profit for the year attributable to the shareholders' of the parent is approximately euros 21.8 million.

Operating activities

In 2007 the conduction of the line Camaçari-Sapeaçu from the centre of remote conduction in Samambaia was unified. The maintenance of the stations continued with own staff, which, in the first half of 2007, carried out all the routine activities and emergency repairs in the stations. In sight of the expiry of the contract signed with Cotesa, due on January 15, 2008, the maintenance teams were organized with internal resources and equipment.

Stations

In 2007, maintenance activity in stations continued with inspections and technical controls.

The control and predictive activities continue with greater frequency for the state of the reactors contaminated with corrosive oil, though no breakdown has ever occurred in Novatrans reactors.

Lines

No unavailability due to breakdowns or anomalies on the line occurred.

Service quality

The availability and failure rate indicators are provided below for year 2006 and 2007. Amounts are calculated using the ONS “Procedimentos de Rede” (grid procedures).

NOVATRANS

	AVAILABILITY		FAILURE RATE *	
	12/2007	12/2006	12/2007	12/2006
%				
Line	99.87%	99.99%	0.47	0.23
TCSC	98.31%	99.28%	6.10	2.01
FSC	99.95%	99.93%	1.00	0.17

* excluding unavailability for external causes or *force majeure*

TRANSMISSORA SUDESTE - NORDESTE (TSN)

Following the consolidation entries and adjustments to adjust the company’s accounting policies to the IFRS adopted by the parent, the contribution of the company to the consolidated profit for the year attributable to the shareholders’ of the parent is approximately euros 33.9 million.

Operating activities

The maintenance and the operation of the systems was carried out by Transener with the supervision of the staff employed also for Novatrans.

At year end, the maintenance agreement with Transener was consensually terminated with the objective to operate the activities with internal resources from February 1, 2008.

Stations

The maintenance activity in stations continued though inspections and technical controls.

Following signing of the agreements with the suppliers of reactors, in 2007 the active parts of 44% of TSN and Novatrans reactors, exposed to breakdown risk due to corrosive sulphur, were replaced.

As result of such activity, in 2007 only two breakdowns occurred to TSN reactors (out of a total of 16) from the appearance of the problem.

During the second half of 2007, important meetings with ANEEL and ONS were held about oil containing corrosive sulphur.

Lines

No permanent unavailability due to breakdowns or anomalies on the line occurred.

Service quality

The availability and failure rate indicators are provided below for year 2006 and 2007. Amounts are calculated using the ONS "Procedimentos de Rede" (grid procedures).

TRANSMISSORA SUDESTE-NORDESTE

	AVAILABILITY		FAILURE RATE *	
	12/2007	12/2006	12/2007	12/2006
%				
Line	99.97%	99.98%	0.57	0.00
SVC	99.04%	99.84%	2.02	1.00
ATR	100.00%	100.00%	0.25	1.00
RT	100.00%	100.00%	0.00	0.00

* excluding unavailability for external causes or *force majeure*

ITALY

The financial statements of the subsidiary RTL have been prepared in accordance with the current regulations under art. 2423 and subsequent articles of the Italian Civil Code, as modified by Legislative Decree no. 6/2003. The notes to the results of the company include disclosure of the effects of adjustment to International Financial Reporting Standards (IFRS), which the parent has adopted.

The business activity of operating and maintaining its own portion of transmission grid was carried out on a regular basis; the company achieved the reliability standards set by Terna in terms of failure types, the maintenance backlog and scheduled and unscheduled maintenance work.

RTL - Rete Trasmissione Locale

Following the consolidation entries and adjustments to adjust the company's accounting policies to the IFRS adopted by the parent, the contribution of the company to the consolidated profit for the year attributable to the shareholders' of the parent is approximately euros 27.9 million.

As mentioned earlier, on October 1, 2005, RTL signed a specific agreement with the parent in line with market conditions, transferring to Terna the operating and ordinary maintenance activities on the transmission lines owned by RTL.

Furthermore, another two agreements (general service agreement and treasury agreement) with the parent are in force. These are also in line with current market conditions or with cost-based appraisals considering the quantity of product/service used.

Merger of RTM1 and RTM2 into RTL

With the merger deed signed on July 24, 2007, the wholly-owned subsidiaries RTM1 S.p.A. and RTM2 S.p.A. (acquired on November 24, 2006) were merged into RTL S.p.A. The merger is effective from July 31, 2007.

The plan for the merger has been deliberated on April 18, 2007, pursuant to art. 250-*bis* of the Civil Code, by the shareholders meetings of RTL, RTM1 and RTM2, on the basis of the companies' financial statements as of and for the year ended December 31, 2006, with the cancellation of all shares of RTM1 and RTM2, in accordance with the methods set out in the plan and, accordingly, without RTL increasing its share capital or provided for a share exchange ratio or cash consideration. The merger takes effect for accounting and tax purposes retroactively from January 1, 2007.

Acquisition and merger of RTT S.r.l. into RTL

On June 28, the acquisition, with effect from June 30, 2007, of 100% of AEM Trasporto Energia S.r.l. was finalized. The total cost to acquire the entirety of shares of AEM TE amounted to euros 38.1 million; in addition, the company changed the name into "Rete Trasmissione Torino" (in short RTT S.r.l.). On December 18, the merger deed of RTT S.r.l. into RTL S.p.A. was signed, with effect from December 31, 2007, pursuant to the approved plan of the merger, approved on October 12 by the shareholders meetings of RTL S.p.A. and RTT S.r.l., on the basis of the financial statements as of June 30, 2007, with the cancellation of all shares of RTT, in accordance with the methods set out in the plan and, accordingly, without RTL increasing its share capital or provided for a share exchange ratio or cash consideration. The merger takes effect for accounting and tax purposes retroactively from July 1, 2007.

New agreements with subsidiaries

On February 1, 2007 Terna signed two management fee agreements (acquired from RTL) with RTM1 and RTM2, providing services, which include:

- 1) the coordination of managers, through suitable training programmes;
- 2) the administrative and financial coordination of the subsidiary, including the set-up and management of its financial activities;
- 3) the provision of other services in specific business areas.

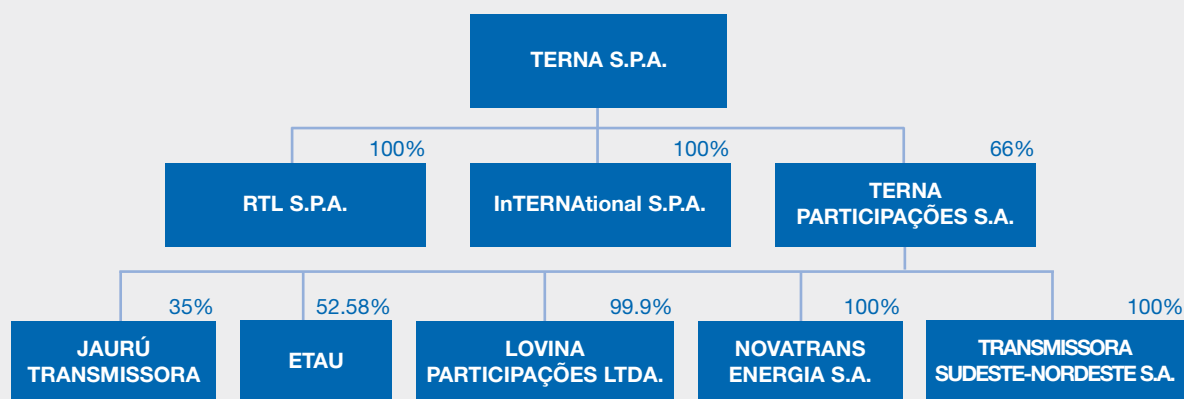
On July 17, 2007, Terna signed with RTM1 (now RTL) an agreement that entrust the parent with the supplying of technical services for lines and stations of RTM1; in particular:

- 1) activities aiming at conservation in state of perfect efficiency of the power lines and the stations through ordinary maintenance of all their components;
- 2) supervision and control of the lines and the stations;
- 3) maintenance operations on breakdown following exceptional events as well as extraordinary maintenance and/or plant modification.

InTERNAtional

The company was set up on September 10, 2007 by Terna S.p.A. InTERNAtiona S.p.A. is based in Rome and has a share capital of euros 120,000. The company operates in the planning, implementation, management, development and maintenance of networks and other infrastructures in the fields of transmission and dispatching of the electric power, in Italy and abroad, as well as the related activities of research, consultancy and assistance.

At year end, the structure of the Group is the following:



TERNA GROUP RESULTS

The consolidated financial statements as of and for the year ended December 31, 2007 shows profit for the year of euros 432.8 million, after amortization and depreciation of approximately euros 255.1 million, net financial expenses of euros 116.9 million and income taxes of euros 173.0 million.

Revenues amounted to approximately euros 1,348.2 million, including euros 1,211.0 million in relation to the consideration received for use of the grid. In particular, considerations for use of the parent's grid have been approved for approximately euros 994.6 million, up roughly euros 0.3 million on 2006. The contribution of subsidiaries totalled euros 216.4 million (including euros 75.8 million from Novatrans, euros 74.4 million from TSN and euros 66.2 million from RTL).

Operating expenses amounted to approximately euros 370.4 million, including personnel expenses of euros 194.0 million and services of euros 135.2 million.

Income taxes of the year, equal to euros 173.0 million, include euros 147.0 million due from the parent, euros 9.2 million from Novatrans, euros 11.8 million from TSN and euros 5.0 million from RTL.

The balance sheet includes net non-current assets of euros 6,034.6 million, net invested capital of euros 4,923.2 million, of which euros 2,273.5 million is covered by equity (including euros 111.5 million attributable to minority interests) and net financial indebtedness of euros 2,649.7 million.

Reclassified income statement

The 2007 and 2006 consolidated income statements of Terna Group for management purposes are summarized below. Figures have been reclassified.

^(a) In millions of euros				
	2007	2006	Change	%
Revenues				
Grid transmission consideration ⁽¹⁾	1,211.0	1,145.6	65.4	5.7%
Other energy items ⁽¹⁾	43.3	41.9	1.4	3.3%
Other revenues from sales and services ⁽¹⁾	41.9	41.2	0.7	1.7%
Other revenues and income	52.0	47.8	4.2	8.8%
Total revenues	1,348.2	1,276.5	71.7	5.6%
Operating expenses				
Personnel expenses ⁽²⁾	194.0	214.3	-20.3	-9.5%
Services and use of third party assets	135.2	145.3	-10.1	-7.0%
Materials ⁽²⁾	10.1	9.6	0.5	5.2%
Other expenses ⁽³⁾	31.1	38.7	-7.6	-19.6%
Total operating expenses	370.4	407.9	-37.5	-9.2%
GROSS OPERATING PROFIT	977.8	868.6	109.2	12.6%
Amortization and depreciation ⁽⁴⁾	255.1	212.4	42.7	20.1%
OPERATING PROFIT	722.7	656.2	66.5	10.1%
Net financial income (expenses) ⁽⁵⁾	-116.9	-29.4	-87.5	297.6%
PROFIT BEFORE TAXES	605.8	626.8	-21.0	-3.4%
Income taxes	173.0	235.2	-62.2	-26.4%
PROFIT FOR THE YEAR	432.8	391.6	41.2	10.5%
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	413.9	389.1	24.8	6.4%
PROFIT FOR THE YEAR ATTRIBUTABLE TO MINORITIES INTERESTS	18.9	2.5	16.4	656.0%

^(a) in accordance with Communication no. DME/6064291 of July 28, 2006, the reclassified income statement is unaudited

Revenues for 2007, equal to 1,348.2 million euros (euros 1,111.2 million for the parent, euros 70.8 million for the Italian subsidiary RTL and euros 166.2 million for the Brazilian subsidiaries), rose by euros 71.7 million (up 5.6% on the euros 1,276.5 million of 2006).

* with reference to December 31, 2006 balances were redetermined pursuant to IAS 8; reference should be made to "A) Accounting policies and measurement criteria" in the notes

In the consolidated financial statements:

⁽¹⁾ the balance is included in "Revenues from sales and services"

⁽²⁾ including capitalized expenses of euros 44.6 million in "Personnel expenses" and euros 6.6 million in "Materials";

⁽³⁾ this corresponds to "Other costs" and "Amortization, depreciation and impairment losses" for the amount of impairment (euros 1.6 million) and for the amount of the accrual to the provision for bad debts (euros 0.6 million)

⁽⁴⁾ the balance corresponds to "Amortization, depreciation and impairment losses", net of impairment and accrual to the provision for bad debts

⁽⁵⁾ this corresponds to the balance of the captions described in points 1, 2 and 3 of "Financial income and expenses"

The net increase in Revenues is mainly due to:

- higher revenues from energy transport on the Italian transmission grid of approximately euros 65.4 million, due to the following:
 - higher revenues for the transport of energy on the Italian national transmission grid (euros 55.8 million) mainly including:
 - for the parent (up euros 0.3 million), the sum of smaller revenues for net balances of previous years in the amount of euros 51.5 million (in the previous year euros 47.3 million deriving from the effects of AEEG Resolution no. 162/06 relating to tariff integration of 2005) and of higher revenues in the amount of euros 51.8 million relating to tariff evolution, as well as to higher revenues from grid transport consideration, mainly deriving from the higher release of revenue quotas related to the Strategic Plan (euros 9.0 million);
 - for the subsidiary RTL, higher revenues (up euros 55.4 million) essentially related to grid transmission consideration of RTM1 and RTM2 (merged into RTL on July 31, and included in the 2006 consolidation scope only for December) and the revenues of RTT (merged into RTL with effect from December 31, 2007) referred to the second half of the current year;
 - higher revenues for the Brazilian companies of approximately euros 9.6 million (linearization for all the duration of the concession), essentially attributable to the annual adjustment of the concession fee and the appreciation of local currency (euros 3.8 million);
- in the caption “Other energy items” (up euros 1.4 million) essentially related to the amount acknowledged for metering (MIS component - up euros 0.7 million) and the amount acknowledged for the dispatching service (DIS component - up euros 0.7 million);
- in the caption “Other revenues from sales and services” (up euros 0.7 million) essentially due to higher proceeds deriving from non-regulated activities carried out during the year;
- in the caption “Other revenues and income” (up euros 4.2 million) mainly due to the combined effect of higher rental income (up euros 4.4 million) for the agreement signed with Enel Distribuzione for the use of infrastructures belonging to Terna for conveyed waves communications, higher insurance compensations for damages (up euros 2.4 million), net of the smaller accrual portions of the grants related to plants for the greater part in relation to the parent (down euros 4.1 million).

Operating expenses amounted to euros 370.4 million (euros 322.8 million for the parent, euros 11.4 million for the Italian subsidiary RTL and euros 36.2 million for the foreign subsidiaries) and decreased by 9.2% (down euros 37.5 million) on 2006, mainly due to the parent (down euros 46.3 million) offset by higher

expenses of RTL (up euros 7.9 million) mainly attributable to the merged companies RTM1 and RTM2, present in the consolidation scope only in the month of December 2006.

In particular, for the parent, the decrease is mainly due to:

- decrease in personnel expenses in the amount of euros 22.3 million, related essentially to:
 - higher personnel expenses associated with employees from the Italian subsidiaries RTM1 and RTM2 included in the consolidation scope from December 2006 and from RTT acquired on June 30, 2007 (computable in euros 6.4 million);
 - reduction in TFR (employee termination benefit, down euros 8.7 million) as difference in the actuarial calculation in compliance with the new norm, effective from the current year;
 - release of higher allowances at December 31, 2006 for INPS social security contributions for the portion, not due, related to the insurance against involuntary unemployment (down approximately euros 3.9 million);
 - lower expenses related to early consensual termination for employees that are eligible for pension (down euros 5.5 million);
 - higher capitalized expenses for internal work (approximately euros 14.8 million);
- decrease of expenses for services in the amount of euros 11.7 million, mostly due to rationalization of acquired services which lead savings on costs related, in particular, to IT services (down euros 6.4 million, previously purchased mostly within the Enel Group), telephone and communication expenses (down euros 5.5 million), vehicle rental (down euros 3.8 million) and insurance services (down euros 0.3 million). In addition, higher contracts expenses and expenses related to ordinary maintenance of plants and general services equal to approximately euros 4.3 million are recorded;
- higher provisions for bad debts of energy related items (down euros 11.5 million).

EBITDA (gross operating profit) amounted to euros 977.8 million, up euros 109.2 million on the euros 868.6 million in 2006 (up 12.6%). The Brazilian subsidiaries contributed with euros 130.0 million, and RTL with euros 59.4 million.

Amortization and depreciation increased by euros 42.7 million on 2006 (up 20.1%), attributable for euros 18.5 million to the parent essentially for the start-up of new plants and for euros 23.1 million to RTL, which includes amortization and depreciation of the merged companies RTM1 and RTM2 (included in the consolidation scope of 2006 for December only), complying to the standards adopted by the Terna Group following the revision of the useful life of the relative assets.

EBIT (operating profit) amounted to euros 722.7 million, growing euros 66.5 million (up 10.1%) on 2006.

Net financial expenses of euros 116.9 million (of which euros 90.9 million in relation to the parent and euros 26.0 million to the Brazilian companies) are detailed as follows:

In millions of euros	2007	2006	Change
Financial income			
Gain on Terna Participações IPO	0.0	70.6	-70.6
Other financial income	27.2	13.5	13.7
Value changes of the hedged bond	0.6	0.0	0.6
Income on trading derivatives	0.4	8.8	-8.4
Exchange rate gains	7.0	7.0	0.0
Measurement of equity-accounted investees	1.1	0.0	1.1
Total income	36.3	99.9	-63.6
Financial expenses			
Interest expenses on medium/long-term loans and related hedges	-140.2	-116.4	-23.8
Interest expenses on short-term loans and other financial expenses	-7.4	-2.0	-5.4
Value changes of the hedged bond	0.0	-2.6	2.6
Discounting of termination benefits and other employee-related provisions	-5.6	-6.6	1.0
Exchange rate losses	0.0	-1.7	1.7
Total expenses	-153.2	-129.3	-23.9
TOTAL	-116.9	-29.4	-87.5

The increase in net financial expense on the previous year, amounting to euros 87.5 million, is essentially due to the gains on the Terna Participações IPO (euros 70.6 million).

Further increase (euros 16.9 million) is mainly due to:

- for the parent, higher net financial expenses (euros 29.2 million) mostly due to:
 - increase in financial expenses associated with the medium/long term loans and related hedges (euros 28.8 million);
 - negative net economic effects (euros 5.2 million) of the adjustment to the fair value of bonds and related hedges (up euros 3.2 million) and trading derivatives (down euros 8.4 million);

- higher interest expenses on short-term loans (euros 2.6 million);
- increase in financial revenues (euros 3.7 million), mainly due to the financial component deriving from the uplift balance;
- for the Brazilian companies, a decrease (euros 12.3 million) substantially due to:
 - higher interest income (euros 10.0 million) on cash and cash equivalent;
 - reduction in financial expenses (euros 6.2 million) as a consequence of the decrease in interest rates in Brazil;
 - interest on equity in favour of minority shareholders of Terna Participações (euros 3.8 million).

Income taxes for 2007 amounted to euros 173.0 million, including euros 147.0 million for the parent (of which euros -76.3 million for net deferred tax charge), euros 21.0 million in relation to the Brazilian subsidiaries (of which euros -15.1 million for net deferred tax charge) and euros 5.0 million to RTL (of which euros -8.4 million for net deferred tax charge).

The impact of income taxes on the profit before taxes is 29.18% (net of tax adjustments relating to previous years); in 2006 taxes amounted to euros 235.2 million with an impact on the profit before taxes of 37.51% (net of tax adjustments relating to previous years).

Such decrease in impact is mainly due to the effects of the adjustments of deferred tax assets and liabilities of the parent and RTL to the new rates introduced by the 2008 Financial Act, which caused minor taxes for a total of euros 68.2 million.

Profit for the year amounted to euros 432.8 million, increasing by 10.5% from the euros 391.6 million in the previous year. The profit attributable to the shareholders' of the parent, less profit attributable to minority interests equal to euros 18.9 million, amounted to euros 413.9 million, increasing by 6.4 % on 2006.

Reclassified balance sheet

The Terna Group consolidated balance sheets for management purposes as of December 31, 2007 and 2006* are summarized below. Figures have been reclassified.

^(a) In millions of euros			
	Dec. 31, 2007	Dec. 31, 2006	Change
Non-current assets, net			
Intangible assets ⁽¹⁾	384.7	340.5	44.2
Property, plant and equipment	5,613.0	5,175.8	437.2
Financial assets ⁽²⁾	36.9	12.8	24.1
Total	6,034.6	5,529.1	505.5
Net working capital			
Trade receivables	1,541.1	1,182.1	359.0
Inventories	12.6	9.0	3.6
Other assets ⁽³⁾	19.1	26.4	-7.3
Trade payables	1,772.0	1,280.6	491.4
Tax liabilities, net ⁽⁴⁾	4.1	115.5	-111.4
Other liabilities ⁽⁵⁾	448.7	385.1	63.6
Total	-652.0	-563.7	-88.3
Gross invested capital	5,382.6	4,965.4	417.2
Other provisions ⁽⁶⁾	459.4	565.9	-106.5
Net invested capital	4,923.2	4,399.5	523.7
Equity attributable to the shareholders' of the parent	2,162.0	2,006.9	155.1
Equity attributable to minority interests	111.5	109.8	1.7
Net financial indebtedness ⁽⁷⁾	2,649.7	2,282.8	366.9
TOTAL	4,923.2	4,399.5	523.7

^(a) in accordance with Communication no. DME/6064291 of July 28, 2006, the reclassified balance sheet is unaudited

* with reference to December 31, 2006 balances were redetermined pursuant to IAS 8; reference should be made to "A) Accounting policies and measurement criteria" in the notes

In the consolidated accounting prospects they correspond to:

⁽¹⁾ "Goodwill" and "intangibile assets"

⁽²⁾ "Equity-accounted investees", "Other non-current assets" and "Non-current financial assets" which exclusively recognises the payment on account for the investment in ETEO (euros 0.1 million)

⁽³⁾ "Other current assets" net of tax receivables (euros 18.1 million) and "Current financial assets" for the amount of the accrued income on financial assets (euros 0.9 million)

Net financial indebtedness is detailed as follows:

^(a) In millions of euros			
	Dec. 31, 2007	Dec. 31, 2006	Change
Bonds	1,840.4	1,406.6	433.8
EIB loans + current portion	540.9	570.4	-29.5
BNDES/IDS loans	456.0	462.0	-6.0
Short-term loans towards ETAU	-1.6	0.0	-1.6
Short-term loans	0.0	50.0	-50.0
Banks and cash	-244.0	-200.4	-43.6
Derivative financial instruments	58.0	-5.8	63.8
TOTAL FINANCIAL INDEBTEDNESS	2,649.7	2,282.8	366.9

^(a) In accordance with Communication no. DME/6064291 of July 28, 2006, the consolidated net financial indebtedness is unaudited

The increase in intangible assets of euros 44.2 million is attributable essentially to goodwill (up euros 42.7 million) and derives mainly from the following changes:

- increase of approximately euros 5.4 million attributable to the company RTT (acquired and merged into RTL in the course of the year) reflecting the portion of the purchase price that could not be allocated under IFRSs;
- increase of euros 25.8 million in relation to recently acquired foreign companies, GTESA and PATESA, (merged into TSN on November 30, 2007, at the same time of the purchase), relating to the difference paid with respect to equity at the acquisition date and temporarily recognized under intangible assets (goodwill);
- adjustment of goodwill for euros 7.9 million, relating to the foreign subsidiaries in order to reflect exchange rate adjustments at year end.

The increase in property, plant and equipment, amounting to euros 437.2 million, is essentially due:

- for the parent (up euros 342.2 million), to the net effect of the new investments, amortization and depreciation of the year and recognition of grants related to plants and disposals;

⁽⁴⁾ "Other current assets" for tax receivables (euros 18.1 million), "Other current liabilities" for the tax payables other than income tax liabilities (euros 19.9 million) and "Income tax liabilities"

⁽⁵⁾ "Other non-current liabilities", "Financial current liabilities" and "Other current liabilities" net of tax payables other than income tax liabilities (euros 69.9 million)

⁽⁶⁾ "Termination benefits and other employee related provisions", "Provisions for contingencies and charges", "Deferred tax liabilities" and "Deferred tax assets"

⁽⁷⁾ "Long-term loans", "Current portions of long-term loans", "Cash and cash equivalents", "Current financial assets" for the short-term loan towards ETAU (euros 1.6 million) and "Non-current financial liabilities"

- for the Brazilian companies (up euros 56.6 million), to the acquisition of GTESA and PATESA assets (euros 16.9 million), exchange rate gains on the value of assets due to the appreciation of the exchange rate R\$/Euro (euros 49.7 million), as well as to the net effect of new investments (euros 10.0 million) and amortization and depreciation (euros 20.0 million);
- for RTL (up euros 38.4 million), mainly to the acquisition of the RTT plants (euros 31.8 million) and to the new investments in the year (euros 6.7 million net of amortization and depreciation).

The increase of euros 24.1 million in financial assets is attributable mainly to Terna Participações' acquisition of 52.58% of the share capital of the joint control company ETAU (euros 23.3 million).

Net working capital amounted to euros -652.0 million, decreasing by euros 88.3 million on 2006. Such variation is attributable essentially:

- for the Brazilian subsidiaries (down euros 65.6 million), to the euros 9.6 million increase in receivables from customers (for grid utilization fee, following annual adaptation of the concession fee) and euros 66.9 million for other liabilities (essentially due to the deferral of revenues, in application of the linearization on the total duration of the concession);
- for the parent (down euros 15.3 million), mainly to the balance of the operating activities (euros -145.8 million) attributable for the greater part to the dispatching items and to the considerable reduction of net tax liabilities (euros 121.5 million), deriving from VAT receivables of the Company at December 31, 2007 (lower net liabilities for euros 44.7 million) and for higher accounts paid for IRES and IRAP regarding the tax expenses at year end (lower net tax liabilities for euros 74.9 million).

Accordingly, the gross invested capital amounted to euros 5,382.6 million.

Other provisions amounted to euros 459.4 million, decreasing by euros 106.5 million, essentially attributable to the following factors:

- release of net deferred taxes of the parent Terna (euros 71.1 million) and of RTL (euros 8.6 million), mainly due to the adaptation of IRES and IRAP rates (2008 Financial Act) of the deferred tax assets and liabilities;
- recognition of net deferred tax assets on the deferral of the revenues of the Brazilian subsidiaries for effect of the linearization on the duration of concession (euros 24.3 million, including exchange rate).

The net invested capital, at December 31, 2007, amounted to euros 4,923.2 million, with an increase of euros 523.7 million on December 31, 2006. Equity coverage amounted to euros 2,273.5 million, of which euros 2,162.0 million attributable to the shareholders of the parent (compared to euros 2,116.7 million at December 31, 2006, of which euros 2,006.9 million attributable to the shareholders of the parent) and net financial indebtedness covered the remaining euros 2,649.7 million (euros 2,282.8 million at December 31, 2006).

Reconciliation of the consolidated profit for the year and equity with the parent's profit for the year and equity

In millions of euros	Profit 2007	Equity at Dec. 31, 2007	Profit 2006	Equity at Dec. 31, 2006
FINANCIAL STATEMENTS OF THE PARENT	406.7	2,026.0	355.8	1,901.7
Profit and equity of consolidated companies	131.3	156.1	43.8	134.8
Effect of the translation of financial statements of foreign companies	0.0	56.5	0.0	46.4
Reversal of dividends	-106.3	0.0	-40.0	0.0
Adjustment to the gain on the Terna Participações listing	0.0	32.2	32.2	32.2
Measurement of Cesi using the equity method	1.1	2.9	0.0	1.8
Other adjustments	0.0	-0.2	-0.2	-0.2
Total consolidated financial statements	432.8	2,273.5	391.6	2,116.7
Minority interest	18.9	111.5	2.5	109.8
CONSOLIDATED FINANCIAL STATEMENTS OF TERNA GROUP	413.9	2,162.0	389.1	2,006.9

Cash flows

Cash flows

^(b) In millions of euros	Cash flows Dec. 31, 07	Accounting prospects reconciliation	Cash flows Dec. 31, 06 ^(a)	Accounting prospects reconciliation	Change
OPENING CASH AND CASH EQUIVALENTS	200.4		76.6		123.8
Profit for the year	432.8		391.6		41.2
Amortization and depreciation	255.1		212.4		42.7
Net change in provisions	-106.5		31.7		-138.2
Deferred tax assets		-17.6		-16.1	
Termination benefits and other employee - related provisions		-12.7		-2.1	
Provisions for contingencies and charges		10.2		21.7	
Provision for deferred taxes		-86.4		28.2	
Losses (Profit) on net property sale ⁽¹⁾	-0.6		0.6		-1.2
Self-financing	580.8		636.3		-55.5
Change in net working capital	88.3		291.5		-203.2
Inventories		-3.6		12.2	
Trade receivables		-359.0		-155.9	
Current financial assets		1.3		2.2	
Other current assets		-2.3		-1.1	
Other non-current liabilities		51.7		36.9	
Trade payables		491.4		329.2	
Income tax liabilities		-73.0		60.9	
Current financial liabilities		4.8		-0.8	
Other current liabilities		-23.0		7.9	
Cash flows generated by/(used in) operating activities	669.1		927.8		-258.7
Investments					
Property, plant and equipment ⁽²⁾	-591.1		-326.0		-265.1
Intangible assets ⁽³⁾	-24.9		-26.5		1.6
Other changes in assets	-112.8		-447.1		334.3
Goodwill		-42.7		-26.6	
Property, plant and equipment		-77.2		-397.7	
Non-current financial assets		-0.1		0.0	
Other non current assets		0.4		0.6	
Equity-accounted investees		-24.4		0.0	
Translation of financial statements of foreign companies (Equity) ⁽⁴⁾		31.2		-23.4	
Total cash flows generated by/(used in) investing activities	-728.8		-799.6		70.8

Cash flows (follow)

^(b) In millions of euros	Cash flows Dec. 31, 07	Accounting prospects reconciliation	Cash flows Dec. 31, 06 ^(a)	Accounting prospects reconciliation	Change
Change in loans	410.5		137.9		272.6
Non-current financial assets		12.0		94.0	
Current financial assets		-1.6		0.0	
Non-current financial liabilities		51.8		-22.8	
Long-term loans		397.6		58.8	
Current portion of long-term loans		0.7		12.8	
Short-term loans		-50.0		-5.0	
Other changes in equity attributable to the shareholders of the parent	4.0		14.1		-10.1
Equity attributable to the shareholders of the parent - Share capital and Other reserves ⁽⁴⁾		4.0		14.1	
Dividends ⁽⁴⁾	-311.3		-266.0		-45.3
Terna Participações listing	0.0		109.6		-109.6
Other changes in equity attributable to minority interests ⁽⁴⁾	0.1		0.0		0.1
Total cash flows generated by/(used in) financial activities	103.3		-4.4		107.7
Total cash flows of the year	43.6		123.8		-80.2
CLOSING CASH AND CASH EQUIVALENTS	244.0		200.4		43.6

^(a) with reference to December 31, 2006, the balances have been re-determined pursuant to the corrections provided for by IAS 8; reference should be made to "A) Accounting policies and evaluation criteria" in the notes

^(b) in accordance with Communication no. DME/6064291 of July 28, 2006, the consolidated cash flow statement is unaudited

⁽¹⁾ Included in "Other revenues" and "Other operating costs", in the consolidated financial statements respectively.

⁽²⁾ See Note to the financial statements no. 13

⁽³⁾ See Note to the financial statements no 15

⁽⁴⁾ See Statement of changes in consolidated equity

Change in consolidated net financial position

^(b) In millions of euros	Dec. 31, 2007	Dec. 31, 2006 ^(a)
OPENING NET FINANCIAL INDEBTEDNESS	-2,282.8	-2,268.7
Self-financing	580.8	636.3
Change in net working capital	88.3	291.5
Cash flows generated by operating activities	669.1	927.8
Investments in property, plant and equipment	-591.1	-326.0
Investments in intangible assets	-24.9	-26.5
Other changes in assets	-88.3	-447.1
Changes in share ownerships	-24.5	-
Cash flows used in investing activities	-728.8	-799.6
Dividends	-311.3	-266.0
Other changes in equity attributable to the shareholders of the parent	4.0	14.1
Terna Participações listing	-	109.6
Other changes in equity attributable to minority interests	0.1	-
Self-financing flows	-307.2	-142.3
Change in financial indebtedness	-366.9	-14.1
CLOSING NET FINANCIAL INDEBTEDNESS	-2,649.7	-2,282.8

^(a) with reference to December 31, 2006, the balances have been re-determined pursuant to the corrections provided for by IAS 8; reference should be made to "A) Accounting policies and measurement criteria" in the notes

^(b) in accordance with Communication no. DME/6064291 of July 28, 2006, the consolidated net financial position is unaudited

The cash flows generated by operating activities during the year amounted to approximately euros 669.1 million and are due to self-financing (Profit for the year, amortization and depreciation, and accruals totalling euros 580.8 million) and the contribution of cash flows (euros 88.3 million) generated by the management of working capital.

Investing activities used net cash flows of approximately euros 728.8 million in relation to investments in property, plant and equipment (euros 591.1 million) and intangible assets (euros 24.9 million), as well as to the increase in property, plant and equipment generated by the acquisition of RTT for euros 31.8 million and GTESA and PATESA for euros 16.9 million. The investment for euros 23.3 million referred to the acquisition of the joint-controlled company ETAU by Terna Participações is recorded.

Cash outflows for self-financing were mainly due to the distribution of the 2006 final dividend (euros 185.4 million) and of the 2007 interim dividend (euros 125.9 million).

Accordingly, the cash flows used in investing activities and self-financing totalled euros 1,036.1 million, covered in part (euros 669.1 million) by the cash flows generated by operating activities and residually (euros 366.9 million) by new indebtedness.

Indebtedness

The following table details consolidated net financial indebtedness (euros 2,649.7 million) at year end:

^(a) In millions of euros			
	Dec. 31, 2007	Dec. 31, 2006	Change
A) Medium and long-term indebtedness			
Bonds ⁽¹⁾	1,840.4	1,406.6	433.8
EIB loans ⁽¹⁾	511.4	540.9	-29.5
Brazil loans ⁽¹⁾	413.7	420.4	-6.7
Derivate financial instruments ⁽²⁾	58.0	-5.8	63.8
Total A	2,823.5	2,362.1	461.4
B) Short-term indebtedness (funds):			
Bond (current portion)	-	-	-
EIB loans (current portion) ⁽³⁾	29.5	29.5	-
Brazil loans (current portion) ⁽³⁾	42.3	41.6	0.7
Short-term loans	-	50.0	-50.0
Short-term loan towards ETAU ⁽⁴⁾	-1.6	-	-1.6
Cash and cash equivalents in Italy ⁽⁵⁾	-123.2	-15.3	-107.9
Cash and cash equivalents in Brazil ⁽⁵⁾	-120.8	-185.1	64.3
Total B	-173.8	-79.3	-94.5
TOTAL A+B	2,649.7	2,282.8	366.9

^(a) in accordance with Communication no. DME/6064291 of July 28, 2006, net financial indebtedness is unaudited

As regards the Group's exposition to interest rate, exchange rate, liquidity and credit risk, as well as responsibilities and methods for risk management, reference should be made to "Risk management" in the notes to the financial statements.

