2009

Annual Report

Terna S.p.A. and the Terna Group

Terna

Terna manages electricity transmission in Italy and guarantees its safety, quality and affordability over time. It develops market activities and new business opportunities with experience and competence. It creates value for shareholders with a strong commitment towards professional excellence and with a responsible attitude towards the community while fully respecting the environment it works in.

2009

Annual Report

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Terna



Transmitting

energy

Terna is responsible in Italy for transmitting and dispatching electricity along the high-voltage and very-high-voltage grid. With over 60,000 km of electricity lines, it is the first independent operator in Europe and the seventh in the world.
The Company covers the national electricity demand and guarantees the highest quality of the electricity transmission service, in line with the European best practices.
Terna's grid is joined to the network of European grids by 18 interconnection lines that allow exchanging and regulating electricity with other countries.

safety

Guaranteeing the national electricity system's safety is at the basis of Terna's strategic choices. The Company has the task of ensuring electricity transmission in Italy 24 hours a day, 365 days a year. The National Control Center manages the flow of nearly 317 billion kWh that our country uses each year.
Through the SOC, Security Operations Centre, a high-tech department planned and built by Terna, the Company is capable of preventing, facing and managing critical situations in real time. For this purpose, in 2009, the Company signed a memorandum of understanding with the Ministry of Interior and with the General Headquarters of the Carabinieri for the grid's safety, the first agreement signed for a private company that places Italy as a forerunner in protecting our country's strategic infrastructures.
Furthermore, for greater protection and transparency in contracts, a memorandum of understanding was signed with the General Headquarters of the Customs Guards aimed at preventing criminal infiltrations in contracts for grid development.

future

Terna supports our country's growth through the sustainable development of electricity infrastructures. Since 2002, the Company adopted the Strategic Environmental Assessment (SEA) procedure, in order to identify, for the new lines, the best possible solutions shared by both Public Authorities and territorial bodies.
Technological innovation and high-tech engineering projects drive the Company in the important task of modernising and upgrading the Italian electricity grid.
The corporate identity is based on a shared Code of Ethics while the sustainability report represents an internationally recognised business tool.

Terna **A useful grid for the Country.**

Transmitting

results

For Terna, 2009 was the best year in terms of economic results and objectives reached, such as the discounted acquisition of Enel's high-voltage electricity lines, the premium sale of the entire shareholding in Terna Participações and increased investments for infrastructure development in Italy.
The Company ended 2009 as the best European utility in terms of total shareholder return, creating value for shareholders and stakeholders. Terna's shares were the only ones in the FTSE Mib to close the year with a record high.

research

Terna has planned investments for 6.9 billion euros in its 2010/2019 Development Plan. Over 150 million euros a year are invested in high-technology. Building infrastructures is supported by a whole world of research, but above all, by exceptional know-how, thanks to professionals trained at Terna, a unique school in Italy. In addition to 360 engineers involved in development, nearly 1,200 specialised technicians carry out complex activities such as the maintenance of the 380,000 Volt lines.

know-how

Terna transmits electricity, but also know-how, knowledge and culture. With over 160,000 hours of formal training in 2009, Campus, the logo which identifies all corporate training, has favored widespread professional growth. Terna periodically publishes statistics on national electricity guaranteeing the country and the Italian statistics system a proper and updated information on the electricity sector. Terna transmits culture: in addition to the internal photography contest CreativInTerna, in 2009 the Terna Prize 02 for contemporary art was also organised with the participation of over 3,500 artists which was confirmed as a pole of attraction and cooperation between art, economy and the civil society through synergy between the business world and culture.

Terna **A useful grid for the Country.**

Contents

Chairman's message

Dear Terna Shareholders and Stakeholders,

the 2009 financial statements confirm our role as an infrastructural company focused on development: from higher investments to increased relations based on trust with our stakeholders.

The national electricity grid that Terna owns, develops and manages represents an actual driver of our country's economic and industrial growth process, but also a sign of possible integration among development, environment, territory and community. Underlying this integration is the Company's top priority objective: building and maintaining over time a relationship based on trust with all our stakeholders not only in our principal activity, electricity transmission, but also in the great challenge of responsibility, of creating value and culture and in relations with the community.

In 2009 many kilometers of new power lines were completed and 18 memorandums of understanding were signed with Regional Authorities for modernising the grid. For Terna development does not only mean adding infrastructures throughout the territory. As in the case of Tuscany which was the first location in the world to install the pylons designed by the architect Norman Foster, the ambition is also that of contributing to defining a new industrial aesthetics based on the value of the most harmonious "installation" of infrastructures throughout the territory. For this reason, we also launched the international contest "Pylons of the Future" for creating new pylons capable of blending technology, design and environmental culture.

Through the Terna Prize which successfully reached its second edition, we consolidated a great project aimed at promoting Italian contemporary art and culture in collaboration with the Ministry for Cultural Heritage and Activities.

The Company's strategic choice of sustainability is expressed also towards its internal stakeholders. The new Head Office in Rome represents a modern office complex that is operational, sustainable and technological also having a strong value of corporate identity. We enriched our training programme and internal communication by implementing initiatives aimed at facilitating information exchange and at consolidating our corporate identity.

Terna has chosen to be a company of the future that looks ahead by blending functionality, sustainability, safety and technological progress. 2009 economic results stand to witness the validity of our management approach that is integrated and based on values. Terna has undertaken a responsible commitment towards our country which the Company has been coherently pursuing since 2005. This is our way of creating value for shareholders, for stakeholders and for the entire community. This is our way of wanting to be among the first grid operators in the world.

The Chairman

LUIGI ROTH

Letter to Shareholders

Ladies and Gentlemen Shareholders,

2009 was Terna's best year in terms of results. A year that not only achieved outstanding financial returns, but also in terms of development, grid growth, improved safety, international recognition and sustainability. All this was attained despite an unfavourable macro-economic situation and reduced energy consumption.

We demonstrated our capability in taking the proper action and in our forecasting abilities, particularly in anticipating the potential consequences of the crisis and its relative risks, obtaining results that reversed the trend in every field.

Today, Terna is the first independent European player and the seventh in the world among Grid Operators, also thanks to the most important acquisition transaction ever carried out in Italy in 2009, over 18,000 km of HV lines from Enel. At the same time, with the sale of Terna Participações in Brazil, we generated capital gains for over €400 million, that will be re-invested into the grid's development and integrated in the dividends policy.

Even net of this extraordinary transaction, the main figures of the Terna Group are very positive. The 2009 financial statements registered a double-digit growth in all its principal indicators.

At the consolidated level, revenues increased by 13.8% and stood at €1 billion and 361 million, the gross operating margin exceeded €1 billion increasing by 18%, the Group's net income reached €771 million increasing by 135% (by 17.8% without the effect of the sale of the Brazilian subsidiary) and investments exceeded €900 million, increasing by 17.7%.

These results allowed us to propose a distribution of dividends per share increased by 20% compared to the previous year. With regard to the share's trend, despite the international crisis, Terna's shares were appreciated by the markets and were the only ones of the FTSE Mib to close 2009 with an all-time high. The Company was also the best European utility for total shareholder return in 2009 as well as in the last three years.

2009 was also a fundamental year in terms of building plants and systems. 2010 will be the year of the building sites and the Company will also be focused on developing the photovoltaic project further improving the Group's value.

Since the very beginning, we always maintained that Terna's strategic objective was to create value for all shareholders and for the entire country. We kept these promises, also during a year of economic turmoil, with significant results in terms of efficiency and of economic, environmental and social responsibility above all thanks to the commitment and to the professional and technological expertise of all of Terna's team.

The CEO

FLAVIO CATTANEO

Call of the ordinary shareholders' meeting

The Ordinary Meeting of the shareholders of Terna S.p.A. is called for April 29 (at first calling) and April 30, 2010 (second calling) at 11:00 a.m. in Rome at the Terna Auditorium, Piazza Giuseppe Frua, 2, to discuss and resolve the following

Agenda

1. Approval of the financial statements at December 31, 2009. Reports of the Board of Directors, the Board of Auditors and the independent auditors. Related resolutions. Presentation of the consolidated financial statements at December 31, 2009;
2. Allocation of net profit for the year.

The reports by the Directors on the items included in the Agenda, as required by applicable law, as well as the documents to be submitted to the shareholders for approval, will be made available to the public at the Company's registered office and at the registered office of Borsa Italiana S.p.A. no later than April 14, 2010. Copies will be available for shareholders. These documents will also be published on the Company's website: www.terna.it.
Pursuant to art. 126 *bis* of Legislative Decree no. 58/98 (Consolidated Law on Financial Intermediation), shareholders who represent at least 1/40th of the share capital with voting rights may send a request, within 5 days of publication of this notice, indicating items they would like added to the Agenda. Additions cannot be made for matters on which, by statutory requirement, the shareholders' meeting shall resolve on the basis of a proposal by the Directors or a project or a report the Directors have prepared. If items are added to the Agenda, a revised Agenda will be published in the same manner required for publication of the notice of the shareholders' meeting at least 10 days prior to the date set for the Meeting.
The Company's share capital, pursuant to art. 5.1 of the bylaws, is represented by 2,000,908,800 ordinary shares with a par value of €0.22 each. Each share entitles the shareholder to one vote pursuant to art. 6.1 of the bylaws.
All of the shareholders for whom the Company has received timely notice from an authorised intermediary pursuant to applicable law shall be entitled to attend the shareholders' meeting. Art.10.1 of the bylaws (available on the Company's website: www.terna.it) establishes that only those shareholders who have deposited their shares at least two days prior to the date set for the meeting at first calling and who have not withdrawn their shares before the shareholders' meeting has taken place may participate.
In order to facilitate the process of determining whether they have the right to attend the shareholders' meeting, shareholders and other holders of voting rights may send the supporting documentation to Terna S.p.A.'s Corporate Secretariat by mail (Terna S.p.A. – Segreteria Societaria – Viale Egidio Galbani, 70 – 00156 Rome), with a copy or by fax to 06/83138218, at least two days prior to the date set for the shareholders' meeting at first calling.
In addition, in order to facilitate the process of verifying powers of representation, those wishing to attend the shareholders' meeting as the legal or voluntary representatives of shareholders and other holders of the voting rights pursuant to art. 11 of the bylaws may send the documentation establishing their power of representation to Terna S.p.A.'s Corporate Secretariat in accordance with the procedure and by the deadline stated in the above paragraph. Such representatives may use the model proxy included at the bottom of the notice submitted by the authorised intermediary.
The offices in charge of identifying persons and verifying their right to attend the meeting will be open from 9:00 a.m. on the dates set for the first and second callings of the meeting.
A service providing assistance for the shareholders' meeting is available at the following numbers: telephone no. 06/88345112 - fax no. 06/88345203.
This notice can also be found on the Company's website: www.terna.it.

The Chairman of the Board of Directors
Luigi Roth

This notice calling the ordinary shareholders' meeting was published in the Gazzetta Ufficiale della Repubblica Italiana, Parte II, on March 25, 2010, no. 36.

Terna S.p.A. – Registered office in Rome – Viale Egidio Galbani, 70
Share capital €440,199,936 (at April 30, 2009) fully paid-in
Rome Register of Companies, Tax ID and VAT no. 05779661007
Rome REA no. 922416

Summary of the resolutions of the ordinary shareholders' meeting

Terna S.p.A.'s shareholders' meeting met on second call on April 30, 2010 for the ordinary session at Terna's Auditorium in Piazza Giuseppe Frua 2, Rome. In the ordinary meeting it:

- approved Terna S.p.A.'s financial statement as of December 31, 2009;
- examined the data of the Terna Group's consolidated financial statements also as of December 31, 2009, that closed with the Group's net income equal to €771.0 million;
- resolved to allocate Terna S.p.A.'s 2009 net income equal to €790,043,534.92 as follows:
  - €140,063,616.0 to cover the interim dividend paid on November 26, 2009;
  - €240,109,056.0 as a final dividend to be distributed in the amount of €0.12 for each one of the 2,000,908,800 ordinary shares (as of March 19, 2010) to be paid – gross of any tax withholdings – on June 24, 2010 with "detachment date" of coupon no. 12 on June 21, 2010. The total amount determined may vary based on the possible greater number of ordinary shares that will actually be in circulation as of the date set for detachment of the coupon relative to the final balance for 2009;
  - €409,870,862.92, or a different amount that remains following any and further previous allocations, as balance brought forward;
- resolved to assign the task to the Board of Directors – and on its behalf to its CEO – to verify in due time, in relation to the final number of shares to be remunerated, the amount of income distributed and of the balance brought forward.

Corporate bodies

Board of Directors

Chairman
Luigi Roth

CEO
Flavio Cattaneo

Directors
Cristiano Cannarsa
Paolo Dal Pino
Matteo Del Fante
Claudio Machetti
Salvatore Machì
Michele Polo
Vittorio Rispoli

Secretary of the Board of Directors
Ernesto Calaprice

Board of Statutory Auditors

Chairman
Luca Aurelio Guarna

Standing auditors
Marcello Cosconati
Lorenzo Pozza

Alternate auditors
Stefania Bettoni
Mario Paolillo

Independent auditors
KPMG S.p.A.

Powers

Board of Directors
The Board is vested by the bylaws with the broadest powers for the ordinary and extraordinary management of the Company, and specifically has the power to carry out all the actions it deems advisable to implement and attain the corporate purpose, with the sole exception of those actions that are reserved to the shareholders by law and the bylaws.

Chairman of the Board of Directors
The Chairman is vested by the bylaws with the powers to represent the Company legally and to sign on its behalf, presides over shareholders' meetings, convenes and presides over the Board of Directors, and ascertains that the Board's resolutions are carried out. Pursuant to a Board resolution of April 28, 2008, the Chairman has been vested with a number of additional non-executive powers.

Chief Executive Officer
The Chief Executive Officer is also vested by the bylaws with the powers to represent the Company legally and to sign on its behalf, and in addition is vested by a Board resolution of April 28, 2008 with all powers for managing the Company, with the exception of those that are otherwise assigned by law or the bylaws or that the aforesaid resolution reserves for the Board of Directors.

Terna’s management

Flavio Cattaneo
Chief Executive Officer

Giuseppe Saponaro
Business Development Director

Luigi De Francisci
Regulatory Affairs Director

Giuseppe Lasco
Company Security Director

Giovanni Buttitta
External Relations and Communication Director

Fabio Todeschini
Finance, Control, International and M&A Director

Stefano Conti
Institutional Affairs Director

Elisabetta Colacchia
Investor Relations Manager

Gianni Armani
Italian Operations Director

Cesare Ranieri
Human Resources and Organisation Director

Luigi Roth
Chairman

Alessandro Fiocco
Procurement Director

Fulvio De Luca
Internal Audit Manager

Francesco Del Pizzo
Dispatching and Energy Operation Director

Umberto Colonna
Facility Maintenance Director

Pier Francesco Zanuzzi
Investment Planning Manager

Filomena Passeggio
Corporate Secretary and Legal Department Director

Carlo Sabelli
Real Time Manager

Luciano Di Bacco
Administration Director

Evaristo Di Bartolomeo
Grid Development and Engineering Director

The Terna Group

The Company, an international Group

Terna is a leading grid operator for the transmission of electricity, chaired by Chairman Luigi Roth, and headed by CEO Flavio Cattaneo. With over 60,000 km of power lines, Terna is the main owner of the high-voltage National Transmission Grid, first in Europe among independent grid operators and seventh in the world. It is responsible for safely transmitting and managing the national electricity flows 365 days a year, 24 hours a day, guaranteeing the balance between electricity demand and supply. Furthermore, Terna is responsible for the electricity grid's planning, maintenance and development, joining technological expertise and know-how for improving its efficiency.
Terna belongs to the ENTSO-E, one of the most important sector associations in the world that coordinates electricity transmission in continental Europe. 42 electricity operators from 34 European countries belong to ENTSO-E with the main objective of guaranteeing the safety of the interconnected electricity systems.

Terna has been listed in the Italian Stock Exchange since 2004 (ticker Bloomberg: TRN IM; ticker Thomson Reuters: TRN.MI). The major shareholder is Cassa Depositi e Prestiti with 29.99% of shares. 64% of the share capital is owned by Italian investors while 36% belongs to foreign institutional investors. The Company's principal shareholders include Enel with 5.1%, Pictet Fund Europe S.A. with 4.9%, BlackRock Inc. with 2% and Assicurazioni Generali with 2%. The remaining 56% approximately is divided among institutional and retail investors. These shareholders guarantee the Company's mission to its best: on one hand, ensuring a general interest and independent service such as electricity transmission and on the other, creating value for shareholders focusing on results.

Asset growth in Italy

In 2009 Terna strengthened its position in Italy and globally by acquiring over 18,000 km of electricity lines from Enel. At the end of the year, the Company also signed an agreement with A2A for the acquisition of an additional 290 km of high-voltage electricity lines. From 2005 to 2008 Terna had already acquired nearly 5,000 km of assets from Acea, Edison, AEM Milano and AEM Torino. Presently, Terna owns over 98% of the Italian electricity grid (data in km of double circuit lines):

- **62,503 km of electricity lines**
  - 380 kV lines: 11,212 km
  - 220 kV lines: 12,083 km
  - ≤150 kV lines: 39,208 km
- **383 transforming and switching stations**
- **18 interconnection lines with foreign countries**
- **8 territorial operational areas**
- **3 remote operation centres**
- **1 National Control Centre**

The electricity grid is formed by:

- VHV transformers (very-high-voltage) that withdraw electricity from power plants;
- interconnection lines that allow the electricity exchange with foreign countries;
- VHV and HV (high-voltage) lines that transfer energy;
- transforming stations for supplying electricity to the distribution companies that provide electricity to end users.

The new Head Office in Rome

In 2009 Terna moved to its new Head Office in Rome and began the reorganisation of the Company's national property also in term of locations. A sustainable and technologic project that has been able to blend high standards of functionality, safety and creativity focusing on corporate identity. A modern and avant-garde Head Office both for the system solutions that were adopted and for the great attention to energy saving and biodiversity.

Strategic development opportunities

Abroad, the Terna Group carries out consulting activity for grid operators, providing its know-how and technological expertise, particularly focusing on the quality of services offered and on the economic and financial efficiency.
Furthermore, Terna assesses international development opportunities through strategic initiatives in line with the Group's growth objectives. Following the sale in 2009 of its shareholding in the Brazilian Terna Participações, equal to 66% of the share capital, Terna has focused on initiatives located in areas that represent the natural expansion of its present field of activities: first of all, the Balkan countries and Eastern Europe. In the Balkan countries, Terna is ready to grasp any opportunities created by the presence of private investors in electricity transmission and to support submarine cable interconnections in the Adriatic sea, first of which the interconnection with the Montenegro, 415 km long.

Terna's National Control Centre and the electricity system's safety

Terna's National Control Centre is the heart of the national electricity system and is located in the outskirts of Rome. The central control room carries out a detailed control of the country's entire electricity transmission grid. Sophisticated monitoring and management systems allow Terna to control, instant by instant, the electricity produced in Italy or imported from other countries and to safely manage the energy flows. The monitoring activity is carried out non-stop, 24 hours a day, 365 days a year for nearly 317 billion kWh a year.
Through the SOC, Security Operations Centre, Terna's high tech centre, the Company is capable of preventing, facing and managing critical situations in real time. For this purpose, the Company signed in 2009 a Memorandum of Understanding with the Ministry of Interior for the Grid safety which represents the first agreement signed with a private company that places Italy as a forerunner in the country's strategic sector protection. A strategic agreement was also signed with the General Headquarters of the Customs Guards which was among the most innovative ones at the European level in terms of prevention, information exchange and collaboration on contracting companies, supplying services, respecting contract obligations and ensuring safety in infrastructures.

317

billion kWh
of electricity managed in 2009

The system in numbers

0.4	KM THE LENGTH OF THE SHORTEST 380 KV LINE, OSTIGLIA-OSTIGLIA C.LE, IN LOMBARDY
18	INTERCONNECTION LINES WITH OTHER COUNTRIES
218	KM THE LENGTH OF THE LONGEST 380 KV OVERHEAD LINE, MATERA-SANTA SOFIA
317.6	BILLION OF KWH REQUIRED IN ITALY IN 2009
383	TRANSFORMING AND SWITCHING STATIONS
435	KM THE LENGTH OF THE SA.PE.I. SUBMARINE CABLE BETWEEN SARDINIA AND THE MAINLAND
1,000	MW THE TRANSFER CAPACITY OF THE MOST POWERFUL LINES
1,600	METERS THE RECORD-BREAKING DEPTH OF THE SA.PE.I. SUBMARINE CABLE, THE DEEPEST IN THE WORLD
56,822	MW THE HISTORICAL RECORD OF THE COUNTRY'S PEAK POWER DEMAND ON DECEMBER 18, 2007
121,501	MVA OF TRANSFORMING CAPACITY

History

Terna – Rete Elettrica Nazionale S.p.A. – has been an essential industrial reality for years, among the leading players of the national energy scenario. On November 1, 2005 the unification of the ownership and management of the National Transmission Grid became effective headed by Terna, as part of the liberalisation process of the electricity market that included the privatisation of the grid ownership and the establishment of many different market competitors in Italy and abroad. The appointment of the Company's new Board of Directors with Luigi Roth and Flavio Cattaneo, respectively as Chairman and CEO, marked the beginning of a new approach towards the development of the Italian electricity grid and its investments. Below is a brief summary of Terna's most recent history.

May 31, 1999 the Terna Company was established within the Enel Group in compliance with Legislative Decree no. 79/99 ("Bersani Decree") that, as part of the liberalisation process of the Italian electricity sector, authorised the separation between the ownership and the management of the National Transmission Grid. Terna's activities concern the operation and maintenance of the National Transmission Grid's plants and systems belonging to the Enel Group and their development according to the guidelines issued by the GRTN (Gestore della rete di trasmissione nazionale-National Transmission Grid Operator).

June 23, 2004 Terna was listed in the Italian Electronic Stock Exchange.

March 31, 2005 Enel transferred to institutional investors 13.86% of Terna's share capital that it owned.

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

November 1, 2005 the unification of ownership and management of the transmission grid became effective headed by Terna.

November 2, 2005 the shareholders' meeting appointed the new Board of Directors for the 2005-2007 three year period; Luigi Roth as Chairman and Flavio Cattaneo as CEO, reconfirmed for a second three-year term on April 28, 2008.

From 2005 to 2009 Terna acquired over 5,000 km of grid from Acea, Edison, AEM Milano, AEM Torino, A2A and 18,000 km from Enel consequently owning more than 60,000 km of power lines, over 98% of the national electricity grid. In 2009, moreover, Terna sold its shareholding in Terna Participações, equal to 66% of the capital.

The Italian grid's development

In 2009, Terna further accelerated grid development: 55 projects, +22% compared to 2008 and 637 km of power lines built with a record 700% increase compared to the previous year. With respect to the €270 million invested in 2004, in 2009 Terna reached €900 million of investments for maintaining and developing the NTG, registering a growth of 230%.
Building infrastructures strengthens the electricity grid and also represents the country's development engine: 300 building sites are presently open which employ nearly 5,000 people. This figure will soon double, once the projects envisaged in the 2010-2014 strategic plan will be implemented.

Steps in development

Terna completed the first pole of the SA.PE.I. interconnection cable between Sardinia and the mainland; it opened building sites for the cable segment of the Sorgente-Rizziconi (Sicily-Calabria) line; it obtained authorisation for the 380 kV line between Lodi and Pavia (Chignolo Po-Maleo), for which the building site was opened; it requested authorisation for two new cross-border interconnections with France and Montenegro.
Other projects completed in 2009 include: the Tavarnuzze-Casellina electricity line in Tuscany with 9 innovative pylons designed by the architect Norman Foster, a new 14 km long power line; works in Val d'Ossola (Piedmont), approximately 100 km and the removal of nearly 190 km whose demolition will be completed by mid-2010; upgrading the Bussolengo-Verona (Veneto) area, 24 km of buried cables and 45 km of obsolete lines that are being demolished.
The other major projects in progress are: the second SA.PE.I. cable; the Santa Barbara-Casellina electricity line in Tuscany; the Ittiri-Codrongianus electricity line in Sardinia; projects in Piedmont for increasing the import capacity from France; the completion of upgrading the Valtellina, Valcamonica and Val d'Ossola grid; 12 sub-stations, 8 of which for collecting energy production from renewable sources in Southern Italy.

"Electricity bridges"

In 2009 Terna has focused intensively on four interconnections to make Italy the Mediterranean "electricity hub". The two interconnections with France and Montenegro, for which the Company has already initiated authorisation procedures will add 2,000 MW of transfer capacity to Italy's import possibility.

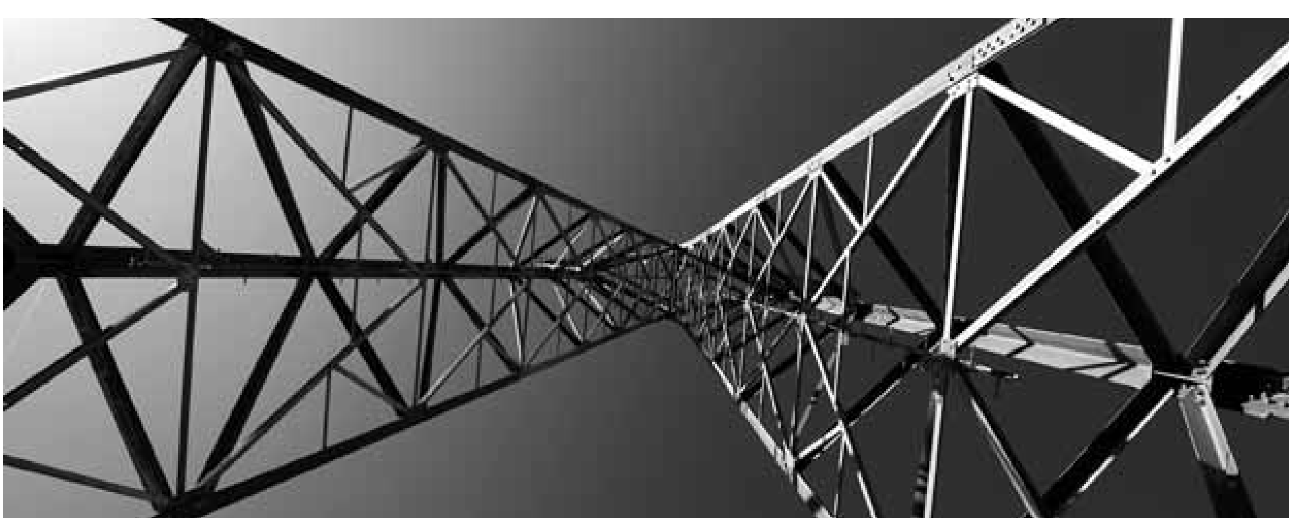
Cross-border interconnections will guarantee: increasing safety for the national and international electricity system, diversifying the fuel mix, reducing Italy's reliance on a limited number of energy supplying "systems" and reducing costs for the system for over €250 million a year.
The other two interconnections are already under construction and will connect Sardinia and Sicily with the mainland solving the present electricity market congestion and allowing to transfer large quantities of electricity produced from renewable sources that are concentrated in Southern Italy. Both these projects represent world records for the Italian electricity system. The SA.PE.I. will be completed within 2010; it is the longest "electricity bridge" in the Mediterranean, with 435 km that connect Latina to Fiume Santo (Sassari), and the deepest submarine power line in the world, reaching 1,600 meters of depth. The Sorgente-Rizziconi power line will be the longest AC submarine cable in the world with a 38 km segment below sea level in the Tyrrhenian sea that surrounds the Strait of Messina.
The completion of these two interconnections will significantly contribute to reducing system costs and will produce savings, when fully operating, for €125 million on the electricity bills of all Italian users.

Focusing on the environment

Developing the grid does not only mean building new lines in addition to the already existing ones. The new plants and systems allow upgrading measures that include the removal of obsolete parts of the grid (pylons, lines, supports) with obvious positive effects in terms of environmental impact. The removal of parts of the lines, made possible by building new power lines, represents the most significant contribution to environmental respect. In the next 10 years, 1,200 km of old lines are expected to be removed and a total area equal to the Aspromonte park will be freed. In this respect, the 2010-2014 strategic plan includes the removal of at least 800 km of old lines that has already been planned.

The SEA coordination tool

The various positive results obtained in planning sustainable development, that were recognised also at the highest government levels, were reached thanks to Terna's approach based on coordination with Regional and Local Bodies, in the ongoing search for a proper balance between electricity needs and meeting the interests of the community and with a new tool: the SEA – Strategic Environmental Assessment – that Terna has been the first to apply in Italy since 2002 on a voluntary basis. Up to now, 18 SEA agreements were signed with Piedmont, Calabria, Emilia-Romagna, Lombardy, Sicily, Campania, Basilicata, Umbria, Tuscany, Marche, Sardinia, Abruzzo, Puglia, Molise, Valle d'Aosta, Liguria, Lazio and the Autonomous Province of Trento.
In 2009, in particular, the following memorandums of understanding were signed with Regional Authorities and Local Bodies: with the municipalities of Fiano Romano, Capena, Montopoli Sabina and Nazzano, for restructuring the electricity grid between Rome and Terni (December 21); with Lazio's Regional Authorities (December 17), with Liguria's Regional Authorities (November 3) and with Valle d'Aosta's Regional Authorities (July 10) for the electricity grid's sustainable development; with Piedmont's Regional Authorities and the City of Turin for upgrading Turin's 220 kV grid (June 12); with Piedmont's Regional Authorities for the "feasibility range" of the 380 kV Trino (Vercelli)-Lacchiarella (Milan) power line between Piedmont and Lombardy (May 27); and lastly with Campania's Regional Authorities and the Province of Naples for restructuring the 220 kV line in Naples (January 28).



Pylons of the Future: another example of technological innovation and development

Terna demonstrated its commitment toward the grid's sustainable development also through planning new pylons in order to create supports and possibilities that would further reduce any environmental impact. In addition to the pylons designed by the architect Norman Foster already installed in Tuscany, tubular or single-pole pylons having a compact structure were also chosen in order to guarantee the lowest possible impact among all the choices for overhead power lines. The use of tubular supports has been widely used for some time for HV lines – 41 supports, for example, were installed in restructuring the 132 kV electricity grid in Val d'Ossola Sud – and they are also being developed in the VHV sector: as of today, tubular supports have been installed on these lines: Laino-Rizziconi in the Pollino Park, on the San Fiorano-Robbia line in the Adamello Park, and over 200 will be installed on the future Sorgente-Rizziconi line, connecting Sicily and Calabria, Trino-Lacchiarella line, connecting Piedmont and Lombardy, and Chignolo Po-Maleo line in Lombardy. At the end of 2009, the winners of the international contest "Pylons of the Future" were awarded, a contest that was created by Terna for planning and designing new pylons capable of blending innovation, technology, design and environmental culture also combining the highest service quality and enhancing the landscape. The first prize of the contest was awarded to the Rosental Group based on the project by the architect Hugh Dutton. The second prize went to the Frigerio Group and the third to Giugiaro Architettura.

A sustainable business model

Renewable sources, transmitting clean energy

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 expects to connect another 6,000 MW of new wind power, for a total of nearly 10,260 MW installed in Italy mainly in the South and in the islands, with a significant reduction of CO_2 emissions into the atmosphere.

Geographical location of existing wind power plants and wind power plants that will be built within 2014/2015:

• **Sicily**	**2,400 MW**	• **Sardinia**	**1,300 MW**
• **Puglia**	**2,500 MW**	• **Abruzzo**	**350 MW**
• **Campania**	**1,450 MW**	• **Basilicata**	**400 MW**
• **Calabria**	**1,100 MW**	• **Molise**	**400 MW**

Corporate Social Responsibility

Regarding sustainability, Terna attained new objectives in 2009 that represent just as much recognition received for an approach based on a sense of responsibility that is an integral part of its employees' working culture and that is also based on the awareness and pride of providing a service of wide general interest for the community.
Terna's sustainability is demonstrated through a great respect for its stakeholders, through its trend for an ongoing improvement of its performance and in its focus on environmental and social consequences of its activities.
The coherence pursued along this path was recognised in September 2009 with Terna being included in the Dow Jones Sustainability World Index, the most prestigious international stock market index that includes nearly 300 companies – of which only 12 are Italian – having the best sustainability performance.
During 2009 Terna strengthened its commitment towards its stakeholders with an exhaustive distribution campaign of its Code of Ethics and by appointing an Ethics Committee. In parallel with this campaign, Terna's Board of Directors consolidated its focus on the values expressed in the Code of Ethics and publicly reaffirmed its company commitment toward sustainability by participating in the most significant and prestigious international initiative in this field: the United Nations Global Compact. Advancing the publication of the 2008 sustainability report, the fourth in order of time, drawn up according to the G3 guidelines of the GRI (Global Reporting Initiative), allowed its widespread distribution to national and local authorities, media and universities. The focus on human resources was developed with the creation of the first "Safety Day" which involved the Company's top management and its employees, joined in the objective of focusing on occupational safety. Terna continued its ongoing commitment towards the environment through the three-year agreement signed with the WWF in favor of the national electricity grid's sustainable development and for protecting biodiversity through a greater integration of environmental criteria in planning the grid's development.
Special attention was also given to birdlife which was the object of scientific research conducted on Terna's behalf by the

LIPU (Italian League for Bird Protection) regarding its possible interaction with electricity lines and whose nesting and reproductive activities are favored by the project that is carried out together with Ornis Italica, “Nests & Pylons”.
In line with the intention of demonstrating its commitment towards the community in a lasting and creative way, for the second year in a row, Terna maintained its cultural investment through the Terna Prize for contemporary art. With over 3,500 participating artists and a growing interest on the part of public authorities, the media, the public and sector operators, the Prize was confirmed as a cultural platform and contest capable of interconnecting the art and business worlds enhancing the role of artists as the driver for developing a new creativity for the country.
In 2009, the Terna Prize took on an international focus through the “Connectivity” project that establishes a connection with the world’s art capitals to promote an exchange of experiences and to bring Italian contemporary art abroad.

People

Terna is a large team motivated by passion and the awareness of the deep social value of the work. A leading Italian company made of 3,500 professionals with an outstanding know-how and unique expertise. People are Terna’s most important capital on which to invest, consolidating and strengthening individual talents, enhancing results and promoting professional growth. In 2009, Terna was listed among the 28 outstanding companies of the first Italian edition of the CRF Top Employers that analyses and certifies the best companies based on personnel policies. Terna enhances its personnel through specialised training: a joint investment between the Company and the people, aimed at increasing expertise and creating value for the Company. In 2009, employees benefited from 160,000 hours of training, 47 hours per capita which involved 91% of Terna’s employees at least in one course. In demonstrating its focus on people, the Company strengthened its internal communication processes. In 2008 a programme was created for expressing satisfaction for Terna’s internal communication tools and initiatives which revealed the highest satisfaction for its corporate Intranet “InTernamente” and for large scale events such as the annual convention We:Me and the management’s meetings in its territorial offices. Following the success obtained by the first edition of the artistic contest “CreativInterna”, this year the event was devoted to “Transmission of values”, a founding element in the group’s corporate identity. First of all, the value of safety by creating an actual mascot, “Ternaruga”. Strong attention was also given to internal communication activities devoted to accompanying the transfer of nearly 500 employees to the new Head Office in Rome and to “Corporate Loyalty” by recognising the commitment of those who in 25 and 35 years of employment contributed to the growth of both the Company and the country.

3,447	Employees in Italy
1,020	Workers
360	Engineers for grid development
10%	Women employees
90%	Male employees

External recognition

Terna’s sustainability plan was recognised internationally by the Company being included in the Dow Jones Sustainability World Index and by receiving other important recognition. In 2009 Terna was also included in the ASPI Eurozone index that selects the 120 most sustainable companies among the 600 European companies with the greatest capitalisation and in the Ethibel Sustainability Index Excellence. Terna’s presence was also confirmed in the FTSE4Good, FTSE KLD, ECPI and Axia. With regard to communication tools, the “Sustainability” section of its website www.terna.it climbed 10 places, from 13th to 4th place in the “CSR on line Award” drafted each year by the independent company Lunquist.
Complete transparency in Terna’s communication with its stakeholders was rewarded also by the Accountability Rating Italy 2009: within this ranking of the first 40 listed companies, Terna moved from 8th place in 2008 to 3rd place in 2009.
Also important was Terna’s inclusion among the 10 finalists in the Corporate Sustainability category of the “The European Business Award”, a recognition awarded to the most successful companies in the 27 members countries of the European Union which also allowed Terna to be rewarded with the “Ruban d’Honneur”.
Attention towards the activities carried out by the Company was demonstrated also by the 6,500 articles published by the press in 2009, marking a significant rise compared to the previous year with a 26% increase in local newspapers. Furthermore, the high quality of the “media relation” activity was demonstrated by the Demoskopea survey “City Journalists 2009” in which Terna proved to be the company that improved relations with the press the most during 2009 and the only company that registered an increase in the familiarity level with journalists; Terna’s press office ranked third, in terms of quality level, in the energy sector, after the two major Italian energy companies. Journalists placed Terna among the first 10 Italian companies in terms of overall evaluation of economic and strategic management aspects.

Terna and the financial markets

FINANCIAL INDICATORS		December 30, 2009
Weight of Terna shares [1]		
> in the FTSE Mib index (%)		**1.63%**
> in the FTSE Italy All Share index (%)		**1.44%**
Rating		
Standard & Poor's	Outlook	**Stable**
	M/L term	**A+**
	Short term	**A-1**
Moody's	Outlook	**Stable**
	M/L term	**A2**
	Short term	**Prime -1**
Fitch	Outlook	**Stable**
	M/L term [2]	**A**
	Short term	**F1**

(1) Source: Borsa Italiana. Figures at December 30, 2009.
(2) Issuer Default Rating.

Performance of Terna S.p.A. shares

In a year of highly volatile stock markets, the defensive nature of Terna's stock enabled the Company to *post* performance that was decidedly better than both the average for Italian blue chips and for European securities in the industry. Indeed, the stock posted gains of 28.5%, as compared with the 19.5% gain for the FTSE Mib index and 0.98% for DJ STOXX Utilities.
On the last trading day of 2009, Terna's stock even reached its highest level ever since the IPO, at €3, thereby becoming the only blue chip stock to close the year at an all-time high.

In 2009, fears of an extended global recession, the disappointing numbers for the US economy, and the difficulties of the banking industry caused the world's markets to lose 35% of their value in less than three months. Conversely, during this same period, Terna was able to hold its ground, subsiding only fractionally (1.6%).

From mid-March, efforts by governments and central banks to support banks and market liquidity resulted in the full recovery of this value, such that the European and American markets closed the year with gains of around 20 percentage points from the end of 2008. Terna's stock also continued to rise, supported by a flow of positive news related mainly to the favourable regulatory framework (including the introduction of measures aimed at mitigating the economic effect of declining energy volumes on the Company's revenue), as well as to a significant acceleration in investment and, above all, to intensive M&A activities (the acquisition of Enel Distribuzione's high-voltage power grid and the sale of the Brazilian subsidiary Terna Participações), which led to a number of strategically important developments, such as the announcement of a project in the photovoltaic power area and a new dividend policy.

Indeed, the new dividend policy helped support returns for shareholders. In 2009, Total Shareholder Return (TSR) came to 37.2%, which is much higher than the return provided by the industry for the same period (7.9% for DJ STOXX Utilities) and by the Italian market (23.9% for FTSE Mib).

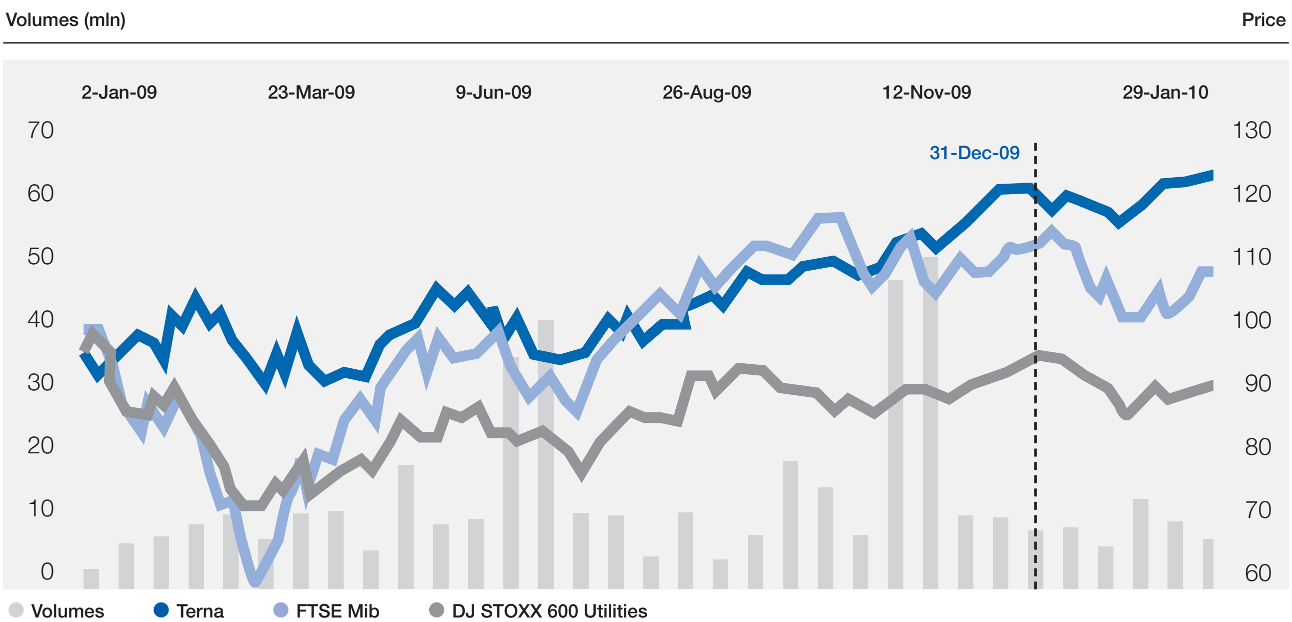
With this TSR, Terna ranked number one both among all European utilities and was the leading utility among Italian blue chip stocks.

The crisis had a negative impact on trading volumes on the Italian market, where blue chips shed 13% of their volumes compared with the previous year. However, the decline for Terna was not as marked, with average daily trading volumes falling just 9% in 2009 (11 million shares).

Terna shares continued to perform well in the first few months of 2010. In mid-March, it reached an all-time high (€3.1825), up 6% since the start of the year, in a context in which both the FTSE Mib and the European sector fell roughly 3%[1].

Since its placement in June 2004, Terna has posted growth of around 87%, as compared with the decline of 19% posted by the FTSE Mib index. Total shareholder return has also been significantly higher than the average provided by Italian firms (at 157% vs. the 0.3% of the FTSE Mib)[1].

PERFORMANCE OF TERNA SHARES AND THE FTSE MIB AND DJ STOXX 600 UTILITIES INDICES



Source: Bloomberg.

(1) With respect to the closing price on March 16, 2010.

Shareholders

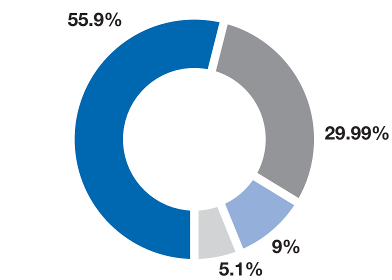
As of March 2010, Terna S.p.A.'s share capital totalled €440,199,936 and was represented by 2,000,908,800 ordinary shares with a par value of €0.22. On the basis of the register of shareholders and other information available as of the date of preparation of this report, the shareholders of Terna S.p.A. break down as follows:

- Cassa Depositi e Prestiti S.p.A. (CDP): 29.99%
- Enel S.p.A.: 5.1%
- Significant institutional investors: Pictet Funds Europe S.A. with 4.9%, BlackRock Inc. with 2% and Assicurazioni Generali with 2%
- Other institutional and retail investors: 55.9%

SHAREHOLDING STRUCTURE

- Other Institutional Investors + Retail
- CdP
- Major Institutional Investors (Pictet Funds Europe S.A., BlackRock Inc. and Assicurazioni Generali)
- Enel

Total 100%

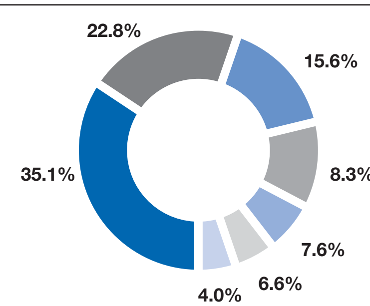


Other institutional investors and retail investors hold 33.1% and 22.8%, respectively.
Based on the periodic surveys conducted by the Company, it is believed that roughly 64% of Terna S.p.A. shares are held by Italian shareholders, with the remaining 36% being held by foreign institutional investors, primarily within Europe (UK 7.6%, Switzerland 5.9%, France 3.8% and Germany 2.8%) and North America (US/Canada 4%). The percentage of shares held by Italian institutional investors remained at 6.6% for the period.

SHAREHOLDING STRUCTURE BY TYPOLOGY AND GEOGRAPHIC AREA

- Core (CDP + Enel)
- Retail
- Institutional Investors Europe (former UK)
- Others
- Institutional Investors UK
- Institutional Investors Italy
- Institutional Investors US/Canada

Total 100%



2009

Directors' Report

Contents

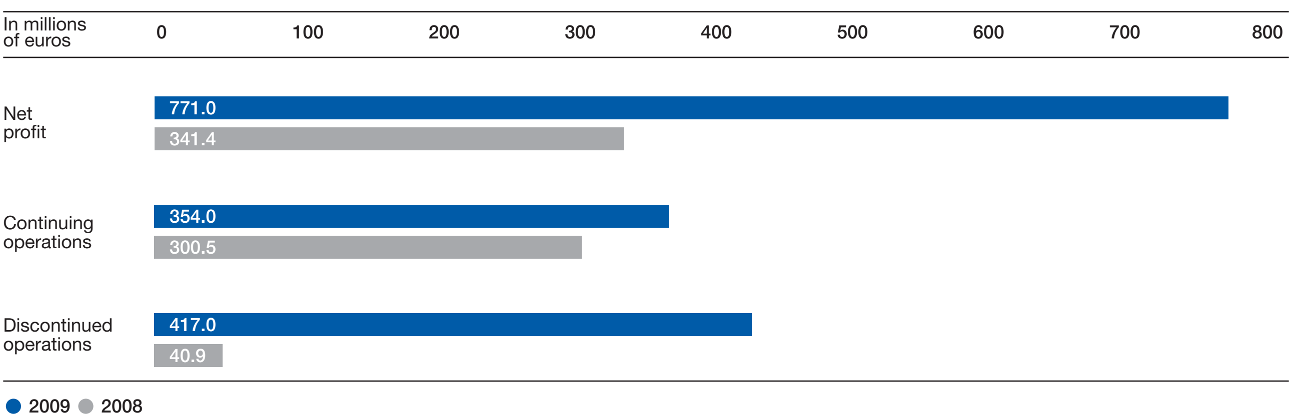
Directors' Report

Highlights

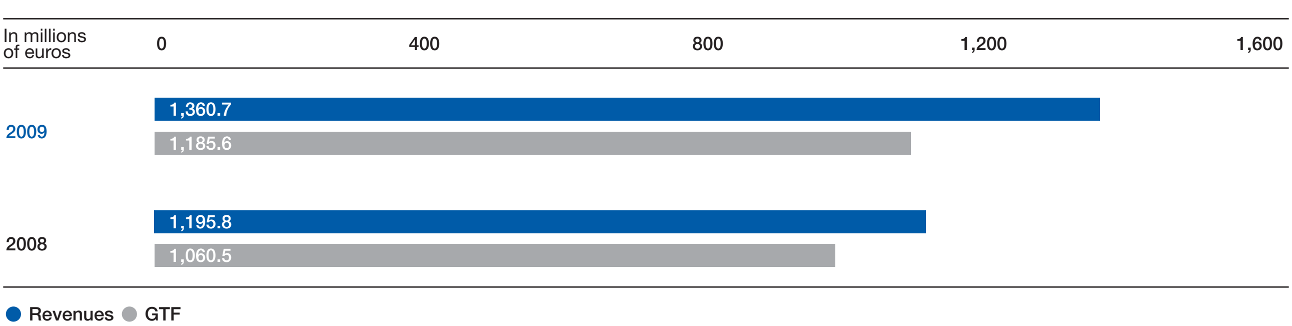
The figures discussed below have been drawn from the reclassified statements included in the section "Group performance and financial position" of this report, taken from the consolidated financial statements as described in the notes to the reclassified statements.

As described in greater detail below, 2009 featured the acquisition of the high-voltage transmission company, TELAT, from Enel Distribuzione and the sale of the equity investment held in Terna Participações S.A. described in the section "Significant events".
Following the latter event, the 2009 income statement account balances related to the sale of the Brazilian companies have been reclassified as "Profit from discontinued operations and assets held for sale" in accordance with IFRS 5 (Non-current assets held for sale and discontinued operations). For the purposes of comparison, the 2008 balances for these Brazilian firms have been reclassified in the same manner.

The consolidated financial statements at December 31, 2009, closed with **profit for the year of €771.0 million, attributable entirely to the shareholders of the Parent**, €354.0 million of which from continuing operations and €417.0 million from discontinued operations as a result of the aforementioned sale of the investment in Terna Participações during the year. This is a total increase in total profit of €443.5 million (+135.4%) on the profit for the previous year attributable to the shareholders of the Parent (€327.5 million).

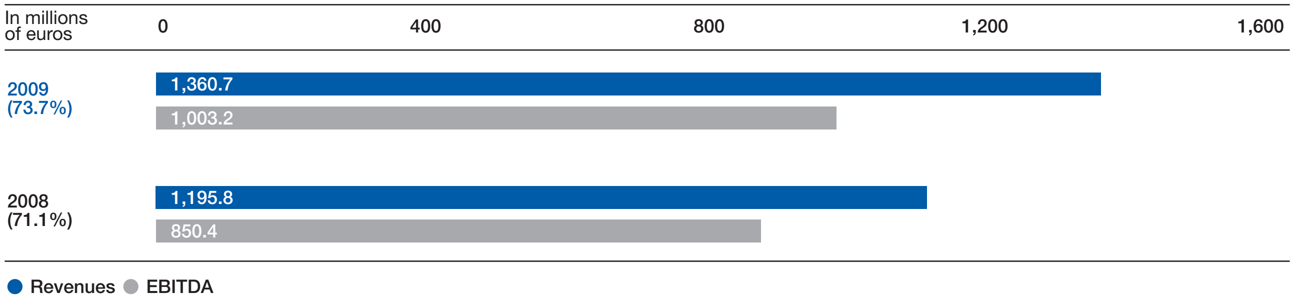


Revenue amounted to about €1,360.7 million, of which €1,185.6 million in relation revenue from fees paid for the use of the National Transmission Grid, and increased by €164.9 million compared with 2008. In particular, transmission fees in the amount of €1,087.9 million are attributable to the Parent and €97.7 million to the subsidiary TELAT related to the last nine months of the year.



Operating expenses amounted to about **€357.5 million**, of which €181.6 million relating to personnel expense and €128.0 million to services. **EBITDA** (gross operating profit) **reached €1,003.2 million**, equal to 73.7% of revenue, rising by €152.8 million over the €850.4 million of the previous year (+18.0%). TELAT contributed €95.3 million to this total.

EBITDA MARGIN

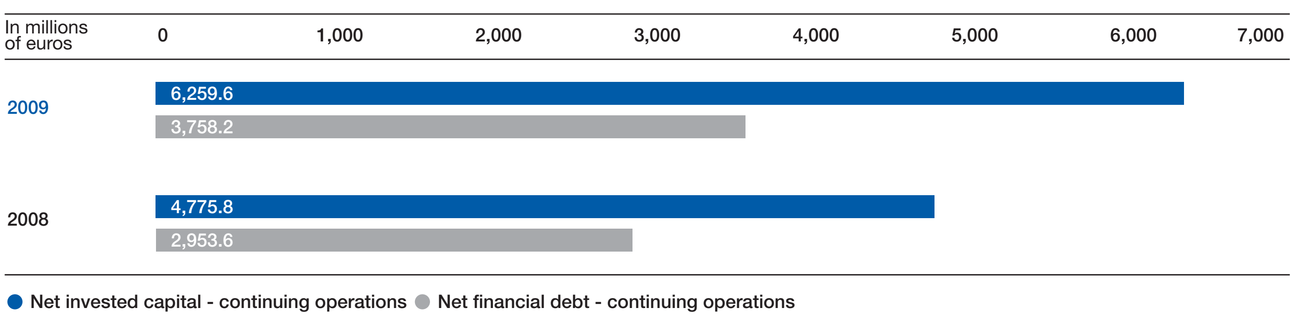


EBIT (operating profit) came to €694.4 **million**, after **amortisation and depreciation** in the amount of €**308.8 million**, €279.4 million of which for the Parent and €29.4 million for the subsidiary TELAT.
Net financial expense came to €148.3 million, which is attributable entirely to the Parent.
Income taxes for the year totalled €192.1 million, of which €179.5 million attributable to the Parent, for an effective tax rate of 35.2%.

The **Profit from continuing operations** came to €354.0 million, of which €300.8 million attributable to the Parent.

The **Profit from discontinued operations** came to €417.0 million and refers to the effects of the sale of the Brazilian subsidiaries, best described in the following.

In terms of the statement of financial position, **net non-current assets** amounted to €7,468.5 million, while **net invested capital** was equal to €6,259.7 million, funded by Group **equity** of €2,501.5 million and **net financial debt** of €3,758.2 million.



As a result, the **debt-to-equity** ratio at the end of 2009 came to 1.50, compared with 1.42 at December 31, 2008, which does not take account of the debt position of the Brazilian firms.

Total capital expenditure by the Group during the year came to €900.4 million up 17.7% from the €764.9 million from continuing operations in 2008.

Significant events

Completion of the acquisition of Enel Linee Alta Tensione

On **April 1, 2009**, in implementation of the agreement signed on December 19, 2008, Enel Distribuzione sold the entire capital of Enel Linee Alta Tensione S.r.l. (ELAT) to Terna, after transferring (effective as of January 1, 2009) a business unit to this company comprising 18,583 kilometres of high-voltage lines and related legal relationships. At the same time, ELAT shareholders approved a change in the name of the company to “Terna Linee Alta Tensione S.r.l.” (or “TELAT S.r.l.” for short). The €1,152 million price for the company was paid in full upon closing of the deal and was subject to a balancing payment of €12.3 million based on the change in TELAT equity which took place in the first quarter of 2009. In addition, following the calculation of the remuneration, by the Authority for Electricity and Gas, of the portion of the NTG owned by TELAT, which took place following the signing of the sale agreement, Enel Distribuzione paid Terna a lump sum of €11 million as compensation for the rate differential. As a result, the total cost of the acquisition came to €1,157.7 million, including charges directly attributable to the transaction.

For Terna, the acquisition resulted in growth of about 43% in total kilometres of power lines and of 18% in Regulatory Asset Base (RAB).

The transaction was completed after the contract conditions were met, particularly including approval by the Antitrust Authority, inclusion of the high-voltage lines in the National Transmission Grid by the competent authorities, and the issuance of a measure by the Authority for Electricity and Gas (AEEG Resolution no. 31/09) granting TELAT the rate component related to the business unit in question. Beginning on April 1, 2009, TELAT, as for the Parent, now benefits from the effects of AEEG Resolution no. 188/08 of the Authority for Electricity and Gas, which introduced the “mitigation” guarantee mechanism within a range of +/- 0.5% of the effects of the annual changes in energy transmitted.

Establishment of ELMED ÉTUDES SÀRL

On **April 20, 2009**, the Tunisia-registered firm ELMED ÉTUDES Sàrl was established. This limited-liability company is a joint venture between Terna and Société Tunisienne de l’Électricité et du Gaz (STEG) whose main object is the study and preliminary consulting concerning the preparation of documents for the Tunisian government's call for tenders for the construction and management of the power generation hub in Tunisia for the Italy-Tunisia interconnection project.

ELMED ÉTUDES Sàrl is based in Tunis and has share capital of TND2.7 million (equal to about €1.5 million).

The company was established in accordance with the partnership agreements between the Italian Ministry for Economic Development and the Tunisian Ministry of Industry, Energy and Small Business (of June 29, 2007 and August 7, 2008) and in execution of a partnership agreement between Terna and STEG (signed in Rome on March 11 and in Tunis on March 26, 2009).

Photovoltaic project

In order to leverage and safeguard its resources while maximising return on its assets, Terna designated the subsidiary InTernational S.p.A. – which was renamed “Sungrid S.p.A.” on July 7, 2009, and then “SunTergrid S.p.A.” on October 22, 2009 – to undertake the construction and management of small-scale photovoltaic power generation plants (for a total power capacity of about 100 MWp and capital expenditure in excess of €300 million by 2010) located in the areas of Terna's electricity stations that are currently unused and where no plant has been installed. The necessary authorisations and connections have been requested, and the first European tender published for the EPC contract closed with the contract assignment in January 2010. In December, the first photovoltaic plant began operations in the province of Ragusa. This corporate organisation both meets the needs of functional and accounting separation of the Parent and ensures compatibility with the bylaws and the concession of Terna S.p.A., as well as with the provisions of Legislative Decree no. 79/99 (i.e. the “Bersani Decree”).

On **October 22, 2009**, in order to provide SunTergrid with the financial resources needed to develop this new business, and by way of implementing the resolution of the Board of July 28, 2009, Terna provided the company with €10.0 million as a capital contribution.

On **December 23, 2009**, as part of a process of internal reorganisation and in order to optimise resources and potential for the new photovoltaic power generation business, SunTergrid also established the new company Rete Rinnovabile S.r.l. (or “RTR S.r.l.” for short) with share capital in the amount of €50,000.00, which is to be the special-purpose vehicle for all projects that are expected to become operational by the end of 2010. The company’s purpose includes the design, construction, management, development and maintenance of networks and other infrastructures for the transmission and dispatching of electricity, as well as of power generation plants – including renewable energy – for self-consumption or sale, both in Italy and abroad, and related research, consulting and assistance services.

Purchase of additional shares in the associate CESI S.p.A.

On **October 6, 2009**, Terna completed the purchase of the 1.871% stake (64,000 shares) held by A2A S.p.A. in CESI.
On **October 30, 2009**, the Parent also completed the purchase of the 4.68% stake (160,000 shares) held by Siemens S.p.A. in CESI.
As a result of these transactions, Terna's equity interest in CESI S.p.A. reached 30.91%, which, for the Terna Group, represents an investment in an associated company.
CESI S.p.A. constructs and manages labs and systems for testing, inspection and research regarding electrical technology in general, as well as technical and scientific progress in that field.

Completion of the sale of equity investment in Terna Participações

On **November 3, 2009**, in implementation of the sale agreement signed on April 24, 2009 between Terna S.p.A., Cemig Geração e Transmissão S.A. ("Cemig GT") and Companhia Energética de Minas Gerais ("Cemig"), the sale of the equity investment held by Terna in Terna Participações S.A. to TAESA S.A. ("TAESA"), a company held by Cemig GT and FIP (Fundo de Investimento em Participações) Coliseu, which brings together a number of Brazilian investors, was completed. The overall price, including the adjustment envisaged in the sale agreement, was R$2,148.4 million, equal to R$12.38 per share and R$37.14 per share depository receipt (or unit, representing one ordinary share and two preference shares).
On **October 26**, Terna Participações distributed a dividend of R$1.15 per share, equal to R$3.44 per unit. The amount already paid to Terna in respect of its holding came to a total of R$199.2 million (about €77.5 million).
The transactions generated a total of R$2,347.6 million for Terna. The corresponding value in euros, net of hedging transactions carried as from the signing date, is equal to €797 million.
On **October 28**, Terna also received repayment of the intercompany loan, granted to Terna Participações in February 2009, in the amount of R$540.1 million (equal to about €180.3 million net of Brazilian withholding tax and the cost of hedging the exposure). With the repayment, all intercompany relationships between Terna and Terna Participações ceased.
The transaction was completed after fulfilment of the conditions governing the effectiveness of the agreement, i.e. approval of the local regulatory authority (ANEEL, Agência Nacional de Energia Elétrica).
As envisaged under Brazilian law and the bylaws of Terna Participações, the change of control requires TAESA to undertake a public tender offer for the remaining shares of Terna Participações at the same per-share price. Terna holds an additional 10,000 units, which it will sell within the framework of the offer, scheduled for April 19, 2010 as of the date of the preparation of this document.

Agreement for the acquisition of A2A's high-voltage and national transmission grids

On **December 22, 2009**, Terna, through its subsidiary TELAT, signed an agreement with A2A for the acquisition of the entire share capital in Retrasm, a transmission company that owns a portion of the NTG and which is a wholly owned subsidiary of A2A.
Based on this agreement, on January 26, 2010, A2A also transferred the high-voltage lines owned by A2A Reti Elettriche S.p.A., a wholly owned subsidiary of A2A, to Retrasm by way of the partial demerger of A2A Reti Elettriche. The assets transferred included 108 kilometres of power lines and the substations related to these lines located at 22 primary stations, as well as related legal relationships (collectively the "High-Voltage Power Grid").
The total payment agreed upon for the sale was €36.5 million. The purchase price, which is to be paid in full upon closing the deal, is to be reduced by the value of Retrasm's net debt as of that date.
This transaction will enable the Terna Group to further increase its ownership of the NTG, adding 0.38% of the NTG (based on 2008 size) to reach a total of approximately 99%.
Finally, the transfer of ownership of the equity is subject to the approval of the Antitrust Authority, and is conditioned upon completion of the aforementioned demerger and the inclusion of Retrasm's High-Voltage Power Grid into the NTG by the competent authorities.

Markets and finance

Loan from Cassa Depositi e Prestiti S.p.A.

On **February 2, 2009**, Terna signed a loan agreement with its controlling entity, Cassa Depositi e Prestiti S.p.A. (CDP) for a total €500 million, disbursable in multiple instalments, with a maximum maturity of 10 years and full repayment at maturity. In order for the loan to be disbursed, CDP must also be able to benefit from the funds allocated to fund eligible infrastructure projects made available by the European Investment Bank (**EIB**).
The period of financing begins on the date of signing the agreement and runs until November 4, 2011. The interest rate for the loan applied to each of the disbursements is to be calculated based on the interbank rate (Euribor) plus the EIB cost of funding and a margin of 70 basis points applied by CDP.
On **June 22, 2009**, Terna signed an implementing addendum to the agreement with CDP that makes it possible to take advantage of funds made available to CDP by the EIB up to a total of €500 million.

Purchase of securities from Cassa Depositi e Prestiti

On **February 12, 2009**, Terna finalised an operation for the purchase of bonds worth €700 million issued by Cassa Depositi e Prestiti.
The bonds mature on February 2, 2010 and carry a two-monthly coupon of the 2-month Euribor plus 0.65 percentage points. The arrangement allows the buyer to request early redemption at specified dates.
In April, following the acquisition of ELAT, Terna requested the early redemption of the securities, which occurred in two tranches on **April 2** and **April 30, 2009**, with nominal values of €200 million and €500 million respectively.

EMTN: private placement of 10-year notes in the amount of €600 million

On **June 22, 2009** Terna S.p.A. carried out a private placement of fixed-rate bonds worth €600 million.
The ten-year bond, maturing on October 3, 2019 and issued at an all-in price of 98.785%, pays an annual coupon of 4.875%, which corresponds to a spread of 128 basis points over the 6-month Euribor.
The bond issue falls within the scope of the Euro Medium-Term Notes (EMTN) programme, and BNP Paribas and Deutsche Bank acted as joint bookrunners.
The rating assigned to the Company's unsecured debt by Fitch is "A+"; by Moody's, "A2"; and by Standard & Poor's, "A+" with a stable outlook.
The transaction is intended to finance the network development investments envisaged in the Company's business plan. This financing was provided on July 3, 2009 in the amount of €592.7 million.

Rating

During the first half of the year, following Terna's presentation of the 2009-2013 Business Plan, which includes the acquisition of Enel Linee Alta Tensione (ELAT), the Company's credit ratings were revised as follows:
Moody's changed its long-term rating from A1 to A2 with a stable outlook.
Standard & Poor's revised its long-term rating from "AA-" with a negative outlook to "A+" with a stable outlook, while changing its short-term rating from " A-1+" to "A-1".
Fitch maintained its negative rating watch issued in conjunction with the announcement of the ELAT acquisition and left its ratings unchanged (with a long-term rating of "A+", a rating for unsecured senior debt of "AA-", and a short-term rating of "F1"), and does not intend to downgrade the Company's rating until the transaction has been completed. On April 1, 2009, the agency then decided to revise the Company's long-term credit rating from "A+" to "A", with a stable outlook, and changed its rating for unsecured senior debt from "AA-" to "A+". The short-term rating remained unchanged.

Intercompany loan between Terna and TELAT

In **November 2009**, in implementation of the resolution of the Board of Directors of May 15, 2009, and in order to give TELAT the financial resources needed for the repayment of its own share capital – as approved by the shareholders of this subsidiary in their extraordinary meeting of May 28, 2009, so as to optimise its financial structure, in the amount of €600 million, which was repaid in November – Terna granted a loan of €500 million.
The financing is in the form of a 5-year interest-bearing loan to be repaid in semi-annual instalments, with an interest rate equal to 6-month Euribor plus a spread of 2.50%.

Sustainability index

Terna becomes part of the Dow Jones Sustainability World Index

On **September 3, 2009**, Terna joined the Dow Jones Sustainability World Index, the leading international stock index of the enterprises with the best sustainability performance among the world's 2,500 largest companies by market capitalisation. Only 12 Italian companies have been admitted, 5 of which have just made their debut.
This event testifies to the soundness of Terna's strategy for growth that is sensitive to social and environmental issues concerning the operation and development of the infrastructure needed for the Italian electrical system.

Terna added to the ASPI and Ethibel sustainability indices

On **October 16, 2009**, Terna was added to the specialised Advanced Sustainable Performance Indices (ASPI) and Ethibel index in recognition of the Company's non-financial – i.e. environmental, social and governance – performance.
Inclusion in these indices is a testament to Terna's growth strategy, which is sensitive to the issues of social responsibility and sustainable development. The sense of responsibility for the social and environmental effects of the Company's operations influences aspects of operations and translates into real programmes and actions aimed at creating and maintaining a relationship of trust with stakeholders, which contributes to creating value for shareholders.
Only ten Italian firms are included in the ASPI and just eight in the Ethibel index.

Terna S.p.A. performance and financial position

Introduction

The 2009 annual report of Terna S.p.A. has been prepared in accordance with art. 154 *ter* of Legislative Decree no. 58/98, introduced by Legislative Decree no. 195 of November 6, 2007 (the “Transparency Decree”). In accordance with Legislative Decree no. 38 of February 28, 2005, and in implementation of the option envisaged in (EC) Regulation no. 1606/2002, Terna has prepared the separate financial statements at December 31, 2009, in compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission (hereinafter the IFRS-EU).

The 2009 annual report has been prepared on a historic cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis. The Company has determined that, despite the challenging economic and financial environment, it does not face material uncertainties (as defined in paragraph 25 of IAS 1) that might cast doubt on its ability to continue as a going concern.

It should be noted that, following the sale of the interest held in the subsidiary Terna Participações S.A., as described in detail in the section “Significant events” (see above), the balances related to the sale of the Brazilian companies have been reclassified in accordance with IFRS 5 - Non-current assets held for sale and discontinued operations. In particular, all cost and revenue items related to the Brazilian companies for both 2008 and 2009 have been reclassified as “Profit from discontinued operations and assets held for sale” in the income statement.

Reclassified income statement of Terna S.p.A.

The reclassified consolidated income statement of Terna S.p.A. for 2008 and 2009 is shown below.

In millions of euros	2009	2008	Change	%
Revenue				
Grid transmission fees (1)	1,087.9	1,060.5	27.4	2.6%
Other energy items (1)	91.5	48.4	43.1	89.0%
Other revenue from sales and services (1)	73.8	43.1	30.7	71.2%
Other revenue and income	42.0	44.1	-2.1	-4.8%
Total revenue	**1,295.2**	**1,196.1**	**99.1**	**8.3%**
Operating expenses				
Personnel expense	182.3	201.2	-18.9	-9.4%
Services and use of third-party assets	126.3	110.7	15.6	14.1%
Materials	17.7	11.8	5.9	50.0%
Other expenses (2)	35.1	21.7	13.4	61.8%
Total operating expenses	**361.4**	**345.4**	**16.0**	**4.6%**
EBITDA	**933.8**	**850.7**	**83.1**	**9.8%**
Amortisation and depreciation (3)	**279.4**	**253.5**	**25.9**	**10.2%**
EBIT	**654.4**	**597.2**	**57.2**	**9.6%**
Net financial income/(expense) (4)	-149.1	-124.1	-25.0	20.1%
Profit before taxes	**505.3**	**473.1**	**32.2**	**6.8%**
Income taxes	179.5	174.6	4.9	2.8%
Profit for the year from continuing operations	**325.8**	**298.5**	**27.3**	**9.1%**
Profit for the year from discontinued operations and assets held for sale	464.2	36.8	427.4	1,161.4%
Profit for the year	**790.0**	**335.3**	**454.7**	**135.6%**

In the income statement:
(1) this figure is included in “Revenue from sales and services”;
(2) corresponds to “Other operating expenses” and “Amortisation, depreciation and impairment losses” for the impairment of non-current assets (€2.8 million) and the accrual to the provision for bad debts (€14.1 million);
(3) corresponds to “Amortisation, depreciation and impairment losses” net of the impairment of non-current assets (€2.8 million) and the accrual to the provision for bad debts (€14.1 million);
(4) corresponds to the balance of the items described under points 1 and 2 of “C. Financial income/expense”.

Revenue for 2009, in the amount of €1,295.2 million, increased by €99.1 million (+8.3% over the €1,196.1 million of 2008) due mainly to the following:

- the increase of about €27.4 million (+2.6%) for NTG fees, essentially as a result of the following factors:
  - a €38.5 million increase in revenue from grid transmission fees, due to the revised rates for 2009 (as per Resolution no. 188/08);
  - greater grid transmission fees related to the defence plan (up €3.8 million);
  - lower past-year grid transmission fees balancing payments (down €14.9 million), with the previous year benefiting from the release of the provision set aside for a technical dispute with a dispatching withdrawal operator (€14.0 million);

- other energy items (+€43.1 million, or +89%) related mostly to the increase in revenue for the incentives connected with the optimisation of resources for the provisioning services on the Ancillary Services Market, as called for by ARG/elt Resolution no. 206/08 of the Authority for Electricity and Gas (€40.0 million);
- other sales and services, which increased by €30.7 million (+71.2%) due essentially to the increase in revenue related to the unregulated activities for construction work (up €8.3 million) and maintenance (up €3.2 million, including revenue from the maintenance and technical services contract with the subsidiary TELAT, which was previously recognised as being with Enel Distribuzione) for high- and very-high-voltage lines. The 2009 balance also reflects the technical services and management fees in execution of the related portions of the contracts signed with the subsidiaries TELAT (€14.0 million) and SunTergrid (€5.9 million, including services related to the construction of the photovoltaic plants in the amount of €5.1 million).

Operating expenses totalled €361.4 million, increasing by €16.0 million (+4.6%) from 2008 due mainly to the combined effect of the following factors:

- "Personnel expense": the reduction of €18.9 million from 2008 is essentially due to the release of the energy discount provision (-€26.8 million) as a result of the agreement signed with Enel Servizio Elettrico, related to the recalculation of the population of retired employee beneficiaries, as well as to the increase in capitalized personnel expense as a result of the greater investment made during the year (-€8.9 million). Ordinary expenses for salaries, wages and social security charges for the year increased (by €16.8 million) due mainly to the greater per-unit cost, which also includes an estimate of charges for contract renewal;
- "Services and use of third-party assets": in the amount of €126.3 million, increased by €15.6 million (14.1%) over the previous year due essentially to the increase in technical services and contracts for plants (€9.5 million), as well as technical, legal and other professional services (€2.8 million) and insurance (€0.9 million);
- "Materials": the €5.9 million increase is due almost entirely to activities for third parties, including those related to the contract with EL.IT.E. for the construction of the merchant line in Valtellina, the underground alternate-current interconnection between Italy and Switzerland (€2.2 million), and the provision of the armoured power plant for A2A (€1.4 million);
- "Other expenses": the €13.4 million increase is due mainly to the accrual to the provision for bad debts for the year related to receivables that are unlikely to be collected (€14.1 million).

EBITDA (gross operating profit) reached €933.8 million, equal to 72.1% of revenue (up one percentage point from 2008), rising by €83.1 million over the €850.7 million of 2008 (+9.8%).

Amortisation and depreciation for the year came to €279.4 million, increasing by €25.9 million from 2008 (+10.2%), due mainly to the start of operations of new plant and machinery, particularly the first pole of SA.PE.I. (€747.5 million vs. the €134.4 million of 2008).

EBIT (operating profit) came to €654.4 million, for an increase of 9.6% (€57.2 million) from 2008.

Net financial expense for the year came to €149.1 million, for an increase of €25.0 million over the previous year due mainly to the following:

- an increase in financial expense related to medium- and long-term debt and the relative hedges (€8.3 million) due to an increase in debt, which was offset by a decline in market rates;
- net financial income (for a reduction of €5.7 million) for the fair value adjustment of bonds and relative hedges;
- increase in capitalised costs on non-current assets (a reduction of €3.6 million);
- an increase in net financial expense related to the uplift for the period (€15.2 million);
- a negative impact (of €10.9 million) due to the combined effect of the coverage (not hedges) of dividends and the intercompany loan repatriated by the subsidiary Terna Participações, which was partially offset by the interest income on said loan.

Income taxes for the year came to €179.5 million (of which a negative €29.9 million was for net deferred taxes). This is equal to an effective tax rate on profits from continuing operations of 35.5%, which is down from the 36.9% of 2008 (net of the reclassification of amounts directly attributable to the Brazilian subsidiaries as "Profit for the year from discontinued operations and assets held for sale") due mainly to the positive adjustments related to previous years related, in particular, to the application of Law no. 2 of January 28, 2009, which allows the recovery of the greater taxes paid prior to the 2008 fiscal year due to the regional business tax (IRAP) not being deducted from corporate income taxes (IRES) (€4.2 million).
Profit from continuing operations came to €325.8 million, up €27.3 million (+9.1%) from the €298.5 million of 2008.

Profit for the year, including the Profit for the year of discontinued operations, came to €790.0 million, an increase of €454.7 million over the previous year. This significant increase is mostly due to the sale of the equity investment in the Brazilian subsidiary Terna Participações, which had a positive effect on financial performance totalling €464.2 million, including:

- the gain on the sale in the amount of €385.0 million, net of the costs of the sale and other directly related expenses, as well as of hedging derivatives and related taxes on the transaction;
- the net dividends distributed by Terna Participações prior to the sale totalling €79.2 million.

Reclassified statement of financial position

The reclassified statement of financial position of Terna S.p.A. at December 31, 2009 and December 31, 2008 is shown below.

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Net non-current assets			
Intangible assets and goodwill	264.8	255.8	9.0
Property, plant and equipment	5,976.3	5,415.6	560.7
Financial assets (1)	581.2	220.7	360.5
Total	**6,822.3**	**5,892.1**	**930.2**
Net working capital			
Trade receivables (2)	379.8	239.8	140.0
Inventories	11.7	16.6	-4.9
Other assets (3)	12.1	13.7	-1.6
Trade payables (4)	386.9	320.1	66.8
Payables for pass-through energy items, net (5)	303.4	88.1	215.3
Tax liabilities, net 6)	-8.2	-24.7	16.5
Other liabilities (7)	265.4	250.3	15.1
Total	**-543.9**	**-363.7**	**-180.2**
Gross invested capital	**6,278.4**	**5,528.4**	**750.0**
Sundry provisions (8)	549.3	546.3	3.0
Net invested capital	**5,729.1**	**4,982.1**	**747.0**
Net invested capital for discontinued operations and assets held for sale	0.1	0.0	0.1
Total net invested capital	**5,729.2**	**4,982.1**	**747.1**
Equity	2,468.3	2,028.0	440.3
Net financial debt (9)	3,260.9	2,954.1	306.8
Total	**5,729.2**	**4,982.1**	**747.1**

In the statement of financial position these correspond to:
(1) "Other non-current assets" and "Non-current financial assets" for the value of equity investments (€575.7 million);
(2) "Trade receivables" net of receivables for pass-through energy revenue (€797.3 million);
(3) "Other current assets" net of other tax receivables (€17.7 million) and "Current financial assets" for the value of deferred assets (€3.3 million);
(4) "Trade payables" net of payables for pass-through energy items (€1,100.7 million);
(5) "Trade receivables" for the value of receivables for pass-through energy revenue (€797.3 million) and "Trade payables" for the value of payables for pass-through energy items (€1,100.7 million);
(6) "Other current assets" for the value of other tax receivables (€17.7 million), "Other current liabilities" for other tax payables (€7.1 million), and "Income tax assets" and "Income tax liabilities";
(7) "Other non-current liabilities", "Current financial liabilities" and "Other current liabilities" net of other tax liabilities (€88.3 million);
(8) "Employee benefits", "Provisions for contingencies and charges" and "Deferred tax liabilities";
(9) "Long-term loans", "Current portion of long-term loans", "Short-term loans", "Non-current financial liabilities", "Cash and cash equivalents", "Non-current financial assets" for the value of the loan to TELAT and fair value hedge derivatives (€500 million and €123.2 million, respectively) and "Current financial assets" for the value of short-term securities (€500.0 million).

The €930.2 million increase in net non-current assets over the figures at December 31, 2008, is attributable to the following:
- **intangible assets and goodwill**, which posted an increase of €9.0 million due mainly to the combined effect of:
  - investments, for an increase of €40.6 million, related in particular to the development and upgrade of software for the remote control dispatching system (€9.9 million), for the Power Exchange (€4.7 million), and for the protection of the electrical system (€2.1 million), as well as software and licenses for general use (€17.2 million);
  - amortisation for the year (€31.0 million, €5.6 million of which related to the amortisation of the Italian transmission and dispatching concession).
- **property, plant and equipment**, which increased by €560.7 million.

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

In millions of euros

Investments	
Transmission lines	316.9
Transformer stations	377.9
Other	136.7
Total investment	**831.5**
Depreciation	(248.4)
Disposals, impairment losses and other changes	(22.4)
Total	**560.7**

Therefore, the increase (€560.7 million) is the net effect of new capital expenditures (€831.5 million), depreciation (-€248.4 million) and disposals, impairment and other net reductions (-€22.4 million) during the year.

Total investments made by the Company during the year came to €872.1 million (€831.5 million of which in property, plant and equipment and €40.6 in million intangible assets), up 14% from the €764.9 million of 2008.

- **Financial assets**, which increased by €360.5 million due mainly to:
  - the acquisition of the entire share capital in TELAT S.r.l. in April in the amount of €1,157.7 million; this equity investment was then reduced following reimbursement of the share capital of the subsidiary in the amount of €600.0 million;
  - recognition of the joint venture equity investment in the Tunisian firm ELMED ÉTUDES (in the amount of €0.7 million);
  - the acquisition (for €2 million) of additional shares in the associate CESI, which were acquired from A2A S.p.A. (1.871%) and Siemens S.p.A. (4.68%);
  - the sale of the equity investment in Terna Participações (down €210.8 million);
  - capital contributions by shareholders in the amount of €10.0 million for the subsidiary SunTergrid (formerly InTernational).

Net working capital came to a negative €543.9 million and generated €180.2 million in liquidity during the year related essentially to the following:
- **trade receivables**: the increase of €140.0 million over 2008 is due essentially to:
  - the greater grid transmission fees paid to the Company and to the other owners for transmission activities (€92.9 million) related largely to the recognition of the amounts receivable from the Electricity Equalisation Fund for the mitigation mechanism for the full year as established by Resolution no. 188/08 (€61.0 million, including the amount recognised for TELAT's portion of the NTG for the last nine months of the year), as well as to the receivable for the portion of grid transmission fees receivable by TELAT (€23.1 million) related to November and December;
  - the receivable from dispatching withdrawal operators under Resolution no. 206/08, which introduced the incentive mechanism connected with the optimisation of resources for the services provided on the Ancillary Services Market (€40.0 million);
  - trade receivables from subsidiaries (€10.1 million) related to the contracts for the coordination and operations of the Italian subsidiaries TELAT and SunTergrid;
- **trade payables**: the increase in trade payables (€66.8 million) is due to purchases of goods and services for the increase in investment during the fourth quarter as compared with the fourth quarter of 2008 (€51.8 million), as well as the payable from TELAT for the pass-through portion of grid transmission fees due for December and for the effects of Resolution no. 188/08 for the last nine months of the year on the portion of the NTG owned by this subsidiary (a total of €15.0 million);

- **net payables for pass-through energy items**: the increase (of €215.3 million) is due essentially to the reduction in receivables for the uplift fee (about €193 million) as a result of the positive financial effects of the balancing payments for dispatching fees, as well as the reduction in payables for procuring resources on the Ancillary Services Market generated by efficiency gains in managing forecasts;
- **tax liabilities**: the increase of €16.5 million is due mainly to the increase in taxes payable for estimated income taxes, net of advances paid (€42.5 million), which was partially offset by the capital gain tax paid as per Legislative Decree no. 185/08 for the purpose of the redemption of goodwill resulting from the merger of RTL (€14.2 million), as well as by the increase in VAT receivable (€10.0 million);
- **other liabilities**: this item increased by €15.1 million due mainly to the increase in amounts payable to employees (€11.1 million) and to social security institutions (€5.0 million), as well as to the adjustment of the portion of the Company's grid transmission fees deferred to future periods to compensate for the future costs related to the NTG safety plan (€6.8 million), which was partially offset by the decrease in deferred liabilities on interest expense accrued on financial instruments and related hedges (€6.5 million).

As a result, **gross invested capital** came to €6,278.4 million, for a €750.0 million increase over December 31, 2008.

Sundry provisions, in the amount of €549.3 million, increased by €3.0 million due essentially to:
- use, for the relevant portion of the year, of net deferred taxes recognised on previous accruals for amortisation and depreciation in excess of ordinary amortisation and depreciation rates (€21.5 million) and on the greater amounts allocated to RTL's portion of the NTG in conjunction with the merger of this subsidiary (€2.3 million); it also includes the release of the portion (€8.7 million) of deferred tax provision for IRAP as per Law no. 244 of December 24, 2007 (the 2008 Finance Act);
- the release of the energy discount provision, net of the related tax effect, in the amount of €19.4 million as a result of signing the agreement with Enel Servizio Elettrico aimed at redefining the set of beneficiaries;
- net allocations to provisions for contingencies and charges (€21.2 million) for "Projects for urban and environmental renewal" aimed at offsetting the environmental impact of building power lines;
- the recognition of probable charges related to contractual and fiscal obligations resulting from the sale of the equity investment in Terna Participações (€42.4 million).

At December 31, 2009, **total net invested capital** came to €5,729.2 million, for an increase of €747.1 million over December 31, 2008.
This amount is funded by equity in the amount of €2,468.3 million (as compared with €2,028.0 million at December 31, 2008) and by net financial debt of €3,260.9 million (up €306.8 million from December 31, 2008).

The following is a breakdown of net financial debt:

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Long-term debts and related hedging	4,218.3	3,642.8	575.5
Short-term loans and investments	-460.0	0.0	-460.0
Cash and cash equivalents	-0.1	-689.2	689.1
Financial transactions with subsidiaries			
Loan to TELAT	-500.0	0.0	-500.0
Net position on the intercompany treasury account	2.7	0.5	2.2
Total financial debt	**3,260.9**	**2,954.1**	**306.8**

For a breakdown of the individual components of this net debt at December 31, 2009, see "Cash flows" below.

As a result, the **debt-to-equity** ratio at the end of 2009, taking account of the contribution of the sale in Brazil to 2009 earnings, came to 1.32 (compared with 1.46 at December 31, 2008, which does not include said effect).

Cash flows

Net financial debt

Net financial debt for the Company at December 31, 2009 (€3,260.9 million) can be broken down as follows:

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
A. Medium- and long-term debt			
Bond [(1)]	2,643.5	2,031.8	611.7
Floating-rate loans [(1)]	1,555.7	1,615.2	-59.5
Derivative financial instruments [(2)]	-40.6	-49.7	9.1
Other financial liabilities	0.0	0.9	-0.9
Loan to TELAT [(3)]	-500.0	0.0	-500.0
Total A	**3,658.6**	**3,598.2**	**60.4**
B. Short-term debt/(liquidity)			
Floating-rate loans (current portion) [(4)]	59.7	44.6	15.1
Short-term loans	40.0	0.0	40.0
Short-term securities [(5)]	-500.0	0.0	-500.0
Net position on the intercompany current accounts [(6)]	2.7	0.5	2.2
Cash and cash equivalents	-0.1	-689.2	689.1
Total B	**-397.7**	**-644.1**	**246.4**
Total A+B	**3,260.9**	**2,954.1**	**306.8**

In the statement of financial position:
(1) this figure corresponds to "Long-term loans";
(2) this figure corresponds to "Non-current financial liabilities" and "Non-current financial assets" for the value of the fair value hedge derivatives (€123.2 million);
(3) this figure is included under "Non-current financial assets";
(4) this figure corresponds to "Current portion of long-term loans";
(5) this figure is included under "Current financial assets";
(6) this figure is included under "Short-term loans".

Net financial debt increased by €306.8 million. This change is due primarily to the following:

- an increase in the value of **bonds** (€611.7 million) due to the disbursement of the private placement in July (€600 million), as well as the effect of the adjustment to the fair value of these financial instruments (€7.2 million) and the capitalisation of inflation for the period (€4.5 million) net of amortised cost;
- a €44.4 million reduction in **floating-rate loans**, mainly as a result of the payment of amounts due on European Investment Bank (EIB) loans;
- a decrease in the net asset balance (€9.1 million) related to **derivative financial instruments** due to:
  - an increase in financial assets related to fair value hedge derivatives for bonds in the amount of €7.7 million due to a reduction in market interest rates during the year;
  - an increase in financial liabilities related to cash-flow hedge derivatives to cover floating-rate debt in the amount of €16.8 million attributable to the change in interest rates;
- new **loan to TELAT** in the amount of €500 million, which was disbursed in November. This five-year, floating-rate (6-month Euribor plus a spread of 250 basis points) loan, to be repaid in semi-annual instalments, was granted in order to provide TELAT with immediately available funds to be used to reimburse share capital, which also took place in November (in the amount of €600 million);
- an increase in **short-term loans** (€40 million) related to the use of current account overdraft;
- an investment in the third quarter in **short-term securities** (issued by UBS and MPS) in the amount of €500 million;
- a €2.2 million increase in the **net position on the intercompany current accounts** held with TELAT and SunTergrid for the purposes of centralised treasure management;
- a €689.1 million decrease in the Company's **cash and cash equivalents**.

