2008

Annual Report

Terna S.p.A. and the Terna Group

Terna manages electricity transmission in Italy and guarantees its safety, quality and low costs over time. The Company ensures equal access conditions to all grid users. It develops market activities and new business opportunities based on its experience and technical know-how acquired in managing complex systems. Terna creates value for its shareholders with an outstanding professional commitment, with a responsible approach towards the community and in respect of the environment.

2008

Annual Report

Terna S.p.A. and the Terna Group

Terna


Transmitting

energy

Terna National Electricity Grid is responsible for the transmission and dispatching of electricity on the high and extra high voltage electricity grid in Italy. Terna supports the country's development: it owns over 39 thousand km of power lines, over 98% of the total. Terna meets the electricity demand and provides the highest quality transmission service in line with the best European practices. Abroad, through Terna Participações, Terna operates in Brazil where it is the second private company in terms of market share.

Transmitting

safety

Safety also means being protected from possible critical situations. Terna's grid is connected to the network of the European electricity grids with 18 interconnection lines that allow exchanging electricity with other countries. Terna's task is to guarantee, 24 hours a day, 365 days a year, the transmission of electricity throughout Italy. The National Control Centre safely manages nearly 338 billion kWh of electricity used throughout Italy. Furthermore, Terna has planned and built the Security Operations Centre (SOC), a high-tech centre which monitors the operating condition of the entire company system, based on an integrated safety model.


Transmitting

the future

Terna promotes the grid's sustainable development. Since 2002, the Strategic Environmental Assessment (SEA) was introduced to identify, for the new lines, the best solutions shared by both the authorities and the territory.
Terna also takes materials into account, constantly utilising technological innovations also on project specifications. In the next few years, it plans to remove 1,200 km of obsolete lines to reduce the grid's environmental impact. Terna's Code of Ethics is the foundation of the company identity and the Company publishes a social and environmental Sustainability Report.

Transmitting

results

Terna has collected great results with the growth of the most important indicators. Objectives have been reached that created value for shareholders and stakeholders through an attractive dividend policy, supported by stable cash flows.
2008 was an important year for the financial results obtained and objectives reached as part of the strategic plan, such as the first agreements signed for interconnection, projects with the Balkan countries and the acquisition of approximately 18,600 thousand km of high voltage lines from Enel; in addition to the over 39,000 km already owned, Terna manages nearly 61 thousand km of lines. Terna thus ranks first in Europe among the independent grid operators and seventh at the world level.

Terna A useful grid for the Country.

Transmitting

research

Terna has planned investments for 5.9 billion euros as part of its 2009/2018 Development Plan. Over 130 million euros a year are invested in high technology. Infrastructures are built based on extensive research and outstanding know-how. In addition to 350 engineers working towards development, over 1,200 specialised technicians carry out complex tasks such as the maintenance of the 380,000 volt lines. In 2008, for the sole activity of Emergency Assistance guaranteed by Terna, over 700 situations were handled and solved. All this thanks to professionals who were trained at Terna, a unique school in Italy.


CAMPUS
Esperienze in Rete
Transmitting

know-how

Terna also transmits other forms of energy such as know-how, knowledge and culture. With large investments, training hours increased by 27% in 2008 and the Campus project, Terna's Advanced Training School, systematically develops activities for professional growth. Terna transmits knowledge with the country's electricity statistics and with the sector's data for the national statistics system. Terna transmits culture: in addition to the internal contest CreativInTerna, in 2008 the Terna 01 Award was launched for contemporary art, with over 3,100 participating artists, creating cooperation among the art, the economic world and society through the synergy between the business sector and culture.


Transmitting
Terna


values
energy
safety
the future
results
research
know-how

Contents

Chairman’s message

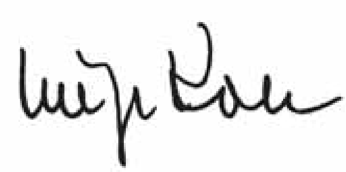
Dear Terna Shareholders and Stakeholders,