In the consolidated financial statements:

⁽¹⁾ balance is included under "Long-term loans"

⁽²⁾ balance is included under "Non-current financial liabilities"

⁽³⁾ balance is included under "Current portions of long-term loans"

⁽⁴⁾ balance is included under "Current financial assets"

⁽⁵⁾ balance is included under "Cash and cash equivalents"

TRANSMISSION GRID

Italy

The Group's plants in Italy are detailed in the following table:

	TERNA		RTL		TOTAL	
	no.	km	no.	km	no.	km
Stations	319	-	47	-	366	-
Transformers	586	-	24	-	610	-
Bays	4,111	-	326	-	4,437	-
Lines	-	36,142	-	3,304	-	39,446
Triads	1,995	40,034	164	4,167	2,159	44,201

It is worth mentioning that the main changes happened in 2007 are attributable:

- to RTL for assets acquired through the incorporation of RTT (5 stations, including the electrical station of Moncalieri, previously acquired from Iride Energia, 5 transformers, 213 km and 10 triads), and
- to the parent, whose variations for 2007 are described in the specific paragraph of Directors' Report on the separate financial statements of Terna S.p.A. at December 31, 2007 to which reference should be made.

Brazil

The Group's plants in Brazil are detailed in the following table:

	TSN				NOVATRANS		TOTAL	
	TSN		GTESA/PATESA		no.	km	no.	km
	no.	km	no.	km				
Stations	7	-	-	-	-	-	7	-
Transformers	14	-	-	-	-	-	14	-
Bays	31	-	4	-	10	-	45	-
Lines	-	1,183	-	186	-	1,278	-	2,647
Triads	12	1,183	2	186	5	1,278	19	2,647

It must be noticed that in comparison to the numbers of 2006, lines increased by 186 km due to acquisition of plants in the states of Paraíba, Pernambuco and Rio Grande do Norte.

Results by geographical area and business segment

Reference should be made to the specific paragraph of the notes for a breakdown of Group highlights for its Italian and Brazilian activities and an analysis by business segment.

RESEARCH AND DEVELOPMENT

Reference should be made to the Directors' Report on the separate financial statements of Terna S.p.A. for information on research and development.

HUMAN RESOURCES

The number of Terna Group employees is shown below.

Change in workforce	ITALY		BRAZIL*		TOTAL		Change
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	
Senior management	68	75	1	1	69	76	-7
Middle management	464	439	10	7	474	446	28
Office staff	1,875	1,857	72	62	1,947	1,919	28
Workers	1,088	1,104	24	10	1,112	1,114	-2
TOTAL	3,495	3,475	107	80	3,602	3,555	47

*employees in Brazil do not have the same treatment provided for by the Italian collective employment agreement for electric sector employees and are therefore conventionally included in the relative categories

Data, for both years, are net of the resignations with effect from December 31.

The increase in the number of employees was due to: integration in the organizational structure of Terna S.p.A. of the staff of RTT; the increase in the Brazilian companies' staff as a result of the new acquisitions and to the empowerment of the existing organizational units.

With reference to the change in the organizational structure of Terna S.p.A., to staff training, to the management incentive systems and the initiatives adopted for the empowering of the human resources, reference should be made to the Director's Report on the parent's financial statements.

RELATED PARTY TRANSACTIONS

On April 19, 2007, Cassa Depositi e Prestiti S.p.A., which owns 29.99% of Terna S.p.A., notified to the CONSOB that it had verified that it controlled S.p.A. The assessment was based on the following elements:

- the composition and breakdown of the shareholding structure;
- events at particularly significant shareholders' meetings;
- the composition of the Board of Directors, in which 7 out of 10 Directors sit, 5 of which are independent.

In consideration of what stated beforehand, Terna Group's 2007 related party transactions are represented – apart from the associates Cesi S.p.A., the joint interest in ETAU and pension funds for employees (Fondenel and Fopen) – by relations with companies of the:

- GSE Group;
- Enel Group;
- Eni Group;
- Ferrovie dello Stato Group;

and with ANAS S.p.A.

The relations with members of the Board of Directors and the Board of Auditors of the parent company, with particular reference to remuneration, bonuses and incentives, are detailed in the captions “Personnel cost” and “Services”, respectively, in the notes.

Shares held by Directors, Statutory Auditors, General Managers and Key Managers

As required by the provision of art. 79 of CONSOB Resolution no. 11971/99, the following table lists the shares of Terna S.p.A. subsidiaries held by Directors, Statutory Auditors, General Managers, and Key Managers, in addition to their spouses (unless legally separated) and minor children, either directly or indirectly through subsidiaries, trustees or nominees, as per the shareholders' book, communications received or other information obtained from the members of the Boards of Directors and Statutory Auditors, General Managers and Key Managers. These include all persons who, in 2007, filled the office of Director, Statutory Auditor, General Managers and Key Managers.

	Company in which the investment is held	No. of units* held at the end of the previous year (2006)	No. of units* purchased in 2007	No. of units* sold in 2007	No. of units* held at end of the current year (2007)	Type of ownership
Giovanni Giovannelli	Terna Participações	1	28,278	28,278	1	ownership
Claudio Marchiori	Terna Participações	1	10,019	10,019	1	ownership
Camille Loyo Faria	Terna Participações	0	10,745	10,745	0	-

* equal to no. 3 shares

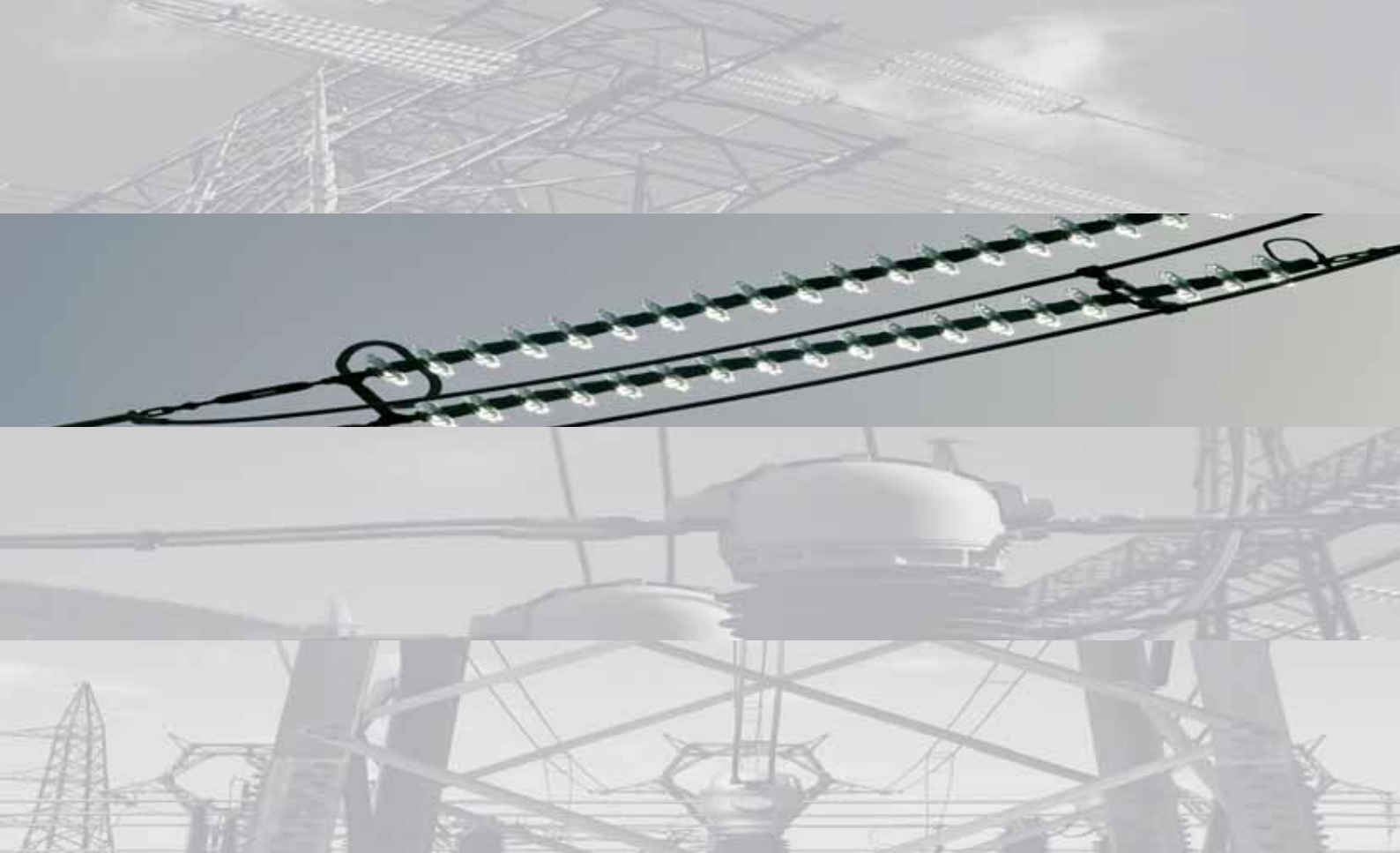
With reference to shares of the parent, reference should be made to the specific paragraph of the Director's Report on Terna S.p.A. financial statements at December 31, 2007.

SIGNIFICANT NON-RECURRING EVENTS AND OPERATIONS, ATYPICAL OR UNUSUAL TRANSACTIONS

In 2007, no significant, non-recurring events and operations, atypical or unusual transactions were carried out, either with third parties or related parties.

SUBSEQUENT EVENTS AND OUTLOOK

Reference should be made to the specific paragraph of the Director's Report on Terna S.p.A. financial statements at December 31, 2007.



CONSOLIDATED ACCOUNTING PROSPECTS

CONSOLIDATED INCOME STATEMENT

	Notes	2007	2006 re-determined*	Change
In millions of euros				
A) REVENUES				
Revenues from sales and services	1	1,296.2	1,228.7	67.5
<i>of which from related parties</i>		1,100.7	0.0	1,100.7
Other revenues and income	2	52.0	47.8	4.2
<i>of which from related parties</i>		4.1	0.1	4.0
Total revenues		1,348.2	1,276.5	71.7
B) OPERATING EXPENSES				
Raw materials and consumables	3	16.7	18.7	-2.0
Services	4	135.2	145.3	-10.1
<i>of which to related parties</i>		13.8	0.9	12.9
Personnel expenses	5	238.6	242.0	-3.4
<i>of which to related parties</i>		3.0	1.7	1.3
Amortization, depreciation and impairment losses	6	257.3	224.6	32.7
Other operating expenses	7	28.9	26.5	2.4
<i>of which to related parties</i>		0.8	0.0	0.8
Capitalized internal work	8	-51.2	-36.8	-14.4
Total expenses		625.5	620.3	5.2
OPERATING PROFIT A-B		722.7	656.2	66.5
C) FINANCIAL INCOME/EXPENSES				
Financial income	9	35.2	98.2	-63.0
<i>of which non-recurring</i>		0.0	70.6	-70.6
Financial expenses	9	-153.2	-127.6	-25.6
Share of Profit/(losses) of equity-accounted investees	10	1.1	0.0	1.1
D) PROFIT BEFORE TAXES		605.8	626.8	-21.0
E) INCOME TAXES	11	173.0	235.2	-62.2
F) PROFIT FOR THE YEAR		432.8	391.6	41.2
Profit for the year attributable to the shareholders of the parent		413.9	389.1	24.8
Profit for the year attributable to minority interests		18.9	2.5	16.4
Basic earnings per share	12	0.207	0.195	0.012
Diluted earnings per share	12	0.206	0.194	0.012

* data have been re-determined pursuant to IAS 8; reference should be made to "A) Accounting policies and measurement criteria" in the notes

CONSOLIDATED BALANCE SHEET ASSETS

In millions of euros	Notes	Dec. 31, 2007	Dec. 31, 2006 re-determined*	Change
A) NON-CURRENT ASSETS				
Property, plant and equipment	13	5,613.0	5,175.8	437.2
Goodwill	14	224.0	181.3	42.7
Intangible assets	15	160.7	159.2	1.5
Deferred tax assets	16	172.8	155.2	17.6
Equity-accounted investees	17	30.8	6.4	24.4
Non-current financial assets	18	0.1	12.0	-11.9
Other non-current assets	19	6.0	6.4	-0.4
Total non-current assets		6,207.4	5,696.3	511.1
B) CURRENT ASSETS				
Inventories	20	12.6	9.0	3.6
Trade receivables	21	1,541.1	1,182.1	359.0
<i>of which from related parties</i>		<i>187.2</i>	<i>0.0</i>	<i>187.2</i>
Current financial assets	18	2.5	2.2	0.3
<i>of which from related parties</i>		<i>1.6</i>	<i>0.0</i>	<i>1.6</i>
Cash and cash equivalents	22	244.0	200.4	43.6
Other current assets	19	36.3	34.0	2.3
Total current assets		1,836.5	1,427.7	408.8
TOTAL ASSETS		8,043.9	7,124.0	919.9

* data have been re-determined pursuant to IAS 8; reference should be made to "A) Accounting policies and measurement criteria" in the notes

CONSOLIDATED BALANCE SHEET LIABILITIES

In millions of euros	Notes	Dec. 31, 2007	Dec. 31, 2006 re-determined*	Change
C) EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT				
Share capital		440.1	440.0	0.1
Other reserves		817.4	819.5	-2.1
Retained earnings and losses		602.6	464.3	138.3
Interim dividend		-112.0	-106.0	-6.0
Profit for the year		413.9	389.1	24.8
Total equity attributable to the shareholders of the parent		2,162.0	2,006.9	155.1
D) EQUITY ATTRIBUTABLE TO MINORITY INTERESTS				
		111.5	109.8	1.7
Total equity	23	2,273.5	2,116.7	156.8
E) NON-CURRENT LIABILITIES				
Long-term loans	24	2,765.5	2,367.9	397.6
Termination benefits and other employee-related provisions	25	153.4	166.1	-12.7
Provisions for contingencies and charges	26	69.3	59.1	10.2
Deferred tax liabilities	27	409.5	495.9	-86.4
Non-current financial liabilities	24	58.0	6.2	51.8
Other non-current liabilities	28	358.0	306.3	51.7
<i>of which from related parties</i>		0.8	0.0	0.8
Total non-current liabilities		3,813.7	3,401.5	412.2
F) CURRENT LIABILITIES				
Short-term loans	24	0.0	50.0	-50.0
Current portion of long-term loans	24	71.8	71.1	0.7
Trade payables	29	1,772.0	1,280.6	491.4
<i>of which to related parties</i>		88.6	4.5	84.1
Income tax liabilities	29	2.3	75.3	-73.0
Current financial liabilities	24	20.8	16.0	4.8
Other current liabilities	29	89.8	112.8	-23.0
<i>of which to related parties</i>		1.3	0.7	0.6
Total current liabilities		1,956.7	1,605.8	350.9
TOTAL EQUITY AND LIABILITIES		8,043.9	7,124.0	919.9

* data have been re-determined pursuant to IAS 8; reference should be made to "A) Accounting policies and measurement criteria" in the notes

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY*

CONSOLIDATED SHARE CAPITAL AND RESERVES DEC. 31, 2006** - DEC. 31, 2007													
	Share capital	Legal reserve	Other reserves	Translation reserve		Retained earnings	Interim dividend	Profit for the year	Equity attributable to the shareholders of the parent	Share capital and reserves attributable to minority interests	Profit for the year attributable to minority interests	Equity attributable to minority interests	Total equity
				GOODWILL	OTHER								
In millions of euros													
AT DEC. 31, 2006	440.0	88.0	731.5	23.0	23.4	417.9	-106.0	389.1	2,006.9	102.3	7.5	109.8	2,116.7
ALLOCATION OF 2006 PROFIT													
<i>Profit brought forward</i>						109.1		-109.1	0.0	-3.9	3.9	-	-
<i>Dividend</i>							106.0	-280.0	-174.0		-11.4	-11.4	-185.4
CHANGES RECOGNIZED DIRECTLY IN EQUITY													
Translation of financial statements of foreign companies				7.9	15.3				23.2	8.0		8.0	31.2
Effective portion of changes in the fair value of cash flow hedges			2.2						2.2				2.2
<i>Stock option exercise</i>	0.1		1.7						1.8	0.1		0.1	1.9
<i>Reclassifications</i>			-6.0		-13.1	19.1			0.0			0.0	0.0
2007 interim dividend							-112.0		-112.0	-13.9		-13.9	-125.9
Profit for the year								413.9	413.9		18.9	18.9	432.8
AT DEC. 31, 2007	440.1	88.0	729.4	30.9	25.6	546.1	-112.0	413.9	2,162.0	92.6	18.9	111.5	2,273.5

* for the comments on statement of changes in consolidated equity, reference should be made to the note no. "23) Equity attributable to the shareholders of the parent"

** data have been re-determined pursuant to IAS 8; reference should be made to "A) Accounting policies and measurement criteria" in the notes

GROUP SHARE CAPITAL AND RESERVES DEC. 31, 2005* - DEC. 31, 2006*													
	Share capital	Legal reserve	Other reserves	Translation reserve		Retained earnings	Interim dividend	Profit for the year	Equity attributable to the shareholders of the parent	Share capital and reserves attributable to minority interests	Profit for the year attributable to minority interests	Equity attributable to minority interests	Total equity
				GOODWILL	OTHER								
In millions of euros													
AT DEC. 31, 2005	440.0	88.0	719.3	38.7	28.6	352.7	-100.0	323.5	1,890.8	0.0	0.0	0.0	1,890.8
ALLOCATION OF 2005 PROFIT													
<i>Profits brought forward</i>						63.5		-63.5	-			0.0	0.0
<i>2005 interim dividend</i>							100.0	-100.0	-			0.0	0.0
<i>2005 final dividend</i>								-160.0	-160.0			0.0	-160.0
Terna Participações listing				-13.2					-13.2	104.6	5.0	109.6	96.4
CHANGES RECOGNIZED DIRECTLY IN EQUITY													
Translation of financial statements of foreign companies				-2.5	-5.2	-0.2			-7.9	-2.3		-2.3	-10.2
Effective portion of changes in the fair value of cash flow hedge			7.8						7.8			0.0	7.8
Stock option exercise			0.8						0.8			0.0	0.8
Other changes			3.6			1.9			5.5	0.0		0.0	5.5
2006 interim dividend							-106.0		-106.0			0.0	-106.0
Profit for the year								389.1	389.1		2.5	2.5	391.6
AT DEC. 31, 2006	440.0	88.0	731.5	23.0	23.4	417.9	-106.0	389.1	2,006.9	-2.3	7.5	109.8	2,116.7

* data have been re-determined pursuant to IAS 8; reference should be made to "A) Accounting policies and measurement criteria" in the notes

CONSOLIDATED CASH FLOW STATEMENT*

In millions of euros	Dec. 31, 2007	Dec. 31, 2006 ^(a)
Profit for the year	432.8	391.6
ADJUSTMENTS FOR		
Amortization, depreciation, impairment losses/(reversals of impairment losses) on non-current property, plant and equipment and intangible assets**	248.7	200.4
Exchange rate gains/losses	-3.3	2.0
Accruals to provisions (including employee-related provisions)	33.8	48.0
(Gains)/Losses on disposals of property, plant and equipment	-0.6	0.6
Financial (income)/expenses	125.0	34.7
Income taxes	176.8	235.2
Cash flows generated by operating activities, before changes in net working capital	1,013.2	912.5
Decrease in provisions (including employee-related and tax provisions)	-37.4	17.1
(Increase)/Decrease in inventories	-3.6	12.2
(Increase)/Decrease in trade receivables and other current assets	-357.0	-163.0
Increase/(Decrease) in other non-current liabilities	58.2	47.3
Increase/(Decrease) in other non-current assets	-93.8	-105.4
Increase/(Decrease) in trade payables and other liabilities	479.7	477.0
Interest income and other financial income received	55.3	115.2
Interest expenses and other financial expenses paid	-171.1	-216.3
Income taxes paid	-328.0	-243.0
Cash flows generated by operating activities [a]	615.5	853.6
Investments in property, plant and equipment, net of recognized grants	-574.7	-329.2
Acquisition of acquired companies' assets	-48.7	-416.9
Revenues from sale of property, plant and equipment	3.2	4.5
Investments in non-current intangible assets	-24.9	-26.2
Goodwill from acquisitions***	-34.8	-81.8
Group proceeds from the Brazil IPO (primary market and Group surplus)	0.0	207.4
Acquisition of ownership in ETAU	23.3	0.0
Cash flows generated by investing activities [b]	-656.6	-642.2
Increase in capital	0.1	0.0
Increase in Reserves	1.8	6.3
Increase in medium/long-term financial payables (including short-term portions)****	435.4	155.3
Acquisition of Munirah loan	0.0	23.1
Decrease in short-term financial payables and term credit lines	-50.0	-5.0
Dividends paid	-311.3	-266.0
Cash flows generated by financing activities [c]	76.0	-86.3
Exchange rate effect on cash and cash equivalents [d]	8.7	-1.3
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS [A+B+C+D]	43.6	123.8
Opening cash and cash equivalents	200.4	76.6
Closing cash and cash equivalents	244.0	200.4

* for comments on consolidated cash flow statement, reference should be made to the specific paragraph "Notes to the consolidated cash flow statement" in the notes

** net of plant grants recognized in the income statement

*** the euros 25.8 million amount corresponds to the difference between amount paid for GTESA/PATESA acquisition and respective net assets acquired

**** net of FVH derivatives

^(a) data have been re-determined pursuant to IAS 8; reference should be made to "A) Accounting policies and measurement criteria" in the notes



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A) ACCOUNTING POLICIES AND MEASUREMENT CRITERIA

Introduction

Terna S.p.A. has registered offices in Via Arno, 64 Rome, Italy. Its consolidated financial statements as of and for the year ended December 31, 2007 include its separate financial statements and those of its subsidiaries (the "Group"), as well as the Group's investment in associates and joint interests. The subsidiaries included in the consolidation scope are listed below.

These consolidated financial statements were approved for publication by the Directors on March 11, 2008. The Board of Directors also authorized the Chairman and CEO to make any formal changes to the consolidated financial statements and any integrations and adjustments to the sections relating to subsequent events that should be necessary up to the date of approval by the shareholders (April 27 and 28, 2007).

The consolidated financial statement as of and for the year ended December 31, 2007 is available upon request at the Terna S.p.A. registered offices in via Arno, 64 Rome, or at the Company website www.terna.it.

International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Commission (IFRS-EU) at that date.

These consolidated financial statements have been prepared also considering the provisions of the Italian Civil Code, of the Legislative Decree no. 58/1998, with particular reference to the new financial information regulation introduced by the Legislative Decree no. 195/2007 implementing the rules of Transparency, of CONSOB Resolution no. 11971/1999 on issuers and CONSOB Resolutions no. 15519 and no. 15520 of July 27, 2006, as well as CONSOB Communication no. DEM/6064293 of July 28, 2006.

Presentation criteria

The consolidated financial statements are composed of the income statement, balance sheet, statement of changes in equity, cash flow statement and the notes thereto.

The income statement is classified on the basis of the nature of costs, while the cash flow statement has been prepared using the indirect method.

In the balance sheet, assets and liabilities are classified on a current/non-current basis, with specific mention of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realization, sale or consumption in the Group's normal operating cycle; current liabilities are those expected to be settled in the Group's normal operating cycle or within one year from the balance sheet date. These consolidated financial statements are presented in millions of euros, and all figures are shown in millions of euros, unless otherwise indicated.

The consolidated financial statements have been prepared using the historic cost method, with the exception of captions that are recognized at fair value in accordance with IFRS-EU, as indicated in the accounting policies for each caption.

In the preparation of the consolidated financial statements as of and for the year ended December 31, 2007, the balance of some captions of the comparative data at December 31, 2006, have been re-determined on the base of a more precise application of certain accounting principles. In particular, the revenues from transmission activities of the Brazilian subsidiaries have been recognized on a line-for-line basis along the total duration of the concession agreement, rather than on contractual base, and deferred tax assets have been calculated in a more punctual way. The value of surplus obtained in 2006, due to the transfer to the minorities of an ownership quota in the subsidiary Terna Participações S.A., has been consequently re-determined.

The total impact of such amendments however is not considered as significant, and such new measurements, even though they reflect on future years in the presentation of smaller revenues, do not impact on the cash flows of the Brazilian companies and the Terna Group.

The general effect of the aforementioned amendments, recorded in compliance with IAS 8, causes higher profit for the Group and lower equity attributable to the shareholders of the parent at December 31, 2006, respectively of euros 22.8 million and euros 2 million. Consequently, earnings per share and the diluted earnings for 2006, both turn out to be higher by euros 0.014 compared to the financial statements at December 31, 2006.

Use of estimates

The preparation of the consolidated financial statements requires the use of estimates and assumptions that affect the carrying amounts of assets and liabilities and related disclosures, in addition to contingent assets and liabilities at the reporting date. The estimates and associated assumptions are based on previous experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

The critical areas for key estimates and assumptions used by management in applying IFRS endorsed by the European Commission that could have significant effects on the consolidated financial statements or that could give rise to risks that would entail significant adjustments to the carrying amounts of assets and liabilities in subsequent years are summarized below.

Employee benefits

The liability for employee benefits paid upon or following termination of employment in relation to defined benefit plans or other long-term benefits is recognized net of any plan assets and is measured on the basis of actuarial assumptions, estimating the amount of future benefits that employees have vested at the reporting date.

Provisions for contingencies and charges

Accruals to the provisions for contingencies and charges are recognized when, at the reporting date, there is a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect is material, accruals are measured by discounting estimated future cash flows at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provision for bad debts

Trade receivables are initially recognized net of any impairment losses relating to sums considered non recoverable, which are taken to the specific provision for bad debts. Impairment losses are measured on the basis of the present value of estimated future cash flows, discounted at the original effective interest rate.

Recoverable amount of non-current assets

Property, plant and equipment and intangible assets are analyzed at least once a year to check for indications of impairment. If there is an indication that an asset may be impaired, its recoverable amount is estimated.

Recoverable amount is the higher of an asset's fair value, net of costs to sell and its value in use, measured by discounting estimated future cash flows considering available information at the time of estimate and on the basis of subjective assessments of the performance of future variables, such as prices, costs, demand growth rates, production profiles, and discounted at a rate that reflects current market assessments of the time value of money with respect to the investment period and the risks specific to the asset.

Subsidiaries and the consolidation scope

The consolidation scope includes the parent Terna S.p.A. and the companies over which the parent has the power to directly or indirectly govern financial and operating policies as to obtain benefits from their activities, notwithstanding the type of ownership. In assessing whether or not the parent has control, potential voting rights that are presently exercisable or convertible are also considered.

The financial statements of subsidiaries are included in the consolidated financial statements on a line-by line basis from the date when the parent gains control until the date when such control ceases.

Below is a list of the companies included in the consolidation scope:

Company	Registered office	Business activity	Share capital	Currency	% of ownership	Consolidation method
Companies controlled directly by Terna S.p.A.						
Terna Participações S.A.	Rio de Janeiro (Brazil)	Holding of investments in other companies that operate in the electrical energy transmission sector	1,310,433,030	R\$	66%	Line-by-line
RTL Rete Trasmissione Locale	Rome	Construction and maintenance of electrical energy transmission grids	20,600,000	euro	100%	Line-by-line
InTERNAtional S.p.A.	Rome	Construction and maintenance of electrical energy transmission grids in Italy and abroad	120,000	euro	100%	Line-by-line
Control through Terna Participações S.A.						
TSN Transmissora Sudeste Nordeste S.A. (Brazil)	Rio de Janeiro (Brazil)	Construction and maintenance of electrical energy transmission grids	273,310,121	R\$	100%	Line-by-line
Novatrans Energia S.A.	Rio de Janeiro (Brazil)	Construction and maintenance of electrical energy transmission grids	373,135,465	R\$	100%	Line-by-line
Lovina Participações S.A.			1,000	R\$	99.99%	Line-by-line

In comparison to December 31, 2006, the change in the consolidation scope refers:

- to the merger into RTL S.p.A. of the ownerships in Rete Trasmissione Milano1 S.p.A. (RTM1) and in Rete Trasmissione Milano 2 S.p.A. (RTM2) by the subsidiary RTL, occurred on July 31, 2007;
- to the constitution, on September 10, 2007, of the subsidiary InTERNAtional S.p.A. with share capital entirely subscribed by the parent;
- to the acquisition, on September 13, 2007, by Terna Participações of 99.99% of Lovina Participações Ltda., transformed into Lovina Participações S.A. on December 13, 2007;

In addition, it must be noticed that in 2007 other combinations were carried out, which did not determine a change in the consolidation scope, nevertheless had impact on the Group:

- the merger into TSN S.A., on November 30, 2007 and, at the same time of the purchase of the entire share package, of the companies Goiana Transmissora de Energia S.A. (GTESA) and Paraiso Açú for Transmissora de Energia S.A. (PATESA);

- the merger into RTL S.p.A., with effect from December 31, 2007, of the company Rete Trasmissione Torino S.r.l. (RTT), acquired on June 30, 2007.

The nature and the modalities of the aforesaid combinations, as well as their impact on the consolidated financial statements, are described in the specific paragraph “Business combinations” in the notes, as well as in the comments on individual captions, to which reference should be made.

Associates

Investments in associates are those over which the Terna Group has significant influence but which are neither subsidiaries nor joint interests. In assessing whether or not the parent has significant influence, potential voting rights that are presently exercisable or convertible are also considered.

These investments are initially recognized at acquisition cost and subsequently measured using the equity method. Profits and losses attributable to the shareholders of the parent are recognized from the date when it begins to exercise significant influence until that influence ceases.

In the event that an investee's losses attributable to the shareholders of the parent exceed that investments' carrying amount, the latter is written off and any excess is recognized in a specific provision, where the parent is required to meet the legal or construction obligations of the investee or, in any case, to cover its losses.

Joint ventures

Investments in joint ventures, in which the Group has a joint interest with other entities, is recognized initially at cost and subsequently measured using the equity method. The profits or the losses attributable to the shareholders of the parent are recognized from the date when it begins to exercise significant influence until that influence ceases.

In assessing whether or not the parent has a joint interest, potential voting rights that are presently exercisable or convertible are also considered.

On December 28, 2007, as described earlier, Terna Participações acquired 52.58% of Empresa de Transmissão do Alto Uruguai S.A. (ETAU). Pursuant to agreements signed by the shareholders, ETAU is a joint venture.

Company	Registered office	Business activity	Share capital	Currency	% of ownership	Consolidation method
Joint venture						
ETAU - Empresa de Transmissão do Alto Uruguai S.A.	São Paulo (Brazil)	Construction and maintenance of electrical energy transmission grids	34,895,364	R\$	52.58%	Equity method

Consolidation policies

All financial statements of investees used to prepare the consolidated financial statements are as of and for the year ended December 31, 2007. They have been adjusted, where necessary, to align them with the parent's accounting policies.

In the preparation of the consolidated financial statements, intercompany balances, transactions, revenues and costs are fully eliminated, net of the related tax effect, where material ("consolidation on a line-by-line basis").

Unrealized gains and losses with associates and joint ventures are eliminated in proportion to the Group's share therein. In both cases, unrealized losses are eliminated, unless they represent impairment.

Translation of foreign currency captions

The financial statements of each consolidated company are prepared using the functional currency with reference to the economic context in which each company operates.

In these financial statements, all transactions in currencies other than the functional currency are recognized at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate ruling at year end. Any exchange rate differences are taken to profits or losses.

Non-monetary assets and liabilities in foreign currency stated at historic cost are converted at the exchange rate ruling when the transaction was initially recognized. Non-monetary assets and liabilities in foreign currency stated at fair value are converted at the exchange rate ruling when fair value was measured.

Translation of financial statements in foreign currency

For the purposes of the consolidated financial statements, profits and losses, assets and liabilities are expressed in euros, which is the parent Terna S.p.A.'s functional currency.

For the purposes of preparing the consolidated financial statements, the financial statements of investees with a functional currency other than the euros, including goodwill and consolidation adjustments, are converted into euros at the exchange rate ruling at the balance sheet date. Income statement figures included in these financial statements are converted at the average exchange rate of the year. Any resulting exchange rate differences are taken directly to equity, and are classified separately in a specific equity reserve. This reserve is then released to profits or losses when the investment is sold.

Business combinations

All business combinations, including acquisitions of minority interests in entities over which control is already held, are recognized using the purchase method, where purchase cost is equal to the fair value, at the date of exchange, of assets given and liabilities incurred or assumed, plus any costs directly attributable to the combination. This cost is allocated by recognizing the identifiable assets, liabilities and contingent liabilities of the acquired business at fair value. If the purchase cost exceeds the fair value of net assets acquired and attributable to the Group, this excess amount is recognized as goodwill or, if negative, taken to profits or losses, after having verified once again that the current values of assets and liabilities acquired and the purchase price have been measured correctly.

Decreases in minority interests, following sale or dilution, in subsidiaries, without losing control, are accounted for accordingly. As a result, the portion of losses or gains realized on the disposal in excess of goodwill subsequently realized is taken to profits or losses.

Property, plant and equipment

Property, plant and equipment are recognized at historic cost, including directly costs attributable to putting the asset in the condition necessary for it to be capable of operating in the manner for which it was acquired. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of disposal or removal of the asset. The corresponding liability is recognized in the provisions for contingencies and charges.

Borrowing costs related to loans taken out to acquire assets are taken to profits or losses in the year to which they refer. Expenses incurred after purchase are recognized as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Group and if the cost can be reliably measured. All other costs are recognized in profits or losses when incurred.

Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognized and depreciated separately.

Certain assets that were revalued at January 1, 2004 (transition date) or previously are recognized at the revalued amount, which is considered deemed cost at the date of the revaluation.

Property, plant and equipment are shown net of accumulated depreciation and any impairment losses, which are measured as described below. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, which is reviewed annually, with revisions applied on a prospective basis.

The depreciation of assets under construction begins when the assets become available for use.

Liabilities associated with items of property, plant and equipment are taken to a specific provision as a balancing entry to the related asset. The amount is taken to profits or losses through the depreciation of the asset.

The main depreciation rates calculated on the basis of the related asset's useful life are as follows:

DEPRECIATION RATE

Civil and industrial buildings	2.50%	- 4.00%
Power lines	2.50%	- 4.50%
Transformation stations:		
- Electrical machinery	2.00%	- 3.00%
- Electrical devices and equipment	2.80	- 4.50%
- Automated and control systems	5.00	- 6.70%
Central systems for remote conduction and control:		
- Devices, electrical equipment and ancillary plants		5.00%
- Electronic calculators		10.00%

Land, regardless of whether it is free of construction or related to civil and industrial buildings, is not depreciated, since it has an indefinite useful life.

Property, plant and equipment acquired under finance lease, through which the Group has received substantially all the risks and rewards of ownership, are recognized as Group assets at the lower of fair value and the present value of minimum lease payments due, including any amounts to be paid to purchase

the asset at the end of the lease. The corresponding liability to the lessor is recognized under financial payables. Assets are depreciated using the criteria and rates described above. If the company is not reasonably certain that it will acquire ownership at the end of the lease, the asset is depreciated over the shorter of the term of the lease and the asset's useful life.