Cash flows

In millions of euros	Cash flow Dec. 31, 2009	Reconciliation	Cash flow Dec. 31, 2008	Reconciliation
Opening cash and cash equivalents & intercompany current accounts	**689.2**		**130.6**	
Profit for the year	790.0		335.3	
Amortisation and depreciation	279.4		253.5	
Net change in provisions	3.0		-0.5	
Employee benefits		*-28.8*		*0.5*
Provisions for contingencies and charges		*66.3*		*16.6*
Deferred tax liabilities		*-34.5*		*-17.6*
Net losses/(profit) on asset disposals (1)	-1.9		-2.9	
Self-financing	**1,070.5**		**585.4**	
Change in net working capital	180.2		-105.3	
Inventories		*4.9*		*-4.0*
Trade receivables		*528.9*		*-192.4*
Current financial assets		*3.4*		*-5.8*
Tax assets		*7.5*		*-23.3*
Other current assets		*-5.4*		*9.7*
Trade payables		*-386.8*		*95.2*
Tax liabilities		*20.8*		*0.0*
Current financial liabilities		*-7.0*		*13.4*
Other liabilities		*13.9*		*1.9*
Cash flows from operating activities	**1,250.7**		**480.1**	
Capital expenditure				
Property, plant and equipment (2)	-831.5		-736.0	
Intangible assets (3)	-40.6		-28.9	
Other changes in non-current assets	-335.7		-25.7	
Property, plant and equipment		*24.3*		*-383.8*
Intangible assets (3)		*0.6*		*-2.2*
Goodwill		*0.0*		*-88.6*
Non-current financial assets		*-359.6*		*448.7*
Other non-current assets		*-0.9*		*0.2*
Discontinued operations and assets held for sale		*-0.1*		*0.0*
Total cash flows generated by/(used in) investing activities	**-1,207.8**		**-790.6**	
Change in loans	-382.3		1,204.0	
Current financial assets		*-500.0*		*0.0*
Non-current financial assets		*-507.7*		*-115.5*
Non-current financial liabilities		*15.9*		*8.7*
Long-term loans		*552.2*		*1,295.2*
Current portion of long-term loans		*15.1*		*15.1*
Short-term loans		*42.2*		*0.5*
Other changes in equity	-11.9		-26.3	
Equity - Other reserves (4)		*-11.9*		*-46.3*
Equity - Retained earnings (4)		*0.0*		*20.0*
Dividends (4)	-337.8		-308.6	
Total cash flows generated by/(used in) financing activities	**-732.0**		**869.1**	
Total cash flows for the year	**-689.1**		**558.6**	
Closing cash and cash equivalents & intercompany current accounts	**0.1**		**689.2**	

(1) Included in the balances of “Other revenue and income” and “Other expenses”, respectively, from the income statement.
(2) See note 11.
(3) See note 13.
(4) See statement of changes in equity.

Change in net financial position

In millions of euros	2009	2008
Opening net financial debt	**-2,954.1**	**-2,308.7**
Self-financing	**1,070.5**	**585.4**
Change in net working capital	**180.2**	**-105.3**
Cash flows generated from operating activities	**1,250.7**	**480.1**
Capital expenditure on property, plant and equipment	-831.5	-736.0
Capital expenditure on intangible assets	-40.6	-28.9
Disposals (acquisitions) of equity investments	-359.6	448.7
Other changes in non-current assets	23.9	-474.4
Cash flows used in investing activities	**-1,207.8**	**-790.6**
Dividends distributed	-337.8	-308.6
Other changes in equity	-11.9	-26.3
Equity movements	**-349.7**	**-334.9**
Change in financial debt	-306.8	-645.4
Closing net financial debt	**-3,260.9**	**-2,954.1**

Cash flow generated by continuing operating activities for the year came to about €1,250.7 million. More specifically, self-financing (€1,070.5 million) includes profit for the year in the amount of €790.0 million (including the Profit for the year from discontinued operations), amortisation and depreciation in the amount of €279.4 million, and the net increase of €3.0 million in provisions. The management of net working capital generated net cash flows of €180.2 million, due mainly to the net balance on payables and receivables relating to pass-through energy items, which were partially offset by the receivable related to the aforementioned mitigation mechanism established by Resolution no. 188/08.

Investing activities led to a net use of cash of about €1,207.8 million. These cash flows mainly concerned investments in property, plant and equipment (€831.5 million) and intangible assets (€40.6 million) for the year, as well as plant grants recognised during the year (€14.7 million). They also reflect the acquisition (net of the €600 million reduction in share capital) of the entire share capital in TELAT S.r.l. (€557.7 million), as well as of the additional interest (€2 million) in CESI acquired from A2A S.p.A. and Siemens S.p.A. (1.871% and 4.68% stakes, respectively), the capital contribution to SunTergrid (€10 million), the recognition of the joint controlling interest in the Tunisian company ELMED ÉTUDES (€0.7 million) and the sale of the equity investment in Terna Participações (€210.8 million).

Cash flows in respect of equity movements are essentially the result of the distribution of the balance for the 2008 dividend (€197.7 million) and the interim dividend for 2009 (€140.1 million). Other changes in equity are related to the recognition and adjustment of the fair value of cash-flow hedge derivatives for floating-rate debt, net of related tax effects (a decline of €11.9 million).

Therefore, cash flows absorbed by investing activities and equity movements for the year resulted in total uses of liquidity in the amount of €1,557.5 million, which was funded in large part by cash flows generated from operating activities (€1,250.7 million) and the remaining €306.8 million through new debt.

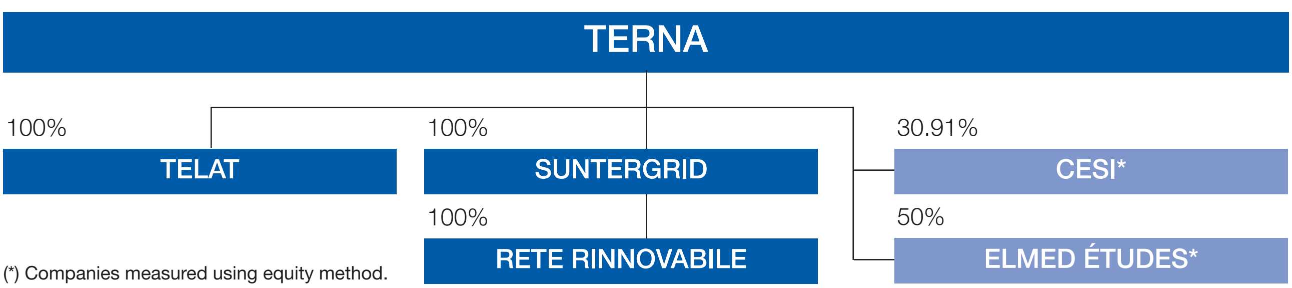
Group performance and financial position

Foreword

The 2009 annual report for the Terna Group has been prepared in accordance with art. 154 *ter* of Legislative Decree no. 58/98 as introduced by Legislative Decree no. 195 of November 6, 2007 (the “Transparency Decree”). In accordance with Legislative Decree no. 38 of February 28, 2005, and in implementation of the option envisaged in (EC) Regulation no. 1606/2002, the Terna Group has prepared the consolidated financial statements at December 31, 2009, in compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission (hereinafter the IFRS-EU). The 2009 annual report has been prepared on a historic cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis. The Group has determined that, despite the challenging economic and financial environment, it does not face material uncertainties (as defined in paragraph 25 of IAS 1) that might cast doubt on its ability to continue as a going concern.

Scope of consolidation

As of the end of the financial year, the Group was organised as follows:



(*) Companies measured using equity method.

At December 31, 2009, the scope of consolidation of the Terna Group included the following companies:

- the direct (wholly owned) Italian subsidiaries:
  - SunTergrid S.p.A. (formerly InTernational S.p.A.);
  - TELAT S.r.l.;
- the Italian (wholly owned) subsidiary held indirectly through SunTergrid S.p.A.:
  - RTR S.r.l.;
- the companies measured at equity and held by Terna S.p.A.:
  - the associated company CESI S.p.A. (with Terna having a 30.91% stake);
  - the joint venture ELMED ÉTUDES Sàrl (50% stake held).

The **changes in the scope of consolidation** compared with December 31, 2008, include:

- Terna’s acquisition of the entire share capital of TELAT S.r.l. from Enel Distribuzione S.p.A. (completed on April 1, 2009). Therefore, this company’s contribution to financial performance concerns the last nine months of the year;
- the establishment of the Tunisian firm ELMED ÉTUDES Sàrl on April 20, 2009. This limited liability company is a joint venture between Terna and Société Tunisienne de l’Électricité et du Gaz (STEG);
- the sale of the Brazilian Group following the finalisation, on November 3, 2009, of the agreement (dated April 24, 2009) between Terna S.p.A. and Cemig Geração e Transmissão S.A. for the transfer of the 66% interest in Terna Participações S.A.;
- the establishment, on December 23, 2009, of the company Rete Rinnovabile S.r.l. (RTR S.r.l.) by SunTergrid S.p.A.. The new company is based in Rome and has share capital of €50,000. The company’s purpose includes the design, construction, management, development and maintenance of networks and other infrastructures for the transmission and dispatching of electricity, as well as of power generation plants – including renewable energy – for self-consumption or sale, both in Italy and abroad, and related research, consulting and assistance services.

The nature and methods of the business combinations specified above, as well as their impact on the Group’s financial statements, are described in the section “Business combinations” of the notes to the financial statements, as well as in the notes to the individual items in the financial statements.

Reclassified consolidated income statement

The reclassified consolidated income statement of the Terna Group for 2008 and 2009 is shown below.

In millions of euros	2009	2008	Change	%
Revenue				
Grid transmission fees (1)	1,185.6	1,060.5	125.1	11.8%
Other energy items (1)	91.5	48.4	43.1	89.0%
Other revenue from sales and services (1)	40.2	43.1	-2.9	-6.7%
Other revenue and income	43.4	43.8	-0.4	-0.9%
Total revenue	**1,360.7**	**1,195.8**	**164.9**	**13.8%**
Operating expenses				
Personnel expense	181.6	201.2	-19.6	-9.7%
Services and use of third-party assets	128.0	110.7	17.3	15.6%
Materials	10.2	11.8	-1.6	-13.6%
Other expenses (2)	37.7	21.7	16.0	73.7%
Total operating expenses	**357.5**	**345.4**	**12.1**	**3.5%**
EBITDA	**1,003.2**	**850.4**	**152.8**	**18.0%**
Amortisation and depreciation (3)	**308.8**	**253.5**	**55.3**	**21.8%**
EBIT	**694.4**	**596.9**	**97.5**	**16.3%**
Net financial income/(expense) (4)	-148.3	-121.8	-26.5	21.8%
Profit before taxes	**546.1**	**475.1**	**71.0**	**14.9%**
Income taxes	192.1	174.6	17.5	10.0%
Profit from continuing operations	**354.0**	**300.5**	**53.5**	**17.8%**
Profit for the year from discontinued operations and assets held for sale	417.0	40.9	376.1	919.6%
Profit for the year	**771.0**	**341.4**	**429.6**	**125.8%**
Attributable to the shareholders of the Parent	*771.0*	*327.5*	*443.5*	*135.4%*
Attributable to minority interests	*0.0*	*13.9*	*-13.9*	*-100.0%*

In the income statement:
(1) this figure is included in "Revenue from sales and services";
(2) corresponds to "Other operating expenses" and "Amortisation, depreciation and impairment losses" for the impairment of non-current assets (€3.7 million) and the accrual to the provision for bad debts (€14.1 million);
(3) corresponds to "Amortisation, depreciation and impairment losses" net of the impairment of non-current assets (€3.7 million) and the accrual to the provision for bad debts (€14.1 million);
(4) corresponds to the balance of the items described under points 1, 2 and 3 of "C. Financial income/expense".

For comments on the main changes in revenue and expenses for the Parent, see the section "Terna S.p.A. performance and financial position" above. However, in the interests of full disclosure, the following should also be noted.

Revenue for 2009, in the amount of €1,360.7 million (€1,261.2 million for the Parent and €99.5 million for TELAT), increased by €164.9 million (+13.8% over the €1,195.8 million of 2008). In particular:

- the increase in grid transmission fees (€125.1 million) is related to the Parent in the amount of €27.4 million and to the contribution from the acquisition of TELAT in the amount of €97.7 million, which is related to the remuneration for the last

nine months of the year for RTN's portion owned by the Company as per AEEG Resolution no. 31/09 (€93.3 million) and to the effects of the mitigation mechanism established by Resolution no. 188/08 (€4.4 million);
- the €43.1 million increase in other energy items is related entirely to the Parent;
- the change in other sales and services (a decline of €2.9 million) is essentially related to the Parent (€3 million, taking account of the Group's insourcing of plant service and maintenance contracts signed with the subsidiary TELAT for the last nine months of the year, which were recognised in relation to Enel Distribuzione during the previous year);
- the reduction in other revenue and income (€0.4 million) is related to the Parent in the amount of €2.1 million, which was partially offset by the contribution of the acquisition of TELAT in the amount of €1.7 million, relating essentially to the contract with the Wind Group and Enel Distribuzione for the housing of fibre optic cables for the networks owned with regard to the last nine months of the year.

Operating expenses for 2009, in the amount of €357.5 million (€353.2 million for the Parent and €4.2 million for TELAT, as well as €0.1 million for SunTergrid), increased by €12.1 million (+3.5% over the €345.4 million of 2008). In particular:
- the reduction in "Personnel expense" (€19.6 million) is entirely attributable to the Parent (taking account of capitalised personnel expense in the amount of €0.7 million related to the investments made in favour of TELAT);
- the increase in "Services and the use of third-party assets" (€17.3 million) is related mainly to the Parent in the amount of €15.6 million, as well as the contribution of the acquisition of TELAT in the amount of €1.6 million;
- the reduction in the consumption of "Materials" (€1.6 million) is entirely attributable to the Parent (taking account of capitalised costs for materials related to the investments made in favour of SunTergrid and TELAT in the amount of €5.0 million and €2.5 million, respectively);
- the increase in "Other expenses" (€16.0 million) is related to the Parent in the amount of €13.4 million and to TELAT in the amount of €2.6 million, which is related mainly to capital losses (€0.6 million) and local taxes and duties (€1.0 million).

EBITDA (gross operating profit) for the year reached €1,003.2 million, rising by €152.8 million over the €850.4 million of 2008 (+18.0%). The subsidiary TELAT contributed €95.3 million to this total. The EBITDA margin came to 73.7%, for an increase of 3 percentage points from 2008.

Amortisation and depreciation for the year rose by €55.3 million from 2008 (+21.8%); of this increase, €25.9 million is attributable to the Parent and €29.4 million to the contribution of TELAT for the last nine months of the year.

Therefore, **EBIT** (operating profit) for the year reached €694.4 million, rising by €97.5 million over the €596.9 million of 2008 (+16.3%). The subsidiary TELAT contributed €65.9 million to this total.

The increase in **net financial expense** (€26.5 million) is related entirely to the Parent and was partially offset by the increase in gains on the measurement at equity of CESI and ELMED ÉTUDES in the amount of €0.6 million compared with the related measurement for the previous year.

Income taxes for the year totalled €192.1 million, €179.5 million for the Parent and €12.6 million for the subsidiaries (a negative €3.8 million of which for net deferred taxes).
The effective tax rate on profits from continuing operations came to 35.2%, compared with 36.8% for 2008 (the taxes related to the sale of Terna Participações are included under "Profit for the year from discontinued operations and assets held for sale").

Profit for the year from discontinued operations came to €417.0 million and included:
- the gain on the sale of the Brazilian subsidiaries, net of the costs of the sale and the hedging derivatives, as well as of the taxes and other costs directly attributable to the transaction, in the amount of €305.0 million;
- the release of the translation reserve accrued through the date of sale in the amount of €68.4 million;
- the contribution, at the consolidated level, of the results of the Brazilian subsidiaries for 2009 and accrued through the date of sale in the amount of €43.6 million. For the full year 2008, the consolidated figure related to the Brazilian subsidiaries was €40.9 million.

Profit for the year, which is attributable entirely to the shareholders of the Parent, reached €771.0 million, for an increase of €443.5 million (+135.4%) over the same figure of the previous year (€327.5 million).

Performance by geographic area and by business segment

The presentation of the financial highlights for the Group by operating segment may be found in the section "Operating segments" of the notes to the Terna Group financial statements.
The table below summarises the main figures on consolidated financial performance for 2009 and 2008 by geographic segment outside Italy. These numbers refer, in particular, to the discontinued operations in Brazil, which are shown in accordance with the Parent's accounting policies and grouped under **profit for the year from discontinued operations and assets held for sale** in the Group's consolidated income statement (see the section "**Profit for the year from discontinued operations and assets held for sale**" of the notes to the financial statements).

DISCONTINUED OPERATIONS

In millions of euros	2009*	2008
Total revenue	**198.8**	**199.4**
Total operating expenses	**62.3**	**55.1**
EBITDA (1)	**136.5**	**144.3**
Amortisation and depreciation	9.8	26.9
EBIT	**126.7**	**117.4**
Net financial income/(expense)	-28.7	-58.1
Profit before taxes	**98**	**59.3**
Income taxes	31.9	18.4
Profit for the year from discontinued operations	**66.1**	**40.9**
Profit for the year from discontinued operations attributable to the shareholders of the Parent	**43.6**	**27.0**

(*) First ten months of 2009 (until the date of sale of the Brazilian companies).
(1) EBITDA (gross operating profit) is determined by adding amortisation and depreciation to EBIT (operating profit).

Exchange rates

During the first ten months of 2009, the Brazilian real strengthened against the US dollar, reaching R$1.7280 to the dollar at the end of October 2009, as compared with the R$2.3307 recorded in December 2008. During the same period, the euro weakened against the real by about 21.2%.

END-MONTH SPOT EXCHANGE RATES*	Dec. 2008	Oct. 2009
USD/BRL	2.3307	1.7280
EUR/BRL	3.2436	2.5574
EUR/USD	1.3917	1.4800

(*) Source: Ufficio Italiano Cambi.

The **average EUR/BRL exchange rate** over the first ten months of 2009 saw the euro appreciate by 5.4% compared with the same period of last year, rising to an average exchange rate of 2.8079.

AVERAGE EXCHANGE RATE OVER THE PERIOD*	2008	First ten months of 2009
EUR/BRL	2.6652	2.8079

(*) Source: Ufficio Italiano Cambi.

Reclassified consolidated statement of financial position

The reclassified consolidated statement of financial position of the Terna Group for 2008 and 2009 is shown below. This statement was obtained by reclassifying the figures shown on the consolidated statement of financial position. As concerns the comparison with December 31, 2008, the figures for the Brazilian firms, classified as discontinued operations, remain in the various accounts concerned. Nonetheless, in order to more clearly present the actual changes in continuing operations for the period, the column "Dec. 31, 2008 - Italy" has been added, which does not include the figures for the Brazilian firms for 2008.

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change	Dec. 31, 2008 Italy	Change
Net non-current assets					
Intangible assets and goodwill	372.2	483.2	-111.0	255.8	116.4
Property, plant and equipment	7,075.3	6,035.8	1,039.5	5,415.6	1,659.7
Financial assets (1)	21.0	43.7	-22.7	14.4	6.6
Total	**7,468.5**	**6,562.7**	**905.8**	**5,685.8**	**1,782.7**
Net working capital					
Trade receivables (2)	371.8	264.2	107.6	239.8	132.0
Inventories	11.7	17.7	-6.0	16.6	-4.9
Other assets (3)	10.7	17.5	-6.8	13.7	-3.0
Trade payables (4)	381.3	326.3	55.0	320.1	61.2
Payables for pass-through energy items, net (5)	303.4	88.1	215.3	88.1	215.3
Tax liabilities, net (6)	14.8	-21.0	35.8	-24.7	39.5
Other liabilities (7)	265.3	514.2	-248.9	250.3	15.0
Total	**-570.6**	**-608.2**	**37.6**	**-363.7**	**-206.9**
Gross invested capital	**6,897.9**	**5,954.5**	**943.4**	**5,322.1**	**1,575.8**
Sundry provisions (8)	638.3	425.0	213.3	546.3	92.0
Net invested capital for continuing operations	**6,259.6**	**5,529.5**	**730.1**	**4,775.8**	**1,483.8**
Net invested capital for discontinued operations and assets held for sale	**0.1**	**0.0**	**0.1**	**0.0**	**0.1**
Total net invested capital	**6,259.7**	**5,529.5**	**730.2**	**4,775.8**	**1,483.9**
Equity attributable to the shareholders of the Parent	2,501.5	2,076.8	424.7		
Equity attributable to minority interests	0.0	86.9	-86.9		
Total net financial debt (9)	**3,758.2**	**3,365.8**	**392.4**		
Net financial debt - Italy	3,758.2	2,953.6	804.6		
Total	**6,259.7**	**5,529.5**	**730.2**		

In the consolidated statement of financial position these correspond to:
(1) "Equity-accounted investees" and " Other non-current assets";
(2) "Trade receivables" net of receivables for pass-through energy revenue (€797.3 million);
(3) "Other current assets" net of other tax receivables (€17.9 million) and "Current financial assets" for the value of deferred assets (€1.0 million);
(4) "Trade payables" net of payables for pass-through energy items (€1,100.7 million);
(5) "Trade receivables" for the value of receivables for pass-through energy revenue (€797.3 million) and "Trade payables" for the value of payables for pass-through energy items (€1,100.7 million);
(6) "Other current assets" for the value of other tax receivables (€17.9 million), "Other current liabilities" for other tax payables (€7.1 million), "Income tax assets" and "Income tax liabilities";
(7) "Other non-current liabilities", "Current financial liabilities" and "Other current liabilities" net of other tax liabilities (€88.2 million);
(8) "Employee benefits", "Provisions for contingencies and charges" and "Deferred tax liabilities";
(9) "Long-term loans", "Current portion of long-term loans", "Short-term loans", "Non-current financial liabilities", "Cash and cash equivalents", "Non-current financial assets" and "Current financial assets" for the value of short-term securities (€500.0 million).

The €905.8 million increase in net non-current assets over the figures at December 31, 2008, is attributable to the following:
- **Intangible assets and goodwill**: decreased by €111.0 million due to the combined effect of the following events:
  - the reclassification of the value at December 31, 2008 of assets sold in the amount of €227.4 million, and specifically for goodwill (€115.3 million) and concessions (€112.1 million) for the Brazilian subsidiaries;
  - net changes in the intangible assets of the Parent in the amount of €9 million (for details of these items, see the section "Terna S.p.A. performance and financial position");
  - the recognition of goodwill (€101.6 million) and intangible assets (€5.8 million, net of amortisation for the last nine months of 2009) following the definitive allocation of the greater value paid for the TELAT acquisition compared with the fair value of the assets and liabilities at the date of said acquisition.

- **Property, plant and equipment**: increased by €1,659.7 million for the year (net of the reclassification of the 2008 balance related to discontinued operations), due mainly to the joint effect of the following:
  - changes in property, plant and equipment for the Parent in the amount of €560.7 million, as described in relation to statement of financial position items in the section "Terna S.p.A. performance and financial position";
  - the acquisition of the TELAT lines in the amount of €1,101.4 million, including the definitive allocation of the excess cost (€224.2 million) paid to acquire the company;
  - investments (€22.6 million) and depreciation (€28.9 million) for TELAT related to the last nine months of the year;
  - investments made by SunTergrid in 2009 (€5.7 million) related to the construction of photovoltaic plants on land owned by the Parent and located near power transformer stations. It should also be noted that the first photovoltaic plant in the Ragusa area went into operation at the end of December 2009.

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

In millions of euros	2009
Investments	
Transmission lines	339.5
Transformer stations	377.9
Other	142.4
Total investments	**859.8**
Change in scope of consolidation	1,101.4
Amortisation and depreciation	(277.3)
Disposals, impairment losses and other changes	(24.2)
Total	**1,659.7**

Total investments made by the Group during the year related to continuing operations totalled €900.4 million (€859.8 million related to property, plant and equipment), for an increase of 17.7% on 2008.

- **Financial assets**: the €6.6 million increase, net of the reclassification of the 2008 value of the item related to the discontinued Brazilian operations (€29.3 million), is essentially attributable to the following factors:
  - recognition of the cost incurred for the additional equity investments in the associate CESI (€2 million) acquired from A2A S.p.A. (1.871% interest) and Siemens S.p.A. (4.68% interest) and adjustment of the equity investment at the end of the period related to the share held by the Group in said companies (€3.0 million);
  - recognition of the joint venture equity investment in the Tunisian firm ELMED ÉTUDES (in the amount of €0.7 million).

Net working capital came to a negative €570.6 million for 2009, generating €206.9 million in liquidity net of the reclassification of discontinued operations, and is related essentially to the following:

- **Trade receivables**: the €132.0 million increase is mainly attributable to the Parent (€129.9 million), but also includes the trade receivables of TELAT (€2.1 million) primarily from Enel.Net and Enel Distribuzione for the housing of fibre optic cables for the networks owned (€1.0 million);
- **Trade payables**: the €61.2 million increase is essentially attributable to the Parent in the amount of €51.8 million, as well as to the payables contributed by TELAT in the amount of €8.6 million, which are due primarily from Enel Distribuzione for materials and services received during the last period;
- **Net payables for pass-through energy items**: the €215.3 million increase is attributable in its entirety to the Parent;
- **Tax liabilities**: the increase in net tax liabilities (€39.5 million) is almost entirely related to the increase in tax payables for the Parent (€16.5 million) and to the recognition of income tax expense for the year (€23.2 million) by the subsidiary TELAT;
- **Other liabilities**: the €15.0 million increase is essentially attributable to the Parent.

Therefore, **gross invested capital** posted a balance of €6,897.9 million, for an increase of €1,575.8 million over the figure (net of the Brazilian assets) at December 31, 2008.

Sundry provisions for continuing operations increased by €92.0 million. This change is due to the changes in provisions for the Parent in the amount of €3.0 million (see "Terna S.p.A. performance and financial position" above), as well as to the following effects:
- recognition of the net deferred tax liabilities on the greater value allocated to the NTG and to the intangible assets acquired with TELAT in the amount of €70.3 million, net of the release of related depreciation and amortisation for the last nine months of the year;
- the contribution to net deferred tax liabilities of TELAT (€17.6 million as at December 31, 2009) related to the past allocations calculated on depreciation and amortisation in excess of ordinary depreciation and amortisation rates.

Net invested capital for continuing operations came to €6,259.6 million, for an increase of €1,483.8 million over the €4,775.8 million as at December 31, 2008.

Net invested capital for discontinued operations and assets held for sale, in the amount of €0.1 million, is related to the residual value of the equity investment in Terna Participações (10,000 units), which is to be sold by Terna as part of the public takeover bid to be issued by TAESA S.A., the company that acquired control of Terna Participações S.A.

Total net invested capital at December 31, 2009, came to €6,259.7 million and is funded by equity, attributable entirely to the shareholders of the Parent, in the amount of €2,501.5 million (compared with €2,163.7 million at December 31, 2008, €2,076.8 million of which attributable to the shareholders of the Parent) and by net financial debt, related entirely to continuing operations, in the amount of €3,758.2 million (an increase of €392.4 million from December 31, 2008, or of €804.6 million net of the debt of the Brazilian subsidiaries).

The following is a breakdown of net financial debt:

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Continuing operations			
Long-term debt and related hedges	4,218.3	3,642.8	575.5
Short-term loans	-460.0	-	-460.0
Cash and cash equivalents	-0.1	-689.2	689.1
Total financial debt from continuing operations	**3,758.2**	**2,953.6**	**804.6**
Total financial debt from discontinued operations	**-**	**412.2**	**-412.2**
Total financial debt	**3,758.2**	**3,365.8**	**392.4**

For a breakdown of the individual components of this net financial debt at December 31, 2009, see "Cash flows" below.

As a result, the **debt-to-equity** ratio at the end of 2009 came to 1.50, compared with 1.42 at December 31, 2008, which does not take account of the debt position of the Brazilian firms.

Cash flows

Net financial debt

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Financial debt from continuing operations			
A. Medium- and long-term debt			
- Bond (1)	*2,643.5*	*2,031.8*	*611.7*
- Floating-rate loans (1)	*1,555.7*	*1,615.2*	*-59.5*
- Derivative financial instruments (2)	*-40.6*	*-49.7*	*9.1*
- Other financial liabilities	*0.0*	*0.9*	*-0.9*
Total A	**4,158.6**	**3,598.2**	**560.4**
B. Short-term debt (liquidity)			
- Floating-rate loans (current portion) (3)	*59.7*	*44.6*	*15.1*
- Short-term securities (4)	*-500.0*	*0.0*	*-500.0*
- Short-term loans	*40.0*	*0.0*	*40.0*
- Cash and cash equivalents	*-0.1*	*-689.2*	*689.1*
Total B	**-400.4**	**-644.6**	**244.2**
Net financial debt from continuing operations	**3,758.2**	**2,953.6**	**804.6**
Net financial debt from discontinued operations	**0.0**	**412.2**	**-412.2**
Total net financial debt	**3,758.2**	**3,365.8**	**392.4**

On the consolidated statement of financial position:
(1) This figure corresponds to “Long-term loans”;
(2) This figure corresponds to “Non-current financial liabilities” and “Non-current financial assets”;
(3) This figure corresponds to “Current portion of long-term loans”;
(4) This figure is included under “Current financial assets”.

The €804.6 million increase in net financial debt from continuing operations reflects the impact discussed in relation to Terna debt, taking account of intercompany items in respect of the net current account position (a €2.2 million increase from December 31, 2008) and the loan granted to TELAT during the year (in the amount of €500 million).
Total net financial debt posted a smaller increase, of €392.4 million, following the deconsolidation of the debt of the Brazilian companies sold (€412.2 million at December 31, 2008).

Cash flows

In millions of euros	Cash flow Dec. 31, 2009	Reconciliation	Cash flow Dec. 31, 2008	Reconciliation
Opening cash and cash equivalents	**779.7**		**244.0**	
- of which cash and cash equivalents attributable to discontinued operations	***90.5***		***120.8***	
Profit for the year	771.0		341.4	
Amortisation and depreciation	308.8		280.4	
Net change in provisions	213.3		-35.6	
Deferred tax assets		*127.0*		*-9.4*
Employee benefits		*-28.8*		*0.5*
Provisions for contingencies and charges		*67.8*		*12.3*
Deferred tax liabilities		*47.3*		*-39.0*
Net losses/(profit) on the disposal of assets (1)	-1.3		-2.9	
Self-financing	**1,291.8**		**583.3**	
Change in net working capital	-37.6		-43.8	
Inventories		*6.0*		*-5.1*
Trade receivables		*561.3*		*-189.3*
Current financial assets		*5.7*		*-5.8*
Tax assets		*7.5*		*-22.7*
Other current assets		*1.3*		*4.2*
Trade payables		*-398.6*		*108.6*
Tax liabilities		*42.2*		*-0.5*
Current financial liabilities		*-8.5*		*13.2*
Other liabilities		*-254.5*		*53.6*
Cash flows from operating activities	**1,254.2**		**539.5**	
Capital expenditure				
Property, plant and equipment (2)	-859.8		-747.0	
Intangible assets (3)	-40.6		-28.9	
Other changes in non-current assets	-309.6		-106.4	
Goodwill		*13.7*		*-3.7*
Intangible assets		*106.4*		*-98.8*
Property, plant and equipment		*-455.7*		*82.4*
Non-current financial assets		*0.0*		*0.1*
Other non-current assets		*0.0*		*0.5*
Equity-accounted investees		*22.7*		*-7.4*
Translation of financial statements of foreign companies (equity) (4)		*3.4*		*-79.5*
Discontinued operations and assets held for sale		*-0.1*		*0.0*
Total cash flows generated by/(used in) investing activities	**-1,210.0**		**-882.3**	
Change in loans	-387.2		1,251.8	
Non-current financial assets		*-7.7*		*-115.5*
Current financial assets		*-499.8*		*1.4*
Non-current financial liabilities		*15.9*		*8.7*
Long-term loans		*243.9*		*1,189.8*
Current portion of long-term loans		*-19.3*		*7.2*
Short-term loans		*-120.2*		*160.2*
Other changes in equity attributable to the shareholders of the Parent	-11.9		-46.0	
Equity attributable to the shareholders of the Parent-Other reserves (4)		*-11.9*		*-46.0*
Dividends (4)	-337.8		-327.5	
Other changes in equity attributable to minority interests (4)	-86.9		0.2	
Total cash flows generated by/(used in) financing activities	**-823.8**		**878.5**	
Total cash flows for the year	**-779.6**		**535.7**	
Closing cash and cash equivalents	**0.1**		**779.7**	
- of which cash and cash equivalents attributable to discontinued operations	***0.0***		***90.5***	

(1) Included in the balances of “Other revenue and income” and “Other operating expenses”, respectively, from the consolidated income statement.
(2) See note 13.
(3) See note 15.
(4) See statement of changes in consolidated equity.

Change in net financial position

In order to more clearly present the actual cash flows for the year, the table below shows the contribution of continuing operations to the generation or use of cash by operating activities, in investment activities, and in the remuneration of capital.

In millions of euros	Dec. 31, 2009	Dec. 31, 2008
Opening net financial debt	**-3,365.8**	**-2,649.7**
of which attributable to continuing operations	*-2,953.6*	-
Self-financing	**1,291.8**	**583.3**
of which attributable to continuing operations	*754.6*	-
Change in net working capital	**-37.6**	**-43.8**
of which attributable to continuing operations	*206.9*	-
Cash flows generated from operating activities	**1,254.2**	**539.5**
Investments in property, plant and equipment	-859.8	-747.0
Investments in intangible assets	-40.6	-28.9
Other changes in non-current assets	-332.3	-99.1
of which attributable to continuing operations	*-1,181.8*	-
Change in equity investments	22.7	-7.3
of which attributable to continuing operations	*-5.7*	-
Cash flows used in investing activities	**-1,210.0**	**-882.3**
Dividends	-337.8	-327.5
Other changes in equity attributable to the shareholders of the Parent	-11.9	-46.0
Equity attributable to minority interests	-86.9	0.2
Self-financing flows	**-436.6**	**-373.3**
Change in financial debt	-392.4	-716.1
of which attributable to continuing operations	*-804.6*	-
Closing net financial debt	**-3,758.2**	**-3,365.8**

The cash flow generated from operating activities for the Group during the year came to about €1,254.2 million and is related to self-financing for the year (€1,291.8 million) and other financial resources used by net working capital (€37.6 million).
In this regard, **continuing operations**, in particular, with profit for the year of €354.0 million, amortisation and depreciation of €308.8 million, and an increase in provisions of €92.0 million, due mainly to the recognition of deffered taxes on the portion of the excess cost paid for the TELAT acquisition (€70.3 million, net of the release of related amortisation and depreciation for the last nine months of the year), as well as the value of the provision for net deferred taxes acquired as a result of expanding the scope of consolidation (€17.6 million as at December 31, 2009). Net working capital from continuing operations generated cash in the amount of €206.9 million, due mainly to the net balance of receivables and payables related to pass-through energy items, which were partially offset by the receivable related to the aforementioned mitigation mechanism established by Resolution no. 188/08, as well as to the increase in trade payables due to the increased investment during the fourth quarter compared with the same quarter of 2008.

Investing activities led to a net use of cash of about €1,210.0 million.

For **continuing operations**, this cash was related mainly to investments during the year in property, plant and equipment (€859.8 million) and in intangible assets (€40.6 million) related to the Parent in the amount of €872.1 million, as well as to the value of the goodwill (€101.6 million), property, plant and equipment (€1,101.4 million) and intangible assets (€6.3 million) resulting from the definitive allocation of the greater amount paid for the acquisition of TELAT compared with the fair value of the assets and liabilities acquired.

Also of note in that regard are the increase in the equity investment in the associate CESI, which is measured at equity (€5.0 million), due in part to the acquisition of additional shares, and the recognition of the investment in the Tunisian joint venture ELMED ÉTUDES (€0.7 million).

Cash flows used in self-financing are essentially the result of the distribution of the balance on the 2008 dividend to shareholders of the Parent (€197.7 million) and the interim dividend for 2009 (€140.1 million).
The other changes in equity attributable to the shareholders of the Parent are related to the measurement of the fair value of the derivative instruments used as cash-flow hedges for exchange rates and for floating-rate debt of the Parent, net of related tax effects (a decrease of €11.9 million).

Furthermore, following the completion of the sale of the Brazilian businesses in November, the share of equity attributable to minority interests was eliminated (€86.9 million).

The cash flows absorbed by the Group in investing activities, taking account of the extraordinary transactions during the year, and in changes in equity resulted in a total use of funds of €1,646.6 million, which was funded in part by cash flows generated on operating activities (€1,254.2 million, €961.5 million of which attributable to continuing operations) and in part through new debt (€392.4 million, equal to €804.6 million related to continuing operations).

Reconciliation of profit for the year and equity attributable to the shareholders of the Parent with the corresponding figures for the Parent

In millions of euros	Profit 2009	Equity Dec. 31, 2009	Profit 2008	Equity Dec. 31, 2008
Parent	**790.0**	**2,468.3**	**335.3**	**2,028.0**
Earnings and equity from Italian subsidiaries	25.3	25.0	-0.3	-0.2
Adjustment to earnings from discontinued operations	-47.2	0.0		
- Earnings and equity from Brazilian subsidiaries	*43.6*	*0.0*	*106.5*	*133.9*
- Adjustment of gain on sale of Terna Participações	*-79.7*	*0.0*		
- Translation of financial statements of Brazilian subsidiaries	*68.4*	*0.0*	*0.0*	*-3.2*
- Elimination of dividends from Brazilian subsidiaries	*-79.5*	*0.0*	*-102.4*	*0.0*
Measurement of CESI and ELMED ÉTUDES at equity	2.9	8.2	2.3	5.2
Consolidated figures	**771.0**	**2,501.5**	**341.4**	**2,163.7**
Minority interests	0.0	0.0	13.9	86.9
Terna Group	**771.0**	**2,501.5**	**327.5**	**2,076.8**

Risks and uncertainties to which Terna and the Group are exposed

This section presents a description of the risks and uncertainties faced by Terna over the medium term (2 years). Such risks and uncertainties will not be new to shareholders and the market, given that they have been discussed both in past annual reports and in other previously published disclosures.
Terna has always paid particular attention to the prevention of all forms of risk that could in any way compromise or even minimally undermine Company performance.

Regulatory risk

About 94% of the Group's consolidated revenue comes from annual fees paid for the services regulated by the energy authority in Italy. Within the scope of such regulations, there are a number of variables that could have an impact on performance.

Volume effect

Terna's revenue from the management, operation and development of the National Transmission Grid and from the management of ancillary services is governed by rates that are established by the Italian Authority for Electricity and Gas. Such rates are applied to the total volume of electricity transmitted over the Italian network. The volume of electricity transmitted over the grid depends on factors that are beyond the Company's control.
Given the current exceptional economic climate and the consequent decline in power consumption, and to protect transmission revenue from unusually high levels of risk, the Authority for Electricity and Gas has, in way of ARG/elt Resolution no. 188/08, established a guarantee mechanism for the level of revenue for the Company effective as of the beginning of 2009 through to the end of the regulatory period (December 31, 2011). Based on this mechanism:

- if actual volumes should fall below the levels used to determine the rates for the year, the Authority will supplement Terna's remuneration for the portion of volumes in excess of a 0.5% deductible;
- if actual volumes should exceed the levels used to determine the rates for the year, the Authority will require Terna to refund the excess revenue for the portion of volumes in excess of a 0.5% deductible.

Terna has used this mechanism starting from 2009, and will continue to do so until the end of 2011.
ARG/elt Resolution no. 204/09 confirmed that the guarantee mechanism for the level of revenue for transmission services may be adopted for the DIS component to cover the costs of Terna operations. As from 2009 Terna has used that power.

Bonuses and penalties

There are also currently a number of mechanisms for calculating bonuses and penalties in relation to certain activities conducted by the Company:

- in accordance with Authority Resolution no. 341/07, Terna is required to pay its portion of penalties due to surpassing the service continuity targets established by the Authority for medium-voltage customers, as well as refunds to customers connected to the medium- and low-voltage distribution networks in the event it exceeds the time limit for restoring power following prolonged interruptions of service affecting either the National Transmission Grid or the distribution networks;
- beginning in 2009, in accordance with Resolution no. 333/07, Terna is also required to pay a specific contribution to the Exceptional Events Provision established at the Electricity Equalisation Fund based on the electricity not delivered for which Terna is responsible for the portion of outages exceeding two hours;
- the mechanism of bonuses and penalties that was in place for 2008 and 2009 (under Resolution no. 351/07) based on Terna's capacity to forecast demand and power output from wind facilities was maintained for 2010;
- with ARG/elt Resolution no. 188/08, the Authority established the parameters for a bonus and penalty mechanism connected with the effective start of a number of investments to develop the National Transmission Grid, as defined by Terna and recognised by the Authority as being of strategic importance. This optional mechanism is defined in greater detail in an Authority measure to be adopted;
- with ARG/elt Resolution no. 213/09, the Authority confirmed the incentive payment mechanism related to procuring resources for Terna's dispatching service which was introduced on an experimental basis for 2009. This mechanism uses the level of resources procured by Terna on the Ancillary Services Market as the variable for measuring Terna's performance, and this is valid for the period 2010-2012. Payment of the incentive is conditioned upon meeting the same conditions defined in 2009 – maintaining safety standards and effectively monitoring and revising the algorithms for selecting the bids on the Ancillary Services Market.

Operational risks: risks connected with NTG malfunction

The Terna Group conducts operations that are exposed to the risk of malfunction or unexpected service interruptions caused by events that are beyond Terna's control, such as accidents, defects or breakdowns involving control systems or other equipment, deteriorating plant performance, natural disasters, terrorist attack, and other such extraordinary events. Restoration of elements of the part of the NTG owned by the Group and any damages for losses to third parties as a result of such events could, in principle, give rise to costs if the Group is found liable. Specific insurance policies are in place to mitigate the risks in respect of operating activities.

Litigation risk

The Company is involved, as both plaintiff and defendant, in a number of legal proceedings involving contracts, employees, the environment, regulatory matters, and public safety issues arising from normal business operations.
See the section "Commitments and contingencies arising from off-balance sheet items" of the notes to the financial statements for Terna and for the Group for more information.

Financial risks

In the conduct of its operations, Terna is exposed to various financial risks: market risk (namely exchange rate risk, interest rate risk and inflation risk), liquidity risk and credit risk.
As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.
Terna's risk management policies seek to identify and analyse the risks the Company is exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and related systems are revised on a regular basis in order to reflect any changes in market conditions and the Company's activities. For more information, see the section "Risk management - Terna S.p.A." in Section "A. Accounting policies and measurement criteria" of the notes to the 2009 financial statements.

Risks connected with financing needs

Even in current market conditions, the Group expects to preserve a sufficient capacity to generate financial resources from operating activities. However, the plan for future investments should lead to an increase in debt. Although the Group has continued to enjoy the support of its banking partners in financing its debt, it may become necessary to take on additional financing, which in less favourable market conditions could result in an increase in financial expense.

Company security

Terna has always managed the vulnerabilities of the electrical system and its critical infrastructures with the latest solutions and a high level of technical and organisational skills, which is reflected in both internal processes and systems and in procedures and instructions applicable to participants in Italy's national electrical system.
In 2007, in order to meet the increasing need for security, Terna established the Corporate Security Department with the goal of significantly enhancing the organisation's security mechanisms and defining a broad-based system for identifying, analysing and monitoring Company risks.
In particular, security efforts are aimed at protecting the Company's physical and technological infrastructures, in part through efforts aimed at preventing and handling corporate fraud. In order to achieve real-time monitoring and management of critical issues affecting infrastructures, Terna has created a Security Operations Centre, which is equipped to prevent and manage critical situations.
Terna's security unit adopts the latest best practices in the areas of critical infrastructure protection and security, which are also in line with the current regulatory framework recently introduced in Europe.

Security Operations Centre

In 2009, operations began for the Security Operations Centre (SOC) within the scope of its specific monitoring activities.
Ample space was dedicated to operational testing of the PSIS platform for the anti-intrusion monitoring and video surveillance of Terna facilities, as well as to activating and taking charge of the 18 facilities activated during the year.
Of particular note among the first activities conducted by the Control of Management Systems Unit was the monitoring of the physical security of the power stations located in areas in which the international G8 events were held, which was done with the help of all groups of operations personnel in the region.
With regard to the monitoring of information security, in 2009 antivirus monitoring began for corporate ICT platforms, including electronic mail. Using platforms to monitor security events on the telecommunications network, this control made it possible to prevent the spread of unauthorised programmes, which has reached critical levels around the world.
Finally, the partnership continues with the Department of Civil Protection, particularly in conjunction with the various emergencies, as well as with the Carabinieri and the Italian police force in order to define and implement the functional integration of the SOC with law enforcement, so as to implement the agreement signed between Terna and the Italian Ministry of the Interior concerning the protection of the Company's infrastructures.

Risk Management

Electricity market risk management

With its Resolution no. 115/08 ("TIMM") regarding the monitoring of the Wholesale Energy and Ancillary Services Markets, the Authority for Electricity and Gas defined the general principles and criteria of market monitoring for the companies Terna, GME and GSE, calling for each of these companies to establish a specific monitoring office.
Electricity Market Risk Management is Terna's monitoring unit, which is responsible for the TIMM data warehouse and sees to the acquisition, organisation and storage of data in order to monitor the volumes and indicators related to the Ancillary Services Market.
This is of particular importance to the Company in that, as part of Terna's incentives established by the Authority's Resolution no. 206/08 regarding the procurement of resources for the Ancillary Services Market, the effective performance of key activities in monitoring this market are a requirement for receiving a portion of such incentives.

Electrical system risk management

Terna is responsible for coordinating the functioning of the entire electrical system, although the Company only directly manages the part that concerns the transmission grid. Therefore, the proper functioning of the connected systems and the conduct outside of Terna represents an additional threat that could undermine the success of the Company's mission. This is a component of operational risk that must be monitored and for which mitigating actions must be taken, actions which generally work towards limiting external events, such as malfunctions or failures to comply with the Grid Code. At times, systems with certain innovative characteristics, such as wind farms, or other events that have not been foreseen require analyses and studies that may lead to changes or additions to said Code. These activities are conducted by the Electrical System Risk Management Unit in addition to managing the operational risks deriving from external vulnerabilities, for which preventive action in the form of controls and other actions based on the outcome of monitoring electrical system events is of great importance.

Fraud Management

In 2009, the Fraud Management Unit implemented a series of projects aimed at preventing and managing corporate fraud and took all steps necessary to discourage such fraud and to limit its effects. In order to monitor processes on an ongoing basis, as well as to be able to verify and manage any reports of possible fraud, the Company has introduced custom management systems and new SAP transactions aimed at reducing the risk of fraud and has defined specific procedures for a number of critical processes designed to prevent such illegal conduct. In that regard, the first protocol of understanding signed with the tax police (Guardia di Finanza) with the goal of averting criminal acts in the management of strategic areas, such as the electricity market and renewable energy resources, is of particular importance.
In addition to its efforts to prevent and manage fraud, the Fraud Management Unit conducted:

- activities to support the Company's other units, such as in the analysis and assessment of counterparties, so as to limit the risks deriving from transactions with others;
- compliance activities focusing on cooperating with and supporting the Company's management and its various offices, aimed at ensuring compliance with laws, regulations, procedures, codes of conduct, and best practices, as well as at reducing and/or preventing the risk of sanctions and safeguarding the Company's image.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Organisational Model under Legislative Decree no. 231 of June 8, 2001

The Company Security Department (RM/FRM), in collaboration with the Legal and Corporate Affairs Department, is engaged in implementing and updating the Organisational Model under Legislative Decree no. 231.
In 2009, following final approval of the bill to ratify and execute the Council of Europe Convention on cybercrime, Terna S.p.A. both updated and implemented its Organisational Model, introducing Special Section H concerning cybercrime, and drafted specific security policies aimed at reducing the risk of the commission of such computer-related crimes.

Control of Management Systems

In 2009, the Company updated and maintained Terna's certified management systems (i.e. for quality, the environment and occupational health and safety), in particular by improving the procedures for operating and monitoring the environment management system and adding value to the culture of safety primarily by way of the project to analyse the workplace and define incentives to safe conduct in the workplace.
These efforts resulted in confirmation of certification of the environment management system (UNI EN ISO 14001:2004) and the occupational health and safety management system (BS OHSAS 18001:2007), as well as the move from UNI EN ISO 9001:2000 certification to UNI EN ISO 9001:2008.

Physical Security

Terna has established new surveillance and protection systems that are in line with their importance to the functioning of the electrical system and suited to the number and type of actual or potential threats they are designed to face.
With this goal, and for the first time in Italy, Terna has adopted risk assessment methodology for each of the 357 stations in order to analyse the related physical risk – concerning both actual and potential attacks – and electrical risk. Based on the "role" that each system plays in the functioning of the national electrical system, determined by assigning a risk index to each station based on their respective critical importance, a long-term action plan has been developed.
In 2009, 18 new remote anti-intrusion systems were installed in the SOC offices.
40 video box systems were installed at medium/low risk index electrical stations to monitor a number of sensitive areas at our electrical stations via the SOC.
Furthermore, an agreement was ratified during the year with the Ministry of the Interior calling for the development of a joint plan to enhance physical protection standards at electrical stations by linking Terna's video alarm systems to police operations centres, so that police intervention can be called in by the SOC.
A dual technology access control system has been planned for installation at all electrical stations and operating premises during the course of 2010.

Information Security

Driven by the clear commitment made in the Strategic Guidelines on Information Security issued by management at the end of the previous year, in 2009 a wide-ranging three-year programme was rolled out to "improve information and corporate system security", and to ensure rapid, ongoing compliance with applicable regulatory framework obligations and requirements.
At the start of the year, second-level regulatory requirements of the Information Security Policy were published, along with a series of specific policies designed to orient processes (and supporting technologies) towards an increasingly security-led approach. The programme consists of a number of technical and organisational actions designed to foster security framework adoption in new high-tech projects right from their inception, while at the same time conducting checks on the current policy compliance levels of select operational information services and systems.
The piloted introduction of advanced risk analysis and management tools and methods at ICT offices responsible for technology is the beginning of the systemic promotion and advancement of a security-led culture, awareness and sensibility.
Initial Information Security Assessments were carried out on major ICT systems and infrastructure to verify and check the security of systems currently in operation. The Assessment's multiple objectives were: to measure levels of potential risk, check compliance with the Terna Information Security model, and where necessary adopt any action plans (compliance plans) necessary to eliminate detected vulnerabilities.

Supplier Qualification

In October 2009, Terna introduced a new Supplier Qualification Database System to enhance the company qualification process.
The new system is designed to make supplier qualification application management more linear and more transparent. Terna users benefit from system functions that include Qualification Committee management and organisation, and a reporting system for the accurate, ongoing monitoring of qualification application status.

Corporate social responsibility

One of Terna's defining characteristics is the adoption of a sustainability-led approach which has been integrated into its business policies, processes and management systems. The goal of this approach is to generate value from and enhance the asset base of management best practice, and to assist in drafting the Company's ethical, environmental and social policies and objectives. The Company publishes its results in this field in an annual sustainability report, which is available for viewing on the corporate website at www.terna.it.
Terna's commitment to corporate social responsibility won the Company a number of awards in 2009 from specialised non-financial performance (environmental, social and governance) rating agencies. In September 2009, Terna became part of the Dow Jones Sustainability World Index, on which the world's 300 top performing companies in sustainability are listed (of which just 12 are Italian enterprises).
Terna's approach to corporate social responsibility embraces a number of key areas:

Electrical service

Terna has taken to heart the goals defined in the concession agreement and assumes responsibility towards the public at large. The Company pledges to constantly ensure the security, quality and cost-effectiveness of electricity transmission over time, and to provide equal access conditions to all network users. Terna furthermore pledges to maintain the transmission system's efficiency and to upgrade it as a corporate asset that is also a key infrastructure for society.

The environment

The most evident sign of Terna's operations is the physical, visible presence of power lines and stations across the country. To minimise this, Terna has developed a management system for monitoring and limiting the environmental impact of its operations. The Company has placed special emphasis on transmission infrastructure development activities. In this field, Terna has chosen to work with local institutions and harness Strategic Environmental Assessments (SEAs) to take environmental requirements into account right from the earliest stage of new line planning.
This makes it possible to identify optimal solutions that combine the needs of developing the electricity grid with the need for protecting the environment and local cultural heritage.
In 2009, Terna continued with many **initiatives for reducing the environmental impact** of its plants. In particular:
- on January 13, 2009, Terna signed an agreement with the WWF to maximise the environmental focus of plans to develop the electricity grid. This is the first protocol of understanding that the WWF has signed in Italy with a leading national infrastructure enterprise. The main objectives of the agreement are greater integration of environmental criteria at the national electricity grid development planning stage, along with a harmonisation of these activities with the eco-regional conservation strategy promoted by the WWF. The three-year deal calls for a special jointly-prepared action plan to foster the sustainable development of the electricity grid in WWF sanctuaries, with a view to minimising environmental impact;
- Terna S.p.A. has signed important Memoranda of Understanding with the regions of Valle d'Aosta, Liguria and Lazio regarding the use of SEAs by the Grid Operator in preparing the development plans for these regions. As a result of these agreements, Valle d'Aosta, Liguria, Lazio and Terna have made a commitment to accelerate and streamline the authorisation process for development projects subject to SEA, and to submit the environmental and local impact of new electricity infrastructures in these regions to prior verification. The approach adopted is based on openness and dialogue with local institutions regarding site placement decisions in order to minimise the environmental impact of electricity infrastructure on local areas;

• two documents have been signed regarding the sustainable development of the electricity grid in Piedmont. The first concerns construction of the new “Trino-Lacchiarella” power line; the second concerns the rationalisation programme in the city of Turin. Among other things, the work planned includes the demolition of old lines, and infrastructure rationalisation in order to optimise and reduce the impact of these lines on local areas;
• as part of the grid reorganisation work taking place near Cagliari, operations began on the final stage of removing 150 kV overhead lines at the “Molentargius-Saline” park. This involved the use of specially-modified helicopters to lift 10 pylon bases decommissioned over two years ago out of the Sardinian pond, along with the removal of 12 km of high-voltage power lines within the park;
• the Rosental Group won first place in the international “Pylons of the Future” contest, which Terna sponsored to encourage the design and planning of new, lower environmental-impact national transmission grid support infrastructure. The philosophy behind “Pylons of the Future” contest was to combine innovation, technology, design and environmental awareness in the sustainable development of the national transmission.

Social responsibility

Terna's highly specialised and often unique technical skills in the electricity industry allow the Company to operate with complete professional excellence. The company's attentiveness to keeping this skill current is a key component of how Terna manages its human resources. Equally important is the Company's focus to **workplace safety**, in view of the risks associated with many of the Company's operations, such as, for example, working on live power lines.

Terna's social responsibility extends beyond the social per se to include engaging in charitable initiatives and supporting society-wide advancement, with a particular emphasis on **art and culture**. The Company's most significant initiatives include the Terna Prize for contemporary art, which was awarded for the second time in 2009. Under the auspices of a memorandum of understanding with the Ministry for Cultural Heritage and Activities, the Prize was established to engender a new and virtuous relationship between corporations, the art world and institutions through a synergy that promotes work by Italian artists.

Detailed information on Terna’s **environmental and social impact** can be found in the Sustainability Report that Terna has published every year since 2005 following the adoption of its annual financial statements. To provide increasingly full and complete disclosure of Corporate Governance-related achievements, below is a preview of key environmental and workforce indicators:
• no fatal accidents were recorded in the workplace, nor were there any fatal or serious accidents in previous years for which the Company's liability was ascertained in a final ruling during the year;
• no allegations were recorded regarding workplace bullying or work-related illness – regarding current or former employees – for which the Company was held liable in a final ruling;
• no cases of environmental damage were registered for which the Company was held culpable in a final ruling;
• no final penalties or sanctions were levied against the Company for environmental damage.

Terna is not subject to the greenhouse gas reduction obligations arising out of the Kyoto Protocol, nor is it a participant in emissions trading schemes.

National Transmission Grid

Number of plants - Terna

The number of Terna plants at December 31, 2009, compared with the situation at December 31, 2008, is reported below:

	Terna Dec. 31, 2009	Terna Dec. 31, 2008	Change Jan.-Dec., 2009
Stations	no. 383	no. 371	+no. 12
Transformers	no. 620 121,501 MVA	no. 610 118,539 MVA	+no. 10 +2,962 MVA
Bays	no. 4,537	no. 4,475	+no. 62
Lines	39,819 km	39,456 km	+363 km
3-phase power lines	no. 2,167 44,560 km	no. 2,145 44,172 km	+no. 22 +388 km

Stations

The main station-related changes are summarised below:

1. whole plants:
- activation of 3 new transformation stations: Cedegolo Sud (went into service with 2 bays x 220 kV and 3 bays x 132 kV), Abbadia (went into service with 2 bays x 220 kV and 2 bays x 132 kV), and Napoli Levante (armoured, went into service with 4 bays x 220 kV);
- activation of 8 new delivery stations: Mogorella (4 bays x 220 kV), Tirano (3 bays x 220 kV), Faeto (4 bays x 150 kV), Rotello, Feo, Sicignano and Regalbuto (3 bays x 150 kV each), and INNSE (1 bay x 132 kV).

2. existing plants:
- activation of the new 380 kV section at the Casellina station (went into service with 3 line bays and 1 parallel bay);
- activation of 2 new 150 kV sections respectively at the Santa Sofia (went into service with 1 machine bay, 1 power factor correction bay and 1 parallel bay) and Uvini stations (went into service with 2 line bays and 1 machine bay);
- activation of bays for the new SA.PE.I. link at the stations of Latina and Fiumesanto (a total of 4 bays x 380 kV);
- activation of 17 new line bays respectively at the stations of Scandale and Priolo (1 x 380 kV each), Marghera 3 and Avise (2 x 220 kV each), Verampio, Pianezza and Bussolengo San Salvar (1 x 220 kV each), Roma Est, Accadia, Fulgatore and Tula (1 x 150 kV each), Stazzona (2 x 132 kV), Fusina 2 and Calenzano (1 x 132 kV);
- activation of 9 new machine and/or power factor correction bays at the stations of Casanova (1 x 380 kV and 2 x 132 kV), Brindisi Pignicelle, Andria and Santa Sofia (1 x 380 kV each), Verampio and Partinico (1 x 220 kV each), and Codrongianos (1 x 150 kV);
- activation of 4 new parallel and/or connector bays at the stations of Pallanzeno and Verampio (1 x 220 kV each), La Spezia and Cedegolo (1 x 132 kV each);
- deactivation and/or demolition of 18 bays at the stations of La Spezia (1 x 380 kV), Santa Massenza (5 x 220 kV), Codrongianos (1 x 150 kV), Carpi Fossoli (5 x 132 kV), Sud Ovest (3 x 132 kV), Pian Rocca (1 x 132 kV), Taloro and Uvini (1 x 70 kV each).

Transformers

An additional 10 transformers went into operation compared with December 31, 2008, corresponding to a 2,962 MVA increase in transformation capacity. Specifically, there were 6 new 380 kV single-phase machines introduced at the Latina and Fiumesanto switching stations, operations began at the first pole of the SA.PE.I. connection, and 3 more transformers on the 380 kV line at the Brindisi Pignicelle, Santa Sofia and Casanova stations were added.

Long distance power lines

The total length of long distance three-phase power lines increased by 388 km compared with December 31, 2008 and the total length of lines increased by 363 km. Specifically, 490.9 km of lines were added after the first pole of the 500 kV d.c. SA.PE.I. underwater cable between the stations of Latina and Fiumesanto became operational, including land and sea-based lines, while 130.4 km of lines, corresponding to 5 three-phase power lines, were taken out of service after operational lines were decommissioned, deactivated and/or demolished.

Number of plants - TELAT

At December 31, 2009, the subsidiary TELAT owned 1,724 three-phase power lines covering a total of 17,943 km high-voltage lines, consisting of very-high- and high-voltage power lines acquired from Enel Distribuzione (April 1, 2009) and acknowledged as being part of the NTG pursuant to AEEG Resolution no. 31/09.
From April 1, 2009, TELAT assigned the operational management of these lines to Parent Terna, after signing all necessary intercompany agreements for, in particular, maintenance and technical services regarding power lines it owns.

Acquisition of TELAT's transmission plants generated growth for the Terna Group of about 41.5% in terms of total kilometres of power lines.

The following table provides greater detail about the number of Group transmission plants at December 31, 2009:

	Terna Group Dec. 31, 2009	Terna Group Dec. 31, 2008	Change Jan.-Dec., 2009
Stations	no. 383	no. 371	+no. 12
Transformers	no. 620 121,501 MVA	no. 610 118,539 MVA	+no. 10 +2,962 MVA
Bays	no. 4,537	no. 4,475	+no. 62
Lines	56,691 km	39,456 km	+17,235 km
3-phase power lines	no. 3,891 62,503 km	no. 2,145 44,172 km	+no. 1,746 +18,331 km

National Transmission Grid Development Plan

On January 29, 2010, in compliance with the Ministerial Decree of April 20, 2005, the Development Plan for 2010 was submitted to the relevant authorities for approval.
The 2010 Development Plan was approved by the Terna Board of Directors on December 16, 2009, having already been favourably received by the Users' Consultative Committee[1] (which on October 31, 2009 approved the new developments initiatives included in the Plan and on November 25, 2009 approved the Plan in its entirety).
The latest version of the Development Plan includes the conditions that the Ministry for Economic Development attached to its Final Approval for the 2009 Plan[2].

These conditions regarded:
- "accelerating activities for a further reduction in congestion, while fostering planned interconnections with new energy markets in the north-eastern and southern quadrants, in particular regarding completion of the Adriatic backbone and the 380 kV ring in Sicily";
- "ensuring the development of renewable energy resources in compliance with targets agreed at the European level" by resolving "in particular in the southern areas of the country, issues associated with grid plants arising out of a boom in this type of non-programmable energy";

(1) The Users' Consultative Committee, established with a Prime Minister's Decree of May 11, 2004 in accordance with the provisions of the Antitrust Authority's Resolution no. 14542 of August 4, 2005, issues a non-binding opinion on the Development Plan.
(2) On December 23, 2009, the Ministry for Economic Development (MED) approved the 2009 Development Plan through the publication of its final ruling, which came out in the Gazzetta Ufficiale of January 20, 2010, no. 15.

- monitoring the "implementation of new regulations that provide for the return of nuclear power generation to Italy with regard to the repercussions this will have on the national electricity grid";
- bearing in mind "development of distributed generation and new developments in bidirectional grid use associated with this type of plant, which must be taken into consideration, and coordination with local distributors in order to adopt and develop the required technological upgrades";
- as soon as is feasible, beginning the authorisation process for work to connect the islands situated off the Campania region to the national electricity grid in order to resolve the repeated critical issues affecting the electricity system during the tourist season.

The 2010 Development Plan adopts the structure of the previous year's version and is divided into two sections. **2010 Development Plan - Section I** outlines the framework and the new development requirements highlighted in 2009. Pursuant to Legislative Decree no. 152/06, the section is subject to a **Strategic Environmental Assessment** (SEA), which commenced on October 2, 2009. The second section, **Progress of Prior Plans - Section II**, features a progress report on the actions envisaged in earlier Development Plans that have previously been approved and are confirmed in the current version of the Plan. Specifically, the plan highlights the development of the European transmission network. In fact, the European Commission notes the need for network operators to work together to develop a European network in order to ensure that transmission capacity keeps pace with demand and that national electricity markets are integrated.
The 2010 European Development Plan was prepared under the auspices of ENTSO-E[3]. Terna is both a member and the coordinator of the Continental Central South Regional Forum, and is a member of the Continental South East Forum. Terna has supported its community-interest projects, giving particular precedence to new interconnections and resolving internal NTG congestion. The 2010 Development Plan envisages investments of around €3.14 billion in the period 2010-2014 (an increase compared with the 2009 version of the Plan) and €3.77 billion in the five years thereafter. The implementation of the Development Plan will increase the size of the national transmission grid by adding around 4,800 km of new lines and 140 new stations with a transformation capacity of around 32,500 MVA.

SEA procedure for the 2010 Development Plan

On October 2, 2009, the preliminary stage of the Strategic Environmental Assessment procedure for the 2010 Development Plan (scoping) was initiated, pursuant to the Consolidated Environmental Law (Legislative Decree no. 4/2008), following publication of the 2010 Preliminary Report (PR) "**on potential significant environmental impacts of Plan implementation**". The PR is intended to define the extent and level of detail of information to be included in the 2010 Environmental Report (ER). This preliminary stage will be completed once an opinion (and, where applicable, observations) is received from the Ministry for the Environment (METPS) - EIA-SEA Technical Commission, which gathers and collates observations made during the consultative phase, including comments issued by the Ministry for Cultural Heritage.

Status of authorisation applications

In 2009, pursuant to Law no. 239/04, 29 authorisation application procedures were initiated regarding NTG Development Plan development work. During 2009, 15 decrees received authorisation pursuant to Law no. 239/04 regarding Development Plan works.

Work carried out in period

In 2009, the most important work still in progress involved activities to reduce network congestion, to connect new generating plants (especially those fuelled by renewable resources), and to increase the reliability of the grid with ever greater attention to environmental and safety issues.
The major works currently in progress are as follows:
- 500 kV d.c. "Sardinia-Continent" (SA.PE.I.) underwater cable: work was completed in 2008 on underwater cabling of the first pole (a total of 425 km). In 2009, work was completed on civil structures and the construction of buildings to house high-tech electric equipment. Construction work is currently underway on the second underwater cable pole, and testing is underway to ensure that the plant will enter service in 2010;
- 380 kV stations to connect renewable-resource fuelled plants: site work began on 380 kV stations suited to power input from and connection to new renewable fuel generating plants located in the areas of Turano, Maida, Bisaccia, San Severo, Deliceto and Troia. The final design stage has already been completed for the first four stations. Provisioning of materials is underway and work is scheduled to be completed by the end of 2010;
- 380 kV rationalisation in the province of Lodi: site work has begun with the construction of two new 380 kV power stations in the municipalities of Chignolo Po and Maleo; work has also begun on building a new 380 kV double three-phase power line connection along the "La Casella-Caorso" line;

(3) ENTSO-E (the European Network of Transmission System Operators for Electricity) is a partnership body strengthened by community-level network operators.

- new 380 kV “Sorgente-Rizziconi” underwater connection: site work has begun on the two 380 kV stations in Scilla (Calabria) and Villafranca (Sicily), and materials procured. Work is underway at the 380 kV Rizziconi power station to expand and install the 2 bays necessary for building the new long-distance line. Final design is still in progress, in preparation for executing the main orders for the manufacture and laying of the 380 kV double three-phase underwater cable;
- 380 kV “Ittiri-Codrongianos” long-distance line: construction work is underway on the new 380 kV long-distance line and the new Ittiri power station adjacent to the existing 380 kV “Fiumesanto-Selargius” line, in order to prepare for connection of the aforementioned future station along this line on an in-and-out basis;
- 132 kV Val d’Ossola rationalisation: the construction site was opened in 2008, and construction work has now reached an advanced stage. Tension work has been completed on almost half of the total number of kilometres of planned line, and demolition has begun of obsolete long-distance lines. Painted tubular pylons have been installed along this line to reduce environmental impact;
- 380 kV “Casellina-Tavarnuzze-Santa Barbara” long-distance line: the planned works are at an advanced stage of implementation, and will be gradually brought into service as the new line is constructed and the old, obsolete, lower-power capacity line is demolished. The new 380 kV section of the Casellina power station was completed, as were the new 380 kV “Casellina-Poggio a Caiano” and “Casellina-Calenzano” connections. The new 380 kV “Tavarnuzze-Casellina” connection has also been completed, including the assembly of a number of Foster pylons;
- replacement of conductors along the “Piossasco-Venaus-Villarodin” line: design, material provisioning and preparation for the complex operation of replacing conductors along the “Villarodin-Venaus” line have all been completed. The first phase of construction work will be implemented in August 2010.

Energy overview

Energy demand in Italy

In 2009, according to preliminary figures, domestic energy demand amounted to 317,602 GWh, a decline of 6.4% from 2008. In order to compare 2009 figures with those of the previous year, a number of factors need to be considered. First of all, there is the variation in the calendar. Although there are fewer total days than the previous year (2008 was a leap year so there were 366 days), there was one more business day in 2009. Secondly, weather conditions were different. In 2009, the first three months were cooler on average than the same months of 2008, whereas the remaining months (from April to December) were slightly warmer than in the prior year. Therefore, adjusting for both number of days and temperature, the change in electricity demand came to -6.6%.

Power generation

According to initial estimates, in 2009 net domestic power generation (see table below) decreased by 9.2% year on year. Breaking down the figures for generation by source, net of ancillary services, we see a decline in thermal power generation for the year of 13.7% from 2008.
In 2009, hydroelectric production rose by a significant 9.5% compared with 2008, after taking into account consumption for ancillary services.
The annual hydroelectric production index exceeded the figures recorded for the preceding year, rising to 1.03 compared with 0.91 in 2008.
Wind and photovoltaic generation once again rose dramatically compared with the previous year, posting a 35.3% overall rise compared with 2008, spurred by growth in wind assessed at around 25.2%, and 288.6% growth in photovoltaic energy compared with the preceding year.
Geothermal generation posted a modest 3.2% fall compared with the preceding year.

DOMESTIC POWER GENERATION

GWh	Generation 2009*	2008	Change	%
Gross hydro generation	51,743	47,227	4,516	9.6
Gross thermal generation	225,487	261,328	-35,341	-13.5
Gross geothermal generation	5,347	5,521	-174	-3.2
Gross wind generation	6,087	4,861	1,226	25.2
Gross photovoltaic generation (1)	750	193	557	288.6
Total gross generation	**289,914**	**319,130**	**-29,216**	**-9.2**
Hydro ancillary services	658	554	104	18.8
Thermal ancillary services	10,052	11,179	-1,127	-10.1
Geothermal ancillary services	313	323	-10	-3.1
Wind ancillary services	11	9	2	22.2
Photovoltaic ancillary services	0	0	0	-
Total ancillary services	**11,034**	**12,065**	**-1,031**	**-8.5**
Net hydro generation	51,085	46,673	4,412	9.5
Net thermal generation	215,935	250,149	-34,214	-13.7
Net geothermal generation	5,034	5,198	-164	-3.2
Net wind generation	6,076	4,852	1,224	25.2
Net photovoltaic generation (1)	750	193	557	288.6
Total net generation	**278,880**	**307,065**	**-28,185**	**-9.2**

(*) Provisional figures.
(1) Includes photovoltaic plants subsidised through GSE Energy Account.

Dispatching and trade

Electricity business

Based on preliminary figures, Italian electricity demand for 2009 came to 317,602 GWh, a decline of 6.4% from the previous year (see table below).
During the year, 86% of the demand for electricity on the network was met by domestic power generation (88.2% in 2008), for a total of 273,153 GWh, net of consumption by ancillary services and pumping, for a decrease of 26,294 GWh (-9%) from 2008. The remaining portion of demand (14%) was covered by net imports, for a total of 44,449 GWh, compared with 40,034 GWh for the previous year (+11%).
Net imports rose from 2008 due to an increase in the amount of energy imported from 43,433 GWh to 46,570 GWh (7.2%), along with a decline in exports, which fell from 3,399 GWh to 2,121 GWh (down 37.6%).

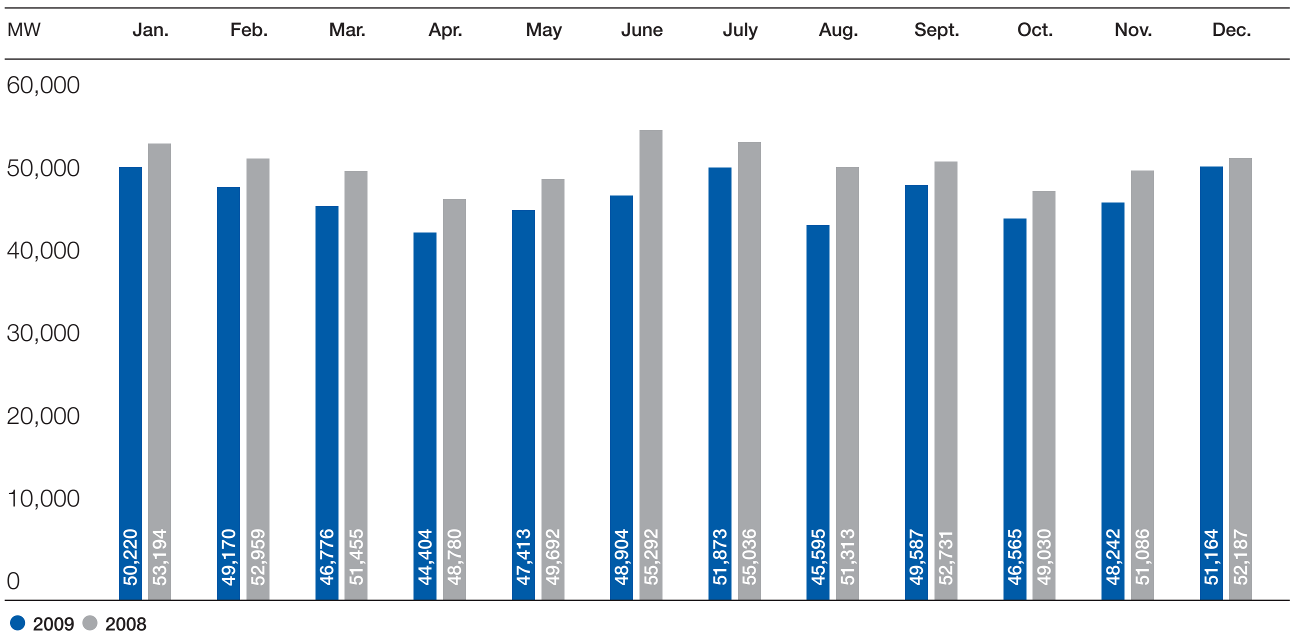
ENERGY BALANCE IN ITALY

GWh	Jan.-Dec. 2009*	Jan.-Dec. 2008	Change	%
Gross generation	289,914	319,130	-29,216	-9.2
Ancillary services	11,034	12,065	-1,031	-8.5
Net generation	278,880	307,065	-28,185	-9.2
Imports	46,570	43,433	3,137	7.2
Exports	2,121	3,399	-1,278	-37.6
Pumping	5,727	7,618	-1,891	-24.8
Total demand	**317,602**	**339,481**	**-21,879**	**-6.4**

(*) Provisional figures.

Month-on-month trends in peak power demand in 2009 and 2008 are presented in the following table. In 2009, in every month the peaks were lower than in the respective month during the preceding year; in the first half of the year, the reduction was sometimes considerable.
The highest level of demand registered at any time in 2009 was at midday on July 17, when demand reached 51,873 MW. The 2008 peak was at midday on June 26, when demand reached 55,292 MW. The highest load in 2009 was down 6.2% compared with the corresponding peak the preceding year.

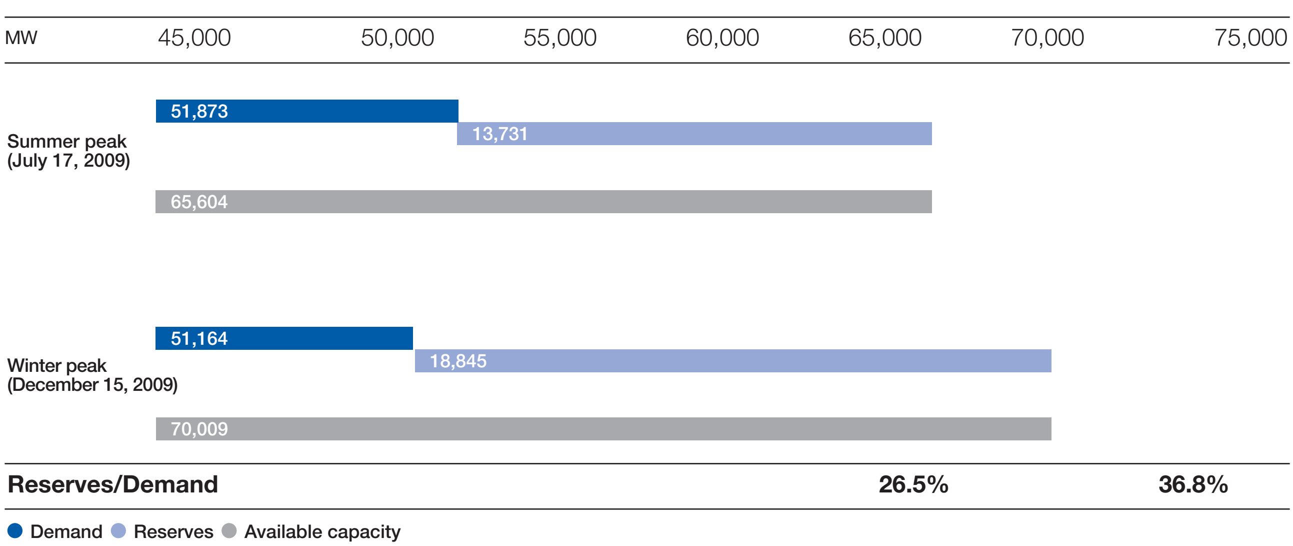
MONTHLY PEAK DEMAND



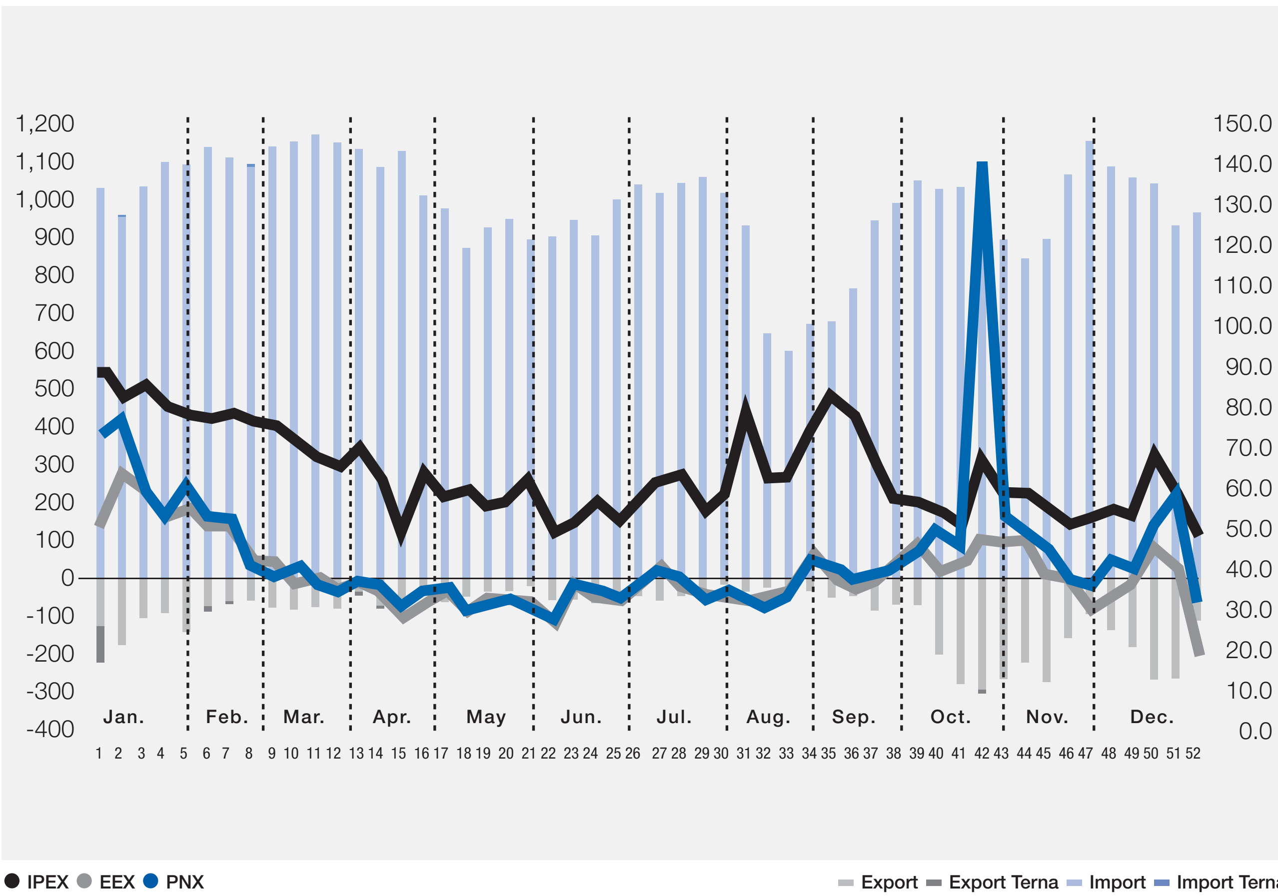
Coverage of demand

The high margins available at the peak recorded in 2009 are attributable to the considerable reduction in demand compared with the preceding year, as well as to maintenance forecasting and coordination by Terna. The year also saw the start-up of a number of new generating plants.

RESERVE MARGINS AT PEAK



In line with expectations, the coverage margins for Sicily and Sardinia were extremely slim, owing to structural deficiencies in power generation and in interconnection capacity with the mainland.
On the whole, the critical points of electrical system management expected on the islands were encountered in actual operations, thereby confirming the area as at risk for covering demand with adequate reserve margins, and thus ensuring the continuity of electricity supply.
In the final month of the year, the first pole of the SA.PE.I. connection between the Italian mainland and Sardinia significantly increased the island's coverage margins and security.
With regard to foreign trade, the average hourly price differential between the Italian electricity market and those of France and Germany was about 15% higher (€23/MWh vs. €20/MWh) than 2008. This price trend caused an increase in the net balance of energy imports of about 5.4 TWh compared with the corresponding period of 2008.

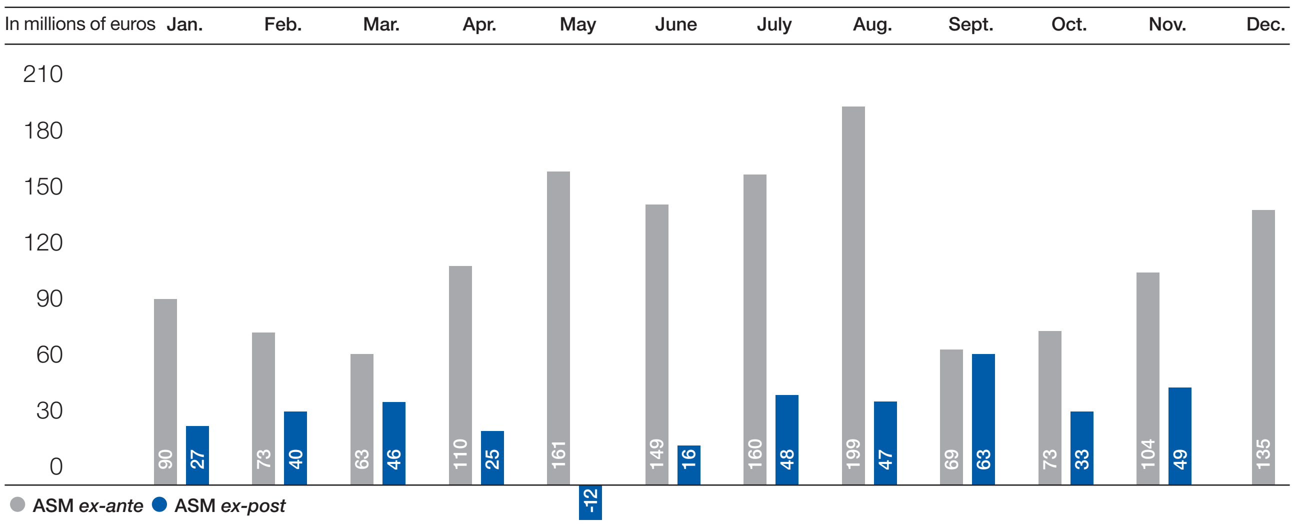


Provisioning of dispatching resources

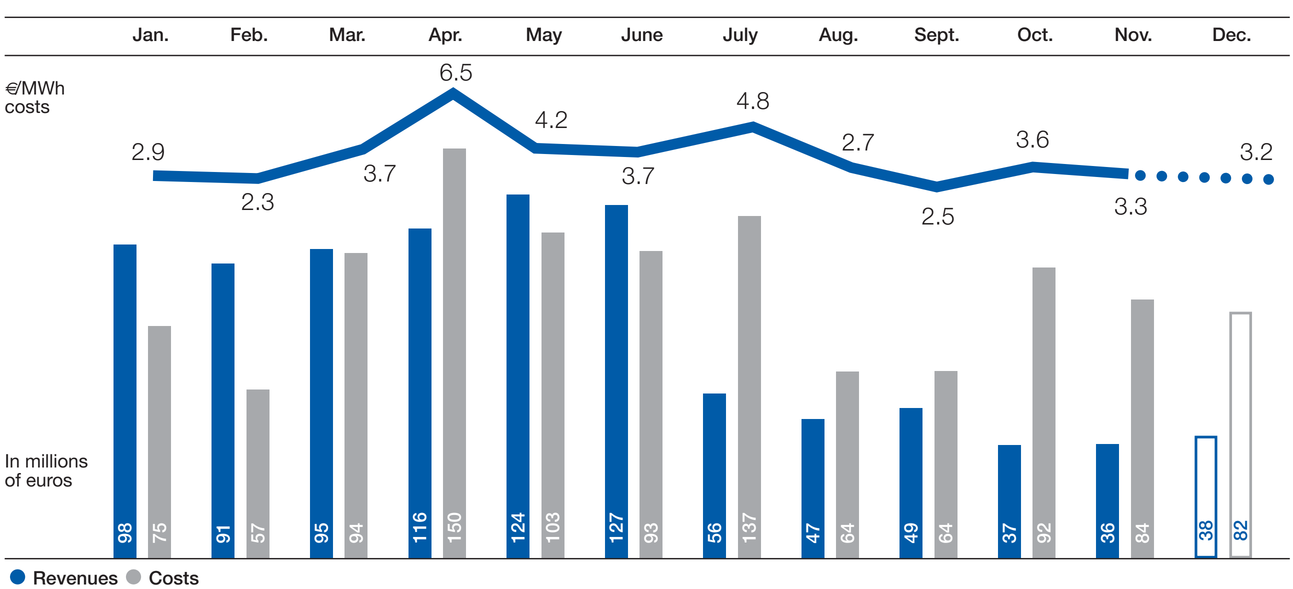
As part of the gradual introduction of the definitive electricity market rules, the Authority for Electricity and Gas issued ARG/elt Resolution no. 203/08 on December 23, 2008, establishing that it will not reintroduce the possibility for Terna to operate on the Day Ahead Market except in response to exceptional difficulties in the national electricity system.
Terna had used this possibility to correct divergences between the total demand of consumers on the Day Ahead Market and Terna's own demand forecasts. As from January 1, 2009, however, Terna has been balancing demand by recourse to the Ancillary Services Market.
Terna operated on the Ancillary Services Market during the scheduling phase, which is held on the day prior to that of the actual flow, buying about 12.5 TWh and selling about 14.8 TWh of energy (respectively 11.6 TWh and 11.5 TWh in 2008, corresponding to an increase of 8% and 29%), for a net outlay of €1,385 million (€1,861[1] million in 2008, down 26%).