the 2008 financial statements mark an important turning point for Terna, based on two key words: development and environment. It has been a year where development projects and grid upgrading have become more closely integrated with sustainability, searching for the best growth strategy and taking into account social variables and environmental impact.
At the basis of this integration lies our company’s primary objective: building and maintaining over time trusted relations with all stakeholders not only in our core business, electricity transmission, but also regarding the important challenge of responsibility, of producing value, of relations with the community and the authorities. Both in the short and in the long term.
Both owing to the existing economic situation and to the events that specifically concerned us, 2008 was a year that required great caution and attention, even though our infrastructural projects and grid development strongly increased. Abroad, we were focused in areas representing a natural extension of the company’s present activities; first of all in Brazil, where Terna’s position has become strongly rooted, then in the Balkan countries and in Eastern Europe. In Italy, three important building sites were opened: the 500 kV SAPEI power line that will connect Sardinia with the Italian mainland, the 380 kV Santa Barbara-Casellina power line between the provinces of Arezzo and Florence and upgrading the Val d’Ossola Sud grid in the Piedmont region.

For Terna, developing the grid does not only mean building new lines, as in the case of the SAPEI, but also upgrading the existing ones: by removing obsolete lines, the service’s quality and safety improve and the environmental impact is reduced. In Val d’Ossola Sud, for example, building 105 km of new lines implies removing 213 km of old power lines, some of which date back to the 1920’s and 30’s.
Sustainability is a key element for Terna’s business which is expressed both towards the environment and in the constant attention to all the company’s internal and external stakeholders. People, Terna’s employees, are a very important asset, an intellectual and organisational capital on which we are investing many resources for safety and training, defining specific internal courses, starting from the one for the newly-hired. We have also created a programme for internal communication and initiatives for increasing the information exchange as well as for strengthening our corporate identity, based on common values and goals.
Externally, 2008 was important for Terna for many initiatives linked to sustainability and social, environmental and cultural development. Two important agreements were signed with the LIPU (Italian Bird Protection League, which is part of Birdlife International) and with the WWF (World Wide Fund for Nature), for a greater attention to environmental issues in the national electricity grid’s development and maintenance.

Cultural investments also marked a further development towards sustainability: by creating the Terna Award for contemporary art, we worked to interconnect the art and the business worlds, favoring the involvement of society on these issues. For us, all this is sustainability, while also being our core business. The reason why 2008 has been a fundamental year appears even clearer: because it has marked a decisive step ahead towards integrating the two aspects, making Terna even stronger and more mature.
Financial results obtained in 2008, that have registered increased investments, revenues, margins and dividends as well as a share performance that exceeded by far the average of the Stock Exchange, are all deriving from this consolidated approach: pursuing efficiency and economic objectives in parallel with focusing on social and environmental impact, creating value for all shareholders and stakeholders.

The Chairman
LUIGI ROTH



Letter to Shareholders

Dear Shareholders,

2008 was a year rich in satisfaction from both the business and financial point of view, where results exceeded expectations, despite the effects on revenues deriving from the “hurdle” of the first year of the new regulatory period.

We continue to believe that the major electricity grids represent a priority for the economy’s development; we have therefore accelerated strengthening infrastructures, continued consolidating our country’s electricity grid and acquired additional assets in Brazil. We have also increased investments compared to the past years, confirming the timely and in some cases early implementation of the Development Plan.

In terms of numbers, the Group’s revenues reached 1,395.2 million euros, increasing by 3.5% compared to 2007; the consolidated gross operating margin reached 994.7 million euros, increasing by 1.7%. The group’s net income reached 335.3 million euros with a slight decrease compared to the previous year, normalised by the extraordinary tax effects registered in 2007.

These results were obtained also thanks to the confirmed contribution of the Brazilian companies and allow us to offer a distribution of dividends per share increased by 4.6% compared to last year.
Also with regard to the shares’ performance, even though 2008 was characterised by a serious International financial crisis, Terna’s shares, favored by their defensive nature, registered during the year returns higher by 30 percentage points compared to those of the Italian stock market listings (S&P/MIB -49.5%, Mibtel -48.7%), ranking second as best performance among the Blue Chips listed in the Italian Stock Market.

2008 was therefore a satisfactory year for results obtained. Furthermore, we succeeded in laying the foundation for our future growth, also thanks to the agreement for the acquisition of Enel’s high voltage assets and to our highly constructive approach with the Regulator that allowed us to limit risks that could derive from the country’s negative growth forecast.
The company’s infrastructural nature and the Authority’s recognising our principal objective, namely developing the grid, allow us to look toward the future positively.

Since 2005 we said that Terna would have operated with a priority strategic target: creating value for all shareholders and contributing to the growth of the “Italian system”. We continue to pursue this objective, thanks to the commitment and professionalism of all the Terna team.