Leases in which the lessor maintains substantially all the risks and rewards of ownership are classified as operating leases. Costs related to operating leases are taken in full to profits or losses over the term of the lease.

Terna

The concession granted to the parent, with effect from November 1, 2005, on a free basis by the Minister of Production Activities, to carry out electrical energy transmission and dispatching activities in Italy, runs for twenty-five years and is renewable for another twenty-five years. Under the provisions of Articles 18 and 19 of the Decree issued by the Ministry of Production Activities on April 20, 2005, in the event of termination and revocation, or expiry of the concession, the Ministry has the right to purchase assets used directly for the transmission and dispatching activities included in the concession owned by the concession-holder, with the exclusion of plants (lines and stations) that make up the National Transmission Grid. If the Ministry decides to purchase the concession-holder's assets, it will pay the latter an amount, agreed upon by the parties, calculated on the basis of adequate parameters, averaging out the value of the assets with their profitability.

Brazil

Similarly to what described above with respect to Terna's concession, the Brazilian companies hold free concessions to use the portion of the electrical energy transmission grid they own. The term of the concession is thirty years from the grant date and the Brazilian companies have no obligation to return the plants (lines and stations) that make up the portion of the transmission grid they own upon expiry of the concession. Upon expiry, the plants, rights and privileges of the concession will be transferred to the Federal Government, upon payment of an indemnity commensurate with the undepreciated portions of investments in the related assets made to ensure guaranteed service continuity.

Accordingly, the assets directly related to the transmission and dispatching activities, including plants (lines and stations) that make up the portion of the electrical energy transmission grid owned by the Group are classified as property, plant and equipment and are depreciated over their useful lives.

As specified further down, in November 2006, the International Financial Reporting Interpretation

Committee (IFRIC) issued IFRIC Interpretation 12 Service Concession Arrangements. The parent is currently evaluating the applicability and any effects that would arise from the adoption of this accounting policy.

Intangible assets

Intangible assets, which all have finite useful lives, are recognized at cost and shown net of accumulated amortization and any impairment losses, measured as described below.

Amortization is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions are applied on a prospective basis. Amortization begins when the asset becomes available for use.

Intangible assets are substantially comprised of the exclusive concession to carry out electrical energy transmission and dispatching activities and other intangible assets. In particular, the parent acquired the concession for electrical energy transmission and dispatching activities in Italy on November 1, 2005 when it acquired the TSO business activity. As established in the Decree issued by the Ministry of Production Activities on April 20, 2005, this concession runs for twenty-five years, renewable for another twenty-five years, from the date of effective transfer of the activities, functions, assets and legal arrangements of the concession from GSE (formerly GRTN) to Terna S.p.A. This intangible asset was initially recognized at cost, which reflected fair value.

Other intangible assets mainly relate to the following:

- the development and innovation of application software to manage the energy invoicing process;
- the development and innovation of application software to protect the electrical energy system;
- software applications related to the development of the power exchange, particularly relating to the registration of operators, consumption units and the development of foreign procedures.

Development costs are capitalised by the Group only if all following conditions are met: costs can be reliably estimated and there are technical possibilities and intent to complete the intangible asset so as for it to be available after use; the asset can be used and it is possible to demonstrate that it will generate probable future economical benefits.

All other development costs and research expenses are recognised in the profits or losses when incurred. These intangible assets are amortized over their estimated residual useful lives, which are normally three years, given their rapid obsolescence.

Goodwill

Goodwill arising from the acquisition of subsidiaries is allocated to each of the identified cash-generating units (CGU). The identified CGUs are the companies that hold concessions for electrical energy transmission and dispatching activities. Goodwill is not amortized after initial recognition. Rather, it is adjusted to reflect impairment losses, measured as described below. Goodwill relating to investments in associates and joint ventures is included in the carrying amount of those companies. Where negative goodwill arises, it is taken to profits or losses at the time of the acquisition.

In the adoption of IFRS endorsed by the European Commission, the Group decided to restate only those business combinations that occurred after the transition date (January 1, 2004). Goodwill arising on acquisitions before that date corresponds to the amount recognized using the previous accounting policies.

Impairment losses

Property, plant and equipment and intangible assets with finite useful lives are tested at least once a year to check for indications of impairment. If there is an indication that an asset may be impaired, its recoverable amount is estimated.

The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated annually.

Recoverable amount is equal to the greater of fair value less costs to sell and value in use. Value in use is measured by discounting estimated future cash flows considering available information at the time of estimate and on the basis of subjective assessments of the performance of future variables, such as prices, costs, demand growth rates, production profiles, and discounted at a pre-tax rate that reflects current market assessment of the time value of money for the investment period and risks specific to the asset. If the intangible asset does not generate cash inflows that are largely independent, the asset's recoverable amount is calculated as part of the cash-generating unit (CGU) to which it belongs.

An impairment loss is recognized in the income statement when the asset's carrying amount or the net invested capital of the CGU to which it belongs, is greater than its recoverable amount.

Impairment losses of CGUs are first taken as a reduction in the carrying amount of any allocated goodwill and then as a reduction in other assets of the CGU on a *pro rata* basis. Except for goodwill, impairment

losses may be reversed if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure recoverable amount.

Inventories

Inventories are stated at the lower of purchase cost and net realizable value. Cost is calculated as the weighted average cost, including related charges. Net realizable value stands for the estimated price of sale in the normal activity net of the completion costs as well as costs estimated to fulfill the sale.

Contract work in progress

When the profits or losses of a contract can be reliably estimated, the related contract costs and revenues are recognized separately in profits or losses on a percentage of completion basis. Progress is measured based on the work carried out and measured proportionally to the ratio of costs for the works carried out and total cost of the contract. Differences between the value of completed contracts and payments on account received are recognized under balance sheet assets or liabilities, considering any impairment losses on the work carried out so as to take into account the risks of customers' refusal to recognize the work performed. Expected contract losses are immediately taken to profits or losses under contract costs.

Contract costs include all those costs that relate directly to the specific contract, as well as fixed and variable costs incurred as part of normal operations.

Financial instruments

Financial assets

Any financial assets that the Group companies have the positive intention and ability to hold to maturity are recognized at cost at the “settlement date”, which is the fair value of the initial consideration given in exchange, including transaction costs. They are subsequently measured at amortized cost, using the effective interest method, net of any impairment losses, which are determined as the lower of the asset’s carrying amount and the present value of estimated future cash flows, discounted using the original interest rate. Financial assets are derecognized when, following their transfer or settlement, the companies are no longer involved in their management and no longer hold the risks and rewards of the transferred or settled instruments.

Trade receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method, and net of any impairment losses due to sums considered non-recoverable, which are taken to the specific provision for bad debts. Impairment losses are calculated on the basis of the present value of estimated future cash flows, discounted using the initial effective interest rate.

Receivables with due dates that fall under normal commercial terms are not discounted.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value. They include cash on hand, i.e., amounts that are available on demand or with a very short maturity, subject to an insignificant risk and without redemption expenses.

Trade payables

Trade payables are initially recognized at fair value and subsequently stated at amortized cost. If their due date falls under normal commercial terms, they are not discounted.

Financial liabilities

Financial liabilities are initially recognized at the settlement date and measured at fair value, net of directly related transaction costs.

Subsequently, financial liabilities are measured at amortized cost, using the original effective interest method. If the liabilities are subject to fair value hedges, they are adjusted to reflect changes in fair value with respect to the hedged risk.

Derivative financial instruments

Derivatives are recognized at fair value at the trade date and classified as hedges if the relationship between the derivative and the hedged item is formally documented and the hedge is highly effective and ranging from 80% to 125%, as initially verified and periodically checked. When derivatives cover the risk of fluctuations in the cash flows of the hedged instruments (cash flow hedges), changes in the fair value are initially taken to equity and subsequently to profits or losses, in line with the effects of the hedged transaction.

When hedging derivatives cover the risk of fluctuations in the fair value of hedged instruments (fair value hedges), they are recognized at fair value through profits or losses. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk.

Changes in the fair value of derivatives that do not meet hedge accounting requirements are recognized in profits or losses.

Fair value is measured with reference to official quotations for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve of interest rates at the reporting date, and by converting amounts in currency other than the euro at the year-end exchange rate.

The measurement techniques of derivatives existing at year end did not change with respect to the previous year. Accordingly, the effects in profits or losses and equity of these measurements are essentially attributable to the normal market dynamic, as well as new derivative contracts signed in 2007.

Employee benefits

The liability related to employee benefits payable upon or after termination of employment relates to defined benefit plans (termination benefits, additional month's pay, indemnity for lack of notice, energy discount, ASEM health benefits and other benefits) or other long-term employee benefits (loyalty bonus) is recognized net of any plan assets. It is measured separately for each plan on the basis of actuarial calculations that estimate the amount of future benefits employees have accrued at the reporting date.

The liability is recognized on an accruals basis over the vesting period. It is measured by independent actuaries.

Actuarial gains and losses at January 1, 2004 (date of transition to IFRS-EU) were recognized in equity. If, after that date, unrecognized actuarial gains and losses arise in excess of 10% of the greater of the present value of the defined benefit plan obligation and the fair value of plan assets, that portion is taken to profits or losses for the average expected term of service of employees participating in the plan. Otherwise, actuarial gains and losses are not recognized.

Share-based payments

The cost of employee service remunerated through stock option plans is measured at the fair value of the options granted to employees at the grant date. The fair value of options granted is recognized under personnel expenses over the vesting period, with a corresponding increase in equity, considering the best possible estimate of the number of options that employees will be able to exercise. Such estimate is reviewed, in case subsequent information indicates that the expected number of instruments representative of capital that will mature, differs from the estimate previously carried out, independently from the attainment of the market conditions.

The measurement method used to calculate fair value considers all the characteristics of the options (duration, price and conditions, etc.), as well as the value of the Terna S.p.A. share at the grant date, the volatility of the share and the interest rate curve at the grant date, in line with the duration of the plan.

At maturity, the estimate is revised against the income statement to check the actual amount corresponding to the matured capital, notwithstanding achievement of market conditions.

Provisions for contingencies and charges

Accruals to the provisions for contingencies and charges are recognized when, at the reporting date, the company has a legal or constructive obligation towards others, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, accruals are measured by discounting estimated future cash flows using a pre-tax discount rate that reflects current market assessment of the time value of money and those risks specific to the liability, if present. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expenses. If the liability relates to property, plant and equipment (site disposal and restoration, for example), the provision is recognized as a balancing entry to the asset to which it relates. The expenses is recognized in the income statement through depreciation of the item of property, plant and equipment to which it relates.

Changes in the estimate are recognized in the income statement of the year in which the change happens, except for those costs expected for dismantling, removal and reclamation, which come as a result of change in time and use of economic resources necessary to extinguish the obligation or attributable to a relevant change in the discount rate, which are recognised as in increase or reduction of the related assets and recognised in the income statement through the amortization process.

Grants

Grants received in relation to specific assets whose value is recognized under non-current assets are, for plants operating before December 31, 2002, recognized under other liabilities and taken to the income statement over the depreciation period of the related assets. From 2003, grants for new plants going into use are taken as a direct reduction in the value of the related asset. Grants for operating expenses are expenses in full when the conditions for recognition are satisfied.

Revenues

Revenues are recognised when it is probable that the economic benefits deriving from the operation will flow to the entity. However, when there is uncertainty on the recovery of value already comprised in the revenues, the non-recoverable value or the value whose recovery is not probable, is recorded as cost.

Depending on the type of transaction, revenues are recognized on the basis of the following specific criteria:

- revenues from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer and their total amount can be realistically determined and gained;
- revenues from the rendering of services is recognized with reference to the stage of completion of the transaction. If revenues cannot be reliably measured, it is recognized to the extent of recoverable costs;
- revenues accrued during the year and relative to current values under construction are recognised following the amounts agreed for the progress of works using the cost-to-cost method. Contract revenues, beyond contract value, include variations, price revisions and recognition of incentives as long as it is probable that they represent revenues and if they can be plausibly determined. Revenues can decrease, as a result of penalties deriving from delays caused by Group companies;
- when recoverability of an amount already included in revenues becomes uncertain, the non-recoverable amount, or the amount whose recovery is no longer probable, is recognised as cost with compensation under provisions for contingencies and charges.

Considerations collected on behalf of third parties, such as the consideration paid to other non-Terna grid owners, as well as revenues recognized for managing activities related to the balancing of the national electrical energy system, which do not increase equity, are shown net of the related costs. This presentation method, which reflects the substance of transactions by offsetting revenues with the related costs arising from the “same transaction” is described in all its parts in a specific paragraph of the notes.

Financial income and expenses

Financial income and expenses are recognized on an accruals basis in line with the interest amount of related financial assets and liabilities, using the effective interest method.

Dividends

Dividends from subsidiaries and associated are recognized when the shareholders' right to receive payment is established. Dividends and interim dividends payable to third parties are shown as changes in equity at the date in which they are approved by the shareholders and the Board of Directors, respectively.

Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to holders of ordinary shares by the weighted average of outstanding ordinary shares during the year.

Diluted earnings per share are calculated by dividing the profit for the year attributable to holders of ordinary shares by the weighted average of outstanding shares, adjusted to consider the effects all potential ordinary shares, which have a diluting effect.

Income taxes

Current income taxes are recognized as tax liabilities, net of advances paid, or tax assets where the net balance of the captions is positive. They are based on the estimated taxable income and in accordance with current legislation.

Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities recognized in the consolidated financial statements and the corresponding amounts recognized for tax purposes, in application of current tax rates, or rates expected to be in effect when the temporary differences reverse, based on current rates or those that are substantially approved at the reporting date.

Deferred tax assets are recognized when their recovery is considered probable, i.e., when future taxable profits will be available against which the asset can be used. The recoverability of deferred tax assets is reviewed at each year end.

Deferred tax liabilities are recognized in any case if they exist.

It must be noticed, that some balances of the consolidated financial statements as of and for the year ended December 31, 2007, have been reclassified for a better exposition, without changing the amounts of equity at December 31, 2006 and 2006 income statement.

New reporting standards

As provided for by Regulation no. 108/2006 issued by the European Commission, from January 1, 2007 IFRS 7 – Financial Instruments: Additional Disclosures has become effective.

IFRS 7 – Financial Instruments: Additional Disclosures

IFRS 7 requires additional disclosures on the relevance of financial instruments with respect to the company's performance and financial position. These disclosures incorporate certain requirements that were previously included in IAS 32 – Financial Instruments: Disclosure and Presentation.

The new standard also requires information on the level of risk exposure arising from the use of financial instruments and a description of the objectives, policies and procedures implemented by management to manage such risks.

Apart from IFRS 7, no other international reporting standard became effective in 2007. Again in 2007 IFRIC 10 – Interim Financial Reporting and Impairment became effective, and its effect is retroactive from November 10, 2006.

IFRIC 10 – Interim Financial Reporting and Impairment

This interpretation, endorsed with Regulation no. 610/2007, clarifies that in the preparation of annual financial statements, companies are not permitted to reverse any impairment losses recognized in previous interim financial statements in relation to the impairment of goodwill, financial investments carried at cost or investments or financial assets carried at cost.

From the beginning of the year, diverse interpretations take effect, which discipline facts and circumstances that are not present in the Group or, if present, were not effective on the consolidated financial statements at December 31, 2007:

IFRIC 8 – Scope of IFRS 2 (applicable from January 1, 2007)

IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions (applicable from January 1, 2007)

IFRIC 9 – Revaluation of Embedded Derivatives (applicable from January 1, 2007)

In 2007 and 2008 up to the date of preparation of these consolidated financial statements, the European Commission ratified only one international accounting standard, *IFRS 8 - Operating Segments* (Regulation no. 1358/2007 of European Commission). The parent Terna is pondering possible impact the application of IFRS 8 could have on the financial statements, considering the date they take effect.

IFRS 8 - Operating Segments

IFRS 8 establishes how a company should report on operating segments in the annual financial statements and, as an amendment to IAS 14 - Segment Reporting, requires the same information also in interim reports. In addition, it defines disclosure requirements with respect to products and services, the geographical areas in which the company operates and its key customers. The new standard is the result of the comparison of IAS 14 and SFAS 131 - Disclosures about Segments of an Enterprise and Related Information, as part of the IFRS and US GAAP convergence project, to reduce the discrepancies between the two.

IFRS 8 supersedes IAS 14 and is applicable to financial statements for years beginning on January 1, 2009. However, early application is allowed.

For those amendments, standards and interpretations that have not yet concluded their ratification procedure by EU, but that are related to facts currently or potentially present in the Group, Terna is pondering possible impact their application could have on the financial statements considering the date they take effect. In particular, this consideration refers to the following standards and interpretations:

IFRIC 12 - Service Concession Arrangements

IFRIC 12 substantially confirms the recognition methods provided for by the previous three draft interpretations (D12, D13 and D14) concerning assets (freely transferable assets), liabilities (reclamation provisions), revenues and costs in connection with service concession arrangements between a public body and a private company. It excludes concessions between private companies.

This interpretation is applicable to financial statements for years beginning on **January 1, 2008**. However, early application is allowed.

IFRS 3 – Business Combinations (revised in substance)

The revised version of IFRS 3 introduces various new features to the current version. Main changes relate to determination of competence of costs related to combinations, determination of the moment from which starts the effect of an operation that causes an acquisition, measurement of goodwill, and, finally, accounting of the minority interests.

Non-substantial changes introduced to the IAS 1 – Presentation of Financial Statements are awaiting ratification. These updates will allow the financial statements reader to compare and analyse in a more comfortable way the information in the financial statements itself.

Other interpretations and revisions presented earlier, which rule the facts and circumstances that are not present in the Group and not yet ratified by the European Commission, are listed below:

IFRIC 14 – Defined Benefit Asset and Minimum Funding Requirements (applicable from January 1, 2008);

IFRIC 13 – Customer Loyalty Programmes (applicable from January 1, 2009);

IAS 23 – Borrowing Costs – Revised (applicable from January 1, 2009).

Risk management

Among its policies for financial risk management, approved by the Board of Directors on November 12, 2007, Terna Group defined responsibilities and operational modalities for market risk (in particular fluctuation of interest and exchange rates) and liquidity risk management, with specific reference to the instruments to be used and to precise operating limits in their management.

Credit risk management is guided by application of AEEG Resolution no. 111/06, which, in art. 49, introduced instruments for the limitation of risks related to insolvency by dispatching customers, both as a form of precaution and in the event of manifest insolvency. In particular, the resolution provides for three instruments for the protection of electricity market: the guarantee system (bank guarantees released by individual dispatching customers with reference to their revenues), the option to cancel the dispatching contract (in the event of insolvency or non-reintegration of the enforced guarantees) and, finally, the possibility to collect uncollected debts, after having experimented all possible collection actions, through a specific fee that is suitably defined by AEEG.

The exposure of the Group to the aforementioned risks is substantially represented by the exposure of the

parent; consequently, reference should be made to the specific section of the Terna S.p.A. notes for details. In particular:

- the subsidiaries do not have any financial derivative contract, either hedging or trading;
- RTL S.p.A. has only an existing relationship of intercompany bank account with the parent, it did not issue bonds and its trade receivables are negligible (approximately euros 5.7 million) in comparison to the consolidated trade receivables;
- the impact of interest rates fluctuations on the Brazilian subsidiaries is negligible: the main source of interest rate risk derives from the indexing of the most part of the Brazilian indebtedness to a facilitated interest rate granted by BNDES bank. On such indebtedness no cover was set in consideration of the fact that the facilitated rate granted by BNDES (TJLP) is characterized by a reduced volatility and turns out to be favourable if compared both with the short-term domestic rates (CDI) and analogous parameters of rate for indebtedness of similar durations. There are other loans actually exposed to interest rate risk; however, their amount is limited, if considered among the consolidated volumes (a total of R\$ 106.6 million, equal to approximately euros 40.8 million);
- as regards Brazilian subsidiaries, the exposure to exchange risk is limited to the oscillation of the real against the currencies that compose the basket of BNDES - BoC (Basket of Currencies) loan, whose total amount is R\$ 93.15 million (euros 35.7 million). The effect of an appreciation or a depreciation of the real against the currencies of the basket is marginal if the consolidated data are considered.

B) SEGMENT REPORTING

The operating activities' segments were identified and Terna Group's primary and secondary segments were determined considering the organizational structure and internal reporting system. In particular, since the risks and rewards of the Group's investments are exclusively affected by differences in the services provided, the primary reporting segment is based on the activities performed (transmission, dispatching, metering), while the transmission activities are reported geographically, since they are performed in Italy and Brazil.

Income and expenses not specifically attributable to individual sectors and related assets and liabilities (in particular, financial assets and liabilities, tax assets and liabilities and deferred tax assets and liabilities) are indicated separately.

In addition, intersegment transfers are measured at current market conditions.

Reporting by business segment is provided below for 2007 and 2006.

2007

Description In millions of euros	REGULATED ACTIVITIES			Metering	NON-REGULATED ACTIVITIES	Total
	Transmission		Dispatching			
	ITALY	BRAZIL				
Revenues	998.0	166.2	119.0	10.1	54.9	1,348.2
Segment results	658.6	110.0	24.2	9.0	29.5	831.3
Non-allocated expenses						108.6
Operating result						722.7
Financial income/(expenses)						-118.0
Share of profits/(losses) of equity accounted investees	1.1					1.1
Income taxes						173.0
Profit (loss) for the year						432.8
OTHER INFORMATION						
ASSETS/LIABILITIES ATTRIBUTABLE TO SEGMENT						
Segment assets	4,933.8	872.7	1,531.9	3.0	281.5	7,622.9
Segment liabilities	521.2	209.0	1,458.2	0.3	253.7	2,442.4
ASSETS/LIABILITIES NON ATTRIBUTABLE TO SEGMENT						
Financial assets and cash assets						244.9
Financial liabilities						2,916.2
Tax assets						176.1
Tax liabilities						411.8
Investments	514.6	10.0	91.2	0.2	-	616.0
Amortization, depreciation and impairment losses	210.7	20.0	26.4	0.2	-	257.3
Other non-monetary expenses	5.0		-	-	-	5.0

2006*

Description In millions of euros	REGULATED ACTIVITIES			Metering	NON-REGULATED ACTIVITIES	Total
	Transmission ITALY	BRAZIL	Dispatching			
Revenues	955.7	156.3	105.0	9.3	50.2	1,276.5
Segment results	637.2	102.0	1.4	8.0	17.9	766.5
Non-allocated expenses						110.3
Operating result						656.2
Financial income/(expenses)						-29.4
Share of profits/(losses) of equity accounted investees	0.0					0.0
Income taxes						235.2
Profit (loss) for the year						391.6
OTHER INFORMATION						
ASSETS/LIABILITIES ATTRIBUTABLE TO SEGMENT						
Segment assets	4,410.7	752.7	1,345.0	10.4	234.8	6,753.6
Segment liabilities	186.7	144.8	1,309.4	2.0	282.0	1,924.9
ASSETS/LIABILITIES NON ATTRIBUTABLE TO SEGMENT						
Financial assets and cash assets						214.6
Financial liabilities						2,511.2
Tax assets						155.8
Tax liabilities						571.3
Investments	324.7	7.0	20.7	0.1	-	352.5
Amortization, depreciation and impairment losses	171.2	18.9	34.1	0.4	-	224.6
Other non-monetary expenses	0.8		-	-	-	0.8

* data have been re-determined pursuant to IAS 8; reference should be made to "A) Accounting policies and measurement criteria" in the notes

C) NOTES TO THE CONSOLIDATED INCOME STATEMENT

Revenues

1) REVENUES FROM SALES AND SERVICES – euros 1,296.2 million

The table below details revenues of the year:

In millions of euros	2007	2006	Change
Grid transmission consideration	1,216.2	1,098.0	118.2
Adjustments for prior year grid transmission consideration	-5.2	47.6	-52.8
Other energy revenues	43.3	41.9	1.4
Other revenues from sales and services	41.9	41.2	0.7
TOTAL	1,296.2	1,228.7	67.5

Grid transmission consideration

Most of this caption (euros 994.6 million) refers to the consideration received by the parent for use of the National Transmission Grid. It also includes grid transmission considerations (AEEG Resolution no. 15/2005) paid to Terna with the acquisition of the TSO business activity (euros 81.0 million); revenues earned by the Brazilian companies (euros 150.2 million) relates to the fixed fee established by the concession for transmission lines issued by the local energy authority (ANEEL); this caption also includes revenues of the subsidiary RTL S.p.A. (euros 66.2 million) including remuneration for the portions of the National Transmission Grid referred to the companies (RTM1 S.p.A., RTM2 S.p.A., RTT Srl) incorporated during the year. The net increase (euros 65.4 million) is due to the following factors, in particular:

- increased revenues relating to the remuneration of the National Transmission Grid owned by Terna (up euros 41.8 million), especially following the new tariffs of 2007 and, to a lesser extent, higher volumes of energy transported in the course of the year (up 0.7%);
- higher grid transmission consideration as TSO (up euros 10.0 million) mainly deriving from the greater release of the revenue portions referred to the Strategic Plan;
- lower adjustments for prior year grid transmission consideration (down euros 52.8 million); 2006 benefitted of the effects of AEEG Resolution no. 162/06, which healed “2005 fee deficit” for the owners of portions of the National Transmission Grid, while the current year is affected by negative adjustments in the amount of euros -5.2 million;
- increased revenues relating to the remuneration of the electricity grid owned by RTL (up euros 56.7 million) essentially related to the grid transmission consideration, for the whole year, of the companies RTM1 and RTM2 (merged into RTL with accounting effects from January 1, 2007 and present in the 2006 consolidation scope only for the month of December) and to the revenues of RTT (whose merger into RTL is effective as from July 1, 2007) related to the second half of the current year;
- increased revenues (euros 9.6 million) of the Brazilian subsidiaries mainly following the annual fee adjustment to the IGPM inflation rate and the appreciation of the local currency (euros 3.8 million).

Other energy revenues

This caption relates to the consideration due to the parent by operators for metering activities (MIS component - euros 10.1 million) and to the consideration for the acquisition of resources necessary for dispatching requirements (DIS component - euros 33.0 million).

The caption also includes the consideration as per AEEG Resolution no. 34/05 (euros 0.2 million) to cover the administrative and management costs incurred to withdraw energy from renewable sources producers

with a power not exceeding 10 MVA and similar connected to the National Transmission Grid.

On the whole, the three captions record an increase of euros 1.4 million on 2006.

Other energy items - energy in transit revenues/costs

This caption includes the cost and revenues of energy in transit activities for the Group; (these have a nil balance), relating entirely to the parent and arising from daily purchases and sales with operators on the electricity market to carry out transmission and dispatching activities.

It also includes the grid utilization fee which Terna pays to other owners of the grid.

The components of these transactions are detailed below.

In millions of euros	2007	2006	Change
REVENUES - POWER EXCHANGE			
Foreign market – exports	8.5	2.9	5.6
Sale of energy on the day-ahead market, adjustment market, ancillary services market and others	918.3	885.1	33.2
Unbalancing and others	1,570.0	1,313.1	256.9
Ancillary service resources procurement	1,519.8	1,502.4	17.4
Other items - Power Exchange	5.5	3.5	2.0
Total revenues - Power Exchange	4,022.1	3,707.0	315.1
Revenues under Laws no. 168/04 - 237/04 and others	801.8	820.0	-18.2
Other items (returns, CBT, Resolution no. 288/06)	808.7	389.5	419.2
Revenues from grid transmission considerations of other owners	24.0	102.5	-78.5
Total revenues from outside the Power Exchange	1,634.5	1,312.0	322.5
TOTAL REVENUES FROM ENERGY IN TRANSIT	5,656.6	5,019.0	637.6
ENERGY PURCHASE			
Sale of energy on the day-ahead market and adjustment market	423.3	323.3	100.0
To provide the dispatching service	3,047.9	2,800.6	247.3
For unbalancing	482.2	478.5	3.7
On the foreign market - imports	45.6	91.7	-46.1
Electricity market operator fees	6.5	8.0	-1.5
Other items	16.6	4.9	11.7
Total costs - Power Exchange	4,022.1	3,707.0	315.1
Purchase of energy market related services	801.8	820.0	-18.2
Other items (returns, CBT, Resolution no.288/06)	808.7	389.5	419.2
Fees to be paid to National Transmission Grid owners	24.0	102.5	-78.5
Total services and fees	1,634.5	1,312.0	322.5
TOTAL EXPENSES FOR ENERGY IN TRANSIT	5,656.6	5,019.0	637.6

Other revenues from sales and services

Other revenues from sales and services amounted to euros 41.9 million (euros 41.2 million at December 31, 2006) and mainly relates to revenues from a variety of specialized high and very high-voltage services, which the parent provides to third party customers; the amount reflects revenues from:

- maintenance for high voltage plants (euros 18.8 million) in particular the maintenance contract for the high-voltage lines owned by Enel Distribuzione S.p.A. (euros 15.7 million, down euros 0.4 million on 2006);
- the operating, maintenance and development of the optical fibre owned by Wind Group on Terna S.p.A. plants (safety cables) (euros 2.2 million);
- a variety of specialized services in the high-voltage plants for several customers (euros 17.3 million);
- requests to connect to the National Transmission Grid as per AEEG Resolution no. 281/05 (euros 3.6 million);

The caption is substantially unchanged from last year.

2) OTHER REVENUES AND INCOME – euros 52.0 million

Other revenues and income

Other revenues and income mainly relate to the parent, and is detailed below:

In millions of euros	2007	2006	Change
Rental income	16.1	11.7	4.4
Fiscal incentives Brazil (Ada, Adene)	15.3	14.6	0.7
Third party contributions for high-voltage connections	8.0	12.1	-4.1
Insurance compensation for damages	3.1	0.7	2.4
Gains on the sale of plants parts	1.3	2.5	-1.2
Contingent assets	3.6	5.0	-1.4
Sales to third parties	1.1	1.1	0.0
Other revenues	3.5	0.1	3.4
TOTAL	52.0	47.8	4.2

This caption includes, in particular, rental income (mostly issued to the Wind Group for the housing of optical fibre on the parent's grids - euros 11.6 million), portions of third party contributions for connections to the National Transmission Grid released during the year (euros 8.0 million), ordinary contingent assets (euros 3.6 million), insurance compensation for damage (euros 3.1 million), sale of material to third parties (euros 1.1 million) and gains on the sale of plant parts to third parties (euros 1.3 million).

Among Brazil's revenues are Ade and Adene fiscal incentives acknowledged by Brazilian Government to TSN and Novatrans for investments in involved areas (euros 15.3 million).

Other revenues and income increased by euros 4.2 million, mainly due to:

- rise in rental income (up euros 4.4 million) in particular deriving from the contract with Enel Distribuzione for the use of Terna infrastructures for conveyed waves communication;
- lower grants related to plants (down euros 4.1 millions), mainly recorded by the parent;
- higher insurance compensation for damage (up euros 2.4 million);
- higher income related to the parent for the fiscal treatment in Italy of the interest on equity paid by the subsidiary Terna Participações (up euros 0.7 million).

Operating expenses

3) RAW MATERIALS AND CONSUMABLES - euros 16.7 million

In millions of euros	2007	2006	Change
Inventory procurement	9.0	8.1	0.9
Supply of materials and equipment	4.2	6.7	-2.5
Other supplies	3.5	3.9	-0.4
TOTAL	16.7	18.7	-2.0

This caption includes costs incurred to purchase materials and sundry equipment used in ordinary operations and plant maintenance. Change equal to approximately euros -2.0 million on 2006 is mainly attributable to lesser purchases of materials and equipments in the year (down euros 2.5 million).

4) SERVICES - euros 135.2 million

In millions of euros	2007	2006	Change
Tenders on plants	34.2	24.7	9.5
Maintenance and sundry services	62.5	64.8	-2.3
Insurance	4.6	5.1	-0.5
Remote transmission and telephone	13.7	19	-5.3
IT services	6.5	13	-6.5
Use of third party assets	13.7	18.7	-5.0
TOTAL	135.2	145.3	-10.1

This caption decreased by euros 10.1 million in comparison to the last year, mainly due to rationalization, by the parent, of service supply, previously purchased from Enel Group.

Expenses for services and use of third party assets recorded by the parent amount to euros 112.0 million and record a decrease of euros 11.7 million on 2006.

Balance, equal to euros 135.2 million, includes mainly costs related to tenders for the maintenance and repair of plants (euros 34.2 million, the only caption up euros 9.5 million) and general service expenses (euros 62.5 million); it also includes costs for remote transmission and telephone (euros 13.7 million), rentals and general services (euros 13.7 million), IT services (euros 6.5 million) and insurance expenses (euros 4.6 million).

Fees paid to the parent's Statutory Auditors are detailed in the table in the specific paragraph in the notes to Terna S.p.A. financial statements as of and for the year ended December 31, 2007, to which reference should be made.

5) PERSONNEL EXPENSES - euros 238.6 million

In millions of euros	2007	2006	Change
SHORT-TERM EMPLOYEE BENEFITS			
Wages and salaries	171.4	157.2	14.2
Social security contributions	45.2	51.0	-5.8
Other	5.8	3.8	2.0
Directors	3.9	1.2	2.7
POST-EMPLOYMENT BENEFITS			
Defined benefit plans			
- electricity discount	0.8	2.6	-1.8
- Asem-Acem	-0.8	0.6	-1.4
Defined contribution plans			
- Fopen	1.5	1.3	0.2
- Fondenel	0.5	0.4	0.1
EMPLOYEES' TERMINATION BENEFITS			
Leaving incentives	7.6	13.1	-5.5
Employees' stock option plans	0.5	0.8	-0.3
Termination benefits	2.2	10.0	-7.8
TOTAL	238.6	242.0	-3.4

This caption includes the cost of wages and salaries, social security contributions and other costs incurred by the parent, including leaving incentives, benefits paid to employees who stay with the Company and termination benefits provided for by the current national labour contract for the electrical energy sector.

Personnel expenses decreased by euros 3.4 million, mainly due to:

- higher personnel expenses (approximately euros 6.4 million) related to employees of RTM1 and RTM2 present in the 2006 consolidation scope from December and of RTT acquired on June 30, 2007;
- curtailment of termination benefits (down euros 8.7 million) as difference in the actuarial calculation in compliance with the new regulation which took effect in the current year;
- release at December 31, 2006 of higher allowances for social security contributions (INPS) for the portion, not owed, referring to involuntary unemployment insurance (down approximately euros 3.9 million);
- lower expenses for consensual early termination of employment for employees who are eligible for pension (down euros 5.5 million).

The fees paid to the parent's Directors are summarized in the specific table in the notes to Terna S.p.A. financial statements as of and for the year ended December 31, 2007, to which reference should be made.

The following table shows the number of employees by category at year end and the average number for the year:

	Average number 2007	Average number 2006	Average number at Dec. 31, 2007	Average number at Dec. 31, 2006
Managers	73	73	68	76
Junior managers	453	420	464	446
White collars	1,949	1,890	1,982	1,919
Blue collars	1,103	1,074	1,088	1,114
TOTAL	3,578	3,457	3,602	3,555

The net change with respect to December 31, 2006 is an increase of 47 employees.