(1) Total inclusive of charges associated with term contracts for dispatching services signed in 2008.

Despite changes in the regulatory framework, the 4.2 TWh increase in overall Ancillary Services Market volumes was far below the volumes traded in 2008 on the Day Ahead Market (11.3 TWh). This effectively large reduction in volume also reflects the effectiveness of Terna's various actions to reduce/optimise provisioned dispatch resource volumes.
The reduction was recorded during real-time equalisation of the Ancillary Services Market, where the volumes bought and sold up to November were, respectively, 7.1 TWh (down 19% compared with the same period in 2008, when the figure totalled 8.8 TWh) and 9.7 TWh (down 8% compared with the 2008 figure of 10.6 TWh), for a net charge of €384 million (down 49% on the 2008 figure of €760 million).



Overall costs in fees for dispatching resources provisioning (inclusive of term contracts for 2008) registered a reduction of €852 million over the period taken into consideration.
After the real-time phase, Terna verifies the proper execution of commercial obligations by the market participants, both in terms of generation and demand. To that end, the measurements at each point of input and withdrawal are taken, with the help of the distribution firms, and the differences from the schedules are calculated. These differences (imbalances) are measured using algorithms established by the regulatory framework. The net charge resulting from the measurement of these imbalances and of the buying and selling transactions executed by Terna on the Day Ahead and Ancillary Services Markets are billed on a *pro rata* basis to each consumer with the uplift fee.



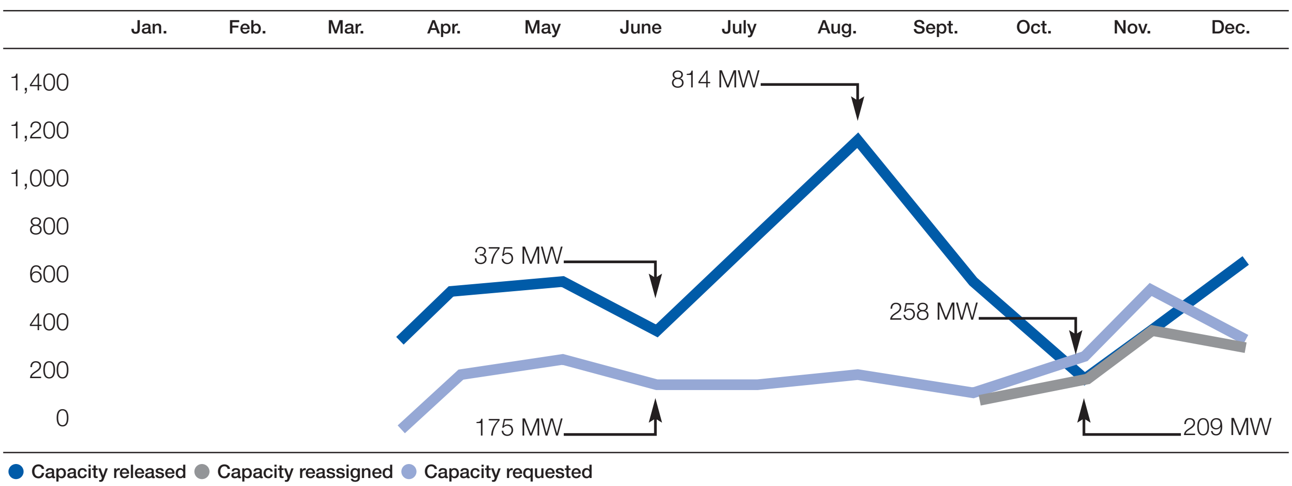
Interruptibility service

In view of the exceptional and unpredictable economic climate that triggered a sudden and considerable reduction in manufacturing activities, and, consequently, a reduction in electricity consumption, the interruptibility service underwent a number of changes in 2009. Specifically, in implementation of Authority requests, in February Terna drafted **Regulations for instantaneous interruptibility service management on a monthly basis**. These Regulations, which were introduced for March 2009 allocations, enabled:

- holders of instant interruptibility contracts for the three-year period 2008-2010 to offer Terna a share of contractually-agreed instantaneous interruptibility on a monthly basis;
- Terna, also on a monthly basis, to reallocate instantaneously interruptible power available to parties eligible for the interruptibility service.

Below is a table of trends in monthly releases and associated reallocations, from which it is evident that during all months (bar October and November), the amount of instantaneous power available exceeded allocation demand.

DEVELOPMENTS IN MONTHLY RELEASES AND ASSOCIATED REALLOCATIONS



Following guidance from the Authority, in July 2009 Terna amended its Regulations to extend the instantaneous interruptibility service on a monthly basis to the emergency interruptibility service (**Regulations for instantaneous and emergency interruptibility service management on a monthly basis**).

Below is a table presenting changes in the number of Interruptible customers and contractually-agreed power for the three-year period 2008-2010 following the allocations made in May and September.

	Interruptible customers at Jan. 1, 2009	Interruptible customers at June 1, 2009	Interruptible customers at Oct. 1, 2009	Contractually-agreed power at Jan. 1, 2009 [MW]	Contractually-agreed power at June 1, 2009 [MW]	Contractually-agreed power at Oct. 1, 2009 [MW]
Instantaneous	119	123	135	3,340	3,326	3,361
Emergency	6	5	5	37	32	32
Total	**12**	**128**	**140**	**3,377**	**3,358**	**3,393**

Overall charges associated with remuneration of the interruptibility service amounted to €421 million, down 12% on the figure of €479 million recognised for the preceding year.

Service quality, unsupplied energy and other service issues

Service quality in 2009 recorded decidedly positive figures for Regulated Energy Not Supplied (RENS) and the Number of Supply Failures per User (NSFU), falling below the averages seen in recent years: RENS amounted to 796 MW, compared with a quality target of 1,425 MW; the NSFU value was 0.203, compared with a quality target of 0.231.
In 2009, only one significant incident attributable to Terna was reported, in the Naples area, in addition to an incident involving a 150 kV connection cable to the island of Ischia, which had only just been acquired from Enel Distribuzione (TELAT), and which triggered a significant outage on the island. Notwithstanding these incidents, the level of energy not supplied remained low.
Critical issues generated by causes not attributable to Terna included storms, strong winds and significant snowfalls between January and March 2009 in and around Turin and Naples, which led to an increase in the number of supply failures per user in these areas. No gas and water availability-related critical issues were recorded.
Although in line with the positive service quality generally, the larger islands continued to face their particular challenges connected with the structure of the transmission system.

In conclusion, the following are the four key indices of service quality and performance for Terna's NTG systems, which are calculated in accordance with Resolution no. 250/04 of the Authority for Electricity and Gas and Terna's Grid Code and which all show positive results:

- AIT (Average Interrupt Time attributable to Terna) = 0.55 min/period; Annual national target = 1.00 min/year;
- SAIFI + MAIFI (system and momentary average interruption frequency indices per user directly connected to the Terna NTG attributable to Terna) = 0.19; Annual national target = 0.22;
- ENS (Energy Not Supplied attributable to Terna) = 330 MWh; Annual national target = 550 MWh;
- ASA (Average System Availability of Terna network elements) = 99.034%; Annual national target = 99.05%.

Terna and photovoltaic power

As illustrated in the section on "Significant events", in order to make most effective use of its resources and maximise returns on its assets, Terna commissioned its subsidiary SunTergrid to build and manage photovoltaic systems with total capacity of around 100 MWp on sites where no installations exist, adjacent to transformation stations leased by the Parent. By the end of the year, the new business is only up and running to a minimal extent. One plant has entered service (at Ragusa, on December 28, 2009), after investments were made in the final quarter of 2009. Applications for authorisation are underway for the other construction projects (around 71 of which are scheduled to be in service by the end of 2010), and are at various stages of progress. Investments exceeding €300 million are planned by the end of 2010.

Energy generation in 2009 was negligible, and will only really take off starting in 2010. The electricity generated will be withdrawn and priced by GSE S.p.A., in accordance with the dedicated withdrawal mechanism envisaged under the energy account, guaranteeing the full neutrality of Terna with respect to the sale of the power on the electricity market.
The Parent is responsible for the operational management of SunTergrid pursuant to an ad hoc service agreement which provides the Company with corporate support and advice, and in the name of and on behalf of the subsidiary commissions Terna to manage all work necessary and appropriate to developing and modernising SunTergrid's plants (i.e. applications for authorisation or provisions of any nature, tendering processes, contract management and payments). Terna will be using its own internal resources for this, as well as drawing on services and materials acquired from third parties, and then claim back the associated costs from SunTergrid.

As part of an internal reorganisation process conceived to optimise the resources and potential of new photovoltaic power generating operations, in December 2009 SunTergrid founded a new company, Rete Rinnovabile S.r.l. (hereafter also known as "RTR S.r.l."), as a vehicle to take over all projects likely to become operational by the end of 2010. As explained in the "Subsequent Events" section, where more information is available, effective from February 1, 2010, SunTergrid transferred to RTR the business unit consisting of plants for generating power from renewable resources for internal consumption or sale, and all activities and contractual relationships pertaining to the planning, construction, management, development and maintenance of these plants.

Information Technology

Significant benefits were achieved in 2009 as a result of information and communication technology projects and innovation at Terna. The following objectives were achieved:
1. Benefits for business deriving from the completion of important initiatives;
2. Enhancement of the telecommunications infrastructure as a key asset for National Transmission Grid management;
3. Achievement of management efficiency benefits.

1. Benefits for business deriving from the completion of important initiatives

- **Enhancement of National Electricity System security** - National Electricity System security was enhanced through a series of interventions to improve the effectiveness of the control and operation system as regards the observed grid perimeter (extended to around three hundred 60-132-150 kV stations on the grid) and real-time output plants (with more than 8,000 MW added).
  Defence system effectiveness was also improved through the extension of disconnectable loads to distribution stations through the new emergency control panel (ECP) system, and extension of monitoring to additional events at hubs limited to the south and the northeast-northwest backbone.

- **Operating continuity** - In 2009, Business Continuity provisions to ensure electricity system-critical operations was further enhanced following the completion of the back-up control room. Under normal operating conditions, the control room serves as the Rome area control room; in emergency conditions, it can take over critical processes vital to electricity system operation continuity which are normally undertaken by the National Control Centre.

- **Dispatching incentives** - Following AEEG Resolution no. 206/08, which encouraged Terna to reduce the volume of energy procured on the Ancillary Services Market, significant work was undertaken to improve IT support instruments used for real-time planning and dispatch operations. As well as enhancing the applications platforms concerned, specific instruments were created to optimise the usage of strategic stocking (pumping); Optimal Power Flow techniques were introduced in the tertiary voltage control process for power plants; and an analytical instrument was added for budgeting, monitoring and controlling volumes procured on the Ancillary Services Market.

- **Regulatory changes** - The applications platform that supports the planned and real-time Ancillary Services Markets was completely reviewed to reflect the Ministry for Economic Development Decree Law issued on April 29, 2009. On October 31, IT systems were upgraded to handle new Intra Day Markets, while on December 31, the new services market management platform (Integrated Market Operation System) and the real-time equalisation market commenced operations. The compulsory systems upgrade sought by the Authority has made it possible to introduce new rules that expand the range of offerings and allow operators to reprice offerings multiple times over the course of the day, thus making it possible to reduce the costs incurred for dispatching services.

2. Enhancement of the telecommunications infrastructure as a key asset for National Transmission Grid management

- **Telecommunications infrastructure** - In 2009, Terna fully brought into service a 11,800 km proprietary fibre-optic telecommunications network infrastructure that can carry data at speeds of up to 10 Gbps and is one of Italy's main telecommunications backbones. The new network makes it possible to link all electricity grid locations dedicated to control and operations, the National Control Centre, the Disaster Recovery Centre and around 50% of the nation's power stations. This investment is part of the electricity service security enhancement strategy, which is designed to improve the reliability of telecommunications vital to control, operation and protection issues, especially regarding processes key to handling National Electricity System (NES) crisis and re-boot scenarios. As well as enhancing the NES, the new infrastructure's extensive reach and transmission capacity will also enhance and more effectively integrate Terna's core processes, which are distributed over a broad geographical area.

- **Perimeter Security** - Perimeter Security system effectiveness has been further enhanced by increasing the number of sites where perimeter defence devices for ensuring that access is permissible only to authorised users and protocols and intrusion prevention tools for monitoring any fraudulent use of traffic which may be potentially detrimental to data network security are installed.

3. Achievement of management efficiency benefits

- Significant efficiencies have been achieved in telecommunications through the renegotiation of the Company's largest contracts as they near expiry, and in metering, where high levels of process automation have made it possible to reduce the number of employees involved in metering activities, while at the same time improving data quality and extending the acquired network. The telecommunications infrastructure upgrade programmes completed in previous years have substantially reduced the number of telecommunications network-related service issues and have had a beneficial impact on operating expenses.

Research and development

In 2009, the Company's research and development activities were focused on developing environmental monitoring and control technologies, enhancing the efficiency and reliability of plant, maximising service quality and optimising the management of corporate processes.
A group of experts is constantly researching ways for improving Terna's core processes. The team is able to make use of specialised information systems (MBI etc.) for the close monitoring of equipment.

A number of activities were identified and implemented in 2009. The main activities, some of which are still at the implementation stage, are described briefly below:
- design of a Rapid Installation Compact Station (RICS) for temporary hook-ups to power plants of up to 170 MVA;
- testing of High-Voltage Power Transformers manufactured by Siemens and ABB, using new manufacturing techniques and new materials designed to eliminate the dangers of gas explosions and leaks;
- Disconnection Switches (KSBDs) to ensure safe remote line grounding operations;
- installation of non-standard 380 kV pylons (Foster pylons) in Tuscany;
- extension of the range of 380 kV single-shaft tubular pylons and design of a new series of 150 kV single-shaft tubular pylons;
- introduction of new clamps and testing of anti-rotation counterweights to enhance the reliability of existing high-voltage line shunts.

These activities have been pursued using internal resources. The staff operate in working groups, a method that facilitates the spread of knowledge to all branches of the Company. Terna also draws on the specialist support of developers, universities, the associated company CESI S.p.A., and, where necessary, its main suppliers, which are also interested in the development of new technologies and operate under the supervision of project managers from within the Company.
In 2009, Terna S.p.A. incurred costs of €13.2 million in respect of CESI S.p.A. of which €11.8 million were capitalised.
For more information on how Research and Development expenditures are presented in the accounts, please consult "Intangible assets" under section "A. Accounting policies and measurement criteria" in the notes to Terna S.p.A.'s financial statements at December 31, 2009.

Human Resources and Organisation

Organisational structure

In 2009, the Italian Operations Department underwent a series of organisational changes to prepare for major growth in investments Terna is poised to make over the next few years, a variety of planned works, and a desire to ensure that project management (time taken, quality and cost) is more efficiently pursued.
The "Grid Planning and Development" and "Engineering" Departments have been rolled into the new "Grid Development and Engineering" Department, whose core focus is implementation of the Grid Development Plan. Investment planning and NTG user connection management have been reallocated to a new "Investment Planning" Department which reports directly to the operations director.
In order to foster synergies in Plan implementation-related authorisations, negotiations with Ministries and local authorities (for authorisations process management), which was previously the responsibility of the "Grid Planning and Development" Department, have been brought back under the aegis of the Institutional Affairs Department.
Within Staff departments, organisational changes in 2009 included a spin-off of international business development activities (specifically regarding South-Eastern Europe and North Africa) from the Business Development and International Department to the Finance and Control Department, which was previously responsible for mergers and acquisitions. After this change, "Business Development" and "Finance, Control, International and M&A" Departments were formed, both of which report directly to the CEO.

Human resources

Changes in the number of Parent employees are shown below. It should be noted that at December 31, 2009, subsidiaries TELAT, SunTergrid and RTR do not have any employees.

	Terna		
CHANGE IN THE WORKFORCE	Dec. 31, 2009	Dec. 31, 2008	Change
Senior management	65	65	-
Middle management	488	485	3
Office staff	1,874	1,907	-33
Workers	1,020	1,067	-47
Total	**3,447**	**3,524**	**-77**

Data for both years do not include terminations with effect from December 31, and reflect continuing turnover associated with early retirement incentive plans.

Management incentive plans

Short-term management incentive schemes include an MBO plan for 2009 targeted at senior and middle management, related to the achievement of individual, department and company performance objectives.
As to long-term incentives, no 2006 Stock Option Plan options were exercised during the course of the year. The Extraordinary shareholders' meeting of April 22, 2009 resolved to extend the date for exercising options allocated under the Plan from March 31, 2010 to March 31, 2013.
Long-term cash-based managerial incentives are available to top managers and key people under the cash-based three-year Long Time Incentive (LTI) Plan, the purpose of which is to generate value and achieve the challenging performance targets set for the 2008-2010 three-year period.

Expected developments

In 2010, Terna will implement the human resource development and training programme set out in the two-year plan. The Company will take into account emerging requirements related to corporate strategy in providing training.

Grid Code

During the year, the Grid Transmission, Dispatching, Development and Safety Code (Grid Code) was amended to implement the provisions of Law no. 2/2009, the April 29, 2009 Ministry for Economic Development decree, and Authority for Electricity and Gas ARG/elt Resolution no. 52/09. It was also updated to reflect changed grid unavailability and power plant planning and management conditions. Prior to being implemented, the amendments were submitted for consultation among industry operators, and an opinion was sought from the Users' Consultative Committee.

The Grid Code as amended this year can be viewed on the www.terna.it web site.

Consultative Committee

With regard to the Users' Consultative Committee mentioned in art. 1, paragraph 4 of the Prime Minister's Decree of May 11, 2004:
- Committee members were elected for the three-year period 2009-2011, pursuant to Chapter 13 of the Grid Code, while maintaining the ongoing representation of the Associations on the Committee;
- at Committee meetings held prior to the date of this report, in addition to providing opinions on proposals for amending and updating the Grid Code, as is customary the Committee issued two opinions on the Terna 2010 Development Plan, specifically an opinion on new works contained in 2010 Development Plan, and an opinion on the progress under the 2009 Development Plan.

For more information on the regulatory framework in which Terna conducts its business, please see the Annex ("Italy's Regulatory Framework") to the Directors' Report.

Related party transactions

Having been determined in 2007 that Cassa Depositi e Prestiti S.p.A. exercises *de facto* control, transactions undertaken by Terna and the Group with related parties during the year consisted of intercompany transactions, transactions with employee pension funds (Fondenel and Fopen), and transactions with companies of the:
- GSE Group;
- Enel Group;
- Eni Group;
- Ferrovie dello Stato Group;

and Anas S.p.A.

The Parent's Corporate Governance rules, which are detailed in the specific report published with this Annual Report (available on the www.terna.it web site), establish the conditions for ensuring that related party transactions are carried out in accordance with criteria of procedural and substantive propriety under the same terms and conditions that would apply to transactions with third parties.

The nature of transactions, assets and liabilities with related parties as well as associated revenue and costs posted for the year, and receivables and payables at December 31, 2009, are presented in the respective notes on individual items in the separate and consolidated financial statements, and in a specific section of the notes ("Related party transactions"), which should be consulted for more details.

In addition, transactions with members of the Company's Board of Directors and Board of Statutory Auditors, and in particular their remuneration, bonuses and other incentives, are detailed in the notes to the financial statements in the sections "Personnel expense" and "Services", respectively.

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

As required by the provisions of art. 79 of CONSOB Resolution no. 11971/99, the following table lists the shares of Terna S.p.A. and its subsidiaries 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' register, communications received or other information obtained from the members of the administrative and control bodies, and from General Managers. These include all those persons who, in 2009, filled the position of Director, Statutory Auditor, and General Manager.

Name	Company in which the investments is held	Number of shares held at the end of the previous year (2008)	Number of shares acquired (in 2009)	Number of shares sold (in 2009)	Number of shares held at the end of the current year (2009)	Type of ownership [1]
Luigi Roth	Terna S.p.A.	0	0	0	0	-
	Terna Participações S.A.[2]	1	0	0	-	ownership
Flavio Cattaneo	Terna S.p.A.	100,000	100,000	0	200,000	ownership
	Terna Participações S.A. [3]	1	0	0	-	ownership
Cristiano Cannarsa	Terna S.p.A.	0	0	0	0	-
Paolo Dal Pino	Terna S.p.A.	2,150	0	0	2,150	ownership
Matteo Del Fante	Terna S.p.A.	0	0	0	0	-
Claudio Machetti	Terna S.p.A.	0	0	0	0	-
Salvatore Machì	Terna S.p.A.	40,000 [4]	0	0	40,000 [5]	ownership
Michele Polo	Terna S.p.A.	0	1,700	0	1,700	ownership
Vittorio Rispoli	Terna S.p.A.	0	0	0	0	-
Luca Aurelio Guarna	Terna S.p.A.	0	0	0	0	-
Marcello Cosconati	Terna S.p.A.	0	0	0	0	-
Lorenzo Pozza	Terna S.p.A.	0	0	0	0	-
Stefania Bettoni	Terna S.p.A.	0	0	0	0	-
Mario Paolillo	Terna S.p.A.	0	0	0	0	-

(1) This column – which is in addition to the format provided for in Annex 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) On November 3, 2009, Terna S.p.A. sold its controlling interest in Terna Participações S.A.
(3) On November 3, 2009, Terna S.p.A. sold its controlling interest in Terna Participações S.A.
(4) Including: 40,000 held by spouse.
(5) Including: 40,000 held by spouse.

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

No significant, non-recurring, atypical or unusual transactions were conducted during the year, either with third parties or related parties.

Other information

Treasury shares

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

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

Within the legally prescribed deadline, Terna S.p.A. updated its 2009 Security Policy Document pursuant to the personal data protection code (Legislative Decree no. 196 of June 30, 2003).
Moreover, during the year, the Company implemented a number of initiatives to apply the Privacy Authority measure dated November 27, 2008 (published in the Gazzetta Ufficiale of December 24, 2008) regarding “measures and advice regarding persons in system administrator roles”. By the deadline, the Company identified and formally designated these individuals, and also developed a project to collect, record and manage essential log data regarding operations undertaken by such persons on processing and corporate electronic archive systems.

Information on shareholding structure

Information required under art. 123 *bis*, “Report on Corporate Governance and ownership structures” of the “Consolidated Law on Financial Intermediation”, is presented in a separate report (Annex - Corporate Governance), which is attached to the Directors’ Report.

Certification pursuant to art. 2.6.2 of the Borsa Italia Regulations regarding the provisions of artt. 36 and 37 of the CONSOB Market Regulations (no. 16191/2007)

From a procedural point of view, Terna S.p.A. is in compliance with the provisions of art. 36 of the CONSOB Market Regulations (no. 16191/2007), specifically with regard to the controlling interest in Brazilian sub-holding company Terna Participações prior to the date that the company was sold, on November 3, 2009.
Pursuant to art. 37 of the CONSOB Regulations, Terna is subject to the *de facto* control of Cassa Depositi e Prestiti S.p.A., which owns a 29.986% equity stake in the Company, according to a disclosure made by Cassa Depositi e Prestiti on April 19, 2007. At present, no management or coordination activities have been formalised or exercised; Terna conducts its own operations directly or through its subsidiaries, and is managerially and contractually independent.

Subsequent Events

Terna and the 2010 photovoltaic project

On **January 29, 2010** the Board of Directors of SunTergrid, with a view to implementing the photovoltaic project under way, approved the sale to the subsidiary RTR of SunTergrid's plants for renewables generation for own consumption or sale, as well as all the assets, and contractual design, construction, operation, development and maintenance relationships related to those plants.
The transfer took effect as from February 1, 2010. The total amount paid came to €3.2 million.
The sale price is consistent with the market value of the transferred operations, as determined by an appraisal conducted by independent experts.
In order to give RTR the resources necessary to start operations, on the same date the Board of Directors of SunTergrid approved a capital contribution of €5.0 million to the subsidiary.

Italy-Montenegro intergovernmental agreement

On **February 6, 2010** Italy and Montenegro formalised an intergovernmental agreement committing the two countries to the construction of a new underwater electricity interconnection line and the implementation of a strong strategic partnership between their respective national transmission operators, Terna and Prenos, for investment in Montenegro's power grid. In particular, the partnership provides for Terna to take a stake of at least 22% in Prenos by way of a restricted recapitalisation, the designation of two of the seven board members by Terna and governance arrangements in which Terna will have a right of veto on strategic decisions.
Prenos, which was established on April 1, 2009 in a spin-off from Elektroprivreda Crne Gore - EPCG (the leading public energy company in Montenegro), holds three licenses: transmission operator, system operator and market operator.
As from April 6, 2009, Prenos shares have been listed on the local stock exchange.

The intergovernmental agreement is a key step for the completion of the deal between Terna and Prenos and, in view of the importance of the investment environment for the industrial development of the country, will be submitted to Montenegro's parliament for approval. In addition, the accord incorporates and strengthens the main elements of the term sheet signed in July 2009 by Terna and Prenos, which formally took effect with the approval of Montenegro's Council of Ministers on September 3, 2009.

Renewal and expansion of EMTN programme and new bond issues

On **February 17, 2010** the Board of Directors of Terna authorised the renewal and expansion from €2 to €4 billion of the existing EMTN programme and the issue in one or more tranches by March 31, 2011 of bonds in public or private placements of a total of €1.5 billion reserved for qualified investors in Italy or abroad either within the scope of the EMTN programme or outside that programme. The issues, to be denominated in euros or other currencies, may have a maximum term of 30 years.

2010-2014 Business Plan

On **February 18, 2010**, Terna presented the Company's 2010-2014 business plan to financial analysts, after approval of the plan by the Board of Directors on that same date.

The 2010-2014 plan of the Terna Group follows four main guidelines:
- sustainable growth: in the next five years a total of €4.3 billion will be invested, mainly to develop the power grid, an increase of €900 million or 26% over the level envisaged in the previous plan (€3.4 billion). Capital expenditure will also include more than €300 million for the photovoltaic project, bringing total budgeted expenditure to more than €4.6 billion;
- improved margins (EBITDA margin): increasing revenue and containing costs will improve Group profitability from the current 74% to 77% at the end of the period covered by the plan;
- a sound capital structure: during the period of the plan, net debt will remain below 60% of regulated capital employed;
- confirmation of dividend policy: the policy provides for minimum annual growth of 4%, taking 2008 as the base year and half-yearly coupons in respect of the interim dividend and the balance. In addition, a portion of the proceeds from the sale of Terna Participações (approximately €150 million) will be allocated to the above policy until 2012.

TELAT-Terna plant transfer for NTG development and upgrade purposes

On **March 3, 2010**, for the purpose of facilitating work on NTG development and upgrades, TELAT's board of directors authorised the transfer of a number of plants owned by the company to Parent Terna.
Pursuant to art. 6 of Presidential Decree no. 327/2001, the Ministry for Economic Development only empowers Terna to make compulsory purchases, since Terna, as the concession holder, is eligible to be thus mandated by the Ministry.
The rationalisation and upgrade activities principally concern Parent territorial organisational structures (Territorial Operating Areas) in Milan, Padua, Florence and Naples.
The overall value of the transaction, equal to the market value of the plants under transfer, corresponds to around €21.1 million.

Agreement with EIB to finance the SA.PE.I. project

On **March 18, 2010**, Terna S.p.A. signed an agreement with the European Investment Bank (EIB) for an additional loan of €73 million to connect Sardinia with the Italian peninsula via a high-voltage undersea cable at continuous 500 kW ("SA.PE.I."). This financing is in addition to the €300 million agreed on May 5, 2008. The new loan also has a 20-year term and is repayable in half-yearly instalments from the fifth year. The terms are highly competitive, with interest accruing at the annual six-month Euribor plus a spread of 40 basis points.

Outlook

The focus of 2010 will be on implementing the 2010-2014 business plan adopted by the Company's Board of Directors. Investments under the business plan will be targeted at reducing grid congestion and at removing bottlenecks caused by an increase in energy generated from renewable sources. The Company's objectives are increasingly oriented towards achieving operating efficiencies, ensuring the highest possible standards of transmission service, and ensuring increasingly efficient and secure management of electricity system energy flows. In 2010, the Company will also be focusing on developing its photovoltaic project, adding further value to the Group's assets. During the year, the Company expects to complete its acquisition of Retrasm S.r.l., which will enable the Terna Group to further consolidate the percentage of the NTG that it owns (rising to around 99%). In addition, the Company expects to make further progress in the agreement with the government of Montenegro, which covers the construction of an underwater interconnection cable, and a strategic partnership between Terna and the local transmission operator.

Annex

Italy's regulatory framework

Regulatory framework

Below is a brief description of the main regulatory measures that affected the Company in 2009.

Law no. 2 of January 28, 2009, "Urgent measures to support families, labour, employment and enterprise and to review the national strategic framework in order to tackle the crisis", published in the *Gazzetta Ufficiale* of January 28, 2009, no. 22, ordinary supplement no. 14.

Ministry for Economic Development Decree of April 29, 2009, "Guidelines and directives for the reform of electricity market regulations pursuant to art. 3, paragraph 10 of Law no. 2 of January 28, 2009. Boosting the development of organised forward markets and strengthening monitoring functions on the electricity markets", published in the *Gazzetta Ufficiale* of May 12, 2009, no. 108.
In implementation of Law no. 2 of 2009 ratifying Decree Law no. 185/08, the Ministry for Economic Development has adopted measures that set out guidelines for electricity market reform.

In summary, the directives call for:
- new rules for the Ancillary Services Market, which will become operational commencing on January 1, 2010, providing for: a) at least three sessions on the same day to which bids refer; b) presentation of differentiated bids for different times of day, structured to express a variation in the value of resources depending on the equalization or reserve service to which they refer; c) breakdown of charges on the ancillary services market among the different services;
- establishment of an Intra Day Market "comparable to a continuous trading market", which was scheduled to become operational from October 31, 2009; integration with the ancillary services market is scheduled no earlier than January 1, 2011;
- reform of energy prices on the Day Ahead Market, established "on the basis of the various asking prices offered on the market, in a binding manner, by each market operator and accepted by the Energy Markets Operator (EMO)". This reform shall become operational on April 1, 2012;
- provision by Terna of data on the network and plants, downtime and maintenance, on a monthly basis.

Ministry for Economic Development Decree of February 27, 2009, "Extension of the scope of the electricity transmission grid", published in the *Gazzetta Ufficiale* of March 23, 2009, no. 68.
Following Terna's acquisition of a 18,583 km section of grid from Enel Distribuzione, in implementation of applicable law the Ministry for Economic Development updated the scope of the national electricity transmission grid to reflect the new Terna-owned grid perimeter.

Law no. 13 of February 27, 2009, "Extraordinary measures regarding water resources and environmental protection", published in the *Gazzetta Ufficiale* of February 28, 2009, no. 49.

Law no. 15 of March 4, 2009, "Enabling authority granted to the Government to optimise productivity in the public sector, enhance efficiency and transparency in government departments, and additional measures concerning the functions allocated to the National Economic and Labour Council and the State Audit Court", published in the *Gazzetta Ufficiale* of March 3, 2009, no. 53.

Law no. 33 of April 9, 2009, "Urgent measures to support industrial sectors in difficulty", published in the *Gazzetta Ufficiale* of April 11, 2009, no. 85.
The legislation includes a number of significant amendments to regulations regarding the purchase of treasury shares by joint-stock companies, and changes to the provisions of Legislative Decree no. 58/98 concerning public tender offers.

Law no. 69 of June 18, 2009, "Measures concerning economic growth, simplification, competitiveness and civil court proceedings", published in the *Gazzetta Ufficiale* of June 19, 2009, no. 140.
The law guarantees that public service concession holders, such as Terna, will be called to participate in authorisation procedures regarding works carried out by third parties which may potentially affect the national electricity transmission grid infrastructure or impact Terna's own activities. Concessionaires are also ensured the opportunity to present their own petitions and requirements in the appropriate fora.
The law also grants the Government enabling authority, to be exercised no later than June 30, 2010, to make amendments to the Environmental Code on the initiative of the Ministry for the Environment. This may lead to changes in regulations concerning the assessment of environmental issues affecting individual Terna projects, and amendments to the electricity transmission grid Development Plan, including executive aspects regarding the reuse of excavated earth and rock.

Decree Law no. 78 of July 1, 2009, “Anti-crisis measures and extension of time limits and Italian participation in international missions", ratified with Law no. 102 of August 3, 2009 published in the *Gazzetta Ufficiale* of August 4, 2009, no. 179.

Law no. 88 of July 7, 2009, “Measures to discharge obligations in respect of Italy’s membership of the European Communities – the 2008 Community Law”, published in the *Gazzetta Ufficiale* of July 14, 2009, no. 161.

Legislative Decree no. 101 of July 17, 2009, “Amendments to Legislative Decree no. 58 of February 24, 1998 and Legislative Decree no. 164 of September 17, 2007 concerning financial intermediation and markets in financial instruments”, published in the *Gazzetta Ufficiale* of August 3, 2009, no. 178.

Law no. 99 of July 23, 2009, “Measures for the development and international expansion of businesses and measures concerning the energy field” published in the *Gazzetta Ufficiale* of July 31, 2009, no. 176.

Decree Law no. 103 of August 3, 2009, ratified with Law no. 141 of October 3, 2009, published in the *Gazzetta Ufficiale* of October 3, 2009, no. 230.
The Government has established that the power transmission grid infrastructure, which is urgently needed for the social and economic development of the country, shall be built using special resources and procedures. A Commissioner will be appointed for the projects specified in an order of the Council of Ministers with responsibility for taking the measures and actions necessary for the authorisation and implementation of the works. The Commissioner will have powers to depart from ordinary legislation and to substitute public bodies and departments that have not complied with statutory time limits.
The decree also introduced tax incentives for enterprises, including a tax exemption for profits reinvested in machinery and accelerated depreciation with the revision of depreciation rates on the part of the Ministry for the Economy and Finance by December 31, 2009.
Finally, the entry into force of the general rules governing class-action suits was postponed until December 31, 2009 and the validity of the transitional rules governing natural heritage permits envisaged under art. 159 of Legislative Decree no. 42/04 (the Cultural Heritage Code) was extended for a further six months until December.

Legislative Decree no. 106 of August 3, 2009, “Amendments to Legislative Decree no. 81 of April 9, 2008, concerning workplace health and safety” published in the *Gazzetta Ufficiale* of August 5, 2009, no. 180.

Ministry for Economic Development decrees dated October 16, 2009 and November 24, 2009, approving amendments to the regulation of the electricity market.
Amendments submitted by the Energy Markets Operator (“EMO”) were approved, implementing the provisions of art. 3, paragraph 10 of Decree Law no. 185/08, ratified as amended by Law no. 2/09, and complying with the electricity market reform guidelines adopted under the Ministerial Decree dated April 29, 2009.
The amendments approved envisage:
- establishment of an Intra Day Market which will allow operators to update bids for sales and purchases, along with their commercial positions in two sessions, at a frequency comparable to a continuous trading market;
- integration between the derivatives market run by Borsa Italiana and the forwards market, with regard to contracts for the physical delivery of energy overseen by the EMO.

Ministry for Economic Development Decree of December 18, 2009 regarding electricity imports in 2010.
This decree established the terms and conditions for energy imports in 2010. Available capacity over interconnections with France, Switzerland, Austria, Slovenia and Greece corresponds to 8,040 MW during winter daytime hours (weekdays).

Legislative Decree no. 198 of December 20, 2009 on “Implementation of art. 4 of Law no. 15 of March 4, 2009, concerning appeals regarding the efficiency of government and public service concession holders”, issued in the *Gazzetta Ufficiale* of December 31, 2009, no. 303.
The decree introduced class-action suits into Italian law, offering users an option via associations and committees of bringing an action before an administrative judge, who will then rule whether or not public concession holders have breached quality and financial standards regarding statutory or regulatory requirements or deadlines. Such actions are for assessment rather than compensatory purposes.
Application has been postponed until the subsequent adoption of a prime ministerial decree.

Summary of Authority for Electricity and Gas (AEEG) Resolutions

ARG/elt Resolution no. 52/09

In this measure, the Authority amended Resolution no. 111/06 in order to implement measures regarding the regulation of essential plants pursuant to art. 3, paragraph 11 of Law no. 2 of January 28, 2009.
In particular, the measure establishes:

- criteria for Terna to identify plants or groups of "essential plants" controlled by a single entity that are consequently subject to the regulations governing "essential plants";
- conditions for submitting market bids by entities controlling essential plants;
- specific mechanisms governing essential units designed to ensure cost minimisation for the system and fair remuneration for generators.

As regards dispatching rules, Terna is required to amend the Grid Code to incorporate the provisions contained in this measure regarding the regulation of essential plants, pursuant to the terms and conditions established under art. 6 of Resolution no. 111/06.

ARG/elt Resolution no. 74/09

In this measure, the Authority has established urgent provisions for calculating metering aggregation prices for dispatching purposes, which will be valid starting from the July 2009 metering aggregation fee.
Specifically, the Authority has taken the following steps:

- the extension through to the end of 2010 of Terna's recourse to distribution companies for metering aggregation pending final determination of the procedure for the selection of entities other than distribution companies;
- amendment of the fees paid to Terna and distribution companies by way of advance payment for the metering aggregation service, taking into account the economies of scale associated with an increase in the number of hourly points and the number of input points corresponding to small generation plants;
- definition of an aggregation fee for differentiated metering for input points corresponding to 74/08 units in order to reflect the different procedure under which Terna provides metering aggregation services for this type of point.

The Authority has postponed to a later provision the introduction of quality parameters for the performance of the aggregation service to which the fee and/or indemnities for ancillary service users would be linked.

ARG/elt Resolution no. 84/09

In this measure, from January 1, 2010, the Authority amended the provisions contained in Resolution no. 111/06, and set a new method for calculating aggregate zonal imbalancing. The methodology introduced under the resolution calculates zonal imbalancing solely with reference to actions taken by Terna on the Ancillary Services Market to balance electricity input and withdrawal within a macrozone. The new mechanism resolves a number of critical issues with the current system: prices will no longer be subject to adjustment as a result of adjustments to metering data, and it will be possible to calculate actual imbalancing prices on a close-to-real-time basis.

ARG/elt Resolution no. 89/09

With this measure the Authority established provisions concerning the provision of electricity dispatching services for grids that are not interconnected with the National Transmission Grid (the grids on the smaller islands), partly in order to implement the rules governing electricity sales services without discrimination between end users connected to grids with the obligation to connect third parties in areas interconnected with the National Transmission Grid and end users in areas not interconnected with the latter. The provisions will enter force as from January 1, 2010.

ARG/elt Resolution no. 90/09

With this measure the Authority, responding to complaints received by a number of generation companies, established that CIP 6 generation units and/or units producing both electricity and heat that are not authorised for dispatching, for which Terna has established generation restrictions for the purpose of ensuring the operational safety of the national electrical system, may exclude, for the purposes of implementing Resolutions nos. 27/99, 42/02 and 188/06, the period to which the generation restrictions imposed for the purpose of ensuring the operational safety of the national electrical system refer, as such restrictions are outside the control of the generators.
By January 31 of each year, Terna will transmit a register of the generation restrictions established for generation unit involved to the generator, to the dispatching customer, to the ESO and the Authority.

ARG/elt Resolution no. 91/09

In this measure, the Authority extended the deadline for the remuneration of electricity delivered to the grid by generators eligible for the dedicated withdrawal rules pursuant to Resolutions nos. 34/05 and 280/07. The measure regards generators who failed to submit the access application in time, and have since operated without a contract for input dispatching services.

As regards generating plants subject to dedicated withdrawal pursuant to Resolution no. 34/05, after auditing the data submitted by the generator in a specific application, Terna shall pay the generator a price equal to the sale price as defined in art. 4 of Resolution no. 34/05. Terna shall charge the associated costs to the fee for provisioning of resources on the Ancillary Services Market (uplift).

ARG/elt Resolution no. 104/09

In this measure, the Authority established urgent measures concerning the adjustment of the withdrawal allocation coefficients (CRPUs) for June 2009 and the related adjustment in order to minimise the financial exposure that dispatching users would otherwise incur as a result of the application of incorrectly calculated CRPUs. With the resolution, the Authority approved the special procedure proposed by Terna to resolve the issue, providing for a single application in conjunction with the settlement of dispatching fees for June 2009.

ARG/elt Resolution no. 107/09

With this measure, the Authority approved its integrated text of provisions governing the physical and financial settlement of dispatching services (TIS). The measure:

- unifies in a single, integrated text all measures concerning the monthly aggregation of metering, the attribution to each dispatching user of the electricity withdrawn from each non-hourly withdrawal point and settlement of the related dispatching fees;
- governs the processing of dispatching data where the distribution companies do not comply with the disclosure requirements concerning aggregation of metering. The new procedures are scheduled to be applied as from January 2010;
- supplements and, accordingly, repeals as from August 1, 2009 Resolution no. 278/07 - TILP and ARG/elt Resolution no. 29/08 as concerns, respectively, the conventional calculation by hourly timeband of the electricity withdrawn from non-hourly withdrawal points and the conventional calculation of electricity withdrawals by non-hourly public lighting users. The provisions will continue to be applied to the extent necessary and solely in respect of the settlement of items accruing before August 1, 2009;
- amends Resolution no. 111/06 with regard to the provisions concerning the provisioning of dispatching resources and the definition of conditions governing dispatching services as regards the registration of electricity purchases and sales and the corresponding delivery and withdrawal programmes for dispatching purposes, as well as the definition of unit dispatching fees. Accordingly, Chapter 3 concerning metering aggregation is repealed, as it is now integrated in the TIS;
- establishes that, as from August 1, 2009, the provisions of ARG/elt Resolution no. 178/08 regarding the treatment of deliveries for dispatching purposes shall be applied to the extent compatible with the TIS.

ARG/elt Resolution no. 130/09

With this measure, the Authority amended ARG/elt Resolution no. 99/08 (TICA) concerning the procedures and conditions for notification of delayed start of works on the construction of generation plants. More specifically, the resolution, in order to rationalise reporting flows concerning notification of delays in the construction of generation plants:

- eliminates the requirement for transmission of notifications to the Authority;
- extends the period for updating the state of progress report from 60 to 120 days;
- establishes that the Authority shall periodically request information on the state of progress from grid operators.

ARG/elt Resolution no. 140/09

With this measure, the Authority amended Resolution no. 111/06, extending the time limits envisaged in the latter concerning the provisions governing the essential plants referred to under art. 3, paragraph 11, of Law no. 2 of January 28, 2009. The change came in response to a recommendation from Terna, which had underscored the need to extend the deadline envisaged in art. 63, paragraph 63.4, of Annex A of Resolution no. 111/06 to October 15 in order to solicit comments on a modified version of the proposed amendment of the Grid Code. The purpose of the changes is to clarify the procedures for applying the provisions of ARG/elt Resolution no. 52/09 concerning generation and pumping plants.

ARG/elt Resolution no. 148/09

With this measure, the Authority amended Chapter 4 of Annex A of AEEG Resolution no. 48/04 of March 27, 2004, containing measures for ensuring adequate generating capacity in the national electricity system, with effect for 2009. The resolution confirmed the current transitional mechanism and set the fee for the remuneration for generating capacity availability for the period between January 1 and December 31, 2009, and in any event prior to introduction of the remuneration system established under art. 1 of Legislative Decree no. 379/03.

ARG/elt Resolution no. 154/09

With this measure, the Authority issued directives to Terna concerning the allocation of the difference between income and charges arising from the settlement of income statement items generated by settlement adjustments for 2008. Specifically, this balance was set aside to reduce charges acknowledged in Resolutions nos. 283/05, 305/06, 98/07, 128/07 and 257/07 incurred by the Company in participating in mechanisms for covering the costs of transit on foreign electricity grids relating to the cross-border trade in electricity (Inter TSO compensation - ITC Agreement).

ARG/elt Resolutions nos. 162/09 and 183/09

With these measures, the Authority intervened with regard to plants essential to electricity system security, in implementation of ARG/elt Resolution no. 52/09. Specifically, the Authority has:

- established quantity and price reference parameters to be inserted into contracts that essential plant owners intend to sign with Terna in order to fulfil their offer obligations arising out of ownership of essential plants;
- approved the contractual proposals made by Terna contained in art. 65 *bis*, paragraph 65 *bis* 5 of Annex A to Resolution no. 111/06, having verified their compliance with the measures contained in ARG/elt Resolution no. 162/09, and with the principles and purposes set out in art. 65 *bis*, Annex A to Resolution no. 111/06.

ARG/elt Resolutions nos. 179/09 and 195/09

With regard to the interconnectors pursuant to art. 32 of Law no. 99 of July 23, 2009, in ARG/elt Resolution no. 179/09 the Authority defined the transitional measures and associated fees which, in view of the end of the agency contract for the planning and design of interconnectors, and up until such time as these interconnectors enter into service, and in any event for a period not exceeding six years, enable the execution of any cross-border electricity provisioning contracts regarding supply to withdrawal points belonging to end customers selected by Terna. These transitional measures include the introduction of a virtual import service undertaken by one or more “shippers” selected on an annual basis by Terna through a competitive process.

ARG/elt Resolution no. 181/09

With this measure, the Authority issued a favourable assessment of the proposals to amend Chapters 3, 4 and 7 of the Grid Transmission, Dispatching, Development and Security Code, and associated Annexes A.22, A.23, A.26, A.31 and A.60 drafted by Terna – which had been put out to prior consultation to the operators concerned, and to the Users’ Consultative Committee pursuant to the Prime Minister’s Decree of May 11, 2004 – in implementation of the provisions contained in Law no. 2/09, the Decree of April 29, 2009 and ARG/elt Resolutions nos. 52/09 and 107/09. These documents, which follow the instructions contained in the above-mentioned measures with regard to reform of the dispatching services market and essential plants, went into effect on January 1, 2010.

VIS Resolutions nos. 168/09 and 171/09

With these measures, the Authority closed the preliminary enquiry launched under Resolution no. 177/07 regarding anomalies detected in the calculation of amounts of electricity withdrawn from the National Transmission Grid which were not correctly allocated to dispatch users, and has prompted the start of a formal investigation into Terna and a number of electricity distribution companies for the purpose of assessing whether or not Authority measures have been breached regarding the supply of transmission, dispatching and electricity metering services, and the imposition of administrative fines pursuant to art. 2, paragraph 20, letter c) of Law no. 481/95.

ARG/elt Resolution no. 194/09

With this measure, the Authority approved the France-Italy, Switzerland-Italy, Austria-Italy, Slovenia-Italy and Greece-Italy interconnection access rules for 2010 (the Auction Rules) and the regulatory framework governing application methods for managing interconnection network congestion for 2010 (Italian congestion management) drafted by Terna.

ARG/elt Resolution no. 201/09

With this measure, the Authority issued provisions regarding Terna's procedures for the forward provisioning of interruptible resources for 2010, pursuant to art. 30, paragraph 18 and art. 32, paragraphs 8 and 9 of Law no. 99 of July 23, 2009. Specifically, the resolution provides for:

- release of interruptibility allowances from March 2010 pursuant to art. 32, paragraph 8 of Law no. 99/09;
- voluntary termination, allowing owners of interruptibility allowances to wind up current contracts with Terna valid until December 31, 2010, thereby reducing fees, from March 2010. This provision is a consequence of Law no. 99/09, which maintained current contracts with beneficiaries until February 2010;
- methods for Terna to allocate interruptible capacity. Allocations must be made through descending price bidding, starting from the values cited in Resolution no. 289/06, with the exception of values corresponding to temporary release, for which previously-effective procedures shall apply.

ARG/elt Resolution no. 203/09

With this measure, the Authority updated pricing for the supply of transmission, distribution and electricity metering services to cover 2010. In particular, the Authority updated the grid transmission fees and grid transmission fee elements (respectively to 0.388 c€/KWh and 0.051 c€/KWh), partly to compensate for the elimination of transmission fees payable by generators pursuant to the provisions of art. 33, paragraph 5 of Law no. 99/09.

ARG/elt Resolution no. 204/09

With this measure, the Authority updated certain dispatching fees for 2010, including the fee covering costs payable for Terna's operations (DIS), which has been set at 0.0164 c€/kWh. For this item, the Authority further confirmed the adoption of an optional guarantee mechanism on levels of revenue payable to the transmission service under ARG/elt Resolution no. 188/08.

ARG/elt Resolution no. 213/09

With this measure, the Authority amended Resolution no. 351/07, which defines the remuneration incentive mechanisms for Terna S.p.A. to procure resources for the electricity dispatching service, identifying the quantity of resources procured by Terna on the Ancillary Services Market as the variable for measuring Terna's performance.

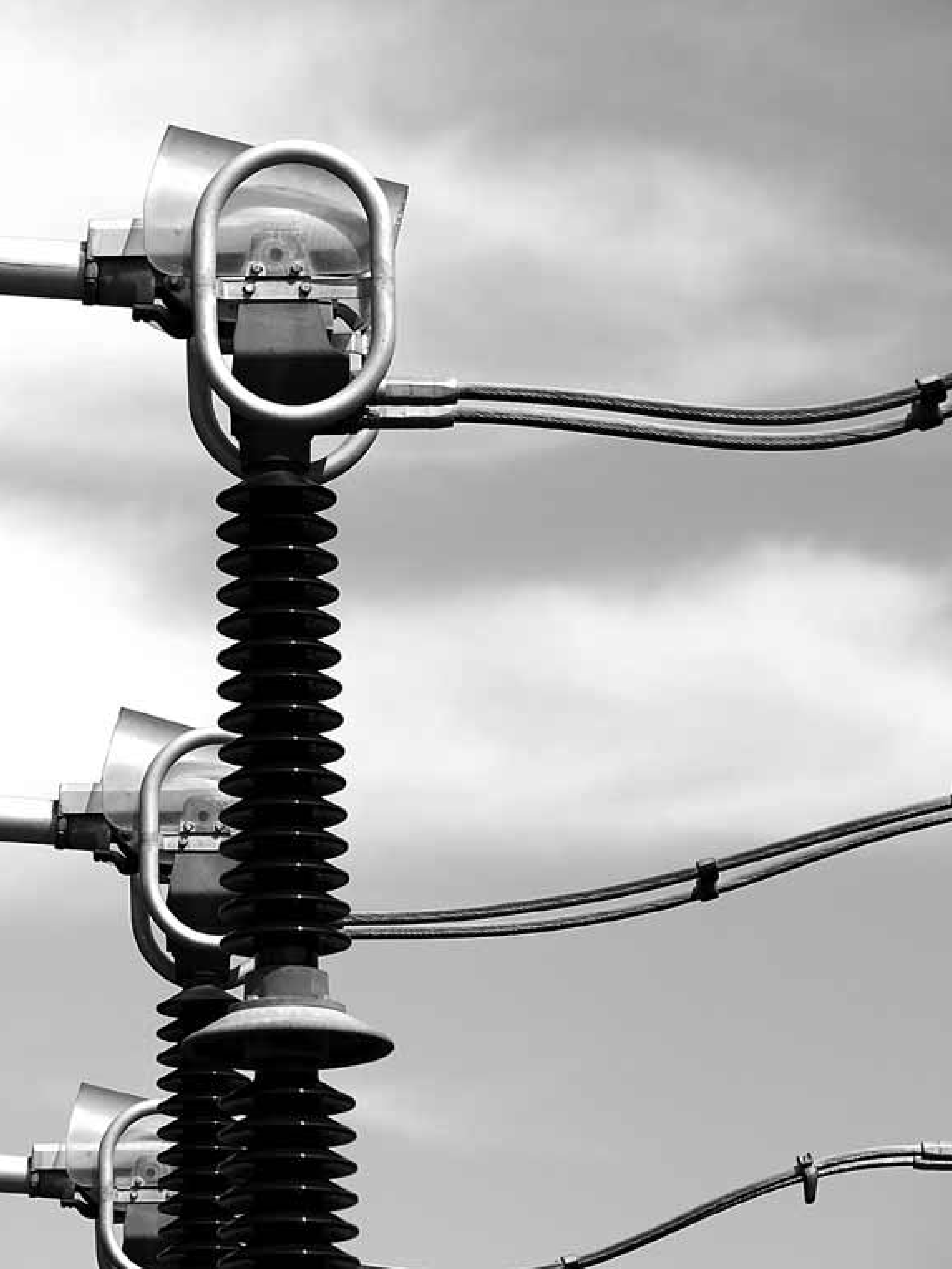
The resolution introduces a multi-year incentive scheme (covering the years 2010-2012), and does not include a ceiling on the overall incentive payable. Furthermore, the resolution confirms the main conditions – already applied in 2009 – with which Terna must comply in order to receive the bonus: maintain security standards, conduct effective monitoring, and implement the process for reviewing Ancillary Services Market offering selection algorithms.

ARG/elt Resolution no. 214/09

With this measure, the Authority modified for 2010 a number of measures pursuant to Resolution no. 111/06 regarding the supply of the dispatching service, and pursuant to ARG/elt Resolution no. 107/09 (TIS).

Among other things, the resolution:

- updated for 2010 the ITC fee to cover expenses arising from Terna’s participation in mechanisms for covering the costs of transit on foreign electricity grids, at a rate of 0.014 c€/kWh;
- called for application of a discount per consumption unit in the calculation of the imbalance fees (a threshold beneath which imbalances for consumption units are valued at the Day Ahead Market price), corresponding to 1% of the modified obligatory programme for withdrawals from the dispatching point for 2010;
- extended through 2010 a number of provisional measures regarding, for example, deadlines for calculating and invoicing fees;
- made certain amendments to the TIS.



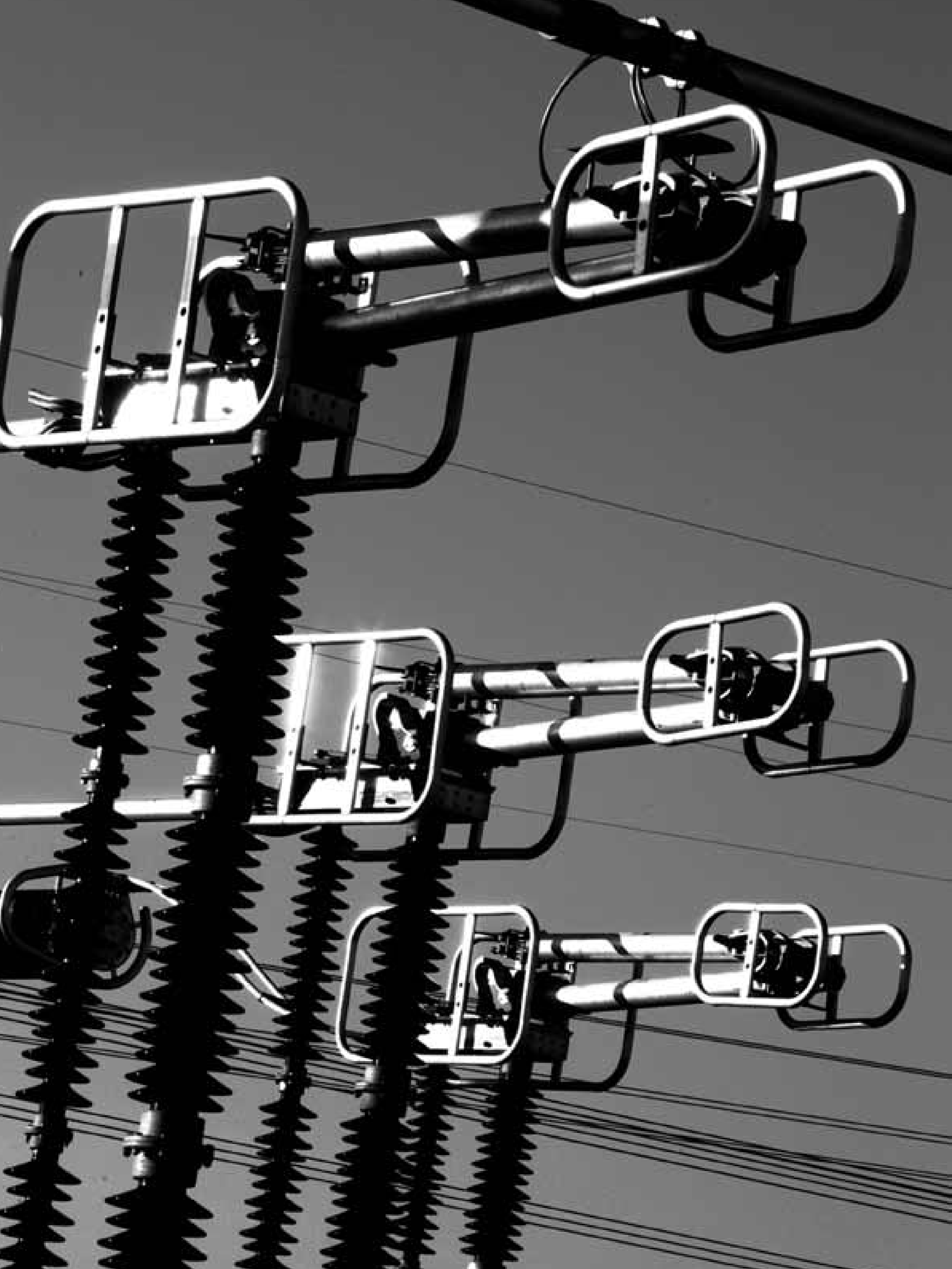
Separate financial statements

at December 31, 2009

Terna

Contents

Separate financial statements at December 31, 2009



Financial statements

Terna S.p.A. income statement

In euros	Notes	2009	2008	Change
A. Revenue				
1. Revenue from sales and services	1	1,253,209,420	1,151,965,436	101,243,984
of which from related parties		*1,303,984,808*	*1,421,383,510*	*-117,398,702*
2. Other revenue and income	2	42,014,718	44,115,212	-2,100,494
of which from related parties		*2,362,640*	*4,028,935*	*-1,666,295*
Total revenue		**1,295,224,138**	**1,196,080,648**	**99,143,490**
B. Operating expenses				
1. Raw materials and consumables	3	17,761,536	11,837,019	5,924,517
of which to related parties		*127,032*	*30,885*	*96,147*
2. Services	4	126,298,390	110,672,390	15,626,000
of which to related parties		*7,944,583*	*10,028,635*	*-2,084,052*
3. Personnel expense	5	182,288,425	201,161,582	-18,873,157
- gross personnel expense		244,066,884	254,092,509	-10,025,625
- capitalised personnel costs		-61,778,459	-52,930,927	-8,847,532
of which to related parties		*3,352,215*	*2,068,775*	*1,283,440*
4. Amortisation, depreciation and impairment losses	6	296,288,921	255,304,617	40,984,304
5. Other operating expenses	7	18,220,056	19,851,463	-1,631,407
of which to related parties		*626,025*	*493,449*	*132,576*
Total expenses		**640,857,328**	**598,827,071**	**42,030,257**
A-B Operating profit		**654,366,810**	**597,253,577**	**57,113,233**
C. Financial income/expense				
1. Financial income	8	31,420,051	21,597,608	9,822,443
of which from related parties		*5,333,666*	*0*	*5,333,666*
2. Financial expense	8	-180,531,811	-145,708,480	-34,823,331
of which to related parties		*1,318,345*	*17,614*	*1,300,731*
D. Profit before taxes		**505,255,050**	**473,142,705**	**32,112,345**
E. Income taxes	9	179,443,183	174,623,989	4,819,194
F. Profit for the year from continuing operations		**325,811,867**	**298,518,716**	**27,293,151**
G. Profit for the year from discontinued operations and assets held for sale	**10**	**464,231,668**	**36,772,272**	**427,459,396**
H. Profit for the year		**790,043,535**	**335,290,988**	**454,752,547**

Terna S.p.A. statement of comprehensive income

In euros	Notes	2009	2008	Change
Profit for the year		**790,043,535**	**335,290,988**	**454,752,547**
Other components of comprehensive income				
Cash flow hedges net of tax effect	*22*	*-11,938,311*	*-47,427,361*	*35,489,050*
Comprehensive income for the year		**778,105,224**	**287,863,627**	**490,241,597**

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

In euros	Notes	at Dec. 31, 2009	at Dec. 31, 2008	Change
A. Non-current assets				
1. Property, plant and equipment	11	5,976,355,967	5,415,610,567	560,745,400
of which from related parties		*15,340,771*	*21,102,250*	*-5,761,479*
2. Goodwill	12	88,577,142	88,577,142	0
3. Intangible assets	13	176,184,870	167,202,001	8,982,869
4. Deferred tax assets	14	0	0	0
5. Non-current financial assets	15	1,198,860,941	331,526,685	867,334,256
of which from related parties		*500,000,000*	*0*	*500,000,000*
6. Other non-current assets	16	5,539,468	4,644,397	895,071
Total non-current assets		**7,445,518,388**	**6,007,560,792**	**1,437,957,596**
B. Current assets				
1. Inventories	17	11,707,939	16,640,688	-4,932,749
2. Trade receivables	18	1,177,146,436	1,705,981,614	-528,835,178
of which from related parties		*130,665,643*	*102,310,484*	*28,355,159*
3. Current financial assets	15	503,278,695	6,739,656	496,539,039
of which from related parties		*2,684,770*	*0*	*2,684,770*
4. Cash and cash equivalents	19	81,468	689,183,999	-689,102,531
5. Tax assets	20	18,372,343	25,848,954	-7,476,611
6. Other current assets	16	26,521,078	21,096,407	5,424,671
of which from related parties		*1,088,319*	*0*	*1,088,319*
Total current assets		**1,737,107,959**	**2,465,491,318**	**-728,383,359**
C. Discontinued operations and assets held for sale	**21**	**57,367**	**0**	**57,367**
Total assets		**9,182,683,714**	**8,473,052,110**	**709,631,604**

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

In euros	Notes	at Dec. 31, 2009	at Dec. 31, 2008	Change
D. Equity				
1. Share capital		440,199,936	440,199,936	0
2. Other reserves		758,627,068	770,565,378	-11,938,310
3. Retained earnings		619,512,997	600,365,600	19,147,397
4. Interim dividend		-140,063,616	-118,453,801	-21,609,815
5. Profit for the year		790,043,535	335,290,988	454,752,547
Total equity	**22**	**2,468,319,920**	**2,027,968,101**	**440,351,819**
E. Non-current liabilities				
1. Long-term loans	23	4,199,231,857	3,646,940,434	552,291,423
2. Employee benefits	24	125,067,204	153,929,935	-28,862,731
3. Provisions for contingencies and charges	25	147,861,138	81,603,585	66,257,553
4. Deferred tax liabilities	26	276,355,306	310,821,642	-34,466,336
5. Non-current financial liabilities	23	82,553,826	66,685,904	15,867,922
6. Other non-current liabilities	27	151,567,857	150,381,569	1,186,288
of which to related parties		*0*	*783,412*	*-783,412*
Total non-current liabilities		**4,982,637,188**	**4,410,363,069**	**572,274,119**
F. Current liabilities				
1. Short-term loans	23	42,632,206	503,487	42,128,719
of which to related parties		*2,640,220*	*503,487*	*2,136,733*
2. Current portion of long-term loans	23	59,689,067	44,617,297	15,071,770
3. Trade payables	28	1,487,642,509	1,874,362,814	-386,720,305
of which to related parties		*45,910,293*	*52,218,309*	*-6,308,016*
4. Tax liabilities	28	20,825,680	0	20,825,680
5. Current financial liabilities	23	25,524,303	32,510,479	-6,986,176
of which to related parties		*1,156,250*	*0*	*1,156,250*
6. Other current liabilities	28	95,412,841	82,726,863	12,685,978
of which to related parties		*5,517,902*	*6,981,501*	*-1,463,599*
Total current liabilities		**1,731,726,606**	**2,034,720,940**	**-302,994,334**
Total equity and liabilities		**9,182,683,714**	**8,473,052,110**	**709,631,604**

Statement of changes in equity

DECEMBER 31, 2008-DECEMBER 31, 2009 TERNA S.P.A. SHARE CAPITAL AND RESERVES

In millions of euros	Share capital	Legal reserve	Share premium reserve	Cash flow hedge reserve	Other reserves	Retained earnings	Interim dividend	Profit for the year	Equity
Equity at December 31, 2008	**440.2**	**88.0**	**1.8**	**-49.3**	**730.1**	**600.4**	**-118.5**	**335.3**	**2,028.0**
Profit for the year								**790.0**	**790.0**
Other components of comprehensive income:									
Change in the fair value of cash flow hedge derivatives net of tax effect				-11.9					-11.9
Total other components of comprehensive income	**0.0**	**0.0**	**0.0**	**-11.9**	**0.0**	**0.0**	**0.0**	**0.0**	**-11.9**
Comprehensive income	**0.0**	**0.0**	**0.0**	**-11.9**	**0.0**	**0.0**	**0.0**	**790.0**	**778.1**
Transactions with equity owners:									
Allocation of 2008 profit									
- 2008 dividends							*118.5*	*-316.2*	*-197.7*
- Retained earnings - 2008						*19.1*		*-19.1*	*0.0*
Exercise of stock options									0.0
Interim dividends							-140.1		-140.1
Total transactions with equity owners	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**19.1**	**-21.6**	**-335.3**	**-337.8**
Equity at December 31, 2009	**440.2**	**88.0**	**1.8**	**-61.2**	**730.1**	**619.5**	**-140.1**	**790.0**	**2,468.3**

DECEMBER 31, 2007-DECEMBER 31, 2008 TERNA S.P.A. SHARE CAPITAL AND RESERVES

In millions of euros	Share capital	Legal reserve	Share premium reserve	Cash flow hedge reserve	Other reserves	Retained earnings	Interim dividend	Profit for the year	Equity
At December 31, 2007	**440.1**	**88.0**	**0.8**	**-1.9**	**730.1**	**474.2**	**-112.0**	**406.7**	**2,026.0**
Adjustment of opening balances	0.0	0.0	0.0	0.0	0.0	0.2	0.0	1.4	1.6
Equity at December 31, 2007	**440.1**	**88.0**	**0.8**	**-1.9**	**730.1**	**474.4**	**-112.0**	**408.1**	**2,027.6**
Profit for the year								**335.3**	**335.3**
Other components of comprehensive income:									
Change in the fair value of cash flow hedge derivatives net of tax effect				-47.4					-47.4
Total other components of comprehensive income	**0.0**	**0.0**	**0.0**	**-47.4**	**0.0**	**0.0**	**0.0**	**0.0**	**-47.4**
Comprehensive income	**0.0**	**0.0**	**0.0**	**-47.4**	**0.0**	**0.0**	**0.0**	**335.3**	**287.9**
Transactions with equity owners:									
Allocation of 2007 profit									
- 2007 dividends							*112.0*	*-302.1*	*-190.1*
- Retained earnings - 2007						*106.0*		*-106.0*	*0.0*
Exercise of stock options	0.1		1.0						1.1
2008 interim dividend							-118.5		-118.5
RTL merger contribution						20.0			20.0
Total transactions with equity owners	**0.1**	**0.0**	**1.0**	**0.0**	**0.0**	**126.0**	**-6.5**	**-408.1**	**-287.5**
Equity at December 31, 2008	**440.2**	**88.0**	**1.8**	**-49.3**	**730.1**	**600.4**	**-118.5**	**335.3**	**2,028.0**

Statement of cash flows*

In millions of euros	Dec. 31, 2009	Dec. 31, 2008
Profit for the year	**790.0**	**335.3**
Adjustments for:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and non-current intangible assets**	272.9	245.4
Accruals to provisions (including employee-related provisions) and impairment losses	114.0	54.5
(Gains)/Losses on disposal of property, plant and equipment	-1.9	-2.9
Financial (income)/expenses	123.9	85.1
Income taxes	184.7	175.0
Cash flows generated by operating activities, before changes in net working capital	**1,483.6**	**892.4**
Decrease in provisions (including employee-related and tax provisions)	-72.7	-44.9
Deferred tax liabilities and provisions for contingencies and charges – merger contribution	0.0	30.0
(Increase)/Decrease in inventories	4.9	-4.0
(Increase)/Decrease in trade receivables and other current assets	537.3	-156.4
Increase/(Decrease) in other non-current liabilities	9.6	2.1
Increase/(Decrease) in other non-current assets	-143.4	-191.5
Deferred tax assets – merger contribution	0.0	-1.0
Increase/(Decrease) in trade payables and other liabilities	-309.0	252.9
Interest income and other financial income received	139.4	191.7
Interest expense and other financial expenses paid	-227.1	-255.1
Taxes paid	-174.0	-217.4
Cash flows generated by operating activities [a]	**1,248.6**	**498.8**
Investments in property, plant and equipment, net of recognised grants	-816,8	-720.2
Property, plant and equipment – merger contribution	0.0	-411.0
Revenue from sale of property, plant and equipment and intangible assets	7.4	9.2
Investments in intangible assets	-40.6	-28.9
Goodwill – merger contribution	0.0	-88.6
(Increase)/Decrease in investments	-359.6	-0.6
Elimination of investment in respect of merger	0.0	449.3
Equity investments in assets held for sale	-0.1	0.0
Cash flows generated by investing activities [b]	**-1,209.7**	**-790.8**
Increase in reserves	0.3	1.3
Retained earnings – merger contribution	0.0	20.0
Dividends paid	-337.8	-308.6
Increase of share capital	0.0	0.1
Changes in short- and medium/long-term financial payables and loans (including short-term portions)***	109.5	1,137.3
Change in short-term financial investments	-500.0	0.5
Cash flows generated by financing activities [c]	**-728.0**	**850.6**
Increase/(Decrease) in cash and cash equivalents [a+b+c]	**-689.1**	**558.6**
Opening cash and cash equivalents	689.2	130.6
Closing cash and cash equivalents	0.1	689.2

(*) See the section in the notes "Notes to the statement of cash flows" for comments.
(**) Net of grants related to plant taken to income statement for the year.
(***) Net of fair value hedges (FVH).

Notes to the separate financial statements

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A., which operates in the electrical energy transmission and dispatching sector, is a public limited company headquartered in Viale Egidio Galbani 70, Rome, Italy.
These financial statements were approved for publication by the Directors on March 19, 2010.
The financial statements as of and for the year ended December 31, 2009 are available upon request at the Terna S.p.A. registered offices in Viale Egidio Galbani 70, Rome, or at the company web site www.terna.it.

Compliance with IAS/IFRS

The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) 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 separate financial statements have also been prepared considering the provisions of Legislative Decree no. 38 of February 28, 2005, the Italian Civil Code and CONSOB Resolutions nos. 15519 (*"Provisions governing financial statements in implementation of art. 9, paragraph 3, of Legislative Decree no. 38/2005"*) and 15520 *("Amendments to the implementing rules for Legislative Decree no. 58/1998"*), both of July 27, 2006, as well as CONSOB Communication no. DEM/6064293 of July 28, 2006 ("*Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public referred to in art. 116 of the Consolidated Law on Financial Intermediation*").

The separate financial statements have been prepared on a historic cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis. The Company has determined that, despite the challenging economic and financial environment, it does not face material uncertainties (as defined in paragraph 25 of IAS 1) that might cast doubt on its ability to continue as a going concern.

Basis of presentation

The separate financial statements are composed of the statement of financial position, the income statement, the statement of cash flows, the statement of changes in equity and the notes thereto.
In the statement of financial position, assets and liabilities are classified on a "current/non-current" basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Group's normal operating cycle. Current liabilities are those expected to be settled in the Group's normal operating cycle or within one year from the reporting date.

The income statement is classified on the basis of the nature of costs. The income statement is now presented as two statements, the first of which (income statement) presents the components of profit or loss for the period; while the second (statement of comprehensive income) starts with the result for the year and then presents the revenue and expense items (including reclassification adjustments) that are recognised in equity rather than profit or loss for the year.
The statement of cash flows has been prepared using the indirect method.
The separate financial statements are accompanied by the Directors' Report for Terna S.p.A. and the Terna Group, which as from the 2008 financial year has been prepared as a single document, exercising the option granted under Legislative Decree no. 32 of February 2, 2007, which amended art. 40 (Directors' Report) of Legislative Decree no. 127 of April 9, 1991.

In the statement of financial position, 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 realisation, sale or consumption in the Company's normal operating cycle. Current liabilities are those expected to be settled in the Company's normal operating cycle or within one year from the reporting date.
The 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 recognised at fair value in accordance with IFRS-EU, as indicated in the accounting policies for each caption.

On **November 3, 2009**, in implementation of the sale agreement signed on April 24, 2009 between Terna S.p.A., Cemig Geração e Transmissão S.A. (“Cemig GT”) and Companhia Energética de Minas Gerais (“Cemig”), the sale of the equity investment held by Terna in Terna Participações S.A. to TAESA S.A. (“TAESA”), a company held by Cemig GT and FIP (Fundo de Investimento em Participações) Coliseu, which brings together a number of Brazilian investors, was completed. As discussed in more detail in the section “Significant events in 2009” of the Directors’ Report and in the section on “Profit for the year from discontinued operations and assets held for sale” in these notes, the overall price in the transaction disposal, net of hedges (including non-hedge-accounting positions) carried out as from the signing date of the agreement, was equal to €797 million, for a net capital gain of €384.7 million and total net dividends recognised for the year of €72.2 million.

As described in the section “Discontinued operations and non-current assets held for sale”, the profit and loss effects (and dividends distributed up to the sale date) of the sale have been reported under “Profit for the year from discontinued operations and assets held for sale” for 2009 and, for comparative purposes, the previous year (with particular regard to dividends).

The comparative income statement figures for 2008, have also been reclassified to improve the allocation of capitalised costs to the value of items of property, plant and equipment. More specifically, the 2008 amount of “Capitalised internal work” was transferred to a specific sub-item of “Personnel expense” and to “Raw materials and consumables” as appropriate.

Please note that certain comparative prior year balances have been reclassified for a better and more accurate comparative representation without, however, modifying the figures for equity at December 31, 2008 and the income statement for 2008.

Use of estimates

The preparation of the statement of financial position and income statement in accordance with the 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 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 and the effects are recognised through profit or loss 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 the IFRS endorsed by the European Commission that could have significant effects on the separate financial statements or that could give rise to risks that would entail significant adjustments to the carrying amounts of assets and liabilities in subsequent years are summarised below.

Employee benefits

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

Provisions for contingencies and charges

Accruals to the provisions for contingencies and charges are recognised 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 financial effect of the passage of time is material, accruals are measured by discounting the estimated outflow at a pre-tax discount rate that reflects current market assessments of the time value of money and, if applicable, the risks specific to the liability. Any increase in provisions associated with the passage of time is taken to the income statement under “Financial expense”.

The provision for bad debts

Trade receivables are initially recognised at fair value net of any impairment losses relating to sums considered non recoverable, which are taken to the specific 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 analysed at least once a year to check for indications of impairment. If there is evidence 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 in entities over which Terna has the power to directly or indirectly govern financial and operating policies so as to obtain benefits from their activities. Investments in associates are those in entities over which Terna has significant influence.
In assessing whether or not the Company has control or significant influence, potential voting rights that are presently exercisable or convertible are considered.

Investments in subsidiaries and associates are measured at cost, reduced to reflect impairment losses. If the reasons for the impairment losses no longer exist, the carrying amount of the investment is reinstated within the limits of the impairment losses, and the reversal is taken to profit or loss.
In the event that an investee's losses attributable to the shareholders of the Parent exceed that investments' carrying amount, any excess is recognised 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, which is also the functional currency. In these financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at year end. Any exchange rate differences are taken to profit or loss.

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

Business combinations

All business combinations, including acquisitions of minority interests in entities over which control is already held, are recognised using the purchase method, where purchase cost is equal to the fair value, at the date of exchange, of assets sold and liabilities incurred or assumed, plus any costs directly attributable to the combination. This cost is allocated by recognising 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 recognised as goodwill or, if negative, taken to profit or loss, after having verified once again that the current values of assets acquired and liabilities assumed 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 realised on the disposal in excess of goodwill subsequently realised is taken to profit or loss.

Property, plant and equipment

Property, plant and equipment is recognised at historic cost, including costs directly attributable to putting the asset in the condition necessary for it to be capable of operating in the manner for which it was acquired. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of disposal or removal of the asset. The corresponding liability is recognised in the provisions for contingencies and charges. Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation pursuant to IAS 23R are capitalised as part of the cost of the asset. For more information, please see the section “Financial income and expense” below.
Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Company and if the cost can be reliably measured. All other costs are recognised in profit or loss when incurred.

Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognised and depreciated separately.
Certain assets that were revalued at January 1, 2005 (transition date) or previously are recognised at the revalued amount, which is considered deemed cost at the date of the revaluation.

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

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

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

DEPRECIATION RATE	
Civil and industrial buildings	2.50%
Power lines	2.50%
Transformer stations:	
Electrical machinery	2.38%
Electrical devices and equipment	3.13%
Automation and control systems	6.70%
Central systems for remote management and control:	
Devices, electrical equipment and ancillary plants	5.00%
Electronic calculation equipment	10.00%

Land, regardless of whether it is free of construction or related to civil and industrial buildings, is not depreciated, since it has an indefinite useful life.
Property, plant and equipment acquired under finance leases, through which the Company has acquired 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 in full to profit or loss over the term of the lease.

The concession granted free of charge to the Company, with effect from November 1, 2005, by the Ministry of Productive Activities to carry out electricity transmission and dispatching activities in Italy, runs for twenty-five years and is renewable for another twenty-five years. Under the provisions of artt. 18 and 19 of the Decree issued by the Ministry of Productive 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 plant (lines and stations) that makes 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 the most appropriate parameters at that date, assessing the value of the assets and their income generating capacity.

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

As specified below, in March 2009 the European Commission endorsed IFRIC Interpretation 12 Service Concession Arrangements (published in November 2006 by IFRIC - International Financial Reporting Interpretations Committee). Our analysis – still under way – concerning the applicability and any effects of the adoption of this interpretation on the Group financial statements suggests so far that transmission activities would be excluded from the scope of application of IFRIC 12. Conversely, the property, plant and equipment serving dispatching activities would be subject to the treatment specified in IFRIC 12 and will therefore be reclassified under intangible assets.

Intangible assets

Intangible assets, which all have finite useful lives, are recognised at cost, having obtained the approval of the Board of Statutory Auditors, and shown net of accumulated amortisation and any impairment losses, measured as described below. Amortisation begins when the asset becomes available for use and is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions are applied on a prospective basis.

Intangible assets substantially regard the exclusive concession to carry out electricity transmission and dispatching activities and other intangible assets. In particular, Terna S.p.A. obtained the concession for electricity transmission and dispatching activities in Italy on November 1, 2005 when it acquired the TSO business unit. As established in the Decree issued by the Ministry of Productive 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 recognised at cost, which reflected fair value.

Other intangible assets mainly relate to the following:
- the development and evolution of application software to manage the energy invoicing process;
- the development and evolution of application software to protect the electrical system;
- software applications related to the development of the Power Exchange, particularly relating to the registration of operators, consumption units and the development of foreign procedures.

Development costs are capitalised by the Company only if all following conditions are met: costs can be reliably estimated and there are technical possibilities and intent to complete the intangible asset so as for it to be available after use; the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits. All other development costs and research expenses are recognised in profit or loss when incurred.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset pursuant to IAS 23R are capitalised as part of the cost of the asset. For more information, please see the section "Financial income and expense" below.
These intangible assets are amortised over their estimated residual useful life, which is 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 evidence of impairment. If there is an indication that an asset may be impaired, its recoverable amount is estimated.

The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually.
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.
If the intangible asset does not generate cash inflows that are largely independent, the asset's recoverable amount is calculated as part of the CGU to which it belongs.
An impairment loss is recognised in the income statement when the asset's 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 up to the recoverable amount if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure recoverable amount.

Inventories

Inventories are recognised and measured at the lower of purchase cost and net estimated realisable value. Cost is calculated as the weighted average cost, including related charges. Net estimated realisable value stands for the estimated price of sale under normal conditions net of completion costs and the estimated costs to sell.

Contract work in progress (construction contracts)

When the profit or loss on a contract can be reliably estimated, the related contract costs and revenue are recognised 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 ratio of costs for the works carried out up to reporting date and total cost of the contract (cost-to-cost).
Differences between the value of completed contracts and payments on account received are recognised under statement of financial position assets or liabilities, considering any impairment losses on the work carried out so as to take into account the risks of customers' refusal to recognise the work performed. Expected contract losses are immediately taken to profit or loss.
Contract costs include all those costs that relate directly to the specific contract, as well as fixed and variable costs incurred as part of normal operations.

Financial instruments

Financial assets

Any financial assets other than financial derivatives that the Company has the positive intention and ability to hold to maturity are recognised at cost at the settlement date, which is the fair value of the initial consideration given in exchange, including transaction costs.
They are subsequently measured at amortised cost, using the effective interest method, net of any impairment losses, which are determined as the lower of the asset's carrying amount and the present value of estimated future cash flows, discounted using the original interest rate. The amount of impairment losses is taken to profit or loss for the year. Financial assets are derecognised when, following their transfer or settlement, the Company is no longer involved in their management and no longer holds the risks and rewards of the transferred or settled instruments.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method, and net of any impairment losses due to sums considered non-recoverable, which are taken to the specific 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.
Receivables with due dates that fall under normal commercial terms are not discounted.

Cash and cash equivalents

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

Trade payables

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

Financial liabilities

Financial liabilities other than financial derivatives are initially recognised at the settlement date and measured at fair value, net of directly related transaction costs.
Subsequently, financial liabilities are measured at amortised cost, using the original effective interest method. If the liabilities are covered by fair value hedges, they are adjusted to reflect changes in fair value with respect to the hedged risk.

Derivative financial instruments

Derivatives are recognised at fair value at the trade date and classified as hedges if the relationship between the derivative and the hedged item is formally documented and the hedge is highly effective within a range of 80% to 125%, as initially verified and periodically checked. When derivatives cover the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the part of changes in the fair value qualifying as effective is initially taken to equity and subsequently to profit or loss, in line with the effects of the hedged transaction. The portion of the fair value of the hedging instrument that does not qualify as effective is taken to profit or loss.
When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value through profit or loss. 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 pursuant to the IFRS-EU are recognised in profit or loss.
Fair value is measured on the basis of official quotations for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve of interest rates at the reporting date, and by converting amounts in currency other than the euro at the year-end exchange rate.
Financial and non-financial contracts (which are not already measured at fair value) are also analysed to identify any embedded derivatives, which must be separated and measured at fair value. This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows.
The measurement techniques used for derivatives existing at year end did not change with respect to the previous year. Accordingly, the effects in profit or loss and equity of these measurements are essentially attributable to normal market developments, as well as new derivative contracts signed during the year.

Employee benefits

The liability in respect of employee benefits payable upon or after termination of employment relates to defined benefit plans (termination benefits, additional month’s pay, indemnity for lack of notice, energy discount, ASEM health benefits and other benefits) or other long-term employee benefits (loyalty bonus) and is recognised net of any plan assets. It is measured separately for each plan on the basis of actuarial calculations that estimate the amount of future benefits that employees have accrued at the reporting date. The liability is recognised on an accruals basis over the vesting period. It is measured by independent actuaries.

Actuarial gains and losses at January 1, 2005 (date of transition to IFRS-EU) were recognised in equity. After that date, unrecognised actuarial gains and losses in excess of 10% of the greater of the present value of the defined benefit plan obligation and the fair value of plan assets are 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 recognised.

Provisions for contingencies and charges

Accruals to the provisions for contingencies and charges are recognised when, at the reporting date, the Company has a legal or constructive obligation towards others as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, accruals are measured by discounting estimated future cash flows using a pre-tax discount rate that reflects current market assessment of the time value of money and those risks specific to the liability, if present. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense. If the liability relates to property, plant and equipment (site disposal and restoration, for example), the provision is recognised as a balancing entry to the asset to which it relates. The expense is recognised in profit or loss

through depreciation of the item of property, plant and equipment to which it relates.
Changes in the estimate are recognised through profit or loss for the year in which the change happens, except for those costs expected for dismantling, removal and reclamation, which come as a result of changes in the timing and use of economic resources necessary to extinguish the obligation or attributable to a material change in the discount rate, which are recognised as an increase or reduction of the related assets and recognised in profit or loss through depreciation.

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 recognised under personnel expense 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 where subsequent information indicates that the expected number of instruments representative of capital that will mature differs from the estimate previously carried out, regardless of achievement of the market conditions.

The measurement method used to calculate fair value considers all the characteristics of the options (term, price and conditions, etc.), as well as the price of Terna S.p.A. shares at the grant date, the volatility of the stock and the yield curve at the grant date, in line with the term of the plan.

At the vesting date, the estimate is revised through the income statement to recognise the actual amount corresponding to the number of equity instruments that have actually vested, regardless of achievement of the market conditions.

Grants

Grants received in relation to specific assets whose value is recognised under non-current assets are, for plants operating before December 31, 2002 are recognised under other liabilities and taken to profit or loss over the depreciation period of the related assets.
From 2003, grants for new plants that have entered service are recognised as a direct reduction in the value of the related asset.
Grants for operating expenses are expensed in full when the recognition requirements are satisfied.

Revenue

Revenue is recognised when it is probable that the economic benefits deriving from the operation will be used by the enterprise. Depending on the type of transaction, revenue is recognised on the basis of the following specific criteria:
- revenue from the sale of goods is recognised when the material risks and rewards of ownership of the goods have been transferred to the buyer and their total amount can be reliably determined and collected;
- revenue from services rendered is recognised with reference to the stage of completion of the transaction. If revenue cannot be reliably measured, it is recognised to the extent of recoverable costs;
- revenue accrued during the year in respect of contract work in progress is recognised on the basis of the payments agreed for the progress of works using the cost-to-cost method. In addition to contractual payments, project revenue includes any payments in respect of variations, price revisions and incentives, with the latter recognised where it is probable that they will actually be earned and can be reliably determined. Revenue is also adjusted for any penalties for delays attributable to the Company;
- when there is uncertainty concerning the recovery of an amount already recognised in revenue, the non-recoverable value or the amount whose recovery is no longer probable is recorded as a cost, with recognition in provisions for contingencies and charges;
- amounts collected on behalf of third parties, such as the fees paid to non-Terna grid owners, as well as revenue recognised for managing activities related to the balancing of the national electrical system, which do not increase equity, are reported net of the related costs. This presentation method, which reflects the substance of transactions by offsetting revenue with the related costs arising from the “same transaction”, is discussed in full in a specific section of the notes.

Financial income and expense

Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset.
The qualifying assets (property, plant and equipment and intangible assets) involved are those that require at least one year before being ready for use. The directly attributable borrowing cost is that which would not have been incurred if the expenditure for the asset had not been incurred.
Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where funds are raised through general borrowing, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the financing outstanding during the year, excluding any specifically borrowed funds. The amount of borrowing costs capitalised during a year shall in any case not exceed the amount of borrowing costs incurred during that year.
Capitalisation commences as from the date all the following conditions have been met: (a) expenditures have been incurred for the asset; (b) borrowing costs are being incurred; and (c) activities to prepare the asset for its intended use or sale are in progress.
Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.
The capitalisation rate used for 2007 is 4.17%, that for 2008 is 4.93% and that for 2009 is 3.12%.
Financial income and expense other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities using the effective interest rate.

Dividends

Dividends from investee companies are recognised when the shareholders' right to receive payment is established.
Dividends and interim dividends payable to 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 or loss for the year attributable to holders of ordinary shares by the weighted average of outstanding ordinary shares during the year.
Diluted earnings per share are calculated by dividing the profit for the year attributable to holders of ordinary shares by the weighted average of outstanding shares, adjusted to consider the effects of all potential ordinary shares that could have a diluting effect.