The CEO
FLAVIO CATTANEO

Call of ordinary and extraordinary Shareholders' Meeting

The Shareholders' Meeting is convened for the dates of:
- April 21, 2009, at 4.00 PM, ordinary and extraordinary on first call, or
- April 22, 2009, at 11.00 AM, ordinary and extraordinary on second call, or
- April 23, 2009, at 11.00 AM, extraordinary on third call

in Rome, at the "Centro Convegni Matteo Ricci", Piazza della Pilotta 4, in order to discuss and resolve on the following

Agenda

Ordinary part

1. Financial statements as of December 31, 2008. Reports by the Board of Directors, the Board of Statutory Auditors and the Independent Auditors. Related resolutions. Presentation of the consolidated financial statements as of December 31, 2008;
2. Allocation of the net income of the fiscal year;

Extraordinary part

1. Postponement of the expiration date for exercising the option rights attributed within the 2006 stock-option plan and consequent amendment of article 5 of the bylaws.

The informative reports by the Directors on the items included in the Agenda, provided for by the applicable law provisions, will be made available to the public at the Company's registered office and at the registered office of Borsa Italiana S.p.A. on April 6, 2009 or before; the shareholders may obtain copies thereof. The same documentation will also be published in the Company's website: www.terna.it.

Those shareholders that, also jointly, represent at least one fortieth of the Company's share capital with voting right may request, pursuant to art. 126 bis of Legislative Decree no. 58 dated February 24, 1998 (TUF), within five days of the publication of this notice, to integrate the subjects to be discussed, indicating in the request the proposed issues. It should be noted that the integration of the agenda is not allowed for items on which the Shareholders' Meeting will resolve, pursuant to law provisions, upon the proposal of the Directors or on the basis of a project or a report they have drafted. In case of integration of the agenda, the modified list of items to be discussed by the Shareholders' Meeting will be published with the same publication modalities used for this notice at least ten days prior to the date set for the Shareholders' Meeting.

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

In order to facilitate the assessment of their right to participate in the Shareholders' Meeting, the shareholders and other holders of the voting right may send the documentation proving such right to Terna S.p.A.'s Secretariat by mail (Terna S.p.A. - Segreteria Societaria - Via Arno 64 - 00198 Rome), also in copy, or by fax to the number +39 06/83138317, at least two days prior to the date set for the Shareholders' Meeting on first call.

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

It should be noted that the offices in charge of personal identification and verification of the right to participate in the Shareholders' Meeting will be available from 2.00 PM of the date set for the first call and from 9.00 AM of the dates set respectively for the second and third call.

A service providing assistance for the Shareholders' Meeting is available for further information at the following numbers: telephone no. +39 06/88345112 - fax no. +39 06/88345203.

The Chairman of the Board of Directors
Luigi Roth

The notice of call of the ordinary and extraordinary Shareholders' Meeting was published in the Official Gazette of the Republic of Italy, Part II, on March 19, 2009 no. 32 and on March 21, 2009 no. 33.

TERNA S.p.A. - Registered office in Rome - Via Arno 64
Share capital Euro 440,139,084 (as of April 30, 2008) fully paid-in
Rome Companies Register, Tax ID and VAT code no. 05779661007, Rome R.E.A. no. 922416

Summary of the resolutions of the ordinary and extraordinary Shareholders' Meeting

Terna S.p.A.'s Shareholders' Meeting met on second call on April 22, 2009, for the ordinary and extraordinary sessions, at the "Centro Convegni Matteo Ricci", Piazza della Pilotta 4, in Rome. In the ordinary meeting, it:

- approved Terna S.p.A's financial statements as of December 31, 2008;
- examined the data of the consolidated financial statements of the Terna Group, also as of December 31, 2008, that closed with the Group's net income equal to 327.5 million euros;
- resolved to allocate Terna S.p.A.'s net income for 2008 equal to 335,290,987.60 euros as follows:
  - 118,453,800.96 euros to cover the interim dividend paid on November 27, 2008;
  - 197,689,789.44 euros as a final dividend to be distributed in the amount of 0.0988 euros for each one of the 2,000,908,800 ordinary shares to be paid – gross of any tax withholdings – on June 25, 2009 with "detachment date" of coupon no. 10 on June 22, 2009. The total amount determined can vary based on the possible number of ordinary shares that will actually be in circulation as of the date set for detachment of the coupon relative to the final dividend balance for 2008;
  - 19,147,397.20 euros, 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.