Reference should be made to paragraph "25) Termination benefits and other employee-related provisions" for the reconciliation of the opening and closing present value of the liability for employee benefits and the main assumptions used in the actuarial estimate.

6) AMORTIZATION, DEPRECIATION AND IMPAIRMENT LOSSES – euros 257.3 million

These relate to accruals during the year calculated on the basis of amortization rates that reflect the useful lives of the Group companies' plant, property and equipment and intangible assets (euros 255.1 million),

as well as amortization and depreciation (euros 1.6 million). The caption also includes accruals to the provision for bad debts relating to receivables for energy items which are reasonably unlikely to be collected (euros 0.6 million).

The caption shows increases (up euros 32.7 million) on 2006, mainly due to the following transactions:

- higher amortization (euros 42.7 million) mostly related to:
 - the parent (euros 18.5 million) for new plants and other intangible assets becoming effective during the year ;
 - The subsidiary RTL (euros 23.1 million) including RTM1 and RTM2 amortization (present in the 2006 consolidation scope only for December) uniformed to standards adopted by Terna Group after revision of useful lives of related assets;
 - The Brazilian subsidiaries (euros 1.1 million) for higher allocations for GTESA and PATESA assets (merged into TSN on November 30, 2007) and to investments in the year as well as appreciation of local currency;
- amortization (euros 1.6 million) of property, plant and equipment (pursuant to the rationalization plan of the National Transmission Grid) with particular reference to a portion of high-voltage line in the Lucca area, which never began operating due to subsequent changes in the project (euros 1.2 million);
- higher allowances, in 2006, relating to receivables for energy items that are reasonably unlikely to be collected (euros 11.5 million).

7) OTHER OPERATING EXPENSES – euros 28.9 million

In millions of euros	2007	2006	Change
Accruals to provisions for contingencies and charges	5.0	0.8	4.2
Local taxes and duties	14.9	14.2	0.7
Prior year expenses	2.3	2.9	-0.6
Losses on the sale/disposal of plants	0.7	3.1	-2.4
Other operating expenses	6.0	5.5	0.5
TOTAL	28.9	26.5	2.4

The caption includes most of all indirect local taxes (euros 14.9 million), accruals to the provision for legal disputes (euros 5.0 million), ordinary prior year expenses (euros 2.3 million) and losses on the sale/disposal of plants and other residual operating expenses. It shows an increase of euros 2.4 million on 2006, mostly due to:

- higher net allowances (up euros 4.2 million) allocated to cover potential losses at year end. In particular,

these refer to the ongoing dispute between GSE and an electricity market operator for the acknowledgement of special tariffs for energy withdrawal and emission. In case of positive acceptance of the dispute, Terna will have to refund all higher amounts received (from 2001 up to TSO branch acquisition) as NTG compensation fee;

- lower capital losses deriving from plant sale/dismissal (down euros 2.4 million);

8) CAPITALIZED INTERNAL WORK – euros -51.2 million

Capitalized expenses relate to personnel expenses (euros 44.6 million) and the consumption of materials and equipment in inventories (euros 6.6 million) for plants under construction by the parent. The euros 14.4 million increase on 2006 is fully attributable to personnel expenses that offset the decrease in the capitalization of consumed material.

Financial income and expenses

9) NET FINANCIAL INCOME/(EXPENSES) – euros -118.0 million

This caption is detailed as follows:

In millions of euros	2007	2006	Change
Financial income			
Interest income and other financial income	27.2	84.1	-56.9
Debt adjustment (P.O.) and related cover	0.6	0.0	0.6
Income on trading derivatives	0.4	8.8	-8.4
Exchange rate gains	7.0	5.3	1.7
Total income	35.2	98.2	-63.0
Financial expenses			
Interest expenses on medium/long-term loans and related cover	-140.2	-116.4	-23.8
Interest expenses on short-term loans and other financial expenses	-7.4	-2.0	-5.4
Debt adjustment (P.O.) and related cover	0.0	-2.6	2.6
Discounting of termination benefit and other personnel-related provisions	-5.6	-6.6	1.0
Total expenses	-153.2	-127.6	-25.6
TOTAL	-118.0	-29.4	-88.6

Net financial expenses in the year amount to euros 118.0 million, mostly due to financial expenses (euros 153.2 million) and financial income (euros 35.2 million). The euros 88.6 million increase on the last year is mostly due to:

- lower net financial income (euros 56.9 million) due to the capital gain obtained in 2006 with the listing of Terna Participações (euros 70.6 million), higher financial income reported by the Brazilian subsidiaries (euros 10.0 million), the margin obtained from the financial component of the related uplift and other financial income (euros 3.7 million);
- the net positive effects of the fair value adjustments of bonds and related hedges (euros 3.2 million on 2006);
- lower income on trading derivatives (euros 8.4 million);
- exchange rate gains (euros 1.7 million) due to the increase in exchange difference in comparison to 2006;
- increase in financial expenses relating to the medium/long-term indebtedness and related hedges (euros 23.8 million) due both to the uplift of market interest rate curve and to the increase in indebtedness (euros 28.8 million) partly offset by the lower debt expenses for the Brazilian subsidiaries (euros 6.2 million);
- increase in other financial expenses (euros 5.4 million) due mainly to the increase in interest expenses on short-term loans (euros 2.6 million) and to interest on equity of minority interests in Terna Participações (euros 3,8 million);
- lower financial expenses deriving from discounting of employee-related benefits (euros 1.0 million).

10) SHARE OF PROFITS/(LOSSES) OF EQUITY-ACCOUNTED INVESTEEES

– euros 1.1 million

The caption refers to the adjustment of the equity-accounted portion of the investment in the associate Cesi S.p.A. at December 31, 2007 measured using the equity method.

The caption does not record any effect in relation to the investment in the joint venture company ETAU (acquired by Terna Participações on December 28, 2007 and equal to 52.58% of the share capital), since the initial value of the investment, including goodwill, was determined on the basis of the company equity at December 31, 2007.

11) INCOME TAXES – euros 173.0 million

Income taxes of the year amount to euros 173.0 million, with an impact on profit before taxes of 29.18% (net of tax adjustments relating to previous years). In 2006 taxes of the year amounted to euros 235.2 million, with an impact on profit before taxes of 37.51% (net of tax adjustments relating to previous years).

Income taxes of the year are detailed as follows:

In millions of euros	2007	2006	Change
Income taxes			
Current taxes			
- IRES	196.6	195.2	1.4
- IRAP	43.8	40.9	2.9
- Brazilian companies	36.2	32.2	4.0
Temporary differences			
- deferred tax income	-33.2	-29.6	-3.6
- deferred tax expenses	6.8	9.9	-3.1
Reversal of temporary differences			
- deferred tax income	18.4	8.2	10.2
- deferred tax expenses	-23.6	-21.7	-1.9
- rate adjustment	-68.2	-	-68.2
Adjustments to income taxes of previous years	-3.8	0.1	-3.9
TOTAL	173.0	235.2	-62.2

The significant decrease on the previous year, in the amount of euros 62.2 million, is mainly attributable to the effects of the adjustment of deferred taxes (income and expenses) of the parent and RTL to the new rates introduced by 2008 Financial Act, which determined lower taxes in the amount of euros 68.2 million.

In addition:

- the increase in current taxes of euros 8.3 million, mostly due to the increase in current taxes of Brazilian subsidiaries (euros 4.0 million), due to higher taxable income;
- the increase in deferred tax income, net (euros 6.6 million), attributable mostly to deferred tax income for the Brazilian companies following the normalization of revenues (euros 16.7 million), offset by higher net utilization by the parent (euros 11.2 million), mainly deriving from the release of

accruals made in the previous year for leaving incentives and for additional CIG and CIGS (redundancy funds) expenses (euros 6.3 million) as well as liquidation of yield premiums and rewards for 2006 (euros 2.9 million).

For a clearer presentation of the differences between the theoretical and actual tax rates, the table below reconciles the profit before taxes with the taxable base for IRES purposes:

In millions of euros	2007	2006
Theoretical tax charge 33%	199.9	206.8
IRAP	43.8	40.9
Brazil	6.6	7.5
Permanent differences	-73.5	-20.1
Actual tax charge	176.8	235.1
ACTUAL RATE	29.18%	37.51%
Prior year adjustments	-3.8	0.1
Actual tax charge net of prior year adjustments	173.0	235.2

12) EARNINGS PER SHARE

Basic earnings per share amount to euros 0.207, in which the numerator and denominator amount to euros 413.9 million and euros 2,000,478.6 thousand, respectively.

Diluted earnings per share amount to euros 0.206 in which the numerator and denominator amount to euros 413.9 million and euros 2,009,992.0 thousand, respectively.

D) NOTES TO THE CONSOLIDATED BALANCE SHEET

Assets

13) PROPERTY, PLANT AND EQUIPMENT – euros 5,613.0 million

Property, plant and equipment amount to euros 5,613.0 million (euros 5,175.8 million at December 31, 2006).

They may be broken down as follows:

In millions of euros	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Cost at Jan. 1, 2007	25.3	618.3	8,142.7	44.8	47.1	393.9	9,272.1
Investments	1.8	85.9	121.7	2.6	13.7	365.4	591.1
Plant start-up	0.1	14.8	189.4		0.1	-204.4	0.0
Contribution of newly acquired companies		0.1	57.6			1.6	59.3
Exchange rate differences		1.3	52.2		0.2	1.5	55.2
Disposals		-0.3	-13.9	-0.2		-1.7	-16.1
Other changes			-7.3			-10.8	-18.1
Reclassifications				0.1	-0.1		0.0
Cost at Dec. 31, 2007	27.2	720.1	8,542.4	47.3	61.0	545.5	9,943.5
Accumulated depreciation and impairment losses at Jan. 1, 2007		-228.2	-3,811.6	-31.6	-24.9		-4,096.3
Depreciation of the year		-16.0	-205.5	-2.4	-7.8		-231.7
Contribution of newly acquired companies			-10.6				-10.6
Exchange rate differences		-0.2	-5.3				-5.5
Disposals		0.3	13.0	0.2			13.5
Other movements			0.1				0.1
Reclassifications				-0.1	0.1		0.0
Accumulated depreciation and impairment losses at Dec. 31, 2007	0.0	-244.1	-4,019.9	-33.9	-32.6		-4,330.5
Carrying amount							
AT DECEMBER 31, 2007	27.2	476.0	4,522.5	13.4	28.4	545.5	5,613.0
AT DECEMBER 31, 2006	25.3	390.1	4,331.1	13.2	22.2	393.9	5,175.8

The caption "Plant and machinery" includes the electrical energy transmission grid, the transformation stations in Italy and Brazil, the central systems for remote conduction and the national electrical energy control system.

The Brazilian plants include the Southeast-Northeast 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; and the North-South II transmission line, which has a nominal voltage of 500 kV and is approximately 1,280 km long, beginning at the Imperatriz substation, in the state of Maranhão, and ending at the Samambaia, in the Federal District.

Through the acquisition of GTESA and PATESA (November 2007), TSN acquired an additional 186 km of 230 kV transmission lines in the states of Paraíba, Pernambuco and Rio Grande do Norte.

A summary of changes in property, plant and equipment during the year is provided in the following table:

In millions of euros

Investments	
- transmission lines	183.6
- transformation stations	239.5
- other	158.0
- Brazil	10.0
Total investments	591.1
Depreciation	-231.7
Disposals and other changes	-20.6
Contribution of newly acquired companies	48.7
Exchange rate differences	49.7
TOTAL	437.2

In addition to ordinary changes in the year relating to investments (euros 591.1 million), disposals and other changes (euros 20.6 million) and depreciation (euros 231.7 million), the caption includes the acquisitions of non-current assets following the acquisition of RTT (euros 31.8 million) in Italy and GTESA and PATESA (euros 16.9 million) in Brazil (for greater information, reference should be made to the section “Business combinations”).

Investments for the year relating to the Italian transmission grid (euros 581.1 million) mainly include the progress in the construction of the underwater long distance line SAPEI (euros 118.1 million); purchase from Wind Group of optical fibres (euros 43.5 million) and related equipment (euros 2.0 million); progress in the construction of the 380 kV S. Barbara-Casellina-Tavarnuzze long distance power line (euros 15.9 million); purchase of the Moncalieri station and related work (euros 14.8 million); and powering of the Brindisi Pignicelle station (euros 8.7 million).

Investments related to the purchase of Rome new headquarters (euros 60.5 million) and special vehicles (euros 6.0 million) are also included.

With the purchase of optical fibre from Wind, Terna acquired its exclusive use, and, even though not formally, its ownership. From the accounting point of view, IFRIC 4 and IAS 17 are applicable and, consequently, the optical fibre was included into “Property, plant and equipment”, since Terna substantially acquired all the risks and benefits deriving from the asset.

Within the investments carried out in Brazil (euros 10.0 million), the most important relate to the purchase of equipments and instruments for maintenance (euros 0.9 million), to the substitution of corrosive oil (euros 0.9 million), and the construction of a new warehouse for materials and equipments in Paraiso

(euros 0.7 million), as well as to the installation of new reactors in the Bom Jesus da Lapa substation (euros 0.6 million) and the work for the new headquarters in Brasilia (euros 0.5 million).

In terms of assets under construction and payments on account, the main grid development and re-powering projects, worth more than euros 5 million, are listed below:

In euros

Transmission lines

SAPEI	152,589,331
S. Barbara-Tavarnuzze-Casellina	25,034,237
Rationalization of Bussolengo (VR) area	7,380,030
Valcamonica	6,500,332
Val D'Ossola Sud	6,440,244
Udine Ovest-Okroglo	5,050,050

380 kV transformation stations

Brindisi Pignicelle	13,881,096
ERG NuCe Nord plant in Priolo	7,663,097
La Spezia - Station renovation	7,191,576
Bari Nord - New 380 kV station	5,100,169

220 kV transformation stations

Frattamaggiore	9,353,413
S/E Pallanzeno - 220-132 kV plant renovation	5,213,854
Tirreno Power plant of Napoli Levante	5,260,741

Other investments

Development of TLC optical fibre	45,473,511
SICAS Standard	5,160,296

14) GOODWILL – euros 224.0 million

Goodwill amounts to euros 224.0 million (euros 181.3 million at December 31, 2006). The balance and the changes by cash-generating unit are shown in the following table:

In millions of euros	CASH GENERATING UNIT								Total
	TERNA PARTICIPAÇÕES				RTL				
	NVT	TSN	Munirah	GTESA/ PATESA	RTL	Former RTM1	Former RTM2	Former RTT	
BALANCE AT DEC. 31, 2006	31.0	68.3	2.6		0.2	49.7	29.5		181.3
Contribution of newly acquired companies	-	-		25.8	-	-	-	5.4	31.2
Exchange rate differences	2.4	5.3	0.2	-	-	-	-	-	7.9
Other changes	-	-	-	-	-	2.2	1.4	-	3.6
BALANCE AT DEC. 31, 2007	33.4	73.6	2.8	25.8	0.2	51.9	30.9	5.4	224

At December 31, 2007, goodwill amounts to euros 224.0 million and relates to the difference paid by the Group with respect to equity of subsidiaries at the acquisition date which was adjusted, for foreign subsidiaries, to reflect the effects of the year-end exchange rate. The increase (euros 42.7 million) in the balance at December 31, 2007 on the previous year end relates to the following:

- acquisition (on June 30, 2007) and merger (on December 31, 2007) of RTT into RTL (euros 5.4 million); for greater information reference should be made to the section “Business combinations”;
- increase in goodwill for RTM1 and RTM2 cash-generating units (euros 2.2 million and euros 1.4 million, respectively) merged into RTL on July 31, 2007;
- adjustment of foreign subsidiaries goodwill, to reflect the effects of exchange rate at year end (euros 7.9 million);
- acquisition of GTESA and PATESA (euros 25.8 million); for further details, reference should be made to the section “Business combinations”. As regards the acquisition of the two companies, allocation of the higher price paid in comparison to the equity of the acquired companies must be considered as provisional, since activities for final allocation of the higher price with respect to assets, liabilities and potential liabilities are currently in progress, pursuant to modalities and timing provided for by IFRS 3.

Impairment testing

Cash-generating unit – RTL

The recoverable amount of goodwill on RTL was estimated based on the value of use, determined using the “income method”.

The estimate was carried out by discounting the operating cash flows that the Company will be able to produce in the future (unlevered discounted cash flow), considering the next three regulatory periods (of four years each) and therefore until to 2019, extracting data based on assumptions formulated by the Company and on the macroeconomic scenario of the reference market. Here are the main ones:

- projection of the compensation for RTL transmission service until the end of 5th regulatory period (2019)

assuming for the 4th and 5th regulatory period the same parameters defined for the 3rd period (exception made for the assumed profit share equal to 40% in favour of RTL and 60% for the customers). From 3rd regulatory period, also revenues from non-regulated activities will be taken into account; these have been cautiously eliminated from 2013;

- b. operating costs from 2008 to 2012 in line with the approved plan; from 2013, external resources increased by 1% yearly (equal to half of the expected inflation rate keeping account of the normal actions of cost optimization), constant taxes and fees.

The discount rate used is representative of the cost of own and third party means and the average capital structure of the companies; tax rate used is 31.9%.

Based on the above, the recoverable amount exceeds the carrying amount of RTL's cash-generating unit. The reasonable modification of the parameters used in the estimate does not determine significant impact on the estimate and consequently on that higher amount.

Cash-generating unit – Brazil

The recoverable amount of goodwill on the three Brazilian cash-generating units (CGUs) (Trasmisora Sudeste-Nordeste/TSN, Novatrans/NVT and Terna Participações) was estimated based on the list price of Terna Participações certificates (no. 3 shares each) at December 31, 2007 (BRL 31.0), less estimated selling costs comprising local commissions and taxes of 4.1%. Based on the above, the recoverable amount of goodwill exceeds the above-mentioned carrying amount of the CGUs.

15) INTANGIBLE ASSETS – euros 160.7 million

Changes during the year in intangible assets are detailed below:

In millions of euros	Concessions	Other assets	Assets under development and payments on account	Total
BALANCE AT DEC. 31, 2006	128.9	14.7	15.6	159.2
Investments	0.0	14.9	10.0	24.9
Plants start-up	0.0	11.1	-11.1	0.0
Amortization	-5.6	-17.8	0.0	-23.4
BALANCE AT DEC. 31, 2007	123.3	22.9	14.5	160.7
BALANCE AT DEC. 31, 2006				
Cost	135.4	79.6	14.5	229.5
Accumulated amortization	-12.1	-56.7	0.0	-68.8
BALANCE AT DEC. 31, 2007	123.3	22.9	14.5	160.7

Intangible assets amount to euros 160.7 million (euros 159.2 million at December 31, 2006); the increase in the year (euros 1.5 million) is due to changes in investments (euros 24.9 million) and amortization (euros 23.4 million).

The caption mainly includes the concession for electrical energy transmission and dispatching activities in Italy, which was initially recognized in 2005 at fair value (euros 135.4 million) and subsequently measured at cost.

Other intangible assets mainly relate to the following, apart from software applications and generic utilization licences, also:

- the development and innovation of application software to manage the energy invoicing process;
- the development and innovation of application software to protect the electrical energy system;
- software applications related to the development of the Power Exchange, particularly relating to the registration of operators, consumption units and the development of foreign procedures.

These software applications are amortized over their estimated residual useful lives, which are normally three years, given their rapid obsolescence.

16) DEFERRED TAX ASSETS – euros 172.8 million

Deferred tax assets relate to the following captions:

In millions of euros	Dec. 31, 2006	IMPACT RECOGNIZED IN PROFITS OR LOSSES		OTHER FINANCIAL CHANGES	Dec. 31, 2007
		Accruals	Utilization		
Provisions for contingencies and charges	15.1	8.7	-8.0	-	15.8
Provision for bad debts	2.1	-	-0.2	-	1.9
Termination benefits and other employee-related provisions	35.2	5.0	-10.6	0.2	29.8
FVH - CFH - trading derivatives	2.0	-	-	-2.0	-
Financial income and expenses Brazil	93.3	16.8	-1.7	9.2	117.6
RTT contribution	-	-	-	0.7	0.7
Other	7.5	2.7	-3.1	-0.1	7.0
DEFERRED TAX ASSETS	155.2	33.2	-23.6	8.0	172.8

The net increase (euros 17.6 million) on 2006 is substantially due to:

- effect on deferred tax assets of the income and expenses of the Brazilian subsidiaries, in particular, net accruals in the amount of euros 24.3 million, essentially due to the deferred quota of revenues in compliance with their distribution over the duration of concession (euros 16.8 million) and to the

appreciation of the real against the euro (euros 9,2 million);

- release, for euros 2.0 million, of the tax effect, having no direct impact on profits or losses, recorded on cash flow hedge financial instruments extinguished during the year;
- change of euros 2.1 million, mostly due to parent's utilization (euros 1,9 million) of termination benefits and other employee-related provisions and other financial changes;
- adjustment, for euros 5.2 million, of deferred tax assets related to IRES and IRAP rate adjustments and to the consequent measurement of deferred tax assets based on the rates expected to be applied at the date in which taxes will be recognized

17) INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES – euros 30.8 million

Investments in equity-accounted investees amount to euros 30.8 million and relate to:

- investment (euros 7.5 million) of Terna S.p.A. in the associate Cesi S.p.A., equal to 24.4%;
- investment (euros 23.3 million) of the subsidiary Terna Participações in the joint venture ETAU, equal to 52.58%.

Cesi S.p.A. operates in the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the general electro-technical field and its technical and scientific progress.

The carrying amount of this investment increased by euros 1.1 million on 2006.

Cesi, as permitted by current legislation, opted not to apply IFRS to the preparation of its financial statements at December 31, 2007. Consequently, financial statements at December 31, 2007 of the associate Cesi were prepared in accordance with Italian GAAP.

ETAU operates in the transmission field and owns approximately 230 kV 188 km-long transmission lines.

The main figures of the above-mentioned companies restated in accordance with the presentation and measurement criteria applied by Terna Group are as follows:

In millions of euros	ASSETS		LIABILITIES		Equity	Revenues	Profit for the year
	Current	Non current	Current	Non current			
Cesi	72.6	50.3	59.3	33.1	30.6	70.4	4.3
ETAU	2.3	47.0	3.8	31.2	14.5	8.9	2.7

18) FINANCIAL ASSETS

The following table details financial assets recognized in the consolidated financial statements:

In millions of euros	CARRYING AMOUNT		Change
	Dec. 31, 2007	Dec. 31, 2006	
Accounts on investments	0,1	0.0	0.1
FVH derivatives	0.0	11.3	-11.3
Trading derivatives	0.0	0.7	-0.7
Non-current financial assets	0.1	12.0	-11.9
Deferred assets on FVH derivative contracts	0.0	1.5	-1.5
Other current financial assets	2.5	0.7	1.8
Current financial assets	2.5	2.2	0.3
TOTAL	2.6	14.2	-11.6

“Non-current financial assets”, amounting to euros 0.1 million, at December 31, 2007 include exclusively the account on investment in Lovina Participações Ltda. 99.99%-owned by Terna Participações, for the acquisition of ETEO.

Decrease in derivatives (euros 12.0 million) on 2006 is mostly due to changes in market conditions that caused its recognition under financial liabilities (see “Loans and financial liabilities” for further details).

The caption “Current financial assets” amounts to euros 2.5 million (euros 2.2 million at December 31, 2006) related to the loan granted by Terna Participações to ETAU and to interest accrued and not yet received at the balance sheet date in connection with the current account balances.

19) OTHER ASSETS

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Change
Receivables due from others:			
- loans and advances to employees	4.5	4.6	-0.1
- assets on deposit with third parties	1.5	1.3	0.2
- tax advance on termination benefits	0.0	0.5	-0.5
OTHER NON-CURRENT ASSETS	6.0	6.4	-0.4
Tax assets	18.1	8.0	10.1
Receivables due from others			
- employees	0.2	0.2	0.0
- others	18.0	25.8	-7.8
OTHER CURRENT ASSETS	36.3	34.0	2.3

Non-current assets, detailed above, have not undergone any significant changes with respect to the previous year and relate mostly to loans and advances paid to parent's employees.

"Other current assets" amount to euros 36.3 million (euros 34.0 million at December 31, 2006) and mainly relate to the following:

- tax assets (euros 18.1 million) mainly related to:
 - receivables from the tax authorities of the parent and the subsidiary RTL for collection of current year taxes (euros 3.2 million) and for the VAT account paid in December (euros 9.3 million);
 - tax receivables of foreign subsidiaries (euros 1.3 million) due to the retroactive adjustment of the former Pis/Cofins rates (under SRF Regulatory Recommendation no. 658 of July 4, 2006 issued by the Brazilian Ministry for Finance);
- receivables from other (euros 18.2 million) mostly referred to:
 - receivables from the Greek tax authorities for indirect taxes (euros 9.1 million) in relation to the activities carried out by Terna's branch in Greece;
 - assets for euros 3.9 million referred to portions of costs already paid but pertaining to the subsequent years mainly attributable to charges on contracts to use assets, which the parent took over following the transfer of plants from Enel Distribuzione (euros 1.3 million) and insurance premiums (euros 2.0 million);
 - other receivables for euros 1.9 million;
 - sundry advances to employees (euros 0.2 million) and third parties (euros 0.2 million).

20) INVENTORIES – euros 12.6 million

Inventories under current assets include materials and devices used in the operating, maintenance and construction of plants of euros 12.6 million (euros 9.0 million at December 31, 2006); the increase of euros 3.6 million is mainly due to the ordinary maintenance requirements of plants in Italy.

21) TRADE RECEIVABLES – euros 1,541.1 million

Trade receivables are composed as follows:

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Change
Non energy-related receivables	286.2	285.3	0.9
Energy-related receivables	1,254.9	896.8	358.1
TRADE RECEIVABLES	1,541.1	1,182.1	359.0

Trade receivables amount to euros 1,541.1 million, up euros 359.0 million on 2006 mainly due to electrical energy transmission and dispatching activities carried out by Terna.

Receivables are measured net of impairment losses, relating to items considered uncollectible and included as an adjustment, in the provision for bad debts (euros 12.9 million for energy items and euros 0.9 million for other items in 2007, in comparison to euros 12.8 million for energy-related items and euros 0.4 million for other items in 2006).

Non energy-related receivables – euros 286.2 million

These amount to euros 286.2 million and mainly relate to the grid transmission consideration (euros 220.6 million) paid to the parent and other owners for use of the National Transmission Grid by distributors and producers. They also include the portions of fees for Brazilian lines operation for the invoiced and not-yet invoiced quota (euros 24.1 million).

Other trade receivables (euros 41.5 million) include receivables due from Italian customers and receivables for contract work in progress (euros 1.4 million) relating to long-term work carried out for third-party customers.

Energy-related receivables – euros 1,254.9 million

They mainly include receivables in relation to energy in transit items arising on the dispatching of electrical energy. This caption also includes receivables for considerations payable by market operators for dispatching activities (DIS consideration as per AEEG Resolution no. 237/04) and metering activities (MIS consideration as per AEEG Resolution no. 05/04) and receivables for the consideration covering the administrative and management costs, incurred for the energy withdrawal activity from producers of renewable sources (below 10 MVA) connected to the National Transmission Grid (AEEG Resolution no. 34/05).

This caption also includes deferred charges relating to the signing of ETSO-CBT (European Transmission System Operators - Cross Board Trade) agreements governing the offsetting of energy in transit costs on foreign electricity grids. Under Resolution no. 15/2005, the AEEG ensured the coverage of the above charges and established that repayment terms will be set out in a specific provision.

The amount for guarantees by Terna Group towards third parties at the end of 2007 is euros 16.1 million. Of this amount, euros 7.1 million refer to passive bank guarantees for contractual obligations related to operating activity; euros 9.0 million refer to the bank guarantee requested for a tender for property purchase. This guarantee was released on January 14, 2008.

22) CASH AND CASH EQUIVALENTS – euros 244.0 million

At December 31, 2007, the parent's cash and cash equivalents amount to euros 123.1 million, including bank current account deposits of euros 123.0 million (bearing interest at an average rate of 4.73%), and euros 0.1 million in cash on hand for operating areas.

At December 31, 2007, Brazilian cash and cash equivalents (bearing interest at an average rate of 9.82%) amount to euros 120.8 million and include current account deposits of euros 79.5 million and term deposits of euros 41.3 million to guarantee loans granted. The Group's cash also includes the InTERNAtional cash equal to euros 0.1 million.

Liabilities

23) EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT – euros 2,162.0 million

Share capital – euros 440.1 million

The share capital of Terna S.p.A. is comprised of 2,000,478,600 ordinary shares with a nominal value of

euros 0.22 each. The increase of euros 0.1 million on 2006 is due to the issue of new shares for the stock option plan in 2007 (for a total of 478,600 options) described and commented below.

Legal reserve – euros 88.0 million

The legal reserve is equal to 20% of the parent's share capital.

Other reserves – euros 729.4 million

Other reserves underwent a net change of euros -2.1 million mainly as a result of the following:

- closing of derivatives hedging EIB loans - cash flow hedge derivatives (up euros 4.3 million), net of the related tax effect (down euros 2.1 million);
- the recognition of the cost of stock options described below (up euros 0.5 million) and of the share premium reserve referred to the portion exercised during the year (up euros 1.2 million);
- reclassification in the caption "Retained earnings" of the tax incentive acknowledged to TSN and Novatrans by the Brazilian Government in the previous years (euros 6.0 million).

Retained earnings – euros 602.6 million

Retained earnings increased by euros 138.3 million, due essentially to the following:

- allocation to profits brought forward (up euros 109.1 million) of the consolidated profit for the year ended December 31, 2006 for the residual value with respect to the distribution of 2006 dividend (equal altogether to euros 280.0 million).
- increase in the translation reserve following:
 - the increase in translation differences (euros 23.2 million) arising on the consolidation of the foreign subsidiaries, mainly as a result of the appreciation of the Brazilian real against the euro compared with 2006. In this respect, the adjustment of goodwill at the year-end exchange rate entailed a euros 7.9 million increase in that caption;
 - reclassification from the caption "Other reserves" of the tax incentive acknowledged by the Brazilian Government to the subsidiaries TSN and Novatrans in the previous years (up euros 6.0 million).

2007 interim dividend

After receiving the report of the auditors as per article 2433 *bis* of the Italian Civil Code, the parent's Board of Directors, on September 12, 2007, approved the distribution of an interim dividend of euros 112.0 million, equal to euros 0.056 per share which was paid beginning from November 22, 2007.

The following table shows individual equity captions at the balance sheet date, indicating their origin, availability and possibility of distribution:

In millions of euros

Description	Amount	Possibility of use	Available portion
Share capital	440.1	-	-
Legal reserve	88.0	B	-
Other reserves			
- equity-related	397.0	A,B,C	397.0
- income-related	332.4	A,B,C	332.0
Retained earnings	244.6	A,B,C	116.2
Unavailable retained earnings	358.0	A,B	358.0
Interim dividend	-112.0	-	-
Profit for 2007	413.9	-	-
Total	2,162.0		
		TOTAL	1,203.2
		Unavailable portion	357.4
		Residual available portion	845.8

Key: **A** - to increase share capital **B** - to cover losses **C** - to be distributed to shareholders

Residual available portion refers for euros 332.6 million to income-related reserves not yet subject to taxation.

The Board of Directors proposed that the shareholders, in their meeting which will be called on April 27, 2008 (first call) and April 28, 2008 (second call), approve a total dividend for 2007 of euros 0.151 per share and to pay, gross of withholdings as provided for by the law, the remaining euros 0.095 per share with respect to the above mentioned interim dividend. Consequently, the proposed dividend for 2007 amounts to euros 302.1 million, up 22.1 million (7.86% per share on 2006).

The dividend is subject to the approval of shareholders called in their annual meeting. Therefore, it was not included under balance sheet liabilities. The balance of the proposed 2007 dividend will be payable to all shareholders on June 26, 2008.

Equity attributable to minority interests – euros 111.5 million

Equity attributable to minority interests relates to the Brazilian subsidiaries. It increased by euros 1.7 million, mostly due to:

- attribution of the relevant share of profits/(losses) (euros 18.9 million), the relevant portion of exchange differences (euros 8.0 million) and of Terna Participações S.A. stock option reserve (euros 0.1 million) accrued during the year;
- distribution of the 2006 dividend (euros 11.4 million) and 2007 interim dividend (euros 13.9 million).

Terna S.p.A. stock option plans

On December 21, 2005, based on the proposals put forth by the Remuneration committee, the parent's Board of Directors resolved to adopt a 2006 stock option plan for Terna Group managers who hold the most important roles in terms of achieving the Group's strategic targets.

These plans are aimed at giving the Terna Group – in line with international best practice and that of the leading publicly listed Italian companies – a management incentive and loyalty tool, capable of giving key resources a sense of corporate belonging, while ensuring they are constantly focused on creating value, so as to bring shareholders' and management's interests together.

For information on 2006 stock option plan, reference should be made to the specific section in the notes to Terna S.p.A. financial statements at December 31, 2007.

Terna Participações S.A. stock option plans

On December 14, 2006 Terna Participações S.A. Board of Directors, following approval by the extraordinary shareholders meeting on October 5, 2006, resolved to adopt the first stock option plan for three managers of Terna Participações S.A. The main characteristics of the stock option plan Brazil 2007 are described below.

Regulation governing the stock option plan (Resolution dated December 12, 2006)

The plan provides for the distribution of a maximum of 163,472 options to three Terna Participações managers, who hold the most important roles in terms of achieving the company's strategic targets, including the General Manager, as a senior manager of the company.

Under the approved regulation governing the stock option plan:

1. the strike price of each unit amounts to 21.0 reais;
2. the exercise of the options and consequently, the right to subscribe units of newly-issued Terna ordinary

shares depends on two performance parameters. In particular:

- a. Terna Participações EBITDA for the grant year 2006 and of the first half of 2007 must be greater than that shown in the budget approved by the Board of Directors;
- 3. if the conditions underlying the exercise are met, individual beneficiaries can exercise their options by December 31, 2011 and up to the following maximum quantities:
 - a. up to 30% of exercisable options, beginning from the date disclosed in the notice communicating the fact that the conditions underlying the exercise have been met;
 - b. up to 60% of exercisable options, beginning from December 31 of the year in which the notice communicating the fact that the conditions underlying the exercise have been met is expected to be issued;
 - c. up to 100% of exercisable options, beginning from December 31 of the first calendar year subsequent to the year in which the notice communicating the fact that the conditions underlying the exercise have been met is expected to be issued.

The assessment that the conditions underlying the exercise have been met was carried out by the Board of Directors on the approval of the half-year report at June 30, 2007.

The option granted by the plan at December 31, 2007 are 114,430:

Outstanding at January 1, 2007	163,472
Unopted during the year	114,430
Exercised during the year	49,042
Outstanding at December 31, 2007	114,430
Exercisable at December 31, 2007	49,042

24) LOANS AND FINANCIAL LIABILITIES

The following table details loans and financial liabilities recognized in the consolidated financial statements at December 31, 2007.