Income taxes

Current income taxes, recognised under "tax liabilities" net of prepayments, or under "tax assets" when there is a net credit balance, are recognised on the basis of estimated taxable income and in accordance with current legislation, taking account of any applicable exemptions.

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

Deferred tax assets are recognised when their recovery is considered probable, i.e. when future taxable income will be available against which the asset can be used. The recoverability of deferred tax assets is reviewed at each year end.
Deferred tax liabilities are recognised in any case if they exist.
Taxes in respect of components recognised directly in equity are also recognised in equity.

Discontinued operations and non-current assets held for sale

Non-current assets (or disposal groups) whose carrying amount will be recovered principally through a sale rather than through continuing use are classified as held for sale and reported separated from other assets and liabilities in the statement of financial position. Non-current assets (or disposal groups) classified as held for sale are first measured in conformity with the IFRS applicable to each asset and liability and subsequently are measured at the lower of their carrying amount and fair value less costs to sell. The carrying amounts of each asset and liability that are not governed by the measurement rules set out in IFRS 5 but are held for sale are remeasured on the basis of the applicable IFRS before the fair value less costs to sell is redetermined. The individual assets of the companies classified as held for sale are not depreciated/amortised, whereas financial expense and other expenses attributable to liabilities held for sale continue to be recognised. Any subsequent impairment losses are recognised directly as an adjustment to the carrying amount of the non-current assets (or disposal groups) classified as held for sale through profit or loss. The corresponding statement of financial position values for the previous year are not reclassified. A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is an operation acquired exclusively with a view to resale.

New reporting standards

International Financial Reporting Standards entering force as from January 1, 2009

As from January 1, 2009, the following International Financal Reporting Standards took effect:

IAS 23 - Borrowing Costs (revised in 2007)

Terna has applied this standard early at December 31, 2008, setting the commencement date at January 1, 2006.

IAS 1 - Presentation of Financial Statements (revised in 2007)

The amendments to IAS 1 include the following:

- entities may choose between presenting income and expenses in a single statement of comprehensive income or in two separate statements: a separate income statement with the components of profit (loss) for the year and a second statement of comprehensive income that starts with profit (loss) for the year and then reports other components of comprehensive income, to be reported net of tax effects;
- changes in equity originated by transactions with the owner (e.g. dividends, share buybacks) must be presented in the statement of changes in equity separately from other changes.

IFRS 8 - Operating Segments

IFRS 8, which since January 1, 2009, replaces IAS 14 - Segment Reporting, requires entities to disclose information on its operating segments. It defines operating segments as components of an entity "whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance". It also establishes the disclosure requirements concerning a segment's products and services, the geographical areas in which it operates and its major customers. The new standard is the product of the comparison of IAS 14 with SFAS 131 - Disclosures about segments of an enterprise and related information, within the framework of the project to converge the IFRS and US GAAP.

Amendments to IFRS 7 - Financial instruments: disclosures

Endorsed with (EC) Regulation no. 1165/2009, it extends disclosure requirements for financial instruments. The amendment takes effect prospectively as from the financial statements for the year ended December 31, 2009. The main change is the introduction of a fair value hierarchy.
More specifically, entities must specify the inputs they used to determine the fair value for each class of assets and liabilities, as follows:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
(b) market inputs that are directly (e.g. prices) or indirectly (derived from prices) observable other than the quoted prices used for Level 1 (Level 2); and
(c) inputs not based on observable market data (Level 3).

Improvements to the IFRS (published in 2008)

Endorsed with Regulation (EC) no. 70/2009, this contains a series of amendments to numerous standards. The IASB has decided to publish an annual document containing all minor amendments to previously published standards, rather than publishing each separately.

Other International Financial Reporting standards

Since January 1, 2009, the following standards concerning issues that currently have no material impact on the financial statements of Terna have entered force:

- Amendment to IFRS 1 and IAS 27: Cost of an investment in a subsidiary, jointly-controlled entity or associate;
- Amendments to IAS 32 and IAS 1: Puttable financial instruments and obligations arising on liquidation;
- Amendment to IFRS 2: Share-based payment: vesting conditions and cancellations;
- IFRIC 13: Customer loyalty programmes.

International Accounting Standards endorsed by the European Commission since January 1, 2009

In 2009 and in 2010 up to the date of preparation of these financial statements, the European Commission endorsed the following International Financial Reporting Standards and interpretations:

IFRS 3 - Business Combinations (revised in 2007)

Endorsed with Regulation (EC) no. 495/2009, the revised standard will apply to the financial statements of Terna as from January 1, 2010, as early application was not adopted. The changes also required a number of amendments of IAS 27 and IAS 21, which were endorsed by the European Commission with Regulation (EC) no. 494/2009. The new standard will only apply to business combinations carried out subsequent to its entry into force.

IFRIC 12 - Service Concession Arrangements

Endorsed with Regulation (EC) no. 254/2009, the interpretation will apply to the financial statements of Terna as from January 1, 2010. IFRIC 12 governs the accounting treatment of service concession arrangements, which are not governed by any specific accounting standard, in order to ensure the uniformity and comparability of the financial statements of companies that hold concessions for the delivery of public services. More specifically, the interpretation sets out the rules for accounting for the infrastructure used to provide the services, the costs associated with developing and maintaining such infrastructure and the revenue generated by the overall provision of the services. IFRIC 12 does not apply to all arrangements. Its scope is limited to service concession arrangements between public bodies and private operators in which the grantor: (1) controls the use of the infrastructure and governs which services are to be provided, the manner in which they are to be provided and the prices of such services and (2) controls any residual interest in the assets at the end of the term of the concession. The interpretation also applies to infrastructure that a third party constructs or acquires to operate the concession and existing infrastructure granted to the operator to provide the service. It does not apply to infrastructure owned and accounted for as property, plant and equipment by the operator prior to entering into the service concession arrangement.

Terna, with the help of outside consultants, is completing its assessment of the applicability of IFRIC 12 and the effects of its adoption on its accounts. As things currently stand, although our analysis is not complete, it appears that the interpretation does not apply to the part of the Terna concession covering transmission activities, given that neither the concession agreement nor the law provides for the public body to reacquire possession of the NTG, even with payment of an indemnity, and gain full title to the assets. In addition, the control of the grantor over the residual interest in the assets should restrict the ability of the operator to sell the assets or pledge them as collateral. This restriction does not appear to apply to Terna, as the Company has full power over the infrastructure, even if the NTG is restricted to the delivery of a public service. In view of these factors, the public body therefore does not control, either via ownership, control over the benefits or other rights, any significant residual interest in the NTG infrastructure at the end of the term of the concession. As regards dispatching operations, however, at the end of the term of the concession, Terna could be obligated to transfer the assets serving the service to the State. Accordingly, the Company has concluded that such assets fall within the scope of IFRIC 12, as the public body governs the services provided with such assets and controls any residual interest in them. More specifically, in view of the rate system for dispatching activities, the intangible asset model is felt to be applicable. At present, although the analysis is not complete, this interpretation appears to have no material impact on the income statement and equity of the Company, as the main consequence is a reclassification of assets from “property, plant and equipment” to “intangible assets”.

IFRIC 18 - Transfers of assets from customers

Endorsed with Regulation (EC) no. 1164/2009, this interpretation provides guidelines on the accounting treatment of items of property, plant and equipment, or cash to acquire or construct such assets, received from a customer. In particular, the interpretation establishes the following treatment for such assets received from a customer and used to provide the customer with ongoing access to a supply of goods and services (for example, electricity, gas or water supply etc.):

- the asset received is recognised at fair value in accordance with the provisions of IAS 16 governing the exchange of dissimilar assets with the consequent recognition of revenue when the service is performed;
- specific accounting treatment is required where the customer transfers cash sufficient for the purchase of the asset.

The interpretation shall apply for all assets received from customers on or after July 1, 2009 (for Terna, first time application will therefore begin on January 1, 2010). Early application is permitted on the condition that the valuations and other information necessary to apply the interpretation to past transfers were obtained at the time those transfers were made.
The Company is assessing the impact that application of the interpretation could have on its financial statements, taking account of the date it takes effect.

Amendments to IAS 39 Financial instruments - Recognition and measurement: eligible hedged items

Endorsed with (EC) Regulation 839/2009, the amendments seek to clarify two aspect of hedge accounting: the identification of inflation as a hedged risk or portion of such risk and hedging with options. The amended IAS 39 takes effect as from period beginning on or after July 1, 2009, and will therefore be applied by Terna as from January 1, 2010. Terna is assessing the possible impacts that could result in the application of the interpretation on financial statements, taking into account the effect of its effectiveness.

Other amendments and interpretations of standards

The European Commission also endorsed the following amendments and interpretations concerning issues that currently have no material impact on the financial statements of Terna:

- IFRIC 16 - Hedges of a net investment in a foreign operation (takes effect as from October 1, 2009);
- IFRIC 9 - Embedded derivatives;
- Amendment to IAS 39 - Reclassification of financial assets: effective date;
- IFRIC 17 - Distributions of non-cash assets to owners;
- IFRIC 15 - Agreements for the construction of real estate;
- IFRS 1 Revised - First time adoption of IFRS;
- Amendments to IAS 32 - Financial instruments: Presentation: classification of rights issues.

International Accounting Standards not yet endorsed

For amendments and new standards and interpretations that have not yet been endorsed by the EU but which address issues that affect or could affect Terna, the Company is assessing the possible impact of the changes on its financial statements, taking account of the date from which they take effect.
More specifically:

IFRS 9 - Financial instruments

On November 12, 2009 the IASB published IFRS 9 - Financial instruments on the classification and measurement of financial assets, which will take effect as from January 1, 2013. This publication is the first part of a project to replace IAS 39. In a difference from the exposure draft published last July, the scope of the standard does not include financial liabilities, as the IASB, partly in reaction to comments on the exposure draft, decided to devote further study to issues concerning the including of own credit risk in the measurement of the fair value of financial liabilities. Finally, the process of endorsing IFRS 9 is currently suspended in the European Union.
Accordingly, the standard is not applicable for European companies pending the European Commission's full assessment of the entire IAS 39 replacement project.

Amendments to IAS 24 - Related party disclosures

Issued on November 4, 2009, the amendments seek to simplify related-party disclosure requirements for companies in which a public entity is the controlling shareholder, exercises a significant influence or has joint control, and to eliminate a number of difficulties of application associated with the current notion of related party. The standard is applicable as from January 1, 2011.

Improvements to the IFRS (published in 2009)

The 2009 version of the document contains minor amendments to previously published standards. The document should be endorsed by the European Commission in the first half of 2010.

Other interpretations and revisions of standards

Other interpretations and revisions of previously issued standards governing issues that do not affect the Company and which have not yet been endorsed by the European Commission are listed below:

- Amendment to IFRIC 14 - Prepayment of a minimum funding requirement;
- IFRIC 19 - Extinguishing financial liabilities with equity instruments;
- Amendment to IFRS 2 - Group cash-settled share-based payment transactions;
- Amendment to IFRS 1 - Additional exemptions for first time adopters;
- Amendment to IFRS 1 - Limited exemption from comparative IFRS 7 disclosures for first-time adopters.

Risk management - Terna S.p.A.

In the conduct of its operations, Terna is exposed to various financial risks: market risk (namely exchange rate risk, interest rate risk and inflation risk), liquidity risk and credit risk.
This section provides comprehensive information regarding Terna's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to measure them, with further quantitative disclosures concerning the 2009 financial statements.
Terna's risk management policies seek to identify and analyse the risks the Company is exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and related systems are revised on a regular basis in order to reflect any changes in market conditions and the Company's activities.
As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.

Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risks comprise three forms of risk: exchange rate risk, interest rate risk and inflation risk.
Risk management must be performed with the objective of maximising financial income and minimising the related risks by selecting counterparties and instruments compatible with the corporate risk management policy. Speculative activity is not envisaged in the corporate mission.
Terna S.p.A. seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changes in market conditions or in the hedged item make the latter unsuitable or excessively expensive. The concept of hedging transaction is not restricted to those hedges that qualify for hedge accounting, but rather encompasses the objective of total or partial hedging of the income statement or statement of financial position item from interest rate risk. 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. The fair value of financial derivatives reflects the estimated amount that Terna would pay or receive in order to extinguish contracts at the closing date.

The fair value of instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (Level 2) by means of appropriate valuation techniques for each category of financial instrument, using market data as at the closing date (such as interest rates, exchange rates, volatility) and discounting projected cash flows on the basis of the market yield curve and inflation at the reporting date.
The financial assets and liabilities in respect of derivative instruments in place during the year can be classified as:

- cash flow hedge derivatives, essentially related to hedging the risk of changes in the cash flows associated with long-term floating-rate loans;
- fair value hedge derivatives, essentially related to hedging the exposure to changes in the fair value of a financial asset or liability associated with fluctuations in interest rates (fixed-rate bonds);
- non-hedge-accounting derivatives, related to hedges of exchange rate risk but which do not qualify for treatment under IAS 39 as hedges of specific assets, liabilities, commitments or forecast transactions.

Interest rate risk

Interest rate risk is represented by the uncertainty associated with movements in interest rates that could have an impact on the fair value or future cash flows of financial instruments.
In conducting its operations, Terna is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with items of net financial debt and the related hedging positions in derivative instruments that generate financial expense. Terna's borrowing strategy focuses on long-term loans whose term reflects the useful life of company assets. It pursues an interest rate risk hedging policy that aims to reconcile this approach with the regulatory framework, which every four years establishes the cost of debt as part of the formula to set the return on the Regulatory Asset Base (RAB).
Accordingly, the hedging instruments used, at various maturity dates, include both derivatives that transform fixed rates into floating rates and derivatives that transform floating rates into fixed rates.
In order to reduce the amount of financial debt exposed to the risk of fluctuations in interest rates and to optimise the temporal correlation between average cost of debt and regulatory rate used in the WACC formula, various types of plain vanilla derivatives are used, such as interest rate swaps and interest rate collars.
Interest rate swaps are used in order to reduce the volume of debt exposed to fluctuations in interest rates and to reduce the volatility of borrowing costs. With an interest rate swap, Terna agrees with a counterparty to exchange, at specific intervals, the floating-rate cash flows on a specified notional amount against the fixed-rate (agreed between the parties) cash flows, or vice versa.
Interest rate collars are used to lower the impact of the volatility of interest rates on the cost of the debt. They are considered appropriate in times of uncertainty about future developments in interest rates.
The following table shows the financial instruments entered into by Terna, classified according to the type of interest rate (fixed or floating).

In millions of euros	Carrying amount Dec. 31, 2009	Carrying amount Dec. 31, 2008	Change
Fixed-rate financial instruments			
Assets	0	0	0
Liabilities	2,726.1	2,098.5	627.6
Floating-rate financial instruments			
Assets	1,130.9	804.7	326.2
Liabilities	1,665.7	1,660.3	5.4
Total	**3,260.9**	**2,954.1**	**306.8**

Sensitivity to interest rate risk

As regards the management of interest rate risk, Terna has, on the one hand, entered into fixed-to-floating interest rate swaps (FVH) to hedge the fair value of the fixed-rate risk bonds and, on the other, floating-to-fixed interest rate swaps (CFH) to hedge the expected cash flows in respect of all other floating-rate debt.

Since the hedging relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, as verified initially and periodically over its life, is high (between 80% and 125%), the Company has elected to use hedge accounting to ensure the perfect temporal matching of the hedge and the hedged item. The aim of hedge accounting is to recognise the effects of the hedges and the hedged items in profit or loss at the same time. Accordingly, for FVH derivatives, any changes in the fair value of the hedged item attributable to the risk being hedged must be recognised in profit or loss, thereby offsetting the changes in the fair value of the derivative recognised in profit or loss. For CFH derivatives, the changes in the fair value of the derivative must be recognised in equity (recognising any ineffective portion of the hedge directly in profit or loss) and then reversed through profit or loss in the same period in which the cash flows of the hedged instrument materialise. The characteristics of the CFH derivatives mirror those of the hedged underlying, so the related cash flows will materialise at the same maturities as the interest on the debt, with no impact of the changes in fair value on profit or loss.

The following table reports the amounts recognised in profit or loss and equity in respect of positions sensitive to changes in interest rates, the theoretical value of the positions following a positive or negative shift in the yield curve and the differential impact recognisable in profit or loss and equity of such changes.
A hypothetical 10% variation in interest rates with respect to market interest rates at the reporting date has been assumed.

In millions of euros	Profit or loss: Current rates +10%	Profit or loss: Rates at Dec. 31,2009	Profit or loss: Current rates -10%	Equity: Current rates +10%	Equity: Rates at Dec. 31,2009	Equity: Current rates -10%
Dec. 31, 2009						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	1.6	1.2	0.8	-11.0	-16.8	-22.6
Hypothetical change	*0.4*	-	*-0.4*	*5.8*	-	*-5.8*
Dec. 31, 2008						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	1.1	-1.2	-3.6	-53.2	-65.8	-78.5
Hypothetical change	*2.3*	-	*-2.4*	*12.6*	-	*-12.7*

Inflation risk

As regards inflation rate risk, the rates established by regulators to remunerate Terna S.p.A.'s activities are determined so as to allow coverage of the sector's recognised costs. Such cost components are updated on an annual basis to consider the accrued impact of inflation. In 2007, the Company used an inflation-linked bond issue to obtain an effective hedge of profit for the year: any decrease in expected revenue due to a decrease in the inflation rate would be offset by lower financial expense.

Exchange rate risk

Generally Terna hedges exchange rate risk through the forward sale or purchase of currencies (forward contracts) or the use of options. Currency options give Terna the right or the obligation to buy or sell predetermined amounts of a currency at a specific exchange rate at the end of a specific period of time. Normally, both forward contracts and options have maturities of no more than 12 months.

Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from an appreciation or depreciation of the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.
During the year non-deliverable forward contracts were used to hedge the cash flows from Brazil in respect of the repayment of principal and/or payments of dividends, interest on the intercompany loan and the sale of the Brazilian equity investment. At December 31, 2009 (as was the case at December 31, 2008), no financial instruments exposed to exchange rate risk were present.

Liquidity risk

The liquidity risk is the risk Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of financial needs by obtaining adequate lines of credit and appropriate management of any surplus liquidity. At December 31, 2009 Terna had €1,550 million in medium-term credit lines and €729 million in short-term credit lines. Such amount is sufficient to refinance the debt falling due discussed in the section on long-term loans (€59.7 million).

Credit risk

Credit risk is the risk a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by trade receivables and the financial investments of the Company.
The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since the counterparties, in compliance with financial risk management policies, are leading international credit institutions with high ratings and such transactions are diversified in compliance with specific concentration limits.
Terna provides its services to counterparties considered solvent by the market, who therefore have a high credit standing, and does not have highly concentrated credit risk.

Credit risk management is guided by the provisions of AEEG Resolution no. 111/06, which, at art. 49, introduced instruments for the limitation of risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency. In particular, the resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their revenue), the

option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee defined by the Authority.

The following table summarises the exposure to such risk as at the reporting date:

In millions of euros	Carrying amount Dec. 31, 2009	Carrying amount Dec. 31, 2008	Change
FVH derivatives	123.2	115.5	7.7
TELAT loan	500.0	0.0	500.0
Cash and cash equivalents	0.1	689.2	-689.1
Trade receivables	1,177.1	1,706.0	-528.9
Total	**1,800.4**	**2,510.7**	**-710.3**

The total value of the exposure to credit rate risk at December 31, 2009 is represented by the carrying amount of financial assets (current and non current), trade receivables and cash and cash equivalents.

The following tables provide qualitative information on customer receivables that are not past due and have no impairment:

GEOGRAPHICAL DISTRIBUTION

	Carrying amount	
In millions of euros	2009	2008
Italy	1,165.9	1,674.7
Euro-area countries	10.1	26.6
Brazil	-	-
Other countries	1.1	4.7
Total	**1,177.1**	**1,706.0**

CUSTOMER TYPE

	Carrying amount	
In millions of euros	2009	2008
Distributors (*)	209.4	179.6
Electricity Equalisation Fund (**)	88.9	19.4
Input dispatching contractors	380.5	678.0
Withdrawal dispatching contractors (non distributors)	455.1	786.2
Receivables from unregulated activities	43.2	42.8
Totale	**1,177.1**	**1,706.0**

(*) Includes receivable accrued in respect of TELAT grid transmission fees.
(**) Of which €62.9 million from volume effect on grid transmission fees and DIS.

The following table breaks down customer receivables by age, reporting any potential impairment:

	2009		2008	
In millions of euros	Provision for bad debts	Gross	Provision for bad debts	Gross
Not yet past due	-2.0	1,134.3	-	1,496.3
0-30 days past due	-	18.6	-1.0	148.4
31-120 days past due	-0.6	15.6	-	43.9
More than 120 days past due	-24.4	35.6	-10.7	29.1
Total	**-27.0**	**1,204.1**	**-11.7**	**1,717.7**

Changes in the provision for bad debts in the course of the year were as follows:

In millions of euros	2009	2008
Balance at January 1	-11.7	-13.8
Reversal of allowance	-	3.9
Impairment for the year	-15.3	-1.8
Balance at December 31	**-27.0**	**-11.7**

The value of guarantees received from eligible electricity market customers is illustrated below:

In millions of euros	2009	2008
Input dispatching activity	251.3	192.8
Withdrawal dispatching activity	851.3	1,025.6
Grid transmission fees - distributors	172.3	168.9
Balance at December 31	**1,274.9**	**1,387.3**

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the Company is party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk.

For more information on the contractual provisions of outstanding loans at December 31, 2009, please see the section "Loans and financial liabilities" in the notes to the financial statements of Terna S.p.A.

B. Operating segments

Consistent with the provisions of IFRS 8 - Operating Segments concerning companies that publish the consolidated financial statements of a parent in the same document as the financial statements of that parent, operating segment disclosures are provided for the consolidated financial statements only. Accordingly, please see the analogous section of the notes to the consolidated financial statements of the Terna Group.

C. Notes to the separate income statement

Revenue

1. Revenue from sales and services - €1,253.2 million

The table below details "Revenue from sales and services" for 2009 and 2008:

In millions of euros	2009	2008	Change
Grid transmission fees	1,087.7	1,045.4	42.3
Adjustments for prior year grid transmission fees	0.2	15.1	-14.9
Other energy revenue	91.5	48.4	43.1
Other revenue from sales and services	73.8	43.1	30.7
Total	**1,253.2**	**1,152.0**	**101.2**

Grid transmission fees

This caption reports revenue from the Company's core business, comprising fees paid to it for use of the national transmission system.

The item amounted to €1,087.9 million in 2009, an increase of €27.4 million on 2008, attributable to:

- the rate adjustment for the year in implementation of AEEG Resolution no. 188/08, as well as effects of the mechanism, established in the same resolution, to mitigate changes in the volume of electricity transmitted exceeding a range of +/-0.5% (+€38.5 million);
- greater NTG fees in respect of the defence plan (+€3.8 million);
- a reduction in net adjustments for prior-year grid fees (-€14.9 million) compared with 2008, which had benefited from the release of the provision made in respect of a technical dispute with a dispatching withdrawal operator (€14.0 million).

Other energy revenue

This caption comprises fees paid to the Company by electricity companies for dispatching services (the DIS component) and metering (MIS component). The item rose by €43.1 million, largely due to the greater revenue from the incentive mechanism linked to the reduction of volumes sourced on the Ancillary Services Market (ASM), as envisaged in AEEG Resolution no. 206/08 (€40.0 million), as well as the adoption of the mitigation mechanism introduced with Resolution no. 188/08 (€2.0 million).

Other energy items - pass-through revenue/costs

This caption includes revenue and costs of a "pass-through" nature for the Group (whose balance is therefore nil). They arise in respect of daily purchases and sales with operators on the electricity market to carry out transmission and dispatching activities. To that end, the measurements at each point of input and withdrawal are taken and the differences from the energy market schedules are calculated. These differences (imbalances) are measured using algorithms established by the regulatory framework. The net charge resulting from the measurement of these imbalances and of the buying and selling transactions executed by Terna on the Ancillary Services Markets are billed on a *pro rata* basis to each consumer with the uplift fee.
It also includes the grid utilisation fee which Terna pays to other owners of the grid.
The components of these transactions are detailed below.

In millions of euros	2009	2008	Change
Revenue - Power Exchange:			
Foreign market - exports	4.4	8.9	-4.5
Sale of energy on the Day Ahead Market, Adjustment Market, Ancillary Services Market and others	813.5	1,473.4	-659.9
Imbalancing and others	1,597.4	1,428.6	168.8
Ancillary service resources procurement	980.9	1,903.1	-922.2
Congestion rent - Res. no. 288/06	733.4	848.0	-114.6
Other items - Power Exchange	311.5	127.7	183.8
Total revenue - Power Exchange	**4,441.1**	**5,789.7**	**-1,348.6**
Revenue under Res. nos. 168/04 - 237/04 and others	613.5	709.1	-95.6
Other items (CBT and other)	47.3	26.7	20.6
Revenue from grid transmission fees of other owners and GRTN share CIP/6	116.5	19.6	96.9
Total revenue from outside the Power Exchange	**777.3**	**755.4**	**21.9**
Total pass-through energy revenue	**5,218.4**	**6,545.1**	**-1,326.7**
Energy purchases:			
On Day Ahead Market and Adjustment Market	9.5	718.1	-708.6
To provide the dispatching service	2,431.6	3,067.7	-636.1
For unbalancing	1,373.4	1,156.1	217.3
On the foreign market - imports	0.1	1.7	-1.6
Electricity Market Operator fees	2.7	5.8	-3.1
Congestion rent - Res. no. 288/06	559.3	769.2	-209.9
Other items - Power Exchange	64.5	71.1	-6.6
Total costs - Power Exchange	**4,441.1**	**5,789.7**	**-1,348.6**
Purchase of energy market related services	613.5	709.1	-95.6
Other items (CBT and other)	47.3	26.7	20.6
Fees to be paid to NTG owners, GRTN and other	116.5	19.6	96.9
Total services and fees	**777.3**	**755.4**	**21.9**
Total pass-through energy costs	**5,218.4**	**6,545.1**	**-1,326.7**

Other revenue from sales and services

Other revenue from sales and services amounted to €73.8 million and mainly relates to revenue from a variety of specialised high- and very-high-voltage services that the Company provides to third-party customers (€21.8 million) and subsidiaries (€13.8 million). The amount reflects revenue from:

- the operation, maintenance and development of the optical fibre owned by the Wind Group hosted on Terna S.p.A. plant (safety cables) (€2.1 million);
- work on projects under construction (€12.3 million);
- requests to connect to the National Transmission Grid as per AEEG Resolution no. 281/05 (€2.5 million);
- the contribution due to the Company for coverage of cost incurred for electricity discounts to its employees (€1.4 million);
- services in performance of contracts for technical services and management fees entered into during the year with the subsidiaries TELAT (€14.0 million) and SunTergrid (€5.9 million, including services for the installation of photovoltaic plants in the amount of €5.1 million).

The increase of €30.7 million is essentially attributable to higher revenue from various construction activities (+€8.3 million), maintenance of high-voltage plant (+€3.2 million, including revenue from the contract with TELAT for high-voltage line maintenance, which had previously been recognised in respect of Enel Distribuzione), and technical services and management fees from TELAT (€14.0 million) and SunTergrid (€5.9 million) for the appropriate period.

2. Other revenue and income - €42.0 million

Other revenue and income totalled €42.0 million and break down as follows:

In millions of euros	2009	2008	Change
Rental income	17.9	16.8	1.1
Third party contributions for high-voltage connections	9.3	8.1	1.2
Insurance settlements for losses	3.3	2.7	0.6
Capital gains on the sale of plant parts	4.8	6.6	-1.8
Prior year revenue	4.1	7.2	-3.1
Sales to third parties	1.0	1.2	-0.2
Other revenue	1.6	1.5	0.1
Total	**42.0**	**44.1**	**-2.1**

Rental income mainly regards rent from the Wind Group for the housing of optical fibre on the grid (€12.6 million) and Enel Distribuzione’s use of the Company's infrastructure for power line communication (€4.0 million).

The decrease of €2.1 million is essentially attributable to greater prior year revenue in 2008, mainly due to the release of the provision for bad debts accrued in respect of a dispatching customer following the approval of the composition agreement (€3.6 million).

Operating expenses

3. Raw materials and consumables - €17.7 million

The item totalled €17.7 million in 2009. It comprises costs incurred for the purchase of sundry materials and equipment used in the operation and maintenance of plant.
The increase of €5.9 million on the previous year (€11.8 million in 2008) is almost entirely attributable to activities for external customers, including those under the contract with EL.IT.E. for the construction of a merchant line in Valtellina, the underground alternating-current interconnection line between Italy and Switzerland (€2.2 million) and the supply of the armoured plant for A2A (€1.4 million).

4. Services - €126.3 million

The table below details revenue from services for 2009 and 2008:

In millions of euros	2009	2008	Change
Tenders on plants	33.7	24.2	9.5
Maintenance and sundry services	56.0	50.9	5.1
Insurance	5.7	4.8	0.9
Remote transmission and telephone	12.6	12.3	0.3
IT services	4.9	4.6	0.3
Use of third-party assets	13.4	13.9	-0.5
Total	**126.3**	**110.7**	**15.6**

The main components regard costs in respect of tenders and services for routine maintenance operations and plant maintenance and expenditures for general services (a total of €89.7 million). It also includes costs for remote transmission and telephone services (€12.6 million), leases and rentals (€13.4 million), insurance (€5.7 million) and IT services (€4.9 million).
The increase of €15.6 million is mainly due to the increase in tenders and technical services connected with plant (€9.5 million), technical, professional and legal services (€2.8 million) and higher insurance costs (€0.9 million).

Fees paid to the Statutory Auditors of Terna S.p.A. are detailed in the following table. The table has been prepared on the basis of the term of office of the position on an accruals basis.

Surname Name	Position	Term of office	Expiry of term	Remuneration	Total
Guarna Luca Aurelio	Chairman	Jan. 09 - Dec. 09	Approval of 2010 financial statements	55,000.00	55,000.00
Cosconati Marcello*	Statutory Auditor	Jan. 09 - Dec. 09	Approval of 2010 financial statements	45,000.00	45,000.00
Pozza Lorenzo	Statutory Auditor	Jan. 09 - Dec. 09	Approval of 2010 financial statements	45,000.00	45,000.00
Total Statutory Auditors fees				**145,000**	**145,000**

(*) Fees for the position were paid to Cassa Depositi e Prestiti.

5. Personnel expense - €182.3 million

Personnel expense breaks down as follows:

In millions of euros	2009	2008	Change
Wages, salaries and other short-term employee benefits	248.9	231.3	17.6
Termination benefits, electricity discount and other employee benefits	15.5	16.7	-1.2
Reversal of provision for electricity discount	-26.8	0.0	-26.8
Early retirement incentives	6.5	5.9	0.6
Employees’ stock option plans	-	0.2	-0.2
Personnel expense - gross	**244.1**	**254.1**	**-10.0**
Personnel expense for capitalised internal work	-61.8	-52.9	-8.9
Total	**182.3**	**201.2**	**-18.9**

This caption includes the cost of wages and salaries, social security contributions and other costs incurred by the Company for early retirement incentives, as well as benefits paid to employees who stay with the company and termination benefits provided for by the current national labour contract for the electricity sector.
Personnel expense decreased by €18.9 million, largely attributable to the net effect of:
- the reversal of the electricity discount provision (€26.8 million) following the agreement reached during the year with Enel Servizio Elettrico after the redetermination of the number of eligible Terna beneficiaries (retirees);
- an increase in wages and other short-term benefits (€17.6 million) mainly as a result of the increase in unit labour costs, which comprises an estimate of charges for the contract renewal;

• an increase in capitalised personnel expense (€8.9 million) as a result of increased capital expenditure during the year.

The fees paid to the Directors of Terna S.p.A. are summarised in the following table. The table has been prepared on the loans of the term of office of the position on an accurals basis.

Surname Name	Position	Term of office	Expiry of term	Remuneration	Bonus and other incentives***	Other compensation***	Other compensation****	Total
Roth Luigi	Chairman/ Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	600,000			20,833	620,833
Cattaneo Flavio	CEO	Jan. 09 Dec. 09	Approval of 2010 financial statements	200,000	700,000	1,000,000		1.900,000
Cannarsa Cristiano*	Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	25,000				25,000
Dal Pino Paolo	Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	125,000				125,000
Del Fante Matteo*	Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	75,000				75,000
Machetti Claudio**	Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	25,000				25,000
Machì Salvatore	Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	135,000				135,000
Polo Michele	Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	75,000				75,000
Rispoli Vittorio	Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	85,000				85,000
Total Directors fees				**1,345,000**	**700,000**	**1,000,000**	**20,833**	**3,065,833**

(*) Fees for the position were paid to Cassa Depositi e Prestiti.
(**) Fees for the position were paid to Enel S.p.A.
(***) These amounts are reported both to the variable portion of remuneration linked to specific objectives for the year 2009 and to the salary as a manager.
(****) The amount regards compensation for position as Chairman of the Board of Directors of TELAT from October 16 to December 31, 2009.

The following table shows the number of employees by category at year end and the average number for the year:

	Average number		Number at	
	2009	2008	Dec. 31, 2009	Dec. 31, 2008
Senior management	67	68	65	65
Junior management	485	475	488	485
Office staff	1,908	1,895	1,874	1,907
Production workers	1,058	1,073	1,020	1,067
Total	**3,518**	**3,511**	**3,447**	**3,524**

The net change in the average number of employees on the end of 2008 was an increase of 7.

Reference should be made to section "24. Employee benefits" 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. Amortisation, depreciation and impairment losses - €296.3 million

These relate to accruals during the year calculated on the basis of amortisation and depreciation rates that reflect the useful lives of the Company's property, plant and equipment and intangible assets, as well as accruals to the provision for bad debts relating to receivables for items which are reasonably likely to be unrecovered.

The composition of and changes in the item during the year are reported in the following table:

In millions of euros	2009	2008	Change
Depreciation	248.4	228.9	19.5
Amortisation	31.0	24.6	6.4
Impairment of property, plant and equipment and intangible assets	2.8	0	2.8
Impairment of trade receivables	14.1	1.8	12.3
Total	**296.3**	**255.3**	**41.0**

The caption shows an increase (€41.0 million) on 2008, the net effect of the following:
- increased amortisation and depreciation (€25.9 million) of the Company's new plant (in particular SA.PE.I. first pole) and intangible assets entering service during the year;
- impairment losses of property, plant and equipment and intangible assets (€2.8 million) for projects that have currently been abandoned;
- increased accruals to the provision for bad debts which are reasonably unlikely to be collected (€12.3 million, of which €11.0 million in respect of dispatching items).

7. Other operating expenses - €18.2 million

Other operating expenses break down as follows:

In millions of euros	2009	2008	Change
Provisions for contingencies and charges	3.6	2.9	0.7
Local taxes and duties	4.6	4.8	-0.2
Prior year expenses	2.3	4.1	-1.8
Losses on the disposal/retirement of plants	2.9	3.7	-0.8
Other operating expenses	4.8	4.4	0.4
Total	**18.2**	**19.9**	**-1.7**

The item fell by €1.7 million on the previous year, largely the net result of the following factors:
- lower prior year expenses (€1.8 million) and capital losses on the disposal and retirement of plant parts (€0.8 million);
- net accruals to provisions of €0.7 million for the contribution to be paid to the Provision for Exceptional Events set up within the Electricity Equalisation Fund by Resolution no. 333/07 to cover supply interruptions.

Financial income and expense

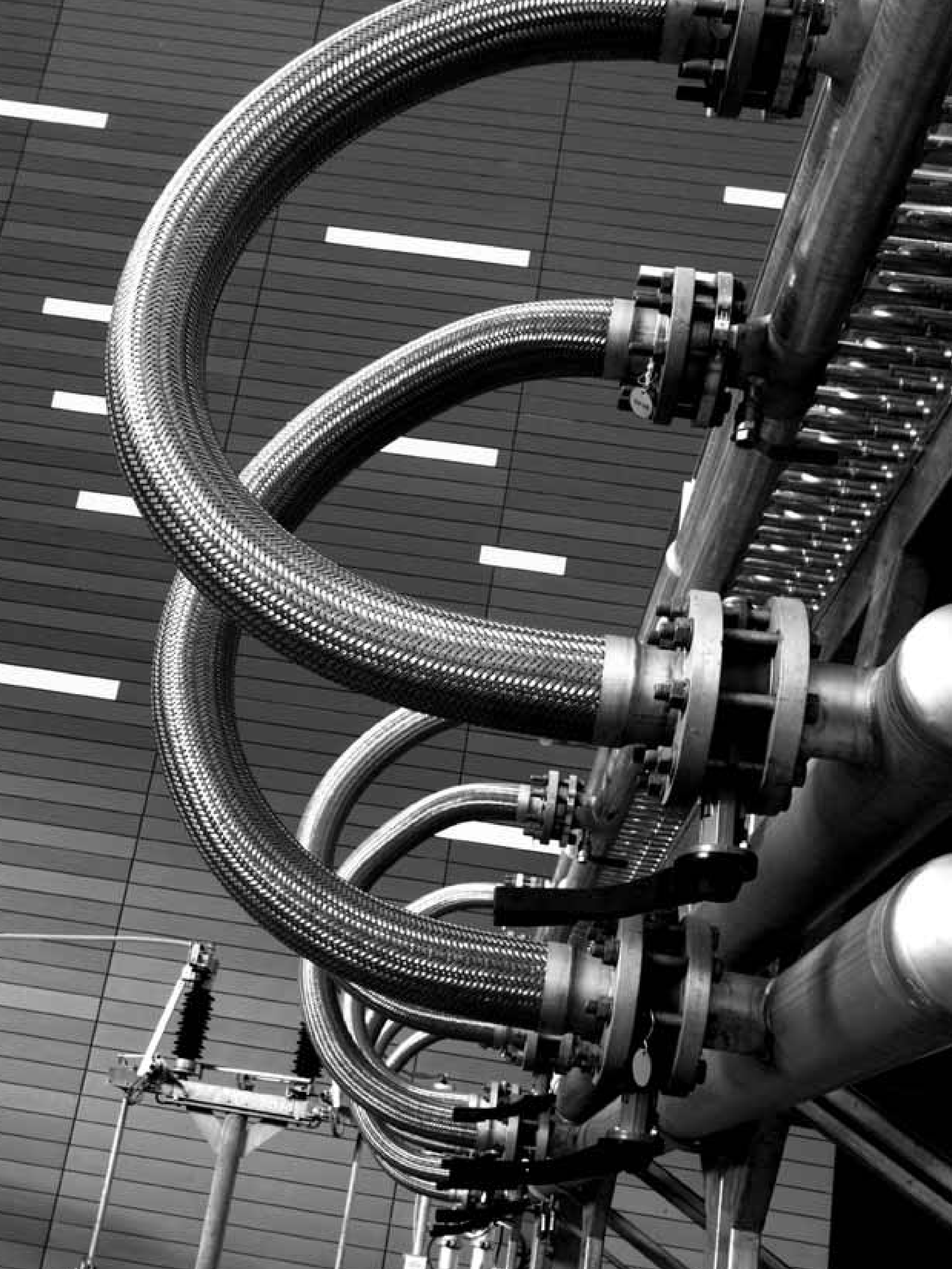
8. Net financial expense - €149.1 million

The caption breaks down as follows:

In millions of euros	2009	2008	Change
Financial income			
Financial income from parents	3.1	0.0	3.1
Interest income from Terna Participações	14.3	0.0	14.3
Financial income from subsidiaries	2.2	0.0	2.2
Income on non-hedge-accounting derivatives	0.0	1.2	-1.2
Debt adjustment (bonds) and related hedges	1.2	0.0	1.2
Interest income and other financial income	10.6	20.4	-9.8
Total income	**31.4**	**21.6**	**9.8**
Financial expense			
Interest expense on medium/long-term loans and related hedges	-147.6	-139.3	-8.3
Financial expense to parent	-1.2	0.0	-1.2
Financial expense to subsidiaries	-0.1	0.0	-0.1
Exchange rate differences and related non-hedge-accounting derivatives on exchange rates	-25.2	-2.2	-23.0
Debt adjustment (bonds) and related hedges	0.0	-4.5	4.5
Discounting of termination benefits and other personnel-related provisions	-5.7	-6.8	1.1
Interest expense on short-term loans and other financial expense	-11.9	-0.5	-11.4
Capitalised financial expense	11.2	7.6	3.6
Total expense	**-180.5**	**-145.7**	**-34.8**
Total	**-149.1**	**-124.1**	**-25.0**

Net financial expense amounted to €149.1 million, comprising €180.5 million in financial expense and €31,4 million in financial income. The increase of €25.0 million with respect to 2008 is the net result of the following main factors:

- increased financial income as a result of Terna's subscription of bonds issued by Cassa Depositi e Prestiti (€3.1 million);
- financial income accrued in the year on the loan granted by Terna to Terna Participações (€14.3 million);
- financial income on the loan granted during the year to the subsidiary TELAT (€2.2 million);
- lower financial income (-€9.8 million) due essentially to the joint effect of the general decrease in the interest rates paid on invested liquidity (-€8.9 million), greater default interest for late payment of receivables in respect of dispatching activities (€2.4 million) and the net expense for uplift (recognised under other financial expense in the amount of €11.8 million), compared with net uplift income of €3.4 million the previous year;
- the net gain from the adjustment to fair value of bonds and related hedges compared with the previous year (€5.7 million);
- a decrease in net income from non-hedge-accounting derivatives (-€1.2 million) following the disposal of the portfolio in 2008;
- increased financial expense in respect of medium/long-term debt (-€8.3 million) due to the increase in borrowing, partially offset by the reduction in market interest rates;
- increased interest expense on short-term loans and other financial expense (-€11.4 million), largely attributable to uplift charges (-€11.8 million) for the year;
- the negative impact (-€23.0 million) mainly attributable to hedges not qualifying for hedge accounting entered into to mitigate the risk associated with the volatility of exchange rates in respect of the dividends and intercompany loan payments from Terna Participações (€7.3 million and €17.9 million respectively);
- decreased financial expense in respect of the accretion of employee benefit provisions (€1.1 million);
- increased capitalised financial expense (€3.6 million) due to greater capital expenditure during the year;
- the recognition of financial expense in respect of subsidiaries for interest on the correspondent accounts with TELAT and SunTergrid (€0.1 million), as well as costs in respect of Cassa Depositi e Prestiti (€1.2 million) for fees on the loan agreed in February 2009 and not yet disbursed, which gives Terna access to funds made available to Cassa Depositi e Prestiti by the European Investment Bank (EIB) in the maximum amount of €500 million.



In line with the separate recognition of the proceeds of the disposal of Terna Participações as "Profit for the year from discontinued operations and assets held for sale", the balances for 2008 have also been stated net of dividends distributed by Terna Participações.

9. Income taxes - €179.5 million

Income taxes for the year amount to €179.5 million.
The following table reports changes in taxes with respect to 2008:

In millions of euros	2009	2008	Change
Income taxes			
Current taxes:			
IRES	163.9	155.5	8.4
IRAP	50.7	45.5	5.2
Total current taxes	**214.6**	**201.0**	**13.6**
Temporary differences:			
Deferred tax income	-13.8	-11.6	-2.2
Deferred tax expense	0.0	0.0	0.0
Reversal of temporary differences:			
Deferred tax income	16.7	18.6	-1.9
Deferred tax expense	-32.8	-33.3	0.5
Rate adjustment	0.0	0.3	-0.3
Total net deferred tax expense	**-29.9**	**-26.0**	**-3.9**
Adjustments to income taxes of previous years	-5.2	-0.4	-4.8
Total	**179.5**	**174.6**	**4.9**

Current taxes
Current taxes increased by €13.6 million on the previous year, essentially due to higher taxable income.

Deferred tax income and expense
Net deferred tax expense of €29.9 million showed a net increase of €3.9 million on 2008. The change primarily reflects deferred tax income in respect of the provision for bad debts for accruals for the year (€2.2 million) and the release recognised in 2008 (€1.0 million).

Adjustments to income taxes of previous years
Adjustments to income taxes of previous years amounted to -€5.2 million and mainly regard the recognition, pursuant to art. 6 of Law no. 2 of January 28, 2009, of the receivable due from tax authorities for excess income taxes paid in previous years as a result of not deducting IRAP in the amount provided for under the law (€4.2 million).

The effective rate of income tax (which totalled €179.5 million) on taxable income came to 35.5%, down from 36.9% in 2008, taking account of the reclassification of the Brazilian operations.
The effective tax rate is higher than the theoretical rate (33.3%), essentially due to the distorting effect of the inclusion of personnel expense in taxable income for the purposes of IRAP (regional business tax).

For a clearer presentation of the differences between the theoretical and actual tax rates, the table below reconciles the theoretical tax rate with the effective tax rate for the year:

In millions of euros	Taxable income	Tax	% Change
Profit before taxes	505.3		
IRES - theoretical tax charge (27.50%)		139.0	
IRAP - theoretical tax charge (4.48% on operating profit of €654.4 million)		29.3	
Total		168.3	
Theoretical tax rate			**33.3%**
Permanent IRES differences			
Non-deductible telephone, rental and other expenses		2.3	0.5%
Other increases/decreases		2.2	0.4%
IRAP - art. 6 Law January 28, 2009		-0.6	-0.1%
Brazil capital gain			
Permanent IRAP differences			
Personnel expense		12.0	2.4%
Provision for bad debts		0.6	0.1%
Other increases/decreases		-0.1	0.0%
Effective tax rate net of adjustments to income taxes of previous years			**36.6%**
Prior year taxes		-5.2	-1.0%
Total taxes for the year		**179.5**	
Effective tax rate			**35.5%**

10. Profit for the year from discontinued operations and assets held for sale - €464.2 million

In accordance with the provisions of “IFRS 5 - Non-current assets held for sale and discontinued operations”, this caption reports the overall impact on the income statement (€464.2 million) of the disposal of the Brazilian sub-holding company Terna Participações. In particular, it reports:

- the capital gain on the disposal of the Brazilian subsidiaries in the amount of €385.0 million, net of costs to sell, other directly attributable costs, hedging derivatives and taxes on the transaction;
- net dividends distributed by Terna Participações before the disposal in the amount of €79.2 million.

The price for the sale of the equity investment (recognised in the amount of €210.7 million at the transaction date), net of exchange rate hedges (€105.3 million), amounted to €727.2 million. Net of total taxes of €84.7 million, the likely charges in respect of contractual and tax obligations deriving from the transaction and costs directly attributable to the sale, the net gain from the disposal comes to €385.0 million. Dividends distributed before the sale by Terna Participações, which amounted to €79.5 million, net of local withholding tax on expatriated capital of €0.3 million, bring the profit for the year from discontinued operations and assets held for sale to €464.2 million.

For comparative purposes, the item also includes the cost and revenue items of the Brazilian companies. More specifically, the balance for the previous year, equal to €36.8 million, regards dividends for 2008 distributed by Terna Participações to Terna S.p.A.

The following reports the composition of the income statement balances that gave rise to the profit from discontinued operations and assets held for sale in 2009:

In millions of euros	
Sale price	832.5
Value of equity investment in Terna Participações	210.7
Gross capital gain	**621.8**
Derivatives hedging the disposal	105.3
Taxes in respect of the disposal	84.7
Costs directly attributable to the disposal	4.4
Reasonably likely future charges in respect of the disposal	42.4
Net capital gain	**385.0**
Dividends received before the disposal	79.2
Profit for the year from discontinued operations and assets held for sale	**464.2**

D. Notes to the separate statement of financial position

Assets

11. Property, plant and equipment - €5,976.3 million

Property, plant and equipment amounted to €5,976.3 million (€5,415.6 million at December 31, 2008). The amount of and changes for each category are reported in the following table:

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, 2009	**38.6**	**731.5**	**8,067.7**	**50.4**	**65.8**	**903.6**	**9,857.6**
Investments	0.1	12.0	0.3	3.7	9.5	805.9	831.5
Plant start-up	13.6	113.7	747.5	-	17.3	-892.1	-
Disposals and impairment losses	-	-2.1	-62.9	-0.7	-6.0	-3.0	-74.7
Other changes (grants)	-	-	-16.8	-	-	2.1	-14.7
Reclassifications	1.4	-	2.5	-0.1	-2.4	-1.4	-
Cost at Dec. 31, 2009	**53.7**	**855.1**	**8,738.3**	**53.3**	**84.2**	**815.1**	**10,599.7**
Accumulated depreciation and impairment losses at Jan. 1, 2009	**-**	**-256.5**	**-4,109.2**	**-36.2**	**-40.1**	**-**	**-4,442.0**
Depreciation for the year	-	-17.3	-218.2	-2.9	-10.0	-	-248.4
Disposals		1.0	59.4	0.7	5.9	-	67.0
Reclassifications	-	-	-0.8	0.1	0.7	-	-
Accumulated depreciation and impairment losses at Dec. 31, 2009	**-**	**-272.8**	**-4,268.8**	**-38.3**	**-43.5**	**-**	**-4,623.4**
Carrying amount							
At December 31, 2009	53.7	582.3	4,469.5	15.0	40.7	815.1	5,976.3
At December 31, 2008	38.6	475.0	3,958.5	14.2	25.7	903.6	5,415.6

The caption “Plant and machinery” includes the electricity transmission grid, the transformation stations, central systems for remote management and the national electricity control system.

A summary of changes in property, plant and equipment during the year is provided in the table below:

In millions of euros

Capital expenditure	
Transmission lines	316.9
Transformation stations	377.9
Other	136.7
Total investments	**831.5**
Depreciation	-248.4
Disposals, impairment losses and other changes	-22.4
Total	**560.7**

The item shows an increase on the previous year of €560.7 million in respect of ordinary changes for capital expenditure (€831.5 million, of which €11.2 million for capitalised borrowing costs), disposals, impairment losses and other changes (€22.4 million) and depreciation (€248.4 million).
Expenditure on the Italian transmission grid (€831.5 million) included: construction of the SA.PE.I. undersea line (€113.6 million) and progress on the 380 kV Sorgente-Rizziconi power line (€47.3 million). Other expenditure included renovation work on the Rome headquarters (€30.4 million), work on the 380 kV Casellina-Tavarnuzze-Santa Barbara line (€25.2 million), rationalisation work on the 132 kV Val d’Ossola Sud line (€22.0 million), expenditure on the intrusion prevention project (€20.2 million), development of the optical fibre network (€18.9 million), rationalisation of systems for the city of Turin (€17.9 million), the renovation and upgrading of the Piossasco plant (€16.3 million), the rationalisation of the 220 kV Alta Valcamonica line (€15.8 million), the station for the connection of the Foggia-Benevento wind plants (€11.9 million), work on rationalising the Bussolengo area (€11.6 million), the connection to the Tirreno Power plant at Napoli Levante (€11.5 million) and a new armoured section at the Cagno station (€10.7 million).

In terms of assets under construction at the end of the year, the main grid development and re-powering projects worth more than €10 million are listed below.

Transmission lines	In euros
SA.PE.I.	50,900,580
Sorgente-Rizziconi	35,226,960
Valcamonica	27,432,380
AEM Moncalieri	25,994,390
Santa Barbara-Tavarnuzze-Casellina	25,808,480
Villarodin-Venaus	15,971,750
Reorganisation of Palermo area	14,468,630
Rationalisation of Turin systems	13,238,520
Rationalisation in province of Lodi	10,625,970
Transformation stations	
SA.PE.I. station (Fiumesanto and Latina)	66,168,990
Brindisi Pignicelle	13,776,570
Castegnero station	13,086,700
Cagno station	12,117,380
Bussolengo station	10,198,880

12. Goodwill - €88.6 million

Goodwill came to €88.6 million, unchanged on the previous year.

Impairment testing

Cash Generating Unit - Terna

The recoverable amount of the goodwill (recognised as a result of the merger of RTL into Terna in 2008) in respect of the Terna Cash Generating Unit (CGU) recognised in financial statement, €88.6 million, was estimated using the discounted cash flow method, which in order to determine the value in use of an asset applies an appropriate discount rate to estimated future cash flows. In particular, cash flows were determined on the basis of the approved business plan, drawing on the forecasts and assumptions it uses for developments in the Company's performance and financial position.
The discounting of the cash flows was performed with respect to the period 2010-2020, in line with the forecasts, and the terminal value was assumed to be equal to the remuneration of net invested (RAB - Regulatory Asset Base) in 2020. In particular, cash flows were determined, up to 2014, on the basis of the approved business plan, drawing on the forecasts and assumptions it uses for developments in the Company's performance and financial position, while for subsequent years the cash flow projection was based on the development of operations in line with the last year of the business plan. The discount rate was set at a weighted average cost of capital of 4.95%. The value in use thus determined was higher than the carrying amount.
The sensitivity analysis conducted did not produce any significant impact on the valuation, even with the use of higher discount rates, confirming the full recoverability of goodwill.

13. Intangible assets - €176.2 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, 2008	**117.7**	**42.3**	**7.2**	**167.2**
Investments	-	0.2	40.4	40.6
Entry into service	-	38.9	-38.9	-
Disposals and impairment losses	-	-0.1	-0.5	-0.6
Amortisation	-5.6	-25.4	-	-31.0
Balance at Dec. 31, 2009	**112.1**	**55.9**	**8.2**	**176.2**
Cost	135.4	157.0	8.2	300.6
Accumulated amortisation	-23.3	-101.1	-	-124.4
Balance at Dec. 31, 2009	**112.1**	**55.9**	**8.2**	**176.2**

Intangible assets amounted to €176.2 million (€167.2 million at December 31, 2008). The caption mainly includes the concession for electricity transmission and dispatching activities in Italy, which was initially recognised in 2005 at fair value (€135.4 million) and subsequently measured at cost. Other intangible assets include applications software developed internally or purchased externally as part of programmes for the development and evolution of systems.

The increase on the previous year (€9.0 million) is attributable to ordinary changes during the year due to capital expenditure (€40.6 million), mainly on applications software, disposals and impairment losses (€0.6 million), and amortisation (€31.0 million). Investments for the year (€40.6 million) included expenditure on the development and evolution of software for the remote management system for dispatching (€9.9 million), for the Power Exchange (€4.7 million) and for the protection of the electrical system (€2.1 million), as well as general applications and software licenses (€17.2 million).

14. Deferred tax assets

For a discussion of deferred tax assets, please see note "26. Deferred tax liabilities".

15. Financial assets

The following table details financial assets recognised by Terna S.p.A.:

In millions of euros	Carrying amount Dec. 31, 2009	Dec. 31, 2008	Change
Investments in subsidiaries	568.4	211.5	356.9
Investments in associates	6.6	4.6	2.0
Investments in joint ventures	0.7	0.0	0.7
TELAT loan	500.0	0.0	500.0
FVH derivatives	123.2	115.5	7.7
Non-current financial assets	**1,198.9**	**331.6**	**867.3**
Deferred assets on CFH derivative contracts	-	0.4	-0.4
Other current financial assets	503.3	6.3	497.0
Current financial assets	**503.3**	**6.7**	**496.6**

"Non-current financial assets", equal to €1,198.9 million, reported the value at December 31, 2009 of equity investments, the intercompany loan to TELAT S.r.l. and the fair value of financial derivatives.

"Investments in subsidiaries" refers to investments in subsidiaries directly held by Terna S.p.A., of which further details are given below. The increase (€356.9 million) on December 2008 is attributable to the acquisition of the entire share capital of TELAT S.r.l. in April, equal to €1,157.7 million, subsequently reduced following the repayment of share capital by the subsidiary in the amount of €600.0 million, to the disposal of the holding in Terna Participações (-€210.8 million) and to the recognition of the shareholder capital payment of €10.0 million to the subsidiary SunTergrid (formerly InTernational).

"Investments in associates" and "Investments in joint ventures" regard, respectively:
- the holding of 30.91% in the associate CESI S.p.A. (€6.6 million), an increase of €2.0 million on the previous year due to the acquisition of additional stakes in the company during the year from A2A S.p.A. and Siemens S.p.A. (1.871% and 4.68% respectively);
- the holding of 50% in the joint venture ELMED ÉTUDES Sàrl (€0.7 million), acquired in April 2009.

CESI S.p.A. operates in the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the electro-technical field in general and technical and scientific developments in that area.
In April 2009, ELMED ÉTUDES Sàrl was established. This limited-liability company is an equally-held joint venture between Terna and Société Tunisienne de l'Electricité et du Gaz (STEG) whose main purpose is the study and preliminary consulting concerning the preparation of documents for the Tunisian government's call for tenders for the construction and management of the power generation hub in Tunisia for the Italy-Tunisia interconnection project. For more information, please see the section "Significant events in 2009".

The following table summarises Terna S.p.A.'s direct investments in subsidiaries and associates at December 31, 2009, with data drawn from the most recent approved financial statements:

Denomination	Registered office	Business activity	Currency	Share capital	% holding	Carrying amount in euros
			Subsidiaries			
TELAT S.r.l.	Rome	Design, construction, management, development, operation and maintenance of high-voltage power lines	Euro	243,577,554	100%	557,666,437
SunTergrid S.p.A.	Rome	Construction and maintenance of electricity transmission grids and plants for the generation of electricity, including renewables generation, for own use and sale in Italy and abroad	Euro	120,000	100%	10,672,709
			Associates			
CESI S.p.A.	Milan	Experimental electro-technical research	Euro	8,550,000	30.91%	6,618,241
ELMED ÉTUDES Sàrl	Tunis	Analysis and preliminary consulting for the preparation of tender documentation for construction tenders and the management of the electricity generation site in Tunisia involved in the project for the interconnection of Italy and Tunisia	Tunisian Dinar	2,700,000	50%	734,095

On November 16, 2009 Terna S.p.A. granted a loan of €500 million to TELAT S.r.l. to give the company the financial resources to repay the share capital. The loan has a term of 5 years, will be repaid in full at maturity and will pay half-yearly coupons linked to 6-month Euribor plus a spread of 250 basis points.

The fair value of the FVH derivatives hedging the Company's bonds, equal to €123.2 million at the end of the year, an increase (€7.7 million) on December 31, 2008, mainly due to the decline in market interest rates during 2009.

"Current financial assets" came to €503.3 million (€6.7 million at December 31, 2008), mainly regarding the subscription of securities issued by UBS and MPS (€500.0 million) and interest accrued and not yet collected at the reporting date on the intercompany loan to TELAT S.r.l. (€2.2 million). The increase on the previous year (€496.6 million) is the net result of the following factors:

- the subscription in the final quarter of the year of three securities issued by UBS and MPS for a total of €500 million;
- a decrease in deferred financial assets in the amount of €3.4 million.

16. Other assets

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Receivables due from others:			
Loans and advances to employees	5.1	4.3	0.8
Assets on deposit with third parties	0.4	0.3	0.1
Other non-current assets	**5.5**	**4.6**	**0.9**
Other tax receivables	17.7	13.7	4.0
Receivables due from others:			
Advances to employees	0.2	0.2	-
Others	8.6	7.2	1.4
Other current assets	**26.5**	**21.1**	**5.4**

"Other non-current assets" (€5.5 million), detailed above, have not undergone any significant changes with respect to the previous year and relate mostly to loans and advances paid to employees (€5.1 million).

"Other current assets" amount to €26.5 million (€21.1 million at December 31, 2008) and mainly relate to the following:

- other tax receivables (€17.7 million), mainly related to:
  - withholding tax on interest income accrued on investments (€3.0 million);
  - tax receivables accrued abroad (€13.0 million), of which €8.8 million in respect of receivables from the Greek tax authorities for indirect taxes in relation to the activities carried out by Terna's branch in Greece and €2.3 million in respect of taxes withheld by Brazilian tax authorities on interest accrued on the intercompany loan to Terna Participações;
  - VAT receivables (€1.3 million).

The item shows an increase of €4.0 million on the previous year, mainly attributable to the Brazilian withholdings and the VAT credit.

- receivables from others (€8.8 million), mainly regarding:
  - assets in the amount of €4.0 million referred to costs already paid but pertaining to subsequent years, mainly attributable to costs on contracts to use assets that Terna took over following the transfer of plant from Enel Distribuzione (€0.9 million) and insurance premiums (€2.8 million);
  - receivables for insurance reimbursements accrued in the year but still not paid (about €1.0 million);
  - sundry advances to employees (€0.2 million) and non-Group suppliers (€0.5 million).

17. Inventories - €11.7 million

Inventories under current assets amount to €11.7 million (€16.6 million at December 31, 2008) and include materials and equipment used in the operation, maintenance and construction of plants; the decrease of €4.9 million is mainly due to ordinary maintenance of plant in Italy.

18. Trade receivables - €1,177.1 million

Trade receivables are composed as follows:

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Energy-related receivables	843.9	1,471.4	-627.5
Receivables for transmission grid fees	284.6	191.7	92.9
Other trade receivables	38.5	42.9	-4.4
Receivables from subsidiaries	10.1	-	10.1
Trade receivables	**1,177.1**	**1,706.0**	**-528.9**

Trade receivables amounted to €1,177.1 million, down €528.9 million on 2008 entirely due to pass-through items originating in respect of dispatching activities.
Receivables are measured net of impairment losses, relating to items considered uncollectible and recognised as an adjustment in the provision for bad debts (€22.3 million for energy items and €4.7 million for other items in 2009, compared with €10.3 million for energy-related items and €1.4 million for other items in 2008).

Energy-related receivables - €843.9 million
They mainly include receivables in relation to pass-through energy items arising in respect of dispatching activities. This caption also includes receivables for fees payable by market operators for dispatching activities (DIS fee as per Resolution no. 237/044).

The balance shows a decrease of €627.5 million compared with the previous year, mainly attributable to lower receivables in respect of sales on the Power Exchange (€615.2 million, partly offsetting, as detailed in the section on trade payables below, by a decrease in payables for purchases on the Power Exchange), due in particular to the application of AEEG Resolution no. 203/08, which specified the procedures for coverage of costs in respect of electricity transiting on foreign electricity grids (€93.3 million) and limited recourse to supplementary offers on the Day Ahead Market to situations involving exceptional strains on the national electricity system (€193.8 million); in addition, it reflects the general market conditions, which led to a reduction in the volumes and prices of unbalancing, as well as early invoicing of adjustments under AEEG Resolution no. 34/09 (€95.5 million). Finally, there was a substantial decrease in the receivable for uplift for the year (about €193 million).

Receivables for transmission grid fees - €284.6 million
The receivable for transmission grid fees of €284.6 million regards the fees paid to the Company and other owners for the use of the National Transmission Grid by distributors and electricity generators. Most of the receivable regards the fees for the final two months of the year, falling due in January and February 2010.
The increase of €92.9 million in the receivable compared with the previous year is largely attributable to the recognition of the receivable from the Electricity Equalisation Fund in respect of the mitigation mechanism provided for under Resolution no. 188/08 (€61.0 million, including the amount granted for the portion of the NTG pertaining to TELAT for the last nine months of the year), as well as the receivable for transmission fees pertaining to TELAT (€23.1 million) for December.

Other trade receivables - €38.5 million
Other trade receivables mainly regard receivables due from Italian customers (€25.3 million), from Enel Group companies (€4.6 million), from the Equalisation Fund for the contribution granted to the Company to cover the cost incurred in the connection of renewable resource plants for the last four years (€4.0 million) and to cover the cost incurred in respect of the employee electricity discount (€1.4 million) and receivables for long-term contract work in progress (€2.6 million) for third-party customers.
The latter break down as follows:

In millions of euros	Payments on account	Contract value	Balance at Dec 31, 2009	Payments on account	Contract value	Balance at Dec. 31, 2008
Others	-9.8	12.4	2.6	-2.3	3.7	1.4
Total	**-9.8**	**12.4**	**2.6**	**-2.3**	**3.7**	**1.4**

Receivables from subsidiaries - €10.1 million
The item amounts to €10.1 million and regards receivables in respect of contracts for the coordination and operational management of TELAT and SunTergrid.

The amount of guarantees issued by Terna to third parties at the end of 2009 was €11.8 million. The item refers to sureties issued to secure contractual obligations assumed in relation to operating activities.

19. Cash and cash equivalents - €0.1 million

Cash and cash equivalents at December 31, 2009 amounted to €0.1 million and were entirely accounted for by the cash on hand held by operational units of the Parent. The item declined compared with December 31, 2008, by €689.1 million; for more details please see section “I. Notes to the statement of cash flows”.

20. Tax assets - €18.4 million

Tax assets came to €18.4 million, attributable to the tax paid under art. 15 of Legislative Decree no. 185/2008 to discharge the tax liability in respect of the goodwill arising in the merger of the subsidiary RTL into Terna (€14.2 million) and the recognition, pursuant to art. 6 of Law no. 2 of January 28, 2009, of the receivable due from tax authorities for excess income taxes paid in previous years as a result of not deducting IRAP in the amount provided for under the law (€4.2 million).

The decrease (€7.5 million) on the previous year is attributable to the shift from the IRES and IRAP tax credits recognised in 2008 (€25.9 million) to corresponding liabilities in 2009 due to the fact that payments on account during the year were lower than the tax liability for the year and to the recognition during the year of the tax paid pursuant to art. 15 of Legislative Decree no. 185/2008 and the IRAP credit described above.

21. Discontinued operations and assets held for sale - €0.1 million

The item, which totals €0.1 million, regards the residual value of the investment in Terna Participações (equal to 10,000 units), which will be sold by Terna S.p.A. in the public tender offer that TAESA S.A., which acquired control of Terna Participações S.A., is to make.

Liabilities

22. Equity - €2,468.3 million

Share capital - €440.2 million
The share capital of Terna S.p.A. is comprised of 2,000,908,800 ordinary shares with a par value of €0.22 each. There was no change on the previous year.

Legal reserve - €88.0 million
The legal reserve is equal to 20% of the Company's share capital.

Other reserves - €670.7 million
Other reserves decreased by €11.9 million as a result of the recognition and adjustment to fair value of cash flow hedge derivatives hedging floating-rate loans of Terna (-€16.5 million) net of the related tax effect (+€4.6 million), recognised as a component of other comprehensive income.

Retained earnings - €619.5 million
The increase of €19.1 million in 2009 regarded the residual profit for the year ended December 31, 2008, equal to profit remaining after the distribution of the 2008 dividend (€316.2 million).

2009 interim dividend

After receiving the report of the independent auditors as per art. 2433 *bis* of the Italian Civil Code, on November 10, 2009 the Board of Directors approved the distribution of an interim dividend of €140.1 million, equal to €0.07 per share, which was paid beginning from November 26, 2009, with an *ex* dividend date (coupon 11) of November 23, 2009.

The following table reports the origin, availability and possibility of distribution of the components of equity:

AVAILABILITY AND POSSIBILITY OF DISTRIBUTION OF THE COMPONENTS OF EQUITY

In millions of euros	Dec. 31, 2009	Possibility of use	Available portion
Share capital	440.2	B	-
Legal reserve	88.0	B	88.0
Other reserves			
- equity-related	397.9	A, B, C	397.9
- income-related*	272.8	A, B, C	272.8
Retained earnings	619.5	A, B, C	619.5
Interim dividend	-140.1	A, B, C	-
Profit for 2009	790.0	-	-
Total	**2,468.3**		**1,378.2**

Key:
A - to increase share capital   B - to cover losses   C - to distribute to shareholders

(*) Includes the negative reserve for the effective portion of changes in the fair value of cash flow hedges, which is equal, net of tax effects, to €61.3 million.

Of the total available portion, €684.4 million regards untaxed income-related reserves.

Stock option plans

On December 21, 2005, based on a proposal of the Remuneration Committee, the Parent's Board of Directors resolved to adopt a stock option plan for Terna managers holding 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 that imbues key employees with a sense of belonging to the corporate team, while ensuring they are constantly focused on creating value, with a view to melding the interests of shareholders and management.

The features of the 2006 stock option plan are outlined below:

Rules governing the 2006 stock option plan (approved on December 21, 2005)

The plan provides for the distribution of a maximum of 10,000,000 options to approximately 20 Terna managers holding the most important positions in terms of achieving the Company's strategic targets, including the CEO, as a senior manager of the Company.
Under the approved rules governing the stock option plan:

1. the strike price of each share shall be the arithmetic mean of the reference price of Terna ordinary share observed on the electronic stock exchange operated by Borsa Italiana S.p.A. in the period between the date of the offer and the same day of the previous calendar month;
2. the exercise of the options and, consequently, the right to subscribe newly-issued Terna ordinary shares depends on achieving two performance parameters. In particular:
   a) Terna EBITDA for the grant year (2006) must be greater than that established in the budget approved by the Board of Directors;
   b) the 2006 performance of each beneficiary must be positively assessed by the CEO, with a provision for a 50% reduction in the options that the individual beneficiary can exercise should this second condition not be met;
3. if the exercise conditions are met, individual beneficiaries can exercise their options by March 31, 2010 up to the following maximum quantities:
   - up to 30% of vested options, beginning from the date specified in the notice announcing that the exercise conditions have been met;
   - up to 60% of vested options, beginning from the first day of the first calendar year subsequent to that in which the notice announcing that the exercise conditions have been met is issued;

- up to 100% of vested options, beginning from the first day of the second calendar year subsequent to the year in which the notice announcing that the exercise conditions have been met is issued.

On April 22, 2009, the Extraordinary shareholders' meeting voted to extend the time limit for exercising the options under option plan by three years until March 31, 2013, and to amend art. 5 of the bylaws.

Options can be exercised only on a stock exchange trading day during the last 10 days of each month. However, options cannot in any case be exercised in the following days:

- in the period between the third-to-last trading day and the last trading day before the *ex* dividend date;
- in the period between the date scheduled 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 scheduled 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 €2.072 to 17 managers of the Company. The Board of Directors verified that the conditions for exercise were met when it approved the financial statements at December 31, 2006.

At December 31, 2009, all the options granted under the plan were outstanding and, as the vesting period was complete, were exercisable at the end of the year (9,083,200 options). During the year, no options were taken up and no options lapsed. The pricing method used to determine the fair value is the Cox-Rubinstein, which considers the price of Terna shares at the grant date, the volatility of the shares, the yield curve at the grant date consistent with the duration of the plan. The pricing parameters applied are the following:

- closing price (underlying or spot price) of the shares at the grant date (source: Bloomberg) of €2.058;
- strike price of €2.072;
- yield curve for the calculation of the discount factor at the grant date (source: Reuters);
- historic volatility of the shares 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	Position	Number of options
Flavio Cattaneo	CEO	2,115,000

Other information on the stock option plan:

Other beneficiaries of the stock option plan	6,968,200

23. Loans and financial liabilities

The following table details loans and financial liabilities recognised in the separate financial statements of Terna at December 31, 2009.

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Bonds	2,643.5	2,031.8	611.7
Bank loans	1,555.7	1,615.2	-59.5
Long-term loans	**4,199.2**	**3,647.0**	**552.2**
CFH derivatives	82.6	65.8	16.8
Other liabilities	0.0	0.9	-0.9
Non-current financial liabilities	**82.6**	**66.7**	**15.9**
Short-term loans	42.7	0.5	42.2
Current portion of long-term loans	59.7	44.6	15.1
Short-term loans and current portion of medium/long-term loans	**102.4**	**45.1**	**57.3**
Total	**4,384.2**	**3,758.8**	**625.4**

Gross debt increased by €625.4 million to €4,384.2 million.

Of the total increase in the value of bonds (€611.7 million), €600.0 million is attributable to the new issue carried out by Terna in 2009 in the form of a private placement, €7.2 million regards the change in the fair value of hedged exposure and €4.5 million the capitalisation of inflation for the period net of the amortised cost effect (€1.2 million gross). The change associated with hedging of interest rate risk includes -€0.5 million in respect of the inflation-linked bond issue, €7.2 million in respect of the 2014-2024 bonds and €0.5 million in respect of the private placement, offset by the increase in the fair value of derivatives recognised under financial assets in the amount of €7.7 million.
The fair value of the bonds is calculated on the basis of official prices of the bonds registered on the Luxembourg Stock Exchange, as detailed below:
- bond maturing 2024, price at December 31, 2009: 102.29 and price at December 31, 2008: 105.09;
- bond maturing 2014, price at December 31, 2009: 104.34 and price at December 31, 2008: 100.68;
- bond maturing 2023, price at December 23, 2009: 102.60 and price at December 31, 2008: 91.12;
- bond maturing 2019, price at December 31, 2009: 103.56.

(Source: Reuters)

Consequently, compared with a total carrying amount of €2,643.5 million (€2,031.8 million at December 31, 2008), the fair value amounted to €2,600.3 million (€1,918.4 million at December 31, 2008).

As regards debt originally bearing floating rates, the net increase of €2.2 million is due to:
- a €44.6 million reduction in European Investment Bank loans and other financing following repayments made on outstanding loans;
- the increase of the debtor position on the intercompany current account with SunTergrid S.p.A. (€9.8 million);
- creditor position on the intercompany current account with TELAT S.r.l. (-€7.6 million);
- use of credit lines in the amount of €40.0 million.

Long-term loans

The following table shows the carrying amount of long-term debt and the repayment plan at December 31, 2009, broken down by loan type, including amounts falling due within one year and average interest rate at year-end:

In millions of euros	Maturity	Dec. 31, 2008	Dec. 31, 2009	Due within one year	Due after one year	2011	2012	2013	2014	2015	After	Average interest rate at Dec. 31, 2009
Bonds	2014-2024	1,472.3	1,479.5	0.0	1,479.5	0.0	0.0	0.0	628.9	0.0	850.6	4.62%
Bonds	2023	559.5	563.5	0.0	563.5	0.0	0.0	0.0	0.0	0.0	563.5	2.95%
Bonds	2019	0.0	600.5	0.0	600.5	0.0	0.0	0.0	0.0	0.0	600.5	4.88%
Total fixed rate		**2,031.8**	**2,643.5**	**0.0**	**2,643.5**	**0.0**	**0.0**	**0.0**	**628.9**	0.0	**2,014.6**	
EIB no. 20271	2014	40.9	34.1	6.8	27.3	6.8	6.8	6.8	6.9	0.0	0.0	1.82%
EIB no. 21159	2016	170.5	147.7	22.7	125.0	22.7	22.7	22.7	22.7	22.7	11.5	1.88%
EIB no. 22947	2020	100.0	95.5	9.1	86.4	9.1	9.1	9.1	9.1	9.1	40.9	1.90%
EIB no. 22947	2018	200.0	189.6	21.1	168.5	21.1	21.1	21.1	21.1	21.1	63.0	1.68%
EIB no. 24423	2028	300.0	300.0	0.0	300.0	0.0	0.0	9.7	19.4	19.4	251.5	2.34%
Club Deal	2015	648.4	648.5	0.0	648.5	0.0	0.0	0.0	0.0	648.5	0.0	3.06%
RCF 2006	2013	200.0	200.0	0.0	200.0	0.0	0.0	200.0	0.0	0.0	0.0	1.80%
Total floating rate		**1,659.8**	**1,615.4**	**59.7**	**1,555.7**	**59.7**	**59.7**	**269.4**	**79.2**	**720.8**	**366.9**	
Total		**3,691.6**	**4,258.9**	**59.7**	**4,199.2**	**59.7**	**59.7**	**269.4**	**708.1**	**720.8**	**2,381.5**	

The original currency of each position above is the euro.
The repayment of the nominal amount of the 2014, 2024, and 2019 bonds, equal to €2,000.0 million, will entail payment of €600.0 million on October 28, 2014, €800.0 million on October 28, 2024 and €600 million on October 3, 2019; the inflation-linked bonds will be repaid at maturity, on September 15, 2023, with the nominal value adjusted to reflect inflation. All other financial debt items are stated at their nominal value along with the related repayment plan.
The total loans at December 31, 2009 of Terna amount to €4,258.9 million, including loans of €4,199.2 million due after one year and €2,381.5 million due after the fifth year.

The table also reports the average interest rate for each type of financial liability. Below we also comment on the Group's hedging operations against interest rate fluctuations.

As regards the 2014-2024 bonds with an average coupon of 4.62%, if FVH hedging operations are taken into account, the average interest rate is equal to 2.99%.
For the inflation-linked bond, taking hedges into account, and assuming a 0.22% inflation rate, the average interest rate paid in the year was 0.71%.

In line with financial risk management policies, the fixed-rate private placement was synthetically transformed to a floating rate security by means of derivative contracts with the same maturity. Consequently, the average interest rate paid in the year was 2.78%.

Allowing for the effect of financial derivatives accounted for as cash flow hedges on floating-rate loans hedged against interest rate fluctuations, the average rates are as follows: EIB no. 20271, 4.93%, EIB no. 21159, 4.96%, EIB no. 22947 (€100-million *tranche*), 5.04%, EIB no. 22947 (€200-million *tranche*), 4.83%, EIB no. 24423, 4.70%, the €650-million Club Deal loan, 4.89% and the €200-million Revolving Credit Facility, 2.19%.

The following table reports changes in long-term debt for the year:

Type of loan In millions of euros	Nominal debt at Dec. 31, 2008	Carrying amount at Dec. 31, 2008	Repayments and capitalisation	New issues	Difference in fair value Dec. 31, 2008 - Dec. 31, 2009	Difference in carrying amount	Nominal debt at Dec. 31, 2009	Carrying amount at Dec. 31, 2009
Listed fixed rate bonds	1,400.0	1,472.3	0.0	0.0	7.2	7.2	1,400.0	1,479.5
Listed fixed rate IL bond	519.8	559.5	1.2	0.0	2.8	4.0	521.0	563.5
Private placement	0.0	0.0	0.0	600.0	0.5	600.5	600.0	600.5
Total bonds	**1,919.8**	**2,031.8**	**1.2**	**600.0**	**10.5**	**611.7**	**2,521.0**	**2,643.5**
Bank loans	1,661.4	1,659.8	-44.6	0.0	0.2	-44.4	1,616.8	1,615.4
Total bank loans	**1,661.4**	**1,659.8**	**-44.6**	**0.0**	**0.2**	**-44.4**	**1,616.8**	**1,615.4**
Total financial debt	**3,581.2**	**3,691.6**	**-43.4**	**600.0**	**10.7**	**567.3**	**4,137.8**	**4,258.9**

Compared with December 31, 2008, long-term debt shows a total increase of €567.3 million, of which €600 million refers to the new borrowing in the year, €4.5 million to the capitalisation of inflation for the period in relation to the IL bond, €7.2 million to the increase in the fair value of the bonds as a result of a fall in interest rates, €44.6 million to the repayment of EIB financing and €0.2 million to the measurement of the Club Deal loan at amortised cost.

Changes during the year include the issue on July 3, 2009, of a privately placed fixed-rate bond in the amount of €600 million; the issue, carried out as part of the Euro Medium Term Notes (EMTN) programme, has a maturity of 10 years and will be redeemed at maturity. It pays an annual coupon of 4.875%.
At December 31, 2009, Terna retained additional borrowing capacity of more than €2,279.0 million, of which more than €729.0 million consisted of short-term credit lines and €1,550.0 million in syndicated credit lines.

Non-current financial liabilities

The table below reports the amount and changes in non-current financial liabilities on the previous year:

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
CFH derivatives	82.6	65.8	16.8
Other liabilities	0.0	0.9	-0.9
Total	**82.6**	**66.7**	**15.9**

Non-current financial liabilities include the fair value of fair cash flow hedges.
Fair value is measured by discounting estimated future cash flows on the basis of the market yield curve at the reporting date. The change in the yield curve with respect to December 31, 2008 generated an increase of €16.8 million.

The change in other financial liabilities (-€0.9 million) refers to the extinguishment of the net payable to Lehman Brothers.

This is equal to the net fair value of FVH and non-hedge-accounting derivatives outstanding at September 16, 2008, the date of the early termination of relations between Terna S.p.A. and Lehman Brothers.

Short-term loans

Short-term loans, equal to €42.7 million, are composed of the use of credit lines in the amount of €40.0 million, the debtor position on the intercompany current account with SunTergrid S.p.A. in the amount of €10.3 million and the creditor position on the intercompany current account with TELAT S.r.l. in the amount of -€7.6 million.

Current financial liabilities

Current financial liabilities, which are generated by the financial expense accrued on financial instruments but not yet settled, decreased on the previous year by €7.0 million net of the reclassification of amounts pertaining to discontinued operations, mainly due to the increase in floating-rate debt during the year.

The following table details deferred liabilities on the basis of the financial liabilities to which they relate:

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Deferred liabilities on:			
Derivative contracts			
- hedging	*-9.4*	*2.9*	*-12.3*
Bonds			
- inflation linked	*4.3*	*4.2*	*0.1*
- private placement	*14.6*	*0.0*	*14.6*
- ten-year	*4.5*	*4.5*	*0.0*
- twenty-year	*7.0*	*7.0*	*0.0*
Total	**30.4**	**15.7**	**14.7**
Loans	4.5	13.9	-9.4
Total	**25.5**	**32.5**	**-7.0**

Net financial position

Pursuant to the CONSOB Communication of July 28, 2006, and in conformity with the CESR Recommendation of February 10, 2005 for the consistent implementation of the Commission regulation on prospectuses, the net financial position of the Company is as follows:

	Carrying amount
In millions of euros	Dec. 31, 009
A. Cash on hand	0.1
B. Other liquidity	500.0
C. TELAT loan	500.0
D. Cash and cash equivalents (A) + (B) + (C)	**1,000.1**
E. Current bank debt	0.0
F. Current portion of long-term debt	59.7
G. Short-term loans	40.0
H. Net position on the intercompany treasury account	2.7
I. Current financial debt (E) + (F) + (G) + (H)	**102.4**
J. Net current financial debt (I) - (D)	**-897.7**
K. Non-current bank debt	1,555.7
L. Bonds	2,643.5
M. Derivative financial instruments in portfolio	-40.6
N. Other financial liabilities	0.0
O. Net non-current financial debt (K) + (L) + (M) + (N)	**4,158.6**
P. Net financial debt (J) + (O)	**3,260.9**

For more detail on the composition of the items in this table, please see notes 15 and 19, as well as the information presented here in note 23.
The long-term loans of Terna S.p.A. contain covenants typical of international business practice, none of which have been triggered to date.

The main covenants governing issues under the €2 billion EMTN programme can be summarised as follows:

- negative pledge clauses under which the issuer or "significant subsidiaries" (consolidated companies whose total assets are at least 10% of total consolidated assets and, for the EMTN programme, have their registered office in an OECD country) may not establish or maintain mortgages, liens or other encumbrances on all or part of its assets to secure any listed bond or bond for which listing is planned unless the same guarantee is extended equally to the bonds in question. A number of exceptions apply (guarantees required by law, guarantees in place prior to the date of the loan, guarantees on new assets that secure only the debt assumed to acquire the assets, etc.);
- *pari passu* clauses under which the securities constitute a direct, unconditional and unsecured obligation of the issuer and are issued without preferential rights among them and have at least the same seniority as other present and future unsecured and unsubordinated borrowing of the issuer;
- specification of default events, whose occurrence (e.g. failure to pay, initiation of liquidation proceedings, breach of contractual terms and conditions, etc.) constitutes a default; in addition, under cross-default clauses, the occurrence of a default event in respect of any financial liability (above a threshold level) issued by the issuer constitutes a default in respect of the liability in question, which becomes immediately repayable;
- periodic or occasional reporting requirements linked to the occurrence of specified events;
- early redemption clauses under which the Company may redeem all outstanding bonds early at par in the event of new tax requirements.

The main covenants governing the revolving credit lines, the Club Deal and the €500 million Cassa Depositi e Prestiti loan can be summarised as follows:

- negative pledge clauses under which the Company or significant subsidiaries (consolidated companies whose total assets are at least 10% of total consolidated assets) may not establish new guarantees securing any type of financial liability with the exception of permitted guarantees (guarantees required by Law, guarantees in place prior to the date of the loan, guarantees on new assets that secure only the debt assumed to acquire the assets, guarantees pledged to governmental or international entities, including the EIB, guarantees on borrowing whose amount does not exceed 10% of total assets etc.);
- *pari passu* clauses under which the payment undertakings of the borrower in respect of loans are not subordinate to any obligation in respect of other unsecured and unsubordinated creditors, except in the case of statutory preferential rights;
- specification of default events, whose occurrence (e.g. failure to pay, false statements, business closure, breach of contractual terms and conditions etc.) constitutes a default; in addition, under cross-default clauses, the occurrence of a default event in respect of any financial liability (above a threshold level) constitutes a default in respect of the liability in question, which becomes immediately repayable;
- periodic or occasional reporting requirements linked to the occurrence of specified events;
- early redemption clauses under which the Company will be required to repay the loan eagerly if its long-term credit rating is reduced by a majority of the rating agencies that monitor the Company below investment grade (BBB-) or the Company ceases to be monitored by one or more rating agencies.

The main covenants governing the EIB loans can be summarised as follows:

- negative pledge clauses under which if the Company establishes, agrees, provides or decides to maintain restrictions in favour, whether directly or indirectly, of third parties (such as the pledge of unsecured guarantees or collateral, liens, encumbrances, charges or other rights), it is required, at the simple request of the EIB, to grant the Bank equivalent guarantees, with the exception of guarantees granted for borrowing below a threshold level;
- clauses requiring the pledging of additional guarantees to the EIB in the event of a reduction in the Company's rating: if the credit rating of unsubordinated and unsecured medium/long-term debt is cut (A- by Standard & Poor's; A3 by Moody's; A- by Fitch), the EIB may request that the Company provides additional security considered satisfactory by the Bank in its exclusive but reasonable judgement;
- periodic or occasional reporting requirements linked to the occurrence of specified events concerning both the projects being financed and the Company itself;
- contract termination clauses, under which the occurrence of specified events (failure to pay, serious inaccuracies in documentation presented, insolvency, special administration, liquidation etc.) constitutes default, triggering immediate repayment; in addition, where the Company is required upon default to discharge in advance any other financial obligation in respect of loans, credit facilities, bank advances, discounting, the issue or subscription of any form of bond or security, such default shall also constitute default on the loan in question, triggering immediate repayment.

24. Employee benefits - €125.1 million

Terna provides benefits to its employees during their period of employment (loyalty bonus), at the termination of their employment (termination benefits, additional month's pay and indemnity for lack of notice), and in the period after the termination of employment (electricity discount and the ASEM health plan).

The loyalty bonus is awarded to employees and managers of the Company when they reach certain seniority levels (25 and 35 years of service).

The benefits granted at the termination of employment are recognised for all employees (termination benefits), managers hired or appointed before February 28, 1999 (indemnity for lack of notice), and employees (production workers, office staff and junior managers) hired before July 24, 2001 (additional month's pay indemnity).

Post-employment benefits consist of the following:
- discount on electrical energy consumed for domestic use. This benefit is offered to all employees hired before June 30, 1996 (electricity discount);
- a health plan complementing the national health service, as agreed under the terms of the national contract for industrial managers (the ASEM health plan).