During the extraordinary session, the Shareholders' Meeting resolved to approve the deferral of the final deadline from March 31, 2010 to March 31, 2013 for exercising the option rights granted with the 2006 stock option plan and the consequent amendment to art. 5 of the Bylaws assigning the CEO, also with the possibility of sub-delegating his powers, all the powers necessary and/or appropriate with regard to any possible consequent obligations.

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.

(*) The shareholders of Terna S.p.A., in their ordinary meeting held in Rome on April 28, 2008 (at second call), elected the Board of Directors and confirmed Luigi Roth as Chairman. The new Board, at its meeting held immediately following the meeting of shareholders, then re-elected Flavio Cattaneo as the Company's CEO.
The Terna S.p.A. shareholders also appointed the Board of Statutory Auditors.


Flavio Cattaneo
2009 2013
February, 3rd 2009
Terna

Terna’s management

Francesco Del Pizzo
Dispatching and Energy Operation Director

Luigi De Francisci
Regulatory Affairs Director

Alessandro Fiocco
Managing Director Terna Participações

Flavio Cattaneo
Chief Executive Officer

Stefano Conti
Institutional Affairs Director

Giuseppe Lasco
Company Security Director

Giovanni Buttitta
External Relations and Communication Director

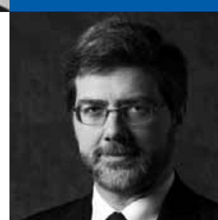
Elisabetta Colacchia
Investor Relations Manager

Umberto Colonna
Facility Maintenance Director

Cesare Ranieri
Human Resources and Organisation Director

Luigi
Roth
Chairman

Luigi
Celani
Procurement
Director



Fulvio
De Luca
Internal Audit
Manager

Filomena
Passeggio
Corporate
Secretary and
Legal Department
Director

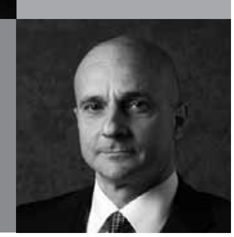
Gianni
Armani
Italian
Operation
Director

Fabio
Todeschini
Finance and Control Director
Business Development
and International Activities Director

Carlo
Sabelli
Real Time
Manager

Luciano
Di Bacco
Administration
Director

Evaristo
Di Bartolomeo
Planning and Development
of the Grid Director
Engineering Director



The Terna Group

The Company

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

Terna has been listed in the Italian Stock Exchange since 2004. 63% of the share capital is owned by Italian investors while 37% belongs to foreign funds. Presently, the major shareholder is Cassa Depositi e Prestiti with a 29.99% shareholding. The Company's principal shareholders include Enel with 5.1% and Pictet Asset Management S.A. with 5.2%. The remaining 59.7% is divided among institutional and private investors. These shareholders guarantee the Company's mission to its best: on one hand, ensuring a general interest service such as electricity transmission, and, on the other, creating value for shareholders focusing on results.

An international Group

Terna is one of the major players in the sector at the international level. Presently, it is the first independent Transmission System Operator in Europe and the seventh in the world in terms of assets, with a total of over 61 thousand grid kilometers after the acquisition will be finalized of the nearly 18,600 kilometers of Enel's high voltage grid, on the basis of the agreement signed in December 2008. Abroad, the Terna Group operates in the electricity transmission sector in Brazil and provides consulting services to other grid operators in foreign countries, in consistence with its own activities and focusing on quality of services offered and financial economic efficiency. Terna is also a member of the ENTSO-E, one of the most important world associations in this sector that coordinates electricity transmission in continental Europe. The ENTSO-E group includes 42 Grid Operators belonging to 34 European countries with the objective of guaranteeing the safety of the interconnected electricity systems.

In Italy, Terna is the owner of over 98% of the high voltage National Transmission Grid. In particular, Terna owns the following assets[1]:

- **39,456 km of power lines**
  - 380 kV lines: 9,821 km
  - 220 kV lines: 9,771 km
  - < 150 kV lines: 19,864 km
- **371 transforming and switching stations**
- **3 remote operation centers**
- **18 interconnection lines with other countries**

The grid is formed by specific elements, each one having a particular function: EHV transformers (extra high voltage) that draw electricity from the electricity plants; interconnection lines that allow for exchanging electricity with other countries; the EHV and HV (high voltage) lines that transport electricity; and lastly, the transforming and switching stations that supply electricity to the distribution companies bringing electricity to the final customers.