In millions of euros	CARRYING AMOUNT		Change
	Dec. 31, 2007	Dec. 31, 2006	
Bonds	1,840.4	1,406.6	433.8
Bank loans	925.1	961.3	-36.2
Long-term loans	2,765.5	2,367.9	397.6
CFH derivatives	0.0	6.2	-6.2
FVH derivatives	57.5	0.0	57.5
Trading derivatives	0.5	0.0	0.5
Non-current financial liabilities	58.0	6.2	51.8
Short-term loans	0.0	50.0	-50.0
Current portion of long-term loans	71.8	71.1	0.7
Short-term loans and current portion of medium/long-term loans	71.8	121.1	-49.3
TOTAL	2,895.3	2,495.2	400.1

Carrying amount of liabilities for the year increased by euros 400.1 million reaching euros 2,895.3 million. Change in bond values (euros 433.8 million) is due for euros 502.8 million to Terna's new share issue of 2007 and for euros 69.0 million to fair value decrease of 2014-2024 bonds. This change is offset by fair value increase of derivatives (for a total of euros 70.0 million, including euros 12.0 million as reduction in financial assets and euros 58.0 million as increase in financial liabilities).

On October 23, 2007 Terna S.p.A. issued a 16 year-long bond adjusted to Italian inflation rate (FOI – consumer price index without tobaccos for white and blue collars' families) expiring on September 15, 2023, to re-finance the short-term payable and cover further short-term needs of the business plan. The share provides a fixed rate coupon (2.731%) calculated on a nominal value adjusted to inflation every semester and refunded on expiry.

Official Luxembourg stock exchange fair value quotations for Terna bonds are as follows:

- bond maturing 2024 price at December 31, 2007: 96.45(*) and price at December 31, 2006: 103.56;
- bond maturing 2014 price at December 31, 2007: 95.93(*) and price at December 31, 2006: 99.77;
- bond maturing 2023 price at November 12, 2007: 101.155(*)

With respect to the carrying amount equal to euros 1,840.4 million, fair value is euros 1,855.8 million, while in 2006 it was euros 1,406.6 million with a fair value of euros 1,427.1 million.

(*) source: Bloomberg

Long-term loans

The following table shows the carrying amount of medium/long-term indebtedness and the repayment plan at December 31, 2007, broken down by loan type, including amounts falling due within one year.

In millions of euros	Maturity	Dec. 31, 2006	Dec. 31, 2007	Due within one year	Due after one year	2009	2010	2011	2012	After
Bonds	2014-2024	1,406.6	1,337.6	0	1,337.6	0	0	0	0	1,337.6
IL bonds	2023	0	502.8	0	502.8	0	0	0	0	502.8
Fixed rate total		1,406.6	1,840.4	0	1,840.4	0	0	0	0	1,840.4
EIB no. 20271	2014	54.6	47.7	6.8	40.9	6.8	6.8	6.8	6.8	13.7
EIB no. 21159	2016	215.9	193.2	22.7	170.5	22.7	22.7	22.7	22.7	79.7
EIB no. 22947	2020	100	100	0	100	0	9.1	9.1	9.1	72.7
EIB no. 22947	2018	200	200	0	200	0	21	21	21	137
Brazil loans	2018	461.9	456	42.3	413.7	41.7	45.0	48.6	52.6	225.8
Variable rate total		1,032.4	996.9	71.8	925.1	71.2	104.6	108.2	112.2	528.9
TOTAL		2,439.0	2,837.3	71.8	2,765.5	71.2	104.6	108.2	112.2	2,369.3

The total amount of Terna Group long-term loans at December 31, 2007 amounts to euros 2,837.3 million, including euros 2,765.5 million due after one year and euros 2,369.3 million due after five years.

Bonds are recognized at their carrying amount at December 31, 2007, calculated as described above. The repayment of a nominal euros 1,400 million provides for the settlement of euros 600 million at October 28, 2014 and euros 800 million at October 28, 2024.

The inflation linked bond will be repaid at maturity, on September 15, 2023, with nominal adjusted to inflation rate.

All other financial indebtedness items are stated at nominal value with the related repayment plan.

The following table illustrates medium/long-term indebtedness, broken down by currency and average interest rate, including amounts due within one year.

In millions of euros	Maturity	Original currency	Dec. 31, 2007	Due within one year	Due after one year	Average interest rate at Dec. 31, 2007
Bonds	2014-2024	euro	1,337.6	0	1,337.6	4.62%
IL bonds	2023	euro	502.8	0	502.8	4.84%
Fixed rate total			1,840.4	0	1,840.4	
EIB no. 20271	2014	euro	47.7	6.8	40.9	4.21%
EIB no. 21159	2016	euro	193.2	22.7	170.5	4.36%
EIB no. 22947	2020	euro	100	0	100	4.35%
EIB no. 22947	2018	euro	200	0	200	4.26%
Brazil loans	2018	Real	456	42.3	413.7	9.97%
Variable rate total			996.9	71.8	925.1	
TOTAL			2,837.3	71.8	2,765.5	

The table shows the average interest rate for each type of financial indebtedness item and, later, the same is commented also with reference to financial hedges carried out to protect the company from the risk of interest rate fluctuation.

As regards 2014-2024 bonds (whose average coupon is 4.62%), if FVH hedging operations are taken into account, the average interest rate is 4.51% and it is 4.40% if trading derivatives negotiated for “managerial hedging” are also taken into account.

Pursuant to financial risk management policies, as happened to long-term fixed rate bond issued in 2004 (2014 and 2024), also the 2023 inflation linked bond, issued at fixed rate, was synthetically brought to variable rate with derivative contracts with same maturity (Inflation coupon swap derivatives) and at the same time at fixed rate with subsequent derivatives with maturity equal to the next regulatory period. Considering hedges and assuming a 2.10% inflation rate, average interest rate paid in 2007 was 4.92%. As regards the two EIB loans hedged against interest rate fluctuations, considering the effect of financial derivatives as the cash flow hedge, EIB no. 20271 has an average rate of 4.78% and EIB no. 21159 an average rate of 4.81%.

The following table shows changes in long-term indebtedness in 2007:

Type of loan	Notional debt at Dec. 31, 2006	Carrying value at Dec. 31, 2006	Repayments and capitalizat.	Changes in consolidation scope	New issues	Exchange rate differences	Difference in fair value Dec. 31, 2006	Difference in carrying value Dec. 31, 2007	Notional debt at Dec. 31, 2007	Carrying value at Dec. 31, 07
Listed fixed rate bonds	1,400.0	1,406.6	0	0	0	0	-69	-69	1,400.0	1,337.6
Listed fixed rate IL bonds	0	0	2.9	0	500	0	-0.1	502.8	502.9	502.8
Total bonds	1,400.0	1,406.6	2.9	0	500	0	-69.1	433.8	1,902.9	1,840.4
Bank loans of the parent	570.4	570.4	-29.5	0	0	0	0	-29.5	540.9	540.9
Bank loans of subsidiaries	461.9	461.9	-46.8	9.1	0	31.8	0	-5.9	456	456
Total bank loans	1,032.3	1,032.3	-76.3	9.1	0	31.8	0	-35.4	996.9	996.9
TOTAL FINANCIAL INDEBTEDNESS	2,432.3	2,438.9	-73.4	9.1	500	31.8	-69.1	398.4	2,899.8	2,837.3

With respect to December 31, 2006, long-term indebtedness presents an increase of euros 398.4 million, due for euros 500 million to the new inflation-linked bond, for euros 2.9 million to capitalization of inflation of period linked to the bond, for euros 69 million to the decrease in bond fair value determined by interest rate rise, for approximately euros 76 million to the repayment of the portions of the bank loans of the Group, and for euros 32 million to the effect of the euro/real exchange.

On November 30, 2007, as a result of the acquisition and merger into TSN of the Brazilian companies GTESA S.A. and PATESA S.A., new liabilities added up, which are recorded in the financial statements of the latter, for a total of euros 9.1 million, as follows:

- euros 6.6 million, granted by BNDES on January 12, 2004 to fund the PATESA line investment project, including principal of euros 0.8 million in Brazilian real, but updated daily for changes in the real against a foreign currency basket (93.80% dollar, 6.15% yen and 0.05% euro). The principal is repayable from May 15, 2005;
- euros 2.5 million, granted by BNDES on October 3, 2003 to fund the GTESA line investment project, including principal of euros 0.3 million in Brazilian real, but updated daily for changes in the real against a foreign currency basket having the same composition as PATESA loan. The principal is repayable from February 15, 2004.

The two loans have similar characteristics; in particular:

- interest on this debt in Brazilian real is calculated at the TJLP rate plus a spread of 4.5%; if the TJLP exceeds 6%, interest due for that excess amount is capitalized and repaid in accordance with the repayment plan for residual debt;
- interest on debt indexed to the basket of foreign currencies accrues at a variable rate based on the

average cost incurred by BNDES to acquire foreign currency, plus a 4.5% spread,

- interest is paid at the end of each month for both loans.

Long-term loans in Brazil benefit of real guarantees related to pledge of the totality of the shares of subsidiaries TSN, Novatrans and ETAU. However, Terna Participações retains the right to vote and receive dividends.

At December 31, 2007 the parent has available credit lines of more than euros 1,733 million, including more than euros 983 million for short-term credit lines and euros 750 million euros related to the revolving credit line due in 2013.

Non-current financial liabilities

The table below shows the amount, the maturity period and changes with respect to the amounts recognised at year end of non-current financial liabilities:

In millions of euros	Maturity	Dec. 31, 2007	Dec. 31, 2006	Change
FVH derivatives	2014-2024	57.5	0.0	57.5
Trading derivatives	2008-2011	0.5	0.0	0.5
CFH derivatives	2014-2016	0.0	6.2	-6.2
TOTAL		58.0	6.2	51.8

“Non-current financial liabilities” include the fair value of fair value hedge and trading derivatives. Fair value is measured by discounting estimated future cash flows on the basis of the market interest rate curve at the reporting date. Trading derivatives impact on profits or losses, as the difference in fair value of FVH derivatives, which neutralizes the effect of the difference in fair value of non inflation-linked bonds. The rise in the interest rate curve generated a euros 68.8 million decrease for fair value hedge derivatives (euros 57.5 million increase in liabilities and euros 11.3 million as reduction in non-current financial assets on 2006) and a euros 1.2 million decrease in trading derivatives (euros 0.5 million as increase in liabilities and euros 0.7 million as reduction in non-current financial assets on 2006), as already commented in “Financial assets”.

Cash flow hedge derivatives decreased by euros 6.2 million after closing, in 2007.

Current financial liabilities

Current financial liabilities arising on financial expenses accrued but not settled in relation to financial items increased by euros 4.8 million, mostly due to the new inflation-linked bond that pays with half-yearly coupons on March 15 and September 15.

The following table details deferred liabilities on the basis of the financial liabilities to which they relate:

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Change
DEFERRED LIABILITIES ON:			
Derivative contracts			
- hedging	0.8	0.2	0.6
- trading	-0.4	-0.0	-0.4
Total	0.4	0.1	0.4
Bond			
- inflation linked	4.1	0.0	4.1
- ten-year	4.5	4.5	0.0
- twenty-year	7.0	7.0	0.0
Total	15.6	11.5	4.1
Loans			
- Italy	3.1	2.3	0.8
- Brazil	1.7	2.2	-0.5
Total	4.8	4.5	0.3
TOTAL	20.8	16.0	4.8

The following table details the net financial position broken down by single components:

In millions of euros	Carrying amount Dec. 31, 2007
A. Cash	244.0
B. Other cash on hand (details)	0.0
C. Securities held for trading	0.0
D. Cash and cash equivalents (A)+(B)+(C)	244.0
E. Short-term loan to ETAU	1.6
F. Current financial receivables	1.6
G. Current bank debt	0.0
H. Current portion of long-term debt	71.8
I. Current financial indebtedness (G)+(H)+(I)	71.8
J. Net current financial indebtedness (J)-(D)-(F)	-173.8
K. Non-current bank debt	925.1
L. Bonds	1,840.4
M. Derivatives financial instruments in portfolio	58.0
N. Net non-current financial indebtedness (L)+(M)+(N)	2,823.5
O. Net financial indebtedness (K)+(O)	2,649.7

Except for the transaction with ETAU there are no financial payables or receivable due from/to related parties; for further details reference should be made to “G) Related parties transactions” in the notes.

The contractual clauses of loans in place at December 31, 2007 include negative pledges and default events in line with market standards (and accordingly immaterial), while there are no financial covenants on existing debt.

25) TERMINATION BENEFITS AND OTHER EMPLOYEE-RELATED PROVISIONS

– euros 153.4 million

The Group offers its employees benefits during their employment with the Group companies (e.g., loyalty bonus), upon termination of employment (e.g., termination benefits, additional month's pay and indemnity for lack of notice) and after termination of employment (e.g., electricity discount and the ASEM health plan).

Loyalty bonus is due to Group employees and managers upon the achievement of specific seniority requirements (25 and 35 years of service).

Termination benefits are due to all employees, managers hired or appointed before February 28, 1999 (indemnity for lack of notice), and employees (blue collars, white collars and junior managers) hired before July 24, 2001 (additional month's pay).

Post-employment benefits consist of the following:

- discount on electrical energy consumed for domestic use. This benefit is offered to all employees hired before June 30, 1996 (electricity discount);
- health plan in addition to national healthcare, as provided for by the national industrial labour contract for managers (ASEM health plan).

The composition of and changes in termination benefits and other employee-related provisions at December 31, 2007 are detailed below:

In millions of euros	Dec. 31, 2006	Accruals	Interest cost	Utilization and other changes	Dec. 31, 2007
Employee benefits					
Loyalty bonus	4.0	1.0	0.2	-0.1	5.1
Total	4.0	1.0	0.2	-0.1	5.1
Termination benefits					
Termination benefits	85.4	2.0	3.0	-16.6	73.8
Additional month's pay	7.0	0.4	0.4	-0.5	7.3
Substitutive benefits and other similar benefits	3.9	0.0	0.1	-0.4	3.6
Total	96.3	2.4	3.5	-17.5	84.7
Post-employment benefits					
Electricity discount	52.9	0.0	1.7	-3.0	51.6
ASEM	12.9	0.0	0.2	-1.1	12.0
Total	65.8	0.0	1.9	-4.1	63.6
TOTAL	166.1	3.4	5.6	-21.7	153.4

This caption amounts to euros 153.4 million at December 31, 2007 (euros 166.1 million at December 31, 2006), and shows a net decrease of euros 12.7 million compared to the previous year. This change is mainly due to curtailment of termination benefits following pension reform of Law no. 296 of December 27, 2006, (2007 Financial Act) and subsequent curtailment, accounted for in the income statement, along with the actuarial losses not accounted for by the Group in previous years pursuant to the corridor approach.

In millions of euros	Termination benefits	Indemnity for lack of notice	Additional month's pay	Loyalty bonus	ASEM	Electricity discount	Electricity discount substit. indemnity	Total
DEC. 31, 2006	85.4	3.7	7.0	4.0	12.9	52.9	0.2	166.1
Cost	10.7	0.2	0.3	0.2	0.7	0.7	0.0	12.8
Interests	3.0	0.1	0.4	0.2	0.2	1.7	0.0	5.6
Curtailment	-3.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.0
(Gains)/Losses	-5.7	-0.2	0.1	0.8	-0.7	-0.7	0.0	-6.4
Disbursements and transfers	-16.6	-0.4	-0.5	-0.1	-1.1	-3.0	0.0	-21.7
DEC. 31, 2007	73.8	3.4	7.3	5.1	12.0	51.6	0.2	153.4

The main assumptions used for the actuarial estimation of liabilities for employee's benefits are as follows:

%	2007	2006
Discount rate	4.6%	4.25%
Rate of increase in personnel expenses	2.0% - 4.0%	2.0% - 4.0%
Rate of increase in healthcare expenses	3.0%	3.0%

26) PROVISIONS FOR CONTINGENCIES AND CHARGES – euros 69.3 million

The caption at December 31, 2007 and changes therein may be analyzed as follows:

In millions of euros	Provision for disputes and litigations	Provision for contingencies and other charges	Provision for leaving incentives	Total
BALANCE AT DEC. 31, 2006	13.7	33.5	11.9	59.1
Accruals	5.1	22.1	2.6	29.8
Utilization	-2.5	-13.1	-4.0	-19.6
BALANCE AT DEC. 31, 2007	16.3	42.5	10.5	69.3

Provision for disputes and litigation – euros 16.3 million

The caption is accrued mainly to cover year-end liabilities which could arise on lawsuits and out-of-court litigation relating to company activities. The amount accrued takes into account the opinions of both the internal and independent lawyers. Compared to 2006, it shows a net increase of euros 2.6 million due to accruals (euros 5.1 million) and utilization (euros 2.5 million) of the year.

Litigation for which no charge can be calculated are described under “Off-balance sheet items”

Provision for contingencies and other charges – euros 42.5 million

This caption shows a net increase of euros 9.0 million on the previous year, due to accruals of euros 22.1 million and utilization of euros 13.1 million of the year, including:

- accruals (euros 14.1 million) for probable adjustments of grid transmission consideration referred to 2005, 2006, 2007 following the technical litigation with a withdrawal dispatching operator;
- accruals for the long-term incentive plan for managers not benefiting from the stock option plan (euros 1.6 million);
- release of the provision for liquidation of additional CIG and CIGS (temporary unemployment compensations) by the Group (euros 5.9 million) pursuant to INPS Memorandum no. 18089 of July 10, 2007, net of the not owed portion for the insurance against involuntary unemployment and mobility (approximately euros 3.9 million);
- charges that will be incurred by the Group in future years, related to tests (scheduled mandatorily and not until three years from the start-up) aiming at assessing good functioning of the plants started-up in 2007 and earlier.

Provision for leaving incentives – euros 10.5 million

This provision reflects the estimated non-recurring charges related to the agreed early termination of the working relationship of employees who are eligible for pension.

27) TAX LIABILITIES, INCLUDING DEFERRED – euros 409.5 million

Changes in this caption are detailed as follows:

In millions of euros	Dec. 31, 2006	IMPACT RECOGNIZED IN PROFITS OR LOSSES		Other changes	Dec. 31, 2007
		Accruals	Utilization		
Land related to buildings	3.7	0.0	0.0	-0.2	3.5
Amortization and depreciation	490.9	3.5	-96.9	1.5	399.0
Financial instruments	1.3	1.9	0.0	-1.3	1.9
Employee benefits	0.0	1.4	0.0	0.0	1.4
Acquisition of new companies	0.0	0.0	0.0	3.7	3.7
TOTAL	495.9	6.8	-96.9	3.7	409.5

Deferred tax liabilities decreased on 2006 by euros 86.4 million mainly due to the combined effect of the following events:

- net utilization of accruals for additional amortization in comparison to the economic-technical portions (euros 20.1 million);
- adjustment for euros -73.4 million to the IRES and IRAP rate applied to provisions for deferred taxes, to better reflect the actual rates applied at payment of temporary differences;
- take over of deferred taxes for euros 3.7 million relating to the acquisition of AEM Torino S.p.A., merged into the subsidiary RTL, with fiscal and accounting effect from the date of acquisition itself, June 30, 2007.

28) OTHER NON-CURRENT LIABILITIES – euros 358.0 million

The caption (euros 358.0 million) increased by euros 51.7 million on 2006 mainly due to:

- roll-over for euros 65.7 million of the portion of Brazilian revenues of 2007, in application of the linearization of the same on the total duration of the concession (a total of euros 201.2 million at December 31, 2007);
- release, for euros 5.1 million, of the portions of grants in connection with depreciation of the year applicable to plants (a total of euros 151.3 million at December 31, 2007);
- release, for euros 8.9 million, of the portion of grants in connection with the grid transport consideration of

the parent to cover the costs in the year of the National Transmission Grid safety plan (at December 31, 2007 the portions, rolled over to subsequent years, are euros 5.5 million).

29) CURRENT LIABILITIES

Current liabilities at December 31, 2007 are detailed as follows:

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Change
Short-term loans*	-	50.0	-50.0
Current portion of long-term loans *	71.8	71.1	0.7
Trade payables	1,772.0	1,280.6	491.4
Tax liabilities	2.3	75.3	-73.0
Current financial liabilities*	20.8	16.0	4.8
Other current liabilities	89.8	112.8	-23.0
TOTAL	1,956.7	1,605.8	350.9

(*) reference should be made to the comments in note 24) Loans and financial liabilities

Trade payables – euros 1,772.0 million

Trade payables at December 31, 2007 are detailed as follows:

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Change
Suppliers			
Suppliers			
- non-energy related payables	274.8	228.4	46.4
- energy-related payables	1,489.2	1,046.9	442.3
Associates - Cesi	7.5	4.4	3.1
Payables for contract work in progress			
Payables for contract work in progress	0.5	0.9	-0.4
TOTAL	1,772.0	1,280.6	491.4

SUPPLIERS

Non-energy related payables

Amounts due to suppliers relate to invoices received and to be received for tenders, services and the purchase of materials and equipment.

The increase on 2006 (euros 46.4 million) is due to purchases and services in the last few months of the year as part of investing activities and maintenance.

Energy-related payables

This caption includes the effects of amounts due for energy in transit on the balance sheet, mainly in connection with the purchase of energy and the transport consideration due to the owners of other portions of the National Transmission Grid. The increase (euros 442.3 million) on 2006 is mainly due:

- for euros 124.9 million, to payables for the purchase of energy on the ancillary service market;
- for euros 96.7 million, to payables related to assignment of rights of utilization of the transmission capacity for interconnections with abroad following AEEG Resolution no. 288/06;
- for euros 103.4 million, to the increase in debt items yet to be defined by AEEG (already at December 2006), for interconnection (euros 16.6 million), CCT returns (euros 82.4 million) and UESS – basic euros 8.3 million), partly offset by the decrease in capacity payment payables (down euros 3.9 million).

Payables to associates

This caption amounts to euros 7.5 million and relates to payables to Cesi S.p.A. for services provided to the parent in the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the general electro-technical field and its technical and scientific progress. Increase (euros 3.1 million) on 2006 is due to higher services in the last part of the year.

Commitments with suppliers for the 2008-2013 period amount to euros 1,727.1 million and fall under normal operations.

PAYABLES FOR CONTRACT WORK IN PROGRESS

This caption amounts to euros 0.5 million at December 31, 2007, in line with December 31, 2006 and is composed as follows:

In millions of euros	Payments on account	Contract value	Balance at Dec. 31, 2007	Payments on account	Contract value	Balance at Dec. 31, 2006
Others	-2.8	2.3	-0.5	-2.8	1.9	-0.9
TOTAL	-2.8	2.3	-0.5	-2.8	1.9	-0.9

Tax liabilities – euros 2.3 million

This caption includes the Group payable for taxes of the year. In particular, it relates to:

- the subsidiary RTL for euros 0.6 million;
- the subsidiary TSN for euros 0.7 million and
- the subsidiary Novatrans for euros 1.0 million

The caption, decreasing by euros 73.0 million on 2006, does not include tax liabilities of the parent Terna S.p.A., because it has paid accounts in excess and is in a credit position towards the tax authorities.

Other current liabilities – euros 89.8 million

Other current liabilities are detailed below:

In millions of euros	Dec. 31, 2007	Due within one year	Due after one year	Dec. 31, 2006	Change
Payments on account	6.8	0.4	6.4	19.7	-12.9
Other tax liabilities	19.9	19.9	0.0	48.4	-28.5
Amounts payable to social security institutions	16.2	16.2	0.0	12.6	3.6
Amounts payable to employees	30.9	30.9	0.0	26.0	4.9
Others	16.0	6.3	9.7	6.1	9.9
TOTAL	89.8	73.7	16.1	112.8	-23.0

PAYMENTS ON ACCOUNT

This caption (euros 6.8 million) includes grants related to plants collected by the parent company for non-current assets still under construction at December 31, 2007.

Compared to 2006 (euros 19.7 million), the caption shows a net decrease of euros 12.9 million mainly due to the net effect of:

- new contributions received from third parties (euros 1.6 million);
- reclassification for euros 16.4 million of contributions which directly reduces the carrying amount of the related assets.

OTHER TAX LIABILITIES

Other tax liabilities, which amount to euros 19.9 million, include euros 9.0 million in relation to the parent, mainly for substitute tax withholdings (euros 6.0 million) as well as deferred indirect tax liabilities for completed acquisitions (euros 2.8 million).

The remaining euros 10.9 million refers to:

- RTL for VAT payables (euros 6.8 million);
- Brazilian subsidiaries for local taxes and withholdings (euros 4.1 million).

The significant decrease of euros 28.5 million on December 31, 2006 is mostly due to the cancellation of the parent company's VAT payables; indeed, at December 31, 2007 it is in a credit position.

AMOUNTS PAYABLE TO SOCIAL SECURITY INSTITUTIONS

This caption amounts to euros 16.2 million (euros 12.6 million at December 31, 2006) and relates to the parent's payables to INPS for December 2007 and settled in January 2008; the caption reports also the payable to Fondo Previdenza Elettrici – F.P.E. (euros 4.8 million).

AMOUNTS PAYABLE TO EMPLOYEES

Amounts payable to employees amount to euros 30.9 million (euros 26.0 million at December 31, 2006) and basically refer to the parent (euros 30.6 million), mainly including:

- termination benefits due to employees whose employment was terminated before December 31, 2007 (euros 9.5 million);
- accruals made for employees' incentives to be paid in 2008 (euros 11.3 million);
- amounts due to employees for vacation and holidays accrued but not taken (euros 6.3 million).

OTHERS

This caption amounts to euros 16.0 million (euros 6.1 million at December 31, 2006) and mostly relates to the parent (euros 13.8 million) and refer to:

- euros 9.7 million for guarantee deposits made in connection with the contractual obligations undertaken by electricity market operators with respect to dispatching contracts;
- euros 1.3 million for the incentives due to grid owners to unify the National Transmission Grid following their intention to sell the grid to Terna (AEEG Resolution no. 73/06).

The caption includes also interests on equity to be paid by the Brazilian companies to minority shareholders (euros 1.4 million).

E) COMMITMENTS AND CONTINGENCIES ARISING FROM OFF-BALANCE SHEET ITEMS

For this paragraph, reference should be made to the correspondent paragraph in the notes to the parent's financial statements as of and for the year ended December 31, 2007, since subsidiaries report no commitments and contingencies arising from off-balance sheet items at the reporting date.

F) BUSINESS COMBINATIONS

Acquisitions - Italy

In the course of the year the Group continued the process of unification of the National Transmission Grid provided for by Law 290/2003 on the rearrangement of the electricity sector and by the subsequent Prime Minister's Decree of May 11, 2004. In particular, RTL - Rete Trasmissione Locale S.p.A., fully controlled by Terna S.p.A., finalized on June 28, 2007 with Iride Energia S.p.A., a company of the IRIDE Group, the acquisition, with effect from June 30, 2007, of the entire share capital of AEM Trasporto Energia Srl and of the 220 kV substation of Moncalieri (Turin), belonging to the National Transmission Grid, pursuant to the agreement signed on April 20, and following the approval of the Antitrust Authority.

The company took the corporate name of "Rete Trasmissione Torino" (in short, RTT Srl) and owns no. 5 stations and more than 200 km of 220 kV and 132 kV transmission lines, partly aerial, partly cable, connecting hydroelectric plants of Valle Orco and co-generation plants of Moncalieri and Vallette to the transformation stations in the metropolitan area.

The share capital, entirely owned by RTL, amounts to euros 23,990 thousand and is made up of no. 23,990,000 ordinary shares of 1 euros each.

Below is shown the recorded amount at the acquisition date, corresponding to the company assets and liabilities measured basing on the relative fair value at such date, and IFRS immediately before the combination. The difference between the price paid for the acquisition of RTT, equal to approximately euros 37.8 million, and fair value of the acquired assets and liabilities assumed and supported, equal to approximately euros 32.4 million, was recognised under goodwill. Such allocation has been carried out following assessments by independent professionals.

In thousands of euros	IFRS carrying amount before combination	Fair value
Non-current assets	25,093.2	32,344.2
1 Property, plant and equipment	24,580.6	31,831.6
4 Deferred tax assets	496.0	496.0
7 Other non-current assets	16.6	16.6
Current assets	5,624.5	5,624.5
2 Trade receivables	2,443.4	2,443.4
4 Cash and cash equivalents	2,834.4	2,834.4
5 Other current assets	346.7	346.7
Total assets	30,717.7	37,968.7
Non-current liabilities	1,464.4	4,199.5
2 Termination benefits and other employee-related provisions	291.8	291.8
3 Provisions for contingencies and charges	32.8	32.8
4 Deferred tax liabilities	1,139.8	3,874.9
Current liabilities	1,342.2	1,342.2
3 Trade payables	1,228.4	1,228.4
6 Other current liabilities	113.8	113.8
Total liabilities	2,806.6	5,541.7
Net identifiable assets and liabilities	27,911.1	32,427.0
Goodwill from acquisition		5,427.3
Consideration*		37,854.3
Cash and cash equivalents		-2,834.4
NET CASH OUTFLOW		35,019.9

* net of National Transmission Grid unification incentive in compliance with AEEG Resolution no. 73/06, equal to euros 313.8 thousand for RTT

On December 18, the merger deed of RTT Srl into RTL S.p.A. was signed, with effect from December 31, 2007, pursuant to the plan for the merger approved on October 12, by the shareholders meetings of RTL S.p.A. and RTT Srl, on the basis of the companies' financial statements at June 30, 2007, with the cancellation of all shares of RTT, in accordance with the methods set out in the plan and, accordingly, without RTL increasing its share capital or provided for a share exchange ratio or cash consideration. The merger took effect for accounting and tax purposes retroactively from July 1, 2007.

In addition, the allocation process of the excess cost paid for the acquisition of RTM1 and RTM2 was completed. The different determination, for euros 41.4 million, of the values of goodwill and other deferred tax liabilities, was reflected in the present financial statements on the comparative data at December 31, 2006. For further information, reference should be made to the notes 14) Goodwill and 27) Tax liabilities, including deferred.

Acquisitions - Brazil

In 2007, the Group continued to grow and expand in Brazil through its subsidiaries. In particular Terna Participações, through its subsidiary TSN - Transmissora Sudeste Nordeste S.A., signed, on August 21, 2007 with Hot Line Construções Elétricas Ltda., the acquisition, with effect from November 30, 2007, of the entire share capital of Goiana Transmissora de Energia S.A. - GTESA and Paraíso Açu per Transmissora de Energia S.A. - PATESA. The companies, at the date of acquisition, were merged into TSN.

GTESA and PATESA are concessionaries of a total of 186 km of 230 kV lines.

To fund the acquisition, TSN carried out a capital increase, entirely subscribed by Terna Participações, for R\$ 93.0 million through the issue of 2,000,000.00 of redeemable preference shares.

Below is listed the amount, for each asset and liability class of the companies in examination, at the date of acquisition:

	R\$	In thousands of euros
Non-current assets	52,415,159.88	18,567.32
1 Property, plant and equipment	48,168,637.98	16,949.99
4 Deferred tax assets	4,246,521.90	1,617.33
Current assets	9,327,269.55	3,552.39
1 Inventories	330,179.78	125.75
2 Trade receivables	1,729,720.70	658.78
4 Cash and cash equivalents	7,156,658.15	2,725.69
5 Other current assets	110,710.92	42.17
TOTAL ASSETS	61,742,429.43	22,119.72
Non-current liabilities	32,008,278.35	10,795.14
1 Long-term loans	19,518,508.05	7,433.84
6 Other non-current liabilities	12,489,770.30	3,361.30
Current liabilities	4,156,857.29	1,583.18
2 Current portion of long-term loans	3,589,387.46	1,367.06
3 Trade payables	62,114.83	23.66
4 Tax liabilities	93,412.98	35.58
6 Other current liabilities	411,942.02	156.89
TOTAL LIABILITIES	36,165,135.64	12,378.32
Net identifiable assets and liabilities	25,577,293.80	9,741.39
Goodwill from acquisition*	67,234,627.81	25,752.70
Consideration	92,811,921.61	35,494.09

* the allocation of the difference between the cost of purchase of GTESA and PATESA and related fair value of assets and liabilities at the date of acquisition, will be made on the basis of the assessment by external professionals

G) RELATED PARTY TRANSACTIONS

As already stated in the Director's Report, to which reference should be made, Terna Group's related party transactions in 2007 are basically represented – apart from subsidiaries, the associate Cesi S.p.A., the joint venture ETAU and employee pension funds (Fondenel and Fopen) – by relations with companies belonging to:

- GSE Group;
- Enel Group;
- Eni Group;
- Ferrovie dello Stato Group;

and with ANAS S.p.A..

The Group is interested in carrying out transactions with these related parties. The following table shows the nature of transactions, assets and liabilities with the related parties as well as the related revenues and costs of the year and receivables and payables at December 31, 2007.

NATURE OF TRANSACTIONS

Related party	Assets	Liabilities
Cesi S.p.A.	Non-energy related items Lease of laboratories and other similar structures for specific uses	Non-energy related items Technical consultancy, studies and research, projects and experimentation
ETAU S.A.	Non-energy related items Active financing	
GSE Group	Energy related items Remuneration of the grid and MIS component, energy sale, rights of withdrawal, rights of use of transport capacity for interconnection Non-energy related items Specialist services (remote console), leases, IT services	Energy related items Purchase of energy, rights of use of transport capacity for interconnection -
Enel Group	Energy related items Remuneration of National Transmission Grid and measures aggregation, energy sale, rights of withdrawal, cover of transmission costs, rights of use of transport capacity for interconnection Non-energy related items Leases and rents, line maintenance	Energy related items Measures aggregation, energy sale, rights of use of transport capacity for interconnection, cover of congestions costs, congestions unearned income Non-energy related items Restitution of electric power discount, personnel administration, IT services, building service, supply of MV to new stations, specialized services for control and defence of Terna
ENI Group	Energy related items Remuneration of National Transmission Grid and measures aggregation, energy sale, rights of withdrawal, cover of transmission costs, rights of use of transport capacity for interconnection Non-energy related items Line maintenance	Energy related items Energy purchase, congestions costs cover, National Transmission Grid remuneration -
Ferrovie Group	- Non-energy related items Lines moving	Energy related items National Transmission Grid compensation Non-energy related items Easements (rights of way)
Anas S.p.A.	Non-energy related items Lines moving	Non-energy related items Easements (rights of way)
Fondenel and Fopen		Non-energy related items Social security contributions borne by Terna Group

In millions of euros	INCOME STATEMENT BALANCES					
	REVENUES			EXPENSES OF THE YEAR		
	Grid transmission considerations and other profitable energy items	Energy items in transit	Non-energy related items	Grid transmission considerations and other profitable energy items	Energy items in transit	Non-energy related items
Associates						
Cesi S.p.A.			0.1			1.7
Total associates	-	-	0.1	-	-	1.7
Joint ventures						
ETAU S.A.						
Total joint ventures	-	-	-	-	-	-
Other associates						
GSE Group	14.0	1,870.8	1.1		797.0	
Enel Group	869.4	1,158.9	23.8	12.5	2,181.0	14.0
Eni Group	6.1	199.7	0.3	0.7	42.1	
Ferrovie Group			0.1	6.5		0.1
ANAS S.p.A.			0.3			
Total other associates	889.5	3,229.4	25.6	19.7	3,020.1	14.1
Pension funds						
Fondenel						0.4
Fopen						1.4
Total pension funds	-	-	-	-	-	1.8
TOTAL	889.5	3,229.4	25.7	19.7	3,020.1	17.6

In millions of euros	BALANCE SHEET BALANCES				
	Capitalised costs	Non-current financial assets	Receivables	Payables	Bank guarantees*
Associates					
Cesi S.p.A.	10.0		0.1	7.5	2.2
Total associates	10.0	-	0.1	7.5	2.2
Joint ventures					
ETAU S.A.		1.6			
Total joint ventures	-	1.6	-	-	-
Other associates					
GSE Group			6.3	1.5	
Enel Group	6.5		155.0	77.3	177.4
Eni Group			24.9	3.0	14.2
Ferrovie Group			0.1	0.1	
ANAS S.p.A.			0.8		
Total other associates	6.5	-	187.1	81.9	191.6
Pension funds					
Fondenel					
Fopen				1.3	
Total pension funds	-	-	-	1.3	-
TOTAL	16.5	1.6	187.2	90.7	193.8

* the guarantees refer to the bank guarantees received on signed contracts

H) SIGNIFICANT NON-RECURRING TRANSACTIONS AND EVENTS AND ATYPICAL OR UNUSUAL TRANSACTIONS

No significant, non-recurring, atypical or unusual transactions were carried out during the year, either with third or related parties except for the examples commented earlier.

I) NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Cash flows generated by operating activities during the year amounted to approximately euros 615.5 million and include operating activities before changes in net working capital (euros 1,013.2 million) and outflows to fund the change in working capital (approximately euros 397.7 million). Investing activities also used net financial resources of approximately euros 656.6 million. In particular, euros 574.7 million were invested in property, plant and equipment (total amount is euros 591.1 million net of grants for plant construction collected in 2007 and amounting to euros 16.4 million) and euros 24.9 million were used in investing activities in intangible assets; property, plant and equipment increased following the acquisition of RTT for euros 31.8 million and of GTESA and PATESA for euros 16.9 million (reference should be made to “F) Business Combinations”), as well as the investment for euros 23.3 million, relating to the acquisition by Terna Participações of the joint interest in ETAU.

The net variation of cash flows shows an increase of approximately euros 76.0 million, attributable essentially to the increase in the medium/long term indebtedness, including short-term portion (euros 398.4 million) net of the variation in FVH derivatives (euros 68.9 million) and the relative exchange rate effect (euros 31.8 million) partially offset by the distribution of the 2006 dividends (euros 185.4 million) and 2007 interim dividend to the parent’s shareholders (euros 112.0 million) and to the minority shareholders of the Brazilian subsidiaries (euros 13.9 million).

Due to these changes, cash flow generated in 2007 is approximately euros 43.6 million.

L) SUBSEQUENT EVENTS

2008-2012 business plan

On January 31, 2007, the Group presented financial analysts with its 2008-2012 business plan, approved by the the Group’s Board of Directors.

The Terna Group's 2008-2012 business plan focuses on four main guidelines:

- development of the National Transmission Grid: the investment plan provides for a total expenditure of euros 3.1 billion from 2008 to 2012, with a euros 400 million increase on the previous plan. Development investments account for 80% of total investments, up from euros 2.2 billion to 2.5 billion;
- cost cutting with an increase in profits margins: in particular, by rationalizing costs for regulated activities in Italy. The plan provides for a reduction of approximately euros 50 million in total Business Unit Italy costs in the years covered on a like-for-like basis; gross operating margin is expected to increase from 71% to 75% at the end of the plan due to gradual increase of revenues;
- guaranteed high security of the electrical system and reliability of the National Transmission Grid in line with international best practices;
- Brazil: creation of value through operating efficiencies, also related to recent acquisitions.

Credit rating confirmation

On February 13, 2008, Standard & Poor's Ratings Services confirmed the Group's long-term rating of AA- and short-term rating of A-1+. Outlook was changed from stable to negative.

Standard & Poor's, following presentation of the new business plan, highlights the possible negative financial impact of the investments scheduled for the development of the National Transmission Grid and of the growth strategy of the Group.

Agreement with Region of Piemonte for the sustainable development of the transmission grid

On February 27, 2008 Region of Piemonte and Terna signed a Programmatic Agreement on strategic objectives for the powering and rationalisation of the transmission electric grid in Piemonte. The aim of this agreement is to increase safety and quality of service and to eliminate congestions, increasing transported power, improving grid accountability and reducing environmental impact of long distance power lines. Terna scheduled investments in Piemonte amounting to more than euros 600 million in the next years, which accounts for more than 11% of the total amount allocated for safety, renovation and accountability for the high-voltage transmission grid in Italy.

Information under art. 149 *duodecies* of CONSOB's Issuer Regulations

The following table, pursuant to art. 149 *duodecies* of CONSOB's Issuer Regulations, shows compensations on an accrual basis of 2007 for auditing services and non auditing services provided by the same auditing company to Terna Group. No services were granted by companies belonging to its network.

In thousands of euros	Company	Amounts due for 2007 Italy	Amounts due for 2007 Abroad
Auditing and financial statements	KPMG S.p.A.	229.9	193.6
Certification services	KPMG S.p.A.	196.7	
TOTAL		426.6	193.6

Certification of the Consolidated Financial Statements pursuant to art. 154 *bis* of Legislative Decree no. 58/98

Certification of the Consolidated Financial Statements pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14, 1999, as amended

1.. The undersigned, Flavio Cattaneo (as Chief Executive Officer), and Luciano Di Bacco (as the Manager responsible for preparing Terna S.p.A.'s financial reports), hereby certify, having also taken into consideration the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of February 24 1998, that:

the administrative and accounting procedures for the preparation of the Consolidated Financial Statements for the 2007 fiscal year:

- are adequate with respect to the company structure and
- have been effectively applied.

2. No significant issues arose.

3. The undersigned also certify that the Consolidated Financial Statements at December 31, 2007:

- a) correspond to the results documented in the books, accounting and other records;
- b) have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (as well as with the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38/2005) and based on their knowledge, fairly and correctly present the financial condition, results of operations and cash flows of the issuer and of the Group companies included in the scope of consolidation.

March 27, 2008

Chief Executive Officer

Manager responsible for preparing Terna S.p.A.'s
financial reports

Flavio Cattaneo

Luciano Di Bacco

(Signed on the original)

This report has been translated into the English language solely for the convenience of international readers.



REPORTS

REPORT OF THE BOARD OF STATUTORY AUDITORS ON TERNA GROUP CONSOLIDATED FINANCIAL STATEMENT AS OF DECEMBER 31, 2007

To the Shareholders' Meeting of TERNA S.p.A.,

TERNA's consolidated financial statement as of December 31, 2007 was drawn up by the Parent Company TERNA S.p.A. ("Company", "TERNA", "Parent Company"), according to the international accounting principles (IAS/IFRS) and comprises the Balance Sheet, the Income Statement, the Summary Statement of Changes in Equity, the Notes to the Consolidated Financial Statements, the Statement of Cash Flows and it is also supplemented by the Directors' Report.

In particular, with reference to the Notes to the Consolidated Financial Statements, the following is pointed out:

- the area of consolidation extends to the equity investments in which the Parent Company applies, directly or indirectly, financial and operational policies in order to obtain benefits deriving from its activities. This area, with respect to the previous year, shows a variation deriving from the merger for the incorporation of RTM1 S.p.A. and RTM2 S.p.A into RTL S.p.A, the establishment of inTERNational S.p.A, as well as the acquisition on the part of Terna Participações of 99.99% of Lovina Participações S.A. and of 52.58% of ETAU;
- the criteria adopted for consolidation is the integral one and consolidation has determined a positive difference classified as Goodwill.

In particular, the impairment test gave rise to a recoverable value of the abovementioned Goodwill which exceeded its book value.

Furthermore, the Notes to the Consolidated Financial Statements, provide a clear account of the policies used in drawing up the financial statements, the accounting standards selected and applied, the nature and the economic and financial results of the transactions with related parties.

TERNA Group's Consolidated Financial Statements indicates the balance-sheet format selected among those specified in IAS 1.

Specifically, the Balance Sheet was drawn up according to the classification of assets and liabilities as current and non-current, the Income Statement was classified on the basis of the nature of costs, while the Statement of Cash Flows was presented using the indirect method.

Moreover, for each item of the Balance Sheet, Income Statement, Statement of Changes in Equity and Statement of Cash Flows, the relative notes have been systematically prepared, as required by IAS 1.

As a consequence of the indications received and the assessments carried out, the consolidated financial statements, as far as their elaboration and structure are concerned, appear to be in compliance with the international accounting standards, which were correctly applied.

We would also like to point out the following:

- the correspondence of the Consolidated Financial Statements to facts and information that we are aware of, following the fulfilment of our duties;
- the Directors' Report of the Terna Group is complete, pursuant to art. 2428 of the Civil Code.

To conclude, in view of the above and also considering the results of the activity carried out by the Independent Auditors KPMG S.p.A., no significant facts have emerged worthy to be mentioned in this Report.

Rome, April 7, 2008

THE BOARD OF STATUTORY AUDITORS

(Signed on the original Italian version)



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

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

To the shareholders of
 TERNA S.p.A.

- 1 We have audited the consolidated financial statements of TERNA S.p.A. and its subsidiaries ("TERNA Group") as at and for the year ended 31 December 2007, comprising the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and notes thereto. These consolidated financial statements are the responsibility of the parent's directors. 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present the prior year corresponding figures for comparative purposes. As disclosed in the notes, the parent's directors restated such corresponding figures included in the prior year consolidated financial statements which we audited and issued our report thereon on 7 May 2007. The directors also disclosed that such restatement was necessary under IAS 8 and only related to the captions of the separate financial statements of foreign subsidiaries with regard to revenue recognition, deferred tax assets and minority interests. We have examined the methods used to restate the prior year corresponding figures and related disclosures to the extent that we considered to be necessary to express an opinion on the consolidated financial statements at 31 December 2007.



TERNA Group
Report of the auditors
 31 December 2007

- 3 In our opinion, the consolidated financial statements of the TERNAL Group as at and for the year ended 31 December 2007 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38 of 28 February 2005. Therefore, they are clearly stated and give a true and fair view of the financial position of the TERNAL Group as at 31 December 2007, the results of its operations, changes in its equity and its cash flows for the year then ended.

Rome, 7 April 2008

KPMG S.p.A.

(Signed on the original)

Bruno Mastrangelo
 Director of Audit



ATTACHMENT - CORPORATE GOVERNANCE 2007

TRADITIONAL ADMINISTRATION AND MANAGEMENT MODEL

ISSUER: «TERNA – RETE ELETTRICA NAZIONALE SOCIETÀ PER AZIONI» (IN BRIEF TERNA S.P.A.)
WEB SITE: WWW.TERNA.IT
REPORTING PERIOD: 2007
DATE OF APPROVAL: MARCH 11, 2008

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FOREWORD

Terna complies with the new Corporate Governance Code for listed companies published by Borsa Italiana in March 2006 (Corporate Governance Code). It has approved updates to the corporate governance system in place to meet its commitments arising there from, as described below.

The Corporate Governance system in place at Terna is in line with the principles of the Corporate Governance Code for listed companies, CONSOB recommendations in this respect and, more generally, international best practices. This corporate governance system is mainly based on creating value for shareholders, taking into account the social significance of the Group's activities and the resulting need to adequately consider all stakeholders in the performance of those activities.

SECTION I: ISSUER'S PROFILE - CORPORATE STRUCTURE

Issuer's profile

Mission

Terna - Rete Elettrica Nazionale is a major electricity transmission grid operator.

It provides services under concession agreements and ensures safety, quality and cost effectiveness over time. It ensures equal conditions of access to all grid users.

It develops market activities and new business opportunities with the experience and technical skills gained in the management of complex systems.

It creates value for the shareholders with a strong commitment to professional best practices and with a responsible approach to the community, respecting the environment in which it operates".

Social Responsibility

Terna, maintaining that the sense of responsibility towards the social and environmental effects of its activities influence the management aspects and is translated into programmes, actions and initiatives aiming at generating and preserving trust from interlocutors, has identified sustainability as a characterising feature of its activities.

Main Corporate Social Responsibility (CSR) features for Terna are provided by the Company mission and the Code of Ethics.

Assuming sustainability as a guiding feature, Terna has defined its responsibilities and established objectives in the economic, environmental and social area. To these, considering its role in the electric

system, Terna has added the specific responsibility for the electric system.

From the point of view of sustainability the environment and the territory are particularly important. The physical presence of lines and stations and their interaction with the environment and the territory are indeed crucial for Terna's activities. That's why Terna has chosen the model of negotiation with local institutions, to take environmental needs into consideration from the early stages of the planning of new lines, and has developed a management system to control and contain environmental impact of its activities. Thus, consideration of environmental issues converges towards Terna's interests in implementing investments of grid development and the more general interest of community for a dependable, cheap and environmentally safe electric system.

The management approach adopted, objectives and results are presented in the Sustainability Report, published yearly. The 2006 edition was written in compliance with the *G3 Sustainability Reporting Guidelines* of the *Global Reporting Initiative* and verified by an auditing company. The level of application of *G3 Guidelines* was marked B+.

Among the main results of 2007 for CSR it is worth mentioning:

- the People Satisfaction survey which set the conditions for improvement of treatment of employees in the areas they indicated as priority;
- important interventions to dismantle old lines of high environmental impact;
- achievement of ISO 14001 for environment and OHSAS 18001 for work safety and health. These certifications add to the ISO 9001 certification Terna obtained in 2001, creating an integrated system of quality – environment – safety able to improve effectiveness of Company processes and to support at the same time a high level of social and environmental responsibility.

On September 13, 2007 Terna was confirmed in FTSE4Good (FTSE4Good Global and FTSE4Good Europe), the stock exchange index that selects the companies that stood out for sustainability.

Corporate organization

In accordance with the provisions of Italian legislation concerning listed companies, the Company's organization includes the following:

- a Board of Directors responsible for Company management. To such aim, the Board is invested with the widest powers so as to complete all the actions that it thinks appropriate for the performance and the attainment of the corporate purpose; excluding only the actions that the law and the Bylaws reserve for the Shareholders' Meeting;

- a Board of Statutory Auditors responsible for monitoring: (I) that the Company complies with the law, the memorandum of association and the principles of correct administration in performing Company activities, (II) the adequacy of the Company's organizational structure, internal control system and administrative/accounting system. It is also responsible for carrying out all duties assigned to the Board of Statutory Auditors by law and the Corporate Governance Code for listed companies;
- the shareholders, called for ordinary and extraordinary meetings to resolve on, *inter alia*: (I) the appointment and revocation of members of the Boards of Directors and Statutory Auditors and their fees and duties, (II) the approval of the financial statements and allocation of the profit for the year, (III) the purchase and sale of treasury shares, (IV) amendments to the Bylaws, and (V) the issue of convertible bonds;
- an Executive in charge of the preparation of the Company's accounting documents, who is given all assignments and responsibilities provided by Law and regulations as well as those provided for by the Corporate Governance Code (art.8.C.3).

Auditing activities are conferred on a specialized company registered in CONSOB record, which is specifically appointed by the shareholders with the prior approval of the Board of Statutory Auditors.

Terna's auditors also audit its main subsidiaries.

Further to this prohibition of supply of certain services imposed to audit companies by Legislative Decree no. 58/98 (Consolidated Finance Act) and by the "Implementation regulation of the Legislative Decree no. 58 of February 24, 1998, regarding discipline of issuers" adopted by CONSOB (Issuer Regulations), the Organization Model of the Company pursuant to Legislative Decree no. 231/01, which was recently updated, provides that auditing of the Company's financial statements and that of any company of the Group and of the consolidated financial statements is not compatible with consultancy activities for Terna or any company of the Group, extending to all network of the audit company as well as shareholders, directors, members of control bodies and employees of the audit company and of the others belonging to the same network. The assignments to the audit company is submitted to Terna's Internal Control Committee for any assignment other than the one given under provisions of law, in any event related to audit activities. In order to ensure independence of the company and the audit responsible, the assignment for the audit of the Company's financial statements and that of any company of the Group and of the consolidated financial statements is not in any case given to audit companies that fall within one of the incompatibility situations pursuant to Part III, Title VI, Head I-*bis* of the Issuer Regulations.

Terna's Shareholders' Meeting of May 24, 2007 approved the Bylaws amendments necessary for the adjustment to the provisions regarding listed companies under Law no. 262 of December 28, 2005 and Corrective Decree no. 303 of December 29, 2006 which are in line also with existing implementation acts issued by CONSOB.

With reference to the appointment of the Directors and Auditors, such modifications will be applied on the next expiration of the corporate bodies, following the approval of the 2007 financial statements.

SECTION II: INFORMATION ON SHAREHOLDING STRUCTURE

Share capital structure

The Company's share capital at March 11, 2008 amounts to euros 440,139,084 and is composed exclusively of nominal ordinary shares, for a total of 2,000,632,200 ordinary Terna shares with a nominal value of euros 0.22 each. They are fully paid-up and bear voting rights at both the ordinary and extraordinary shareholders' meetings. Ordinary shares bestow further administrative and financial rights provided for by law regulating the shares with right to vote.

Terna's shares are listed on the Electronic Stock Exchange organised and managed by Borsa Italiana S.p.A. (Blue Chip segment).

The Shareholders' Meeting, pursuant to art. 5.2 of Company Bylaws, can approve capital increase through share issues, also belonging to special categories, to be assigned free of charge pursuant to art. 2349 of the Italian Civil Code to employees, or rather as payment, and with the exclusion of the right of option under art. 2441 of the Civil Code in favour of subject identified by shareholders.

Relevant participations in share capital and shareholders agreements

On the basis of the shareholders' book, communications received pursuant to CONSOB Resolution no. 11971/99 and available information, and with reference to the Company's share capital at March 11, 2008, equal to euros 440,139,084 for a total of 2,000,632,200 ordinary Terna shares with a nominal value of euros 0.22 each, the following investors hold more than 2% of the share capital: Cassa Depositi e Prestiti S.p.A. (public limited company in which the Italian Ministry of Economy and Finance owns 70%) with 29.991%; Pictet Asset Management S.A. with 5.166%; Enel S.p.A. with 5.117%.

No other investors own more than 2% of Terna S.p.A.'s share capital and the Company is not aware of the existence of any shareholders' agreement relating to Company shares.

Power to increase share capital and authorization for the purchase of treasury shares

The Extraordinary Shareholders' Meeting of April 1, 2005 approved the assignment of a five-year proxy to the Board of Directors for the share capital increase for maximum euros 2,200,000, through the issue of maximum 10,000,000 ordinary shares with a nominal value of euros 0.22 each, on dividend-right basis, to be offered for subscription to Terna Group managers as payment with exclusion of the right of option under the combined provisions of art. 2441, last subsection, of the Civil Code and art. 134, second subsection, of Legislative Decree no. 58 of February 24, 1998 (Consolidated Finance Act), as provided for by art. 5.3 of the Company Bylaws.

Pursuant to Shareholders' Meeting resolution of April 1, 2005, on December 21, 2005, Terna Board of Directors adopted a share-based incentive plan. With reference to the adopted plan, the Board of Directors of March 21, 2007 partially exercised the above-mentioned proxy, approving a share capital increase regarding the 2006 stock option plan up to maximum euros 2,198,240.00 through the issue of maximum 9,992,000 new ordinary Terna shares with a nominal value of euros 0.22 each, at euros 2.072 each, to be implemented in compliance to art. 5.4 of the Bylaws. The maximum term for the total subscription of the increase is March 31, 2010.

The 2006 stock option plan is currently the only existing plan in Terna S.p.A.

Share-based incentive plan adopted by the Board of Directors following the Resolution dated April 1, 2005, is detailed in Terna S.p.A.'s Director's Report to the financial statements at December 31, 2007

(paragraph “Managerial incentive systems” in “Human Resources”), as well as in Terna S.p.A.’s Director’s Report to the financial statements at December 31, 2006 (pages 54 and 121), and in the Director’s Report to the financial statements at December 31, 2005 (pages 104 and following) available at Company’s website www.terna.it under Investor Relations section – Reports – and in the information note of September 14, 2007 pursuant to art. 84 *bis* of CONSOB’s Issuer Regulations – available at www.terna.it under “Investor Relations-Press Room - Press Releases (Price Sensitive) 2007” (all documents to which reference should be made).

No other power to increase capital has been assigned, pursuant to art. 2443 of the Civil Code.

No resolution authorizing the purchase of treasury shares under art. 2357 and following of the Civil Code has been submitted to Terna Shareholders’ Meeting.

Terna does not own, nor has purchased or sold during the year, not even indirectly, treasury shares nor subsidiaries’ shares.

Change of control clauses

As regards significant agreements Terna or any subsidiary is part of and that come into effect, are amended or expire in the event of control change in Terna is worth mentioning what follows.

An agreement for syndicated loan of euros 750 million granted to Terna S.p.A. by a bank pool provides that, as usual for this type of transactions, changes in Company’s control, pursuant to art. 2359 numbers 1 and 2, subsection 1 of the Civil Code, could determine early refund of the line of credit utilization along with the closure of the line itself, in the event that Company’s credit rating decreases below BBB- and 2/3 of financing banks approve the loan refund as necessary.

As regards concessions for electric energy transmission granted in Brazil to companies indirectly controlled by Terna S.p.A., there are clauses that request authorization from the granting local authority in the event of change, direct or indirect, of control.

Moreover, some financing contracts signed by these Brazilian companies with BNDES (Banco Nacional de Desenvolvimento Econômico e Social) request preventive approval from the latter in the event of change in control.

Restrictions of share transfer and special powers

Pursuant to Italian regulations concerning privatizations, the Bylaws provide for the possibility for the Government to exercise certain “special powers” and establishes a “maximum limit of share ownership” – equal to a direct and/or indirect ownership of Terna shares for more than 5% of the share capital – for subjects other than the Italian Government, state-controlled companies and entities subject to either control: the implementation of those provisions, in some circumstances indicated by the Bylaws, has effects also on the right of vote.

“Special powers” (indicated by art. 6.3 of the Bylaws, pursuant to art. 2, subs. 1, of the Legislative Decree no. 332 of May 31, 1994, converted with modifications by Law no. 474 of July 30, 1994 and following integrations and amendments - “Privatization Law” - as provided for by art. 4, subs. 227, of Law no. 350 of December 24, 2003) can be exercised by the Italian Government, represented in this case by the Ministry of Finance and Economy, notwithstanding the number of Terna S.p.A. shares potentially owned by the Ministry itself.

In particular, the Ministry of Finance and Economy, as agreed with the Ministry of Productive Activities, is attributed the following “special powers”:

- a. opposition to relevant ownerships (that is equal or higher than 1/20 of Terna S.p.A. share capital constituted by shares granting right to vote in ordinary Shareholders’ Meetings) by entities subject to the ownership restriction presented above. The opposition must be expressed within 10 days from the date of the communication, which must be made by Directors at the request of subscription in the shareholders’ book, only when the operation is susceptible to put vital public interest into jeopardy. In arrears, right of vote and non-financial rights related to shares representing the relevant ownership, are suspended;
- b. opposition to shareholders’ agreements under Legislative Decree no. 58 of February 24, 1998 (Consolidated Finance Act), in case at least 1/20 of Terna share capital including shares granting right to vote in ordinary Shareholders’ Meetings, is thereby represented. Opposition must be expressed within 10 days from the date of communication that must be made by CONSOB. In arrears, right of vote and the rights other than financial related to shares of shareholders partaking into the agreement, are suspended;
- c. veto, dutifully motivated, in relation to concrete jeopardy of the public interest, at the adoption of provisions for the winding-up of the Company, of transfer, merger, scission, moving abroad of the

registered offices, of Company corporate purpose change, of Bylaws amendments suppressing or modifying powers indicated by the same art. 6.3 of the Bylaws;

- d. appointment of one Director with no right to vote. In case of cessation of the assignment of the appointed Director, the Minister of Economy and Finance, in agreement with Minister for Productive Activities, will appoint the substitute.

The power of opposition under letters a) and b) can be exercised with reference to the single operation. It can also be exercised when ownership, also through single purchase acts, increases beyond expectations. Such power can also be exercised every time the need to protect mandatory public interest arises, within ten days from their actual manifestation. In this case, the act of exercising the state power must include explicit and motivated reference to the date such causes arose.

The special powers under letters a), b), c) and d) are exercised with respect of the criteria provided for by the Prime Minister's Decree of June 10, 2004.

The "maximum limit of share ownership" (provided for by art. 6.4 of the Bylaws and pursuant to art. 3 of Legislative Decree no. 332 of May 31, 1994, converted with modifications by Law no. 474 of July 30, 1994 and following amendments and additions, ("Privatization Law") is calculated considering total share ownerships related to the parent, natural person or legal entity or company; to all direct and indirect subsidiaries as well as the subsidiaries under the same controlling subject; to all associated subject as well as to natural persons bound by parental or affinity relationships up to second grade and marriage, in the event the husband/wife is not legally separated. Control recurs, also with reference to subjects other than companies, in cases provided for by art. 2359, subs. 1 and 2, of the Civil Code. Association recurs in hypothesis under art. 2359, subs. 3, of the Civil Code as well as between subjects who, directly and indirectly, through subsidiaries other than those exercising common investment funds, adhere, also with third parties, to agreements related to the exercise of the right of vote or to the transfer of shares or portions of third companies or, anyway, to agreements or pacts as per art. 122 of Legislative Decree no. 58 of February 24, 1998 (Consolidated Finance Act), with reference to other companies, if these agreements or pacts refer to at least 10% of the share capital with right to vote, in case of listed companies, or 20% in case of non listed companies. With reference to the calculation of the above-mentioned limit of share ownership (5%), shares owned through trustees and/or through a third person and, generally, via intermediary person are also considered.

Such limit of share ownership decays, if exceeded due to a take-over bid carried out under art.106 or 107 of Legislative Decree no. 58 of February 24, 1998 (Consolidated Finance Act).

The right of vote related to share ownership exceeding the above-mentioned maximum limit cannot be exercised and proportionally reduces the right to vote of each subject to whom the limit in share ownership refers, except in the event of joint communications by involved shareholders. In case of incompliance, decision can be appealed under art. 2377 of the Civil Code if the requested majority would not be achieved without the votes exceeding above-mentioned limit. Shares for which the right to vote cannot be exercised are calculated anyhow for regular constitution of Shareholders' Meeting.

Restrictions of the right to vote

Pursuant to privatization regulations, there are certain restrictions (under art. 6.3 and 6.4 of the Bylaws) of the right to vote related to the exercise of "special rights" of the Italian State and to the limits of share ownership as mentioned earlier.

Further restrictions are applied to operators of the electricity sector (as provided for by art. 3 of the Prime Minister's Decree of May 11, 2004 as regards "criteria and modalities and conditions for unification of ownership and management of national transmission grid") for which a limit equal to 5% of the share capital at the exercise of the right of vote in case of Directors' appointment (art. 14.3 lett. e) of Company's Bylaws).

Appointment and substitution of Directors and Bylaws amendments

Appointment, requirements and term of office of Directors

The Board of Directors is made up of seven to thirteen members who are appointed for a period not longer than three years (art 14.1 of the Bylaws) and they may be reappointed at the end of their term. Another Director without voting rights may be appointed by the Italian Government, pursuant to privatization regulations. To date, the Italian Government has not yet used this appointment power.

The Chairman is appointed by the Shareholders' Meeting among the members of the Board (art. 16.1 of Bylaws and art. 2380 *bis* sub. 5 of the Civil Code). In case of impossibility, by the Board itself.

The Board can appoint Deputy Chairman. In no case such positions can be covered by Directors appointed by the Italian Government under privatization regulations (art. 16.1 of the Bylaws).

The Board of Directors, within the limits as per art. 2381 of the Civil Code, can give own attributions to an executive committee and/or one or more of its members (art. 22.1 of the Bylaws).

The Director must meet the requirements of honour, professionalism and independence.

The Company's Directors must meet certain integrity and professionalism requirements, similar to those required by the Statutory Auditors of listed companies (art. 15.2 of the Bylaws).

The appointed Directors must communicate without hesitation the loss of requirement as per current regulations and the Bylaws to the Board of Directors, as well as any cause of ineligibility or incompatibility (art. 14.3 of the Bylaws).

As regards requirements of professionalism, the Bylaws (art. 15.3) provide that they cannot be appointed as Director and, if so, must resign, those who have not matured experience of at least three years in:

- activities of administration, control or managing in companies having a share capital not inferior to euros 2 million; or
- professional activities or university teaching in legal, economic, technical/scientific financial fields, closely related to the activities of the Company as defined in the art. 26.1 of the Bylaws; or
- managing functions in public bodies or public administration in the finance and insurance fields or, however, in fields closely related to that of the Company, as defined by the art. 26.1 of the Bylaws (matters such as trade right, tax right, business economy and finance, as well as matters and fields inherent to energy in a generalized manner, the network communications and structures, are to be considered as closely related to the Company's scope of activities).

With greater rigor than what provided for by the art. 147 *ter* sub. 4 of Consolidated Finance Act and in line with what provided for by art. 3 of the Prime Minister's Decree of May 11, 2004, at least 1/3 of the Directors in force must also be in possession of specific requirements of independence under art. 15.4 of the Bylaws that recalls requirements of the Auditors indicated by art. 148, sub. 3, of Consolidated Finance Act; to the executive Directors considering the specific activity carried out by the Company, requirements of independence provided by art. 10 of Directive 2003/54/EC finally turn out to be applicable under art. 15.5 of the Bylaws.

The presence of “independent” Directors as provided for by the 2006 Corporate Governance Code for listed companies of Borsa Italiana, becomes important in the composition of the Board Committees, as provided for by the Code itself.

The Board of Directors assesses the presence of honour, professionalism and independence requirements for every one of its members and periodically assesses the presence of requirements of independence for every one of its non-executive members, considering information supplied by each member. The Company is equipped with a specific internal procedure that defines the criteria for the assessment of independence of the non-executive members and for the assessment of requirement demands of the Bylaws and the Corporate Governance Code (“Criteria of application and procedure for the assessment of independence of the Directors pursuant to art. 3 of the Corporate Governance Code”). Such procedure demands the assessment of requirement following the appointment, that is every time events take place that can interfere with independence of a Director and however at least once a year (in the 30 days before approval of the financial statements).

The appointment of the entire Board of Directors takes place – in compliance with the privatization regulations, under Prime Minister’s Decree of May 11, 2004 and in compliance with provisions of the Italian law for listed companies – according to the mechanism of the “list voting”, aiming at guaranteeing presence in the management body of members designated by minority shareholders equal to 3/10 of the Directors to be appointed with rounding, in case of inferior fractional number to the unit, to the following unit (art. 14.3 of the Bylaws). Such system – which does not apply to the appointment of the Director designated by the Italian Government – states, in line with the provisions of art. 4 of Legislative Decree no. 332 of May 31, 1994 converted into Law no. 474/94 (“Privatization Law”) and of art. 144 *undecies* of the CONSOB’s Issuer Regulations, that the lists of candidates can be presented to the outgoing Board of Directors or shareholders who, alone or with other shareholders, represent at least 1% of the share capital. It is also provided that the lists are deposited at the registered offices and published on national newspapers with a consistent advance from the date of the Shareholders’ Meeting – the set term is at least 20 days if the list is presented by the outgoing Board of Directors and at least 15 days if the lists are presented by the shareholders – guaranteeing a transparent procedure for the appointment of the Board of Directors as recommended by art. 6.C.1 of the Corporate Governance Code of listed companies published by Borsa Italiana in March 2006. The lists indicate the candidates complying with the independence requirements provided for by Law and art. 15.4 of the Bylaws and are provided with exhaustive information about the personal and professional characteristics of the candidates, accompanied by the indication of their suitability to independence

requirements provided by law, Bylaws and the Corporate Governance Code which Terna has adopted. The lists are also provided with the declarations with which the single candidates accept their own candidacy and attest, under their own responsibility, the non existence of ineligibility and incompatibility causes, and the existence of requirements prescribed by law and Bylaws for the respective positions and every other information demanded by the discipline, also prescribed, and by the Bylaws (art. 14.3 of the Bylaws).

Such documents are deposited at registered offices along with the lists and are immediately published in the Company's website based on a specific item of the notice of call of the Shareholders' Meeting and in line with the provisions of art. 6.P.1 of the Corporate Governance Code.

With at least five days advance on the set date of the Meeting in first call, copy of the documentation proving the necessary number of shares for the lists submission must be presented and/or delivered to the registered offices. It must be remembered that, according to what provided for by art. 147 *ter*, sub. 3, of Consolidated Finance Act, at least one of the members of the Board of Directors is appointed by the minority list that has obtained the highest number of votes and is not connected in some way, not even indirectly, with the associates who have introduced or voted the list that won for a number of votes. The Bylaws provides finally – in compliance with what provided for by the Prime Minister's Decree of May 11, 2004 for operators of the electric sector – a limit equal to 5% of share capital as regards exercise of the right of vote during the appointment of the Directors according to what mentioned earlier.

Bylaws amendments

As provided for by art. 3, sub. 3, of the Legislative Decree no. 332 of May 31, 1994, converted with modifications by Law no. 474 of July 30, 1994 and art. 3, sub. 2, lett. c) of the Prime Minister's Decree of May 11, 2004, the measures as per art. 6.4 of the Company's Bylaws relative to the "maximum limit of share ownership" and those contained in the Bylaws that have the purpose to ensure protection of the share minorities, cannot be modified for a period of three years from the date of effectiveness of the transfer to Terna of the activities, functions, assets and relationships inherent to the management of the national transmission grid as per art. 1, sub. 1, of the Prime Minister's Decree of May 11, 2004 (November 1, 2005).

Indemnities for Directors in case of resignation, discharge or termination of assignment following a public take-over bid

There are no agreements between the Company and the Directors that provide indemnities in case of resignation or revocation of assignment or if the same decays pursuant to a public take-over bid.

SECTION III: COMPLIANCE

The Corporate Governance system of the Company turns out substantially in line with the principles contained in the Corporate Governance Code of listed companies published by Borsa Italiana in March 2006 which Terna has adopted, as illustrated before, with deliberation of the Board of Directors of December 21, 2006.

Further actions aimed at improvement of the system of governance are being carried out and others will be taken into consideration for the constant update of the system to the best practices.

SECTION IV: MANAGING AND COORDINATION ACTIVITIES

Terna turns out to be subject to the *de-facto* control of Cassa Depositi e Prestiti S.p.A. with a 29.991% ownership of the share capital. The assessment, from which the existence of such control emerged, has been carried out by Cassa Depositi e Prestiti S.p.A. and made public on April 19, 2007. Up to the reporting date, it has not been formalized nor exercised any activity of direction and coordination.

SECTION V: BOARD OF DIRECTORS

Composition

On November 2, 2005, the Board of Directors currently in office is composed of ten members, whose term will lapse with the approval of the financial statements as of and for the year ended December 31, 2007.

In accordance with the shareholders' resolution passed during the ordinary meeting held on November 2, 2005, the Board of Directors currently in office is composed of Luigi Roth, Flavio Cattaneo, Luigi De Paoli, Mario Garraffo, Carmine Macri, Piero Giuseppe Maranesi, Franco Smurro (Directors appointed within the majority list formulated by Cassa Depositi e Prestiti S.p.A.) and Salvatore Machì (Director appointed within the list formulated by institutional investors and voted by the minority).