The composition of termination benefits and other employee-related provisions at December 31, 2009 is detailed below along with changes in the period:

In millions of euros	Dec. 31, 2008	Accruals	Interest cost	Utilisations and other changes	Dec. 31, 2009
Employee benefits					
Loyalty bonus	5.1	0.2	0.2	-0.6	4.9
Total	**5.1**	**0.2**	**0.2**	**-0.6**	**4.9**
Termination benefits					
Termination benefits	74.4	11.2	3.2	-17.3	71.5
Additional month's pay	7.4	0.4	0.4	-0.9	7.3
Indemnities in lieu and other similar benefits	3.5	0.0	0.1	-0.3	3.3
Total	**85.3**	**11.6**	**3.7**	**-18.5**	**82.1**
Post-employment benefits					
Electricity discount	51.9	1.2	1.5	-27.9	26.7
ASEM	11.6	0.0	0.3	-0.5	11.4
Total	**63.5**	**1.2**	**1.8**	**-28.4**	**38.1**
Total	**153.9**	**13.0**	**5.7**	**-47.5**	**125.1**

The item, equal to €125.1 million at December 31, 2009 (€153.9 million at December 31, 2008), decreased by €28.8 million on the previous year, essentially due to the reversal from the electricity discount provision (€26.8 million, €19.4 million net of the tax effect) following the agreement with Enel Distribuzione that recalculated the correct number of eligible beneficiaries (retirees).

Costs for liabilities in respect of employee benefits recognised in profit or loss break down as follows:

In millions of euros	Termination benefits	Indemnities in lieu and other similar benefits	Additional month's pay	Loyalty bonus	ASEM	Electricity discount	Total
Dec. 31, 2008	**74.4**	**3.5**	**7.4**	**5.1**	**11.6**	**51.9**	**153.9**
Service cost	0.0	0.1	0.3	0.2	0.2	0.9	1.7
Amortisation of actuarial gains and losses	0.0	-0.3	0.1	0.0	-0.5	0.4	-0.3
Interest cost	3.2	0.1	0.4	0.2	0.3	1.5	5.7
Payments and transfers	-6.1	-0.1	-0.9	-0.6	-0.2	-1.2	-9.1
Reversal following Enel Distribuzione agreement	0.0	0.0	0.0	0.0	0.0	-26.8	-26.8
Dec. 31, 2009	**71.5**	**3.3**	**7.3**	**4.9**	**11.4**	**26.7**	**125.1**

The main assumptions made in the actuarial estimate of employee benefit obligations are as follows:

	2009	2008
Discount rate	4.1%	4.8%
Rate of increase in personnel expense	2.0%-4.0%	2.0%-5.0%
Rate of increase in healthcare costs	3.0%	3.0%-4.0%

25. Provisions for contingencies and charges - €147.9 million

The items and changes of the provisions for contingencies and charges at December 31, 2009 are set out below:

In millions of euros	Provision for disputes and litigation	Provision for other contingencies and charges	Provision for early retirement incentives	Total
Balance at Dec. 31, 2008	**14.9**	**54.3**	**12.4**	**81.6**
Accruals	0.0	85.3	1.6	86.9
Utilisations and other changes	-0.3	-18.5	-1.8	-20.7
Balance at Dec. 31, 2009	**14.6**	**121.1**	**12.2**	**147.9**

Provision for disputes and litigation - €14.6 million

The provision is accrued to cover the liabilities at year end that may arise from lawsuits and out-of-court disputes relating to Company activities. The amount accrued takes into account the opinions both of internal and external legal counsel. Compared with the previous year, the caption shows a slight decrease of €0.3 million. Litigation for which no potential charge can reasonably be calculated are described under "Off-balance sheet items".

Provision for other contingencies and charges - €121.1 million

The provision shows a net increase of €66.8 million compared with end-2008, ascribable to accruals of €85.3 million and utilisations of €18.5 million in the course of the year. More specifically:

- an accrual of €42.4 million for likely charges in respect of contractual and tax obligations related to the disposal of the controlling stake in Terna Participações;
- a net accrual of €21.2 million relating to "Projects for urban and environmental renewal", the aim of which is to offset the environmental impact of the construction of power lines;
- a net accrual of €6.8 million for incentive plans for management personnel and social security disputes with INPS;
- a net accrual of €1.4 million for the contribution to be paid to the Provision for Exceptional Events set up within the Electricity Equalisation Fund by Resolution no. 333/07 to cover supply interruptions;
- the use of a previous accrual (€7.0 million) relating to grid transmission fee adjustments referring to 2005, which was already the subject of a redetermination pursuant to AEEG Resolution no. 162/06.

Provision for early retirement incentives - €12.2 million

This provision reflects the estimated non-recurring charges related to the voluntary early termination of the working relationship of employees who are eligible for retirement. The caption shows substantially no change on the previous year.

26. Deferred tax liabilities - €276.3 million

Changes in this caption are detailed as follows:

In millions of euros	Dec. 31, 2008	Impact recognised in profit or loss		Impact recognised in equity	Dec. 31, 2009
		Accruals	Utilisations		
Deferred tax liabilities					
Property, plant and equipment	367.1	0.0	-32.5	0.0	334.6
Employee benefits and financial instruments	3.8	0.0	-0.3	0.0	3.5
Total deferred tax liabilities	**370.9**	**0.0**	**-32.8**	**0.0**	**338.1**
Deferred tax assets					
Provisions for contingencies and charges	14.5	4.0	-4.0	0.0	14.5
Provision for bad debts	0.9	2.2	0.0	0.0	3.1
Employee benefits and other personnel expense	26.6	7.6	-12.7	0.0	21.5
FVH derivatives – CHF	18.1	0.0	0.0	4.6	22.7
Total deferred tax assets	**60.1**	**13.8**	**-16.7**	**4.6**	**61.8**
Net deferred tax liabilities	**310.8**	**-13.8**	**-16.1**	**-4.6**	**276.3**

The balance (€276.3 million) represents the net result of changes in the deferred tax liabilities and deferred tax assets of the Company.
Deferred tax liabilities totalled €338.1 million, down €32.8 million, essentially due to:
- the use of previous provisions to cover the difference between accelerated amortisation/depreciation and the depreciation calculated using ordinary technical rates (€23.8 million), including the reversal in respect of the amortisation/depreciation charge for the year attributable to the difference from merger eliminations allocated to property, plant and equipment following mergers carried out in previous years (€2.3 million);
- the reversal of the accrued portion (€8.7 million) for the use of the provision for deferred IRAP liabilities governed by Law no. 244 of December 24, 2007 (the 2008 Finance Act) recognised in previous years against ordinary economic/technical rates.

Deferred tax assets came to €61.8 million, an increase of €1.7 million, mainly attributable to the following changes:
- net reversals of €5.1 million in deferred tax assets in respect of provisions for employee benefits (€7.1 million, mainly concerning the reversal of the electricity discount provision following the agreement with Enel Servizio Electrico) and net provisions for other employee costs (€2.0 million);
- provisions of €4.6 million, attributable to the tax effect, which has no impact on the income statement, in respect of changes in cash flow hedge instruments;
- an increase of €2.2 million in the provision for bad debts.

27. Other non-current liabilities - €151.6 million

This item (€151.6 million at December 31, 2009) reports the deferred portion of plant grants (€140.5 million) as well as the deferred portion of grid transmission fees remunerating future costs in respect of the safety plan for the NTG (€11.1 million).
The increase of €1.2 million in the item with respect to the previous year regards:
- the release, in the amount of €5.6 million, of the portions of plant grants in connection with depreciation for the year applicable to the plants involved;
- the recognition, in the amount of €6.8 million, of the accrued portion of the grid transmission fees to cover the costs in the year of the National Transmission Grid safety plan, essentially due to the adjustment of the useful life of the intangible assets at the rates specified by the AEEG for rate purposes.

28. Current liabilities

Current liabilities break down as follows at December 31, 2009:

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Short-term loans*	42.7	0.5	42.2
Current portion of long-term loans*	59.7	44.6	15.1
Trade payables	1,487.6	1,874.4	-386.8
Tax liabilities	20.8	0.0	20.8
Current financial liabilities*	25.5	32.5	-7.0
Other current liabilities	95.4	82.7	12.7
Total	**1,731.7**	**2,034.7**	**-303.0**

(*) See the comments in note 23. Loans and financial liabilities.

Trade payables - €1,487.6 million

Trade payables at December 31, 2009 consist of the following:

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Suppliers			
- Energy-related payables	*1,100.7*	*1,554.3*	*-453.6*
- Non-energy related payables	*363.5*	*313.7*	*49.8*
Payables to associates	8.0	5.5	2.5
Payables to subsidiaries			
- Subsidiaries	*15.0*	*0.0*	*15.0*
Payables for contract work in progress	0.4	0.9	-0.5
Total trade payables	**1,487.6**	**1,874.4**	**-386.8**

Suppliers

Energy-related payables

This caption reports the effects on the statement of financial position of payables for "pass-through" costs, and refers mostly to purchase of energy and the transport fee due to the owners of other sections of the National Transmission Grid. The decrease of €453.6 million compared with 2008 is essentially attributable to:

- a decrease of €395.2 million in payables for the purchase of energy on the Power Exchange, partly offset by a decrease (as described above in the section on trade receivables) in receivables from the sale of electricity on the Exchange (€615.2 million). The decrease is ascribable to:
  - the effects of AEEG Resolution no. 203/08, which reduced Terna's recourse to supplementary offers to exceptionally critical conditions in the national electrical system, reducing payables by €39.4 million;
  - the impact of general economic conditions, which caused a decline in volumes and prices of unbalancing and the early invoicing of adjustments envisaged under AEEG Resolution no. 34/09 compared with the previous year (€64.5 million);
  - a reduction in payables for resources acquired on the ASM thanks to more efficient management of forecasts (€125.3 million);
  - the non-renewal of contracts for forward resources (€127.0 million).
- a decrease of €27.2 million in payables for the assignment of rights for the utilisation of transmission capacity on cross-border interconnections (AEEG Resolution no. 288/06 as updated);
- the reduction in the balance (€79.4 million) of payables awaiting definition by the AEEG recognised in previous years. The decline is attributable to the full settlement of payables in respect of congestion fees and the interconnection guarantee (€23.8 million and €34.9 million at December 31, 2008, respectively) and the partial reduction of payables for capacity payments (€42.9 million, also considering the increase in payables for UESS (essential generation units) of €22.2 million.

Non-energy related payables

Amounts due to suppliers refer to invoices both already received and yet to be received for tenders, services and the purchase of materials and equipment.
The increase (€49.8 million) reflects the higher investment spending on purchases and services in the final quarter of 2009 compared with the corresponding period of 2008.

Payables to subsidiaries

The caption shows a balance of €15.0 million, attributable to payables due to TELAT in respect of the grid transmission fees for December and to the effects of Resolution no. 188/08 for the last nine months of the year on the part of the NTG owned by the latter.

Payables to associates

This caption amounts to €8.0 million and relates to payables to CESI for services provided to the Company in the construction and management of laboratories and plants for tests, inspections, studies and experimental research in the general field of electricity technology and scientific progress. The increase (€2.5 million) compared with end-2008 is the result of an increase in services delivered in the final part of the year.

Group commitments with suppliers totalled about €2,001.7 million and refer to purchase commitments relating to normal operating activities for the period 2010-2015.

Payables for contract work in progress

This caption amounted to €0.4 million, and was substantially in line with the balance at December 31, 2008. It is composed as follows:

In millions of euros	Payments on account	Contract value	Balance at Dec. 31, 2009	Payments on account	Contract value	Balance at Dec. 31, 2008
Other	-3.0	2.6	-0.4	-1.7	0.8	-0.9
Total	**-3.0**	**2.6**	**-0.4**	**-1.7**	**0.8**	**-0.9**

Tax liabilities - €20.8 million

The caption refers to the Company's tax payables for the financial year. In the previous year, the balance was nil since Terna reported a tax credit, as payments on account exceeded the tax liability recognised at the end of the year.

Other current liabilities - €95.4 million

Other current liabilities are detailed below:

In millions of euros	Dec. 31, 2009	Due within one year	Due after one year	Dec. 31, 2008	Change
Payments on account	9.1	3.5	5.6	9.9	-0.8
Other tax liabilities	7.1	7.1	0.0	14.9	-7.8
Amounts payable to social security institutions	23.6	23.6	0.0	18.6	5.0
Amounts payable to employees	36.3	36.3	0.0	25.2	11.1
Other payables to third parties	19.3	4.2	15.1	14.1	5.2
Total	**95.4**	**74.6**	**20.8**	**82.7**	**12.7**

Payments on account

This caption includes grants related to plant received by the Company for investments pending at December 31, 2009. The caption shows a net decrease of €0.8 million compared with 2008 (€9.9 million), which is essentially the net effect of new payments on account received from third parties (€13.9 million) and a decrease of €14.7 million in grants that directly reduce the carrying amount of the related assets, which entered service during the year.

Other tax liabilities

Other tax liabilities, equal to €7.1 million, essentially regard payables for withholding taxes retained by the Company. The item decreased by €7.8 million, mainly because a VAT credit was recognised for 2009, compared with the VAT payable at December 31, 2008 (€8.7 million).

Amounts payable to social security institutions

This caption amounts to €23.6 million (€18.6 million at December 31, 2008), and mostly consists of the Company's payables of €18.4 million to INPS for December; the item also reports the payable in respect of the Fondo Previdenza Elettrici (F.P.E., a complementary pension fund for the electricity industry), equal to €5.2 million.

Amounts payable to employees

Payables to employees came to €36.3 million (€25.2 million at end-2008) and essentially refer to:

- accruals made for staff incentives to be paid the following year (€19.0 million);
- payments due to employees for unused holiday time and abolished public holidays (€8.5 million);
- termination benefits due to employees whose employment was terminated before December 31, 2009 (€3.2 million).

Other payables to third parties

Other payables, equal to €19.3 million (€14.1 million at December 31, 2008), mainly regard security deposits (€15.2 million) received from electricity market operators securing their obligations in respect of dispatching contracts. These deposits rose by €4.8 million, mainly due to operators' increased use in the final part of the year of security deposits rather than bank sureties.

E. Commitments and contingencies arising from off-balance sheet items

The main off-balance sheet commitments and contingencies of Terna S.p.A. at December 31, 2009 are as follows.

Environmental litigation

Environmental litigation relates to the installation and operation of electrical systems, in particular the effects of electric and magnetic fields.

The Company is involved in various civil and administrative suits in which requests have been made for the transfer or change in operations of allegedly harmful power lines, even if installed in full compliance with applicable legislation. Only a very small number of cases include claims for damages for harm to health due to electromagnetic fields.

Only in a few cases have adverse judgements been issued against the Company. These have been appealed and the appeals are still pending, although adverse rulings are considered unlikely.

Litigation concerning concession activities

As it holds the concession for transmission and dispatching activities since November 1, 2005, Terna has been involved in a number of cases appealing AEEG, MAP and/or Terna measures relating to activities operated under the concession. Only in those cases in which the plaintiffs not only claim defects in the measures, but also allege that Terna violated the rules established by such Authorities is the Company called to appear in court. Within the scope of this litigation, although a number of cases have seen the voidance of Authority resolutions at the first or second level of adjudication, it is felt there is little risk of adverse outcomes for Terna, as the matters regard pass-through items for the Company, a position supported by the information provided by the external legal counsel representing the Company in the cases involved.

Other litigation

In addition, a number of cases relating to urban planning and environmental issues are pending in respect of the construction and operation of certain transmission lines. Any unfavourable outcome to these cases could have adverse effects for the Company, which cannot be foreseen to date. Accordingly, no accruals to provisions have been made in this respect.

In a limited number of cases the possibility of an adverse outcome cannot be ruled out. The possible consequences could, in addition to the award of damages, include, *inter alia*, the costs of modifying lines and suspending 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 counsel, and any negative outcome is considered remote.

F. Business combinations

No business combinations were carried out in 2009.

G. Related party transactions

Terna's transactions with related parties, taking account of the *de facto* control exercised over the Company by Cassa Depositi e Prestiti S.p.A. first ascertained in 2007, regarded – in addition to the subsidiaries (TELAT, SunTergrid and RTR) – the associate company CESI S.p.A., the employee pension funds (Fondenel and Fopen), Cassa Depositi e Prestiti as well as companies belonging to:

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

and Anas S.p.A.

Transactions with related parties during the year essentially regarded services rendered as part of ordinary operations that were settled on an arm's length basis. The following table sets out the nature of the Company's transactions, assets and liabilities with related parties, as well as the relevant revenue and costs for the year and receivables and payables at December 31, 2009:

Related party	Assets	Liabilities
SunTergrid Group	**Non-energy related items** Services for the construction of photovoltaic plants, management fees, land leasing	**Non-energy related items** Treasury services
TELAT	**NTG transmission fees** NTG transmission fees **Non-energy related items** Technical services and line maintenance, management fees, treasury services, financing	**NTG transmission fees** Network remuneration
Cassa Depositi e Prestiti S.p.A.	**Non-energy related items** Subscription of bonds	**Non-energy related items** Fees on loans to be disbursed
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 metering aggregation, energy sales, rights of withdrawal, coverage of transmission costs, rights of use of transport capacity for interconnection **Non-energy related items** Leases and rents, line maintenance	**Energy-related items** Metering aggregation, energy purchases, rights of use of transport capacity for interconnection, coverage of congestion costs, congestion rent **Non-energy related items** Restitution of electric power discount, supply of MV power to new stations, specialised services for connection to Terna control and protection systems
ENI Group	**Energy-related items** Rights of withdrawal, energy sales, rights for use of transport capacity for interconnection, coverage of transmission costs, remuneration of grid **Non-energy related items** Line maintenance	**Energy-related items** Energy purchase, coverage of congestion costs, National Transmission Grid remuneration
Ferrovie Group	**Non-energy related items** Line moving	**Energy-related items** National Transmission Grid remuneration **Non-energy related items** Right of way fees
Anas S.p.A.	**Non-energy related items** Line moving	**Non-energy related items** Right of way fees
Fondenel and Fopen		**Non-energy related items** Amounts payable to social security institutions by Terna Group

Company In millions of euros	Income statement					
	Revenue			Expenses		
	Grid transmission fee and other energy items	Grid tran. fee (other owners) and pass-through energy items	Non-energy related items	Grid transmission fee and other energy items	Grid tran. fee (other owners) and pass-through energy items	Non-energy related items
Subsidiaries						
SunTergrid Group	-	-	6.1	-	-	
TELAT	-	97.8	30.1	-	97.7	0.1
Total subsidiaries	**-**	**97.8**	**36.2**	**-**	**97.7**	**0.1**
***De facto* controlling company**						
Cassa Depositi e Prestiti S.p.A.	-	-	3.1	-	-	1.2
Total *de facto* controlling company	**-**	**-**	**3.1**	**-**	**-**	**1.2**
Associates						
CESI S.p.A.	-	-	-	-	-	1.3
Total associates	**-**	**-**	**-**	**-**	**-**	**1.3**
Other related parties						
GSE Group	26.0	1,343.1	0.5	-	643.2	-
Enel Group	996.1	1,105.1	11.4	8.5	1,582.7	8.5
Eni Group	7.4	105.1	0.2	-	109.9	-
Ferrovie Group	0.7	32.5	0.1	6.9	4.7	0.1
ANAS S.p.A.	-	-	-			
Total other related parties	**1,030.2**	**2,585.8**	**12.2**	**15.4**	**2,340.5**	**8.6**
Pension funds						
Fondenel	-	-	-	-	-	0.5
Fopen	-	-	-	-	-	1.7
Total pension funds	**-**	**-**	**-**	**-**	**-**	**2.2**
Total	**1,030.2**	**2,683.6**	**51.5**	**15.4**	**2,438.2**	**13.4**

	Transactions					
	Property, plant and equipment	Receivables and other assets		Payables and other liabilities		
Company In millions of euro	Capitalised costs	Other	Financial	Other	Financial	Guarantees*
Subsidiaries						
SunTergrid	-	7.0	-	0.9	10.3	-
TELAT	-	3.1	509.8	15.0	-	-
Total subsidiaries	**-**	**10.1**	**509.8**	**15.9**	**10.3**	**-**
***De facto* controlling company**						
Cassa Depositi e Prestisti S.p.A.	-	-	0.5	-	1.1	-
Total *de facto* controlling company	**-**	**-**	**0.5**	**-**	**1.1**	**-**
Associates						
CESI S.p.A.	11.8	-	-	8.0		2.9
Total associates	**11.8**	**-**	**-**	**8.0**	**-**	**2.9**
Other related parties						
GSE Group	-	0.6	-	-	-	-
Enel Group	3.5	117.6		22.8	-	436.0
Eni Group	-	0.3	-	0.5	-	24.4
Ferrovie Group	-	2.2	-	2.0	-	22.0
ANAS S.p.A.	-	1.0	-	0.8	-	-
Total other related parties	**3.5**	**121.7**	**-**	**26.1**	**-**	**482.4**
Pension funds						
Fondenel	-	-	-	-	-	-
Fopen	-	-	-	1.4	-	-
Total pension funds	**-**	**-**	**-**	**1.4**	**-**	**-**
Total	**15.3**	**131.8**	**510.3**	**51.4**	**11.4**	**485.3**

(*) The guarantees refer to the bank guarantees received on contracts.

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

No significant, non-recurring, atypical or unusual transactions were carried out during 2009, either with third parties or with related parties, with the exception of any transactions discussed earlier.

I. Notes to the statement of cash flows

The cash flow generated from **continuing operations** in the year amounted to around €1,248.6 million, which reflects around €1,483.6 million in cash from operating activities (self-financing) and the use of around €235.0 million in financial resources generated by the management of net working capital.
Investing activities used net financial resources of around €1,209.7 million, and included €816.8 million of investment in property, plant and equipment (€831.5 million net of plant grants totalling €14.7 million), and about €40.6 million of investment in intangible assets.
Cash flows in respect of investing activities were affected by the acquisition of 100% of TELAT S.r.l. (€557.7 million, net of the capital decrease of €600 million), the sale of Terna Participações (-€210.8 million), the shareholder capital contribution of €10.0 million to SunTergrid (formerly InTernational) and the acquisition of an additional stake (€2 million) in the associate CESI from A2A S.p.A. and Siemens S.p.A. (1.871% and 4.68% respectively) and the investment in the joint venture ELMED ÉTUDES (€0.7 million) acquired in April 2009.
The change in **cash flows** for financing activities in respect of equity shows a decrease of €337.5 million, essentially attributable to the payment of the balance of the 2008 dividend (€197.7 million) and the interim dividend for 2009 (€140.1 million).
Consequently, the financial resources required for investing activities and the remuneration of equity amounted to €1,547.2 million in the year, part of which (€1,248.6 million) was covered by cash flows generated from operating activities and part by new borrowing (€109.5 million, net of the change in FVH derivatives) and the use of cash and cash equivalents (€189.1 million). Cash was also used in short-term financial investments, in particular the investment in the last quarter of the year in short-term securities issued by UBS and MPS (€500 million).

L. Subsequent events

Italy-Montenegro intergovernmental agreement

On **February 6, 2010** Italy and Montenegro formalised an intergovernmental agreement committing the two countries to the construction of a new underwater electricity interconnection line and the implementation of a strong strategic partnership between their respective national transmission operations, Terna and Prenos, for investment in Montenegro's power grid. In particular, the partnership provides for Terna to take a stake of at least 22% in Prenos by way of a restricted recapitalisation, the designation of two of the seven board members by Terna and governance arrangements in which Terna will have a right of veto on strategic decisions.
Prenos, which was established on April 1, 2009 in a spin-off from Elektroprivreda Crne Gore - EPCG (the leading public energy company in Montenegro), holds three licenses: transmission operator, system operator and market operator.
As from April 6, 2009, Prenos shares have been listed on the local stock exchange.

The intergovernmental agreement is a key step for the completion of the deal between Terna and Prenos and, in view of the importance of the investment environment for the industrial development of the country, will be submitted to Montenegro's Parliament for approval. In addition, the accord incorporates and strengthens the main elements of the term sheet signed in July 2009 by Terna and Prenos, which formally took effect with the approval of Montenegro's Council of Ministers on September 3, 2009.

Renewal and expansion of EMTN programme and new bond issues

On **February 17, 2010**, the Board of Directors of Terna authorised the renewal and expansion from €2 to €4 billion of the existing EMTN programme and the issue in one or more tranches by March 31, 2011 of bonds in public or private placements of a total of €1.5 billion reserved for qualified investors in Italy and/or abroad either within the scope of the EMTN programme or outside that programme. The issues, to be denominated in euros or other currencies, may have a maximum term of 30 years.

2010-2014 Business Plan

On **February 18, 2010**, Terna presented the Company's 2010-2014 business plan to financial analysts, after approval of the plan by the Board of Directors on that same date.
The 2010-2014 plan of the Terna Group follows four main guidelines:

- sustainable growth: in the next five years a total of €4.3 billion will be invested, mainly to develop the power grid, an increase of €900 million or 26% over the level envisaged in the previous plan (€3.4 billion). Capital expenditure will also include more than €300 million for the photovoltaic project, bringing total budgeted expenditure to more than €4.6 billion;
- improved margins: increasing revenue and controlling costs will improve Group profitability from the current 74% to 77% at the end of the period covered by the plan;
- a sound capital structure: during the period of the plan, net debt will remain below 60% of regulated capital employed;
- confirmation of dividend policy: the policy provides for minimum annual growth of 4%, taking 2008 as the base year and half-yearly coupons in respect of the interim dividend and the balance. In addition, a portion of the proceeds from the sale of Terna Participações (approximately €150 million) will be allocated until 2012 to complement the policy by itself.

TELAT-Terna transfer of plants for the development and upgrading of the NTG

On **March 3, 2010**, the board of directors of TELAT, in order to enable initiatives for the development and upgrading of the NTG, transferred certain plant assets to Terna.
In particular, the Ministry for Economic Development, as provided for under art. 6 of Presidential Decree no. 327/2001, granted expropriation powers solely to Terna, as the latter, as concession holder, met the requirements for such delegation of powers.
The rationalisation and upgrading activities will mainly involve the Parent's local units (Territorial Operational Units) of Milan, Padua, Florence and Naples.
The overall value of the transaction, corresponding to the market value of the plant involved, amounts to about €21.1 million.

Agreement with EIB to finance the SA.PE.I. project

On March 18, 2010, Terna S.p.A. signed an agreement with the European Investment Bank (EIB) for an additional loan of €73 million to connect Sardinia with the Italian peninsula via a high-voltage undersea cable at an continuous 500 kW ("SA.PE.I."). This financing is in addition to the €300 million agreed on May 5, 2008. The new loan also has a 20-year term and is repayable in half-yearly instalments from the fifth year. The terms are highly competitive, with interest accruing at the annual six-month Euribor plus a spread of 40 basis points.

Information provided pursuant to art. 149 *duodecies* of the CONSOB Issuers Regulation

The following table, prepared pursuant to art. 149 *duodecies* of the CONSOB Issuers Regulation, reports the fees for 2009 for the audit and the non-audit services provided to Terna S.p.A. by the same auditing firm.

In euros	Entity providing service	Amounts due for 2009 - Italy
Audit services	KPMG S.p.A.	453,556.21
Attestation services	KPMG S.p.A.	147,410.34
Total		**600,966.55**

Certification of the financial statement pursuant to art. 81-ter of Consob Regulation n. 11971 dated May 14, 1999 and subsequent amendments and additions

1. The undersigned Flavio Cattaneo as CEO and Luciano di Bacco as Executive in Charge of preparing the accounting documents of Terna S.p.A., also taking into account the provisions of art. 154-bis paragraphs 3 and 4 of Legislative Decree n. 58 dated February 24, 1988 hereby certify:

- the adequacy with regard to the characteristics of the company and
- the actual implementation of the administrative and accounting procedures for preparing the financial statement for 2009.

2. With regard to the above, nothing significant emerged.

3. It is also certified that

3.1. the financial statement as of December 31, 2009:

a) was prepared in compliance with the applicable international accounting standards recognized by the European Community pursuant to regulation (EC) n. 1606/2002 of the European Parliament and of the Council, dated July 19, 2002 as well as with the provisions implementing art. 9 of Legislative Decree n. 38/2005.

b) corresponds to the results of the books and of the accounting records.

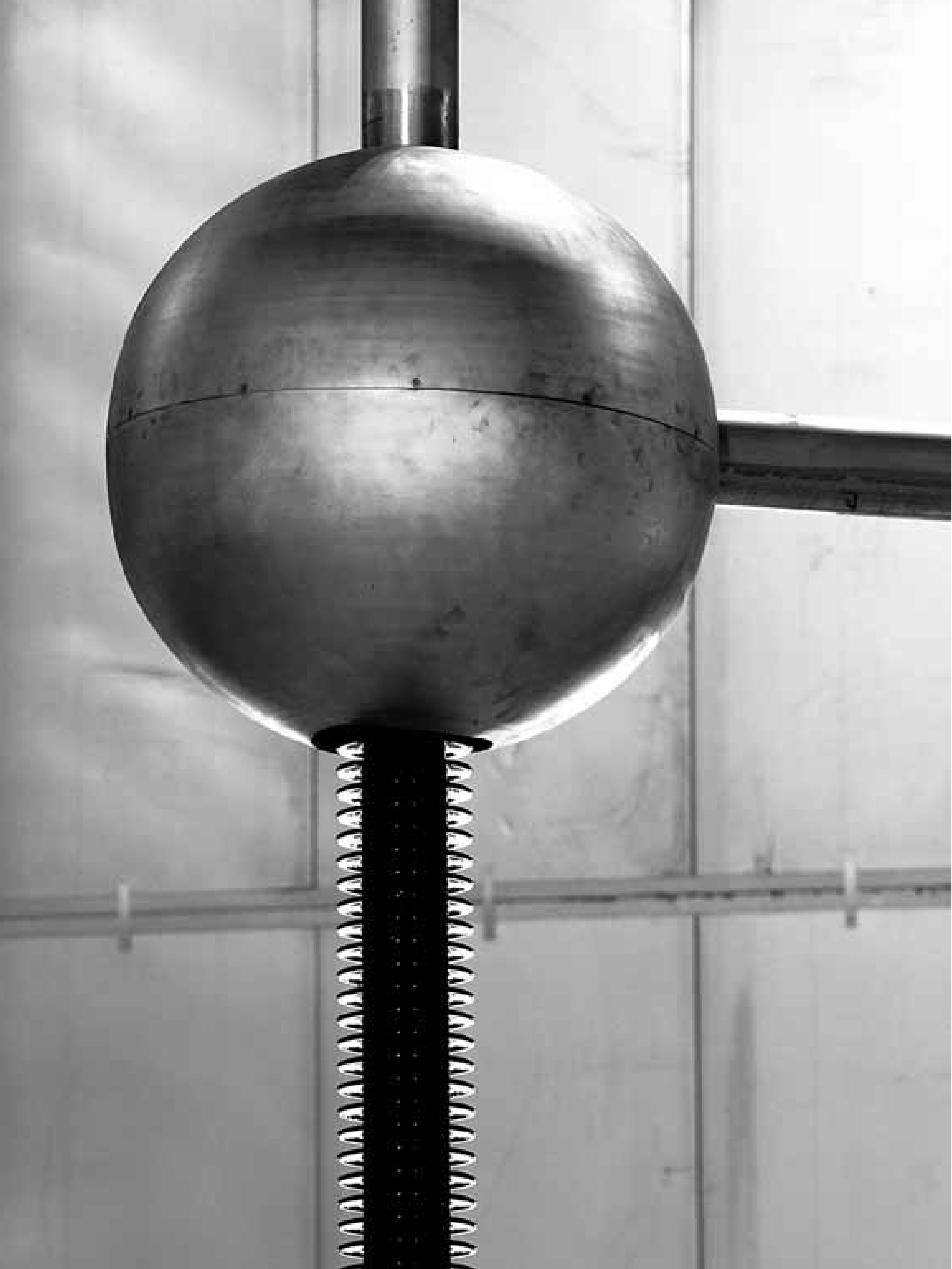
c) provides a truthful and correct representation of the statement of assets and liabilities and of the economic and financial situation of the issuer.

3.2. The Report on the management includes an accurate and faithful analysis of the management trend and results and of the issuer's situation, together with the description of the principal risks and uncertainties faced.

Rome, March 19, 2010

Delegated Administrative Bodies	The Executive in Charge of preparing the Company's accounting documents
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 BY THE BOARD OF STATUTORY AUDITORS TO TERNA S.p.A.'S SHAREHOLDERS MEETING
(pursuant to art. 153 of Legislative Decree no. 58/98)

Shareholders,

During the year that ended on December 31, 2009, we performed the supervisory activity required by the Law (Legislative Decree no. 58 dated 24/2/1998– "Consolidated text for the provisions regarding financial brokerage activity "), adapting our activity to the code of practice of the Boards of Statutory Auditors of capital-based companies with shares listed in regulated markets as recommended by National Board of Chartered Accountants and by CONSOB provisions regarding company auditing and activities conducted by the boards of statutory auditors.

The auditing activity, pursuant to Legislative Decree 58/1998, was assigned and carried out by the KPMG S.p.A. Auditing firm whose reports are referred to.

The Board of Statutory Auditors presently in office was appointed by the Shareholders Meeting on April 28, 2008 based on the provisions of the By-laws.

Also in compliance with the provisions issued by CONSOB with Notice DEM/125564 dated April 6, 2001 and subsequent updates, the following was carried out:

-We monitored that the Law and the By-laws were complied with.

-We attended the meetings of the Board of Directors and specific preparatory meetings regarding the items on its agenda, including the meetings of the Internal Control Committee and of the Remuneration Committee and were regularly informed by the Directors about the activities carried out, expected outlook and the most significant economic, financial and equity transactions of the Company, and we were satisfied that the resolutions adopted and implemented were in compliance with Law provisions and the By-laws and were not manifestly imprudent, risky, representing a potential conflict of interests, in contrast with the resolutions passed by the shareholders' meeting or capable of compromising the Company's assets.

- In the chapter "Relations with related parties" included into the Notes to the Financial Statement, the directors highlighted the principal transactions that were conducted with related parties, identified on the basis of the international accounting standards and on the provisions issued on the matter by CONSOB. This chapter can be referred to, to identify the type of transactions and relative economic, financial and equity effects.

- The company drew up the 2009 Financial Statement according to the international accounting standards (IAS/IFRS), as was also done for the previous one in 2008. The Notes include the accounting standards and the evaluation criteria adopted. Terna S.p.A.'s 2009 Financial Statement was submitted to the evaluation of the KPMG S.P.A. Accounting Firm which issued its auditing report on April 9, 2010 without anything significant to report. Significant events that occurred during 2009 are included in the Report on management of the Directors and can be examined more in detail:

- on November 3, 2009, the Company finalized the sale of its shareholding in Terna Participações, for a total consideration of 2,148 million reais corresponding to 37.14 reais per Unit (share deposit certificate). The sale of this shareholding and the distribution of dividends that was resolved on October 26, 2009, produced for the Company nearly 797 million euros of profits, in addition to the refund of the loan disbursed to the Brazilian subsidiary for a value of nearly 180 million euros;
- On April 1, 2009 and subsequent to the authorization from the Antitrust Authority, the Company finalized the acquisition of the entire share capital of Enel Linee Alta Tensione S.r.L. (subsequently re-named Terna Linee Alta Tensione S.r.L. – "TELAT"), owner of 18,583 kilometers of high voltage grid, for a total amount of 1.16 billion euros;
- on June 22, 2009, the Company issued bonds through private placement for a total amount of 600 million euros aimed at funding investments for grid development included in the Industrial Plan. The characteristic of this transaction are largely described in the Report on Management.

- The Company drew up the Terna Group's 2009 Consolidated Financial Statement applying the international accounting standards (IFRS/IAS) as it did for the previous year; the Terna Group's Consolidated Financial Statement was submitted to the evaluation of the KPMG S.p.A. Auditing firm that issued its auditing report on April 9, 2010 without anything significant to report.

- In the Report on the management, the Directors fully complied with the informative obligations pursuant to art. 154 ter of Legislative Decree 58/98, introduced by Legislative Decree 195/2007 (so called "Transparency Decree"), highlighting the principal risks and uncertainties which the Company and the Group faced.

- We collected information and monitored, as far as our authority allowed, the adequacy of the Company's organizational structure, compliance with the principles of proper management and the adequacy of the provisions issued by the Company to the subsidiaries pursuant to art. 114, paragraph 2,of Legislative Decree 58/59 by acquiring information from the Heads of the designated company departments, through meetings held with the Auditing firm and through meetings held with the control bodies of subsidiaries in order to mutually exchange data and significant information.

- We monitored the administrative and accounting system, assessing the reliability of the latter in providing a true and fair view of operations; this activity was carried out by obtaining information from the heads of the various departments, by examining company documents and analyzing results of the work carried out by the KPMG S.p.A. Auditing firm. The Board of Directors appointed the Executive in charge of "preparing the company's accounting documents" also verifying for him the existence of the necessary professional requirements. The CEO and the Executive in charge of preparing the company's accounting documents certified with a special report (attached to the Company's 2009 Financial Statement) a) compliance and effective application of administrative and accounting procedures; b) compliance of the contents of the accounting documents with the international accounting standards IFRS /IAS approved by the European Community, as well as with the provisions issued by Consob implementing Legislative Decree no. 38/2005; c) compliance of the documents with the data included in the books and the accounting records and their reliability in correctly representing the Company's economic, financial and equity situation. A similar Certification Report is attached to the Terna Group's Consolidated Financial Statement.

- We monitored the adequacy of the Internal Control System also through periodic meetings with the Executive in charge of Internal Control, the participation in all meetings of the Internal Control Committee and by collecting all relative documents. No facts worthy to be mentioned emerged.

- We held periodic meetings with the representatives of the KPMG S.p.A. Auditing firm, pursuant to art. 150, paragraph 3 of Legislative Decree 58/59 and no facts worthy to be mentioned in this Report emerged.

- We have monitored the actual implementation of Terna S.p.A.'s Corporate Governance Code adopted by the Board of Directors without noticing anything significant to be mentioned in this report. Moreover, with reference to the provisions established by the Corporate Governance Code which refer to the tasks of the Board of Statutory Auditors, the following should be pointed out:

  - we verified the correct application of the criteria and procedures for assessing independence, adopted by the Board of Directors, with nothing significant to report;
  - with regard to the "self-evaluation" of the independence requirement of its members, the Board of Statutory Auditors verified its existence during the meeting held on March 19, 2010;
  - we complied with the provisions of the regulation for managing and handling confidential and privileged company information;

- we monitored the independence of the KPMG S.p.A. Auditing firm and the compatibility of its assignments with regard to the terms of art. 160 of Legislative Decree no. 58, dated February 24, 1998.

Furthermore, it should be pointed out that the Auditing Company expressed its opinion regarding coherence of information pursuant to paragraph 1) letters c), d), f), l), m) and to paragraph 2, letter b), of art. 123 bis of Legislative Decree 58/98 as indicated by the amendments introduced by article 5, paragraph 4, of Legislative Decree 173/2008.

- With regard to Legislative Decree n. 231/2001, the Company adopted an organizational and management model whose contents were in compliance with the best international practices. Furthermore, we met the Supervisory Body for the mutual exchange of information.
- During 2009, the Company attributed the KPMG S.p.A. Auditing firm other assignments for a total amount of 310,390 euros for the following activities:

REQUESTING COMPANY TERNA SPA

SERVICE DESCRIPTION	AMOUNT
Unbundling review for AEEG (including expenses)	107,360
Reporting packages review 30.06.09 (including expenses)	16,720
Reporting packages review 31.12.08 (including expenses)	16,720
Opinion on interim dividend (including expenses)	50,000
Verification of Income Tax Form and 770 Form	4,500
Certification for sustainability report	63,970
Verif. Draft report as of 31.12.08 - ELAT	44,000
TOTAL	303,270
Italian Subsidiaries Ver. Capital gains for acquisition Telat	7,120
TOTAL	7,120

- During the year, no legal actions pursuant to Art. 2408 of the Civil Code were filed and received.
- We do not have the knowledge of any other facts or reports to be mentioned to the Meeting.
- We have verified compliance with the laws regarding the drawing up of the separate draft Financial statement and of the draft consolidated Financial statement of the Group, of the respective Illustrative Notes and Report on Management of the Directors, directly and with

the collaboration of the heads of departments and through information obtained by the Auditing firm and we have nothing significant to report.

- Pursuant to the law, we have issued our opinions pursuant to art. 2389, paragraph 3 of the Civil Code and to art. 2412 of the Civil Code; the Auditing firm issued its opinion pursuant to art. 158 of Legislative Decree no. 58, dated February 24, 1985 in relation to the provisions of paragraph 5 of art. 2433-bis of the Civil Code (interim dividends).
- In carrying out the above-mentioned monitoring activity, during 2009, the Board of Statutory Auditors met 11 times, attended the 9 meetings of the Board of Directors and participated in the 7 meetings of the Internal Control Committee and in the 3 meetings of the Remuneration Committee.

During the above-mentioned activity, as well as on the basis of the information periodically exchanged with the KPMG S.p.A. Auditing firm, no omissions and/or reproachable facts and/or irregularities were found that required reporting to the control bodies or that were worthy to be mentioned in this Report.

The Board of Statutory Auditors, following the monitoring activity carried out, requests your approval of the financial statement as of December 31, 2009 in compliance with the proposal of the Board of Directors.

Rome, April 12, 2010

The Board of Statutory Auditors

Luca A. Guarna
Lorenzo Pozza
Marcello Cosconati

Here below, the list is provided of the assignments for administration and control held by the members of the Board of Statutory Auditors in other companies (Attachment pursuant to art. 144 quinquiesdecies, Issuer Regulation)

Luca Aurelio GUARNA
Number of assignments held in issuers: 2
Number of total assignments held: 25

Company	Position	End of office*
A2A Logistica S.r.L.	Chairman Board of Statutory Auditors	31.12.2011
A2A Produzione S.p.A.	Chairman Board of Statutory Auditors	31.12.2010
Ambi S.p.A.	Standing Auditor	31.12.2010
Arquati S.r.l. in Liq.	Chairman Board of Statutory Auditors	31.12.2009
Biolase Sp.A.	Standing Auditor	31.12.2011
Bieffe Medital S.p.A.	Standing Auditor	31.12.2009
Capitoloquattro S.p.A.	Sole Administrator	Until revocation
Capitoloquattro S.p.A	Chairman Board of Directors	31.12.2009
Capitolosette S.r.l.	Chairman Board of Directors	31.12.2009
Delmi S.p.A.	Standing Auditor	31.12.2010
Duee S.r.l.	Standing Auditor	31.12.2011
Eagle Pictures S.p.A.	Standing Auditor	31.12.2009
Electro Power System S.p.A.	Chairman Board of Statutory Auditors	31.12.2010
Ge Capital Services S.r.l	Standing Auditor	31.12.2009
Hamworthy Combustion Engineering S.r.l.	Chairman Board of Statutory Auditors	31.03.2010
Immucor Italia S.p.A.	Standing Auditor	31.05.2009
Michel Rettili S.r.l.	Standing Auditor	31.12.2011
Tech Data Italia S.r.l.	Standing Auditor	31.01.2011
Terna S.p.A.	Chairman Board of Statutory Auditors	31.12.2010
Top Art S.r.l.	Standing Auditor	31.12.2010
Trident Immobiliare S.p.A.	Standing Auditor	31.12.2010
Tridente RE S.p.A.	Standing Auditor	31.12.2010
Venice S.r.l.	Standing Auditor	31.12.2011
Windows on Europe S.p.A.	Standing Auditor	31.12.2010
Zed Italia S.r.l.	Chairman Board of Statutory Auditors	31.12.2010

*Until approval of financial statement

Prof. Lorenzo POZZA
Number of assignments held in issuers: 3
Number of total assignments held: 9

Company	Position	End of office*
Angelab S.r.l.	Director	Until revocation
Bracco Imaging S.p.A.	Standing auditor	31.12.2009
Euraleo S.r.l.	Standing auditor	31.12.2009
Gas Plus S.p.A.	Chairman Board of Statutory Auditors	31.12.2011
Leonardo & Co S.p.A.	Standing Auditor	31.12.2011
Partners S.p.A.	Director	31.12.2010
Steli S.p.A.	Standing Auditor	31.12.2010
Telecom italia S.p.A	Standing Auditor	31.12.2011
Terna S.p.A.	Standing Auditor	31.12.2010

* Until approval of financial statement

Dott. Marcello COSCONATI

Number of assignments held in issuers: 1
Number of total assignments held: 4

Company	Position	End of office*
SACE S.p.A	Chairman Board of St. Auditors	31.12.2009
SACE Fct S.p.A	Chairman Board of St. Auditors	31.12.2011
Terna S.p.A	Standing Auditor	31.12.2010
Società Tirrenia Navigazione S.p.A.	Chairman Board of St. Auditors	31.12.2009

* Until approval of financial statement

KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with article 156 of Legislative decree no. 58 of 24 February 1998 (now article 14 of Legislative decree no. 39 of 27 January 2010)

To the shareholders of
TERNA S.p.A.

1 We have audited the separate financial statements of TERNA S.p.A. as at and for the year ended 31 December 2009, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The company's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. 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.

We carried out our audit of the separate financial statements as at and for the year ended 31 December 2009 in compliance with legislation ruling during the year.

Reference should be made to the report dated 31 March 2009 for our opinion on the prior year separate financial statements, which included the corresponding figures presented for comparative purposes that have been restated to reflect the changes in the presentation of financial statements introduced by IAS 1.

3 In our opinion, the separate financial statements of TERNA S.p.A. as at and for the year ended 31 December 2009 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of TERNA S.p.A. as at 31 December 2009, the results of its operations and its cash flows for the year then ended.

4 The directors of TERNA S.p.A. are responsible for the preparation of a directors' report on the financial statements and a report on the corporate governance and ownership structures in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and ownership structures with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and ownership structures are consistent with the separate financial statements of TERNA S.p.A. as at and for the year ended 31 December 2009.

Rome, 9 April 2010

KPMG S.p.A.

(signed on the original)

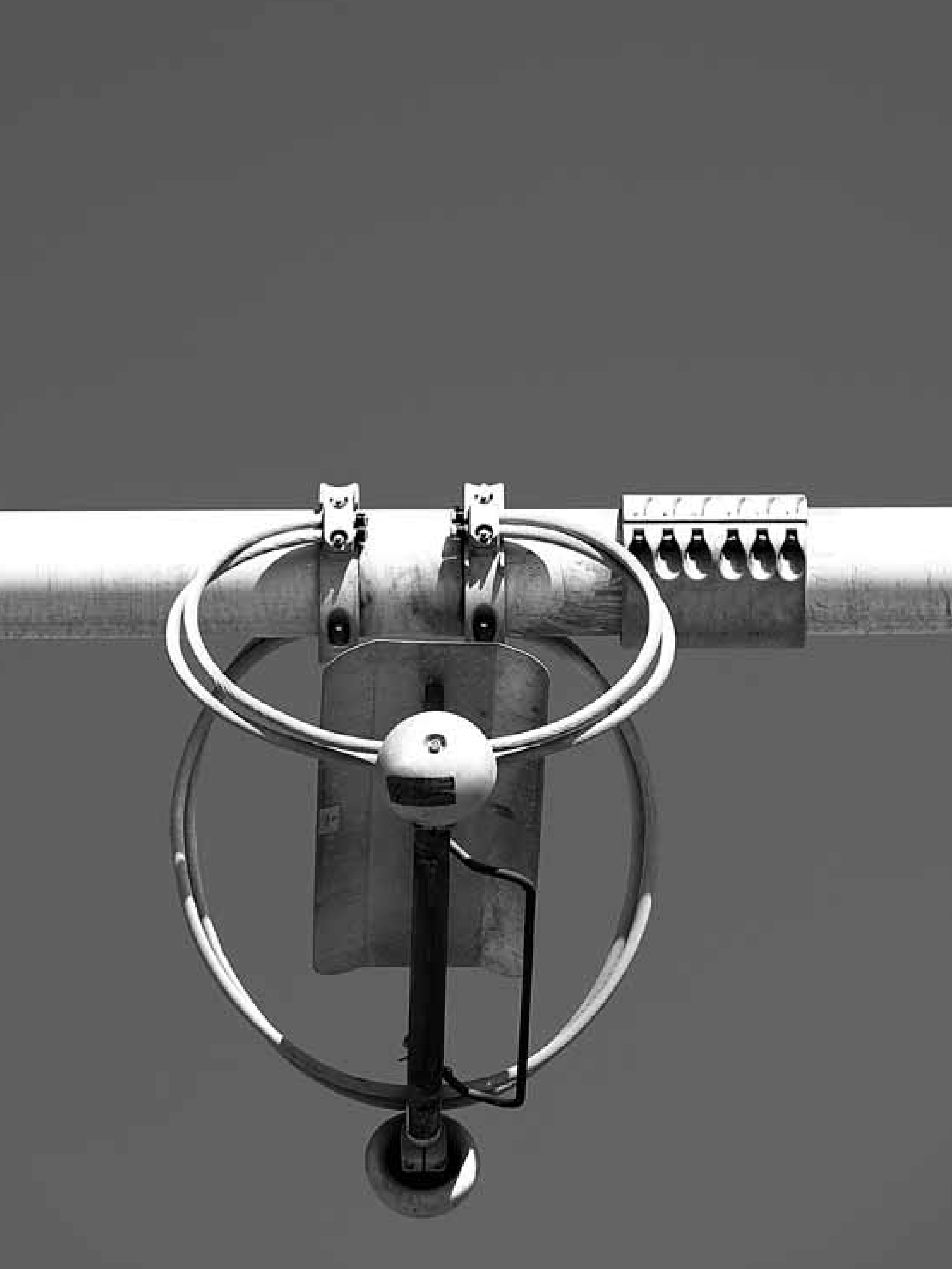
Marco Maffei
Director of Audit

Consolidated financial statements

at December 31, 2009

Contents

Consolidated financial statements at December 31, 2009



Consolidated financial statements

Consolidated income statement

In millions of euros	Notes	2009	2008	Change
A. Revenue				
1. Revenue from sales and services	1	1,317.3	1,152.0	165.3
of which from related parties		*1,270.4*	*1,421.4*	*-151.02*
2. Other revenue and income	2	43.4	43.8	-0.4
of which from related parties		*2.1*	*4.0*	*-1.9*
Total revenue		**1,360.7**	**1,195.8**	**164.9**
B. Operating expenses				
1. Raw materials and consumables	3	10.2	11.8	-1.6
of which to related parties		*0.1*	*0.0*	*0.1*
2. Services	4	128.0	110.7	17.3
of which to related parties		*8.2*	*10.0*	*-1.8*
3. Personnel expense	5	181.6	201.2	-19.6
- gross personnel expense		244.1	254.1	-10.0
- capitalised personnel costs		-62.5	-52.9	-9.6
of which to related parties		*3.4*	*2.1*	*1.3*
4. Amortisation, depreciation and impairment losses	6	326.6	255.3	71.3
5. Other operating expenses	7	19.9	19.9	0.0
of which to related parties		*0.6*	*0.5*	*0.1*
Total expenses		**666.3**	**598.9**	**67.4**
A-B Operating profit		**694.4**	**596.9**	**97.5**
C. Financial income/expense				
1. Financial income	8	29.2	21.6	7.6
of which from related parties		*3.1*	*0.0*	*3.1*
2. Financial expense	8	-180.4	-145.7	-34.7
of which to related parties		*1.2*	*0.0*	*1.2*
3. Share of profit/(losses) of equity-accounted investees	9	2.9	2.3	0.6
D. Profit before taxes		**546.1**	**475.1**	**71.0**
E. Income taxes	10	192.1	174.6	17.5
F. Profit for the year from continuing operations		**354.0**	**300.5**	**53.5**
G. Profit for the year from discontinued operations and assets held for sale	11	**417.0**	**40.9**	**376.1**
H. Profit for the year		**771.0**	**341.4**	**429.6**
Profit for the year attributable to the shareholders of the Parent		**771.0**	**327.5**	**443.5**
Profit for the year attributable to minority interests		**0.0**	**13.9**	**-13.9**
Earnings per share				
Basic earnings per share	12	0.385	0.164	0.222
Diluted earnings per share		0.384	0.163	0.221
Earnings per share of continuing operations				
Basic earnings per share	12	0.177	0.150	0.027
Diluted earnings per share		0.176	0.150	0.027

Consolidated statement of comprehensive income

In millions of euros	Notes	2009	2008	Change
Profit for the year		**771.0**	**341.4**	**429.6**
Other components of comprehensive income				
- Cash flow hedges net of tax effect	*25*	*-11.9*	*-47.4*	*35.5*
- Translation of financial statements of foreign operations	*25*	*3.4*	*-79.5*	*82.9*
Comprehensive income for the year		**762.5**	**214.5**	**548.0**
Comprehensive income attributable to:		**762.5**	**214.5**	**548.0**
Shareholders of the Parent		762.5	220.4	542.1
Minority interests		0.0	-5.9	5.9

Consolidated statement of financial position assets

In millions of euros	Notes	at Dec. 31, 2009	at Dec. 31, 2008	Change
A. Non-current assets				
1. Property, plant and equipment	13	7,075.3	6,035.8	1,039.5
of which from related parties		*30.3*	*21.1*	*9.2*
2. Goodwill	14	190.2	203.9	-13.7
3. Intangible assets	15	182.0	279.3	-97.3
4. Deferred tax assets	16	0.0	127.0	-127.0
5. Investments in equity-accounted investees	17	15.5	38.2	-22.7
6. Non-current financial assets	18	123.2	115.5	7.7
7. Other non-current assets	19	5.5	5.5	0.0
Total non-current assets		**7,591.7**	**6,805.2**	**786.5**
B. Current assets				
1. Inventories	20	11.7	17.7	-6.0
2. Trade receivables	21	1,169.1	1,730.4	-561.3
of which from related parties		*120.8*	*102.3*	*18.5*
3. Current financial assets	18	501.0	6.9	494.1
of which from related parties		*0.5*	*0.2*	*0.3*
4. Cash and cash equivalents	22	0.1	779.7	-779.6
5. Tax assets	23	18.4	25.9	-7.5
6. Other current assets	19	27.6	28.9	-1.3
of which from related parties		*1.5*	*0.1*	*1.4*
Total current assets		**1,727.9**	**2,589.5**	**-861.6**
C. Discontinued operations and assets held for sale	24	**0.1**	**0.0**	**0.1**
Total assets		**9,319.7**	**9,394.7**	**-75.0**

Consolidated statement of financial position liabilities

In millions of euros	Notes	at Dec. 31, 2009	at Dec. 31, 2008	Change
D. Equity attributable to the shareholders of the Parent				
1. Share capital		440.2	440.2	0.0
2. Other reserves		758.7	771.3	-12.6
3. Retained earnings		671.7	656.3	15.4
4. Interim dividend		-140.1	-118.5	-21.6
5. Profit for the year		771.0	327.5	443.5
Total equity attributable to the shareholders of the Parent	*25*	**2,501.5**	**2,076.8**	**424.7**
E. Equity attributable to minority interests		0.0	86.9	-86.9
Total equity	25	2,501.5	2,163.7	337.8
F. Non-current liabilities				
1. Long-term loans	26	4,199.2	3,955.3	243.9
2. Employee benefits	27	125.1	153.9	-28.8
3. Provisions for contingencies and charges	28	149.4	81.6	67.8
4. Deferred tax liabilities	29	363.8	316.5	47.3
5. Non-current financial liabilities	26	82.6	66.7	15.9
6. Other non-current liabilities	30	151.6	407.6	-256.0
of which to related parties		*0.0*	*0.8*	*-0.8*
Total non-current liabilities		**5,071.7**	**4,981.6**	**90.1**
G. Current liabilities				
1. Short-term loans	26	40.0	160.2	-120.2
2. Current portion of long-term loans	26	59.7	79.0	-19.3
3. Trade payables	31	1,482.0	1,880.6	-398.6
of which to related parties		*39.3*	*52.2*	*-12.9*
4. Tax liabilities	31	44.0	1.8	42.2
5. Current financial liabilities	26	25.5	34.0	-8.5
of which to related parties		*1.2*	*0.0*	*1.2*
6. Other current liabilities	31	95.3	93.8	1.5
of which to related parties		*4.6*	*7.0*	*-2.4*
Total current liabilities		**1,746.5**	**2,249.4**	**-502.9**
Total equity and liabilities		**9,319.7**	**9,394.7**	**-75.0**

Statement of changes in consolidated equity

DECEMBER 31, 2008-DECEMBER 31, 2009 — CONSOLIDATED SHARE CAPITAL AND RESERVES

In millions of euros	Share capital	Legal reserve	Share premium reserve	Cash flow hedge reserve
Equity at December 31, 2008	**440.2**	**88.0**	**2.7**	**-49.3**
Profit for the year				
Other components of comprehensive income:				
Release of translation of financial statements of foreign operations			-0.9	
Chage in the fair value of cash flow hedge derivatives net of tax effect				*-11.9*
Total other components of comprehensive income	**0.0**	**0.0**	**-0.9**	**-11.9**
Comprehensive income	**0.0**	**0.0**	**-0.9**	**-11.9**
Transactions with equity owners:				
Allocation of 2008 profit				
2008 dividends				
Retained earnings - 2008				
Exercise of stock options				
2009 - interim dividend				
Total transactions with equity owners	**0.0**	**0.0**	**0.0**	**0.0**
Equity at December 31, 2009	**440.2**	**88.0**	**1.8**	**-61.2**

DECEMBER 31, 2007-DECEMBER 31, 2008 — CONSOLIDATED SHARE CAPITAL AND RESERVES

In millions of euros	Share capital	Legal reserve	Share premium reserve	Cash flow hedge reserve	Other reserves
At December 31, 2007	**440.1**	**88.0**	**1.4**	**-1.9**	**729.9**
Adjustment of opening balances	0.0	0.0	0.0	0.0	0.0
Equity at December 31, 2007	**440.1**	**88.0**	**1.4**	**-1.9**	**729.9**
Profit for the year					
Other components of comprehensive income:					
Translation of financial statements of foreign operations					
Change in the fair value of cash flow hedge derivatives net of tax effect				-47.4	
Total other components of comprehensive income	**0.0**	**0.0**	**0.0**	**-47.4**	**0.0**
Comprehensive income	**0.0**	**0.0**	**0.0**	**-47.4**	**0.0**
Transactions with equity owners:					
Allocation of 2007 profit					
2007 dividends					
Retained earnings - 2007					
Exercise of stock options	0.1		1.3		
2008 interim dividend					
Total transactions with equity owners	**0.1**	**0.0**	**1.3**	**0.0**	**0.0**
Equity at December 31, 2008	**440.2**	**88.0**	**2.7**	**-49.3**	**729.9**

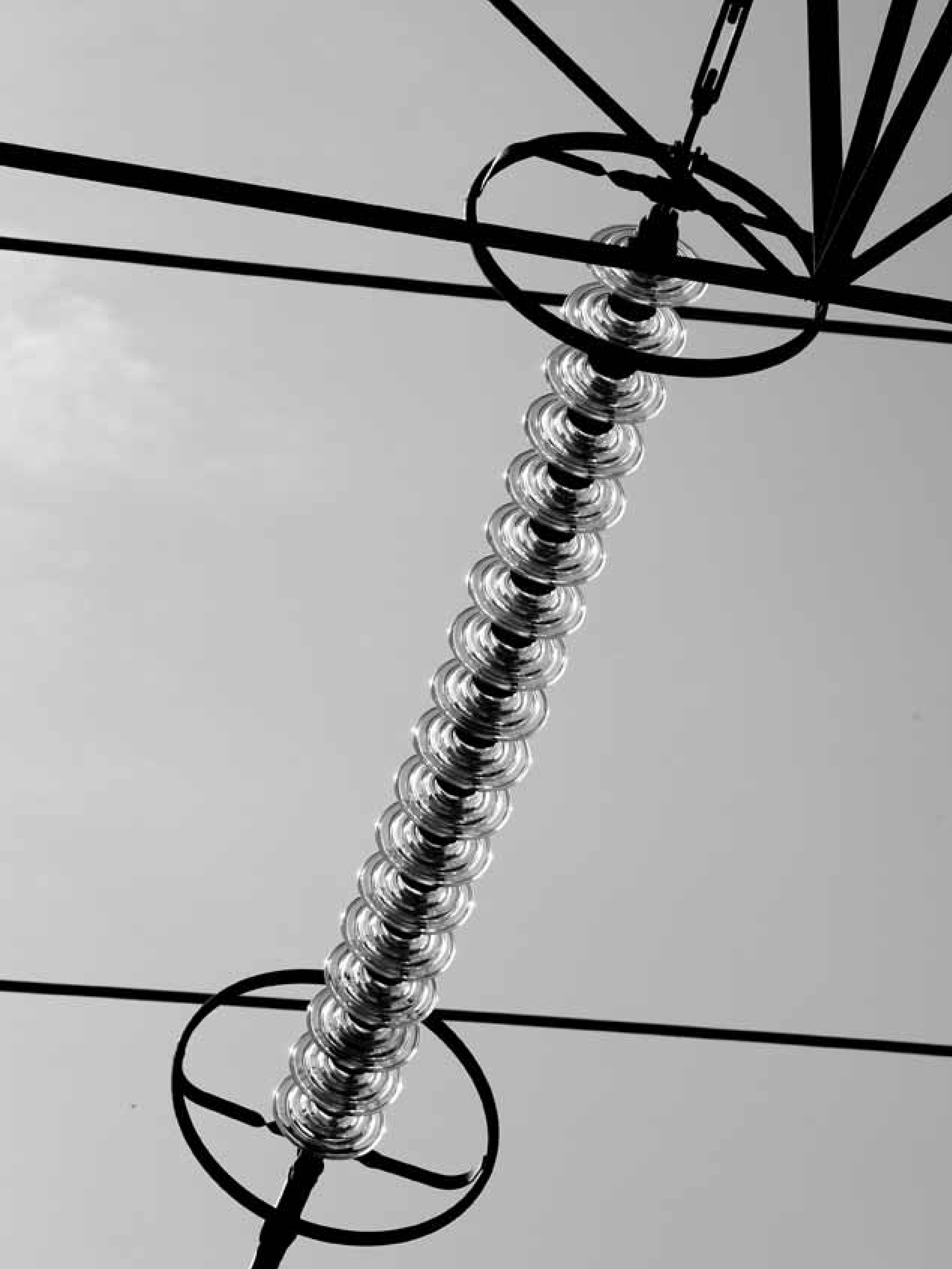
Other reserves	Translation reserve	Retained earnings	Interim dividend	Profit for the year	Equity attributable to the shareholders of the Parent
729.9	**-3.2**	**659.5**	**-118.5**	**327.5**	**2,076.8**
				771.0	**771.0**
0.2	3.2	0.9			3.4
					-11.9
0.2	**3.2**	**0.9**	**0.0**	**0.0**	**-8.5**
0.2	**3.2**	**0.9**	**0.0**	**771.0**	**762.5**
			118.5	*-316.2*	*-197.7*
		11.3		*-11.3*	*0.0*
					0.0
			-140.1		-140.1
0.0	**0.0**	**11.3**	**-21.6**	**-327.5**	**-337.8**
730.1	**0.0**	**671.7**	**-140.1**	**771.0**	**2,501.5**

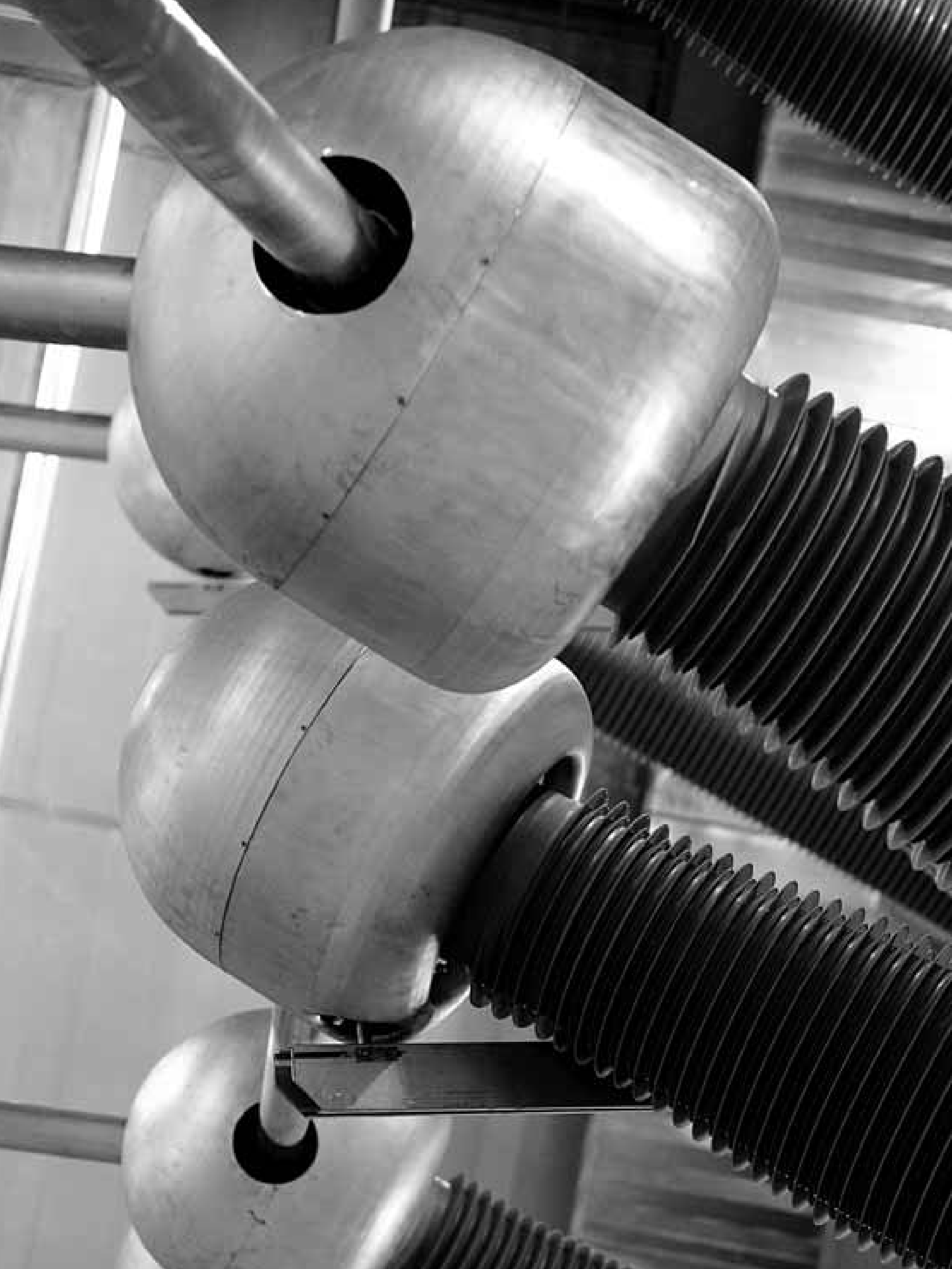
Translation reserve	Retained earnings	Interim dividend	Profit for the year	Equity attributable to the shareholders of the Parent	Equity attributable to minority interests	Total equity
56.5	**546.1**	**-112.0**	**413.9**	**2,162.0**	**111.5**	**2,273.5**
0.0	0.2	0.0	1.4	1.6	0.0	1.6
56.5	**546.3**	**-112.0**	**415.3**	**2,163.6**	**111.5**	**2,275.1**
			327.5	**327.5**	**13.9**	**341.4**
-59.7				-59.7	-19.8	-79.5
				-47.4		-47.4
-59.7	**0.0**	**0.0**	**0.0**	**-107.1**	**-19.8**	**-126.9**
-59.7	**0.0**	**0.0**	**327.5**	**220.4**	**-5.9**	**214.5**
		112.0	*-302.1*	*-190.1*	*-7.1*	*-197.2*
	113.2		*-113.2*	*0.0*		*0.0*
				1.4	0.2	1.6
		-118.5		-118.5	-11.8	-130.3
0.0	**113.2**	**-6.5**	**-415.3**	**-307.2**	**-18.7**	**-325.9**
-3.2	**659.5**	**-118.5**	**327.5**	**2,076.8**	**86.9**	**2,163.7**

Consolidated statement of cash flows*

In millions of euros	Dec. 31, 2009	Dec. 31, 2008
Profit for the year	**771,0**	**341,4**
Adjustments for:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on property, plant and equipment and intangible assets**	303.2	272.3
Exchange rate gains/losses on assets and liabilities (including cash and cash equivalents)	0.0	5.8
Accruals to provisions (including employee-related provisions) and impairment losses	114.0	54.5
(Gains)/Losses on disposals of property, plant and equipment	-1.3	-2.9
Financial (income)/expense	126.0	169.3
Income taxes	197.3	193.4
Cash flows generated by operating activities, before changes in net working capital	**1,510.2**	**1,033.8**
Decrease in provisions (including employee-related and tax provisions)	14.4	-46.2
(Increase)/Decrease in inventories	6.0	-5.1
(Increase)/Decrease in trade receivables and other current assets	576.6	-193.7
Increase/(Decrease) in other non-current liabilities	-247.6	58.1
Increase/(Decrease) in other non-current assets	89.4	-137.8
Increase/(Decrease) in trade payables and other liabilities	-328.5	268.7
Interest income and other financial income received	59.9	165.8
Interest expense and other financial expense paid	-227.1	-333.1
Income taxes paid	-174.0	-242.7
Cash flows generated by operating activities [a]	**1,279.3**	**567.8**
Investments in property, plant and equipment, net of grants received	-844.9	-731.2
Recognition of acquired companies' property, plant and equipment	-1,101.4	-98.1
Revenue from sale of property, plant and equipment and intangible assets	7.5	9.2
Property, plant and equipment of discontinued operations	620.2	0.0
Investments in non-current intangible assets	-40.6	-28.9
Recognition of intangible assets of new acquisitions	-6.3	-127.3
Goodwill from acquisitions	-101.6	-32.5
Intangible assets and goodwill of discontinued operations	227.4	0.0
Acquisition of equity investments in associates and joint ventures	-2.7	-9.4
Equity investments in assets held for sale	-0.1	0.0
Cash flows generated by investing activities [b]	**-1,242.5**	**-1,018.2**
Change in capital	0.0	0.1
Change in reserves	3.7	1.8
Dividends paid	-337.8	-327.5
Minority interests in discontinued operations	-86.9	0.0
Change in short- and medium/long-term financial payables (including short-term portions)***	607.3	1,107.5
Change in short-term financial investments	-500.0	226.7
Financial debt of discontinued operations	-502.7	0.0
Cash flows generated by financing activities [c]	**-816.4**	**1,008.6**
Exchange rate effect on cash and cash equivalents [d]	0.0	-22.5
Increase/(Decrease) in cash and cash equivalents [a+b+c+d]	**-779.6**	**535.7**
Opening cash and cash equivalents	779.7	244.0
Closing cash and cash equivalents	0.1	779.7
of which: Cash and cash equivalents of discontinued operations	*0.0*	*90.5*

(*) For comments on consolidated statement of cash flows, please see the section "Notes to the consolidated statement of cash flows" in the notes.
(**) Net of plant grants recognised in the income statement.
(***) Net of FVH derivatives.





Notes to the consolidated financial statements

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A. has registered offices in Viale Egidio Galbani 70, Rome, Italy. Its consolidated financial statements as of and for the year ended December 31, 2009 include its separate financial statements and those of its subsidiaries (the "Group"), as well as the Group's investments in associates and joint ventures. The subsidiaries included in the scope of consolidation are listed below. These consolidated financial statements were approved for publication by the Directors on March 19, 2010. The consolidated financial statements as of and for the year ended December 31, 2009 are available upon request at the Terna S.p.A. registered offices in Viale Egidio Galbani 70, Rome, or at the company web site www.terna.it.

Compliance with IAS/IFRS

The consolidated financial statements as of and for the year ended December 31, 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) 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 also been prepared considering the provisions of Legislative Decree no. 38 of February 28, 2005, the Italian Civil Code and CONSOB Resolutions nos. 15519 (*"Provisions governing financial statements in implementation of art. 9, paragraph 3, of Legislative Decree no. 38/2005"*) and 15520 (*"Amendments to the implementing rules for Legislative Decree no. 58/1998"*), both of July 27, 2006, as well as CONSOB Communication no. DEM/6064293 of July 28, 2006 (*"Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public referred to in art. 116 of the Consolidated Law on Financial Intermediation"*).

The consolidated financial statements have been prepared on a historic cost basis, modified where necessary for certain financial instruments, as well as on a going concern basis. The Group has determined that, despite the challenging economic and financial environment, it does not face material uncertainties (as defined in paragraph 25 of IAS 1) that might cast doubt on its ability to continue as a going concern.

Basis of presentation

The consolidated financial statements are composed of the statement of financial position, the income statement, the statement of cash flows, the statement of changes in equity and the notes thereto.
In the statement of financial position, assets and liabilities are classified on a "current/non-current" basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Group's normal operating cycle; current liabilities are those expected to be settled in the Group's normal operating cycle or within one year from the close of the financial year.

The income statement is classified on the basis of the nature of costs. The income statement is now presented as two statements, the first of which (income statement) presents the components of profit or loss for the year; while the second (statement of comprehensive income) starts with the result for the year and then presents the revenue and expense items (including reclassification adjustments) that are recognised in equity rather than profit or loss for the year.
The statement of cash flows has been prepared using the indirect method.
The consolidated financial statements are accompanied by the Directors' Report for Terna S.p.A. and the Terna Group, which as from the 2008 financial year has been prepared as a single document, exercising the option granted under Legislative Decree no. 32 of February 2, 2007, which amended art. 40 (Directors' Report) of Legislative Decree no. 127 of April 9, 1991.

In the statement of financial position, 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 realisation, sale or consumption in the Group's normal operating cycle. Current liabilities are those expected to be settled in the Group's normal operating cycle or within one year from the close of the financial year.

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 recognised at fair value in accordance with IFRS-EU, as indicated in the accounting policies for each caption.

On **November 3, 2009** in implementation of the sale agreement signed on April 24, 2009 between Terna S.p.A., Cemig Geração e Transmissão S.A. ("Cemig GT") and Companhia Energética de Minas Gerais ("Cemig"), the sale of the equity investment held by Terna in Terna Participações S.A. to TAESA S.A. ("TAESA"), a company held by Cemig GT and FIP (Fundo de Investimento em Participações) Coliseu, which brings together a number of Brazilian investors, was completed. As discussed in more detail in the section "Significant events in 2009" of the Directors' Report and in the section on "Profit for the year from discontinued operations and assets held for sale" in these notes, the disposal generated a capital gain of €305.0 million, as well as the release to income of the translation reserve accumulated until the sale date of €68.4 million. The contribution of the Brazilian companies to the consolidated results for 2009 accrued up to the sale date amounted to €43.6 million.

As described in the section "Discontinued operations and non-current assets held for sale", the profit and loss effects of the sale have been reported under "Profit for the year from discontinued operations and assets held for sale" for 2009 and, for comparative purposes, the previous year.

The comparative income statement figures at December 31, 2008, have also been reclassified to improve the allocation of capitalised costs to the value of items of property, plant and equipment. More specifically, the value reported at December 31, 2008 for "Capitalised internal work" was transferred to a specific sub-item of "Personnel expense" and to "Raw materials and consumables" as appropriate.

Please note that certain comparative prior year balances have been reclassified for a better and more accurate comparative representation without, however, modifying the figures for equity at December 31, 2008 and the income statement at December 31, 2008.

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 and the effects are recognised through profit or loss 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 the IFRS endorsed by the European Commission that could have significant effects on the consolidated financial statements or that could give rise to risks that would entail significant adjustments to the carrying amounts of assets and liabilities in subsequent years are summarised below.

Employee benefits

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

Provisions for contingencies and charges

Accruals to the provisions for contingencies and charges are recognised 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 financial effect of the passage of time is material, accruals are measured by discounting the estimated outflow at a pre-tax discount rate that reflects current market assessments of the time value of money and, if applicable, the risks specific to the liability. Any increase in provisions associated with the passage of time is taken to the income statement under "Financial expense".

Provision for bad debts

Trade receivables are initially recognised at fair value net of any impairment losses relating to sums considered non recoverable, which are taken to the specific 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 analysed 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 scope of consolidation

The scope of consolidation 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 so as to obtain benefits from their activities, regardless of 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 scope of consolidation:

Company	Registered office	Business activity	Currency	Share capital	% holding	Carrying amount in euros	Consolidation method
		Companies controlled directly by Terna S.p.A.					
TELAT S.r.l.	Rome	Design, construction, management, development, operation and maintenance of high-voltage power lines	Euro	243,577,554	100%	557,666,437	Line-by-line
SunTergrid S.p.A.	Rome	Construction and maintenance of electricity transmission grids and plants for the generation of electricity, including renewables generation, for own use and sale in Italy and abroad	Euro	120,000	100%	10,672,709	Line-by-line
		Control through SunTergrid S.p.A.					
RTR S.r.l.	Rome	Construction and maintenance of electricity transmission grids and plants for the generation of electricity, including renewables generation, for own use and sale in Italy and abroad	Euro	50,000	100%	50,000	Line-by-line

The **changes in the scope of consolidation**, compared with December 31, 2008, include:

- Terna's acquisition of the entire share capital of TELAT S.r.l. from Enel Distribuzione S.p.A. (completed on April 1, 2009). Therefore, this company's contribution to the performance figures concerns the last nine months of the year;
- the sale of the Brazil group following the completion on November 3, 2009 of the agreement (April 24, 2009) between Terna S.p.A. and Cemig Geração e Transmissão S.A. for the transfer of 66% of Terna Participações S.A.;
- the establishment by SunTergrid S.p.A., on December 23, 2009, of Rete Rinnovabile S.r.l. ("RTR S.r.l."), with registered office in Rome and share capital of €50,000. The corporate purpose of the new company is the design, construction, management, development and maintenance of networks and other infrastructure in the electricity transmission and dispatching sector, as well as of plants for the generation of electricity, including renewables generation, for own use or sale in Italy and abroad, and any related research, consulting and assistance activities.

Associates

Investments in associates are those over which the Terna Group has significant influence but which are neither subsidiaries nor joint ventures. In assessing whether or not Terna has a significant influence, potential voting rights that are presently exercisable or convertible are also considered.

These investments are initially recognised at acquisition cost and subsequently measured using the equity method. Profits and losses attributable to the shareholders of the Parent are recognised 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 recognised in a specific provision, where the Parent is required to meet the legal or constructive obligations of the investee or, in any case, to cover its losses.

Jointly-controlled entities

Investments in jointly-controlled entities, in which the Group exercises joint control of other entities, are recognised initially at cost and subsequently measured using the equity method.

The profits or the losses attributable to the shareholders of the Parent are recognised from the date when it begins to exercise significant influence until that influence ceases. For more information on the Group's accounting treatment of jointly-controlled entities held for sale, see the section "Discontinued operations and non-current assets held for sale" above.

In assessing whether or not the Parent has a joint interest, potential voting rights that are presently exercisable or convertible are also considered.

Compared with December 31, 2008, we report:

- the establishment on April 20, 2009, of the Tunisia-registered company ELMED ÉTUDES Sàrl, a private limited company held equally by Terna and STEG (Société Tunisienne de l'Electricité et du Gaz);
- the sale of Empresa de Trasmissão do Alto Uruguai S.A. (ETAU) and Brasnorte trasmissora de Energia S.A. with the completion of the transfer discussed above of 66% of Terna Participações S.A.

Consolidation policies

All financial statements of investees used to prepare the consolidated financial statements as of and for the year ended December 31, 2009 have been approved by their respective boards of directors and 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, revenue and costs are fully eliminated, net of the related tax effect, where material ("consolidation on a line-by-line basis").

Unrealised gains and losses with associates and joint ventures are eliminated in proportion to the Group's holding therein. In both cases, unrealised losses are eliminated, unless they represent impairment.

Translation of foreign currency captions

The financial statements of each consolidated company are prepared using the functional currency for the economic environment in which each company operates.

In these financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at year end. Any exchange rate differences are taken to profit or loss.

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

Translation of financial statements of foreign operations

For the purposes of the consolidated financial statements, profits and losses, assets and liabilities are expressed in 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 prevailing at the reporting 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 profit or loss when the investment is sold.

Business combinations

All business combinations, including acquisitions of minority interests in entities over which control is already held, are recognised using the purchase method, where purchase cost is equal to the fair value, at the date of exchange, of assets sold and liabilities incurred or assumed, plus any costs directly attributable to the combination.
This cost is allocated by recognising 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 recognised as goodwill or, if negative, taken to profit or loss, after having verified once again that the current values of assets acquired and liabilities assumed 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 realised on the disposal in excess of goodwill subsequently realised is taken to profit or loss.

Property, plant and equipment

Property, plant and equipment is recognised at historic cost, including costs directly attributable to putting the asset in the condition necessary for it to be capable of operating in the manner for which it was acquired. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of disposal or removal of the asset. The corresponding liability is recognised in the provisions for contingencies and charges. Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation pursuant to IAS 23R are capitalised as part of the cost of the asset. For more information, please see the section "Financial income and expense" below. Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Company and if the cost can be reliably measured. All other costs are recognised in profit or loss when incurred.

Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognised and depreciated separately.
Certain assets that were revalued at January 1, 2005 (transition date) or previously are recognised at the revalued amount, which is considered deemed cost at the date of the revaluation.

Property, plant and equipment is shown net of accumulated depreciation and any impairment losses, which are measured as described below. Depreciation is calculated on a straight-line basis over the estimated useful economic life of the asset, which is reviewed annually, with revisions applied on a prospective basis. The depreciation of assets begins when the assets become available for use.
Liabilities associated with items of property, plant and equipment are taken to a specific provision as a balancing entry to the related asset. The amount is taken to profit or loss through the depreciation of the asset.

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

DEPRECIATION RATES

Civil and industrial buildings	2.50%
Power lines	2.50%
Transformer stations:	
Electrical machinery	2.38%
Electrical devices and equipment	3.13%
Automation and control systems	6.70%
Central systems for remote management and control:	
Devices, electrical equipment and ancillary plants	5.00%
Electronic calculation equipment	10.00%
Solar power plants:	
Buildings	5.00%
Electrical machinery	5.00%
Devices, electrical equipment and ancillary plants	5.00%
Panels and support structures	5.00%
Inverter	10.00%
Automation and control systems	6.60%

Land, regardless of whether it is free of construction or related to civil and industrial buildings, is not depreciated, since it has an indefinite useful life.
Property, plant and equipment acquired under finance leases, through which the Group has acquired substantially all the risks and rewards of ownership, are recognised as Group assets at the lower of fair value and the present value of minimum lease payments due, including any amounts to be paid to 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. 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 free of charge to the Parent, with effect from November 1, 2005, by the Ministry of Productive Activities to carry out electricity transmission and dispatching activities in Italy, runs for twenty-five years and is renewable for another twenty-five years. Under the provisions of artt. 18 and 19 of the Decree issued by the Ministry of Productive 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 plant (lines and stations) that makes 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 the most appropriate parameters at that date, assessing the value of the assets and their income generating capacity.
Accordingly, the assets directly related to the transmission and dispatching activities, including plant (lines and stations) that makes up the portion of the electricity transmission grid owned by the Group are classified as property, plant and equipment and are depreciated over their useful lives.

As specified below, in March 2009 the European Commission endorsed IFRIC Interpretation 12 Service Concession Arrangements (published in November 2006 by IFRIC - International Financial Reporting Interpretations Committee). Our analysis – still under way – of the applicability and any effects of the adoption of this interpretation on the Group financial statements suggests so far that transmission activities would be excluded from the concession arrangement. Conversely, the property, plant and equipment serving dispatching activities would be subject to the treatment specified in IFRIC 12 and will therefore be reclassified under intangible assets.

Intangible assets

Intangible assets, which all have finite useful lives, are recognised at cost, having obtained the approval of the Board of Statutory Auditors, and shown net of accumulated amortisation and any impairment losses, measured as described below.

Amortisation begins when the asset becomes available for use and is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions are applied on a prospective basis.

Intangible assets essentially regard the exclusive concession to carry out electricity transmission and dispatching activities and other intangible assets.
In particular, the Parent obtained the concession for electricity transmission and dispatching activities in Italy on November 1, 2005 when it acquired the TSO business unit.
As established in the Decree issued by the Ministry of Productive 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 recognised at cost, which reflected fair value.

Other intangible assets mainly relate to the following:
- the development and innovation of application software to manage the electricity invoicing process;
- the development and innovation of application software to protect the electrical system;
- software applications related to the development of the Power Exchange, particularly relating to the registration of operators, consumption units and the development of foreign procedures.

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

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset pursuant to IAS 23R are capitalised as part of the cost of the asset. For more information, please see the section “Financial income and expense” below.
All other development costs and research expenses are recognised in profit or loss when incurred.
These intangible assets are amortised over their estimated residual useful life, which is normally three years, given their rapid obsolescence.

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 electricity transmission and dispatching activities. Goodwill is not amortised after initial recognition. It is adjusted to reflect impairment losses, measured as described below. Goodwill relating to investments in associates and joint ventures is included in the carrying amount of those companies. Where negative goodwill arises, it is taken to profit or loss at the time of the acquisition.

In the adoption of the IFRS endorsed by the European Commission, the Group decided to restate only those business combinations that occurred after the transition date (January 1, 2004). Goodwill arising on acquisitions before that date corresponds to the amount recognised 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 evidence of impairment. If there is an indication that an asset may be impaired, its recoverable amount is estimated.
The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually.

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 CGU to which it belongs.

An impairment loss is recognised 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 up to the recoverable amount if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure recoverable amount.

Inventories

Inventories are recognised and measured at the lower of purchase cost and net estimated realisable value. Cost is calculated as the weighted average cost, including related charges.
Net estimated realisable value stands for the estimated price of sale under normal conditions net of completion costs and the estimated costs to sell.

Contract work in progress

When the profit or loss on a contract can be reliably estimated, the related contract costs and revenue are recognised separately in profit or loss on a percentage of completion basis. Progress is measured based on the work carried out and measured proportionally to the ratio of costs for the works carried out up to reporting date and total cost of the contract (cost-to-cost).
Differences between the value of completed contracts and payments on account received are recognised under statement of financial position assets or liabilities, considering any impairment losses on the work carried out so as to take into account the risks of customers' refusal to recognise the work performed. Expected contract losses are immediately taken to profit or loss.
Contract costs include all those costs that relate directly to the specific contract, as well as fixed and variable costs incurred by the Group companies as part of normal operations.

Financial instruments

Financial assets
Any financial assets other than financial derivatives that Group companies have the positive intention and ability to hold to maturity are recognised at cost at the settlement date, which is the fair value of the initial consideration given in exchange, including transaction costs.
They are subsequently measured at amortised cost, using the effective interest method, net of any impairment losses, which are determined as the lower of the asset's carrying amount and the present value of estimated future cash flows, discounted using the original interest rate. Financial assets are derecognised when, following their transfer or settlement, the Group companies are no longer involved in their management and no longer hold the risks and rewards of the transferred or settled instruments.

Trade receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method, and net of any impairment losses due to sums considered non-recoverable, which are taken to the specific 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.
Receivables with due dates that fall under normal commercial terms are not discounted.

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

Trade payables

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

Financial liabilities

Financial liabilities other than financial derivatives are initially recognised at the settlement date and measured at fair value, net of directly related transaction costs.
Subsequently, financial liabilities are measured at amortised cost, using the original effective interest method.
If the liabilities are covered by fair value hedges, they are adjusted to reflect changes in fair value with respect to the hedged risk.