Following the resignation of two Directors appointed by the above-mentioned Shareholder's Meeting from within the minority list – Massimo Ponzellini and Massimo Romano – during the meetings of July 13, 2006 and March 21, 2007, the Board of Terna S.p.A. resolved to co-opt Vittorio Rispoli and Claudio Machetti (prior to instructions by the minority shareholders who had expressed outgoing Directors: Gruppo Assicurazioni Generali and Enel S.p.A., respectively): such nominations were confirmed by the Shareholders' Meeting of May 24, 2007.

Following those appointments, the Board is currently composed of the members listed below. A brief description of their professional background is also provided:

- *Luigi Roth, 67 years old - Chairman*

With a degree in Business Administration from Università Bocconi, Milan, he is a registered auditor. Since 2001, Mr. Roth has serviced as Chairman of the Fondazione Fiera Milano. He was appointed Deputy Chairman of Terna Participações S.A., a subsidiary of Terna S.p.A. in May 2006. Since April 2007, Mr. Roth is independent Director in Pirelli & C. S.p.A. and, currently, he is also Director of Avvenire Nuova Editoriale Italiana S.p.A.

Mr. Roth began his career as a business manager with the Pirelli Group, handling activities in Italy and abroad. He then joined Metropolitana Milanese as Director of Planning. Since 1980, he has managed mid-sized companies in the manufacturing and real estate sectors, in the positions of General Manager and CEO. From 1986 to 1993, he served as CEO of Ernesto Breda S.p.A.; from 1993 to 2001 he was Chairman and CEO of Breda Costruzioni Ferroviarie S.p.A.; from April 1996 to January 1998, he was

Chairman of Società Ferrovie Nord Milano S.p.A.; from December 1996 to January 1998, he was Chairman of Società Ferrovie Nord Milano Esercizio S.p.A.; from May 1998 to December 2000 he was CEO of Ansaldo Trasporti S.p.A. and transmission agent for Finmeccanica S.p.A. From January 2004 to April 2007 he was Deputy Chairman of Cassa Depositi e Prestiti S.p.A. and from May 2004 to April 2007 Director in Telecom Italia S.p.A.

• *Flavio Cattaneo, 44 years old - CEO*

With a degree in Architecture from the Milan Politecnico, Mr. Cattaneo has also specialized training in business management. He has been Chairman of Terna Participações S.A., a subsidiary of Terna S.p.A., since March 2006. Since January 2008 he is independent Director in Cementir Holding S.p.A..

He has filled important managerial and administrative positions in various Italian companies in the radio and television service, new technologies, building, public service and facilities sectors. He became head of the former Ente Autonomo Fiera Internazionale di Milano as Extraordinary Commissioner in 1999 and went on to oversee its stock market listing as Fiera di Milano S.p.A., serving as Chairman and CEO until 2003. He has been Director of many energy companies (from 1999 to 2001), including: AEM S.p.A. of Milan (as Deputy Chairman), Serenissima Gas, Triveneta Gas S.p.A., Seneca Srl and Malpensa Energia. He was appointed head of Italy's public television network RAI S.p.A. in April 2003, in the position of General Manager, which he held until August 2005. He also oversaw the merger with Rai Holding and the unbundling of accounts.

• *Luigi De Paoli, 58 years old - Director*

With a degree in Nuclear Engineering from the Milan Politecnico, Mr. De Paoli is a Professor of Applied Economics (economy of energy and the environment) and Director of the Master's in Economics and Environmental Management at Università Bocconi of Milan.

He was appointed Director of Sogin S.p.A. in February 2007 and Cesi S.p.A. in March 2006.

He is also Director of the "Economia delle fonti di energia e dell'ambiente" (Economics of energy sources and the environment) magazine and a member of the scientific council of Gaz de France and Director of AIEE, the Italian association of energy economists.

He has filled various teaching positions with universities in Italy and abroad. From June 1999 to May 2002, he was Director of ENI S.p.A.. Mr. De Paoli is also on various ministerial commissions for the development of the Italian energy sector, the reorganization of the electricity sector, public utilities and tariff regulation. He is the author of many publications in the economics and energy fields.

- *Mario Garraffo, 70 years old - Director*

With a degree in Business Administration from Università Bocconi, Milan, he has filled many increasingly important managerial and administrative positions in various Italian companies. He served as Controller and Development Manager of La Centrale Finanziaria Generale from 1960 to 1970; Investment Manager of the IFI Group from 1970 to 1980; CEO of IFIL-Finanziaria di Partecipazioni from 1980 to 1985; Chairman of IFINT (now NEXOR) from 1985 to 1993; CEO of Lazard Italia from 1993 to 1998 and UNIM-Unione immobiliare from 1998 to 2000; and Chairman of General Electric Italia from 2000 to 2004. He is currently an independent Director and member of the Executive committee and Remuneration committee of Recordati SpA, as well as independent Director of Pirelli & C. SpA. He is also a trustee of the Johns Hopkins School for Advanced International Studies (SAIS) of Bologna. Lastly, he is on the Board of Directors of the Fondazione Donna Javotte Bocconi (founding body of the Università Bocconi).

- *Claudio Machetti, 49 years old - Director*

Mr. Machetti has a degree in Statistics from the Rome's Università "La Sapienza".

He was appointed CFO of Enel S.p.A. in March 2000. Within the Enel Group, he also serves as Chairman of the Board of Directors of Enel.Factor S.p.A. and Enel Investment Holding BV and as Director of Enel Finance International S.A., Enel Ireland Finance Ltd., Enel Green Power International S.A., Enel.Re Ltd., Enel Trade S.p.A., Enel.NewHydro S.r.l., Enel Capital S.r.l., Enel Energy Europe S.r.l., Enel Distribuzione, Enel Produzione, and Endesa S.A..

He began his career as business manager in 1983 in the Financial Department of Banco di Roma. From 1992 to 2000, he held various positions with Ferrovie dello Stato S.p.A. (assistance to the CFO, head of the Financial Markets Central Service, Operating Finance Manager) taking over Fercredit S.p.A. in the FS Group as CEO in 1997. From April 2004 to November 2005 he was Director of Terna S.p.A.

- *Salvatore Machì, 70 years old - Director*

He holds a degree in Electronic Engineering and has received specialized training at the Istituto Superiore di Telecomunicazioni, in addition to his professional experience with Esso and IBM. He joined Enel in 1965 and filled various positions up to 1999, including Manager of the Transmission Department, Italian Manager of Thermoelectrical Energy Generation and Purchase and Tender Manager.

He was CEO (from July 1999 to April 2000) and Chairman (up to July 2003) of the Gestore della Rete di Trasmissione Nazionale S.p.A., and Director of Gestore del Mercato Elettrico S.p.A. during that time. He has been on the Board of Directors of Cesi S.p.A. since March 2003, where he previously (from July 1999

to October 2001) served as CEO. He is currently Director of Api Energia S.p.A. and, since September 2004, a Director of Terna S.p.A.

• *Carmin Macrì, 57 years old - Director*

With a degree in Law from Rome's Università degli Studi "La Sapienza", he is a lawyer before the Court of Cassation, Italy's highest court.

Since 1996, he has been a Professor of Bank Law and Legislation with the Business Administration Department of Rome's II Università "Tor Vergata", after having held various academic positions since 1986. From 1997 to 2003, he was Director of Italgas S.p.A.

He provided advisory services for eight years to the association of Italian savings and loans banks (ACRI). In the autumn of 2004, he became Director of SUDGEST Scarl, a company that is owned by the Ministry of Public Services through "Formez".

• *Piero Giuseppe Maranesi, 66 years old - Director*

With a degree in Physics, he is a Professor of Electronics with Milan's Università degli Studi, Director of a research laboratory and Master's in Electronics and Digital Systems course of study.

He has also taught at Milan's Politecnico and the Parma and Brescia universities and has worked in research laboratories in the United States and Japan. He has filled various management positions at the Institute of Electrical and Electronic Engineers (IEEE) of which he is a Fellow Member, including Director of the Power Electronics Society from 1990 to 1996. He was founding chairman of Transparency International Italia in 1995. From 1997 to 2001, he has served as Councillor for the Province of Como, with duties relating to the university and tourism.

He is specialized in the static conversion of electrical power and published two printed volumes and over 100 scientific papers.

• *Vittorio Rispoli, 48 years old - Director*

With a degree in Law from Rome's Università degli Studi "La Sapienza", he is a lawyer and a registered auditor. He has been Deputy General Manager of Assicurazioni Generali S.p.A. since April 2003, for which he also serves as General Secretary, and CEO and General Manager of FATA Assicurazioni Danni S.p.A. and Fata Vita S.p.A.. He is also Director in subsidiaries of Assicurazioni Generali, including Alleanza Assicurazioni S.p.A. Finally, he is Director in the listed company Autostrada Torino-Milano S.p.A., as well

as in the insurance companies of SARA Group, in which Assicurazioni Generali holds a minority interest. Manager since 1987, he has filled various managerial positions, essentially in the legal and corporate areas at first in IRI Group (SOFIN S.p.A. and Alitalia S.p.A.) until 1997 and, subsequently, in the insurance field (INA-Assitalia and Generali). He has carried out, for approximately ten years, assignments of contract teaching at the University of Rome, Perugia and Cassino in Public Right of Economy, Civil Right and Right of Insurances.

• *Franco Smurro, 50 years old - Director*

Mr. Smurro holds a degree in Education from Rome's Università degli Studi "La Sapienza". After doing academic work for the II Chair of Special Education with Rome's Università "La Sapienza" in 1986/1987, he began his managerial career with Telecom Italia S.p.A. in External Relations from 1987 to 1997. From 1997 he provided advisory services to the Authority for the Communications Sector and, until 2002, for Nortel Networks S.p.A. and Bull S.p.A. up to 2004. He was appointed Director of Asteimmobiliari S.p.A. in May 2005 and Director in CESI S.p.A. in March 2006.

Maximum number of positions in other companies

All the Directors accept their appointment to office when they believe they can devote the necessary time to the diligent performance of their duties – also considering the positions they hold outside the Company in other companies listed on regulated markets (in Italy and abroad), financial companies, banks, insurance companies and significantly large companies – and devote the necessary time to the diligent performance of their duties, as they are well aware of the responsibilities of the office held.

To this end, during the meeting of February 22, 2007, in compliance with art. 1.C.3 of the Corporate Governance Code, the Board of Directors approved its own guidelines regarding the maximum number of positions as Director or Statutory Auditor in significantly large companies that can be held and still enable the efficient performance of the duties as Director of Terna S.p.A, present in the internal document "Orientations of the Board of Directors over the maximum number of positions as a Director or Statutory Auditor compatible with the assignment of Director of Terna S.p.A.

To this purpose, "significantly large companies" were defined as:

- a. companies with shares listed on regulated markets, in Italy or abroad;
- b. Italian or foreign companies with shares not listed on regulated markets, and operating in the insurance, banking, brokerage, asset management or financial sectors. With respect to the latter, financial companies

are only those subject to prudent supervision by the Bank of Italy and registered with the special list provided for by art. 107 of Legislative Decree no. 385/1993 ("Consolidated Banking Act"); foreign companies are evaluated on the basis of substantial equivalents;

- c. other Italian or foreign companies with shares not listed on regulated markets, not operating in the sectors listed in letter b) but that exceed at least two of the following parameters: they have 250 employees or workers, annual turnover of euros 50 million or an annual financial statements total of euros 43 million; companies that prepare consolidated financial statements.

The Board has identified general criteria for the different commitments required of each role (executive Director, non-executive and/or independent Director and standing Statutory Auditor), considering the nature and size of the company in which the positions are held and whether they are part of the Terna Group or are Terna's investees (which, originating from the assignment itself, are not calculated in the total number). A "weight" was assigned to each type of position for the purposes of assessing the commitment required, and the Directors also established that the role of executive Director of Terna is incompatible with the same role of another significantly large company.

Where more than one position is held within the Group, including employment by one of the Group companies, only the position with the greatest "weight" is considered.

All the Directors, based on the communications delivered to the Company in compliance with the approved guidelines, hold a number of positions that is compatible with the guidelines set by the Board.

In the summaries of the single Directors' personal characteristics, are indicated all the positions held by them.

The total number of positions held is provided in the attached tables.

There have not been exceptions, issued by Terna's Shareholders' Meeting, to the prohibition of competition by the Directors provided for by art. 2390 of the Civil Code.

Role of the Board of Directors

The Company's Board of Directors fills a crucial role in its organization. It has strategic and organizational functions and responsibilities with respect to the Company and Group.

It is also responsible for verifying that the necessary controls are in place to monitor the performance of the Company and its subsidiaries.

Beyond exercising the powers that are attributed to it from the law, Company's Bylaws (art. 21.1) attributes to the Board the competence to decide on:

- a. merger and scission, in cases regulated by law;
- b. institution or abolition of secondary headquarters;
- c. indication of Directors in representation of the Company;
- d. reduction in share capital in case of resignation of one or more shareholders;
- e. adjustment of Bylaws to law;
- f. moving of registered offices within the national territory.

In this context and in accordance with the law and the provisions of specific resolutions, the Board of Directors:

- delegates and revokes powers to one or more Directors, defining the content, limitations and methods of such powers. The current structure of the Board of Directors provides for only one CEO. The powers currently conferred on him give the CEO the widest ranging powers for administration of the Company, except for those conferred by the law or the Bylaws or reserved for the Board of Directors by resolution thereof (art. 1.C.1 lett. c) of the Corporate Governance Code);
- receives, similarly to the Board of Statutory Auditors, constant and exhaustive updates from the CEO on activities performed during the year in accordance with powers in specific quarterly reports. In particular, with respect to all significant transactions carried out by the Company and its subsidiaries (including any related party transactions which do not require approval by the Board of Directors) the CEO reports to the Board of Directors on their (I) features, (II) the parties involved and their relationship with the Company or its subsidiaries (art. 1.C.1 lett. c) of the Corporate Governance Code);
- determines the remuneration of the CEO and other Directors with special duties on the basis of proposals made by the specific committee and with the approval of the Board of Statutory Auditors (art. 1.C.1 lett. d) of the Corporate Governance Code);
- evaluates the adequacy of the general organizational, administrative and accounting structure of the Company and its subsidiaries that hold strategic importance (in accordance with the Board's Resolution of February 22, 2007, these are: a) subsidiaries listed on regulated markets and b) subsidiaries that have a significant foreign market share in the Group's core business), with specific reference to the internal control system and management of conflicts of interest (art. 1.C.1 lett. b) of the Corporate Governance Code). Such definition relates to Terna Participações S.A.;
- examines and approves strategic, business and financial plans. In this respect, the current structure of Company powers provides that, in particular, the Board of Directors approves the Company's annual budget and long-term plans (which include the combined annual budgets and long-term plans of the subsidiaries) prepared by the CEO (art. 1.C.1 lett. a) of the Corporate Governance Code);

- examines and approves transactions with a significant impact on the Company's financial position and results, especially if they are related party transactions or could otherwise give rise to a potential conflict of interest. In particular, the following transactions, *inter alia*, are submitted to the Board of Directors in advance: (I) "significant transactions" carried out directly or through subsidiaries for which the underlying item, consideration, method or timing could have an impact on the safeguarding of Company assets or the completeness and accuracy of Terna's accounting and other information and which require Terna to disclose to the public an informational document in compliance with the supervisory authorities of financial markets and/or transactions for more than euros 20 million, except for those approved in the budget and agreements relating to dispatching and all other related services; (II) related party transactions carried out directly or through subsidiaries for more than euros 2,000,000 each, except for those approved in the budget and agreements relating to dispatching and all other related services (art. 1.C.1 lett. f) of the Corporate Governance Code);
- arranges for the exercise of voting rights at the shareholders' meetings of subsidiaries and other investees;
- assesses the general performance of Company operations, with specific reference to situations of conflict of interest, on the basis of the information received from the CEO and Internal Control Committee, periodically checking that planned results have been achieved (art. 1.C.1 lett. e) of the Corporate Governance Code);
- at least once a year, evaluates the size, composition and functioning of the Board of Directors and its committees (art. 1.C.1 lett. g) of the Corporate Governance Code);
- reports to the shareholders.

The activities of the Board of Directors are coordinated by the Chairman. The latter summons the Board's meetings, sets the agenda and guides meeting's running, making sure that the Directors are timely provided – except in cases of necessity and urgency – of the documentation and the necessary information so that the Board can consciously express on the matters submitted to examination. He verifies moreover the compliance to deliberations, presides the meeting and – along with the CEO – has powers of legal representation of the Company.

In addition, the Chairman is recognized further attributions of non-managerial character and/or strategic address, based on Board's Resolution of November 2, 2005, such as: (I) handling the relationships of the Company in Italy and abroad, with institutions, agencies and public and administrative bodies, national and international, both central and local, financial institutions, banks,

insurance companies and social security institutions, private bodies, individuals and companies, and also oversees international relations, in coordination with the CEO, and (II) supervising activities of internal auditing.

Board of Directors meetings

The Directors meet regularly and carry out tasks in full knowledge and in autonomy, pursuing the objective of creating value for shareholders, taking into account the social significance of the Group's activities and the resulting need to adequately consider all stakeholders in the performance of those activities.

During the year, the Board met 12 times, with the Directors regularly participating and each meeting lasting an average of two hours. The Board of Statutory Auditors also attended.

For 2008, considering expiry of the entire Board of Directors with the approval of the financial statements as of and for the year ended December 31, 2007, all the related meetings have been planned and scheduled for the examination of the economic-financial data by the Board of Directors according to what officially communicated to the market on December 19, 2007. In the current year and until the date of approval of the present report, the Board of Directors met three times.

Assessment of the Board of Directors functioning

For the first time, Terna's Board of Directors assessed its size, composition and functioning, as required by the Corporate Governance Code published by Borsa Italiana. Also for 2007, the Board conducted such assessment, drawing on the assistance of a specialized independent consultant to ensure the utmost objectivity of its evaluations.

The independent consultant's analysis regarding each Director, and the subsequent quantitative and qualitative analysis of the information gathered, compared to those of the previous year, focused on many aspects relating to: a) the size, composition and understanding of the level of functioning and efficiency of the Board and its committees; b) the identification of elements that could prevent or improve the functioning and efficiency of the Board and its committees.

The Board of Directors, on the basis of the results of the analysis, gives an altogether positive assessment of the size, composition and functioning of the Board and its committees, having found improvement in all the main profiles considered and aiming at the best exercise of their own role.

In particular, the Board shows: a very constructive environment; a significant improvement in the understanding of the processes and acquaintance with the subjects; the optimal composition of the Board

under the personal and professional profile of the members, which favours the correct and effective operation; a very positive assessment of the Top Management (Chairman and CEO), functional to the effectiveness of the Company.

Delegated bodies and other executive Directors

Chief Executive Officers

The current articulation of the Board of Directors provides for only one CEO, to which the Board has conferred the powers, defining their content, limits and eventual modalities of exercise; it has not been constituted any executive committee.

The CEO has powers of legal representation of the Company and is vested with the widest powers for the administration of the Company, pursuant to Board Resolution of November 2, 2005, with exception of those differently attributed by the law, by the Bylaws or reserved for the Board of Directors on the basis of its resolutions as previously indicated.

The CEO informs the Board of Directors and the Board of Auditors of the activities and of the management of the Company and of the actions in the exercise of powers pursuant to art. 21.3 of the Bylaws, at least on a quarterly basis and in occasion of Board's meetings.

On a quarterly basis specific reports are prepared in order to inform the Board on major actions and activities. In addition, the Directors are kept constantly informed by competent functions on the main legislative and prescribed innovations concerning the Company and the exercise of own functions. In occasion of the appointment, they are adequately informed about the existing system of Company government and the fundamental lines of governance.

Exception made for the CEO, the other nine members of the Board of Directors (Luigi Roth, Luigi De Paoli, Mario Garraffo, Claudio Machetti, Salvatore Machì, Carmine Macrì, Piero Giuseppe Maranesi, Vittorio Rispoli, Franco Smurro) must all be considered as non-executive.

It must be noticed that also the Chairman does not play an executive role, since the indicated and important functions held in the Group – connected both to the role, acknowledged by the Bylaws' provisions, of guarantor of the application of correct corporate governance within the Board of Directors, and the tasks of representation acknowledged by the Board itself, as well as the tasks of vigilance on the activities of internal auditing – are not carried out on specific managerial duties. The non-executive Directors (since they are not provided with operating proxies and/or managing functions in the Company) are for number, competence, authority and availability of time, such as to guarantee that their judgment

can have a significant weight in Board's decisions in line with what provided for by the Corporate Governance Code (art. 2.P.3).

The non-executive Directors bring their specific competences into the Board's discussions, so as to favour the examination of the subjects according to the various perspectives and subsequent meditated, conscious and respectful of the social interest resolutions.

The Directors, in the course of 2007, participated in specific initiatives and meetings with the Company's management in relation to the core business activities, with particular reference to the preparation of the business plan of the National Transmission Grid, with the purpose of increasing their acquaintance with the framework and business dynamics in order to carry out their role effectively (art. 2.C.2 of the Corporate Governance Code).

Independent directors

A suitable number, also for competence, of non-executive Directors is independent.

The Board of Directors has evaluated the existence of requirements of independence provided for by the law, the Bylaws and the Corporate Governance Code which Terna has adopted, for each Director in the first useful occasion after their appointment.

Moreover, the Board of Directors' meeting of March 11, 2008 – on the basis of the criteria previously defined for the assessment of independence of the non-executive members, in compliance with the criteria indicated by the Corporate Governance Code and on the basis of the information supplied by the persons involved – attested the existence of the requirement of independence in each of the seven non-executive Directors: Luigi De Paoli, Mario Garraffo, Salvatore Machì, Carmine Macrì, Piero Giuseppe Maranesi, Vittorio Rispoli, Franco Smurro (articles 3.C.1, 3.C.2 and 3.C.4 of the Corporate Governance Code).

At the same time, the correct application of the defined criteria and the procedures adopted by the Board of Directors was verified by the Auditors (art. 3.C.5 of the Corporate Governance Code).

Although independence of judgement characterizes the activity of all executive and non-executive Directors, the presence of Directors who can be qualified as "independent", in accordance with the above criteria, and whose role on the Board and its committees is significant, suitably ensures adequate consideration of all members' interests.

Among the assessments carried out by the Board, with reference to the seven Directors, is proved the existence of requirement of independence prescribed by the art. 15.4 of the Bylaws that demands that at

least 1/3 of the Directors in force – with rounding, in case of fractional number inferior to the unit, to the following unit – meets the requirement of independence established for Auditors by art. 148, sub. 3, of the Legislative Decree no. 58 of February 24, 1998.

Following the work method of the Board of Directors, and the presence of seven independent Directors out of ten, who take part in the composition of the committees, in the operating system a constant exchange of information between the same independent Directors has been fulfilled, at meetings of the Internal Committees and at the Board's meetings, which has not made necessary a specific separated meeting.

Lead independent Director

The work method of the Board of Directors has assured the suitable coordination of the contributions and the requests of the non-executive Directors and, in particular, of the independent ones and fulfilled the preventive exchange of information that renders productive the work of the Board and focuses on the true requirements of the Company.

On the basis of such presumptions, confirmed by the outcomes of the Board review which the Board is subordinated to, and not recurring the presumptions indicated by the Corporate Governance Code, in Terna the figure of the lead independent Director has not been instituted.

SECTION VI: TREATMENT OF CONFIDENTIAL INFORMATION

Treatment of confidential information

In accordance with measures on the treatment of privileged information aimed at preventing insider trading and the provisions of art. 4 of the new Corporate Governance Code and paragraph 1, art. 114, sub. 1, and art. 181 of Legislative Decree no. 58/98, during the meeting of December 21, 2006, the Company's Board of Directors approved a specific regulation for the management and treatment of confidential information, which also contained the procedures for disclosing documents and information on the Company and its subsidiaries outside the Company, with specific reference to the confidential information provided for by paragraph 1, art. 114 of Legislative Decree no. 58/98.

This regulation constitutes an update to the measures in this respect contained in the regulation that Terna approved in April 2004, with specific reference to price sensitive information. It aims to maintain the secrecy of confidential and privileged information while at the same time ensuring the disclosure of correct, complete, adequate, timely and objective Company information to the market. The regulation also sets the guidelines for the subsidiaries, so that they will provide Terna with all the necessary information for it to meet the disclosure requirements of the law. The Directors and Statutory Auditors of Terna and its subsidiaries are required to comply with the provisions of this regulation and, in any case, keep all documents and information acquired in the performance of their duties, as well as the content of any discussions during Board meetings, confidential.

The regulation generally entrusts the Company's CEO and the delegated functions of the subsidiaries with management of confidential information for which they are responsible, providing that such information on individual subsidiaries should be disclosed with the prior authorization of the Company's CEO.

Moreover, the regulation establishes specific procedures to be followed when disclosing Company documents and information outside the Company, with particular focus on the disclosure of privileged information. It also scrupulously governs the way in which members of the Company should deal with the press and other means of mass communication (i.e., financial analysts and institutional investors).

Lastly, the new regulation introduced specific "measures for persons who commit infractions" of the regulation's provisions.

In accordance with the provisions of art. 115 *bis* of Legislative Decree no. 58/98 (Consolidated Finance Act) and the regulatory measures issued by CONSOB, Terna's Board of Directors created a specific list

of people with access to privileged information within Terna. It also prepared a specific regulation to govern how the list is held and updated. The same regulation requires that the subsidiaries also create their own lists.

In April 2004, the Company's Board of Directors also approved the internal dealing corporate governance code, in compliance with the regulatory measures laid down by Borsa Italiana S.p.A., establishing the market transparency requirement for listed companies with respect to significant transactions, involving the financial instruments of the company or its subsidiaries, carried out by people with significant decision-making powers in the company and with access to price sensitive information ("relevant persons"). In accordance with the legislative measures that governed the reporting obligation to Borsa Italiana and CONSOB on transactions involving the financial instruments of the company carried out by "relevant persons" within the same company or closely related people (paragraph 7, art. 114 of Legislative Decree no. 58/98 and art. 152 *sexies*, *septies* and *octies* of CONSOB's Issuer Regulation), during the meeting of March 15, 2006, the Board of Directors adopted a specific internal procedure with effect from April 1, 2006, replacing the previous internal dealing corporate governance code, in which "relevant persons" were identified as Terna's Directors and Standing Auditors, managers of Terna's functions (reporting directly to the CEO or Chairman), as they have regular access to privileged information and may take management decisions that could affect the outlook and future development of Terna.

This procedure includes the following qualifying elements, which are considered adequate in heightening the qualitative content:

- application of internal dealing transparency obligations towards "relevant persons" within the Company and its subsidiaries (in addition to the Directors and Standing Auditors of Terna). To ensure adequate flexibility in the scope of "relevant persons", the procedure also provides for the possibility of extending the transparency obligations to other people, with the separate approval of the Chairman and CEO of the Company;
- "relevant persons" are not permitted to carry out transactions (other than the exercise of options) 30 days before the approval of the draft financial statements and half year report by Terna's Board of Directors. Moreover, the Board can establish additional blocking periods during the year, following specific events;
- an adequate penalty system was created for "relevant persons" identified as in violation of the measures of this procedure.

SECTION VII: BOARD INTERNAL COMMITTEES

Within the Board of Directors, the Remuneration Committee and the Internal Control Committee have been set, both with proposal-making and advisory functions, and made up of at least three Directors the majority of which independent, pursuant to Corporate Governance Code.

The committees have been attributed the tasks provided for by the Corporate Governance Code. The criteria for the composition, the tasks and the responsibilities attributed in compliance with the Corporate Governance Code and the modalities of development of the meetings have been disciplined through proper internal organization regulations adopted by the Board of Directors on January 24, 2007. The meetings of the committees are recorded. Each committee has also the faculty to access the information and necessary functions to carry out its tasks and can use eventual external advisors in the limits provided for by the Board of Directors.

Within the Company budget adequate financial resources are allotted for the implementation of the tasks of all committees.

On invitation of the coordinator of each committee, other subjects, whose presence can contribute to the function of the committee, can participate to the meetings.

SECTION VIII: APPOINTMENT COMMITTEE

At the reporting date, Terna has not set up, within the Board of Directors, a specific Appointment Committee, since up to now shareholders have not met difficulties in presenting adequate candidacies, such as to allow a composition of the Board in line with provisions of the Corporate Governance Code for listed companies.

SECTION IX: REMUNERATION COMMITTEE

Functions of the Remuneration Committee

In 2004, the Board of Directors set up the Remuneration Committee, responsible for making proposals to the Board (I) for the remuneration of the CEO and other Directors with special duties, monitoring implementation of the Board's resolutions, and (II) for determining the remuneration criteria of top management of the Company and its subsidiaries, on the basis of indications provided by the CEO and formulating general recommendations to the Board on the matter.

Following the renewal of the Board of Directors, during the meeting held on November 16, 2005, the committee was reconstituted and its members were appointed.

The Remuneration Committee is currently composed of Vittorio Rispoli (as coordinator), Mario Garraffo, Carmine Macrì, Luigi Roth and Franco Smurro, all non-executive Directors and most of whom are also independent.

In 2007, the Remuneration Committee held six meetings, with the regular participation of all members. The meetings lasted an average of one hour each. None of the Directors participated in the committee meetings in which proposals regarding their remuneration were put forward to the Board of Directors.

As part of its duties, the Remuneration Committee has a key role in implementing specific stock options plans for management. These are incentive and loyalty plans aimed at attracting and motivating resources at the right levels and with adequate experience, increasing their sense of belonging and ensuring they are constantly focused on creating value.

Furthermore, with respect to the remuneration of the CEO and other Directors with special duties, during the year, the committee made specific proposals to the Board of Directors that provided for a portion of the executive Director's fees to be based on the Company's results and the achievement of specific objectives indicated in advance by the Board.

In addition, during the meetings held in 2007, the Remuneration Committee made proposals to the Board of Directors concerning the incentive plans for management of the Company and its subsidiaries.

During the meeting of January 24, 2007, the Board of Directors evaluated the duties and functioning of the committee and adopted – after the committee's examination – a specific "Organizational regulation for the remuneration committee of Terna S.p.A."

The altogether positive evaluation on the size, composition and operation of the committee was confirmed

by the Board of Directors on March 11, 2008 within the yearly review of the Board and the committees. The committee has been granted adequate financial resources.

SECTION X: REMUNERATION OF DIRECTORS

The compensation of the Directors is established by the Shareholders' Meeting for every Director.

A portion of the compensation of the executive Directors is bound to economic results achieved by the Company and to the attainment of objectives indicated in advance by the Board of Directors in line with art. 7.C.1 of the Corporate Governance Code.

The compensation of the non-executive Directors is adequate to the commitment demanded to every one of them, considering the eventual participation in one or more committees. The compensation is not bound to economic achievements of the Company. The non-executive Directors are not eligible of share-based incentive plans.

The compensations received by the members of the Board of Directors in the course of the year are indicated in the notes to the financial statements.

SECTION XI: INTERNAL CONTROL COMMITTEE

Functions of Internal Control Committee

In 2004, the Board of Directors created a specific Internal Control Committee, with advisory and proposal-making functions.

Following the renewal of the Board of Directors during the meeting of November 16, 2005, the Internal Control Committee was reconstituted and its members were appointed. The committee was assigned the following duties, in particular:

- assisting the Board of Directors in establishing internal control system guidelines and periodically checking the adequacy and effective functioning thereof;
- assessing, together with the Executive in charge of the preparation of accounting documents and the

Auditors, the correct application of accounting principles and their uniformity for the preparation of the consolidated financial statements (art. 8.C.3, lett. a) of the Corporate Governance Code);

- expressing opinions on request of the CEO, on specific aspects concerning identification of main Company risks and planning, implementation and management of Internal Control System (art. 8.C.3, lett. b) of the Corporate Governance Code);
- examining the work plan prepared by the executive in charge of internal control as well as the periodical reports prepared by him (art. 8.C.3, lett. c) of the Corporate Governance Code);
- evaluating the proposals coming from auditing companies to obtain assignment as well as the work plan prepared for the auditing and results presented in the report and in the suggestion letter (art. 8.C.3, lett. d) of the Corporate Governance Code);
- supervising the effectiveness of the auditing process (art. 8.C.3, lett. e) of the Corporate Governance Code);
- reporting, at least every six months, to the Board of Directors about activity carried out and adequacy of the internal control system (art. 8.C.3, lett. g) of the Corporate Governance Code);
- carrying out further duties potentially assigned by the Board of Directors especially concerning relations with auditing companies.

The Internal Control Committee is currently composed of Mario Garraffo (as coordinator), Luigi De Paoli, Salvatore Machì, Carmine Macrì and Piero Giuseppe Maranesi, who are all non executive and independent Directors. At least one member has adequate accounting and financial experience.

In 2007, the Internal Control Committee met eight times, with the regular participation of all members. Each meeting lasted an average of two and a half hours, and the Chairman of the Board of Statutory Auditors or another Statutory Auditor appointed thereby was present at each meeting, given the Board's specific supervisory functions with respect to the internal control system, as required by current legislation concerning listed companies (art. 8.C.4 of the Corporate Governance Code).

In particular, in 2007, the Internal Control Committee examined the guidelines for the internal control system and audit activities, and also met with the independent auditors.

In particular, the committee, with the support of the Executive in charge of the preparation of accounting documents, examined the state of progress and the methodology used in the activities of compliance with the dispositions under Law no. 262/05 and subsequent modifications ("Plan 262"). Moreover, pursuant to what provided for by the Corporate Governance Code, the committee assessed, together with the Executive in charge of the preparation of accounting documents, the

correct use of the accounting standards. The committee also received due information from the Supervisory Board under Legislative Decree no. 231/01 with reference to the adequacy and the development of the model and the activity carried out by this board.

During the meeting of January 24, 2007, the Board of Directors evaluated the duties and functioning of the committee and adopted – after the committee’s examination – a specific “Organizational regulation for the Internal Control Committee of Terna”.

The generally positive evaluation of the composition, size and responsibilities, was confirmed by the Board of Directors on March 11, 2008 within the yearly review of the Board and committees.

Further specific tasks were conferred to the committee within the Organizational Model adopted by Terna, pursuant to Legislative Decree no. 231/01 and the new Code of Ethics of Terna.

The committee was granted adequate financial resources for this purposes.

SECTION XII: INTERNAL CONTROL SYSTEM

With respect to internal control, on the basis of the preliminary assessment of the Internal Control Committee, on December 21, 2006, the Board of Directors updated the “Terna Group’s Internal Control System” (ICS), in line with national and international best practices, as the set of rules, procedures and organizational structures which, through an adequate identification, measurement, management and monitoring process of primary risks, enable the Company to correctly and consistently manage operations in line with its objectives (artt. 8.C.1 and 8.C.2 of the Corporate Governance Code).

With reasonable certainty, the Group’s ICS contributes to safeguarding Company assets, the efficiency and effectiveness of Company transactions, the reliability of financial statements, compliance with the law and regulations, the reliability of Company and financial reporting, the safeguarding of electrical service continuity and guaranteed impartiality in concession activities. It is based on the following elements: control environment; risk management system; control activities; information and communications; and monitoring. The coordinated functioning of these elements makes the ICS effective overall.

“The control environment”, at the basis of all other elements, consists of the Group’s corporate

governance model and its ethics, which are set out in the Code of Ethics, which was updated and approved by the Board of Directors during the meeting of December 21, 2006. The Group's managerial style, personnel management policies and all employees' conduct must be in line with this code.