Derivative financial instruments

Derivatives are recognised at fair value at the trade date and classified as hedges if the relationship between the derivative and the hedged item is formally documented and the hedge is highly effective within a range of 80% to 125%, as initially verified and periodically checked. When derivatives cover the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the part of changes in the fair value qualifying as effective is initially taken to equity and subsequently to profit or loss, in line with the effects of the hedged transaction. The portion of the fair value of the hedging instrument that does not qualify as effective is taken to profit or loss.

When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value through profit or loss. 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 pursuant to the IFRS-EU are recognised in profit or loss.
Fair value is measured on the basis of official quotations for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve of interest rates at the reporting date, and by converting amounts in currency other than the euro at the year-end exchange rate.
Financial and non-financial contracts (which are not already measured at fair value) are also analysed to identify any embedded derivatives, which must be separated and measured at fair value. This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows.
The measurement techniques used for derivatives existing at year end did not change with respect to the previous year. Accordingly, the effects in profit or loss and equity of these measurements are essentially attributable to normal market developments, as well as new derivative contracts signed during the year.

Employee benefits

The liability in respect of employee benefits payable upon or after termination of employment relates to defined benefit plans (termination benefits, additional month’s pay, indemnity for lack of notice, energy discount, ASEM health benefits and other benefits) or other long-term employee benefits (loyalty bonus) and is recognised net of any plan assets. It is measured separately for each plan on the basis of actuarial calculations that estimate the amount of future benefits that employees have accrued at the reporting date. The liability is recognised on an accruals basis over the vesting period. It is measured by independent actuaries.

Actuarial gains and losses at January 1, 2004 (date of transition to IFRS-EU) were recognised in equity. After that date, unrecognised actuarial gains and losses in excess of 10% of the greater of the present value of the defined benefit plan obligation and the fair value of plan assets are 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 recognised.

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 recognised under personnel expense 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 where subsequent information indicates that the expected number of instruments representative of capital that will mature differs from the estimate previously carried out, regardless of achievement of the market conditions.

The measurement method used to calculate fair value considers all the characteristics of the options (term, price and conditions etc.), as well as the price of Terna S.p.A. shares at the grant date, the volatility of the stock and the yield curve at the grant date, in line with the term of the plan.
At the vesting date, the estimate is revised through the income statement to recognise the actual amount corresponding to the number of equity instruments that have actually vested, regardless of achievement of the market conditions.

Provisions for contingencies and charges

Accruals to the provisions for contingencies and charges are recognised when, at the reporting date, the Company has a legal or constructive obligation towards others as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
Where the effect of the time value of money is material, accruals are measured by discounting estimated future cash flows using a pre-tax discount rate that reflects current market assessment of the time value of money and those risks specific to the liability, if present.
Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense. If the liability relates to property, plant and equipment (site disposal and restoration, for example), the provision is recognised as a balancing entry to the asset to which it relates. The expense is recognised in profit or loss through depreciation of the item of property, plant and equipment to which it relates.
Changes in the estimate are recognised through profit or loss for the year in which the change happens, except for those costs expected for dismantling, removal and reclamation, which come as a result of changes in the timing and use of economic resources necessary to extinguish the obligation or attributable to a material change in the discount rate, which are recognised as an increase or reduction of the related assets and recognised in profit or loss through depreciation.

Grants

The revenue is recognised when it is probable that the economic benefits deriving from the operation will be used by the enterprise. However, when there is uncertainty concerning the recovery of an amount already recognised in revenue, the non-recoverable value or the amount whose recovery is no longer probable is recorded as a cost.

Grants received in relation to specific assets whose value is recognised under non-current assets are, for plants operating before December 31, 2002, recognised under other liabilities and taken to profit or loss over the depreciation period of the related assets. From 2003, grants for new plants that have entered service are recognised as a direct reduction in the value of the related asset.
Grants for operating expenses are expensed in full when the recognition requirements are satisfied.

Revenue

Revenue is recognised when it is probable that the economic benefits deriving from the operation will be used by the enterprise.
Depending on the type of transaction, revenue is recognised on the basis of the following specific criteria:
- revenue from the sale of goods is recognised when the material risks and rewards of ownership of the goods have been transferred to the buyer and their total amount can be reliably determined and collected;
- revenue from services rendered is recognised with reference to the stage of completion of the transaction. If revenue cannot be reliably measured, it is recognised to the extent of recoverable costs;
- revenue accrued during the year in respect of contract work in progress is recognised on the basis of the payments agreed for the progress of works using the cost-to-cost method. In addition to contractual payments, project revenue includes any payments in respect of variations, price revisions and incentives, with the latter recognised where it is probable that they will actually be earned and can be reliably determined. Revenue is also adjusted for any penalties for delays attributable to Group companies;
- when the recovery of an amount already recognised in revenue is uncertain, the non-recoverable value or the amount whose recovery is no longer probable is recorded as a cost, with recognition in provisions for contingencies and charges;
- amounts collected on behalf of third parties, such as the fees paid to non-Terna grid owners, as well as revenue recognised for managing activities related to the balancing of the national electrical system, which do not increase equity, are reported net of the related costs. This presentation method, which reflects the substance of transactions by offsetting revenue with the related costs arising from the "same transaction", is discussed in full in a specific section of the notes.

Financial income and expense

Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The qualifying assets (property, plant and equipment and intangible assets) involved are those that require at least one year before being ready for use. The directly attributable borrowing cost is that which would not have been incurred if the expenditure for the asset had not been incurred.

Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where funds are raised through general borrowing, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool, excluding any specifically borrowed funds. The amount of borrowing costs capitalised during a year shall in any case not exceed the amount of borrowing costs incurred during that year.
Capitalisation commences as from the date all the following conditions have been met: (a) expenditures have been incurred for the asset; (b) borrowing costs are being incurred; and (c) activities to prepare the asset for its intended use or sale are in progress.
Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete. The capitalisation rate used for 2007 is 4.17%, that for 2008 is 4.93% and that for 2009 is 3.12%.

Financial income and expense other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities using the effective interest rate.

Dividends

Dividends from investee companies are recognised when the shareholders' right to receive payment is established.
Dividends and interim dividends payable to 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 or loss for the year attributable to holders of ordinary shares by the weighted average of outstanding ordinary shares during the year.
Diluted earnings per share are calculated by dividing the profit for the year attributable to holders of ordinary shares by the weighted average of outstanding shares, adjusted to consider the effects of all potential ordinary shares that could have a diluting effect.

Income taxes

Current income taxes are recognised as tax liabilities, net of advances paid, or tax assets where the net balance of the captions is positive. They are based on the estimated taxable income and in accordance with current legislation, taking account of applicable exemptions.
Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes, using current tax rates or the rates expected to be in effect when the temporary differences reverse, based on current rates or those that are substantially approved at the reporting date.
Deferred tax assets are recognised when their recovery is considered probable, i.e. when future taxable income will be available against which the asset can be used. The recoverability of deferred tax assets is reviewed at each year end.
Deferred tax liabilities are recognised in any case if they exist. Taxes in respect of components recognised directly in equity are also recognised in equity.

Discontinued operations and non-current assets held for sale

Non-current assets (or disposal groups) whose carrying amount will be recovered principally through a sale rather than through continuing use are classified as held for sale and reported separated from other assets and liabilities in the statement of financial position. Non-current assets (or disposal groups) classified as held for sale are first measured in conformity with the IFRS applicable to each asset and liability and subsequently are measured at the lower of their carrying amount and fair value less costs to sell. The carrying amounts of each asset and liability that are not governed by the measurement rules set out in IFRS 5, but are held for sale, are remeasured on the basis of the applicable IFRS before the fair value less costs to sell is redetermined.

The individual assets of the companies classified as held for sale are not depreciated/amortised, whereas financial expense and other expenses attributable to liabilities held for sale continue to be recognised. Any subsequent impairment losses are recognised directly as an adjustment to the carrying amount of the non-current assets (or disposal groups) classified as held for sale through profit or loss. The corresponding statement of financial position values for the previous year are not reclassified. A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is an operation acquired exclusively with a view to resale.

New reporting standards

International Financial Reporting Standards entering force as from January 1, 2009

As from January 1, 2009, the following International Financail Reporting Standards took effect:

IAS 23 - Borrowing Costs (revised in 2007)

Terna Group, has applied this standard early at December 31, 2008, setting the “commencement date” at January 1, 2006.

IAS 1 - Presentation of Financial Statements (revised in 2007)

The amendments to IAS 1 include the following:

- entities may choose between presenting income and expenses in a single statement of comprehensive income or in two separate statements: a separate income statement with the components of profit (loss) for the year and a second statement of comprehensive income that starts with profit (loss) for the year and then reports other components of comprehensive income, to be reported net of tax effects;
- changes in equity originated by transactions with the owner (e.g. dividends, share buybacks) must be presented in the statement of changes in equity separately from other changes.

IFRS 8 - Operating Segments

IFRS 8, which since January 1, 2009, replaces IAS 14 - Segment Reporting, requires entities to disclose information on its operating segments. It defines operating segments as components of an entity “whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance”. It also establishes the disclosure requirements concerning a segment’s products and services, the geographical areas in which it operates and its major customers. The new standard is the product of the comparison of IAS 14 with SFAS 131 - Disclosures about segments of an enterprise and related information, within the framework of the project to converge the IFRS and US GAAP.

Amendments to IFRS 7 - Financial instruments: disclosures

Endorsed with Regulation (EC) no. 1165/2009, it extends disclosure requirements for financial instruments. The amendment takes effect prospectively as from the financial statements for the year ended December 31, 2009. The main change is the introduction of a fair value hierarchy. More specifically, entities must specify the inputs they used to determine the fair value for each class of assets and liabilities, as follows:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) market inputs that are directly (e.g. prices) or indirectly (derived from prices) observable other than the quoted prices used for Level 1 (Level 2); and

(c) inputs not based on observable market data (Level 3).

Improvements to the IFRS (published in 2008)

Endorsed with Regulation (EC) no. 70/2009, this contains a series of amendments to numerous standards. The IASB has decided to publish an annual document containing all minor amendments to previously published standards, rather than publishing each separately.

Other International Accounting Standards

Since January 1, 2009, the following standards concerning issues that currently have no material impact on the Group financial statements have entered force:

- Amendment of IFRIC 1 and IAS 27: Cost of an investment in a subsidiary, jointly-controlled entity or associate;
- Amendments to IAS 32 and IAS 1: Puttable financial instruments and obligations arising on liquidation;
- Amendment to IFRS 2: Share-based payment: vesting conditions and cancellations;
- IFRIC 13: Customer loyalty programmes.

International Accounting Standards endorsed by the European Commission since January 1, 2009

In 2009 and in 2010 up to the date of preparation of these financial statements, the European Commission endorsed the following standards and interpretations:

IFRS 3 - Business Combinations (revised in 2007)

Endorsed with Regulation (EC) no. 495/2009, the revised standard will apply to the financial statements of the Terna Group as from January 1, 2010, as early application was not adopted.
The changes also required a number of amendments of IAS 27 and IAS 21, which were endorsed by the European Commission with Regulation (EC) no. 494/2009. The new standard will only apply to business combinations carried out subsequent to its entry into force.

IFRIC 12 - Service Concession Arrangements

Endorsed with Regulation (EC) no. 254/2009, the interpretation will apply to the financial statements of the Terna Group as from January 1, 2010. IFRIC 12 governs the accounting treatment of service concession arrangements, which are not governed by any specific accounting standard, in order to ensure the uniformity and comparability of the financial statements of companies that hold concessions for the delivery of public services. More specifically, the interpretation sets out the rules for accounting for the infrastructure used to provide the services, the costs associated with developing and maintaining such infrastructure and the revenue generated by the overall provision of the services. IFRIC 12 does not apply to all arrangements. Its scope is limited to service concession arrangements between public bodies and private operators in which the grantor: (1) controls the use of the infrastructure and governs which services are to be provided, the manner in which they are to be provided and the prices of such services and (2) controls any residual interest in the assets at the end of the term of the concession. The interpretation also applies to infrastructure that a third party constructs or acquires to operate the concession and existing infrastructure granted to the operator to provide the service. It does not apply to infrastructure owned and accounted for as property, plant and equipment by the operator prior to entering into the service concession arrangement.
Terna, with the help of outside consultants, is completing its assessment of the applicability of IFRIC 12 and the effects of its adoption on its accounts. As things currently stand, although our analysis is not complete, it appears that the interpretation does not apply to the part of the Terna concession covering transmission activities, given that neither the concession agreement nor the law provides for the public body to reacquire possession of the NTG, even with payment of an indemnity, and to gain full title to the assets. In addition, the control of the grantor over the residual interest in the assets should restrict the ability of the operator to sell the assets or pledge them as collateral. This restriction does not appear to apply to Terna, as the Company has full power over the infrastructure, even if the NTG is restricted to the delivery of a public service. In view of these factors, the public body therefore does not control, either via ownership, control over the benefits or other rights, any significant residual interest in the NTG infrastructure at the end of the term of the concession.
As regards dispatching operations, however, at the end of the term of the concession, Terna could be obligated to transfer the assets serving the service to the State. Accordingly, the Group has concluded that such assets fall within the scope of IFRIC 12, as the public body governs the services provided with such assets and controls any residual interest in them. More specifically, in view of the rate system for dispatching activities, the intangible asset model is felt to be applicable. At present, although the analysis is not complete, this interpretation appears to have no material impact on the income statement and equity of the Company, as the main consequence is a reclassification of assets from “property, plant and equipment” to “intangible assets”.

IFRIC 18 - Transfers of assets from customers

Endorsed with Regulation (EC) no. 1164/2009, this interpretation provides guidelines on the accounting treatment of items of property, plant and equipment, or cash to acquire or construct such assets, received from a customer. In particular, the interpretation establishes the following treatment for such assets received from a customer and used to provide the customer with ongoing access to a supply of goods and services (for example, electricity, gas or water supply etc.):

- the asset received is recognised at fair value in accordance with the provisions of IAS 16 governing the exchange of dissimilar assets with the consequent recognition of revenue when the service is performed;
- specific accounting treatment is required where the customer transfers cash sufficient for the purchase of the asset.

The interpretation shall apply for all assets received from customers on or after July 1, 2009 (for the Terna Group, first time application will therefore begin on January 1, 2010). Early application is permitted on the condition that the valuations and other information necessary to apply the interpretation to past transfers were obtained at the time those transfers were made. The Company is assessing the impact that application of the interpretation could have on its financial statements, taking account of the date it takes effect.

Amendments to IAS 39 Financial instruments - Recognition and measurement: eligible hedged items

Endorsed with Regulation (EC) 839/2009, the amendment seeks to clarify two aspects of hedge accounting: the identification of inflation as a hedged risk or portion of such risk and hedging with options. The amended IAS 39 takes effect as from period beginning on or after July 1, 2009, and will therefore be applied by the Group as from January 1, 2010. Terna is assessing the possible impacts that could result in the application of the interpretation on financial statements, taking into account the effect of its effectiveness.

Other amendments and interpretations of standards

The European Commission also endorsed the following amendments and interpretations concerning issues that currently have no material impact on the financial statements of the Terna Group:

- IFRIC 16 - Hedges of a net investment in a foreign operation (takes effect as from October 1, 2009);
- IFRIC 9 - Embedded derivatives;
- Amendments to IAS 39 - Reclassification of financial assets: effective date;
- IFRIC 17 - Distributions on non-cash assets to owners;
- IFRIC 15 - Agreements for the Construction of Real Estate;
- IFRS 1 Revised - First time adoption of IFRS;
- Amendments to IAS 32 - Financial instruments: Presentation: classification of rights issues.

International Accounting Standards not yet endorsed

For amendments and new standards and interpretations that have not yet been endorsed by the EU but which address issues that affect or could affect Terna, the Company is assessing the possible impact of the changes on its financial statements, taking account of the date from which they take effect.
More specifically:

IFRS 9 - Financial instruments

On November 12, 2009 the IASB published IFRS 9 - Financial instruments on the classification and measurement of financial assets, which will take effect as from January 1, 2013.
This publication is the first part of a project to replace IAS 39. In a difference from the exposure draft published last July, the scope of the standard does not include financial liabilities, as the IASB, partly in reaction to comments on the exposure draft, decided to devote further study to issues concerning the including of own credit risk in the measurement of the fair value of financial liabilities.
Finally, the process of endorsing IFRS 9 is currently suspended in the European Union. Accordingly, the standard is not applicable for European companies pending the European Commission’s full assessment of the entire IAS 39 replacement project.

Amendments to IAS 24 - Related party disclosures

Issued on November 4, 2009, the amendments seek to simplify related-party disclosure requirements for companies in which a public entity is the controlling shareholder exercises a significant influence or has joint control and to eliminate a number of difficulties of application associated with the current notion of related party. The standard is applicable as from January 1, 2011.

Improvements to the IFRS (published in 2009)
The 2009 version of the document contains minor amendments to previously published standards. The document should be endorsed by the European Commission in the first half of 2010.

Other interpretations and revisions of standards
Other interpretations and revisions of previously issued standards governing issues that do not affect the Group and which have not yet been endorsed by the European Commission are listed below:
- Amendments to IFRIC 14 - Prepayment of a minimum funding requirement;
- IFRIC 19 - Extinguishing financial liabilities with equity instruments;
- Amendment to IFRS 2 - Group cash-settled share-based payment transactions;
- Amendment to IFRS 1 - Additional exemptions for first time adopters;
- Amendment to IFRS 1 - Limited exemption from comparative IFRS 7 disclosures for first-time adopters.

Risk management - Terna Group

In the conduct of its operations, the Terna Group is exposed to various financial risks: market risk (namely exchange rate risk, interest rate risk and inflation risk), liquidity risk and credit risk.
This section provides information regarding the Terna Group's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to measure them, with further quantitative disclosures concerning the 2009 financial statements.
Terna's risk management policies seek to identify and analyse the risks the Group is exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and the related systems are reviewed on a regular basis in order to take account of any changes in market conditions or in the operations of the Group companies.
The exposure of the Terna Group to the aforementioned risks is substantially represented by the exposure of the Parent.
As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.

Market risks
Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risks comprise three forms of risk: exchange rate risk, interest rate risk and inflation risk.
Risk management must be performed with the objective of maximising financial income and minimising the related risks by selecting counterparties and instruments compatible with the corporate risk management policy. Speculative activity is not envisaged in the corporate mission.
Terna S.p.A. seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changes in market conditions or in the hedged item make the latter unsuitable or excessively expensive. The concept of hedging transaction is not restricted to those hedges that qualify for hedge accounting, but rather encompasses the objective of total or partial hedging of the income statement or statement of financial position item from interest rate risk.
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.
The fair value of financial derivatives reflects the estimated amount that Terna would pay or receive in order to extinguish contracts at the closing date.
The fair value of instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (Level 2) by means of appropriate valuation techniques for each category of financial instrument, using market data as at the closing date (such as interest rates, exchange rates, volatility) and discounting projected cash flows on the basis of the market yield curve and inflation at the reporting date.
The financial assets and liabilities in respect of derivative instruments in place during the year can be classified as:
- cash flow hedge derivatives, essentially related to hedging the risk of changes in the cash flows associated with long-term floating-rate loans;
- fair value hedge derivatives, essentially related to hedging the exposure to changes in the fair value of a financial asset or liability associated with fluctuations in interest rates (fixed-rate bonds);
- non-hedge-accounting derivatives, related to hedges of exchange rate risk but which do not qualify for treatment under IAS 39 as hedges of specific assets, liabilities, commitments or forecast transactions.

Interest rate risk

Interest rate risk is represented by the uncertainty associated with movements in interest rates that could have an impact on the fair value or future cash flows of financial instruments.
In conducting its operations, Terna is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with items of net financial debt and the related hedging positions in derivative instruments that generate financial expense. Terna's borrowing strategy focuses on long-term loans whose term reflects the useful life of company assets. It pursues an interest rate risk hedging policy that aims to reconcile this approach with the regulatory framework, which every four years establishes the cost of debt as part of the formula to set the return on the Regulatory Asset Base (RAB).
Accordingly, the hedging instruments used, at various maturity dates, include both derivatives that transform fixed rates into floating rates and derivatives that transform floating rates into fixed rates.
In order to reduce the amount of financial debt exposed to the risk of fluctuations in interest rates and to optimise the temporal correlation between average cost of debt and regulatory rate used in the WACC formula, various types of plain vanilla derivatives are used, such as interest rate swaps and interest rate collars.
Interest rate swaps are used in order to reduce the volume of debt exposed to fluctuations in interest rates and to reduce the volatility of borrowing costs. With an interest rate swap, Terna agrees with a counterparty to exchange, at specific intervals, the floating-rate cash flows on a specified notional amount against the fixed-rate (agreed between the parties) cash flows, or vice versa.
Interest rate collars are used to lower the impact of the volatility of interest rates on the cost of the debt. They are considered appropriate in times of uncertainty about future developments in interest rates.

The following table shows the financial instruments entered into by Terna, classified according to the type of interest rate (fixed or floating):

In millions of euros	Carrying amount Dec. 31, 2009	Carrying amount Dec. 31, 2008	Change
Fixed-rate financial instruments:			
Assets	0	0	0
Liabilities	2,726.1	2,098.5	627.6
Floating-rate financial instruments:			
Assets	623.3	804.7	-181.4
Liabilities	1,655.4	1,660.3	-4.9
Total	**3,758.2**	**2,954.1**	**804.1**

Sensitivity to interest rate risk

As regards the management of interest rate risk, Terna has, on the one hand, entered into fixed-to-floating interest rate swaps (FVH) to hedge the fair value of the fixed-rate risk bonds and, on the other, floating-to-fixed interest rate swaps (CFH) to hedge the expected cash flows in respect of all other floating-rate debt.
Since the hedging relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, as verified initially and periodically over its life, is high (between 80% and 125%), the Company has elected to use hedge accounting to ensure the perfect temporal matching of the hedge and the hedged item. The aim of hedge accounting is to recognise the effects of the hedges and the hedged items in profit or loss at the same time. Accordingly, for FVH derivatives, any changes in the fair value of the hedged item attributable to the risk being hedged must be recognised in profit or loss, thereby offsetting the changes in the fair value of the derivative recognised in profit or loss. For CFH derivatives, the changes in the fair value of the derivative must be recognised in equity (recognising any ineffective portion of the hedge directly in profit or loss) and then reversed through profit or loss in the same period in which the cash flows of the hedged instrument materialise. The characteristics of the CFH derivatives mirror those of the hedged underlying, so the related cash flows will materialise at the same maturities as the interest on the debt, with no impact of the changes in fair value on profit or loss.

The following table reports the amounts recognised in profit or loss and equity in respect of positions sensitive to changes in interest rates, the theoretical value of the positions following a positive or negative shift in the yield curve and the differential impact recognisable in profit or loss and equity of such changes. A hypothetical 10% variation in interest rates with respect to market interest rates at the reporting date has been assumed:

In millions of euros	Profit or loss Current rates +10%	Rates at Dec. 31, 2009	Current rates -10%	Equity Current rates +10%	Rates at Dec. 31, 2009	Current rates -10%
Dec. 31, 2009						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	1.6	1.2	0.8	-11.0	-16.8	-22.6
Hypothetical change	*0.4*	-	*-0.4*	*5.8*	-	*-5.8*
Dec. 31, 2008						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	1.1	-1.2	-3.6	-53.2	-65.8	-78.5
Hypothetical change	*2.3*	-	*-2.4*	*12.6*	-	*-12.7*

Inflation risk

As regards inflation rate risk, the rates established by regulators to remunerate Terna S.p.A.'s activities are determined so as to allow coverage of the sector's recognised costs. Such cost components are updated on an annual basis to consider the accrued impact of inflation. In 2007, the Company used an inflation-linked bond issue to obtain an effective hedge of profit for the year: any decrease in expected revenue due to a decrease in the inflation rate would be offset by lower financial expense.

Exchange rate risk

Generally Terna hedges exchange rate risk through the forward sale or purchase of currencies (forward contracts) or the use of options.
Currency options give Terna the right or the obligation to buy or sell predetermined amounts of a currency at a specific exchange rate at the end of a specific period of time. Normally, both forward contracts and options have maturities of no more than 12 months.
Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from an appreciation or depreciation of the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.
During the year non-deliverable forward contracts were used to hedge the cash flows from Brazil in respect of the repayment of principal and/or payments of dividends, interest on the intercompany loan and the sale of the Brazilian equity investment. At December 31, 2009 (as at December 31, 2008), no financial instruments exposed to exchange rate risk were present.

Liquidity risk

The liquidity risk is the risk Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operational cycle.
Liquidity risk management seeks to ensure adequate coverage of financial needs by obtaining adequate lines of credit and appropriate management of any surplus liquidity. At December 31, 2009 Terna had €1,550 million in medium-term credit lines and €729 million in short-term credit lines. Such amount is sufficient to refinance the debt falling due discussed in the section on long-term loans (€59.7 million).

Credit risk

Credit risk is the risk a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by trade receivables and the financial investments of the Company.
The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since the counterparties, in compliance with financial risk management policies, are leading international credit institutions with high ratings and such transactions are diversified in compliance with specific concentration limits.
Terna provides its services to counterparties considered solvent by the market, who therefore have a high credit standing, and does not have highly concentrated credit risk.
Credit risk management is guided by the provisions of AEEG Resolution no. 111/06, which, at art. 49, introduced instruments for the limitation of risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency. In particular, the resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their revenue), the

option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee defined by the Authority.

The following table summarises the exposure to such risk as at the reporting date:

In millions of euros	Carrying amount Dec. 31, 2009	Carrying amount Dec. 31, 2008	Change
FVH derivatives	123.2	115.5	7.7
Cash and cash equivalents	0.1	689.2	-689.1
Trade receivables	1,177.1	1,706.0	-528.9
Total	**1,300.4**	**2,510.7**	**-1,210.3**

The total value of the exposure to credit rate risk at December 31, 2009 is represented by the carrying amount of financial assets (current and non current), trade receivables and cash and cash equivalents.

The following tables provide qualitative information on customer receivables that are not past due and have no impairment:

GEOGRAPHICAL DISTRIBUTION	Carrying amount	
In millions of euros	2009	2008
Italy	1,165.9	1,674.7
Euro-area countries	10.1	26.6
Brazil	-	-
Other countries	1.1	4.7
Total	**1,177.1**	**1,706.0**

CUSTOMER TYPE	Carrying amount	
In millions of euros	2009	2008
Distributors (*)	209.4	179.6
Electricity Equalisation Fund (**)	88.9	19.4
Input dispatching contractors	380.5	678.0
Withdrawal dispatching contractors (non distributors)	455.1	786.2
Receivables from unregulated activities	43.2	42.8
Total	**1,177.1**	**1,706.0**

(*) Includes receivable accrued in respect of TELAT grid transmission fees.
(**) Of which €62.9 million from volume effect on grid transmission fees and DIS.

The following table breaks down customer receivables by age, reporting any potential impairment:

In millions of euros	2009		2008	
	Provision for bad debts	Gross	Provision for bad debts	Gross
Not yet past due	-2.0	1,134.3	-	1,496.3
0-30 days past due	-	18.6	-1.0	148.4
31-120 days past due	-0.6	15.6	-	43.9
More than 120 days past due	-24.4	35.6	-10.7	29.1
Total	**-27.0**	**1,204.1**	**-11.7**	**1,717.7**

Changes in the provision for bad debts in the course of the year were as follows:

In millions of euros	2009	2008
Balance at January 1	-11.7	-13.8
Reversal of provision	-	3.9
Impairment for the year	-15.3	-1.8
Balance at December 31	**-27.0**	**-11.7**

The value of guarantees received from eligible electricity market customers is illustrated below:

In millions of euros	2009	2008
Input dispatching activity	251.3	192.8
Withdrawal dispatching activity	851.3	1,025.6
Grid transmission fees - distributors	172.3	168.9
Balance at December 31	**1,274.9**	**1,387.3**

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the Company is party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. For more information on the contractual provisions of outstanding loans at December 31, 2009, please see the section "Loans and financial liabilities" in the notes to the separate financial statements of Terna S.p.A.

B. Operating segments

The operating segments of the Terna Group were identified on the basis of the internal financial reporting used by the Parent for senior management.
Following the disposal of the investment in the subsidiary Terna Participações S.A., formalised on November 3, 2009, the information on operating segments is presented for continuing operations, namely the Parent, Terna S.p.A., and the Italian subsidiaries, and, separately, for discontinued operations in respect of the contribution of the Brazilian group to the consolidated figures for 2009 (up to the disposal date).

In view of the characteristics of the Group's business in Italy, the identified operating segments are:

- **Regulated activities;**
- **Unregulated activities.**

The regulated activities segment comprises electricity transmission and dispatching operations as well as the measurement, validation and registration activities associated with metering.
These activities form part of a single operating segment as they meet the aggregation criteria based on the following economic characteristics:
- the common economic/regulatory environment in which services are provided: the segment provides public services (energy sector) subject to regulation and control by the AEEG. These activities support the Italian electrical system and are performed under the transmission and dispatching concession granted to Terna;
- the overall fees for transmission, dispatching and metering (Terna's core revenue) are set by the AEEG using a "cost plus" method, i.e. fees are set to cover operating expenses, amortisation and depreciation charges and an appropriate return on invested capital. The recognised costs are set by the AEEG at the start of each four-year regulatory period. On an annual basis, the AEEG updates the recognised costs and issues resolutions setting rates to cover those costs, namely: the CTR component for transmission, the DIS component for dispatching and the MIS component for metering. The current regulatory period runs from 2008 to 2011.

In short, these operations comprise public interest services that are closely connected, interdependent and intended to make it possible – through ownership, development and management of the NTG and the dispatching of electricity – to meet final consumers' demand for electricity.

The unregulated activities mainly regard the management (operation and maintenance) of high-voltage plant owned by other entities, plant engineering services, maintenance of the third-party fibre optic network and housing of TLC equipment. In essence, this segment includes specialist services performed by the Terna Group for third-party customers.
These businesses are pursued as commercial initiatives unregulated by the AEEG. In other words, they are pursued in a free market in which the Group leverages its skills and resources to offer other companies specialised services in the high- and very-high-voltage sector and in telecommunications.

The following tables report the revenue and performance of the Terna Group's operating segments for 2009 and 2008, as well as a reconciliation of the total sector profit or loss with the Group result before taxes and discontinued operations.

In the internal financial reporting periodically presented to and reviewed by senior management, the key performance indicator used for each segment is adjusted EBITDA[3], adjusted for operating expenses attributable to corporate functions supporting the operating activities and as such not allocable to any single segment.

In millions of euros	Italy		
	Regulated activities	Unregulated activities	Total continuing operations
January-December 2009			
Total segment revenue	**1,298.5**	**62.2**	**1,360.7**
Segment profit/(loss) - (adjusted EBITDA)	1,058.9	31.6	1,090.5
adjusted EBITDA margin (%)	*81.5%*	*50.8%*	
Non-monetary items other than impairment losses and amortisation and depreciation	2.8	-	
January-December 2008			
Total segment revenue	**1,133.7**	**62.1**	**1,195.8**
Segment profit/(loss) - (adjusted EBITDA)	918.1	29.9	948.0
adjusted EBITDA margin (%)	*81.0%*	*48.1%*	
Non-monetary items other than impairment losses and amortisation and depreciation	2.0	-	

	2009	2008
Reconciliation		
Profit of operating segments - continuing operations	1,090.5	948.0
Non-allocated expenses	87.3	97.6
Amortisation	308.8	253.5
EBIT - continuing operations	**694.4**	**596.9**
Financial income/(expense)	-151.2	-124.1
Share of profit/(loss) of equity-accounted investees	2.9	2.3
Profit before taxes of continuing operations	**546.1**	**475.1**

As regards segment reporting by geographical segment, the revenue and segment performance of the Brazilian discontinued operations for 2009 and 2008 are indicated below solely in respect of their contribution to the consolidated results:

In millions of euros	Brazil Discontinued operations
January-October 2009	
Total segment revenue	**198.8**
Segment profit/(loss) - (adjusted EBITDA)	146.2
adjusted EBITDA margin (%)	*73.5%*
January-December 2008	
Total segment revenue	**199.4**
Segment profit/(loss) - (adjusted EBITDA)	157.6
adjusted EBITDA margin (%)	*79.0%*

(3) EBITDA (gross operating profit): this is an indicator of operating performance and is calculated by summing operating profit (EBIT) with amortisation and depreciation.

The information regularly reported to senior management does not make direct reference to individual segment activities but rather to the overall measurement and representation of gross invested capital.
The following table reports that indicator for continuing operations in Italy (regulated and unregulated activities) for 2009 and for the Group in Italy and abroad in 2008:

	Dec. 31, 2009	Dec. 31, 2008	
In millions of euros	Italy	Italy	Brazil
Net non-current assets	7,468.5	5,685.8	876.9
Net working capital	-570.6	-363.7	-244.5
Gross invested capital	6,897.9	5,322.1	632.4
Investments in associates and joint ventures	15.5	9.8	28.4

As regards the dependence of Terna Group customers on external customers, in 2009 transactions that generated revenue from individual customers or companies under common control equal to more than 10% of consolidated revenue were represented by transactions with related parties in respect of regulated activities; for more information, please see the section on “Related party transactions”.

C. Notes to the consolidated income statement

Revenue

1. Revenue from sales and services – €1,317.3 million

The table below details “Revenue from sales and services” for the year:

In millions of euros	2009	2008	Change
Grid transmission fees	1,185.4	1,045.4	140.0
Adjustments for prior year grid transmission fees	0.2	15.1	-14.9
Other energy revenue	91.5	48.4	43.1
Other revenue from sales and services	40.2	43.1	-2.9
Total	**1,317.3**	**1,152.0**	**165.3**

Grid transmission fees

Grid transmission fees largely regard the remuneration paid to the Parent for use of the National Transmission Grid (€1,087.9 million). It also comprises the net revenue for the last nine months of the year from the portion of the NTG pertaining to the subsidiary TELAT, which was acquired on April 1, 2009 (€97.7 million).
The increase of €125.1 million is the net result of the following factors:

- the increase in revenue of the Parent (€27.4 million), essentially due to:
  - the rate adjustment for the year in implementation of AEEG Resolution no. 188/08, as well as effects of the mechanism to mitigate changes in the volume of electricity transmitted exceeding a range of +/- 0.5% (€38.5 million);
  - greater NTG fees in respect of the defence plan (+€3.8 million);
  - a reduction in net adjustments for prior-year grid fees (-€14.9 million) compared with 2008, which benefited from the release of the provision made in respect of a technical dispute with a dispatching withdrawal operator (€14.0 million);
- grid transmission fees for TELAT for the final nine months of the year (€97.7 million) as a result of the effects of AEEG Resolution no. 31/09, which authorised the inclusion of the company’s high-voltage lines in the NTG (€93.3 million), as well as the adoption as from April 1 of the mitigation mechanism for volume fluctuations (€4.4 million).

Other energy revenue

This caption comprises fees paid to the Parent by electricity companies for dispatching services (DIS component) and metering (MIS component). The item rose by €43.1 million, largely due to the greater revenue from the incentive mechanism linked to the reduction of volumes sourced on the Ancillary Services Market (ASM), as envisaged in AEEG Resolution no. 206/08 (€40.0 million), as well as the adoption of the mitigation mechanism introduced with AEEG Resolution no. 188/08 (€2.0 million).

Other energy items - pass-through revenue/costs

This caption includes revenue and costs of a "pass-through" nature for the Group (whose balance is therefore nil) relating entirely to the Parent.

They arise in respect of daily purchases and sales with operators on the electricity market to carry out transmission and dispatching activities. To that end, the measurements at each point of input and withdrawal are taken and the differences from the energy market schedules are calculated. These differences (imbalances) are measured using algorithms established by the regulatory framework. The net charge resulting from the measurement of these imbalances and of the buying and selling transactions executed by Terna on the Ancillary Services Markets are billed on a *pro rata* basis to each consumer with the uplift fee.

It also includes the grid utilisation fee which Terna pays to other owners of the grid.

The components of these transactions are detailed below.

In millions of euros	2009	2008	Change
Revenue - Power Exchange:			
- foreign market - exports	4.4	8.9	-4.5
- sale of energy on the Day Ahead Market, Adjustment Market, Ancillary Services Market and others	813.5	1,473.4	-659.9
- unbalancing and others	1,597.4	1,428.6	168.8
- ancillary service resources procurement	980.9	1,903.1	-922.2
- congestion rent - Res. no. 288/06	733.4	848.0	-114.6
- other items - Power Exchange	311.5	127.7	183.8
Total revenue - Power Exchange	**4,441.1**	**5,789.7**	**-1,348.6**
Revenue under Res. nos. 168/04 - 237/04 and others	613.5	709.1	-95.6
Other items (CBT and other)	47.3	26.7	20.6
Revenue from grid transmission fees of other owners and GRTN share CIP/6	18.7	19.6	-0.9
Total revenue from outside the Power Exchange	**679.5**	**755.4**	**-75.9**
Total pass-through energy revenue	**5,120.6**	**6,545.1**	**-1,424.5**
Energy purchases:			
- on Day Ahead Market and Adjustment Market	9.5	718.1	-708.6
- to provide the dispatching service	2,431.6	3,067.7	-636.1
- for unbalancing	1,373.4	1,156.1	217.3
- on the foreign market - imports	0.1	1.7	-1.6
- Electricity Market Operator fees	2.7	5.8	-3.1
- congestion rent - Res. no. 288/06	559.3	769.2	-209.9
- other items - Power Exchange	64.5	71.1	-6.6
Total costs - Power Exchange	**4,441.1**	**5,789.7**	**-1,348.6**
Purchase of energy market related services	613.5	709.1	-95.6
Other items (CBT and other)	47.3	26.7	20.6
Fees to be paid to NTG owners, GRTN and other	18.7	19.6	-0.9
Total services and fees	**679.5**	**755.4**	**-75.9**
Total pass-through energy costs	**5,120.6**	**6,545.1**	**-1,424.5**

Other revenue from sales and services

Other revenue from sales and services amounted to €40.2 million (€43.1 million in 2008) and mainly relates to revenue from a variety of specialised high- and very-high-voltage services, which the Parent provides to third-party customers (€21.8 million); the amount reflects revenue from:

- the operation, maintenance and development of the optical fibre owned by the Wind Group hosted on Terna S.p.A. plant (safety cables) (€2.1 million);
- construction works (€12.3 million);
- requests to connect to the National Transmission Grid as per AEEG Resolution no. 281/05 (€2.5 million);
- the contribution due to the Parent for coverage of costs incurred for electricity discounts to its employees (€1.4 million).

The item decreased by €2.9 million, mainly attributable to the combined effect of reduced revenue for maintenance of high-voltage plant (€10.6 million) owing to the inclusion of the high-voltage line maintenance contract with Enel Distribuzione within the scope of consolidation and increased revenue for various construction activities (+€8.3 million).

2. Other revenue and income - €43.4 million

The following table provides a breakdown of “Other revenue and income”:

In millions of euros	2009	2008	Change
Rental income	19.4	16.8	2.6
Third party contributions for high-voltage connections	9.3	8.1	1.2
Insurance settlements for losses	3.3	2.7	0.6
Capital gains on the sale of plant parts	4.8	6.6	-1.8
Prior year revenue	4.1	7.2	-3.1
Sales to third parties	1.0	1.2	-0.2
Other revenue	1.5	1.2	0.3
Total	**43.4**	**43.8**	**-0.4**

This caption is mainly attributable to the Parent (€41.7 million).
Rental income mainly regards rent from the Wind Group for the housing of optical fibre on the grid (€14.1 million) and Enel Distribuzione’s use of the Parent's infrastructure for power line communication (€4.0 million).
The slight decrease in other revenue and income (€0.4 million) is essentially attributable to:

- greater prior year revenue in 2008, mainly due to the release of the provision for bad debts accrued in respect of a dispatching customer following the approval of the composition agreement (€3.6 million);
- increased rental income (€2.6 million), partly attributable to the contribution of TELAT for housing services in the last nine months of the year for the optical fibre of Enel.Net and Enel Distribuzione on its grid infrastructure (€1.6 million).

Operating expenses

3. Raw materials and consumables - €10.2 million

The item totalled €10.2 million in 2009. It comprises costs incurred for the purchase of sundry materials and equipment used in the operation and maintenance of plant. The decrease of €1.6 million on the previous year (€11.8 million) is attributable to the Parent (+€5.9 million), almost all in respect of activities for external customers, including those under the contract with EL.IT.E. for the construction of a merchant line in Valtellina, the underground alternating-current interconnection line between Italy and Switzerland (€2.2 million) and the supply of the armoured plant for A2A (€1.4 million), offset by capitalised costs for materials in respect of capital expenditure on behalf of the subsidiaries SunTergrid (€5.0 million) and TELAT (€2.5 million).

4. Services - €128.0 million

The table below details revenue for the year from services:

In millions of euros	2009	2008	Change
Tenders on plants	33.7	24.2	9.5
Maintenance and sundry services	56.5	50.9	5.6
Insurance	6.4	4.8	1.6
Remote transmission and telephone	12.6	12.3	0.3
IT services	4.9	4.6	0.3
Use of third-party assets	13.9	13.9	0.0
Total	**128.0**	**110.7**	**17.3**

The item is largely attributable to costs for services incurred by the Parent (€126.3 million). The main components regard costs in respect of tenders and services for routine maintenance operations and plant maintenance and expenditures for general services (a total of €90.2 million). It also includes costs for remote transmission and telephone services (€12.6 million), leases and rentals (€13.9 million), insurance (€6.4 million) and IT services (€4.9 million).
The increase (€17.3 million) on the previous year is largely attributable to:

- the Parent in the amount of €15.6 million, mainly due to the increase in tenders and technical services connected with plant (€9.5 million), technical, professional and legal services (€2.8 million) and higher insurance costs (€0.9 million);
- costs in the last nine months of the year of TELAT (€1.6 million), essentially for plant insurance (€0.7 million), electricity right-of-way fees and public land use fees (TOSAP) totalling €0.5 million.

Fees paid to the Parent's Statutory Auditors are detailed in the following table. The table has been prepared on the basis of the term of office of the position on an accruals basis.

Surname Name	Position	Term of office	Expiry of term	Remuneration	Total
Guarna Luca Aurelio	Chairman	Jan. 09 - Dec. 09	Approval of 2010 financial statements	55,000.00	55,000.00
Cosconati Marcello*	Statutory Auditor	Jan. 09 - Dec. 09	Approval of 2010 financial statements	45,000.00	45,000.00
Pozza Lorenzo	Statutory Auditor	Jan. 09 - Dec. 09	Approval of 2010 financial statements	45,000.00	45,000.00
Total Statutory Auditors fees				**145,000**	**145,000**

(*) Fees for the position were paid to Cassa Depositi e Prestiti.

5. Personnel expense - €181.6 million

Personnel expense breaks down as follows:

In millions of euros	2009	2008	Change
Wages, salaries and other short-term employee benefits	248.9	231.3	17.6
Termination benefits, electricity discount and other post-employment benefits	15.5	16.7	-1.2
Reversal of provision for electricity discount	-26.8	0.0	-26.8
Early retirement incentives	6.5	5.9	0.6
Employees' stock option plans	0.0	0.2	-0.2
Personnel expense - gross	**244.1**	**254.1**	**-10.0**
Personnel expense for capitalised internal work	-62.5	-52.9	-9.6
Total	**181.6**	**201.2**	**-19.6**

This caption includes the cost of wages and salaries, social security contributions and other costs incurred by the Parent for early retirement incentives, as well as benefits paid to employees who stay with the Company and termination benefits provided for by the current national labour contract for the electricity sector.

The item decreased by €19.6 million compared with 2008, mainly attributable to:

- the reversal of the electricity discount provision (€26.8 million) following the agreement with Enel Servizio Elettrico after the redetermination of the number of eligible Terna beneficiaries (retirees);
- an increase in wages and other short-term benefits (€17.6 million) mainly as a result of the increase in unit labour costs, which comprises an estimate of charges for the contract renewal;
- an increase in capitalised personnel expense (€9.6 million) as a result of increased capital expenditure during the year (of which €0.7 million in respect of capital expenditure on behalf of TELAT).

The fees paid to the Directors of the Parent are summarised in the following table. The table has been prepared on the basis of the term of office of the position on an accruals basis.

Surname Name	Position	Term of office	Expiry of term	Remuneration	Bonus and other incentives ***	Other compensation***	Other compensation****	Total
Roth Luigi	Chairman/ Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	600,000			20,833	620,833
Cattaneo Flavio	CEO	Jan. 09 Dec. 09	Approval of 2010 financial statements	200,000	700,000	1,000,000		1,900,000
Cannarsa Cristiano*	Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	25,000				25,000
Dal Pino Paolo	Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	125,000				125,000
Del Fante Matteo*	Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	75,000				75,000
Machetti Claudio**	Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	25,000				25,000
Machì Salvatore	Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	135,000				135,000
Polo Michele	Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	75,000				75,000
Rispoli Vittorio	Director	Jan. 09 Dec. 09	Approval of 2010 financial statements	85,000				85,000
Total Directors fees				**1,345,000**	**700,000**	**1,000,000**	**20,833**	**3,065,833**

(*) Fees for the position were paid to Cassa Depositi e Prestiti.
(**) Fees for the position were paid to Enel S.p.A.
(***) These amounts are reported both to the variable portion of remuneration linked to specific objectives for the year 2009 and to the salary as a manager.
(****) The amount regards compensation for position as Chairman of the Board of Directors of TELAT from October 16 to December 31, 2009.

The following table shows the number of employees by category at year end and the average number for the year:

	Average number		Number at	
	2009	2008	Dec. 31, 2009	Dec. 31, 2008
Senior management	67	68	65	65
Junior management	485	475	488	485
Office staff	1,908	1,895	1,874	1,907
Production workers	1,058	1,073	1,020	1,067
Total	**3,518**	**3,511**	**3,447**	**3,524**

The net change in the average number of employees on the end of 2008 was an increase of 7.
Reference should be made to section “27. Employee benefits” 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. Amortisation, depreciation and impairment losses - €326.6 million

These relate to accruals during the year calculated on the basis of amortisation and depreciation rates that reflect the useful lives of the Group companies' plant, property and equipment and intangible assets (€308.8 million), related impairment losses (€3.7 million) as well as accruals to the provision for bad debts relating to receivables for items which are reasonably likely to be unrecovered (€14.1 million).
The caption shows an increase (€71.3 million) on 2008, mainly due to the following:

- the Parent in the amount of €41.0 million, the net effect of:
  - increased amortisation and depreciation, largely accounted for by new plants (notably SA.PE.I. first pole) and intangible assets in service during the year (€25.9 million);
  - impairment losses on property, plant and equipment and intangible assets (€2.8 million) for projects that have currently been abandoned;
  - increased accruals to the provision for bad debts (€12.3 million, of which €11.0 million in respect of dispatching items) for items that are unlikely to be uncollected;
- the subsidiary TELAT in the amount of €30.3 million, mainly for amortisation and depreciation in the last nine months of the year (€29.4 million), including charges for the portion of excess cost definitively allocated to transmission plant and intangible assets. For more detail, please see section "F. Business combinations".

7. Other operating expenses - €19.9 million

The caption breaks down as follows:

In millions of euros	2009	2008	Change
Provisions for contingencies and charges	3.6	2.9	0.7
Local taxes and duties	5.6	4.8	0.8
Prior year expenses	2.3	4.1	-1.8
Losses on the disposal/retirement of plants	3.5	3.7	-0.2
Other operating expenses	4.9	4.4	0.5
Total	**19.9**	**19.9**	**0.0**

Of total other operating expenses, €18.2 million are attributable to the Parent and €1.7 million to the contribution in the last nine months of the year of the subsidiary TELAT.
The item, which totalled €19.9 million in 2009, includes:

- accruals to the provision for contingencies and charges (€3.6 million), mainly in respect of the contribution to be paid to the Exceptional Events Provision established at the Electricity Equalisation Fund with Resolution no. 333/07 for power outages (€2.8 million) and the provision for expected charges in respect of the protocol of understanding for the promotion of contemporary Italian art signed with the Ministry for Cultural Heritage (€0.6 million);
- costs for local taxes and duties (€5.6 million), mainly for TOSAP (€2.4 million) and local property tax (€2.4 million);
- prior year expenses (€2.3 million) and losses on the disposal of plant parts (€3.5 million).

The balance is in line with the previous year.

Financial income and expense

8. Net financial income/(expense) - €151.2 million

The caption breaks down as follows:

In millions of euros	2009	2008	Change
Financial income			
Financial income from parents	3.1	0.0	3.1
Interest income from Terna Participações	14.3	0.0	14.3
Interest income and other financial income received	10.6	20.4	-9.8
Debt adjustment (bonds) and related hedges	1.2	0.0	1.2
Income on non-hedge-accounting derivatives	0.0	1.2	-1.2
Total income	**29.2**	**21.6**	**7.6**
Financial expense			
Financial expense in respect of parent	-1.2	0.0	-1.2
Interest expense on medium/long-term loans and related hedges	-147.6	-139.3	-8.3
Debt adjustment (bonds) and related hedges	0.0	-4.5	4.5
Discounting of termination benefit and other personnel-related provisions	-5.7	-6.8	1.1
Exchange rate differences and related non-hedge-accounting derivatives on exchange rates	-25.2	-2.2	-23.0
Interest expense on short-term loans and other financial expense	-11.9	-0.5	-11.4
Capitalised financial expense	11.2	7.6	3.6
Total expense	**-180.4**	**-145.7**	**-34.7**
Total	**-151.2**	**-124.1**	**-27.1**

Net financial expense amounted to €151.2 million, entirely attributable to the Parent, comprising €180.4 million in financial expense and €29.2 million in financial income.
The increase of €27.1 million with respect to 2008 is the net result of the following main factors:

- increased financial income as a result of Terna's subscription of bonds issued by Cassa Depositi e Prestiti (€3.1 million);
- increased financial income in respect of interest on the intercompany loan from Terna to Terna Participações (€14.3 million);
- lower financial income (-€9.8 million) due essentially to the joint effect of the general decrease in the interest rates paid on invested liquidity (-€8.9 million), greater default interest for late payment of receivables in respect of dispatching activities (€2.4 million) and the net expense for uplift (recognised under other financial expense in the amount of €11.8 million), compared with net uplift income of €3.4 million the previous year;
- the net gain from the adjustment to fair value of bonds and related hedges compared with the previous year (€5.7 million);
- a decrease in net income from non-hedge-accounting derivatives (-€1.2 million) following the disposal of the portfolio in 2008;
- increased financial expense in respect of medium/long-term debt (-€8.3 million) due to the increase in borrowing, partially offset by the reduction in market interest rates;
- increased interest expense on short-term loans and other financial expense (-€11.4 million), largely attributable to uplift charges (-€11.8 million) for the year;
- the negative impact (-€23.0 million) mainly of hedges not qualifying for hedge accounting entered into to mitigate the risk associated with the volatility of exchange rates in respect of the dividends and intercompany loan payments from Terna Participações (€7.3 million and €17.9 million respectively);
- decreased financial expense in respect of the accretion of employee benefit provisions (€1.1 million);
- increased capitalised financial expense (€3.6 million) due to greater capital expenditure during the year.

9. Share of profits/(losses) of equity-accounted investees - €2.9 million

The caption refers to the adjustment to the equity at December 31, 2009 of the investments in the associates CESI S.p.A. (€3.0 million, an increase of €0.7 million on 2008) and ELMED ÉTUDES (-€0.1 million), a Tunisian joint venture of the Parent established in April 2009, both of which are measured using the equity method.

10. Income taxes - €192.1 million

Income taxes for the year amount to €192.1 million.
The following table reports changes in taxes with respect to 2008:

In millions of euros	2009	2008	Change
Income taxes			
Current taxes:			
- IRES	177,1	155.5	21.6
- IRAP	53.9	45.5	8.4
Total current taxes	**231.0**	**201.0**	**30.0**
Temporary differences:			
- deferred tax income	-14.2	-11.6	-2.6
- deferred tax expense	0.0	0.0	0.0
Reversal of temporary differences:			
- deferred tax income	16.7	18.6	-1.9
- deferred tax expense	-36.2	-33.3	-2.9
- rate adjustment	0.0	0.3	-0.3
Total deferred tax assets and liabilities	**-33.7**	**-26.0**	**-7.7**
Adjustments to income taxes of previous years	-5.2	-0.4	-4.8
Total	**192.1**	**174.6**	**17.5**

Income taxes for the year amounted to €192.1 million, for an effective tax rate of 35.2%, compared with 36.8% in 2008 (taxes in respect of the disposal of Terna Participações are reported under “Profit for the year from discontinued operations and assets held for sale”).

Current taxes
Current taxes (€231.0 million) rose by €30.0 million on the previous year, essentially due to higher taxable income and the contribution of TELAT, which was absent in 2008, for taxes in the last nine months of 2009 (€16.4 million).

Deferred tax income and expense
Net deferred tax expense of €33.7 million, showed a net increase of €7.7 million on 2008. The change is mainly attributable to:
- for the Parent, deferred tax assets in respect of the provision for bad debts for accruals for the year (€2.2 million) and the release recognised in 2008 (€1.0 million);
- for TELAT, the net reversal of deferred tax liabilities in respect of the release of previous provisions for amortisation and depreciation in excess of deductible amounts (€1.4 million) and for the amortisation and depreciation charge for the year in respect of the greater value allocated to property, plant and equipment and intangible assets (€2.1 million).

Adjustments to income taxes of previous years

Adjustments to income taxes of previous years amounted to -€5.2 million and mainly regard the recognition, pursuant to art. 6 of Law no. 2 of January 28, 2009, of the receivable due from tax authorities for excess income taxes paid in previous years as a result of not deducting IRAP in the amount provided for under the law (€4.2 million).

For a clearer presentation of the differences between the theoretical and actual tax rates, the table below reconciles the profit before taxes with taxable income for IRES (corporate income tax) purposes:

In millions of euros	2009	2008
Theoretical tax charge	**150.2**	**130.7**
IRAP	53.9	45.5
Permanent differences	-6.8	-1.2
Actual tax charge	**197.3**	**175.0**
Actual tax rate net of prior year adjustments	**36.1%**	**36.8%**
Adjustments to income taxes of previous years	-5.2	-0.4
Actual tax charge	**192.1**	**174.6**

11. Profit for the year from discontinued operations and assets held for sale - €417.0 million

In accordance with the provisions of "IFRS 5 - Non-current assets held for sale and discontinued operations", this caption reports the overall impact on the income statement (€417.0 million) of the disposal of the Brazilian sub-holding company Terna Participações.
In particular, it reports the net capital gain on the disposal of the Brazilian subsidiaries in the amount of €305.0 million, equal to the difference between the price received and the carrying amount of the assets and liabilities sold at the transaction date (€542.1 million) net of costs to sell (€4.4 million), other directly attributable costs (€42.4 million), net of hedging derivatives (€105.3 million), as well as taxes on the transaction (€85.0 million).
It also reports the reversal of the translation reserve accrued up to the transaction date in the amount of €68.4 million as a result of the appreciation of the Brazilian real against the euro.
The item also includes the contribution to the consolidated figures of the net income of the Brazilian subsidiaries accrued up to the sale date in the amount of €43.6 million. The income components that made up the profit from discontinued operations break down as discussed below.
For comparative purposes, please note that the cost and revenue items of the Brazilian companies have also been reclassified to "Profit for the year from discontinued operations and assets held for sale". Consequently, the result for 2008 for the Brazilian sub-holding company, equal to €40.9 million, regards the entire year, while the total Profit from discontinued operations and assets held for sale of €66.1 million for 2009 refers to the revenue and costs for the first ten months of the year, i.e. up to the disposal date for the Brazilian companies. For this reason, no significant comparison is possible between the two years. The following reports the composition of the income statement balances that gave rise to the profit from discontinued operations and assets held for sale in 2009.

In millions of euros	2009	2008	Change
Revenue	198.8	199.4	-0.6
Operating expenses	72.1	82.0	-9.9
Operating profit	**126.7**	**117.4**	**9.3**
Net financial expense	-28.7	-58.1	29.4
Profit before taxes	**98.0**	**59.3**	**38.7**
Income taxes	31.9	18.4	13.5
Profit for the year from discontinued operations and assets held for sale	**66.1**	**40.9**	**25.2**
Profit for the year from discontinued operations and assets held for sale pertaining to shareholders of the Parent	**43.6**	**27.0**	**16.7**

Revenue

The caption reports fees for transmission services provided by the Brazilian concession holders for the first 10 months of the year (€166.6 million), including the revenue of ETEO, which was acquired in May 2008 (€23.2 million). It also includes "Other revenue from sales and services" (€14.9 million) attributable to the engineering and construction services performed by Terna Serviços in performance of the Engineering, Procure and Construct contract with Brasnorte. "Other revenue" (€17.3 million) include the Ada and Adene tax incentives granted by the Brazilian government to TSN and Novatrans for investments in the areas involved.

Operating expenses

The operating expenses of discontinued operations came to €72.1 million and regard:

- raw materials and consumables (€12.3 million), largely used by Terna Serviços for the construction work of Brasnorte (€11.3 million);
- services (€21.0 million), including: costs for tenders and technical services (€7.0 million), consulting, technical and notary services (€5.9 million) and insurance, telephone and data transmission costs (totalling €1.4 million);
- personnel expense (€10.6 million), mainly attributable to employee compensation (€7.6 million) and social security contributions (€2.2 million);
- amortisation, depreciation and impairment losses (€9.8 million) in respect of property, plant and equipment (€7.8 million) and intangible assets (€2.0 million) up to the signing date of the agreement for the disposal of the Brazilian group (April 2009);
- other operating expenses (€18.4 million), essentially composed of local taxes and duties (€18.2 million).

Net financial income/(expense)

Net financial expense came to €28.7 million, breaking down as follows:

- interest expense on long-term loans (€34.6 million);
- interest expense on the intercompany loan granted to Terna Participações in February 2009, until the date of repayment (October 28) to Terna (€14.3 million);
- interest income on the investment of liquidity (€8.9 million);
- unrealised exchange rate gains (€10.0 million).

Income taxes

Income taxes for discontinued operations amounted to €31.9 million (of which -€9.9 million in net deferred tax liabilities), for an effective tax rate of 32.6% of taxable income.

Profit for the year from discontinued operations and assets held for sale for the first 10 months of 2009 came to €66.1 million, of which €43.6 million **attributable to the shareholders of the Parent**.

12. Earnings per share

Basic earnings and diluted earnings per share from continuing operations and discontinued operations amount respectively to €0.385 (with a numerator of €771.0 million as the sum of the profit of continuing operations of €354.0 million and the profit from discontinued operations of €417.0 million and a denominator of 2,000,908.8 thousand) and €0.384 (with a numerator of €771.0 million and a denominator of 2,009,992.0 thousand).
The corresponding basic and diluted earnings per share of continuing operations amount respectively to €0.177 (with a numerator of €354.0 million and a denominator of 2,000,908.8 thousand) and €0.176 (with a numerator of €354.0 million and a denominator of 2,009,992.0 thousand).

D. Notes to the consolidated statement of financial position

Assets

13. Property, plant and equipment - €7,075.3 million

Property, plant and equipment amounted to €7,075.3 million (€6,035.8 million at December 31, 2008). The amount and changes for each category are reported in the following table:

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, 2009	**38.8**	**745.8**	**8,742.8**	**50.4**	**68.4**	**933.8**	**10,580.0**
Reclassified cost of “Discontinued operations”	-0.2	-14.5	-674.3	0.0	-2.6	-30.2	-721.8
Investments	0.1	12.0	3.9	3.7	9.5	830.6	859.8
Plant start-up	13.6	113.7	770.9	-	17.3	-915.5	-
Contribution of new acquisitions	-	-	1,577.1	-	-	81.2	1,658.3
Disposals and impairment losses	-	-2.1	-65.3	-0.7	-6.0	-3.9	-78.0
Other changes	-	-	-16.8	-	-	1.9	-14.9
Reclassifications	1.4	-	2.5	-0.1	-2.4	-1.4	-
Cost at Dec. 31, 2009	**53.7**	**854.9**	**10,340.8**	**53.3**	**84.2**	**896.5**	**12,283.4**
Accumulated depreciation and impairment losses at Jan. 1, 2009	**-**	**-259.0**	**-4,207.9**	**-36.2**	**-41.1**	**-**	**-4,544.2**
Reclassified accumulated depreciation and impairment losses of discontinued operations	-	2.3	98.3	-	1.0	-	101.6
Depreciation for the year	-	-17.3	-247.1	-2.9	-10.0		-277.3
Contribution of new acquisitions	-	-	-556.9	-	-	-	-556.9
Disposals	-	1.0	61.1	0.7	5.9	-	68.7
Reclassifications	-	-	-0.8	0.1	0.7	-	-
Accumulated depreciation and impairment losses at Dec. 31, 2009	**-**	**-273.0**	**-4,853.3**	**-38.3**	**-43.5**	**-**	**-5,208.1**
Carrying amount							
At December 31, 2009	53.7	581.9	5,487.5	15.0	40.7	896.5	7,075.3
At December 31, 2008	38.8	486.8	4,534.9	14.2	27.3	933.8	6,035.8

At December 31, 2009, “Plant and machinery” includes the electricity transmission grid, transformation stations in Italy, the central systems for remote management, the national electricity control system and the value of the one photovoltaic plant, which entered service in December 2009, at Ragusa, as a result of the capital expenditure carried out in the last quarter of the year.

A summary of changes in property, plant and equipment during the year is provided in the table below. The changes are shown net of the reclassification of the value at December 31, 2008 of discontinued operations in the amount of €620.2 million (cost of €721.8 million and accumulated depreciation of €101.6 million):

In millions of euros

Capital expenditure	
Transmission lines	339.5
Transformer stations	377.9
Other	142.4
Total investments	**859.8**
Contribution of new acquisitions	1,101.4
Depreciation	-277.3
Disposals, impairment losses and other changes	-24.2
Total	**1,659.7**

In addition to ordinary changes during the year in respect of capital expenditure (€859.8 million, of which €11.2 million in capitalised financial expense), disposals, impairment losses and other changes (€24.2 million) and depreciation (€277.3 million), the item also reflects the value of the plant in service and under construction (€1,101.4 million, including the final allocation of the excess cost in the amount of €224.2 million) from the acquisition (completed on April 1, 2009 of TELAT - Terna Linee Alta Tensione S.r.l., which owns a portion of the national high-voltage transmission grid.

Capital expenditure for the year (€859.8 million, of which €831.5 million for the Parent, €22.6 million for TELAT and €5.7 million for SunTergrid) comprises, in particular, expenditure on the Italian transmission grid, owned by the Parent, which mainly regarded: construction of the SA.PE.I. undersea line (€113.6 million) and progress on the 380 kV Sorgente-Rizziconi power line (€47.3 million). Other expenditure included renovation work on the Rome headquarters (€30.4 million), work on the 380 kV Casellina-Tavarnuzze-Santa Barbara line (€25.2 million), rationalisation work on the 132 kV Val d'Ossola Sud line (€22.0 million), expenditure on the intrusion prevention project (€20.2 million), development of the optical fibre network (€18.9 million), rationalisation of systems for the city of Turin (€17.9 million), the renovation and upgrading of the Piossasco plant (€16.3 million), the rationalisation of the 220 kV Alta Valcamonica line (€15.8 million), the station for the connection of the Foggia-Benevento wind plants (€11.9 million), work on rationalising the Bussolengo area (€11.6 million), the connection to the Tirreno Power plant at Napoli Levante (€11.5 million) and a new armoured section at the Cagno station (€10.7 million).

In terms of assets under construction at the end of the year, the main grid development and re-powering projects worth more than €10 million are listed below.

Transmission lines	In euros
SA.PE.I.	50,900,580
Sorgente-Rizziconi	35,226,960
Valcamonica	27,432,380
AEM Moncalieri	25,994,390
Santa Barbara-Tavarnuzze-Casellina	25,808,480
Villarodin-Venaus	15,971,750
Reorganisation of Palermo area	14,468,630
Rationalisation of Turin systems	13,238,520
Rationalisation in province of Lodi	10,625,970
Transformation stations	
SA.PE.I. station (Fiumesanto and Latina)	66,168,990
Brindisi Pignicelle	13,776,570
Castegnero station	13,086,700
Cagno station	12,117,380
Bussolengo station	10,198,880

14. Goodwill - €190.2 million

Goodwill amounted to €190.2 million (€203.9 million at December 31, 2008) and regards the Terna and TELAT Cash Generating Units. The balance and the changes by cash generating unit are shown in the table below:

CASH GENERATING UNIT

In millions of euros	Terna Participações	Terna	TELAT	Total
Balance at Dec. 31, 2008	**115.3**	**88.6**	**0.0**	**203.9**
Reclassification of "Discontinued operations"	-115.3	-	-	-115.3
Contribution of new acquisitions	-	-	101.6	101.6
Balance at Dec. 31, 2009	**0.0**	**88.6**	**101.6**	**190.2**

The reduction on 2008 (€13.7 million) is attributable to:

- the reclassification of the goodwill of discontinued operations (the Terna Participações Cash Generating Unit) at December 31, 2008 (€115.3 million);
- the recognition of goodwill (€101.6 million) following the final allocation of the difference between the purchase price of TELAT and the fair value of the assets and liabilities at the acquisition date. For more details, please see the section on "Business combinations".

Impairment testing

Cash Generating Unit - Terna

The recoverable amount of the goodwill (recognised as a result of the merger of RTL into Terna in 2008) in respect of the Terna Cash Generating Unit (CGU) recognised in financial statement, €88.6 million, was estimated using the discounted cash flow method, which in order to determine the value in use of an asset applies an appropriate discount rate to estimated future cash flows.

The discounting of the cash flows was performed with respect to the period 2010-2020, in line with the forecasts, and the terminal value was assumed to be equal to the remuneration of net invested (RAB - Regulatory Asset Base) in 2020. In particular, cash flows were determined up to 2014 on the basis of the approved business plan, drawing on the forecasts and assumptions it uses for developments in the Company's performance and financial position, while for subsequent years the cash flow projection was based on the development of operations in line with the last year of the business plan. The discount rate was set at a weighted average cost of capital of 4.95%. The value in use thus determined was higher than the carrying amount.

The sensitivity analysis conducted did not produce any significant impact on the valuation, even with the use of higher discount rates, confirming the full recoverability of goodwill.

Cash Generating Unit - TELAT

The recoverable amount of the goodwill recognised in financial statement, €101.6 million, recognised as a result of the acquisition of TELAT (Cash Generating Unit (CGU) - TELAT) was also estimated using the discounted cash flow method. In particular, cash flows were determined on the basis of the forecasts contained in the business plan of the company. The discounting of the cash flows was performed with respect to the period 2010-2030, in line with the forecasts, and the terminal value was assumed to be equal to the remuneration of net invested (RAB - Regulatory Asset Base) at the end of the concession period (2030). The discount rate was set at a WACC of 6.5%. The value in use thus determined was higher than the carrying amount.

15. Intangible assets - €182.0 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, 2008	**229.8**	**42.3**	**7.2**	**279.3**
Reclassification of discontinued operations	-112.1	-	-	-112.1
Contribution of new acquisitions	-	6.3	-	6.3
Investments	-	0.2	40.4	40.6
Entry into service	-	38.9	-38.9	0.0
Disposals and impairment losses	-	-0.1	-0.5	-0.6
Amortisation	-5.6	-25.9	-	-31.5
Balance at Dec. 31, 2009	**112.1**	**61.7**	**8.2**	**182.0**
Cost	135.4	157.0	8.2	300.6
Accumulated amortisation	-23.3	-101.6	-	-124.9
Contribution of new acquisitions	-	6.3	-	6.3
Balance at Dec. 31, 2009	**112.1**	**61.7**	**8.2**	**182.0**

Intangible assets amounted to €182.0 million (€279.3 million at December 31, 2008). The caption mainly includes the concession for electricity transmission and dispatching activities in Italy, which was initially recognised in 2005 at fair value (€135.4 million) and subsequently measured at cost.
Other intangible assets include applications software developed internally or purchased externally as part of programmes for the development and evolution of systems.
The increase on the previous year (€14.8 million), considering the reclassification of discontinued operations in the amount of €112.1 million (cost of €115.4 million and accumulated amortisation of €3.3 million), as well as ordinary changes during the year due to capital expenditure (€40.6 million), mainly on applications software, amortisation (€31.5 million) and disposals and impairment losses (€0.6 million), is also attributable to the intangible assets of the new company TELAT (€6.3 million) in respect of the contract to install the optical fibre network and repeaters on transmission lines (Enel Distribuzione is the counterparty).
Investments for the year (€40.6 million) included expenditure on the development and evolution of software for the remote management system for dispatching (€9.9 million) for the Power Exchange (€4.7 million) and for the protection of the electrical system (€2.1 million), as well as general applications and software licenses (€17.2 million).

16. Deferred tax assets

For a discussion of deferred tax assets, net of the reclassification of amounts in respect of discontinued operations totalling €127.0 million at December 31, 2008, please see note “29. Deferred tax liabilities”.

17. Investments in equity-accounted investees - €15.5 million

Investments in equity-accounted investees amount to €15.5 million and relate to the investments of Terna S.p.A.:
- in the associate CESI S.p.A. (€14.8 million), representing a stake of 30.91%;
- in the joint venture ELMED ÉTUDES Sàrl (€0.7 million), which was acquired in April 2009, representing a stake of 50%.

CESI S.p.A. operates in the construction and management of laboratories and plants for tests, inspections, studies and experimental research relating to the electro-technical field in general and technical and scientific developments in that area. The value of the investment increased on previous year as a result of the recognition of the cost incurred for the acquisition (completed by the Parent in 2009) of additional interests in CESI (€2 million) from A2A S.p.A. and Siemens S.p.A., amounting to 1.871% and 4.68% respectively, and the adjustment of the investment to the share of equity held by the Group at the end of the year (€3.0 million).
As permitted by current regulations, CESI opted not to apply IFRS to the preparation of its financial statements at December 31, 2009. Consequently, its financial statements at December 31, 2009 were prepared in accordance with Italian GAAP.
In April 2009, ELMED ÉTUDES Sàrl was established.

This limited-liability company is an equally-held joint venture between Terna and Société Tunisienne de l'Electricité et du Gaz (STEG) whose main purpose is the study and preliminary consulting concerning the preparation of documents for the Tunisian government's call for tenders for the construction and management of the power generation hub in Tunisia for the Italy-Tunisia interconnection project.
For more information, please see the section "Significant events".
The main figures of the above associates, restated in accordance with the presentation and measurement criteria applied by Terna Group, are as follows:

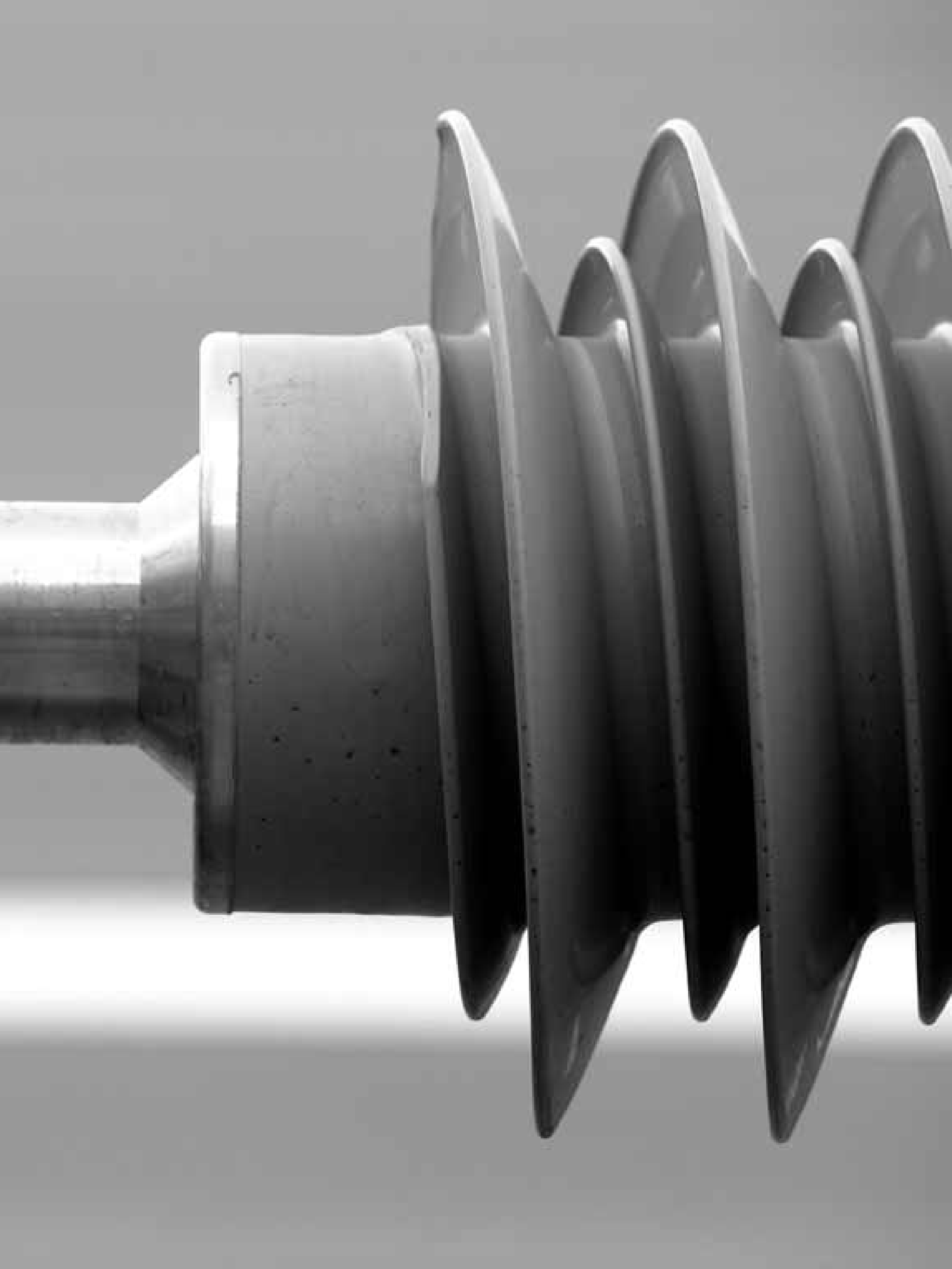
Company	Assets		Liabilities		Equity	Revenues	Profit for the year
	Current	Non-current	Current	Non-current			
CESI	65.0	46.5	28.9	34.6	48.0	75.1	8.0
ELMED ÉTUDES	1.4	-	-	-	1.4	-	

18. Financial assets

The following table details financial assets recognised in the consolidated financial statements:

	Carrying amount		
In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Continuing operations			
FVH derivatives	123.2	115.5	7.7
Non-current financial assets	**123.2**	**115.5**	**7.7**
Continuing operations			
Deferred assets on FVH derivative contracts	-	0.4	-0.4
Other current financial assets	501.0	6.3	494.7
Total continuing operations	**501.0**	**6.7**	**494.3**
Discontinued operations			
Other current financial assets	0.0	0.2	-0.2
Current financial assets	**501.0**	**6.9**	**494.1**

At December 31, 2009, "Non-current financial assets", equal to €123.2 million, reported the value of fair value hedges of the Parent's bond issues.
The increase in the fair value of the derivatives (€7.7 million) compared with December 31, 2008, is essentially attributable to the decline in market interest rates in 2009.
"Current financial assets" shows a balance of €501.0 million (€6.9 million at December 31, 2008), mainly in respect of securities subscribed with UBS and MPS (€500.0 million).
The increase of €494.1 million on the previous year is the net result of the following factors:
- the reclassification of the amounts pertaining to discontinued operations totalling €0.2 million;
- the subscription in the final quarter of the year of three securities issued by UBS and MPS for a total of €500 million;
- a decrease in deferred financial assets in the amount of €5.7 million.



19. Other assets

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Receivables due from others:			
Continuing operations			
loans and advances to employees	*5.1*	*4.3*	*0.8*
assets on deposit with third parties	*0.4*	*0.3*	*0.1*
Total continuing operations	**5.5**	**4.6**	**0.9**
Discontinued operations			
assets on deposit with third parties	-	*0.9*	*-0.9*
Other non-current assets	**5.5**	**5.5**	**0.0**
Continuing operations			
Other tax receivables	17.9	13.7	4.2
Receivables due from others:			
advances to employees	0.2	0.2	-
others	9.5	7.2	2.3
Total continuing operations	**27.6**	**21.1**	**6.5**
Discontinued operations			
Other tax receivables	-	4.0	-4.0
Receivables due from others:			
Advances to employees	-	1.6	-1.6
Others	-	2.2	-2.2
Total discontinued operations	**-**	**7.8**	**-7.8**
Other current assets	**27.6**	**28.9**	**-1.3**

Other non-current assets (€5.5 million), detailed above, have not undergone any significant changes with respect to the previous year (€4.6 million net of the reclassification of discontinued operations) and relate mostly to loans and advances paid to the Parent's employees (€5.1 million).

Other current assets amount to €27.6 million (€28.9 million at December 31, 2008) and mainly relate to the following:

- other tax receivables (€17.9 million), mainly related to:
  - withholding tax on interest income accrued on investments (€3.0 million);
  - tax receivables accrued abroad (€13.0 million), of which €8.8 million in respect of receivables from the Greek tax authorities for indirect taxes in relation to the activities carried out by Terna's branch in Greece and €2.3 million in respect of taxes withheld by Brazilian tax authorities on interest accrued on the intercompany loan to Terna Participações;
  - VAT receivables (€1.5 million).

The item shows an increase of €4.2 million on the previous year, mainly attributable to the Brazilian withholdings and the VAT credit described above.

- receivables from others (€9.7 million), mainly regarding:
  - assets in the amount of €4.4 million referred to costs already paid but pertaining to subsequent years, mainly attributable to costs on contracts to use assets that the Parent took over following the transfer of plant from Enel Distribuzione (€0.9 million) and insurance premiums (€3.2 million);
  - receivables for insurance reimbursements accrued in the year but still not paid (about €1.0 million);
  - sundry advances to employees (€0.2 million) and non-Group suppliers (€0.6 million).

20. Inventories - €11.7 million

Inventories under current assets came to €11.7 million (€16.6 million at December 31, 2008 net of the reclassification of discontinued operations in the amount of €1.1 million) and include materials and equipment used in the operation, maintenance and construction of plants; the increase of €4.9 million is mainly due to ordinary maintenance of plant in Italy.

21. Trade receivables - €1,169.1 million

Trade receivables are composed as follows:

In millions of euros	Dec. 31, 2008	Dec. 31, 2008	Change
Continuing operations			
Energy-related receivables	843.9	1,471.4	-627.5
Receivables for transmission grid fees	284.6	191.7	92.9
Other trade receivables	40.6	42.9	-2.3
Total continuing operations	**1,169.1**	**1,706.0**	**-536.9**
Discontinued operations			
Receivables for transmission grid fees	-	24.4	-24.4
Trade receivables	**1,169.1**	**1,730.4**	**- 561.3**

Trade receivables amounted to €1,169.1 million, a decrease of €536.9 million on the previous year, net of the reclassification of discontinued operations in the amount of €24.4 million, all of which attributable to pass-through items originated by the dispatching activities of the Parent.
Receivables are measured net of impairment losses, relating to items considered uncollectible and recognised as an adjustment in the provision for bad debts (€22.3 million for energy items and €4.7 million for other items in 2009, compared with €10.3 million for energy-related items and €1.4 million for other items in 2008).

Energy-related receivables - €843.9 million

They mainly include receivables in relation to pass-through energy items arising in respect of dispatching activities. This caption also includes receivables for fees payable by market operators for dispatching activities (DIS fee as per AEEG Resolution no. 237/044).
The balance shows a decrease of €627.5 million compared with the previous year, mainly attributable to lower receivables in respect of sales on the Power Exchange (€615.2 million, partly offsetting, as detailed in the section on trade payables below, by a decrease in payables for purchases on the Power Exchange), due in particular to the application of AEEG Resolution no. 203/08, which specified the procedures for coverage of costs in respect of electricity transiting on foreign electricity grids (€93.3 million) and limited recourse to supplementary offers on the Day Ahead Market to situations involving exceptional strains on the national electricity system (€193.8 million); in addition, it reflects general economic conditions, which led to a reduction in the volumes and prices of unbalancing, as well as early invoicing of adjustments under AEEG Resolution no. 34/09 (€95.5 million). Finally, there was a substantial decrease in the receivable for uplift for the year (about €193 million).

Receivables for transmission grid fees - €284.6 million

The receivable for transmission grid fees of €284.6 million regards the fees paid to the Parent and other owners for the use of the National Transmission Grid by distributors and electricity generators. Most of the receivable regards the fees for the final two months of the year, falling due in January and February 2010. The increase of €92.9 million in the receivable compared with the previous year is largely attributable to the recognition of the receivable from the Electricity Equalisation Fund in respect of the mitigation mechanism provided for under Resolution no. 188/08 (€61.0 million, including the amount granted for the portion of the NTG pertaining to TELAT for the last nine months of the year), as well as the receivable for transmission fees pertaining to TELAT (€23.1 million) for December.

Other trade receivables - €40.6 million

Other trade receivables mainly regard receivables due from Italian customers (€26.2 million), from Enel Group companies (€4.6 million), from the Electricity Equalisation Fund for the contribution granted to the Company to cover the cost incurred in the connection of renewable resource plants for the last four years (€4.0 million) and to cover the cost incurred in respect of the employee electricity discount (€1.4 million) and receivables for long-term contract work in progress (€2.6 million) for third-party customers.

The amount of guarantees issued by Terna to third parties at the end of 2009 was €11.8 million. The item refers to sureties issued to secure contractual obligations assumed in relation to operating activities.

22. Cash and cash equivalents - €0.1 million

Cash and cash equivalents at December 31, 2009 amounted to €0.1 million and were entirely accounted for by the cash on hand held by operational units of the Parent. The item shows a decrease on December 31, 2008, of €689.1 million, net of the reclassification of discontinued operations (€90.5 million); for more details please see section "I. Notes to the statement of cash flows".

23. Tax assets - €18.4 million

Tax assets came to €18.4 million, attributable to the tax paid under art. 15 of Legislative Decree no. 185/2008 to discharge the tax liability in respect of the goodwill arising in the merger of the subsidiary RTL into Terna (€14.2 million) and the recognition, pursuant to art. 6 of Law no. 2 of January 28, 2009, of the receivable due from tax authorities for excess income taxes paid in previous years as a result of not deducting IRAP in the amount provided for under the law (€4.2 million).

The decrease (€7.5 million) on the previous year is attributable to the shift from the IRES and IRAP tax credits recognised in 2008 (€25.9 million) to corresponding liabilities in 2009 due to the fact that payments on account during the year were lower than the tax liability for the year and to the recognition during the year of the tax paid pursuant to art. 15 of Legislative Decree no. 185/2008 and the IRAP credit described above.

24. Discontinued operations and assets held for sale - €0.1 million

The item, which totals €0.1 million, regards the residual value of the investment in Terna Participações (equal to 10,000 units), which will be sold by Terna S.p.A. in the public tender offer that TAESA S.A., which acquired control of Terna Participações S.A., is to make.

Liabilities

25. Equity attributable to the shareholders of the Parent - €2,501.5 million

Share capital - €440.2 million

The share capital of the Parent is represented by 2,000,908,800 ordinary shares with a par value of €0.22 each. The item did not change during the year.

Legal reserve - €88.0 million

The legal reserve is equal to 20% of the Parent's share capital.

Other reserves - €670.7 million

Other reserves declined by €12.6 million as a result of change recognised as other components of comprehensive income, namely:

- the recognition and adjustment to fair value of derivatives hedging floating-rate loans of the Parent (cash flow hedge derivatives), which produced a decrease of €16.5 million, net of the related tax effect (+€4.6 million);
- the reclassification to retained earnings of the share premium reserve in the amount of stock options exercised in previous years in the Brazilian companies (-€0.9 million).

Retained earnings - €671.7 million

The item increased by €15.4 million (of which €4.1 million as components of comprehensive income and €11.3 million as transactions with owners), with the changes largely regarding:
- the allocation to retained earnings (€11.3 million) of the residual consolidated profit for the year ended December 31, 2008, equal to profit remaining after the distribution of the 2008 dividend (€316.2 million);
- the release to income (€3.2 million) of the negative translation reserve generated in previous years by the consolidation of the Brazilian subsidiaries following the sale by Terna S.p.A. of its controlling stake in Terna Participações S.A.;
- the reclassification under retained earnings of the share premium reserve in the amount of stock options exercised in previous years in the Brazilian companies (€0.9 million).

2009 interim dividend

After receiving the report of the independent auditors as per art. 2433 *bis* of the Italian Civil Code, on November 10, 2009 the Parent's Board of Directors approved the distribution of an interim dividend of €140.1 million, equal to €0.07 per share, which was paid beginning from November 26, 2009, with an *ex* dividend date (coupon 11) of November 23, 2009.

The following table reports the availability and possibility of distribution of the components of equity:

AVAILABILITY OF THE MAIN COMPONENTS OF EQUITY

In millions of euros	Dec. 31, 2009	Possibility of use	Available portion
Share capital	440.2	B	
Legal reserve	88.0	B	88.0
Other reserves			
- equity-related	397.9	A, B, C	397.9
- income-related*	272.8	A, B, C	272.8
Retained earnings	671.7	A, B, C	671.7
Interim dividend	-140.1	A, B, C	-
Profit for 2009	771.0	-	-
Total	**2,501.5**		**1,430.4**

Key:
A - to increase share capital B - to cover losses C - to distribute to shareholders

(*) Includes the negative reserve for the effective portion of changes in the fair value of cash flow hedges, which is equal, net of tax effects, to €61.3 million.

Of the total available portion, €684.4 million regards untaxed income-related reserves.

Terna S.p.A. stock option plans

On December 21, 2005, based on a proposal of the Remuneration Committee, the Parent's Board of Directors resolved to adopt a 2006 stock option plan for Terna Group managers holding the most important roles in terms of achieving the Group's strategic targets.
This plan is 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 that imbues key employees with a sense of belonging to the corporate team, while ensuring they are constantly focused on creating value, with a view to melding the interests of shareholders and management.

The features of the 2006 stock option plan are outlined below.

Rules governing the 2006 stock option plan (approved on December 21, 2005)

The plan provides for the distribution of a maximum of 10,000,000 options to about 20 Terna managers holding the most important positions in terms of achieving the Company's strategic targets, including the CEO, as a senior manager of the Company.
Under the approved rules governing the stock option plan:
1. the strike price of each share shall be the arithmetic mean of the reference price of Terna ordinary share observed on the electronic stock exchange operated by Borsa Italiana S.p.A. in the period between the date of the offer and the same day of the previous calendar month;
2. the exercise of the options and, consequently, the right to subscribe newly-issued Terna ordinary shares depends on

achieving two performance parameters. In particular:
  a) Terna EBITDA for the grant year (2006) must be greater than that established in the budget approved by the Board of Directors;
  b) the 2006 performance of each beneficiary must be positively assessed by the CEO, with a provision for a 50% reduction in the options that the individual beneficiary can exercise, should this second condition not be met;
3. if the exercise conditions are met, individual beneficiaries can exercise, their options by March 31, 2010 up to the following maximum quantities:
   - up to 30% of vested options, beginning from the date specified in the notice announcing that the exercise conditions have been met;
   - up to 60% of vested options, beginning from the first day of the first calendar year subsequent to that in which the notice announcing that the exercise conditions have been met is issued;
   - up to 100% of vested options, beginning from the first day of the second calendar year subsequent to the year in which the notice announcing that the exercise conditions have been met is issued.