The "risk management system" implemented by top and middle management enables the Group to manage its main risks within acceptable limits, using wide-ranging risk management policies defined in specific procedures.

The "control activities" are carried out by management and employees to achieve specific objectives on the basis of principles, such as self-control, hierarchical control, accountability, contending interests and segregation of duties.

The "communications and information processes" ensure that the Company's expected objectives, culture, values, roles, responsibilities and conduct are clearly disclosed internally, while guaranteeing that disclosures to stakeholders outside the Company are correct and transparent.

"Monitoring" serves to constantly verify the effectiveness of the Internal Control System through continuous activities carried out by personnel in the performance of their work, and through separate assessments that are regular, but not continuous, and typical, but not exclusive, of the Audit Department.

With the support of the Internal Control Committee, the Board of Directors establishes the guidelines for the Internal Control System, so that the main risks are identified, monitored and managed on a compatible basis and in line with sound and correct management principles. The Board also evaluates the adequacy and effective functioning of the Internal Control System, on the basis of adequate preliminary assessments.

The Terna Board of Directors' meeting of March 11, 2008, in compliance with the opinion rendered by the Internal Control Committee on the basis of the analyses made in the course of 2007, judged the Terna Group Internal Control System apt to achieve a profile of acceptable risk, in consideration of the field in which Terna operates, of its size, organizational structure and social articulation (art. 8.C.1 lett. c) of the Corporate Governance Code).

In its report, the Internal Control Committee also discussed in relation to the report of the Supervisory Board appointed pursuant to Legislative Decree no. 231/01 on the implementation of the Organizational Model within Terna and other Group companies.

Executive Director in charge of Internal Control System

The CEO supervises the functionality of the ICS (Internal Control System) of the Group, implementing the guidelines defined by the Board of Directors, planning it, implementing it, managing it and overseeing the identification of the main risks for the Group, which he periodically submits to the Board of Directors (artt. 8.C.1 lett. *b*) and 8.C.5, lett. *a*), *b*) and *c*) of the Corporate Governance Code).

Executive in charge of internal control

The effective operating and the continuous efficiency of the Internal Control System are verified by the Executive in charge, represented in Terna by the Manager for the Audit function, appointed (and eventually revoked), according to the opinion of the Internal Control Committee, by the Board of Directors on proposal of the Chairman, who supervises also the activity of auditing, in collaboration with the CEO, deciding also about his compensation coherently with the business policy, in equal measure to that already received by the one involved (art. 8.C.1, 8.C.6, lett. *a*) and 8.C.7 of the Corporate Governance Code).

The Audit Manager operates in a separated and independent way from the hierarchical line and belongs to the Chairman's staff, whom he refers to about his work (art. 8.C.6, lett. *b*) of the Corporate Governance Code). He reports to the CEO, the Internal Control Committee and to the Auditors (art. 8.C.6, lett. *e*) of the Corporate Governance Code). He operates through audit actions, whose field of application is extended to the whole Group. The activities of internal audit can be carried out in connection with the functions that carry out activities of internal control in subsidiaries.

The Audit function has free access to all information systems, acts and business data, useful to express an independent judgment with respect to the suitability of the Internal Control System to achieve a profile of acceptable risk (art. 8.C.6, lett. *c*) of the Corporate Governance Code). For the exercise of own tasks, the Audit function is assured availability of adequate means (art. 8.C.6, lett. *d*) of the Corporate Governance Code).

Audit activities can be conducted on a yearly basis plan of activity examined by the Internal Control Committee and approved by the Chairman or provided for on a case-by-case basis by the top management following specific facts or as a result of particular events.

The Board of Statutory Auditors, within its own activities, can ask the Audit function to carry out

assessments on specific operating areas or operations. The Board of Statutory Auditors and Internal Control Committee exchange in a timely manner important information for the accomplishment of respective tasks.

Code of Ethics and Organizational Model under Legislative Decree no. 231/2001

Code of Ethics

Since May 2002, Terna's Board of Directors resolved to adopt the Code of Ethics (updated in March 2004), as it was aware of the social and environmental impact of the Company's activities, and given the importance of cooperating with stakeholders and maintaining its good reputation (both internally and externally).

In 2006, the Company updated the Code of Ethics to equip Terna with a set of rules and policies to follow, in its changed context resulting from its transformation into an independent operator on the energy transmission market.

The new Code of Ethics, which was approved by the Board of Directors on December 21, 2006, explains in ethical terms Terna's uniqueness, both by detailing its peculiarities and spreading the values and universal policies that all companies should have at the heart of their operations, to encourage trust in their stakeholders.

It is a series of rules of conduct for an organization and a governance tool for relationships. It is broken down into five sections, which discuss, in this order:

- Terna's fundamental ethical policies, which are organized into general ethics (legality, honesty and accountability), which are base broad and transversal values for all conduct at all times within the Company, and four main policies that Terna believes are particularly important, given its activities and nature (good management, respect, fairness and transparency);
- the conduct required, especially from employees, based on three transversal elements: loyalty to the Company, conflicts of interest and the integrity of Company assets;
- general instructions for the conduct to follow in relationships with stakeholders, broken down into eight groups in which Terna requires consistent conduct;
- Terna's commitment to compliance with the Code and the conduct required with respect to certain stakeholders;
- the rules implementing the Code and the relevant people responsible for updating it and gathering reports, who should be contacted for any clarifications.

The Code of Ethics was approved in December 2006. All of sections 1 (policies) and 2 (conflicts of interest,

company loyalty and the integrity of company assets) and the initial guidelines for the conduct to be followed with the individual categories of stakeholders of section 3 (relationship with stakeholders) apply to all Terna Group subsidiaries.

To complete the Code of Ethics and the commitments that it makes therein, Terna decided to prepare a Sustainability Report to illustrate its work in the field of ethics and social responsibility published on a yearly basis.

Managerial and Administrative model

Since December 2002, Terna's Board of Directors resolved to adopt a managerial and administrative model that met the requirements of Legislative Decree no. 231 of June 8, 2001, which introduced into Italian law a system of administrative (and criminal) liability for companies with respect to certain types of crimes committed by their Directors, managers or employees in the Company's interest or to its benefit. The model was updated in June 2004, after the Company's shares were listed.

On December 21, 2006, Terna's Board of Directors resolved to update and integrate the "Managerial and administrative model pursuant to Legislative Decree no. 231 of June 8, 2001" at January 1, 2007 to reflect new laws and the integration of the National Transmission Grid management activities, as well as the experience and legal guidelines.

This project went hand-in-hand with the Code of Ethics, as the Company believed that the adoption of this model – regardless of the regulations that made it optional rather than mandatory – was a valid tool in increasing the awareness of everyone who operates in the name and on behalf of Terna and its Group, so that they would conduct themselves correctly and transparently in the performance of their activities, so as to prevent the risk of the crimes provided for by the Decree from being committed.

The model is currently organised into six sections:

- a general section which describes, *inter alia*, the content of Legislative Decree no. 231/2001, the objectives of the model and how it functions, the duties of the Supervisory Board required to monitor the functioning and compliance of the model, information flows and the penalty system;
- "special section A", which covers crimes committed in dealings with the public administration;
- "special section B", which discusses corporate crimes;
- "special section C", which deals with crimes of terrorism or subversion of the democratic order;
- "special section D", on crimes against individuals;
- "special section E", concerning market abuse offences.

The content of this model is consistent with the guidelines prepared for this purpose by trade associations. It is also in line with best practices, and constitutes the final step towards complete accuracy, transparency and accountability in internal and external relations, while offering shareholders a guarantee of efficient and correct management.

In order to guarantee wider diffusion of the knowledge of the adopted model, the same is published in the Company's website (<http://www.terna.it>) under the Investor Relations section.

Additional updates and integrations to the model are currently underway in relation to subsequent legislation, which extended the scope of crimes provided for by Legislative Decree no. 231/2001 or amended other relevant legislation.

Audit Company

The assignment of audit of the Financial Statements and the Consolidated Financial Statement has been entrusted, pursuant to what deliberated by the Shareholders' Meeting of May 24, 2007 on proposal of the Board of Statutory Auditors, to the audit company KPMG for the 2007-2010 period.

Such assignment, considering provisions under art. 159 of the Legislative Decree no. 58 of February 24, 1998 (Consolidated Finance Act) and the art. 8, sub. 7, of the Legislative Decree no. 303 of December 29, 2006 (so-called corrective decree) of the Law no. 262 of December 28, 2005, follows the previously attributed assignments to the KPMG company by the Shareholders' Meeting of April 9, 2002 (for 2002-2004) and by the Shareholders' Meeting of March 3, 2004 (for 2004-2006); the latter related to the listing of the Company on June 23, 2004.

Executive in charge of the preparation of accounting documents

Pursuant to art. 154 *bis* of the Legislative Decree no. 58 of February 24, 1998 (Consolidated Finance Act) – introduced by Law no. 262 of December 28, 2005 and subsequently modified by Legislative Decree no. 303 of December 29, 2006 – the Shareholders' Meeting of May 24, 2007 has provided for in the Bylaws (art. 21.4) the position of the Executive in charge of the preparation of accounting documents, delegating the nomination to the Board of Directors, following the indication by the Board of Statutory Auditors, based on specific requirements of professionalism.

The choice to reserve the appointment and revoking of the Executive to the Board of Directors was carried

out in line with what provided for by law that directly acknowledges the Board of Directors a specific task of supervision (art. 154 *bis*, sub. 4 of the Consolidated Finance Act).

The Executive must also be in possession of requirements of honour indicated by law and of professionalism indicated in the Bylaw.

In particular, the Executive must have a total experience of at least three years in:

- a. administration activities, finance and control and/or managing functions inherent to the activity of preparation and/or analysis and/or evaluation and/or verification of company documents whose complexity is comparable to accounting documents of the Company; or
- b. activity of legal control of the accounts in companies listed on Italian regulated markets or on that of other countries of the European Union; or
- c. professional activities or university teaching in financial or accountancy subjects.

The Board of Directors, in compliance with the regulations, has immediately appointed as Executive in charge of the preparation of the accounting documents Luciano Di Bacco, Head of the Administration Department of Terna, after verification of the requirements of honour and professionalism. Such nomination has also involved the adjustment of the organizational structure of the Company attributing to the Executive autonomy and authority regarding the structure and his Department granting him a top role to the direct report of the CEO.

The Executive has attested, already from 2007 half-year report, the compliance, under art. 154 *bis* sub. 2 of the Consolidated Finance Act, of the actions and communications of the Company provided for by law or communicated to the market, with reference to the report, even half-year, of the Company, to documents, and the accounting books.

The Executive carries out all the activities necessary to give the Board of Directors the possibility to comply with its supervision tasks as per art. 154 *bis*, sub. 4, of the Consolidated Finance Act. Under art. 154 *bis* sub. 3 of the Consolidated Finance Act, the Executive prepares suitable administrative and accounting procedures for the preparation of the financial statements, consolidated financial statements and half-year report, and attests, along with the delegated administrative bodies, their adequacy and the effective application, under sub. 5 of art. 154, according to the model established with CONSOB regulations, already from the financial statements at December 31, 2007.

In order to allow the release of the attestations mentioned above, as per art. 154 *bis*, sub.s 2 and 5, of the Consolidated Finance Act, in the course of 2007, Terna started and completed a specific plan with the objective to define the operating modalities for the appraisal of Internal Control System that supervises the

writing of the financial statements. Such plan involved the business Departments of the Group and has determined the preparation of the accounting procedures under sub. 3 of art. 154 *bis* of the Consolidated Finance Act, through a process of identification, management and monitoring of the main risks on the preparation of the financial statements.

According to the Corporate Governance Code, the Executive in charge of the preparation of accounting documents assesses together with the Internal Control Committee, the correct use of the accounting standards.

SECTION XIII: DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

Even before listing its shares on the stock exchange, Terna and its subsidiaries decided to lay the foundation for ensuring that related party transactions were carried out in compliance with the principles of procedural and substantial correctness, in its own interest, and as a duty to the market (art. 9.P.1 of the Corporate Governance Code).

These conditions were defined in a specific procedure submitted to the Internal Control Committee in advance and approved by the Board of Directors on February 22, 2007, in accordance with the provisions of the new Corporate Governance Code. To this end:

- related parties were identified in line with IFRS;
- the methods by which related party transactions are identified, approved and performed by Terna, directly or through its subsidiaries, were specified (art. 9.C.1 of the Corporate Governance Code);
- the methods used to identify and manage situations in which a Director has an in interest, directly or on behalf of third parties, were specified (art. 9.C.2 of the Corporate Governance Code).

In terms of the procedural correctness of related party transactions, the conditions provide that:

- in advance, each Company function evaluates the type of transaction to be carried out and the nature of the relationship of the parties, and informs Terna's Corporate and Legal Affairs Department in due time, so that it can meet its requirements with the Board of Directors;
- significant transactions with related parties are subject to the approval of Terna's Board of Directors, with the consultancy of the Internal Control Committee;
- in addition, related party transactions amounting to more than euros 2,000,000 each are submitted to

Terna's Board of Directors, with the exception of transactions approved in the budget or in dispatching or related service contracts. Moreover, the Board of Directors should be appropriately informed on the nature of the relationship, the operating methods, the timing and economic terms and conditions of the transaction, the measurement procedure applied, underlying interests and reasons and any risks that could arise for Terna and its subsidiaries in connection with the transaction;

- the Board of Directors and Board of Statutory Auditors should receive specific periodic reporting on transactions other than the above, with the exception of related party transactions totalling less than euros 50,000 which are excluded from the Board of Directors authorization and reporting requirement;
- Directors who have an interest (including potential or indirect interests) in the transaction:
 - are required to inform the Board of Directors and Board of Statutory Auditors in due time of the existence of the interest, specifying its nature, terms, origin and scope;
 - are required to leave the Board meeting or abstain from voting at that time, unless the Board specifically authorizes participation in the related discussions and/or vote;
- Directors are required to inform the Board of their positions at the time of their appointment and regularly update the Board on them.

In addition, Board resolutions passed in relation to intercompany transactions should be adequately justified and advantageous for the relevant company.

In terms of substantial correctness – for the purposes of ensuring the fairness of related party transaction conditions and where required by the nature, value or other characteristics of the individual transaction – the Board of Directors may draw on the assistance of independent experts in evaluating the economic conditions and/or executive and technical methods of the transaction. The choice of expert should be based on reputable professionalism and expertise (banks, audit companies, law firms and other experts with specific technical skills) whose independence is recognized and in which there are no conflicts of interest with respect to the transaction.

SECTION XIV: AUDITORS' APPOINTMENT

Appointment and requirements of Statutory Auditors

In accordance with the provisions of the Company's Bylaws, the Board of Statutory Auditors is composed of three Standing Auditors and two Alternate Auditors, who are appointed for a period of three years and may be re-appointed at the end of their term.

All members of the Board of Statutory Auditors must meet the honour and professionalism requirements required by special legislation for statutory auditors of listed companies (art. 148, sub. 4, of Consolidated Finance Act) now under Minister for Justice Decree no. 162 of March 30, 2000, as integrated by appropriate Bylaws provisions (art. 26.1 of Bylaws).

Moreover, they may not be standing auditor of five or more companies that have issued securities listed on regulated markets. The members the Board of Statutory Auditors can hold other assignments of administration and control in share capital companies as per book V, title V, heads V, VI and VII of the Civil Code within the limits established by the art. 144 *terdecies* of CONSOB's Issuer Regulations. All the members the Board of Statutory Auditors must also possess the requirement of independence as per art. 148, sub. 3, of the Consolidated Finance Act.

In line with what provided for with respect to the Board of Directors, and the regulation on the matter of privatizations and pursuant to Italian laws regarding listed companies, the Bylaws require that the entire Board of Statutory Auditors be appointed using the list system, to ensure that the Board includes one standing auditor and one alternate auditor from minority lists.

This system provides – in line with art. 4 of Legislative Decree no. 332 of May 31, 1994 converted with Law 474/94 ("Privatization Law") and art. 144 *undecies* of the CONSOB's Issuer Regulations – that the lists of candidates can be presented by shareholders that, alone or jointly with other shareholders, hold at least 1% of the share capital. Moreover, the lists are filed at the registered offices and published in national newspapers at least 15 days before the date of the Shareholders' Meeting. The lists articulate into two sections, one for the candidates for standing auditor, and the other for the candidates for alternate auditor. The first one of the candidates of each section must be enrolled in the registry of the auditors and have exercised the activity of legal control of accounts for a period not inferior to three years.

Pursuant to art. 148, sub. 2, of the Consolidated Finance Act, at least one effective member is appointed by the minority shareholders who are not connected, not even indirectly, with the shareholders who have

introduced or voted the list winning for number of votes.

In compliance with the Italian legislation for listed companies, the Bylaws (art. 26.2) attribute the chairmanship of the Board of Statutory Auditors to the effective Auditor appointed by the minority.

To ensure transparency in the procedure for the appointment of the Board of Statutory Auditors, also in line with the provisions of the Corporate Governance Code, lists are provided with an accurate exposition of the personal and professional characteristics of the candidates, accompanied by declaration of eligibility to be nominated as independent candidate and, pursuant to art. 2400, last subsection of the Civil Code, with the list of administration and control positions held within the Company. Such documents are deposited at the registered offices of the Company, along with the lists, and are immediately published in the Company's website according to a specific item in the notice of call of the Shareholders' Meeting and in line with art. 10 of the Corporate Governance Code.

The lists are also accompanied by the declarations with which the candidates accept their candidacy and attest, under their own responsibility, inexistence of incompatibility and ineligibility causes, and the existence of requirements prescribed by law, discipline and the Bylaws.

With at least five days advance on the set date of the Shareholders' Meeting in first call, copy of the documentation proving the necessary number of shares for the lists submission must be presented and/or delivered at the registered offices.

SECTION XV: STATUTORY AUDITORS

Composition of the Board of Statutory Auditors

The Board of Statutory Auditors currently in office, appointed by the shareholders during the ordinary Shareholders' Meeting of April 1, 2005, will lapse with the approval of the financial statements as of and for 2007. The standing auditors are listed below, along with a summary of their professional background:

- *Giovanni Ferreri, 72 years old - Chairman of the Board of Statutory Auditors*

Mr. Ferreri has a degree in Law from Rome's Università degli Studi "La Sapienza", and became a lawyer in 1961. Since 1975, he is a barrister with the Court of Cassation, Italy's highest court.

He is also a registered auditor and co-owner, with Gianfranco Graziadei, of the International law firm Graziadei - Ferreri, which is based in Rome and has operations in Milan, Munich and New York. He is Deputy Chairman of AS Roma S.p.A., independent auditor and member of internal control committee of IPI S.p.A.

- *Giancarlo Russo Corvace, 54 years old - Standing auditor*

With a degree in Business Administration from Università LUISS, Rome and an MBA from the Università di Torino's Business School, he is a chartered accountant and registered auditor. Up to 1985, he worked for the Financial Affairs Department of Banca Nazionale del Lavoro and until 1988, served as CEO of Ifigest Fiduciaria Sim S.p.A. (now Banca Ifigest).

He has been a partner of the Graziadei - Ferreri law firm, Rome office, since 1989.

- *Roberto Tasca, 46 years old - Standing auditor*

Mr. Tasca has a degree in Business Administration from the Università "Luigi Bocconi". Since 2001, he has been a Professor of Financial Brokerage Economics with the Economics Department of Università di Bologna. He became an independent Director and member of the Appointment and Remuneration committee of Esprinet S.p.A. in April 2006. From 1992 to 2000, he held various teaching positions with the Università di Bologna and the Università Luigi Bocconi of Milan. He has written many articles and papers on various financial brokerage issues, and teaches masters courses at SDA Bocconi and Università di Bologna.

The number of the assignments in other companies listed on regulated markets, also foreign, is indicated in the attached tables.

In the course of 2007, the Board of Statutory Auditors held 12 meetings which lasted on average approximately two hours each, with the regular participation of the Standing Auditors.

The Board of Statutory Auditors of March 7, 2008 – on the basis of the criteria already defined on March 7, 2007 for the evaluation of independence of the members in compliance with the criteria indicated by the Corporate Governance Code adopted by the Directors and on the basis of the information supplied by the single members – attested that all Standing Auditors meet the independence requirement.

The Board of Statutory Auditors, already since March 16, 2007, decided to submit voluntarily to a regime of transparency analogous to that of the Directors in case of operations in which they bear an interest for themselves or third party (art. 10.C.4 of the Corporate Governance Code).

In elaborating the proposal of bestowal of assignment for the auditing of accounts submitted to the Shareholders' Meeting of May 24, 2007, the Board has preventively verified requirement of independence of the same society in charge of Terna and the Group.

SECTION XVI: INVESTORS RELATIONS

Since its listing on the stock exchange, the Company has believed that forging constant dialogue with shareholders and institutional investors is both in its best interest and a duty to the market. This dialogue is based on the mutual understanding of roles and is in compliance with the procedures for the disclosure of documents and information outside the Company and the principles contained in the “Guide for market disclosures” and recent regulatory measures and regulations on market disclosure.

To this regard, and also considering the Company's size, it decided that this dialogue should be facilitated by the creation of specific company structures.

Accordingly, the Company has set up the (I) Investors Relations Department, which currently reports to the CEO for relations with investors (via Arno 64 00198 Roma - tel. + 39 (0)6 8313 8145 - fax + 39 (0)6 8313 8389 e-mail: www.investor.relations@terna.it) and (II) a department for relationships with general shareholders under the Corporate and Legal Affairs Department (via Arno 64 00198 Roma - tel. +39 (0)6 8313 8136 - fax + 39 (0)6 8313 8317 e-mail: azionisti.retail@terna.it) - (artt. 11.C.1 and 11.C.2 of the Corporate Governance Code).

Furthermore, the Company has further encouraged dialogue with investors by creating a specific section for its

website (www.terna.it), where they can find financial information (financial statements, half year and quarterly reports and presentations to the financial community) and updated information and documents of interest to shareholders (press releases, the Company bodies, the Bylaws and the regulation for shareholders' meetings, corporate governance information and documents, the Code of Ethics and the Organizational and Management Model pursuant to Legislative Decree no. 231/2001) (art. 11.C.1 of the Corporate Governance Code).

SECTION XVII

SHAREHOLDERS' MEETING

The Corporate Governance Code establishes that the Shareholders' Meetings should be used as special occasions to initiate fruitful dialogue between shareholders and the Board of Directors (despite the wide-ranging diversification of the communications methods used by listed companies with their shareholders, institutional investors and the market). This was carefully evaluated and fully approved by the Company, which believed it necessary to adopt specific measures to enhance the meetings adequately, in addition to guaranteeing the participation of its Directors.

Also in the wake of special legislation in relation to listed companies, Terna introduced into its Bylaws a specific regulation aimed at facilitating the gathering of voting proxies for shareholders who are employees of the Company and its subsidiaries, so as to involve them in the decision-making process at the Shareholders' Meetings.

Furthermore, during the meeting of March 3, 2004, the shareholders resolved to implement a specific regulation for the Company, aimed at ensuring the ordered and functional running of Shareholders' Meetings, with detailed rules for the various sectors, in accordance with each shareholders' fundamental right to request clarifications on the various issues being discussed, express an opinion and make proposals.

Although this regulation is not included in the Bylaws, it was approved during the ordinary meeting under the specific power given to the shareholders by the Bylaws. The contents of the regulation have been aligned to the most sophisticated models prepared by trade associations (Assonime and ABI) for listed companies.

In addition, in view of the Shareholders' Meetings, the Board of Directors provides the shareholders with adequate information in a timely manner, so that they may pass resolutions with full knowledge of the facts.

As regards the right of participation in Shareholders' Meeting, the Bylaws (art. 10.1) provides that only those who have deposited the shares at least two days before the set date for the first call and has not withdrawn them before the meeting has taken place, can take part in the meeting. The preventive communication released by the intermediary produces the same effects of share deposit.

The hereby attached four tables summarize some of the most significant information contained in the sections fifth, tenth and fifteenth of the document.

ATTACHMENTS

TABLE 1

Composition of Terna Board of Directors

Name	Position	Start of office	List	Exec.	Non exec.	Indep.	Indep. Consolid. Finance Act	% BoD	Other assignments
Luigi Roth	Chairman	2/11/05	M		/			100%	3
Flavio Cattaneo	CEO	2/11/05	M	/				100%	1
Luigi De Paoli	Director	2/11/05	M		/	/	/	100%	1
Mario Garraffo	Director	2/11/05	M		/	/	/	91.7%	2
Claudio Machetti	Director	21/3/07	m		/			83.3%	2
Salvatore Machi	Director	2/11/05	m		/	/	/	100%	1
Carmine Macri	Director	2/11/05	M		/	/	/	100%	
Piero Giuseppe Maranesi	Director	2/11/05	M		/	/	/	100%	
Vittorio Rispoli	Director	13/7/06	m		/	/	/	91.7	3
Franco Smurro	Director	2/11/05	M		/	/	/	100%	

Directors who quit office during 2007

Name	Position	Start of office	List	Exec.	Non exec.	Indep.	Indep. Consolid. Finance Act	% BoD
Massimo Romano	Director	From 2/11/05 to 16/3/07	m		/			100%

KEY:

Position: indicates if Chairman, Deputy Chairman, CEO, etc.

List: it indicates M/m depending if the Director has been appointed from the list voted by the majority or the minority.

Exec.: it is ticked if the Director can be characterized as executive.

Non exec.: it is ticked if the Director can be characterized as not executive.

Indep.: it is ticked if the Director can be characterized as independent pursuant to the criteria established by the Corporate Governance Code.

Indep. Consolidated Finance Act: it is ticked if the Director is in possession of requirements of independence under art. 148, sub. 3, of the Consolidated Finance Act as recalled by art. 147 *ter* sub. 4 of the Consolidated Finance Act.

% BoD: indicates the presence, in terms of percentage, of the Director in the Board meetings (in calculating such percentage, the number of meetings is considered to which the Director has participated in comparison to the number of Board meetings held during the year or after the assumption of the assignment).

Other assignments: indicates the declared total number of assignments held in other companies listed in regulated markets (also foreign), in holding companies, banking, insurance or of important dimensions, based on the criteria defined by the Board. It does not consider those eventually held in subsidiaries, direct and/or indirect, or Terna's investees. In case of more assignments held within the same Group, also due to a work relationship with one of the Companies of the same, only the assignment with "greater weight" is considered.

For the list of the assignments held by each Director, reference should be made to the summary of the professional profiles in the Report.

TABLE 2

Composition of internal Committees of Terna Board of Directors

Name	Position	E.C.	% E.C.	A.C.	% A.C.	R.C.	% R.C.	I.C.C.	% I.C.C.
Luigi Roth	Chairman					/	83.3%		
Flavio Cattaneo	CEO								
Luigi De Paoli	Director							/	87.5%
Mario Garraffo	Director					/	100%	/	100%
Claudio Machetti	Director								
Salvatore Machi	Director							/	100%
Carmine Macri	Director					/	100% (*)	/	87,5%
Piero Giuseppe Maranesi	Director							/	100%
Vittorio Rispoli	Director					/	100%		
Franco Smurro	Director					/	100%		

Directors who quit assignment during 2007

Name	Position	E.C.	% E.C.	A.C.	% A.C.	R.C.	% R.C.	I.C.C.	% I.C.C.
Massimo Romano	Director					/	50% (**)		

KEY:

E.C.: Executive Committee; C/M if Chairman or member.

% E.C.: indicates the presence, in terms of percentage, of the Director in the committee meetings (in calculating such percentage, the number of meetings is considered to which the Director has participated in comparison to the number of Board meetings held during the year or after the assumption of the assignment).

A.C.: Appointment Committee; C/M if Chairman or member.

% A.C.: indicates the presence, in terms of percentage, of the Director in the committee meetings (in calculating such percentage, the number of meetings is considered to which the Director has participated in comparison to the number of meetings held during the year or after the assumption of the assignment).

R.C.: Remuneration Committee; C/M if Chairman or member.

% R.C.: indicates the presence, in terms of percentage, of the Director in the committee meetings (in calculating such percentage, the number of meetings is considered to which the Director has participated in comparison to the number of meetings held during the year or after the assumption of the assignment).

I.C.C.: Internal Control Committee; C/M if Chairman or member.

% I.C.C.: indicates the presence, in terms of percentage, of the Director in the committee meetings (in calculating such percentage, the number of meetings is considered to which the Director has participated in comparison to the number of meetings held during the year or after the assumption of the assignment).

(*) member of the Remuneration Committee from March 21, 2007.

(**) member of the Remuneration Committee up to March 16, 2007.

TABLE 3

Composition of the Terna Board of Statutory Auditors

Name	Position	Start of office	List	Indep. (under code)	% part B.S.A.	Other assignments
Giovanni Ferreri	Chairman	1/4/2005	M	/	100%	2
Giancarlo Russo Corvace	Standing auditor	1/4/2005	M	/	100%	0
Roberto Tasca	Standing auditor	1/4/2005	m	/	100%	1
Bruno Franceschetti	Alternate auditor	1/4/2005	M		-	0
Vito Di Battista	Alternate auditor	1/4/2005	m		-	0

Auditors who quit assignment during 2007

Name	Position	Start of office	List	Indep. (under code)	% part B.S.A.
-	-	-	-	-	-

Key:

Position: indicates if Chairman, Standing auditor, Alternate auditor.

List: M/m according to appointment from majority or minority list (art. 144 *decies*, of CONSOB's Issuer Regulations).

Indep.: it is ticked if the auditor can be characterized as independent pursuant to the criteria established by the Corporate Governance Code, indicating in the table if those principles have been amended and/or integrated.

% part. B.S.A.: indicates the presence, in percentage, of the auditor in the Board's meetings (in calculating such percentage, the number of meetings is considered to which the auditor has participated in comparison to the number of meetings held during the year or after the assumption of the assignment).

Other assignments: indicates the declared total number of assignments covered in other companies listed in regulated markets.

GLOSSARY

Connection

Set of grid elements consisting of the transmission line and the stalls at the ends of the same, including the relative circuit sectioning devices. Classification of connections by voltage level is carried out with reference to the nominal voltage. The length of the connection is normally the length of the line constituting the actual link.

Connection line

Any power line that links the power distribution plant with the user's plant, or the power distribution plant with the connection station.

Development

Intervention within the electricity grid involving an adaptation or expansion of the transport, transformation, connection and interconnection capacity, an increase in operating flexibility of the grid or a disposal of grid elements.

Dispatching

Electricity cannot be stored. It is therefore necessary to continuously produce the quantity of energy requested by consumers and deliver it to the National Transmission Grid in such a way as to keep electricity supply and demand in equilibrium, thereby ensuring continuing and security in supplying this service. Management of these flows of electricity along the grid is known as Dispatching.

Extra-high voltage

Nominal voltage over 220 kV.

Frequency

Represents the number of oscillations per second, during which the value of an alternating quantity, such as voltage, varies from positive polarity to negative polarity. It is measured in Hertz (Hz).

Generator

Electrical machine that transforms a source of primary energy into electricity.

Giga-watt (GW)

Unit of measurement equal to one billion Watts (1,000 megawatts).

Grid management

The set of activities and procedures that bring about operation and the operating plan, under every condition, of an electrical network. Said activities and procedures include the management of electricity flows, interconnection devices and the necessary auxiliary services, as well as the decisions for maintenance and development measures.

Gross production of electricity

Sum of the quantities of electrical energy produced, measured at the electrical generator terminals.

High voltage

Nominal voltage greater than 35 kV and less than or equal to 220 kV.

Interconnection line

High voltage power line in alternating current (AC) or direct current (DC) which links two different electrical transmission or distribution grids or even two generation plants.

Interconnection of electricity grids

Connection between electricity grids required for the transfer of electricity.

Interoperability of electricity grids

Operating method for the completion of management, operation, maintenance and development activities for two or more interconnected grids, in order to ensure simultaneous and coordinated functioning of the same.

kilowatt-hour (kWh)

Unit of measurement that expresses the quantity of electricity equal to 1,000 Watts provided or requested in one hour.

kW

Unit of measurement of power (1 kW=1000 J/sec).

kWh

Unit of measurement of energy.

Maintenance

Measures and intervention aimed at the maintenance or restoration of efficiency and proper functioning of electricity plants, taking into account any declines in performance.

Maximum total transport capacity on interconnection with foreign countries

Maximum transport capacity for importing along the lines of the interconnection grid with the electricity plants of neighbouring countries.

Medium voltage

Nominal voltage greater than 1 kV and less than or equal to 35 kV.

Megawatt (MW)

Unit of measurement equal to one million Watts.

National Transmission Grid (NTG)

National electricity transmission grid as defined by the Decree of the Ministry of Industry of June 25, 1999 and subsequent amendments and additions.

Net production of electricity

Sum of the quantities of electrical energy produced, measured at the outgoing points of the production plants.

Operations planning

Preparation of plans and schedules for operation of the electricity system.

Peak power

The highest value of electrical power supplied or absorbed at any point of the system during a specific time interval.

Planning

Definition of the usage plans, for a specific period of time, for the available means of production and transmission, in order to satisfy the energy requirements with respect to quality and continuity of service.

Power station

Part of a grid, concentrated and closed within a specific site, used to distribute electricity among the lines of a grid, transfer electricity among grids at different voltages and transform electricity into the lowest voltage for the user.

Producer

Natural or legal person that produces electricity, regardless of ownership of the generation plant.

Production

Generation of electrical energy, in any way.

RAB (Regulatory Asset Base)

Value of the net capital invested, as recognized by the Italian Authority for Electricity and Gas for transport and distribution companies for the purposes of determining the applicable tariffs.

Requirement

Demand for electrical energy to be satisfied by the national electricity system. It shows a variable trend throughout the day, month and year.

Stall

Set of power plants and accessory systems linked to a power line or transformer that links said elements to the grid with the busbars of a power station.

Switch

Sectioning and manoeuvring device able to carry and interrupt current under normal operating conditions, as well as during specific exceptional operating conditions, such as in the case of short circuits.

Switching station

Part of a grid consisting of the set of equipment used to distribute the electricity among the lines of a grid at the same level of voltage.

Transformer

Electrical machine used for the connection and transfer of energy between grids at difference voltage levels.

Transmission

Electricity transport and transformation activities along the interconnected high and extra-high voltage grid for the purposes of delivery to clients, distributors and recipients of self-produced energy.

Transmission activity

The activity of transporting and transformation electricity across the grid.

Transmission line

High and extra-high voltage power line, overhead or cable, used for the transport of electricity from the production plants to the distribution systems or to users.

Transformation station

Part of a grid consisting of the set of equipment used to transfer electricity between grids with different voltages.

Unified management of the grid

Coordinated management of all portions of the Grid.

Volt

Unit of measurement of voltage.

Watt

Unit of measurement of electric power.

NOTES

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OUR FUTURE



INCREASING THE SERVICE'S EFFICIENCY AND THE COMPANY'S COMPETITIVENESS.
ALWAYS ENHANCING THE KNOWLEDGE AND EXPERIENCE OF COLLABORATORS.
PLACING ENVIRONMENTAL RESPECT AS A TOP PRIORITY.
DEVELOPING AN INTERNATIONAL COMPANY.