On April 22, 2009, the Extraordinary shareholders' meeting voted to extend the time limit for exercising the options under stock option plan by three years until March 31, 2013, and to amend art. 5 of the bylaws.

Options can be exercised only on a stock exchange trading day during the last 10 days of each month. However, options cannot in any case be exercised in the following days:
- in the period between the third-to-last trading day and the last trading day before the *ex* dividend date;
- in the period between the date scheduled 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 scheduled 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 €2.072 to 17 managers of the Parent. The Board of Directors verified that the conditions for exercise were met when it approved the financial statements at December 31, 2006.
At December 31, 2009, all the options granted under the plan were outstanding and, as the vesting period was complete, were exercisable at the end of the year (9,083,200 options). During the year, no options were taken up and no options lapsed.

The pricing method used is the Cox-Rubinstein, which considers the price of Terna shares at the grant date, the volatility of the shares, the yield curve at the grant date consistent with the duration of the plan.
The pricing parameters applied are the following:
- closing price (underlying or spot price) of the shares at the grant date (source: Bloomberg) of €2.058;
- strike price of €2.072;
- yield curve for the calculation of the discount factor at the grant date (source: Reuters);
- historic volatility of the shares recorded at the grant date (source: Bloomberg) of 14.860%.

26. Loans and financial liabilities

The following table details loans and financial liabilities recognised in the consolidated financial statements at December 31, 2009.

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Continuing operations			
Bonds	2,643.5	2,031.8	611.7
Bank loans	1,555.7	1,615.2	-59.5
Total	**4,199.2**	**3,647.0**	**552.2**
Bank loans of discontinued operations	0.0	308.3	-308.3
Long-term loans	**4,199.2**	**3,955.3**	**243.9**
Continuing operations			
CFH derivatives	82.6	65.8	16.8
Other liabilities	0.0	0.9	-0.9
Non-current financial liabilities	**82.6**	**66.7**	**15.9**
Continuing operations			
Short-term loans	40.0	0.0	40.0
Current portion of long-term loans	59.7	44.6	15.1
Total	**99.7**	**44.6**	**55.1**
Discontinued operations			
Short-term loans	0.0	160.2	-160.2
Current portion of long-term loans	0.0	34.4	-34.4
Total	**0.0**	**194.6**	**-194.6**
Short-term loans and current portion of medium/long-term loans	**99.7**	**239.2**	**-139.5**
Total	**4,381.5**	**4,261.2**	**120.3**

Gross debt, excluding the 2008 debt of the Brazilian subsidiaries, increased by €623.2 million to €4,381.5 million.
Of the total increase in the value of bonds (€611.7 million), €600.0 million is attributable to the new issue carried out by the Parent in 2009 in the form of a private placement, €7.2 million regards the change in the fair value of hedged exposure and €4.5 million the capitalisation of inflation for the period net of the amortised cost effect (€1.2 million gross). The change associated with hedging of interest rate risk includes -€0.5 million in respect of the inflation-linked bond issue, €7.2 million in respect of the 2014-2024 bonds and €0.5 million in respect of the private placement, offset by the increase in the fair value of derivatives recognised under financial assets in the amount of €7.7 million.
The fair value of the bonds is calculated on the basis of official prices of the bonds registered on the Luxembourg Stock Exchange, as detailed below:

- bond maturing 2024, price at December 31, 2009: 102.29 and price at December 31, 2008: 105.09;
- bond maturing 2014, price at December 31, 2009: 104.34 and price at December 31, 2008: 100.68;
- bond maturing 2023, price at December 23, 2009: 102.60 and price at December 31, 2008: 91.12;
- bond maturing 2019, price at December 31, 2009: 103.56.

(Source: Reuters)

Consequently, compared with a total carrying amount of €2,643.5 million (€2,031.8 million at December 31, 2008), the fair value amounted to €2,600.3 million (€1,918.4 million at December 31, 2008).

Net of the reclassification of the value attributable to the Brazilian companies at December 31, 2008, in respect of debt originally bearing floating rates, the decrease of €4.4 million is mainly attributable to:

- a €44.6 million reduction in European Investment Bank loans and other financing following repayments made on outstanding loans;
- use of credit lines in the amount of €40.0 million.

Long-term loans

The following table shows the carrying amount of long-term debt and the repayment plan at December 31, 2009, broken down by loan type, including amounts falling due within one year and average interest rate at year-end:

In millions of euros	Maturity	Dec. 31, 2008	Dec. 31, 2009	Due within one year	Due after one year	2011	2012	2013	2014	2015	After	Average interest rate at Dec. 31, 2009
Bonds	2014-2024	1,472.3	1,479.5	0.0	1,479.5	0.0	0.0	0.0	628.9	0.0	850.6	4.62%
IL bonds	2023	559.5	563.5	0.0	563.5	0.0	0.0	0.0	0.0	0.0	563.5	2.95%
PP bonds	2019	0.0	600.5	0.0	600.5	0.0	0.0	0.0	0.0	0.0	600.5	4.88%
Total fixed rate		**2,031.8**	**2,643.5**	**0.0**	**2,643.5**	**0.0**	**0.0**	**0.0**	**628.9**	**0.0**	**2,014.6**	
EIB no. 20271	2014	40.9	34.1	6.8	27.3	6.8	6.8	6.8	6.9	0.0	0.0	1.82%
EIB no. 21159	2016	170.5	147.7	22.7	125.0	22.7	22.7	22.7	22.7	22.7	11.5	1.88%
EIB no. 22947	2020	100.0	95.5	9.1	86.4	9.1	9.1	9.1	9.1	9.1	40.9	1.90%
EIB no. 22947	2018	200.0	189.6	21.1	168.5	21.1	21.1	21.1	21.1	21.1	63.0	1.68%
EIB no. 24423	2028	300.0	300.0	0.0	300.0	0.0	0.0	9.7	19.4	19.4	251.5	2.34%
Club Deal	2015	648.4	648.5	0.0	648.5	0.0	0.0	0.0	0.0	648.5	0.0	3.06%
RCF 2006	2013	200.0	200.0	0.0	200.0	0.0	0.0	200.0	0.0	0.0	0.0	1.80%
Loans - discontinued operations		342.7										
Total floating rate		**2,002.5**	**1,615.4**	**59.7**	**1,555.7**	**59.7**	**59.7**	**269.4**	**79.2**	**720.8**	**366.9**	
Total		**4,034.3**	**4,258.9**	**59.7**	**4,199.2**	**59.7**	**59.7**	**269.4**	**708.1**	**720.8**	**2,381.5**	

The original currency of each position above is the euro.
The repayment of the nominal amount of the 2014, 2024, and 2019 bonds, equal to €2,000.0 million, will entail payment of €600.0 million on October 28, 2014, €800.0 million on October 28, 2024 and €600 million on October 3, 2019; the inflation-linked bonds will be repaid at maturity, on September 15, 2023, with the nominal value adjusted to reflect inflation. All other financial debt items are stated at their nominal value along with the related repayment plan.
The total loans at December 31, 2009 of the Terna Group, all of which pertain to the Parent, amount to €4,258.9 million, including loans of €4,199.2 million due after one year and €2,381.5 million due after the fifth year.

The table shows the average interest rate for each type of financial liability. Below we also comment on the Group's hedging operations against interest rate fluctuations.
As regards the 2014-2024 bonds, with an average coupon of 4.62%, if FVH hedging operations are taken into account, the average interest rate is equal to 2.99%.
For the inflation-linked bond, taking hedges into account, and assuming a 0.22% inflation rate, the average interest rate paid in the year was 0.71%.
In line with financial risk management policies, the fixed-rate private placement was synthetically transformed to a floating rate security by means of derivative contracts with the same maturity. Consequently, the average interest rate paid in the year was 2.78%.
Allowing for the effect of financial derivatives accounted for as cash flow hedges on floating-rate loans hedged against interest rate fluctuations, the average rates are as follows: EIB no. 20271, 4.93%, EIB no. 21159, 4.96%, EIB no. 22947 (€100-million *tranche*), 5.04%, EIB no. 22947 (€200-million *tranche*), 4.83%, EIB no. 24423, 4.70%, the €650-million Club Deal loan, 4.89% and the €200-million Revolving Credit Facility, 2.19%.

The following table reports changes in long-term debt for the year:

Type of loan In millions of euros	Nominal debt at Dec. 31, 2008	Carrying amount at Dec. 31, 2008	Reclassification of the liabilities of discontinued operations	Repayments and capitalisation	New issues	Diff. in fair value Dec. 31, 2008 Dec. 31, 2009	Difference in carrying amount	Nominal debt at Dec. 31, 2009	Carrying amount at Dec. 31, 2009
Listed fixed rate bonds	1,400.0	1,472.3	0.0	0.0	0.0	7.2	7.2	1,400.0	1,479.5
Listed fixed rate IL bond	519.8	559.5	0.0	1.2	0.0	2.8	4.0	521.0	563.5
Private placement	0.0	0.0	0.0	0.0	600.0	0.5	600.5	600.0	600.5
Total bonds	**1,919.8**	**2,031.8**	**0.0**	**1.2**	**600.0**	**10.5**	**611.7**	**2,521.0**	**2,643.5**
Bank loans	1,661.4	1,659.8	0.0	-44.6	0.0	0.2	-44.4	1,616.8	1,615.4
Bank loans of subsidiaries	342.7	342.7	-342.7	0.0	0.0	0.0	0.0	0.0	0.0
Total bank loans	**2,004.1**	**2,002.5**	**-342.7**	**-44.6**	**0.0**	**0.2**	**-44.4**	**1,616.8**	**1,615.4**
Total financial debt	**3,923.1**	**4,034.3**	**-342.7**	**-43.4**	**600.0**	**10.7**	**567.3**	**4,137.8**	**4,258.9**

Compared with December 31, 2008, net of the reclassification of the debt of the Brazilian companies in the amount of €342.7 million, long-term debt shows a total net increase of €567.3 million, attributable in the amount of €600 million to the new borrowing in the year, €4.5 million to the capitalisation of inflation for the period in relation to the IL bond, €7.2 million to the increase in the fair value of the bonds as a result of a fall in interest rates, €44.6 million to the repayment of EIB financing and €0.2 million to the measurement of the Club Deal loan at amortised cost.
Changes during the year include the issue on July 3, 2009, of a privately placed fixed-rate bond in the amount of €600 million; the issue, carried out as part of the Euro Medium Term Notes (EMTN) programme, has a maturity of 10 years and will be redeemed at maturity. It pays an annual coupon of 4.875%.
At December 31, 2009, the Parent retained additional borrowing capacity of more than €2,279.0 million, of which more than €729.0 million consisted of short-term credit lines and €1,550.0 million in syndicated credit lines.

Non-current financial liabilities

The table below reports the amount and changes in non-current financial liabilities on the previous year:

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
CFH derivatives	82.6	65.8	16.8
Other liabilities	0.0	0.9	-0.9
Total	**82.6**	**66.7**	**15.9**

Non-current financial liabilities include the fair value of cash flow hedges.
Fair value is measured by discounting estimated future cash flows on the basis of the market yield curve at the reporting date. The change in the yield curve with respect to December 31, 2008 generated an increase of €16.8 million.
The change in other financial liabilities (-€0.9 million) refers to the extinguishment of the net payable to Lehman Brothers. This is equal to the net fair value of FVH and non-hedge-accounting derivatives outstanding at September 16, 2008, the date of the early termination of relations between Terna S.p.A. and Lehman Brothers.

Short-term loans

Short-term loans, equal to €40.0 million, consist exclusively of drawings on current account credit facilities.

Current financial liabilities

Current financial liabilities, which are generated by the financial expense accrued on financial instruments but not yet settled, decreased on the previous year by €7.0 million net of the reclassification of amounts pertaining to discontinued operations, mainly due to the increase in floating-rate debt during the year.

The following table details deferred liabilities on the basis of the financial liabilities to which they relate:

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Continuing operations			
Deferred liabilities on:			
Derivative contracts			
- hedging	*-9.4*	*2.9*	*-12.3*
Bonds			
- inflation linked	*4.3*	*4.2*	*0.1*
- private placement	*14.6*	*0.0*	*14.6*
- ten-year	*4.5*	*4.5*	*0.0*
- twenty-year	*7.0*	*7.0*	*0.0*
Total	**30.4**	**15.7**	**14.7**
Loans	4.5	13.9	-9.4
Total continuing operations	**25.5**	**32.5**	**-7.0**
Discontinued operations			
Deferred liabilities on loans	0.0	1.5	-1.5
Total	**25.5**	**34.0**	**-8.5**

Net financial position

Pursuant to the CONSOB Communication of July 28, 2006, and in conformity with the CESR Recommendation of February 10, 2005 for the consistent implementation of the European Commission regulation on prospectuses, the net financial position of the Company is as follows:

	Carrying amount
In millions of euros	Dec. 31, 2009
A. Cash on hand	0.1
B. Other liquidity (details)	500.0
C. Securities held for trading	0.0
D. Cash and cash equivalents (A) + (B) + (C)	**500.1**
E. Current bank debt	0.0
F. Current portion of long-term debt	59.7
G. Short-term loans	40.0
H. Current financial debt (E) + (F) + (G)	**99.7**
I. Net current financial debt (H) - (D)	**-400.4**
J. Non-current bank debt	1,555.7
K. Bonds	2,643.5
L. Derivative financial instruments in portfolio	-40.6
M. Other financial liabilities	0.0
N. Net non current financial debt (J) + (K) + (L) + (M)	**4,158.6**
O. Net financial debt (I) + (N)	**3,758.2**

For more detail on the composition of the items in this table, please see notes 18 and 22, as well as the information presented here in note 26.

There are no financial payables or receivables due from/to related parties; further details are available in the section "G. Related party transactions" in the notes.

For more information on the contractual provisions of outstanding loans at December 31, 2009, please see the notes to the financial statements of Terna S.p.A.

27. Employee benefits - €125.1 million

The Group provides benefits to its employees during their period of employment (loyalty bonus), at the termination of their employment (termination benefits, additional month's pay and indemnity for lack of notice), and in the period after the termination of employment (electricity discount and the ASEM health plan).
The loyalty bonus is awarded to employees and managers of the Group when they reach certain seniority levels (25 and 35 years of service).
The benefits granted at the termination of employment are recognised for all employees (termination benefits), managers hired or appointed before February 28, 1999 (indemnity for lack of notice), and employees (production workers, office staff and junior managers) hired before July 24, 2001 (additional month's pay indemnity).
Post-employment benefits consist of the following:

- discount on electrical energy consumed for domestic use. This benefit is offered to all employees hired before June 30, 1996 (electricity discount);
- a health plan complementing the national health service, as agreed under the terms of the national contract for industrial managers (the ASEM health plan).

The composition of termination benefits and other employee-related provisions at December 31, 2009, pertaining entirely to the Parent, is detailed below along with changes in the year:

In millions of euros	Dec. 31, 2008	Accruals	Interest cost	Utilisations and other changes	Dec. 31, 2009
Employee benefits					
Loyalty bonus	5.1	0.2	0.2	-0.6	4,9
Total	**5.1**	**0.2**	**0.2**	**-0.6**	**4.9**
Termination benefits					
Termination benefits	74.4	11.2	3.2	-17.3	71.5
Additional month's pay	7.4	0.4	0.4	-0.9	7.3
Indemnities in lieu and other similar benefits	3.5	0.0	0.1	-0.3	3.3
Total	**85.3**	**11.6**	**3.7**	**-18.5**	**82.1**
Post-employment benefits					
Electricity discount	51.9	1.2	1.5	-27.9	26.7
ASEM	11.6	0.0	0.3	-0.5	11.4
Total	**63.5**	**1.2**	**1.8**	**-28.4**	**38.1**
Total	**153.9**	**13.0**	**5.7**	**-47.5**	**125.1**

The item, equal to €125.1 million at December 31, 2009 (€153.9 million at December 31, 2008), decreased by €28.8 million on the previous year, essentially due to the reversal from the electricity discount provision (€26.8 million, €19.4 million net of the tax effect) following the agreement with Enel Distribuzione that recalculated the correct number of eligible beneficiaries (retirees).
Costs for liabilities in respect of employee benefits recognised in the income statement break down as follows:

In millions of euros	Termination benefits	Indemnities in lieu and other similar benefits	Additional month's pay	Loyalty bonus	ASEM	Electricity discount	Total
Dec. 31, 2008	**74.4**	**3.5**	**7.4**	**5.1**	**11.6**	**51.9**	**153.9**
Service cost	0.0	0.1	0.3	0.2	0.2	0.9	1.7
Amortisation of actuarial gains and losses	0.0	-0.3	0.1	0.0	-0.5	0.4	-0.3
Interest cost	3.2	0.1	0.4	0.2	0.3	1.5	5.7
Payments and transfers	-6.1	-0.1	-0.9	-0.6	-0.2	-1.2	-9.1
Reversal following Enel Distribuzione agreement	0.0	0.0	0.0	0.0	0.0	-26.8	-26.8
Dec. 31, 2009	**71.5**	**3.3**	**7.3**	**4.9**	**11.4**	**26.7**	**125.1**

The main assumptions made in the actuarial estimate of employee benefit obligations are as follows:

Percentage figures	2009	2008
Discount rate	4.1%	4.8%
Rate of increase in personnel expense	2.0%-4.0%	2.0%-5.0%
Rate of increase in healthcare costs	3.0%	3.0%-4.0%

28. Provisions for contingencies and charges - €149.4 million

The items and changes of the provisions for contingencies and charges at December 31, 2009 are set out below:

In millions of euros	Provision for disputes and litigation	Provisions for other contingencies and charges	Provision for early retirement incentives	Total
Balance at Dec. 31, 2008	**14.9**	**54.3**	**12.4**	**81.6**
Contribution of new acquisitions	1.5	0.0	0.0	1.5
Accruals	0.0	85.3	1.6	86.9
Utilisations and other changes	-0.3	-18.5	-1.8	-20.6
Balance at Dec. 31, 2009	**16.1**	**121.1**	**12.2**	**149.4**

Provision for disputes and litigation - €16.1 million

The provision is accrued to cover the liabilities at year end that may arise from lawsuits and out-of-court disputes relating to Group activities. The amount accrued takes into account the opinions both of internal and external legal counsel. Compared with the previous year, the caption shows a net increase of €1.2 million, consisting of previous accruals by TELAT of €1.5 million and utilisations of €0.3 million by the Parent.
Litigation for which no potential charge can reasonably be calculated are described under "Off-balance sheet items".

Provision for other contingencies and charges - €121.1 million

The provision shows a net increase of €66.8 million compared with end 2008, ascribable to accruals of €85.3 million and utilisations of €18.5 million by the Parent in the course of the year. More specifically:

- an accrual of €42.4 million for likely charges in respect of contractual and tax obligations related to the disposal of the controlling stake in Terna Participações;
- a net accrual of €21.2 million relating to "Projects for urban and environmental renewal", the aim of which is to offset the environmental impact of the construction of power lines;
- a net accrual of €6.8 million for incentive plans for management personnel and social security disputes with INPS;
- a net accrual of €1.4 million for the contribution to be paid in to the Provision for Exceptional Events set up within the Electricity Equalisation Fund by Resolution no. 333/07 to cover supply interruptions;
- the use of a previous accrual (€7.0 million) relating to grid transmission fee adjustments referring to 2005, which was already the subject of a redetermination pursuant to AEEG Resolution no. 162/06.

Provision for early retirement incentives - €12.2 million

This provision reflects the estimated non-recurring charges related to the voluntary early termination of the working relationship of employees who are eligible for retirement. The provision shows net uses of €0.2 million.

29. Deferred tax liabilities - €363.8 million

Changes in this caption are detailed as follows:

In millions of euros	Dec. 31, 2008	Reclassification of "Discontinued operation"	Contribution of new acquisitions	Impact recognised in profit or loss		Impact recognised in equity	Dec. 31, 2009
				Accruals	Utilisations		
Deferred tax liabilities							
Property, plant and equipment	372.8	-5.7	91.8	-	-35.9	-	423.0
Employee benefits and financial instruments	3.8	-	-	-	-0.3	-	3.5
Total deferred tax liabilities	**376.6**	**-5.7**	**91.8**	**-**	**-36.2**	**-**	**426.5**
Deferred tax assets							
Provisions for contingencies and charges	14.5	-	0.5	4.1	-4.0	-	15.1
Provision for bad debts	0.9	-	-	2.2	-	-	3.1
Employee benefits and other personnel expense	26.6	-	-	7.6	-12.7	-	21.5
FVH derivatives - CHF	18.1	-	-	-	-	4.6	22.7
Other	-	-	-	0.3	0.0	-	0.3
Total deferred tax assets	**60.1**	**0.0**	**0.5**	**14.2**	**-16.7**	**4.6**	**62.7**
Net deferred tax liabilities	**316.5**	**-5.7**	**91.3**	**-14.2**	**-19.5**	**-4.6**	**363.8**

The final balance of €363.8 million represents the net result of changes in deferred tax liabilities and liabilities in respect of continuing operations after the reclassification of the opening balance associated with assets held for sale.
Deferred tax liabilities in respect of continuing operations totalled €426.5 million, up €55.6 million, essentially due to:

- the contribution of the new acquisition, TELAT (€91.8 million), including deferred taxes (€70.3 million, net of the reversals to associated amortisation and depreciation for the final nine months of the year) recognised in respect of the portion of the excess cost paid to purchase the company following completion of the allocation of the same to transmission plant and intangible assets. The allocation can be considered final;
- the use of previous provisions to cover the difference between accelerated amortisation/depreciation and the depreciation calculated using ordinary technical rates (€23.8 million), including the reversal in respect of the amortisation/depreciation charge for the year attributable to the difference from merger eliminations allocated to property, plant and equipment following mergers carried out in previous years (€2.3 million);
- the reversal of the accrued portion (€8.7 million) for the use of the provision for deferred IRAP liabilities governed by Law no. 244 of December 24, 2007 (the 2008 Finance Act) recognised in previous years against ordinary economic/technical rates.

Deferred tax assets in respect of continuing operations came to €62.7 million, an increase of €2.6 million, mainly attributable to the following changes:

- net reversals of €5.1 million in deferred tax assets in respect of provisions for employee benefits (€7.1 million, mainly concerning the reversal of the electricity discount provision following the agreement with Enel Servizio Electrico) and net provisions for other employee costs (€2.0 million);
- provisions of €4.6 million, attributable to the tax effect, which has no impact on the income statement, in respect of changes in cash flow hedge instruments;
- an increase of €2.2 million in the provision for bad debts;
- the contribution of TELAT totalling €0.5 million.

30. Other non-current liabilities - €151.6 million

The item (€151.6 million), net of the other non-current liabilities of discontinued operations at December 31, 2008 (€257.2 million), showed an increase of €1.2 million on previous year, attributable to the combined effect of the following changes:
- the release, in the amount of €5.6 million, of the portions of plant grants in connection with depreciation for the year applicable to the plants involved (a total of €140.5 million at December 31, 2009);
- the increase, in the amount of €6.8 million, of the accrued portion of the grid transmission fee of the Parent to cover the costs in the year of the National Transmission Grid safety plan (at December 31, 2009 the amounts, deferred to subsequent years, totalled €11.1 million), essentially due to the adjustment of the useful life of the intangible assets at the rates specified by the AEEG for rate purposes.

31. Current liabilities

Current liabilities break down as follows at December 31, 2009:

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Short-term loans*			
Continuing operations	40.0	0.0	40.0
Discontinued operations	0.0	160.2	-160.2
Total	**40.0**	**160.2**	**-120.2**
Current portion of long-term loans*			
Continuing operations	59.7	44.6	15.1
Discontinued operations	0.0	34.4	-34.4
Total	**59.7**	**79.0**	**-19.3**
Trade payables			
Continuing operations	1,482.0	1,874.4	-392.4
Discontinued operations	0.0	6.2	-6.2
Total	**1,482.0**	**1,880.6**	**-398.6**
Tax liabilities			
Continuing operations	44.0	0.0	44.0
Discontinued operations	0.0	1.8	-1.8
Total	**44.0**	**1.8**	**42.2**
Current financial liabilities*			
Continuing operations	25.5	32.5	-7.0
Discontinued operations	0.0	1.5	-1.5
Total	**25.5**	**34.0**	**-8.5**
Other current liabilities			
Continuing operations	95.3	82.7	12.6
Discontinued operations	0.0	11,1	-11,1
Total	**95.3**	**93.8**	**1.5**
Total current liabilities	**1,746.5**	**2,249.4**	**-502.9**

(*) See the comments in note "26. Loans and financial liabilities".

Trade payables - €1,482.0 million

Trade payables at December 31, 2009 consist of the following:

In millions of euros	Dec. 31, 2009	Dec. 31, 2008	Change
Continuing operations			
Suppliers			
- Energy-related payables	*1,100.7*	*1,554.3*	*-453.6*
- Non-energy related payables	*372.9*	*313.7*	*59.2*
Payables to associates	8.0	5.5	2.5
Payables for contract work in progress	0.4	0.9	-0.5
Total	**1,482.0**	**1,874.4**	**-392.4**
Discontinued operations			
Non-energy related payables	0.0	6.2	-6.2
Total trade payables	**1,482.0**	**1,880.6**	**-398.6**

Suppliers

Energy-related payables

This caption reports the effects on the statement of financial position of payables for “pass-through” costs, and refers mostly to purchase of energy and the transport fee due to the owners of other sections of the National Transmission Grid.
The decrease of €453.6 million compared with 2008 is essentially attributable to:

- a decrease of €395.2 million in payables for the purchase of energy on the Power Exchange, partly offset by a decrease (as described above in the section on trade receivables) in receivables from the sale of electricity on the Power Exchange (€615.2 million). The decrease is ascribable to:
  - the effects of AEEG Resolution no. 203/08, which reduced Terna’s recourse to supplementary offers to exceptionally critical conditions in the national electrical system, reducing payables by €39.4 million;
  - the impact of general economic conditions, which caused a decline in volumes and prices of unbalancing and the early invoicing of adjustments envisaged under AEEG Resolution no. 34/09 compared with the previous year (€64.5 million);
  - a reduction in payables for resources acquired on the ASM thanks to more efficient management of forecasts (€125.3 million);
  - the non-renewal of contracts for forward resources (€127.0 million);
- a decrease of €27.2 million in payables for the assignment of rights for the utilisation of transmission capacity on cross-border interconnections (AEEG Resolution no. 288/06 as updated);
- the reduction in the balance (€79.4 million) of payables awaiting definition by the AEEG recognised in previous years. The decline is attributable to the full settlement of payables in respect of congestion fees and the interconnection guarantee (€23.8 million and €34.9 million at December 31, 2008, respectively) and the partial reduction of payables for capacity payments (€42.9 million), also considering the increase in payables for UESS (essential generation units) of €22.2 million.

Non-energy related payables

Amounts due to suppliers refer to invoices both already received and yet to be received for tenders, services and the purchase of materials and equipment.
The increase on previous year in the liabilities of continuing operations (€59.2 million) is essentially due to purchases and services in respect of increased capital expenditure in the last quarter of 2009 compared with the same period of 2008 by the Parent (€49.8 million) and new capital expenditure by TELAT (€8.6 million).

Payables to associates

This caption amounts to €8.0 million and relates to payables to CESI for services provided to the Parent in the construction and management of laboratories and plants for tests, inspections, studies and experimental research in the general field of electricity technology and scientific progress. The increase (€2.5 million) compared with end-2008 is the result of an increase in services delivered in the final part of the year.

Group commitments with suppliers totalled about €2,001.7 million and refer to purchase commitments relating to normal operating activities for the period 2010-2015.

Payables for contract work in progress

This caption amounted to €0.4 million at December 31, 2009 and was substantially in line with the balance at December 31, 2008. It is composed as follows:

In millions of euros	Payments on account	Contract value	Balance at Dec. 31, 2009	Payments on account	Contract value	Balance at Dec. 31, 2008
Other	-3.0	2.6	-0.4	-1.7	0.8	-0.9
Total	**-3.0**	**2.6**	**-0.4**	**-1.7**	**0.8**	**-0.9**

Tax liabilities - €44.0 million

The caption refers to the Group's tax payables for the financial year and refers to:

- the Parent in the amount of €20.8 million;
- TELAT in the amount of €23.2 million.

In the previous year, the item, net of the reclassification of the income tax liabilities of the Brazilian companies, was nil since the Parent reported a tax credit, as payments on account exceeded the tax liability recognised at the end of the year.

Other current liabilities - €95.3 million

Other current liabilities are detailed below:

In millions of euros	Dec. 31, 2009	Due within one year	Due after one year	Dec. 31, 2008	Change
Continuing operations					
Payments on account	10.0	3.5	6.5	9.9	0.1
Other tax liabilities	7.1	7.1	-	14.9	-7.8
Amounts payable to social security institutions	23.6	23.6	-	18.6	5.0
Amounts payable to employees	36.3	36.3	-	25.2	11.1
Other payables to third parties	18.3	3.2	15.1	14.1	4.2
Total	**95.3**	**73.7**	**21.6**	**82.7**	**12.6**
Discontinued operations					
Other tax liabilities	-	-	-	5.9	-5.9
Amounts payable to social security institutions	-	-	-	0.8	-0.8
Other payables to third parties	-	-	-	4.4	-4.4
Total	**-**	**-**	**-**	**11.1**	**-11.1**
Total	**95.3**	**73.7**	**21.6**	**93.8**	**1.5**

Payments on account

The item (€10.0 million) reports grants related to plant received by the Group (€9.1 million for the Parent and €0.9 million for TELAT) for investments pending at December 31, 2009.
The balance is broadly in line with the previous year, as grants deducted directly from the carrying amount of the related assets were offset by new payments on account received from third parties.

Other tax liabilities

Other tax liabilities, equal to €7.1 million, essentially regard payables for withholding taxes retained by the Parent.
For continuing operations, the item decreased by €7.8 million compared with the previous year, mainly because a VAT credit was recognised for 2009, compared with the VAT payable recognised at December 31, 2008 by the Parent (€8.7 million).

Amounts payable to social security institutions

This caption, which regards the Parent only, came to €23.6 million (€18.6 million at December 31, 2008, excluding amounts in respect of discontinued operations) and mainly consists of the Parent's payables (€18.4 million) due to INPS for December; the item also reports the payable in respect of the Fondo Previdenza Elettrici (FPE, a complementary pension fund for the electricity industry), equal to €5.2 million.

Amounts payable to employees

Amounts payable to employees, which came to €36.3 million (€25.2 million at December 31, 2008 for continuing operations), pertain to the Parent and mainly regard:

- accruals made for staff incentives to be paid the following year (€19.0 million);
- payments due to employees for unused holiday time and abolished public holidays (€8.5 million);
- termination benefits due to employees whose employment was terminated before December 31, 2009 (€3.2 million).

Other payables

Other payables, equal to €18.3 million (€14.1 million at December 31, 2008 for continuing operations), pertain to the Parent and mainly regard security deposits (€15.2 million) received from electricity market operators securing their obligations in respect of dispatching contracts. These deposits rose by €4.8 million, mainly due to operators' increased use in the final part of the year of security deposits rather than bank sureties.

E. Commitments and contingencies arising from off-balance sheet items

The main off-balance sheet commitments and contingencies of Terna S.p.A. and TELAT S.r.l. at December 31, 2009 are reported below. At the same date, other subsidiaries had no commitments and contingencies in respect of off-balance sheet items.

Environmental litigation

Environmental litigation relates to the installation and operation of electrical systems, in particular the effects of electric and magnetic fields.
The Parent and the subsidiary TELAT are involved in various civil and administrative suits in which requests have been made for the transfer or change in operations of allegedly harmful power lines, even if installed in full compliance with applicable legislation. Only a very small number of cases include claims for damages for harm to health due to electromagnetic fields.
Only in a few cases have adverse judgements been issued against the companies. These have been appealed and the appeals are still pending, although adverse rulings are considered unlikely.

Litigation concerning concession activities

As it holds the concession for transmission and dispatching activities since November 1, 2005, the Parent has been involved in a number of cases appealing AEEG, MAP and/or Terna measures relating to activities operated under the concession. Only in those cases in which the plaintiffs not only claim defects in the measures, but also allege that Terna violated the rules established by such Authorities is the Parent called to appear in court. Within the scope of this litigation, although a number of cases have seen the voidance of AEEG resolutions, it is felt there is little risk of adverse outcomes for Terna, as the matters regard pass-through items for the Parent, a position supported by the information provided by the external legal counsel representing the Parent in the cases involved.

Other litigation

In addition, a number of cases relating to urban planning and environmental issues are pending in respect of the construction and operation of certain transmission lines. Any unfavourable outcome to these cases could have adverse effects for the Parent, which cannot be foreseen to date. Accordingly, no accruals to provisions have been made in this respect.
In a limited number of cases the possibility of an adverse outcome cannot be ruled out. The possible consequences could, in addition to the award of damages, include, *inter alia*, the costs of modifying lines and suspending 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 counsel, and any negative outcome is considered remote.

F. Business combinations

TELAT acquisition

On April 1, 2009, in implementation of the agreement signed on December 19, 2008, Enel Distribuzione sold the entire share capital of Enel Linee Alta Tensione S.r.l. (ELAT) to Terna, after transferring (effective as of January 1, 2009) a business unit to this company comprising 18,583 kilometres of high-voltage lines and related legal relationships. On the same date, the shareholders of ELAT, meeting in extraordinary session, also approved a change in the company's name to Terna Linee Alta Tensione S.r.l. (or "TELAT S.r.l.").
The price for the company, equal to €1,152 million, was paid in full at closing but was adjusted in the amount of €12.3 million based on the increase in the equity of TELAT in respect of profit for the first quarter of 2009. In addition, following the determination by the AEEG of the remuneration of the portion of the NTG involved, which occurred following the signing of the sale agreement, Enel Distribuzione paid Terna €11 million, determined on a lump-sum basis, as compensation for the rate differential.
The overall cost of the acquisition therefore amounts to €1,157.7 million, including incidental expenses directly attributable to the transaction (€4.4 million).
The acquisition expanded the length of Terna's network by a total of 43% and its Regulatory Asset Base (RAB) by 18%.
The transaction was finalised following fulfilment of the conditions governing the effectiveness of the contract, namely: approval of the antitrust authority, inclusion of the company's high-voltage lines in the NTG by the competent authorities and granting of rate revenue for the business unit to TELAT (AEEG Resolution no. 31/09).

In millions of euros	IFRS carrying amount before the business combination	Fair value
Non-current assets	**878.8**	**1,109.3**
1. Property, plant and equipment	877.2	1,101.4
3. Intangible assets	-	6.3
4. Deferred tax assets	1.6	1.6
Current assets	**64.1**	**64.1**
1. Inventories	0.3	0.3
2. Trade receivables	1.1	1.1
3. Current financial assets	1.1	1.1
4. Cash and cash equivalents	61.6	61.6
Total assets	**942.9**	**1,173.4**
Non-current liabilities	**63.7**	**94.0**
3. Provision for contingencies and charges	1.5	1.5
4. Deferred tax liabilities	20.1	92.5
6. Other non-current liabilities	42.1	-
Current liabilities	**23.4**	**23.4**
3. Trade payables	10.4	10.4
4. Tax liabilities	7.1	7.1
6. Other current liabilities	6.0	6.0
Total liabilities	**87.2**	**117.5**
Net identifiable assets and liabilities	**855.9**	**1,056.1**
Goodwill from acquisition		101.6
Consideration	**1,157.7**	**1,157.7**

The revenue and the profit for the year of TELAT in 2009, calculated in accordance with the Terna Group's accounting policies, amounted to, respectively, €129.6 million and €43.9 million. Measured from the date of acquisition, the contribution to consolidated profit for 2009 was €53.0 million.
During the year the allocation of the excess cost paid with respect to the fair value of the assets and liabilities of TELAT at the acquisition date was completed. The determination of the fair values of the assets acquired and liabilities assumed led to the recognition of the following amounts:
• Property, plant and equipment in the amount of €224.2 million;
• Intangible assets in the amount of €6.3 million;
• Deferred tax liabilities in the amount of €72.4 million.
Accordingly, considering that the value of deferred income in respect of grants (allocated to other current liabilities) is already included in the value of the assets, goodwill from the business combination amounts to €101.6 million.

G. Related party transactions

The Terna Group's transactions with related parties, taking account of the *de facto* control exercised over the Parent by Cassa Depositi e Prestiti first ascertained in 2007, regarded the associate company CESI S.p.A., the employee pension funds (Fondenel and Fopen), Cassa Depositi e Prestiti, as well as companies belonging to:
• the GSE Group;
• the Enel Group;
• the Eni Group;
• the Ferrovie dello Stato Group;
and ANAS S.p.A.

Transactions with related parties during the year essentially regarded services rendered as part of ordinary operations that were settled on an arm's length basis. The following table sets out the nature of the Terna Group's transactions, assets and liabilities with related parties, as well as the relevant revenue and costs for the year and receivables and payables at December 31, 2009.

Related party	Assets	Liabilities
Cassa Depositi e Prestiti S.p.A.	**Non-energy related items** Subscription of bonds	**Non-energy related items** Fees on loans to be disbursed
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 metering aggregation, energy sales, rights of withdrawal, coverage of transmission costs, rights of use of transport capacity for interconnection **Non-energy related items** Leases and rents, line maintenance	**Energy-related items** Metering aggregation, energy purchases, rights of use of transport capacity for interconnection, coverage of congestion costs, congestion rent **Non-energy related items** Restitution of electric power discount, supply of MV power to new stations, specialized services for connection to Terna control and protection systems
ENI Group	**Energy-related items** Rights of withdrawal, energy sales, rights for use of transport capacity for interconnection, coverage of transmission costs, remuneration of grid **Non-energy related items** Line maintenance	**Energy-related items** Energy purchase, coverage of joint management costs, National Transmission Grid remuneration
Ferrovie Group	**Energy-related items** National Transmission Grid remuneration **Non-energy related items** Line moving, connection grants	**Energy-related items** National Transmission Grid remuneration **Non-energy related items** Right of way fees
Anas S.p.A.	**Non-energy related items** Line moving, connection grants	
Fondenel and Fopen		**Non-energy related items** Amounts payable to social security institutions by Terna Group

Company In millions of euros	Income statement					
	Revenue			Expenses		
	Grid transmission fee and other energy items	Pass-through energy items	Non-energy-related items	Grid transmission fee and other energy items	Pass-through energy items	Non-energy-related items
***De facto* controlling company**						
CDP	-	-	3.1	-	-	1.2
Total *de facto* controlling company	**-**	**-**	**3.1**	**-**	**-**	**1.2**
Associates						
CESI S.p.A.	-	-	-	-	-	1.3
Total associates	**-**	**-**	**-**	**-**	**-**	**1.3**
Other related parties						
GSE Group	26.0	1,343.1	0.5	-	643.2	-
Enel Group	996.1	1,105.1	11.6	8.5	1,582.7	8.7
Eni Group	7.4	105.1	0.2	-	109.9	-
Ferrovie Group	0.7	32.5	0.1	6.9	4.7	0.1
ANAS S.p.A.	-	-	-			
Total other related parties	**1,030.2**	**2,585.8**	**12.4**	**15.4**	**2,340.5**	**8.8**
Pension funds						
Fondenel						0.5
Fopen						1.7
Total pension funds	**-**	**-**	**-**	**-**	**-**	**2.2**
Total	**1,030.2**	**2,585.8**	**15.5**	**15.4**	**2,340.5**	**13.5**

Company In millions of euros	Statement of financial position Property, plant and equipment Capitalised costs	Receivables and other assets	Payables and other liabilities	Guarantees*
***De facto* controlling company**				
CDP	-	0.5	1.1	-
Total *de facto* controlling company	**-**	**0.5**	**1.1**	**-**
Associates				
CESI S.p.A.	11.8	-	8.0	2.9
Total associates	**11.8**	**-**	**8.0**	**2.9**
Other related parties				
GSE Group	-	0.6	-	-
Enel Group	18.5	118.2	31.3	436.0
Eni Group	-	0.3	0.5	24.4
Ferrovie Group	-	2.2	2.0	22.0
ANAS S.p.A.	-	1.0	0.8	-
Total other related parties	**18.5**	**122.3**	**34.6**	**482.4**
Pension funds				
Fondenel	-	-	-	-
Fopen	-	-	1.4	-
Total pension funds	**-**	**-**	**1.4**	**-**
Total	**30.3**	**122.8**	**45.1**	**485.3**

(*) Guarantees regard sureties received on supply contracts.

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

No significant, non-recurring, atypical or unusual transactions were carried out during 2009, either with third parties or with related parties.

I. Notes to the statement of cash flows

The cash flow generated from **continuing operations** in the year amounted to around €1,279.3 million, which reflects around €1,510.2 million in cash from operating activities (self-financing) and around €230.9 million in financial resources generated by the management of net working capital.
Investing activities used net financial resources of around €1,242.5 million, and included €844.9 million of investment in property, plant and equipment (€859.8 million net of plant grants totalling €14.9 million), and €40.6 million of investment in intangible assets. Also making an impact was the acquisition of an additional stake (€2.0 million) in the associated CESI from A2A S.p.A. and Siemens S.p.A. (1.871% and 4.68% respectively) and the recognition of the joint venture in respect of the costs incurred to establish the Tunisian company ELMED ÉTUDES (€0.7 million). Cash flows in respect of investing activities were substantially affected by the acquisition of the stake in TELAT. In particular, the value of the property, plant and equipment and intangible assets (taking account of the provisional allocation of the excess cost) was as follows:

- property, plant and equipment €1,101.4 million;
- goodwill €101.6 million;
- intangible assets €6.3 million.

Also material was the value at December 31, 2008, of the property, plant and equipment (€620.2 million) and the intangible assets and goodwill (€227.4 million) of the Brazilian assets discontinued with the sale of the holding in Terna Participações.
The change in **cash flows** for financing activities in respect of equity shows a decrease of €421.0 million, essentially attributable to the payment of the balance of the 2008 dividend (€197.7 million) and the interim dividend for 2009 (€140.1 million); in addition, following the disposal of the Brazilian operations, minority interests in equity were eliminated (€86.9 million).
Consequently, the financial resources required for investing activities and the remuneration of equity amounted to €1,663.5 million in the year, part of which (€1,279.3 million) was covered by cash flows generated from operating activities. The overall change in debt and the use of cash and cash equivalents (€884.2 million) covered the cash requirement (€384.2 million) and the investment in the last quarter of the year in **short-term securities** issued by UBS and MPS (€500 million).
As regards discontinued operations, the following table reports the net value at the disposal date of the asset and liabilities sold as well as the overall impact on the net financial position of the Terna Group from the disposal of the Brazilian assets.

EFFECT OF DISPOSAL ON THE GROUP'S NET FINANCIAL POSITION

In millions of euros

Net (assets) and liabilities of discontinued operations		
Property, plant and equipment		-792.8
Goodwill		-146.2
Intangible assets		-140.1
Deferred tax assets		-200.4
Equity-accounted investees		-50.8
Other non-current assets		-1.1
Receivables and other current assets		-52.5
Deferred tax liabilities		11.3
Other non-current liabilities		388.1
Payables and other current liabilities		47.0
Net financial debt		553.4
Total net (assets) and liabilities of discontinued operations		**-384.1**
Price received net of hedges and taxes		**712.5**
Deconsolidation of net debt:		553.4
Loans and other financing received	*388.2*	
Medium/long-term loan to Brasnorte	*-0.9*	
Short-term financing (former Terna-Terna Participações intercompany loan)	*215.4*	
Cash and cash equivalents	*-49.3*	
Effect of disposal on the Group’s net financial position		**1,265.9**

L. Subsequent events

Terna and the 2010 photovoltaic project

On **January 29, 2010** the Board of Directors of SunTergrid, with a view to implementing the photovoltaic project under way, approved the sale to the subsidiary RTR of SunTergrid’s plants for renewables generation for own consumption of sale, as well as all the assets, and contractual design, construction, operation, development and maintenance relationships related to those plants.
The transfer took effect as from February 1, 2010. The total amount paid came to €3.2 million.
The sale price is consistent with the market value of the transferred operations, as determined by an appraisal conducted by independent experts. In order to give RTR the resources necessary to start operations, on the same date the Board of Directors of SunTergrid approved a capital contribution of €5.0 million to the subsidiary.

Italy-Montenegro intergovernmental agreement

On **February 6, 2010** Italy and Montenegro formalised an intergovernmental agreement committing the two countries to the construction of a new underwater electricity interconnection line and the implementation of a strong strategic partnership between their respective national transmission operators, Terna and Prenos, for investment in Montenegro’s power grid. In particular, the partnership provides for Terna to take a stake of at least 22% in Prenos by way of a restricted recapitalisation, the designation of two of the seven board members by Terna and governance arrangements in which Terna will have a right of veto on strategic decisions.
Prenos, which was established on April 1, 2009 in a spin-off from Elektroprivreda Crne Gore – EPCG (the leading public energy company in Montenegro), holds three licenses: transmission operator, system operator and market operator.
As from April 6, 2009, Prenos shares have been listed on the local stock exchange.

The intergovernmental agreement is a key step for the completion of the deal between Terna and Prenos and, in view of the importance of the investment environment for the industrial development of the country, will be submitted to Montenegro's parliament for approval. In addition, the accord incorporates and strengthens the main elements of the term sheet signed in July 2009 by Terna and Prenos, which formally took effect with the approval of Montenegro's Council of Ministers on September 3, 2009.

Renewal and expansion of EMTN programme and new bond issues

On **February 17, 2010** the Board of Directors of Terna authorised the renewal and expansion from €2 to €4 billion of the existing EMTN programme and the issue in one or more tranches by March 31, 2011 of bonds in public or private placements of a total of €1.5 billion reserved for qualified investors in Italy and/or abroad either within the scope of the EMTN programme or outside that programme. The issues, to be denominated in euros or other currencies, may have a maximum term of 30 years.

2010-2014 Business Plan

On **February 18, 2010**, Terna presented the Company's 2010-2014 business plan to financial analysts, after approval of the plan by the Board of Directors on that same date.
The 2010-2014 plan of the Terna Group follows four main guidelines:

- sustainable growth: in the next five years a total of €4.3 billion will be invested, mainly to develop the power grid, an increase of €900 million or 26% over the level envisaged in the previous plan (€3.4 billion). Capital expenditure will also include more than €300 million for the photovoltaic project, bringing total budgeted expenditure to more than €4.6 billion;
- improved margins: increasing revenue and controlling costs will improve Group profitability from the current 74% to 77% at the end of the period covered by the plan;
- a sound capital structure: during the period of the plan, net debt will remain below 60% of regulated capital employed;
- confirmation of dividend policy: the policy provides for minimum annual growth of 4%, taking 2008 as the base year and half-yearly coupons in respect of the interim dividend and the balance. In addition, a portion of the proceeds from the sale of Terna Participações (approximately €150 million) will be allocated until 2012 to complement the policy by itself.

Agreement with EIB to finance the SA.PE.I. project

On March 18, 2010, Terna S.p.A. signed an agreement with the European Investment Bank (EIB) for an additional loan of €73 million to connect Sardinia with the Italian peninsula via a high-voltage undersea cable at continuous 500 kW ("SA.PE.I."). This financing is in addition to the €300 million agreed on May 5, 2008. The new loan also has a 20-year term and is repayable in half-yearly instalments from the fifth year. The terms are highly competitive, with interest accruing at the annual six-month Euribor plus a spread of 40 basis points.

Information provided pursuant to art. 149 *duodecies* of the CONSOB Issuers Regulation

The following table, prepared pursuant to art. 149 *duodecies* of the CONSOB Issuers Regulation, reports the fees for 2009 for the audit and non-audit services provided to the Terna Group by the same auditing firm.

In millions of euros	Entity providing service	Amounts due for 2009 - Italy	Amounts due for 2009 - Abroad
Audit services	KPMG S.p.A.	570,336.81	235,187.62
Attestation services	KPMG S.p.A.	147,410.34	
Total		**717,747.15**	**235,187.62**

Certification of the consolidated financial statement pursuant to art. 81-ter of Consob Regulation n. 11971 dated May 14, 1999 and subsequent amendments and additions

1. The undersigned Flavio Cattaneo as CEO and Luciano di Bacco as Executive in Charge of preparing the accounting documents of Terna S.p.A. , also pursuant to art. 154-bis paragraphs 3 and 4 of Legislative Decree n. 58 dated February 24, 1988 hereby certify:

- the adequacy with regard to the characteristics of the company and
- the actual implementation of the administrative and accounting procedures for preparing the consolidated financial statement for 2009.

2. With regard to the above, nothing significant emerged.

3. It is also certified that

3.1. the consolidated financial statement as of December 31, 2009:

a) was prepared in compliance with the applicable international accounting standards recognized by the European Community pursuant to regulation (EC) n. 1606/2002 of the European Parliament and of the Council, dated July 19, 2002 as well as with the provisions implementing art. 9 of Legislative Decree n. 38/2005.

b) corresponds to the results of the books and of the accounting records.

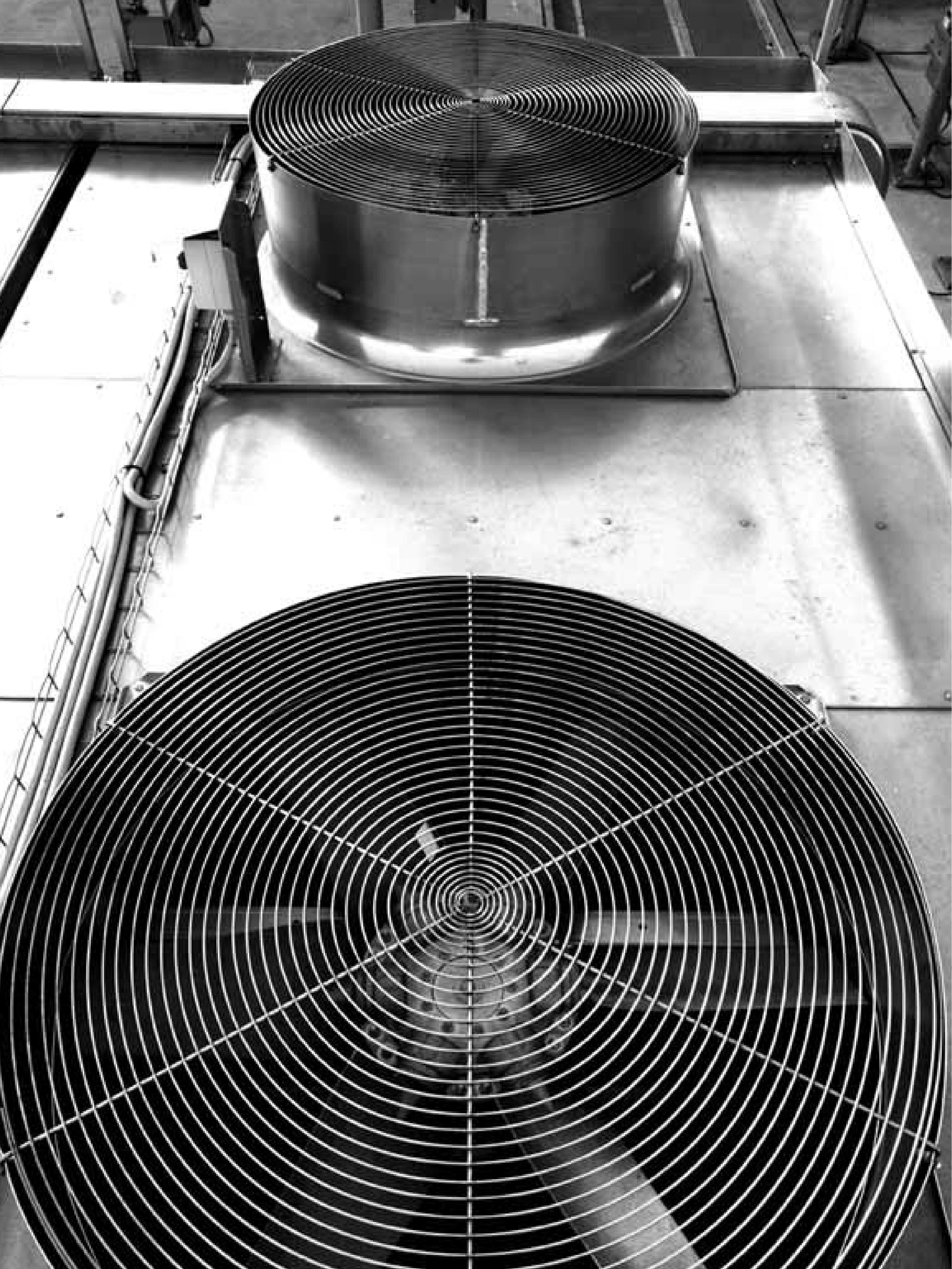
c) provides a truthful and correct representation of the statement of assets and liabilities and of the economic and financial situation of the issuer and of all the companies included in the consolidation.

3.2. The Report on the management includes an accurate and faithful analysis of the management trend and results and of the issuer's situation, and of all the companies included in the consolidation, together with the description of the principal risks and uncertainties faced.

Rome, March 19, 2010

Delegated administrative bodies	The Executive in Charge of preparing the Company's accounting documents
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

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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 (now article 14 of Legislative decree no. 39 of 27 January 2010)

To the shareholders of
TERNA S.p.A.

1 We have audited the consolidated financial statements of the TERNA Group as at and for the year ended 31 December 2009, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. 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 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.

We carried out our audit of the consolidated financial statements as at and for the year ended 31 December 2009 in compliance with legislation ruling during the year.

Reference should be made to the report dated 31 March 2009 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes that have been restated to reflect the changes in the presentation of financial statements introduced by IAS 1.

3 In our opinion, the consolidated financial statements of the TERNA Group as at and for the year ended 31 December 2009 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the TERNA Group as at 31 December 2009, the results of its operations and its cash flows for the year then ended.

4 The directors of TERNA S.p.A. are responsible for the preparation of a directors' report on the financial statements and a report on the corporate governance and ownership structures in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and ownership structures with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and ownership structures are consistent with the consolidated financial statements of the TERNA Group as at and for the year ended 31 December 2009.

Rome, 9 April 2010

KPMG S.p.A.

(signed on the original)

Marco Maffei
Director of Audit

2009

Corporate Governance

(traditional administration and management model)

Issuer: «Terna – Rete Elettrica Nazionale Società per Azioni» (“Terna S.p.A.”)
Web site: www.terna.it
Reporting period: 2009
Date of approval: March 19, 2010

Terna

Contents

2009 Corporate Governance

TABLES

ATTACHMENTS

2009 Corporate Governance

Foreword

Since 2006, Terna has adopted the new Corporate Governance Code for listed companies published by Borsa Italiana in March 2006 (Corporate Governance Code) and as of 2007 has approved the updates to the Corporate Governance system in place within the Company to meet its commitments arising there from, that were implemented during 2009 and up to the approval date of the 2009 draft financial statements, as illustrated here below.
Therefore, the Corporate Governance system in place at Terna is in line with the principles of the Corporate Governance Code for listed companies, with CONSOB recommendations in this respect and, more generally, with international best practices. This Corporate Governance system is mainly based on creating value for shareholders, taking into account the social meaning of the Group's activities and the resulting need to adequately consider all stakeholders in the performance of those activities.
Since 2004, the year the Company's shares were listed on the Italian Stock Exchange, Terna provides, with an appropriate Report that supplements the annual financial statement, information regarding the development of its Corporate Governance system with respect to the provisions of the Governance Code of Borsa Italiana, which the Company has adopted.
Failure to comply with certain provisions of the Governance Code is explained in the section of the report that concerns the relative practice of governance otherwise applied by the Company.
Furthermore, already as part of the annual informative report regarding 2008 activity, Terna provides with its report on Corporate Governance – that is separate from the report on management published jointly with the annual report on Terna S.p.A.'s management – the information envisaged in art. 123 *bis* of Legislative Decree no. 58/98 (Consolidated Law on Finance) as stated in Legislative Decree no. 173/2008 (in effect for activities beginning after November 21, 2008).
This report was expanded – taking into account the indications by Borsa italiana with the support of Assonime – also with the specific references in the provisions of the Consolidated Law on Finance and supplemented with an appropriate attachment that illustrates the main characteristics of the existing risk management and internal control systems with regard to the financial informative note.
All the information included in the Report, unless otherwise specified, were updated on the basis of information available as of the date of the report's approval.

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 manages all its activities focusing on their possible economic, social and environmental consequences and has identified a sustainability approach for creating, maintaining and consolidating a relationship of mutual trust with its stakeholders.
Terna's main Corporate Social Responsibility (CSR) aspects are provided by the Code of Ethics and by Company's mission. Taking on sustainability as a guiding feature, Terna has defined its responsibilities and established its objectives in the economic, environmental and social areas. Considering its role in the electricity system, Terna has added the specific responsibility for the electricity service to the other ones.
From the point of view of sustainability, respect for the environment is particularly important. The physical presence of lines and stations and their interaction with the landscape and biodiversity are indeed crucial for Terna's activities. That is

why Terna has chosen the approach of negotiation and coordination with local authorities, also involving significant stakeholders such as the main environmentalist associations to take environmental needs into consideration from the early stages of planning new lines. The Company has also developed a management system to control and limit the environmental impact of its activities. Thus, consideration of environmental issues matches Terna's interests in implementing grid development investments and in the more general interest of community for a reliable, inexpensive and environmentally safe electricity system.
The management approach adopted and the results and new economic responsibility objectives reached in the field of social and environmental responsibility are presented in the sustainability report, published yearly.
Since the 2006 edition, the Report has been drawn up in compliance with the G3 Sustainability Reporting Guidelines of the Global Reporting Initiative and verified by an auditing company. The level of application of the G3 Guidelines was marked as B+.
Among the main 2009 results for CSR it is worth mentioning:

- collaboration with the WWF aiming at integrating biodiversity preservation criteria in planning new lines and in managing the existing ones, for planning measures to be carried out in natural oases;
- developing scientific research, together with LIPU (Italian League for Bird Protection), on the interaction between high-voltage power lines and the birdlife for establishing mitigation measures;
- confirmed certification for the integrated environmental (ISO 14001), quality (ISO 9001) and occupational safety (OHSAS 18001) management system.

Terna's constant commitment for continually improving its economic, environmental and social performance made it possible in September 2009 to be included in the Dow Jones Sustainability World Index, that includes the best 300 companies in the world, only 12 of which are Italian firms with respect to sustainability performance. In October 2009, Terna was included in the ASPI and in the Ethibel Excellence Europe and was also confirmed in the FTSE4Good, ECPI, Axia and KLD.

Company organisation

In compliance with the provisions of the Italian legislation concerning listed companies, the Company's organisation, based on the traditional administration and management model, includes the following:

- a Board of Directors responsible for the Company management. To such aim, the Board is entrusted with the widest powers so as to complete all the actions that deems appropriate for the performance and the attainment of the corporate purpose, excluding only the action that the Law and the bylaws reserve to the shareholders' meeting;
- a Board of Statutory Auditors responsible for monitoring: (I) that the Company complies with the Law, the memorandum of association and the principles of correct administration in performing Company activities, (II) the adequacy of the Company's organisational structure, Internal Control System and administrative/accounting system as well as those of the foreign subsidiaries outside of the EU. It is also responsible for carrying out all duties assigned to the Board of Statutory Auditors by Law and by the Corporate Governance Code for listed companies;
- the shareholders' meeting – ordinary and extraordinary – that resolves upon, *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 profits for the year, (III) the purchase and sale of treasury shares, (IV) amendments to the bylaws, and (V) the issuance of convertible bonds;
- an Executive in Charge of the preparation of the Company's accounting records, who is given all assignments and responsibilities provided by the Law and regulations as well as those provided for by the Corporate Governance Code (art. 8.C.3).

Auditing activity is entrusted to a specialised company registered in the CONSOB records, which is specifically appointed by the shareholders with the prior approval of the Board of Statutory Auditors.
Terna's independent auditors also have similar engagements with the Company's main subsidiaries.
Further to prohibition of supplying certain services imposed to audit companies by Consolidated Law on Finance and by the "Implementation regulation of Legislative Decree no. 58 of February 24, 1998, regarding rules for issuers" adopted by CONSOB (Issuer Regulations), the Organisational Model adopted by the Company pursuant to Legislative Decree no. 231/01, which was recently updated, provides that the auditing of the Company's financial statements and that of any company of the Group and of the consolidated financial statements is not compatible with consultancy activities for Terna or any company of the Group, extending to all network of the audit company as well as to shareholders, directors, members of control bodies and employees of the audit company and of the other companies belonging to the same network. The assignments to the audit company are submitted to Terna's Internal Control Committee for any assignment other than the one given under Law provisions, in any event related to auditing activities. In order to ensure independence of the company and of the officer in charge of auditing, the assignment for the auditing of the Company's financial statements and that of any company of the Group and of the consolidated financial statements is not in any case given to audit companies that fall within one of the incompatibility situations pursuant to Part III, Title VI, paragraph I *bis* of the Issuer Regulation.

Terna's shareholders' meeting of May 24, 2007 approved the bylaws amendments necessary for the adjustment of the Company bylaws 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 also in line with existing implementation acts issued by CONSOB.
With reference to the appointment of the Directors and Auditors, such modifications were implemented for the first time during the Meeting held on April 28, 2008 for the appointment of present Board of Directors and Board of Statutory Auditors.

Section II **Information on shareholding structure (pursuant to art. 123 *bis*, paragraph 1 of the Consolidated Law on Finance)**

Share capital structure (pursuant to art. 123 *bis*, paragraph 1, letter a), of the Consolidated Law on Finance)

The Company's share capital as of March 19, 2010 amounts to €440,199,936 and comprises exclusively nominal ordinary shares, for a total of 2,000,908,800 ordinary Terna's shares with a nominal value of €0.22 each. They are fully paid-up and bear voting rights at both the ordinary and extraordinary shareholders' meetings. Ordinary shares grant further administrative and financial rights provided for by the Law regulating the shares with right to vote.
As of June 23, 2004, Terna's shares have been listed in the Electronic Stock Exchange organised and managed by Borsa Italiana S.p.A. (Telematic Share Market - Blue Chip segment).
Pursuant to art. 5.2 of the Company bylaws, the shareholders' meeting can approve capital increases through share issuance, also belonging to special categories, to be assigned free of charge pursuant to art. 2349 of the Italian Civil Code for employees, or rather as payment, and with the exclusion of the option right under art. 2441 of the Civil Code, in favor of subjects identified by shareholders.
In compliance with this provision of the Company bylaws, the Shareholder's Meeting held on April 1, 2005 resolved one share-based incentive plan that includes increasing the share capital according to the provisions in the subsequent paragraph "Powers to increase the share capital and authorisations for the purchase of treasury shares".
The Company did not issue other financial tools granting the right to subscribe newly issued shares.
Terna did not issue shares that were not negotiated on regulated markets of the EU.

Significant investments in share capital and shareholders agreements (pursuant to art. 123 *bis*, paragraph 1, letters c) and g), of the Consolidated Law on Finance)

On the basis of the shareholders' book, communications received pursuant to CONSOB Resolution no. 11971/99 and available information, and with reference to the Company's share capital as of March 19, 2010, equal to €440,199,936 for a total of 2,000,908,800 ordinary Terna's shares with a nominal value of €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 of the Italian Republic owns 70%), with 29.986%; Enel S.p.A. with 5.116% of share capital; Pictet Funds (Europe) S.A. (directly and indirectly) with 4.941%; BlackRock Inc. (through BlackRock Investment Management (UK) Ltd) with 2.047% of share capital; Assicurazioni Generali (directly or indirectly) with 2.026% of share capital.
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 the Company shares.

Powers to increase share capital and authorisation for the purchase of treasury shares (pursuant to art. 123 *bis*, paragraph 1, letter m), of the Consolidated Law on Finance)

The Extraordinary shareholders' meeting of April 1, 2005 approved the assignment of a five-year proxy to the Board of Directors for a share capital increase for maximum €2,200,000 through the issuance of maximum 10,000,000 ordinary shares with a nominal value of €0.22 each, on a dividend-right basis, to be offered for subscription to Terna Group managers as payment with exclusion of the option right under the combined provisions of art. 2441, last paragraph, of the Civil Code and art. 134, paragraph 2, of the Consolidated Law on Finance, as provided for by art. 5.3 of the Company bylaws.
Pursuant to the shareholders' meeting resolution of April 1, 2005, on December 21, 2005, Terna's Board of Directors adopted a share-based incentive plan. With reference to the adopted plan, the Board of Directors of March 21, 2007 partially exercised the above mentioned proxy, approving a share capital increase regarding the 2006 stock option plan up to maximum €2,198,240.00 through the issuance of maximum 9,992,000 new ordinary Terna's shares with a nominal value of €0.22 each, at €2.072 each, to be implemented in compliance with art. 5.4 of the bylaws. Based on Meeting resolution dated April 22, 2009, the maximum date for the total subscription of the increase is March 31, 2013.
The 2006 stock option plan is currently the only existing plan at Terna S.p.A.
The share-based incentive plan adopted by the Board of Directors following the Resolution dated April 1, 2005, is outlined

in Terna S.p.A's financial statements as of December 31, 2009 (paragraph "Stock Options" in the section "Equity" in the Notes) as part of the reports on Terna S.p.A.'s financial statements as of December 31, 2008 (pages 93, 248 and 249) and as of December 31, 2007 (pages 129 and 130), as well as as of December 31, 2006 (pages 54 and 121), and in the Director's Report to the financial statements as of December 31, 2005 (pages 104 and following) available in the Company's website www.terna.it under the "Investor Relations" section/"Annual Reports" – and in the informative note of September 14, 2007 pursuant to art. 84 *bis* of CONSOB Issuer Regulations – available at www.terna.it under "The Company/Press Room – Price Sensitive Releases - 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 authorising the purchase of treasury shares under art. 2357 and following of the Civil Code has been submitted to Terna's shareholders' meeting.
Terna does not own, nor has purchased or sold during the year, not even indirectly, treasury shares or subsidiaries' shares.

Employees' shareholding: system to express the right to vote (pursuant to art. 123 *bis*, paragraph 1, letter e) of the Consolidated Law on Finance)

The system for expressing the right to vote during the shareholder's meeting through shareholding associations, including employee's shareholding groups is regulated based on the existing specific legal provisions on the subject.
Based on the provisions regarding the special legislation on listed companies, Terna's bylaws introduced a special provision aimed at facilitating collecting voting proxies with its employees' shareholding groups as well as of its subsidiaries, encouraging in this way the relative involvement in the meeting decision-making processes (art. 11.1 of the bylaws).
As of March 19, 2010 the Company did not receive any notification of the establishment of employees' shareholding groups.

Change of control clauses (pursuant to art. 123 *bis*, paragraph 1, letter h), of the Consolidated Law on Finance)

As regards significant agreements Terna or any of its subsidiaries are parties of and that come into effect, are amended or expire in the event of shareholding change within Terna, the following should be noted.

The agreement for a syndicated loan relative to the €750 million revolving credit line granted to Terna S.p.A. by a bank pool, undersigned in 2006, provides that, as usual for this type of transactions, changes in Company's shareholding, pursuant to art. 2359 nos. 1 and 2, paragraph 1 of the Civil Code, could determine early refund of the credit line utilised along with the closure of the line itself, in the event of Company's credit rating decreasing below BBB- and the 2/3 of the financing banks deeming the loan refund necessary.

Furthermore, the loan contracts stipulated with the European Investment Bank (EIB), include mandatory advance repayment clauses ("Terna Trasmissione") or termination clauses ("SA.PE.I. High Voltage Cable Link" and "Terna Reti Elettriche"), in the event the Company proceeds to or is involved in a merger, a split or transfer of a Company branch.
In such cases, the EIB will have the power of requesting, and the Company will have the obligation to inform the Bank, any information that the latter may reasonably require regarding the Company situation, in order to understand any changes and relative consequences in the Company's commitments toward the Bank. In such cases, should the EIB deem, according to its indisputable judgment, that these transactions may have negative consequences on the commitments undertaken by the Company, the bank itself will have the power to request the necessary changes in the loan contracts or alternative solutions that satisfy the Bank itself.

Restrictions in share transfer and shares granting special powers (pursuant to art. 123 *bis*, paragraph 1, letters b) and d), of the Consolidated Law on Finance)

No bylaws limitations exist to the availability of shares except for the provisions stated by the bylaws regarding rules for privatisation based on the Law Decree no. 332 dated May 31, 1994 converted with amendments by Law no. 474 dated July 30, 1994 and subsequent changes – the so called "Privatisation Law".
In particular, pursuant to Italian regulations concerning privatisations, Terna's bylaws provides 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 voting right.
"Special powers" (indicated by art. 6.3 of the bylaws, pursuant to art. 2, paragraph 1, of Legislative Decree no. 332 of May 31, 1994, converted with modifications by Law no. 474 of July 30, 1994 and following integrations and amendments ("Privatisation Law") as provided for by art. 4, paragraph 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 shares potentially owned by the Ministry itself.

In particular, the Ministry of Finance and Economy, as agreed with the Ministry of Productive Activities (now called Ministry for Economic Development), is assigned the following "special powers":

a) opposition to relevant ownership (that is equal or higher than 1/20 of Terna's share capital formed by shares granting right to vote in shareholders' meetings) by entities subject to the ownership restriction presented above. The opposition must be expressed within 10 days from the date of the communication, which must be made by Directors at the request of subscription in the shareholders' book, only when this may jeopardise the vital public interest. In the meantime, the right to vote and non-financial rights related to shares representing the relevant ownership, are suspended;
b) opposition to shareholder agreements under the Consolidated Law on Finance, in case at least 1/20 of Terna's share capital, including shares granting right to vote at shareholders' meetings, is thereby represented. Opposition must be expressed within 10 days from the date of communication that must be made by CONSOB. In the meantime, the right to vote and non-financial rights related to shares of shareholders that are parties of the agreements, are suspended;
c) veto, dutifully motivated, in relation to concrete jeopardy of the vital public interest, to the adoption of provisions for the winding-up of the Company, of transfer, merger, division, moving abroad of the registered offices, of Company corporate purpose change, of 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 termination of the assignment of the appointed director, the Ministry of Economics and Finance, in agreement with the Ministry for Productive Activities (now called Ministry for Economic Development), will appoint the substitute.

The power of opposition under letters a) and b) can be exercised with reference to each aspect. It can also be exercised when ownership, also through single purchase acts, records an increase which is equal or higher than expectations. Such power can also be exercised every time the need to protect mandatory public interest arises, within ten days from their actual occurrence. In this case, the act of exercising the State power must include explicit and motivated reference to the date such causes arose.

The special powers under letters a), b), c) and d) are exercised with respect of the criteria provided for by the Prime Minister 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 ("Privatisation Law") is calculated also considering total share ownership related to the Parent Company, natural person or legal entity or company; to all direct and indirect subsidiaries as well as the subsidiaries under the same controlling subject; to all associated subject as well as to natural persons bound by parental or affinity relationships up to second grade and by marriage, in the event that husband/wife are not legally separated. Control occurs, also with reference to subjects other than companies, in cases provided for by art. 2359, paragraphs 1 and 2, of the Civil Code. Association occurs in cases under art. 2359, paragraph 3, of the Civil Code, as well as between subjects who, directly and indirectly, through subsidiaries other than those managing common investment funds, join, also with third parties, agreements related to the exercise of the right to vote or to the transfer of shares or portions of third companies or, anyway, to agreements or pacts as per art. 122 of the Consolidated Law on Finance, with reference to other companies, if these agreements or pacts refer to at least 10% of the share capital with right to vote, in case of listed companies, or 20% in case of non-listed companies. With reference to the calculation of the abovementioned limit of share ownership (5%), shares owned through trustees and/or through a third person and, generally, through an intermediary person are also considered.

Such limit of share ownership terminates, if exceeded due to a take-over bid carried out under artt.106 or 107 of the Consolidated Law on Finance.

The right to vote related to share ownership exceeding the abovementioned maximum limit cannot be exercised and proportionally reduces the right to vote of each subject to whom the limit in share ownership refers to, except in the event of joint communications by the involved shareholders. In case of non-compliance, decision can be appealed under art. 2377 of the Civil Code if the requested majority would not be achieved without the votes exceeding the abovementioned limit. Shares for which the right to vote cannot be exercised are calculated anyhow for the regular formation of the shareholders' meeting.

Restrictions to the right to vote (pursuant to art. 123 *bis*, paragraph 1, letter f) of the Consolidated Law on Finance)

Pursuant to privatisation regulations, restrictions exist (under artt. 6.3 and 6.4 of the bylaws) to the right to vote related to the exercise of "special rights" of the Italian State and to the limits of share ownership as mentioned earlier.

Further restrictions are applied to operators of the electricity sector (as provided for by art. 3 of the Prime Minister's Decree dated May 11, 2004 as regards "criteria, modalities and conditions for the unification of ownership and management of the National Transmission Grid") for which a limit equal to 5% of the share capital was established for exercising the right to vote in case of Directors' appointment (art. 14.3 letter e) of Company bylaws).

Appointment and substitution of Directors and bylaws amendments (pursuant to art. 123 *bis*, paragraph 1, letter l) of the Consolidated Law on Finance)

Appointment, requirements and term of office of Directors

As resolved upon by the Meeting, the Board of Directors is made up of seven to thirteen members who are appointed for a period not longer than three years (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 privatisation 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*, paragraph 5 of the Civil Code). In case of impossibility, by the Board itself. The Board can appoint a Deputy Chairman. In no case such positions can be held by the Director appointed by the Italian Government under the privatisation law (art. 16.1 of the Company bylaws).

The Board of Directors, within the limits as per art. 2381 of the Civil Code, can give own assignments 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 honor, 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 according to the bylaws to the Board of Directors, as well as any possible cause of ineligibility or incompatibility (art. 14.3 of the bylaws).

As regards the requirements of professionalism, the bylaws (art. 15.3) provides that those who have not accrued experience of at least three years in the following cannot be appointed as Director and, if so, they must resign:
- activities of administration, control or management in companies having a share capital not lower than €2 million; or
- professional activities or university teaching in legal, economic, financial and technical-scientific subjects and closely related to the activities of the Company as defined in art. 26.1 of the bylaws; or
- managing roles in public bodies or public authorities in the finance and insurance fields or, however, in fields closely related to that of the Company, as defined by the art. 26.1 of the bylaws (subjects such as trade right, tax right, business economy and finance, as well as subjects linked to energy in general, the network communications and structures, are to be considered as closely related to the Company's scope of activities).

With stricter application compared to the provisions of art. 147 *ter*, paragraph 4 of the Consolidated Law on Finance and in line with the provisions of 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 the requirements of the Auditors indicated by art. 148, paragraph 3, of the Consolidated Law on Finance; considering the specific activity carried out by the Company, the requirements of independence provided for by art. 10 of Directive 2003/54/EC are applicable to the Executive Directors 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 honor, professionalism and independence requirements, for every one of its members and periodically assesses the presence of requirements of independence for every one of its non-executive members, on the basis of the information supplied by each member. The Company is equipped with a specific internal procedure that defines the criteria for the assessment of independence of the non-executive members and for the assessment of the requirements necessary according to the bylaws and the Corporate Governance Code ("Criteria of application and procedure for the assessment of independence of the directors pursuant to art. 3 of the Corporate Governance Code"). Such procedure demands the assessment of requirements following the appointment, that is every time events take place that can interfere with the independence of a Director and however at least once a year (in the 30 days before the approval of the financial statements).

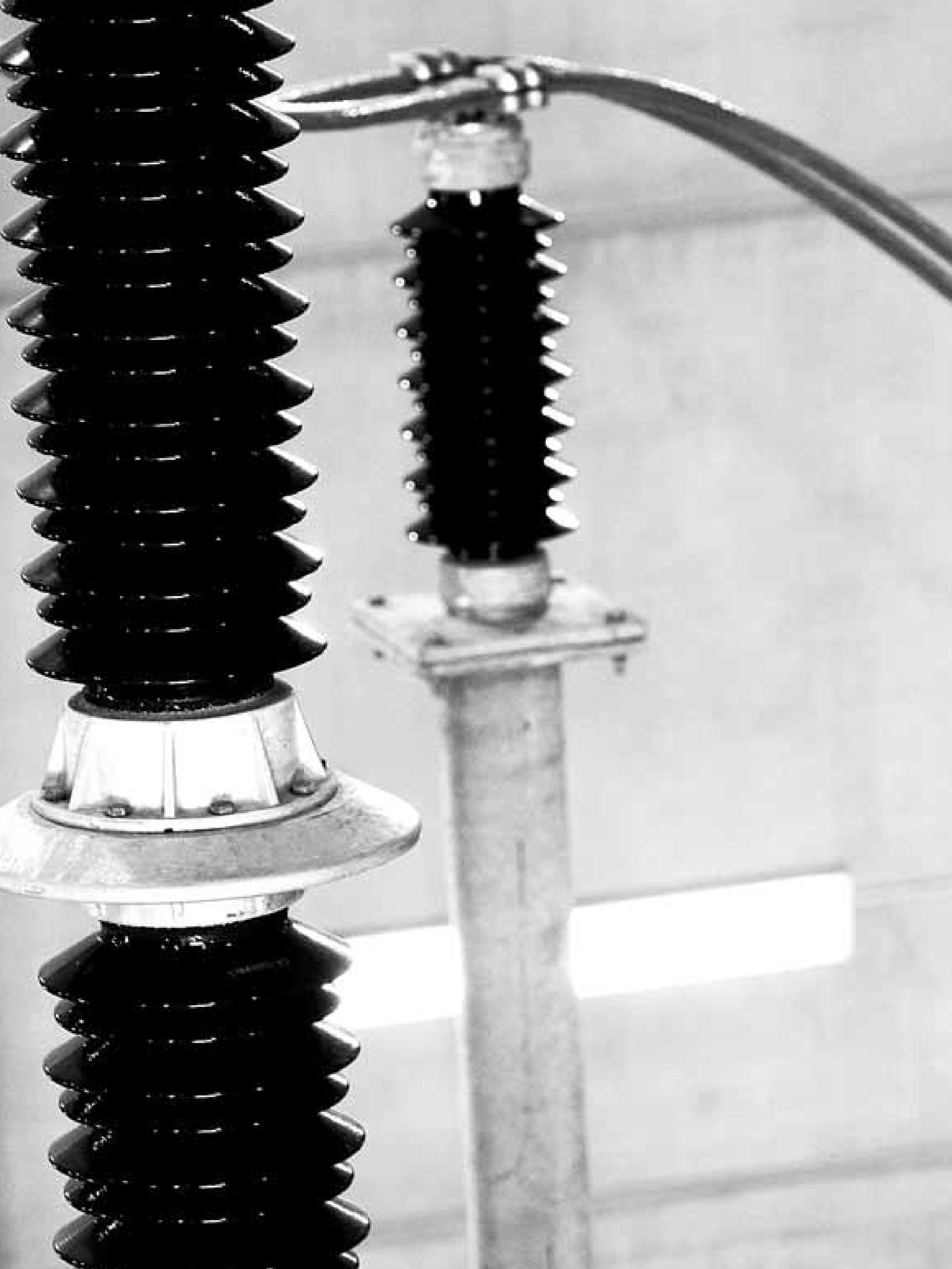
The appointment of the entire Board of Directors takes place – in compliance with the privatisation regulation, under Prime Minister's Decree of May 11, 2004 and in compliance with the provisions of the Italian Law for listed companies – according to the mechanism of the "list voting", aiming at guaranteeing the presence in the management body of members designated by minority shareholders equal to 3/10 of the Directors to be appointed with rounding, in case of lower fractional number to the unit, to the following unit (art. 14.3 of the bylaws). Such appointment system – which does not apply to the appointment of a Director indicated by the Italian Government – states – in line with the provisions of art. 4 of Legislative Decree no. 332 dated May 31, 1994 converted into Law no. 474/94 (so called "Privatisation Law") and of art. 144 *undecies*

of the CONSOB Issuer Regulations – that the lists of candidates can be submitted by the outgoing Board of Directors or by shareholders who, alone or with other shareholders, represent at least 1% of the share capital. It is also provided that the lists are deposited at the registered offices and published on national newspapers prior to the date of the shareholders' meeting – the set term is at least 20 days if the list is submitted by the outgoing Board of Directors and at least 15 days if the lists are submitted 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 the Law and by 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 the independence requirements provided by the Law, bylaws and the Corporate Governance Code which Terna has adopted.
The lists must also include declarations with which each candidate accepts his own candidacy and states, under his own responsibility, the non existence of ineligibility and incompatibility causes, and the existence of the requirements as envisaged by the Law and bylaws for the respective positions and every other information required by the Law, also prescribed, and by the bylaws (art. 14.3 of the bylaws).
Such documents are deposited at the registered office 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.
At least five days prior to the date set for 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 office. It should be remembered that, according to the provisions of art. 147 *ter*, paragraph 3, of the Consolidated Law on Finance, at least one of the members of the Board of Directors should be appointed by the minority list that has obtained the highest number of votes and is not connected in any way, not even indirectly, with the members who have submitted or voted the list that won for a number of votes.
In compliance with the provisions of Prime Minister's Decree dated May 11, 2004, the bylaws envisages for operators of the electricity sector a limit equal to 5% of the share capital as regards the exercise of the voting right during the appointment of the Directors according to the abovementioned rules.

Any replacement of Directors will be carried out pursuant to art. 2386 of the Civil Code.
In any case, the replacement of Directors whose office has ended will be carried out by the Board of Directors guaranteeing the presence of the necessary number of directors in possession of the requirements of independence established by the Law and by art. 15.4 of the bylaws.
If the majority of the Directors appointed by the shareholders' meeting is not reached, the entire Board of Directors is considered as having resigned and the shareholders' meeting must be called without delay by the Directors still in office for appointing a new Board.

Bylaws amendments

With regard to regulations applicable to the amendments of the bylaws, the extraordinary shareholders' meeting resolves on the matter with the majority envisaged by the Law.
The bylaws (art. 21.2), according to Law provisions, attributes the Board of Directors the power to adopt any resolutions pertaining to the shareholders' meeting that can determine bylaws amendments such as:
a) the merger and the split, in cases envisaged by the Law;
b) the establishment or elimination of other offices;
c) stating which of the directors represents the Company;
d) the reduction of the share capital in case one or more members withdraws;
e) the amendment of the bylaws according to regulations;
f) the transfer of the Company headquarters in the national territory.
Art. 6.3 of the bylaws, in compliance with the regulations on privatisation, attributes to the Italian Government, represented for this purpose by the Ministry of Economics and Finance, the "special power" to veto, duly motivated with reference to effective detriment of the Government's vital interests, on the adoption of a series of resolutions adopted by the shareholders' meeting of significant impact on the Company, capable of amending the bylaws, as previously described in "Restrictions in share transfer and shares granting special powers".
Furthermore, as provided for by art. 3 paragraph 3 of Legislative Decree no. 332 of May 31, 1994, converted with modifications by Law no. 474 of July 30, 1994 and art. 3, paragraph 2, letter c) of the Prime Minister's Decree dated May 11, 2004, Terna's bylaws provides that the measures as per art. 6.4 of the Company bylaws relative to the abovementioned "maximum limit of share ownership" and "restrictions in share transfer and shares granting special powers" and those included in the bylaws that have the purpose to ensure protection of the share minorities, cannot be modified for a period of three years from the date of effectiveness of the transfer to Terna of the activities, functions, assets and obligations relative to the management of the National Transmission Grid as per art. 1, paragraph 1 of the Prime Minister's Decree dated May 11, 2004 (November 1, 2005).



Indemnities for Directors in case of resignation, discharge or cessation of relation following a public take-over bid (pursuant to art. 123 *bis*, paragraph 1, letter i) of the Consolidated Law on Finance)

With reference to the agreements entered into between Terna and the Directors that provide indemnities in case of resignation or dismissal/revocation of assignment with no just cause or if the same terminates pursuant to a public take-over bid, following the renewal of the Board of Directors resolved by the shareholders' meeting held on April 28, 2008, it is pointed out that Terna's CEO is also employed by Terna S.p.A. as an executive manager.
As part of the financial compensation recognised in the case of early discharge of the appointment with the exception of voluntary resignation (not requested by the majority shareholder) or of revocation for a just cause or of an offer on the part of the majority shareholder of an appointment equivalent to the one held at Terna, it is pointed out that the Company will recognise a sum equal to the total emoluments envisaged as the fixed or variable compensation until the end of the term.

Management and Coordination

Terna is subject to the *de-facto* control of Cassa Depositi e Prestiti S.p.A. with 29.986% 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. As of today, no managing and coordination activity has been officialised nor exercised; Terna carries out its activity either directly or through its subsidiaries under management and negotiation independence.

The additional information on the company's Corporate Governance envisaged in art. 123 *bis*, paragraph 2, of the Consolidated Law on Finance regarding:
- compliance (pursuant to art. 123 *bis*, paragraph 2, letter a), of the Consolidated Law on Finance) is illustrated in the section of the report devoted to compliance (section III);
- the principal characteristics of existing risk management and existing internal control systems in relation to the financial informative note, also consolidated (pursuant to art. 123 *bis*, paragraph 2, letter b), of the Consolidated Law on Finance), and further Corporate Governance practices (pursuant to art. 123 *bis*, paragraph 2, letter a), of the Consolidated Law on Finance) are illustrated in the section of the Report devoted to internal control system (section XI) and in Attachment 1 therein;
- the shareholders' meeting activity (pursuant to art. 123 *bis*, paragraph 2, letter c), of the Consolidated Law on Finance) in the section of the report devoted to the shareholders' meeting (section XVI);
- the composition and the role of the Board Members as well as those relative to the appointment and composition of the control body (pursuant to art. 123 *bis*, paragraph 2, letter d), of the Consolidated Law on Finance), are illustrated in the Report respectively in the section devoted to the Board of Directors (section IV) and in subsequent sections devoted to the Board's Internal Committees (sections VI, VII, VIII and X) and in the sections devoted to the appointment and composition of the Board of Statutory Auditors (sections XIII and XIV).

Section III **Compliance**

The Corporate Governance system of the Company is substantially in line with the principles included in the Corporate Governance Code of listed companies published by Borsa Italiana in March 2006 (which can be consulted in Borsa Italiana S.p.A.'s website: http://www.borsaitaliana.it) that Terna has adopted, as illustrated before, with resolution by the Board of Directors of December 21, 2006.
Further actions aimed at improving the Group's system of governance are being carried out and others will be taken into consideration for the constant update and adjustment of the issuer's governance system to the best practices.

Section IV **Board of Directors**

Composition

In compliance with the shareholders' resolution passed during the ordinary meeting held on April, 28, 2008, the Board of Directors currently in office is comprised of nine members, whose term will expire with the approval of the financial statements as of 2010.
In compliance with the shareholders' resolution passed during the ordinary meeting held on April 28, 2008, the Board of Directors currently in office is composed of Luigi Roth, Flavio Cattaneo, Cristiano Cannarsa, Paolo Dal Pino, Matteo Del Fante, Michele Polo (Directors appointed within the majority list submitted by Cassa Depositi e Prestiti S.p.A.), Claudio Machetti (Director appointed within the list submitted by Enel S.p.A.), Salvatore Machì and Vittorio Rispoli (Directors appointed within the minority list submitted by Gruppo Assicurazioni Generali). The appointed Board Members represent three of the four lists presented for this shareholders' meeting.
On the basis of the statements made for the appointment, of the vote count and of the end of voting, the appointed Board of Directors meets the requirements envisaged by art. 147 *ter*, paragraph 3, of the Consolidated Law on Finance and two members of the Board of Directors were appointed by the minority list that has obtained the highest number of votes and is not connected in any way, not even indirectly, with the members who have submitted or voted the list that won for a number of votes.
Since its appointment, the Board's composition has remained unvaried. A brief description of the Board members' professional background is provided:

- **Luigi Roth, 69 years old – Chairman**
  [born in Milan on November 1, 1940]

With a degree in Business Administration from the Bocconi University, Milan, he is a registered auditor. Since November 2005, he has been Chairman of Terna S.p.A. and since November 2009, he has been Chairman of TELAT S.r.l. a subsidiary of Terna S.p.A. Since April 2007, Mr. Roth has been independent Director at Pirelli & C. S.p.A. and Director of Avvenire Nuova Editoriale Italiana S.p.A., and since April 2009 he has also been Director at Cassa di Risparmio di Ferrara (CARIFE) and President of Banca Popolare di Roma (CARIFE Group).
Mr. Roth began his career as a business manager with the Pirelli Group, handling activities in Italy and abroad. He then joined Metropolitana Milanese as Director of Planning. Since 1980, he has managed mid-sized companies both in the manufacturing and real estate sectors, in the positions of General Manager and CEO. From 1986 to 1993, he served as CEO at 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. of which he was CEO from December 1996 to January 1998. From December 1996 to January 1998 he was Chairman and CEO of Società Ferrovie Nord Milano Esercizio S.p.A. From May 1998 to December 2000 he was CEO of Ansaldo Trasporti S.p.A. and transmission agent for Finmeccanica S.p.A. From 2002 to 2006, he was Board Member at the Bocconi University. From January 2004 to April 2007 he was Deputy Chairman at Cassa Depositi e Prestiti S.p.A. From May 2004 to April 2007 he was Board Member at TELECOM Italia S.p.A. and from 2001 to 2009 he was President of the Fondazione Fiera Milano. From May 2006 to November 2009 he is Deputy Chairman of Terna Participações S.A., a subsidiary of Terna S.p.A.

- **Flavio Cattaneo, 46 years old – CEO**
  [born in Rho (Milan) on June 27, 1963]

With a degree in Architecture from the Milan Politecnico, Mr. Cattaneo has also specialised training in business management. Since November 2005, Flavio Cattaneo has been CEO of Terna S.p.A. Since January 2008 he has been independent Director in Cementir Holding S.p.A. Since October 2008, he has been Deputy Chairman in charge of Energy and Environmental Policies at UIR, Union of Industrialists and Companies in Rome.
He has held important managerial and administrative positions in various Italian companies in the 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. Flavio Cattaneo has been Director of many energy companies (from 1999 to 2001), including AEM S.p.A. of Milan (as Deputy Chairman), Serenissima Gas S.p.A., Triveneta Gas S.p.A., Seneca S.r.l. and Malpensa Energia S.r.l. 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. From May 2006 to November 2009 he was Chairman of Terna Participações S.A., a subsidiary of Terna S.p.A.

• **Cristiano Cannarsa, 47 years old – Director**
[born in Rome on February 16, 1963]
With a degree in Mechanical Engineering from "La Sapienza" University in Rome and specialised in his profession, he is the Director of the Business Department at Cassa Depositi e Prestiti S.p.A. Since 2005 he has been a member of the Economic and Financial Group of the Intergovernmental Commission for the Turin-Lyon railway line.
He has held positions of increasing responsibility and coordination in companies specialised in the fields of Corporate Finance, Project Finance and Advisory. After several years of experience in the renewable energy sector with Aeritalia, in 1991 he joined the Istituto Mobiliare Italiano acquiring experience in industrial corporate investment projects, public bodies and project companies; subsequently, within the Gruppo Sanpaolo IMI, he became Head of the Large Infrastructure Department of Banca OPI and Head of the Public Financial and Corporate Department. As a member of the TAV S.p.A. financial-technical committee, between 1992 and 1996, he participated in the High-Capacity/High-Speed Project.

• **Paolo Dal Pino, 48 years old – Director**
[born in Milan on June 26, 1962]
He has a degree in Economics from the University of Pavia.
He is presently Senior Advisor of the Private Equity Cyrte Investments fund and Board member at Airplus TV. From January 2006 to June 2007 he has been CEO of Wind Telecomunicazioni after having been CEO at SEAT Pagine Gialle from July 2001 to 2004, and Chairman of Telecom Italia in Latin America and Chairman of Tim Brazil from February 2004 to 2005. From 1990 to 2001 he has held various positions within the Espresso Group, among which – from 1991 to March 1995 – that of Financial Director of the newspaper la Repubblica S.p.A. and from 1995 to July 2001, of General Director of the Editorial Group Espresso, CEO of Kataweb S.p.A. and Director and member of the Executive Committee at ANSA.
In 1986, he began his career in the Fininvest Group and from 1987, until 1990, he joined the Mondadori Group where he was CFO of the Verkerke Group in The Netherlands.

• **Matteo Del Fante, 42 years old – Director**
[born in Florence on May 27, 1967]
He has a degree in Economic Policy from the Bocconi University in Milan.
He began his career at J.P. Morgan in 1991 holding positions of increasing responsibility for Italy and for foreign countries in the sector of fixed income markets. From 1999 to 2003, as Managing Director in London, he managed significant financial and strategic operations in Europe. From 2004, he has been at Cassa Depositi e Prestiti S.p.A. where, for six years he has been Finance Director to then be appointed CEO of CDP Investimenti, a savings management company of the CDP group involved in the real estate sector. From 2005 to 2008, he was a member of the Supervisory Board and of the Audit Committee of STMicroelectronics NV and since May 2007 he is Board member of the consulting company SINLOC, a subsidiary of bank-based foundations.

• **Claudio Machetti, 51 years old – Director**
[born in Rome on October 30, 1958]
Mr. Machetti has a degree in Statistics from "La Sapienza" University in Rome.
In March 2000 he has been appointed head of the Financial Department at Enel S.p.A. and in 2005 Financial Director. Since July 2009, he has been Chief Risk Officer. Within the Enel Group, he also served as Chairman of the Board of Directors of: Enel.NewHydro S.r.l., Enel Energy Europe S.r.l., Enel Capital S.r.l. (to be wound up) and as Director at: Enel Investment Holding B.V., Enel Ireland Finance Ltd, Enel Re Ltd, Enel Trade S.p.A., Enel Distribuzione S.p.A., Enel Produzione S.p.A. and in the listed company Endesa S.A.
He began his managerial career 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. (head of the Financial Markets Central Service, then Operating Finance Manager) taking over Fercredit S.p.A. in the FS Group as CEO in 1997. From April 2004 to November 2005 and then from March 2007 he was Director of Terna S.p.A.

• **Salvatore Machì, 72 years old – Director**
[born in Palermo on May 28, 1937]
He holds a degree in Electronic Engineering and has received specialised training at the Istituto Superiore di Telecomunicazioni, in addition to his professional experience with Esso and IBM. He joined Enel in 1965 and held various positions up to 1999, including Manager of the Transmission Department, National Manager of Thermoelectrical Energy Generation and Purchase and Tender Manager.
He was CEO (from July 1999 to April 2000) and, then, Chairman (up to July 2003) of the Gestore della Rete di Trasmissione Nazionale S.p.A., and Director of Gestore del Mercato Elettrico S.p.A. during that time. He has been Chairman of the Board of Directors of CESI S.p.A. since March 2003, where he previously (from July 1999 to October 2001) served as CEO. He is currently Director of Api Energia S.p.A. and, since September 2004, a Director of Terna S.p.A. as well.

• Michele Polo, 52 years old – Director
[born in Milan on August 7, 1957]
He has a degree in Economics from the Bocconi University in Milan, and graduated in Economic Policy with a Masters in Economic Sciences from the London School of Economics. From 2003 he has been Ordinary Professor of Economic Policy and from 2007, Vice-Chancellor at the Bocconi University. He is a member of the Board of Directors of the Institute for Economics and Policy of Energy and the Environment (IEFE) of the Bocconi University and carries out other scientific and academic activities: he is Director of the Journal of Economists and member of the Editors Committee of Economy of Energy Sources and the Environment and of the Editor's Committee of Market, Competition, Regulations. He is scientific advisor of the publishing house "Il Mulino", in Bologna.
From 2003 to 2006 he was Economic Advisor of the General Management of Competition of the European Commission. He is also the author of numerous essays and monographs on themes such as antitrust, liberalisation and energy sectors.

• Vittorio Rispoli, 50 years old – Director
[born in Soverato (Catanzaro) on May 31, 1959]
With a degree in Law from "La Sapienza" University in Rome, he is a lawyer and a registered auditor. He has been Deputy General Manager and General Secretary of the Corporate Bodies of Assicurazioni Generali S.p.A. since April 2003; since November 2007 he has also been General Manager and CEO 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. Furthermore, he is Director in the listed company Autostrada Torino-Milano S.p.A., as well as in the insurance companies of the SARA Group, in which Assicurazioni Generali holds a minority interest.
Manager since 1987, he has held various managerial positions, essentially in the legal and corporate areas at first in the 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 Universities of Rome, Perugia and Cassino in Public Right of Economy, Civil Right and Right of Insurances.

During its term, the Board of Directors has confirmed the existence of the requirements of honor and professionalism held by each of its members.
The evaluation regarding the existence of the requirements of independence for each of the non-executive members was made, taking into account the information provided by each person, during the appointment and, subsequently, during the meeting held on March 19, 2010 according to the terms stated in the following paragraph "Independent Directors".
The attached table 1 includes the information regarding the composition of the Board of Directors as of March 19, 2010.

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 (also abroad), financial companies, banks, insurance companies and significantly large companies – and to devote the necessary time to the diligent performance of their duties, as they are well aware of the responsibilities of the office held.
To this end, during the meeting of February 22, 2007, in compliance with art. 1.C.3 of the Corporate Governance Code, Terna's 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 still enabling the efficient performance of the duties as Director of Terna S.p.A included in the internal document "Orientations of the Board of Directors over the maximum number of positions as a Director or 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 the prudent supervision by the Bank of Italy and registered within the special list provided for by art. 107 of Legislative Decree no. 385/1993 (the so-called "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 €50 million or an annual financial statements total of €43 million; companies that draw up consolidated financial statements.

The Board has identified different general criteria for the 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 at Terna is incompatible with the same role in other significantly large companies.

When more than one position is held within the same group, including employment by one of the Group companies, only the position with the greatest "weight" is considered.
All the Directors in office that were appointed by the Meeting on April 28, 2008, informed about the positions they held at the time the lists were submitted and subsequently when they accepted their appointment. Based on the updated information delivered to the Company in compliance with the approved guidelines, as of March 19, 2010 all Directors hold a number of positions that is compatible with the guidelines set by the Board.
In the summaries of each Director's personal characteristics, all the positions held by them are indicated. The total number of positions held as Directors or Statutory Auditors in significantly large companies is provided in the attached table 1.
There have not been exceptions, issued by Terna's shareholders' meeting, to the prohibition of competition by the Directors provided for by art. 2390 of the Civil Code.

Role of the Board of Directors

The Company's Board of Directors holds a crucial role in its organisation. It has strategic and organisational functions and responsibilities with respect to the Company and the Group. It is also responsible for verifying that the necessary controls are in place to monitor the performance of the Company and its subsidiaries.
In addition to exercising the powers that are attributed to it by the Law, the Company's bylaws (art. 21.1) attributes the Board the competence to resolve on issues pertaining to the shareholders' meeting that can determine amendments to the bylaws as previously described in "Bylaws amendments".
In this context and in compliance with the Law and the provisions of specific resolutions (the last one being that of April 28, 2008), and considering the provisions of art. 1 of the Corporate Governance Code, the Board of Directors carries out the following:

- 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 assigned to him give the CEO the widest powers for the administration of the Company, except for those assigned by the Law or the bylaws or reserved for the Board of Directors by resolutions thereof (art. 1.C.1, letter 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 compliance with powers, through 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) characteristics, (II) the parties involved and their relationship with the Company or its subsidiaries (art. 1.C.1, letter c) of the Corporate Governance Code);
- on the basis of proposals made by the specific committee and with the approval of the Board of Statutory Auditors, determines the remuneration of the CEO and of other Directors with special duties (art. 1.C.1, letter d) of the Corporate Governance Code);
- evaluates the adequacy of the general organisational, administrative and accounting structure of the Company and its subsidiaries that hold strategic importance (in compliance 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, whose guidelines are defined by the Board, and to the management of conflicts of interest (art. 1.C.1, letter b) of the Corporate Governance Code). This definition includes the subsidiary Terna Participações S.A. whose major shareholding was sold during 2009 (November 3, 2009). The adequacy and actual operation of the Terna Group's Internal Control System is reviewed at least on an annual basis. With regard to this matter, reference should be made to section XI;
- 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) (art. 1.C.1, letter a) of the Corporate Governance Code);
- defines the Corporate Governance system within the Company, provides for the appointment, role definition and rules of the Board's Internal Committees (art. 1.C.1, letter 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 such cases the support of the Internal Control Committee is provided. In particular, the following transactions, *inter alia*, are submitted to the Board of Directors in advance: "significant transactions" carried out also through subsidiaries for which the underlying item, consideration, method or timing could have an impact on safeguarding the Company assets or the completeness and accuracy of Terna's accounting and other information which require Terna to disclose to the public an informative document in compliance with the supervisory authorities of financial markets and/or transactions for more than €30 million, except for those approved in the budget and in financial plans as well as in agreements relating to dispatching and all other related services; subscription of loans, granted and received, of any type, medium and long term, for an amount exceeding €50 million that were not included in the approved budget and financial plans and not aiming at implementing measures that were already approved by the Board in the Electricity Transmission Grid's

Development Plan (art. 1.C.1, letter f) of the Corporate Governance Code);
- resolves regarding the establishment of new companies, the purchase and transfer of shares in companies, namely in companies or company branches with a value exceeding €10 million and arranges for the exercise of voting rights at the shareholders' meetings of subsidiaries and other investees as well as the appointment of directors and auditors in subsidiaries having a strategic importance (art. 1.C.1, letter a) of the Corporate Governance Code);
- assesses the general performance of Company operations, with specific reference to situations of conflict of interest, on the basis of the information received from the CEO and the Internal Control Committee, periodically checking that planned results have been achieved (art. 1.C.1, letter e) of the Corporate Governance Code);
- at least once a year, evaluates the size, composition and performance of the Board of Directors and its committees (art. 1.C.1, letter g) of the Corporate Governance Code);
- reports to the shareholders during the meeting.

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. Moreover, he verifies compliance with resolutions, chairs the meeting and – in the same way as the CEO – has powers of legal representation of the Company.
In addition, the Chairman is recognised further non-managerial powers and/or having a strategic nature, based on Board's Resolution of April 28, 2008, such as: (I) supervising the Company's relations in Italy and abroad, with institutions, agencies and public and administrative bodies, national and international, both central and local, financial institutions, banks, insurance and social security, private companies and natural and legal persons, supervising the relative international relations, in coordination with the CEO, and (II) supervising activities of internal auditing.

Board of Directors meetings

The Directors gather regularly and carry out tasks based on their full knowledge and in autonomy, pursuing the objective of creating value for shareholders, taking into account the social aspects of the Group's activities and the resulting need to adequately consider all stakeholders in the performance of those activities.
During 2009, the Board met 9 times and each meeting lasted an average of one hour and fifteen minutes with the Directors regularly participating as well as the the Board of Statutory Auditors (art. 1.C.1 lett h) of the Corporate Governance Code).
For 2010, a Board meeting is expected every month and all the meetings have been scheduled relative to the examination of the economic and financial data by the Board of Directors according to what officially communicated to the market on December 16, 2009, January 13, 2010 and February 17, 2010. In the current year and as of the date of approval of the present report, the Board of Directors met 2 times.

Assessment of the Board of Directors activity

In compliance with the Corporate Governance Code published by Borsa Italiana, Terna's Board of Directors also for 2009 assessed the Board's size, composition and performance, as well as that of its Committees. The Board conducted such assessment, drawing on the assistance of a specialised independent consultant to ensure the utmost objectivity of its evaluations. This initiative follows similar ones that were undertaken by Terna's Board of Directors as of 2006.
The independent consultant's analysis started during the first quarter of 2010 and was carried out through qualitative questionnaires and individual interviews with each Director and through subsequent quantitative analysis of the information gathered; it focused on numerous aspects regarding: a) the size, the composition and the understanding of the level of performance and efficiency of the Board and its Committees; b) identifying the elements that can hinder or improve the performance and efficiency of the Board and its Committees also through a benchmarking analysis between Terna and the international best practices.
On the basis of the results of the analysis carried out, the Board of Directors passed an overall positive evaluation on the size, composition and performance of the Board and its Committees having positively evaluated all the principal profiles examined and committed to exercising their role as best as possible.
In particular, the Board pointed out the following: the very constructive approach within the Board itself; the continuous improvement in the interaction between Directors and the Management and in the understanding of processes and the knowledge of issues; the highly positive evaluation of the Top Managers characterised by a perfect balance in the roles of Chairman and CEO that continues to be the strong point and outstanding functional aspect for the Company's efficiency; the effectiveness of the Board's decision-making capability; the strong reliance on the managerial and financial capabilities and the fully shared performance objectives and Company strategy on the part of the Board, the excellent quality of information provided. Other outstanding points were identified, such as: the governance structure, the transparency and the lack of positions based on interest, the effectiveness of the informative job carried out by the Committees and the quality of the information provided.

Delegated bodies and other Executive Directors

CEOs

The current structure of the Board of Directors provides for only one CEO, to which the Board has attributed powers, defining their content, limits and any exercise modalities; no executive committee was established.
The CEO has powers of legal representation of the Company and is entrusted with the widest powers for the administration of the Company, pursuant to Board Resolution of April 28, 2008, 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 Statutory Auditors of the activities and of the management of the Company as well as of the resolutions passed in exercising his powers pursuant to art. 21.3 of the bylaws, at least on a quarterly basis and on occasion of Board's meetings.
On a quarterly basis, specific reports are prepared in order to inform the Board on major action and activities.
In addition, the Directors are kept constantly informed by competent departments on the main legislative and regulatory innovations concerning the Company and the exercise of own functions. On occasion of the appointment, they are adequately informed about the existing system of Company government and the fundamental lines of governance.
Exception made for the CEO, the other 8 members of the Board of Directors (Luigi Roth, Cristiano Cannarsa, Paolo Dal Pino, Matteo del Fante, Claudio Machetti, Salvatore Machì, Michele Polo, Vittorio Rispoli) must all be considered as non-executive.
It must be noted 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.
For their number, competence, authority and availability of time, the Non-executive Directors (since they are not provided with operating proxies and/or managing roles in the Company) are capable of guaranteeing 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 enrich with their specific competences the Board's discussions, so as to favor the examination of the subjects according to various perspectives and subsequently pass deeply analysed, conscious and respectful resolutions in line with social interests.
During 2009, the Directors participated in specific meetings with the Company's management in relation to the core business activities with particular reference to the preparation of the development plan for the National Transmission Grid.

Independent Directors

A suitable number, also for competence, of Non-executive Directors is independent.
The Board of Directors has evaluated the existence of the 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 19, 2010 – 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 – confirmed the existence of the requirement of independence in each of the 4 Non-executive Directors: Paolo Dal Pino, Salvatore Machì, Michele Polo, Vittorio Rispoli (artt. 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 characterises the activity of all the Directors, executives and non-, the presence of Directors that can be qualified as "independent" in compliance with the abovementioned criteria, and whose role is significant both within the Board and its committees, suitably ensures adequate consideration of all shareholding members' interests.
Among the assessments carried out by the Board, with reference to the 4 Directors, the existence is proven of the requirement of independence envisaged for in 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 lower than the unit, to the following unit – meets the requirements of independence established for Auditors by art. 148, paragraph 3, of Legislative Decree no. 58 of February 24, 1998.

Following the work method of the Board of Directors, and the presence of Independent Directors in the composition of the committees, in the operating system a constant exchange of information between the same Independent Directors has been taking place, both at meetings of the Internal Committees and at the Board's meetings, which has not required a specific meeting to be held for them.

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 Directors; it also guaranteed a preventive exchange of information that rendered the work of the Board productive and focused on the true requirements of the Company. On the basis of such assumptions, confirmed by the outcomes of the board review which the Board is subject to, and since the assumptions indicated by the Corporate Governance Code are not present, the position of Lead Independent Director was not established within Terna.

Section V **Management of confidential information**

During the meeting of December 21, 2006, the Company's Board of Directors, in compliance with the provisions on the management of privileged information aimed at preventing insider trading and with the provisions of art. 4 of the new Corporate Governance Code, of art. 114, paragraph 1, and of art. 181 of Legislative Decree no. 58/98, approved a specific regulation for the management and treatment of confidential information, which also includes the procedures for disclosing documents and information on the Company and its subsidiaries outside of the Company, with specific reference to the confidential information provided for by paragraph 1, art. 114 of Legislative Decree no. 58/98.
This regulation represents an update to the measures included in the regulation that Terna approved as of April 2004, with specific reference to "price sensitive" information. It aims at maintaining 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 relating to Company's data. 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 bodies of the subsidiaries with the management of confidential information for which they are responsible, providing that such information on individual subsidiaries should be disclosed with the prior authorisation of the Company's CEO.
Moreover, the regulation establishes specific procedures to be followed when disclosing Company documents and information outside the Company, with particular focus on the disclosure of privileged information. It also scrupulously governs the way in which members of the Company should deal with the press and other mass communication means (i.e. financial analysts and institutional investors).
Lastly, the new regulation introduced specific "Measures for persons committing violations" into the regulation's provisions.

In compliance with the provisions of art. 115 *bis* of the Consolidated Law on Finance and with the regulatory measures issued by CONSOB, Terna's Board of Directors created a specific list of people with access to privileged information within Terna. It also prepared a specific regulation to govern how the list should be held and updated. The same regulation requires that subsidiaries also create their owns lists.

As of April 2004, the Company's Board of Directors also approved the internal dealing Corporate Governance Code, in compliance with the regulatory measures laid down by Borsa Italiana S.p.A., establishing the market transparency requirement for listed companies with respect to significant transactions, involving the financial instruments of the Company or its subsidiaries, carried out by people with significant decision-making powers in the Company and with access to price sensitive information ("relevant persons"). During the meeting of March 15, 2006, in compliance 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 (art. 114, paragraph 7, of Legislative Decree no. 58/98 and art. 152 *sexies*, *septies* and *octies* of CONSOB's Issuer Regulation) the Board of Directors adopted a specific internal procedure effective as of April 1, 2006 – which was recently updated according to the resolution by the Board of Directors dated March 19, 2010 based on CONSOB's explanations and on the structural asset of the company; this procedure replaced the previous internal dealing Corporate Governance Code, in which "relevant persons" in addition to Terna's Directors and Standing Auditors, were identified as the managers of Terna's departments, indicated in the procedure itself as they have regular access to privileged information and may take management decisions that could affect the outlook and future development of Terna.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This procedure is available in the Company's website www.terna.it in the "Investor Relations/Corporate Governance /Internal Dealing" section. The 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 as identified in the procedure (in addition to Terna's actual Directors and Standing Auditors);
- "relevant persons" are not allowed to carry out transactions (other than the exercise of options) during the 30 days before the approval of the draft financial statements and half year report by Terna's Board of Directors. Moreover, the Board can establish additional blocking periods during the year, following specific events;
- an adequate penalty system was created for "relevant persons" identified as violating the measures of this procedure.

Section VI **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 carrying out the meetings have been ruled through proper internal organisation regulations adopted by the Board of Directors as of January 24, 2007. The meetings of the committees include the drawing up of minutes. Each committee has also the faculty to access the information and the necessary departments to carry out its tasks and can use possible external advisors in the limits provided for by the Board of Directors.
Within the Company budget, adequate financial resources are allocated for the implementation of the tasks of each committee.
On invitation of the coordinator of each committee, other subjects, whose presence can contribute to the best performance of the committee, can participate in the meetings.

Section VII **Appointment Committee**

Currently, Terna has not set up, within the Board of Directors, a specific Appointment Committee, since up to now shareholders have not met difficulties in presenting adequate candidacies, such as to allow a composition of the Board in line with the provisions of the Corporate Governance Code for listed companies.

Section VIII **Remuneration Committee**

Functions of the Remuneration Committee

In 2004, within the Board of Directors a Remuneration Committee was set up, responsible for making proposals to the Board (I) for the remuneration of the CEO and of other Directors with special duties monitoring the implementation of the Board's resolutions, and (II) for determining the remuneration criteria of the top management of the Company and its subsidiaries, periodically evaluating its criteria on the basis of indications provided by the CEO and submitting general recommendations to the Board on the matter.
Following the renewal of the Board of Directors during the meeting held on April 28, 2008, the Remuneration Committee was also renewed as well as its members.
The Committee's tasks were reconfirmed as already identified by the Board within "Terna S.p.A.'s Organisational Rules for the Remuneration Committee" which was approved with resolution dated January 24, 2007.
The Remuneration Committee is currently composed of Vittorio Rispoli (as coordinator), Paolo Dal Pino, Salvatore Machì and Luigi Roth, all Non-executive Directors and most of whom are also independent.
In 2009, the Remuneration Committee held 3 meetings, with the regular participation of all members. The meetings lasted an average of half an hour each. None of the Directors participated in the committee meetings in which proposals regarding their remuneration were submitted to the Board of Directors.

In 2010, the Committee will hold as many meetings as are sufficient for carrying out the duties assigned. During the year, up to the date of approval of this Report, the Committee has held 1 meeting.
As part of its duties, the Remuneration Committee has a key role in implementing specific stock option plans for the 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 2009, 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 2009, the Remuneration Committee examined the incentive plans for the Company's top management.
During the meeting of March 19, 2010, the Board of Directors evaluated the duties and performance of the committee. The altogether positive evaluation on the size, composition and operation of the committee was confirmed by the Board of Directors, within the yearly review of the Board and the committees.

The committee has been granted adequate financial resources.

Section IX **Remuneration of Directors**

The compensation of the Directors is established by the shareholders' meeting for each Director (art. 24.1 of the bylaws). Extra compensation for the members of the Committees formed within the Board of Directors in compliance with the Governance Code of Borsa Italiana was resolved, following the evaluation by the Board of Statutory Auditors, in compliance with art. 2389, paragraph 3 of the Civil Code and with art. 24.2 of the bylaws, by the Board itself, following the evaluation of the Board of Statutory Auditors; the overall compensation for the Chairman and the CEO is also identified by the Board of Directors based on the proposal submitted by the Remuneration Committee and following the evaluation by the Board of Statutory Auditors.
A portion of the compensation of the CEO 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 possible participation in one or more committees. The compensation is not bound to the economic achievements of the Company. The Non-executive Directors are not eligible to share-based incentive plans.
The compensation received by the members of the Board of Directors during the year are indicated in the note to the financial statements.

Section X **Internal Control Committee**

Functions of the Internal Control Committee

As of 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 April 28, 2008, the Internal Control Committee was re-established and its members were appointed. The committee was assigned the following duties, as already identified within "Terna S.p.A.'s Organisational Rules for the Remuneration Committee" which were approved on January 24, 2007:
- assisting the Board of Directors in establishing Internal Control System guidelines and periodically checking the adequacy and effective implementation thereof (art. 8.C.1 of the Corporate Governance Code);
- 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 statement (art. 8.C.3, letter 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 the Internal Control System (art. 8.C.3, letter 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, letter c) of the Corporate Governance Code);
- evaluating the proposals coming from the 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, letter d) of the Corporate Governance Code);
- supervising the effectiveness of the auditing process (art. 8.C.3, letter 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, letter g) of the Corporate Governance Code);
- carrying out further duties potentially assigned by the Board of Directors especially concerning relations with the auditing company.

Additional specific duties are assigned to the Committee based on the Organisational Model adopted by Terna in compliance with Legislative Decree no. 231/01 and with Terna's Code of Ethics. The Committee is also assigned advisory functions for related party transactions as indicated in the section of this report devoted to "Director interests and related party transactions" (section XII).
The Internal Control Committee is currently composed of Salvatore Machì (as coordinator), Paolo Dal Pino, Matteo Del Fante and Michele Polo, who are all non-executive and mostly independent directors. At least one member has adequate accounting and financial experience.

In 2009, the Internal Control Committee met 7 times, with the regular participation of all members. Each meeting lasted an average of one hour; 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).
Upon the Committee's request, the meetings were also attended by directors of the Company whose presence was deemed helpful for the best information regarding the items on the agenda.
In particular, in 2009, the Internal Control Committee examined the guidelines for the Internal Control System and the adequacy of the audit process, as well as the relative 2009 activity plan; it also met with the independent auditors that provided information regarding their work plan and the results obtained. With the support of the Executive in Charge of the preparation of accounting documents, the Committee specifically examined the state of progress of adjustment activity to the provisions under Law no. 262/05 and subsequent modifications (so called "262 Project"). Furthermore, it provided the Board of Directors with advisory support in significant transactions with related parties. Pursuant to what provided for by the Corporate Governance Code, the committee assessed, together with the Executive in Charge, the correct use of the 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.
In 2010, the Committee will hold as many meetings as are sufficient for carrying out the duties assigned. During the year up to the date of approval of this report, the Committee has held 2 meetings.

During the meeting of March 19, 2010, the Board of Directors evaluated the duties and operation of the committee. The generally positive evaluation of the composition, size and responsibilities of the committee, was confirmed by the Board of Directors within the yearly review of the Board itself and of the committees.

The committee was granted adequate financial resources.

Section XI **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) definition, in line with national and international best practices, as the set of rules, procedures and organisational 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 reaching strategic objectives, 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 the electricity service continuity and guaranteed impartiality in concession activities. It is based on the following elements: control environment; risk management system; control activities; information, communications and monitoring. The coordinated implementation 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 the Group's managerial style, personnel management policies and all employees' conduct must be in compliance with.
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. In order to implement an integrated "risk management system", in 2007 Terna created a Corporate Security Department significantly integrating its security tools and defining a transversal system for identifying, analysing and controlling corporate risks.
The importance of using a structured method and a dedicated internal organisation (Corporate Security Department), that promotes and supervises its implementation, derives from the fact that risks can influence corporate activities, which, being of a varied type are also characterised by the time variable between the moment a threat presents itself and the moment in which this threat materialises.
In addition to ensuring absolute compliance with legal provisions, this integrated model allows reaching corporate security levels that exceed the regular standards attainable through a sectoral and fragmented security management.
The "control activities" are carried out by management and employees to achieve specific objectives on the basis of principles, such as self-control, hierarchical control, accountability, opposing 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" aims at constantly verifying 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.

Terna, has indeed an appropriate structure dedicated to preventing and managing corporate fraud activities also aimed at spreading the culture of legality and respecting corporate regulations. Continuously monitoring processes, verifying and managing reports of illegalities have led to introducing specific controls aimed at reducing such risks and at defining, for certain critical processes, specific procedures aimed at preventing illegal conduct.

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 implementation of the Internal Control System, on the basis of adequate preliminary assessments.
Attachment 1 to this report includes the principal characteristics of existing risk management and internal control systems with respect to the financial information note, also consolidated (*ex* art. 123 *bis*, paragraph 2, letter b) of the Consolidated Law on Finance).

Terna's Board of Directors' meeting of March 19, 2010 in compliance with the opinion rendered by the Internal Control Committee on the basis of the analyses made in the course of 2009, judged the Terna Group's Internal Control System suitable to achieve an acceptable risk profile, in consideration of the field in which Terna operates, of its size, organisational and corporate structure (art. 8.C.1, letter 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 organisational model within Terna and other Group companies.

Executive Director in Charge of the Internal Control System

The CEO supervises the functionality of the ICS of the Group, implementing the guidelines defined by the Board of Directors and planning, implementing, managing and dealing the identification of the main risks for the Group through the designated Company structures; he then periodically submits such risks to the Board of Directors (artt. 8.C.1, letter b) and 8.C.5, letters a), b) and c) of the Corporate Governance Code).

Executive in Charge for Internal Control

Within Terna, the Executive in Charge of the Internal Control is the person Responsible for the audit function, who is supervised by the Company's Chairman pursuant to artt. 8.C.1, 8.C.6, letters a) and b) and 8.C.7 of the Corporate Governance Code.
The Audit responsible reports the results to the CEO, to the Internal Control Committee and to the Auditors concerning the audit activity results relative to risk management and to the suitability of the Internal Control System in order to achieve an acceptable overall risk profile (art. 8.C.6, letter e) of the Corporate Governance Code). He operates through audit activity, whose field of application is extended to the whole Group. The activities of Internal audit can be carried out in connection with the departments that carry out activities of Internal control in subsidiaries.

The audit department 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 an acceptable risk profile (art. 8.C.6, letter c) of the Corporate Governance Code). For the exercise of its own tasks, the audit department is assured the availability of adequate means (art. 8.C.6, letter d) of the Corporate Governance Code).
Audit activities can be conducted on the basis of a yearly activity plan examined by the Internal Control Committee and approved by the Chairman or can be determined each time by the Company's top management in relation to specific facts or as a result of particular events.
In February 2009, as envisaged by the international standards issued by the Institute of Internal Audit (IIA), the External Quality Assessment of Terna's Audit department ended that assessed the effectiveness of the audit department in bringing forth its mission and compliance of the activities carried out with the Standards for the practice of Internal Auditing issued by the IIA, obtaining the result of "general compliance", the highest positive assessment obtainable according to the IIA.
The Board of Statutory Auditors, within its own activities, can request the Audit department to carry out assessments on specific operating areas or Company operations.
Auditors and the Internal Control Committee timely exchange important information for the accomplishment of the respective tasks.

Code of Ethics and Organisational Model under Legislative Decree no. 231/2001

Code of Ethics

In May 2002, aware of the moral aspects involved in its core activities, Terna's Board of Directors resolved to adopt its Code of Ethics (that was updated in March 2004) to allow employees and all those having relations with Terna, to operate in the right way in order to establish trust, strengthen the Company's positive reputation and create value.
In 2006, the Company updated the Code of Ethics to equip Terna, following the change that rendered it an independent operator in the electricity transmission market, with a set of rules and policies to follow on the basis of this new context.
The new Code of Ethics, which was approved by the Board of Directors on December 21, 2006, explains also in ethical terms Terna's uniqueness. It underlines the need to respect universal ethical principles, that can be immediately recognised by everybody, and that should be fully adopted by companies. It is not by chance that the Code of Ethics is inspired by the 10 principles of the Global Compact, the most important expression of this vision.
Terna's Code of Ethics is broken down into five sections, which discuss, in this order:

- Terna's fundamental ethical pinciples, which are organised into general ethical principles (legality, honesty and accountability), that are universal and therefore to be recognised and shared by all, and into four main principles that Terna believes are particularly important, given its activities and nature (good management, respect, fairness and transparency);
- the conduct required, especially from employees, based on three important elements: loyalty to the Company, conflicts of interest and the integrity of Company assets;
- general instructions for the conduct to follow in relations with stakeholders, broken down into eight groups in which Terna requires consistent conduct;
- Terna's commitment to 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. It applies to all of Terna Group's subsidiaries for sections 1 (Principles), 2 (Conflicts of interest, Company loyalty and the integrity of company assets) and for section 3 (Relations with stakeholders) limited to the initial guidelines for the conduct to be followed with the individual categories of stakeholders.
In November 2009, in concomitance with the beginning of office of the Ethics Committee, the corporate body based on the Code of Ethics to respond to clarification requests, a new campaign was launched for disseminating the Code, aimed at further strengthening its complete implementation.
On December 16, 2009 Terna's Board of Directors, based on sustainability, undertook an additional and coherent step resolving to officially join the Global Compact, the multi-stakeholder network promoted by the UN Organisation that joins governments, companies, UN agencies, trade union organisations and the civil society with the aim of globally promoting the 10 universal principles of human rights, occupation, environmental protection and anti-corruption measures.
To complete the Code of Ethics and the commitments undertaken therein, Terna decided to draw up a sustainability report to illustrate its work in the field of ethics and social responsibility which is published on a yearly basis.

Organisational Model under Legislative Decree no. 231/2001

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 the Italian Law a system of administrative (and criminal) liability for companies with respect to certain types of offences 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.

Over time, the Model underwent changes and updates and was adapted to Law provisions and subsequent addition of new offences into Legislative Decree no. 231 taking into account the integration of the National Transmission Grid management activities, as well as of the accrued experience and legal guidelines that were issued.

During 2009, in particular, integrations and updates were approved to the Model relative to computer-related offences.

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 those operating in the name and on behalf of Terna and its Group, so that their conduct be correct and transparent in the performance of their activities, to prevent the risk of the offences provided for by the Decree from being committed.

The Model is currently organised into nine sections:

- a "general section" which describes, *inter alia*, the content of Legislative Decree no. 231/2001, the objectives of the Model and its implementation, the duties of the supervisory board – structured as a collective body – required to monitor the implementation and compliance of the Model, information flows and the penalty system;
- a "special section A", which covers offences committed in dealings with the public administration;
- a "special section B", which discusses corporate offences;
- a "special section C", which deals with offences of terrorism or subversion of the democratic order;
- a "special section D", on offences against individuals;
- a "special section E", concerning market abuse offences, with the addition of a specific "Compliance regulations for the prevention of offences and administrative market abuse offences";
- a "special section F" regarding dealing in stolen goods, money laundering and use of money or assets coming from illegal sources as introduced in Decree no. 231/01 consequent to Legislative Decree no. 231/07 becoming effective;
- a "special section G" regarding manslaughter and serious or very serious injuries committed in violation of the rules on occupational health and safety;
- a "special section H" regarding computer-related offences.

The content of this Model is consistent with the guidelines prepared for this purpose by trade associations. It is also in line with the best practices, and represents the final step towards complete accuracy, transparency and accountability in internal and external relations, while offering shareholders a guarantee of efficient and correct management.

In order to guarantee wider diffusion of the knowledge of the adopted Model, the same is published in the Company's website (www.terna.it) under the Investor Relations section.

Additional updates and integrations to the Model are currently underway in relation to subsequent legislation, which extended the scope of offences provided for by Legislative Decree no. 231/2001 or amended other relevant legislation.

As a supplement to the Model, already in 2008, Terna also approved a specific "Compliance Regulation for preventing offences and administrative illegalities of market abuse" aimed at providing the recipients of the Model an additional operational tool for evaluating their conduct for integrating offences and administrative illegalities of market abuse and consequently for preventing conduct potentially representing a source of administrative responsibility for the Company.

Audit Company

The assignment of auditing the annual report and the consolidated financial statement has been entrusted, pursuant to the resolution passed by the shareholders' meeting of May 24, 2007 on proposal of the Board of Statutory Auditors, to the audit company KPMG S.p.A. for the 2007-2010 period.

In elaborating the proposal for assignment of audit submitted to the shareholders' meeting held on May 24, 2007, the Board of Auditors preventively verified the requirements of independence of the company assigned with reference to Terna and to the Group.

Considering provisions under art. 159 of the Consolidated Law on Finance and under art. 8, paragraph 7 of Legislative Decree no. 303 of December 29, 2006 (the so-called corrective decree) of Law no. 262 of December 28, 2005, such assignment 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.

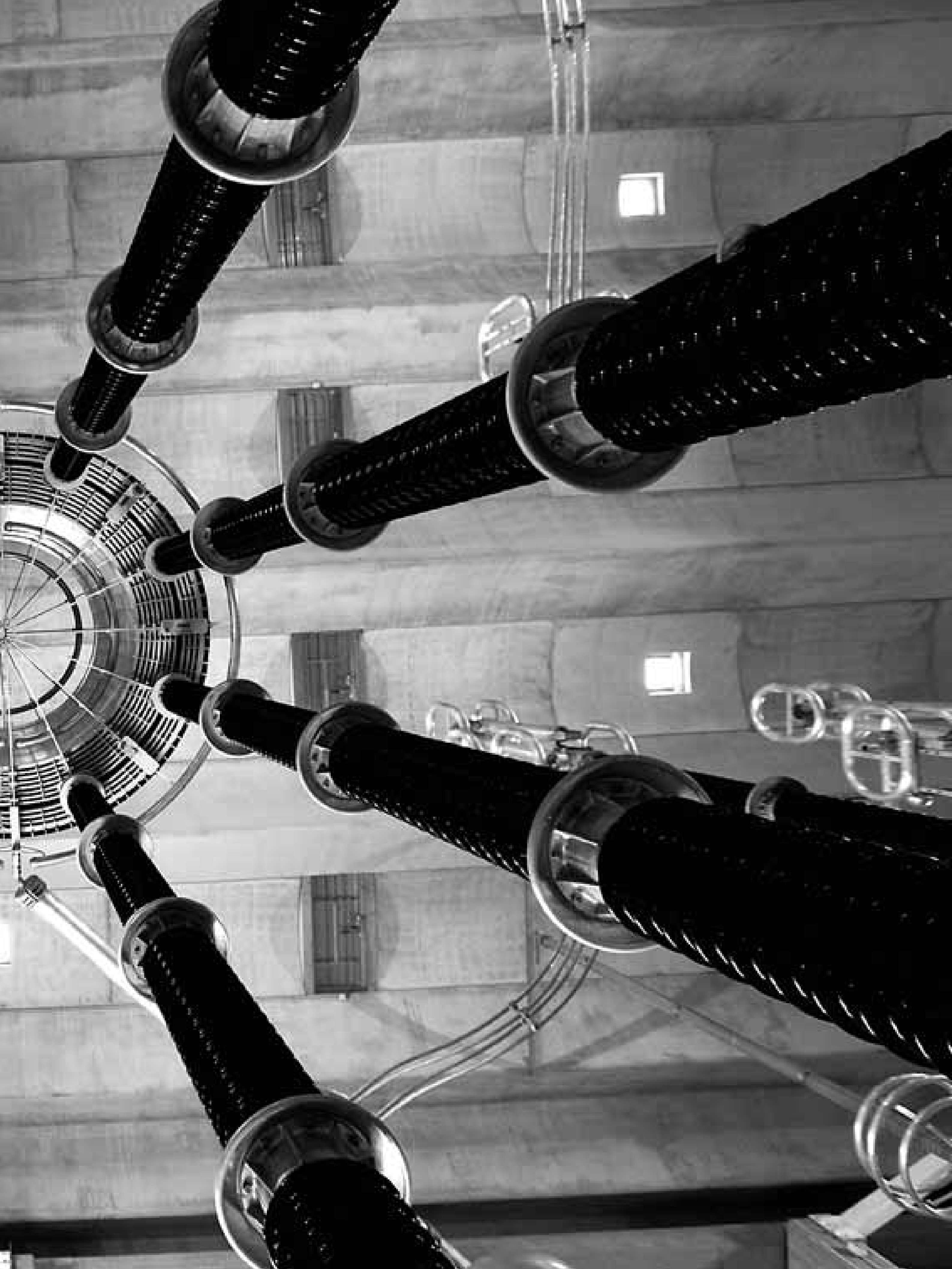
Executive in Charge of the preparation of accounting documents

Pursuant to art. 154 *bis* of the Consolidated Law on Finance – introduced by Law no. 262 of December 28, 2005 and subsequently modified by Legislative Decree no. 303 of December 29, 2006 – Terna's shareholders' meeting of May 24, 2007 has provided for in the bylaws (art. 21.4) the position of the Executive in Charge of the preparation of accounting documents (Executive in Charge), delegating his appointment to the Board of Directors, following the indication by the Board of Statutory Auditors, based on specific requirements of professionalism.
The choice to reserve the appointment and revoking of the Executive in Charge to the Board of Directors was carried out in line with Law provisions that directly acknowledge the Board of Directors a specific task of supervision (art. 154 *bis*, paragraph 4 of the Consolidated Law on Finance).
The Executive must also be in possession of requirements of honor indicated by Law and of professionalism indicated in the bylaws.
In particular, the Executive in Charge of the preparation of accounting documents must have a total experience of at least three years in:

a) administration activities, finance and control and/or managing functions inherent to the activity of preparation and/or analysis and/or evaluation and/or verification of Company documents whose complexity is comparable to accounting documents of the Company; or
b) activity of legal control of the accounts in companies listed in Italian regulated markets or in those of other countries of the European Union; or
c) professional activities or university teaching in financial or accounting subjects.

The Board of Directors, in compliance with the regulations, has immediately appointed as Executive in Charge Luciano Di Bacco, Head of the Administration Department of Terna, after verification of the requirements of honor and professionalism. Such appointment has also involved the adjustment of the organisational structure of the Company attributing to the Executive autonomy and authority regarding the structure of his Department and granting him a top role directly reporting to the CEO.

The Executive in Charge has certified, as of the 2007 half-year report, compliance, under art. 154 *bis*, paragraph 2 of the Consolidated Law on Finance, with the action and communications of the Company provided for by Law or communicated to the market, with reference to the report, even half-year, of the Company, to documents, and the accounting books.
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*, paragraph 4 of the Consolidated Law on Finance.
Under art. 154 *bis*, paragraph 3 of the Consolidated Law on Finance, the Executive prepares suitable administrative and accounting procedures for the preparation of the financial statements, consolidated financial statements and half-year reports, and certifies, together with the delegated administrative bodies, their adequacy and effective application, under paragraph 5 of art. 154, according to the model established with CONSOB regulations, as of the financial statements of the year closing on December 31, 2007.
In order to allow the release of the above mentioned certifications, according to art. 154 *bis*, paragraphs 2 and 5 of the Consolidated Law on Finance, during 2007, Terna started and completed a specific plan with the objective to define the operating modalities for the appraisal of an Internal Control System that supervises the drawing up of the financial statements. Such plan involved the business Directions of the Group and has determined the preparation of the accounting procedures under paragraph 3 of art. 154 *bis* of the Consolidated Law on Finance, through a process of identification, management and monitoring of the main risks on the preparation of the financial statements. The Company has also adopted, jointly with the "Model 262" valid for the entire Terna Group, a specific "Regulation for the Executive in Charge".
During both 2008 and 2009, in compliance with the provisions of both Law no. 262/2005 and of the Model adopted by the Company, activities were implemented relating to the adjustment of administrative and accounting procedures, consequent to the normal changes made to processes. Testing operations were also conducted for verifying the implementation of the actual control.
According to the Corporate Governance Code, the Executive in Charge assessed, together with the Internal Control Committee, the correct use of the standards.



Section XII **Directors' interests and related party transactions**

Even before listing its shares in the stock market, Terna and its subsidiaries decided to lay the foundation for ensuring that related party transactions were carried out in compliance with the principles of procedural and substantial correctness, in its own interest, and as a duty to the market (art. 9.P.1 of the Corporate Governance Code).
With a specific procedure submitted in advance to the Internal Control Committee and approved by the Board of Directors (as of February 22, 2007 implementing the provisions of the new Corporate Governance Code and updated on June 10, 2008, consistently with the assignment of powers within the new Board of Directors), these conditions were defined. To this end:
- related parties were identified in line with the International Financial Reporting Standards;
- 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 interest, directly or on behalf of third parties, were specified (art. 9.C.2 of the Corporate Governance Code).

In terms of procedural correctness, it is particularly envisaged that:
- each Company department evaluates in advance the type of transaction to be carried out and the nature of relations between 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;
- the Board of Directors should be appropriately informed on the nature of the relations, the operating methods, the timing and economic terms and conditions of the transaction, the measurement procedure applied, underlying interests and reasons and any risk 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 totaling less than €10,000 which are excluded from the Board of Directors authorisation 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 authorises 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 experts should be based on reputable professionalism and expertise (banks, audit companies, law firms and other experts with specific technical skills) whose independence is recognised and in which there are no conflicts of interest with respect to the transaction.
During the course of the year, the Board of Directors and the Board of Statutory Auditors periodically received the scheduled informative notes according to the abovementioned terms.

Section XIII **Auditors appointment**

Appointment and requirements of Auditors

In compliance with the provisions of the Company's bylaws, the Board of Statutory Auditors is comprised of three Standing Auditors and two Alternate Auditors, who are appointed 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 honor and professionalism requirements as per the special legislation for statutory auditors of listed companies (art. 148, paragraph 4 of the Consolidated Law on Finance) now under Ministry for Justice Decree no. 162 of March 30, 2000, as integrated by appropriate bylaws provisions (art. 26.1 of bylaws).

Moreover, each auditor may not be standing auditor of five companies that have issued securities listed in regulated markets in Italy or in other EU countries. The members of the Board of Statutory Auditors can hold other assignments of administration and control in share capital companies according to Book V, Title V, Chapters V, VI and VII of the Civil Code within the limits established by the art. 144 *terdecies* of CONSOB Issuer Regulations.
All the members of the Board of Statutory Auditors must also possess provided requirements of independence under art. 148, paragraph 3 of the Consolidated Law on Finance.
In line with the provisions for the Board of Directors, and the regulation on the matter of privatisations and pursuant to Italian laws regarding listed companies, the bylaws require that the entire Board of Statutory Auditors be appointed using the voting 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 transformed into Law no. 474/94 ("Privatisation Law") and art. 144 *undecies* of the CONSOB 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 at least three national newspapers, two of which having a financial nature, at least 15 days before the date of the shareholders' meeting. Each shareholder may submit or contribute to the submission of only one list and each candidate may be included in only one list otherwise risks ineligibility. The lists must include the candidates according to a progressive number and are divided into two sections, one for the candidates for standing auditors, and the other for the candidates to alternate auditors. The lists are deposited and published by the shareholders presenting the lists. 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 of at least three years.
Pursuant to art. 148, paragraph 2 of the Consolidated Law on Finance, at least one effective member is appointed by the minority shareholders who are not connected, not even indirectly, with the shareholders who have introduced or voted the list winning for a number of votes.
In compliance with the Italian legislation for listed companies, the bylaws (art. 26.2) attribute the chairmanship of the Board of Statutory Auditors to the standing Auditor appointed by the minority list.
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 description of the personal and professional characteristics of the candidates, accompanied by declaration of eligibility to be appointed as independent candidates according to Law provisions and, pursuant to art. 2400, last paragraph of the Civil Code, with the list of administration and control positions held within other companies. 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.
On the basis of a specific item included in the notice of call of the meeting, the lists are also accompanied by the declarations with which the candidates accept their candidacy and certify, under their own responsibility, the non existence of incompatibility and ineligibility causes, and the existence of the requirements prescribed by Law and the bylaws for the respective assignments and any other information required by the applicable regulations and by the bylaws with a recommendation for their update until the actual holding of the meeting.
At least five days prior to the date set for 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 to the registered offices.
For any replacement of the Statutory Auditors, the terms of art. 26.2 of the bylaws will be applied. In case one of the Statutory Auditors is replaced, the Alternate Statutory Auditor first on the list takes his place. If the Chairman of the Board of Statutory Auditors is replaced, this position will be taken by the Alternate Statutory Auditor taken from the same list.
For the appointment of the Statutory Auditors occurring outside the provisions for renewing the entire Board of Statutory Auditors, the shareholders' meeting resolves based on the majority envisaged by the Law and without respecting the above-mentioned procedure, but nonetheless so as to ensure a composition of the Board of Statutory Auditors in compliance with the requirements of honor and professionalism established by the Law.

Section XIV **Auditors**

Composition of the Board of Statutory Auditors

The Board of Statutory Auditors currently in office, appointed by the shareholders during the ordinary meeting of April 28, 2008, will be in office until the approval of the financial statements as of and for 2010.
According to the resolution passed during the Meeting on April 28, 2008, the Board of Statutory Auditors is formed by Luca Aurelio Guarna (Chairman of the Board of Statutory Auditors appointed by the minority list submitted by Gruppo Assicurazioni Generali), Marcello Cosconati and Lorenzo Pozza (Standing Auditors appointed by the majority list submitted by Cassa Depositi e Prestiti S.p.A.). Alternate Auditors were also appointed: Stefania Bettoni (included in the minority list

submitted by the Gruppo Assicurazioni Generali) and Mario Paolillo (included in the majority list submitted by Cassa Depositi e Prestiti S.p.A.). The Auditors appointed represent two of the three lists submitted for said Meeting.
Following the statements made for the appointment, the vote count and after the voting, a standing member was appointed by the minority members that are not connected, not even indirectly, with the members who have submitted or voted the list that came first for the number of votes.
From its appointment, the Board of Statutory Auditors is unchanged. The standing auditors forming the Board are listed below, along with a summary of their professional background.

- **Luca Aurelio Guarna, 37 years old – Chairman of the Board of Statutory Auditors**
  [born in Milan on December 20, 1972]

He has a degree in Business Administration from the Bocconi University; he qualified for the title of Tax Consultant in 2000 and since 2002, he has been enrolled as Auditor. He has carried out professional activity with prestigious legal and tax offices and since 2001 he has been a member of the administrative, tax and corporate consulting Spadaccini office in Milan. He is presently the Chairman of the Board of Statutory Auditors at Gemina S.p.A. and Standing Auditor in other companies such as: Delmi S.p.A. (company belonging to the A2A Group which is part of Edison S.p.A.'s holding chain), Tech Data Italia S.r.l., Eagle Pictures S.p.A., Bieffe Medital S.p.A. and Immucor Italia S.p.A.
He has worked as a Professor for the Arthur Andersen network and for the Foundation of Tax Consultants in Milan.

- **Marcello Cosconati, 60 years old – Standing Auditor**
  [born in Presenzano (Caserta) on September 25, 1949]

He has a degree in Law and Political Science and Economics and is an auditor. He is an official of the Ministry of Economics and Finance and General Director of the Central Budget Office at the Ministry of Interior, Department of the State's General Accounting. With the Ministry of Economics and Finance he has held positions in different offices. In representation of the Ministry of Economics and Finance, he has held various assignments as auditor. He is presently Chairman of the Board of Statutory Auditors of SACE S.p.A. and of SACE Fct S.p.A. as well as of Tirrenia Navigazione S.p.A. He is also a tax judge with the Tax Commission in Caserta.
He has worked as a professor for seminars organized by the Public Authorities and by the Roll of Accountants in the Province of Caserta.

- **Lorenzo Pozza, 43 years old – Standing auditor**
  [born in Milan on October 11,1966]

He has a degree in Business Administration from the Bocconi University, tax consultant and auditor. Since 2001, he has been Associate Professor of Business Administration at the Bocconi University and Professor of Methodology and quantitative standards for companies after having held various positions as a Professor in International Accounting and Accounting and Budget since 1991 at the same university, and since 1992 at the Corporate Management School (SDA) and since 1996 at the University in Italian part of Switzerland. He has held administrative and auditing positions with various different companies in the industrial, financial, real estate and insurance sectors, among which: Telecom Italia S.p.A., Gas Plus S.p.A., Bracco Imaging S.p.A. and Leonardo & Co S.p.A. He also carries out professional activity since 1990 and has been a founding member of the Partners S.p.A. consulting firm.
He is the author of three books on budget and company evaluation, as well as of numerous other publications and has also written articles and essays on this subject.

During the appointment and taking account of the information provided by the individuals involved, the Board of Directors, based on the envisaged terms, has confirmed and verified the existence of the requirements of honor, professionalism and independence of the members of the Board of Statutory Auditors appointed by the shareholders' meeting held on April 28, 2008.
In the attached Table 2 information are included regarding the composition of the Board of Statutory Auditors as of March 19, 2010.
No standing Statutory Auditor holds five assignments in other companies issuing stocks listed in the Italian regulated markets or in other countries of the European Union.
The total number of assignments in other companies according to Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the Civil Code, relevant according to art. 148 *bis* of the Consolidated Law on Finance, is indicated in the attached Table 2. The total number of assignments, according to art 144 *quinquiesdecies* of CONSOB Issuer Regulations, is attached to the report on supervisory activity drawn up by the Auditors pursuant to art. 153, paragraph 1 of the Consolidated Law on Finance.

During 2009, the Board of Statutory Auditors held 11 meetings which lasted in average approximately 2 hours and a half each, with the regular participation of the Standing Auditors.

In 2010, all the preliminary meetings are scheduled for reviewing the economic-financial data on the part of the Board of Directors. During the year in progress up to the date of approval of this Report, the Board of Statutory Auditors held 2 meetings.
The Board of Statutory Auditors of February 17, 2010 – utilising all the criteria indicated by the Governance Code of listed companies published by Borsa Italiana in March 2006 regarding the independence of Directors and on the basis of the information provided by each single member – certified that all Standing Auditors met the independence requirement.

The Board of Statutory Auditors, already since March 16, 2007, decided to voluntarily adapt to a system of transparency analogous to that of the Directors in case of operations in which they bear an interest for themselves or third parties (art. 10.C.4 of the Corporate Governance Code). This orientation was also confirmed by the new Board of Statutory Auditors in the meeting held on February 12, 2009.

During 2009, the Board of Statutory Auditors carried out the activities that are typical to auditing as envisaged by the national regulations regarding (I) the observance of the Law and of the founding deed, including the respect of principles of proper administration in carrying out corporate activities, (II) the adequacy of the organisational structure, of the internal auditing system and of the Company's administrative-accounting system and of its subsidiaries outside of the EU. With regard to the latter, specifically for the Brazilian subsidiary Terna Participações S.A., until the sale of its shares that occurred in November 2009, the Board of Statutory Auditors has also verified the management and structural aspects of the business. It has also verified the implementation of the provisions pursuant to art. 114, paragraph 2 of the Consolidated Law on Finance relative to the communication obligations. The Board of Statutory Auditors also monitored the independence of the auditing company verifying both the respect of the provisions applicable on the matter, and the nature and entity of the services different from the accounting and auditing provided to Terna and to its subsidiaries by KPMG and the bodies belonging to its network (art. 10.C.5 of the Corporate Governance Code).
The Board of Statutory Auditors verified the proper application of criteria and of procedures adopted by the Board of Directors for evaluating the independence of its members and also analysed the implementation of the regulations pursuant to Legislative Decree no. 231/01 and of the Regulations for the Executive in Charge of the preparation of financial documents pursuant to Law no. 262/05.

In carrying out its activity, the Board of Statutory Auditors was coordinated with the internal audit department and with the Internal Control Committee according to the terms included in the previous “Section XI: Internal Control System” (articles 10.C.6 and 10.C.7 of the Corporate Governance Code), with the Control Body pursuant to Legislative Decree no. 231/01, with the Executive in Charge pursuant to Law no. 262/05, as well as with the Boards of Statutory Auditors of the holding company and with the auditing company.

Section XV **Investor Relations**

Since its listing on the stock exchange, the Company has believed that establishing a 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 included 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 was decided that this dialogue should be facilitated by the creation of specific Company structures.

Accordingly, the Company has set up the (I) Investor Relations Department, which currently reports to the CEO and has the task of keeping contacts with institutional investors under the responsibility of Mrs. Elisabetta Colacchia (Viale Egidio Galbani, 70, 00156 Rome - tel. 06 8313 8145 - fax 06 8313 9312 - e-mail: investor.relations@terna.it and (II) a department for relations with general shareholders within the Corporate and Legal Affairs Department under the direction of Attorney Filomena Passeggio (Viale Egidio Galbani, 70 - tel. 06 8313 8136 - fax 06 8313 8218 e-mail: azionisti.retail@terna.it) - (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 in its website (www.terna.it), where they can find both financial information (financial statements, half year and quarterly reports and

presentations to the financial community) and updated information and documents of interest to shareholders (press releases, the Company structure, the bylaws and regulations for shareholders' meetings, Corporate Governance information and documents, the code of ethics and the organisational and management model pursuant to Legislative Decree no. 231/2001) (art. 11.C.1 of the Corporate Governance Code).

Section XVI **Shareholders' meetings**

The Corporate Governance Code establishes that the shareholders' meetings should be considered as special occasions to initiate fruitful dialogue between shareholders and the Board of Directors (despite the wide-ranging diversification of the communications methods used by listed companies with their shareholders, institutional investors and the market). This was carefully evaluated and fully approved by the Company, which believed it necessary to adopt specific measures to adequately improve the meetings, in addition to guaranteeing the participation of its Directors (art. 11.C.4 of Borsa Italiana's Corporate Governance Code).
Also on the basis of special legislation enacted as expected in relation to listed companies, Terna introduced into its bylaws a specific regulation aimed at facilitating the gathering of voting proxies for shareholders who are employees of the Company and its subsidiaries, so as to involve them in the decision-making process at the shareholders' meetings.
In particular, pursuant to art. 11.1 of the bylaws, every shareholder that has the right to attend the shareholders' meeting can be represented according to the Law, through a written proxy. In order to facilitate the collection of proxies with the shareholders' employed with the Company and its subsidiaries associated with shareholders' associations that meet the requirements envisaged by the existing laws, according to the terms and modalities agreed upon each time with their legal representatives, these associations have made spaces available to be used for communication and for carrying out activities for collecting proxies.
The bylaws, instead, do not envisage attendance to the shareholders' meeting through telecommunications means or through the expression of the right to vote by correspondence.

With regard to the right to attend a shareholders' meeting, the bylaws (art. 10.1) envisages that attendance in the shareholders' meeting is allowed only to those who have deposited shares at least two days prior to the date set for the first call and has not withdrawn them prior to the shareholders' meeting date. The communication for participating in the Meeting issued by the intermediary will have the same effect and validity of the deposit of the shares. These provisions do not represent an obstacle to the subsequent withdrawal and negotiation of the shares; in case of withdrawal, the deposit made looses effectiveness for the purposes of legitimising attendance.

The right for integration of the agenda on the part of the shareholders', by virtue of the postponement of general nature pursuant to art. 30 of the bylaws, is held by the shareholders that, also jointly, represent at least one fortieth of the share capital according to the direct provisions of the Law (art. 126 *bis* of the Consolidated Law on Finance). On the basis of this forecast, the deadline in which the shareholders can request the integration of the agenda is of five days as of the publication of the notice of call of the shareholders' meeting: the deadline in which the additional items to be included in the agenda must be indicated. The integration of the list of items to be discussed is allowed only for those topics on which the shareholders' meeting is authorised to resolve pursuant to the Law. These topics exclude those for which the Law itself envisages that a resolution is made on the proposal by the Directors or on the basis of one of their projects or of a report they have prepared.

Furthermore, during the meeting of March 3, 2004, the shareholders resolved to implement a specific regulation for the Company, aimed at ensuring the exact and functional running of shareholders' meetings, with detailed rules for the various sectors, in compliance with each shareholders' fundamental right to request clarifications on the various issues being discussed, express an opinion and submit proposals (art. 11.C.5 of Borsa Italiana's Corporate Governance Code).
In particular, with regard to the right of each shareholder to take the floor regarding the items on the agenda, art. 6 of the shareholders' meetings regulations envisages that those entitled to exercising the right to vote can ask for the floor only once regarding the topics being discussed, presenting observations, requesting information and formulating proposals. The request to have the floor can be submitted at the time the shareholders' meeting is held and – unless otherwise stated by the Chairman – until the Chairman himself has not declared the discussion on the topic closed. The terms for such request, for taking the floor and relative order, are established by the Chairman. Considering the topic and the importance of each item discussed as well as of the number of those requesting the floor, the Chairman predetermines the duration of the reports and the response – usually not to exceed ten minutes for reports and five minutes for the responses – in order to guarantee that the shareholders' meeting can end its activity in a single session. The Chairman and, by invitation, all those who assist him, respond to the speakers at the conclusion of all the reports or questions. Those that have requested the floor may reply briefly.

Although said regulation is not included in the bylaws, it is approved by ordinary meetings under the specific power given to the shareholders by the bylaws (art. 11.2). The contents of the regulation have been aligned to the most sophisticated models prepared by trade associations (Assonime and ABI), for listed companies. The “Regulations for Terna S.p.A.’s shareholders’ meetings” can be found in the Company’s website under the section: “Investor Relations/Corporate Governance”.
The Board of Directors reports to the shareholders’ meeting on the activities carried out and planned during the financial statements approval and regarding the report on management and provides the shareholders with adequate information in a timely manner, so that they may pass resolutions with full knowledge of the facts (art. 11.C.4 of Borsa Italiana’s Corporate Governance Code).

The shareholders’ meeting is chaired by the Chairman of the Board of Directors, or, in case of his absence or impossibility, by the Deputy Chairman, if appointed, or, in the absence of both, by another person designated by the Board of Directors; should all the above conditions not apply, the shareholders’ meeting appoints its own Chairman (art. 12.1 of the bylaws).
The Chairman of the shareholders’ meeting is assisted by a secretary, even if not a shareholder, designated by those present, and can appoint one or more vote counters (art. 12.2 of the bylaws). The assistance of the secretary, according to the terms envisaged by the Law, is not necessary when the minutes of the shareholders’ meeting are prepared by a notary public.
The shareholders’ meeting, unless otherwise stated by the terms envisaged by art. 21.2 of the bylaws, assigns to the Board of Directors, according to the terms established by the law, the power to adopt certain resolutions that fall under the shareholders’ meetings duties that can determine amendments to the bylaws and resolves on all the topics as established by law (art. 13.1 of the Corporate bylaws).
The resolutions adopted by the shareholders’ meeting of significant impact on the Company, capable of amending the bylaws indicated in art. 6.3 of the Corporate bylaws are subject to the “special power” of veto by the Ministry of Economics and Finance as mentioned above in section II “Information on Shareholding” in paragraphs “Restrictions in share transfer and shares granting special powers” and “Bylaws amendments”.
The resolutions, both for ordinary and extraordinary shareholders’ meetings both on first, on second and third call, are passed with the majority required by the Law in each case (art. 13.2 of the bylaws).

During 2009 – with reference to the regulations for minority rights and compatibly with the regulations and rules for the Company mentioned above – no significant changes were made in market capitalisation of the Company’s shares or in the composition of its corporate bodies for which the Board of Directors had to evaluate the opportunity of proposing to the shareholders’ meeting any amendments of the bylaws regarding the percentages established for exercising shares and of the prerogatives set for minority protection (art. 11.C.6 of Borsa Italiana’s Corporate Governance Code).

The hereby attached two tables summarise some of the most significant information included in the fourth, ninth and fourteenth sections of the document. An “Attachment 1” is also enclosed that includes the description of the “Principal characteristics of existing risk management systems with regard to the financial informative note” (pursuant to art. 123 *bis*, paragraph 2, letter b) of the Consolidated Law on Finance).

Table 1

COMPOSITION OF TERNA'S BOARD OF DIRECTORS AND OF THE COMMITTEES

BoD											Int. Contr. Committee		RC	
Position	**Name (Last name and first name)**	**Appointed since**	**In office until**	**List**	**Exec.**	**Non exec.**	**Indep. based on Code**	**Indep. based on Cons. Law on Fin.**	**%**	**Other assignments**	**X**	**%**	**X**	**%**
Chairman	Roth Luigi	Nov. 2, 2005	Financial statements as of Dec. 31, 2010	M		●			100%	3	-	-	X	67%
CEO	Cattaneo Flavio	Nov. 2, 2005	Financial statements as of Dec. 31, 2010	M	●				100%	1	-	-	-	-
Director	Cannarsa Cristiano	Apr. 28, 2008	Financial statements as of Dec. 31, 2010	M		●			100%	0	-	-	-	-
Director	Dal Pino Paolo	Apr. 28, 2008	Financial statements as of Dec. 31, 2010	M		●	●	●	100%	1	X	100%	X	100%
Director	Del Fante Matteo	Apr. 28, 2008	Financial statements as of Dec. 31, 2010	M		●			88.89%	0	X	100%	-	-
Director	Machetti Claudio	Mar. 21, 2007	Financial statements as of Dec. 31, 2010	m		●			66.67%	1	-	-	-	-
Director	Machì Salvatore	Nov. 2, 2005	Financial statements as of Dec. 31, 2010	m		●	●	●	100%	1	X	100%	X	100%
Director	Polo Michele	Apr. 28, 2008	Financial statements as of Dec. 31, 2010	M		●	●	●	88.89%	0	X	100%	-	-
Director	Rispoli Vittorio	July 13, 2006	Financial statements as of Dec. 31, 2010	m		●	●	●	77.78%	3	-	-	X	100%

DIRECTORS WHO RESIGNED FROM THEIR POSITION DURING THE YEAR UNDER CONSIDERATION

-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

LEGAL NUMBER NECESSARY FOR SUBMITTING THE LISTS DURING THE LAST APPOINTMENT: 1%

NUMBER OF MEETINGS HELD DURING THE YEAR UNDER CONSIDERATION:

BoD	ICC	RC	AC	EC	Other Committee
9	7	3	-	-	-

Key:

BoD: Board of Directors.
EC: Executive Committee.
AC: Appointment Committee.
RC: Remuneration Committee.
ICC: Internal Control Committee.
Position: Indicates whether is Chairman, Deputy Chairman, CEO etc.
List: Indicates M/m whether the Director was appointed from the majority list (M) or from the minority list (m).
Exec.: It is ticked if the Director can be qualified as an executive.
Non exec.: It is ticked if the Director can be qualified as a non executive.
Indep.: It is ticked if the Director can be qualified as independent according to the criteria of the Governance Code.
Indep. based on Cons. Law on Fin.: It is ticked if the director has the independence requirements as per art. 148, paragraph 3 of the Consolidated Law on Finance as indicated by art. 147 *ter*, paragraph 4 of the same Law.
%: indicates the attendance in percentage terms of directors at the meetings of, respectively, the Board of Directors and of the Committees (in calculating this percentage the number of meetings was considered which the Director attended compared to the number of meetings of the Board or of the Committee that were held during the year under consideration or after his appointment).
Other assignments: indicates the total number stated of assignments as directors or auditors in other companies listed in regulated markets (also foreign markets), in financial, banking and insurance companies or in large companies, identified on the basis of criteria defined by the Board. In calculating the indicated assignments, those held in subsidiaries, either directly or indirectly controlled, namely Terna's subsidiaries, were not included. When more assignments are held within the same Group, also for a work relation with a company belonging to the Group itself, only the most important assignment is considered. For the list of assignments held by each Director, please see the brief professional resumes included in this report.
X: "X" indicates that the Board Director belongs to the Committee.

Table 2

COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors

Position	Members (Last name and first name)	Appointed since	In office until	List	Indep. based on Code	%	Number other assignments
Chairman	Guarna Luca Aurelio	Apr. 28, 2008	Financial statements as of Dec. 31, 2010	M	●	100%	24
Standing Auditor	Cosconati Marcello	Apr. 28, 2008	Financial statements as of Dec. 31, 2010	M	●	81.82%	3
Standing Auditor	Pozza Lorenzo	Apr. 28, 2008	Financial statements as of Dec. 31, 2010	M	●	81.82%	8
Alternate Auditor	Bettoni Stefania	Apr. 28, 2008	Financial statements as of Dec. 31, 2010	M	-	-	-
Alternate Auditor	Paolillo Mario	Apr. 28, 2008	Financial statements as of Dec. 31, 2010	M	-	-	-

AUDITORS WHO RESIGNED FROM THE POSITION DURING THE YEAR UNDER CONSIDERATION

-	-	-	-	-	-	-	-

LEGAL NUMBER NECESSARY FOR SUBMITTING THE LISTS DURING THE LAST APPOINTMENT: **1%**

NUMBER OF MEETINGS HELD DURING THE YEAR UNDER CONSIDERATION: **11**

Key:

Position: Indicates whether is Chairman, Standing Auditor, Alternate Auditor.
List: Indicates M/m whether the auditor was appointed from the majority list (M) or from the minority list (m).
Indep. based on Code: it indicates “●” if the standing auditor can be qualified as independent according to the criteria of the Code.
%: indicates the attendance in percentage terms of the auditor at the meetings of the Board (in calculating this percentage the number of meetings was considered which the auditor attended compared to the number of meetings of the Board that were held during the year under consideration or after his appointment).
Number other assignments: indicates the total number of assignments as directors or auditors in companies as per Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the civil code that are important according to art. 148 *bis* of the Consolidated Law on Finance. The total list of the assignments is attached, pursuant to art. 144 *quinquiesdecies* of CONSOB Issuer Regulations to the report on the supervisory activity drawn up by the Auditors according to art. 153, paragraph 1 of the Consolidated Law on Finance.

Attachments

Attachment 1: Principal characteristics of existing risk management and internal control systems with regard to the financial informative note (pursuant to art. 123 *bis*, paragraph 2, letter b) of the Consolidated Law on Finance)

Foreword

The Terna Group drafted the “262 Control Model” with the objective of defining operational modalities for assessing the “Internal Control System” hereinafter referred to as ICS that oversees the drafting of the financial statements in order to issue the certification required as per paragraphs 2 and 5 of art. 154 *bis* of the Consolidated Law on Finance.
“The ICS that oversees the drafting of the financial statement is in line with the criteria envisaged in the Guidelines of the “Terna Group’s Internal Control System” approved by the Board of Directors on December 21, 2006, in which the ICS is recognised as “the entirety of regulations, procedures and organisational structures that through an appropriate identification, measuring and managing process and monitoring of the principal risks, allow a proper corporate management that is in line with the objects set by Terna”.
The provisions of Law no. 262 (dated December 28, 2005 subsequently modified by Legislative Decree no. 303 dated December 29, 2006) relative to the ICS that oversees the drafting of the financial statement have the principal objective of ensuring that the financial informative note provides a truthful and proper representation of the company’s shareholders’ equity as well as its economic and financial position in compliance with the commonly accepted accounting principles.
On the basis of the provisions envisaged by art. 154 *bis* of the Consolidated Law on Finance, the ICS that oversees the drafting of the financial statements, actively involving all the corporate departments, is focused on the reliability objectives pursued by establishing adequate “accounting administrative procedures” and by verifying their actual implementation.
Updating the field of activity (scoping) and processes to be analysed must be carried out by the Executive in Charge (hereinafter referred to as “EIC”) at least once a year in order to analyse the variations that have impacted the ICS and integrate/modify accordingly the administrative and accounting procedures.
This update must be appropriately substantiated in order to guarantee the traceability of activities.

Description of the principal characteristics of the existing risk management and internal control systems with respect to the financial informative note

a) Phases of the existing risk management and internal control systems with respect to the financial informative note.

The analysis approach of the ICS that oversees drafting the financial statements adopted by Terna is based on a twofold method of analysis:

Individual Company Analysis

Overall analysis (brief) of the individual companies of the Group with reference to 5 elements that form the CoSO Report, specifically focusing on the adequacy of the financial informative note. This is mainly an analysis of the infrastructural components of the Internal Control System (the overseeing activities carried out by the Board of Directors, by the Internal Control Committee, by the Board of Statutory Auditors as well as the corporate policies and general group policies etc.) conducted in general terms but with a particular focus on the consequences of the quality of the economic and financial information.
The establishment, management and assessment of the ICS at the individual company level is to be carried out by those in charge of the various company departments (management) with regard to their respective duties, in line with the structure of the “individual company” being analysed.
The objective of the individual company analysis is to identify any shortcomings in the general control of the individual company that would potentially render ineffective even the best structure of controls overseeing the processes.
The assessment is expressed with a “benchmarking” activity with respect to the reference procedures defined or referred to by official bodies or with the international best-practices adopted by companies similar to the Terna Group.
This method is applied by filling out a check list based on the five components of the control system (Control Environment, Risk Assessment, Control Activity, Information System and Communication Flows, Monitoring), developed in specific control objectives.
Controls are assessed on the basis of the following requirements, where applicable:
• existence of the control tool (organisational structure, legal structure, process);
• adequate communication regarding the existence of the control tool identified for all the bodies referred to;

- understanding on the part of the company's employees of their role and responsibility in implementing the identified control tool;
- appropriate and effective monitoring of the control tool;
- management support in implementing the control tool;
- application, or action undertaken by the management aimed at ensuring compliance with the implemented control tool.

Individual Process Analysis

Analysis of relevant processes by establishing guidelines that define the principal risks on the financial informative note and relative controls aimed at mitigating them. The individual process analysis allows assessing the action plan and operational level of the controls on corporate processes and sub-processes on which the financial informative note is based. The terms for carrying out this analysis are the establishment of administrative and accounting procedures for preparing the half-year report/consolidated report that include the execution of specific control activities aimed at preventing the occurrence of risks with significant errors in financial statements during the development of the processes.
The process analysis and the subsequent establishment of administrative and accounting procedures requires the selection of "significant processes". For this purpose, it is necessary to carry out specific "scoping" in order to identify both the significant items in the financial statements/financial informative note as well as associate the significant information to the processes.
The relevance of the financial informative note is assessed with reference to the possible consequence that its omission or misrepresentation could determine in decisions made by the individuals who are notified about the note through the financial statements. With regard to the above, quantity parameters are identified, that are normally defined in terms of percentages compared to income before taxes, as well as quality parameters capable of rendering an information relevant, even if the amount is lower than the level of relevance identified. Identifying significant information is carried out through the combination of quantitative parameters, linked to the level of significance defined for Terna and quality parameters linked to the specific risk for financial statement sections or informative notes. Identifying quality parameters consists in considering possible "factors" that render significant various calculations, even if these do not exceed the threshold of materiality, by themselves. Investors could demonstrate a certain interest in various calculations in the financial statement that represent an important performance indicator or an important indicator for the sector they belong to. The association of the information identified as being significant for the relative processes they are based on allows concentrating identification activities on those processes that can determine significant errors regarding the financial information. Each selected significant information/item in the financial statements must be associated with the processes that contribute to its elaboration, in order to determine the significant processes.
On the basis of quality and quantity parameters, after having defined the significant information and having selected the relevant processes, the EIC establishes the guidelines for "risk activities and controls" that represent administrative and accounting procedures and assesses their adequacy and effective implementing (assessment of their operational level).
For this purpose, the analysis of significant processes occurs through the following operational steps:

- defining and analysing activities that form the processes ("mapping");
- identifying and assessing risks for each activity and their being associated with the control objectives;
- identifying and assessing existing controls;
- assessing the operational level of existing controls.
- assessing the operational suitability of existing controls.

Analysing activities that form the processes ("mapping") is aimed at clearly identifying the process that creates the data or the comment to be represented in the financial statements, from identifying the initial event that originates it up to its being included in the accounting prospects or in the notes.
Mapping activities that form the processes are functional to the final objective of applying controls along the entire process of data creation or for the notes commenting the financial statements and should be capable of ensuring that the information having an administrative impact is collected, processed and sent correctly and in a timely fashion.
For every process, for mapping purposes and the subsequent association of the risks and controls, the "key" elements must be identified that are useful in identifying existing risks and controls.
Verifying the effectiveness of the action plan and the actual operational level of the "key" controls is carried out through a testing activity that is conducted by a dedicated structure, using sampling techniques that are recognised by the international best practices. Control assessment, where deemed necessary, can involve identifying compensatory controls, corrective measures and improvement plans. The results of these activities are submitted to the evaluation of the Executive in Charge who in turn notifies the company executives.

b) Roles and Departments involved.

The Executive in Charge

Is responsible for:

- annually updating the field of activity and the significant processes considering the factors of change/risk communicated by the Directors of Terna S.p.A. and by the management of the companies that are individually significant;

- establishing and updating adequate administrative and accounting procedures for drafting the financial statements and the consolidated financial statements;
- providing, with the collaboration of the Human Resource and Organisation Department, to disseminate administrative and accounting procedures and action plans;
- supporting the Directors of Terna S.p.A. and the management of the companies that are individually significant in executing operational, control and reporting activities that are part of their specific duties.

The EIC can rely on the assistance of qualified external companies with specialised professional staff for carrying out plan assessment activities and the assessment of the operational levels of controls over administrative and accounting procedures.

Internal Audit and Risk Management

Is responsible for:

- supporting the EIC in its activities for assessing the adequacy and actual application of administrative and accounting procedures for drafting the financial statements and the consolidated financial statements and the suitability and the proper operation of the Internal Control System and relative mechanisms for risk management;
- coordinating with the EIC in defining the Annual Audit Plan for administrative and accounting processes in order to take into account the results of the operational risk analysis carried out by the company departments;
- providing the EIC with a suitable information flow regarding the results of activities connected with the audit plan for administrative and accounting processes, with the modalities shared with the EIC;
- in case of involvement in specific testing activities, ensuring the necessary collaboration and changes in the audit plan and in defining priorities also, if necessary, with the assistance of the administrative body in charge.

Terna S.p.A.'s Directors

Are responsible for:

- coordinating those in charge of individual controls in executing the controls they are responsible for;
- coordinating individual controls in establishing and implementing the Action Plan;
- supporting the activities carried out by the EIC and ensure access to all documents/information useful in carrying out his activities;
- preparing and forwarding in the time frames established by the reporting calendar the certifications regarding the control activities and their operational level.

Management of the companies that are individually significant

Is responsible for:

- coordinating those in charge of individual controls in executing the controls they are responsible for;
- assessing, in collaboration with the EIC, the ICS of the company that is individually significant;
- preparing and forwarding, in the time frame established by the reporting calendar, the certifications regarding the ICS of the company that is individually significant.

To enable the EIC and the administrative bodies in charge to issue the certificates in compliance with art. 154 *bis* of the Consolidated Law on Finance introduced with Law no. 262/2005, it was necessary to define a system of "chain" certificates with the objective of ensuring the adequacy and actual implementation of administrative and accounting procedures drafted as part of the "262 Project", of preparing and disseminating the Plan for corrective measures, where necessary, and to update such procedures.

The certification, issued with the CONSOB form, is based on a complex evaluation process that includes:

- collecting internal "chain" certificates issued by the Directors of Terna S.p.A. and by the management of the companies that are individually significant. The existence of a periodic reporting flow allows carrying out the following:
  - periodic assessment of the plan for existing controls and consequent updating of administrative and accounting procedures;
  - assessment of the operational level of existing controls and the subsequent certification of the actual implementation of administrative and accounting procedures;
  - assessment of the shortcomings (absence of control or failure to execute controls) that emerge with reference to their impacting the informative note on the financial statements;
- the assessment of the actual operational level of administrative and accounting procedures carried out by the EIC;
- the final assessment of the adequacy of administrative and accounting procedures by the CEO and the EIC. This activity is supported by the assessment of the plan for specific controls as well as by that for their operational level as mentioned above. It is therefore carried out overall with reference to the probability that following one or more significant shortcomings an error in the financial statements could occur and with reference to the risk that this error may have been significant.

Any significant shortcomings highlighted by the assessment process must be immediately notified jointly with the outcome of the compensatory controls carried out by the CEO and the EIC, to the Internal Control Committee, to the Supervisory Body and the Board of Statutory Auditors of Terna S.p.A.

Glossary

Connection
Set of grid elements consisting of the transmission line and the stalls at the ends of the same, including the relative circuit sectioning devices. Classification of connections by voltage level is carried out with reference to the nominal voltage. The length of the connection is normally the length of the line constituting the actual link.
Connection line
Any power line that links the power distribution plant with the user's plant, or the power distribution plant with the connection station.
Development
Intervention within the electricity grid involving an adaptation or expansion of the transport, transformation, connection and interconnection capacity, an increase in operating flexibility of the grid or a disposal of grid elements.
Dispatching
Electricity cannot be stored. It is therefore necessary to continuously produce the quantity of energy requested by consumers and deliver it to the National Transmission Grid in such a way as to keep electricity supply and demand in equilibrium, thereby ensuring continuing and security in supplying this service. Management of these flows of electricity along the grid is known as "dispatching".
Frequency
Represents the number of oscillations per second, during which the value of an alternating quantity, such as voltage, varies from positive polarity to negative polarity. It is measured in Hertz (Hz).
Generator
Electrical machine that transforms a source of primary energy into electricity.
Gigawatt (GW)
Unit of measurement equal to one billion watts (1,000 megawatts).
Grid management
The set of activities and procedures that bring about operation and the operating plan, under every condition, of an electrical network. Said activities and procedures include the management of electricity flows, interconnection devices and the necessary auxiliary services, as well as the decisions for maintenance and development measures.
Gross production of electricity
Sum of the quantities of electrical energy produced, measured at the electrical generator terminals.
High voltage
Nominal voltage greater than 35 kV and less than or equal to 220 kV.
High-voltage electricity line
An electricity line is a system that connects two power stations, or a power station and an energy input or withdrawal point. The length of an electricity line (km/line) is expressed as the length of the circuits projection over the ground (geographical length).
High-voltage power station
A transfer power station is the part of the grid used both for dividing electricity among the grid's lines and for transferring electricity among grids with different voltages.
Interconnection line
High-voltage power line in alternating current (a.c.) or direct current (d.c.) which links two different electrical transmission or distribution grids or even two generation plants.
Interconnection of electricity grids
Connection between electricity grids required for the transfer of electricity.
Interoperability of electricity grids
Operating method for the completion of management, operation, maintenance and development activities for two or more interconnected grids, in order to ensure simultaneous and coordinated functioning of the same.
kilowatt-hour (kWh)
Unit of measurement that expresses the quantity of electricity equal to 1,000 watts provided or requested in one hour.
kW
Unit of measurement of power (1 kW=1000 J/sec).
kWh
Unit of measurement of energy.
Maintenance
Measures and intervention aimed at the maintenance or restoration of efficiency and proper functioning of electricity plants, taking into account any declines in performance.
Maximum total transport capacity on interconnection with foreign countries
Maximum transport capacity for importing along the lines of the interconnection grid with the electricity plants of neighbouring countries.

Medium voltage
Nominal voltage greater than 1 kV and less than or equal to 35 kV.
Megavolt-ampere (MVA)
Unit of measurement of the apparent electrical power.
Megawatt (MW)
Unit of measurement equal to one million watts.
National Transmission Grid (NTG)
National electricity transmission grid as defined by the Decree of the Ministry of Industry of 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 recognised by the Italian Authority for Electricity and Gas for transport and distribution companies for the purposes of determining the applicable tariffs.
Requirement
Demand for electrical energy to be satisfied by the national electricity system. It shows a variable trend throughout the day, month and year.
Stall
Set of power plants and accessory systems linked to a power line or transformer that links said elements to the grid with the busbars of a power station.
Switch
Sectioning and manoeuvring device able to carry and interrupt current under normal operating conditions, as well as during specific exceptional operating conditions, such as in the case of short circuits.
Switching station
Part of a grid consisting of the set of equipment used to distribute the electricity among the lines of a grid at the same level of voltage.
Transformation station
Part of a grid consisting of the set of equipment used to transfer electricity between grids with different voltages.
Transformer
Electrical machine used for the connection and transfer of energy between grids at different voltage levels.
Transmission
Electricity transport and transformation activities along the interconnected high- and very-high-voltage grid for the purposes of delivery to clients, distributors and recipients of self-produced energy.
Transmission activity
The activity of transporting and transformation electricity across the grid.
Transmission line
High- and very-high-voltage power line, overhead or cable, used for the transport of electricity from the production plants to the distribution systems or to users.
Unified management of the grid
Coordinated management of all portions of the Grid.
Very-high voltage
Nominal voltage over 220 kV.
Volt
Unit of measurement of voltage.
Watt
Unit of measurement of electric power.

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