Abroad, Terna's subsidiary **Terna Participações S.A.** is listed in the São Paulo Stock Exchange since October 2006 and operates in the electricity transmission sector in Brazil. The Brazilian Group operates through thirty-year concessions in planning, implementing, operating, maintaining and developing portions of the high voltage electricity grid in Brazil. With 3,330 km of grid that connect the central areas with the northern areas of Brazil, Terna Participações S.A. is the second private electricity transmission company in Brazil in terms of market share, with 7% of the total revenues for the sector. From the technical and operational point of view, it stands out for its high quality standards and the excellent performance levels of its service.

(1) These data as of December 31, 2008 do not include the acquisition of nearly 18,600 km of Enel's high voltage grid that was announced in December 2008.

Growth opportunities abroad

Terna evaluates growth opportunities abroad through strategic and business initiatives in line with the Group's growth objectives. Initiatives located in areas that represent the natural extension of its present activities are considered strategic: first of all, the Balkan countries, Eastern Europe and Brazil. Particularly in the Balkan countries, Terna aims at exploiting opportunities created by the entrance of private investments in electricity transmission and at favoring projects for submarine cable interconnections in the Adriatic Sea, in particular that with Montenegro, 450 km long; in Brazil, it aims at pursuing the value enhancement strategy that has led to the listing of Terna Participações in the stock exchange.

History

Terna - Rete Elettrica Nazionale S.p.A. has been an industrial reality for years providing services to the country. The changes experienced in the past years in the electricity sector, including the liberalisation process of the electricity market, the privatisation of the grid ownership, the establishment of many different market competitors in Italy and abroad have seen Terna as one of the leading protagonists of the national electricity scene.
The unification of the ownership and management of the National Transmission Grid which became effective on November 1, 2005 and the appointment of the new Board of Directors with Luigi Roth and Flavio Cattaneo, respectively as Chairman and CEO, marked the beginning of a new path that was already started long ago.

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

May 31, 1999: the Terna company is established within the Enel Group in compliance with Legislative Decree no. 79/99 ("Decreto Bersani") that, as part of the liberalisation process of the Italian electricity sector, authorised the separation between the ownership and the management of the national transmission grid. Terna's activities, that have become effective as of October 1 of that same year, concern the operation and maintenance of the plants and systems belonging to the Enel Group that are part of the national transmission grid, and the development of the grid according to the directives issued by the GRTN (Gestore della Rete di Trasmissione Nazionale - National Transmission Grid Operator).

October 27, 2003: Law 290 is issued that authorises the unification of the ownership and management of the National Transmission Grid.

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

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

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

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

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

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

October 27, 2006: Terna Participações is listed in the Bovespa, the São Paulo Stock Exchange in Brazil.

November 24, 2006: Terna acquires the portions of Edison (2,763 km) and of AEM Trasmissione Milano (1,095 km) grid.

April 20, 2007: an agreement is signed for the acquisition of AEM Turin (200 km).

April 28, 2008, the Shareholders' Meeting confirms Luigi Roth as Terna's Chairman and Flavio Cattaneo as CEO for the second three-year period.

Grid Development and the environment: Terna's turning point

In the last three years, Terna significantly expedited grid development: over 100 completed projects, 15 new power lines in operation; 80 authorisation procedures completed and 100 initiated. While in 2004 Terna expected to invest nearly 200 million euros per year, in 2008 it reached investments for over 700 million euros, mainly for the National Transmission Grid's maintenance and development.

Building infrastructures and the overall strengthening of the electricity grid is also a development motor: 140 enterprises and companies are involved for a total of 480 human resources and 200 million euros in technology investments.

In 2008, 3 important building sites were opened for large projects aimed at improving the electricity system's safety, quality and efficiency.

500 kV SAPEI power line, the record breaking double cable that will connect Sardinia with the Italian mainland: within the summer of 2009 the first cable will be completed and within 2010 the second one: 700 million euros invested, 1,600 meters of depth, 420 km long, 1,000 megawatt of power.

380 kV Santa Barbara-Casellina power line between the provinces of Arezzo and Florence; 60 km of new power lines will be built and 114 km of old power lines will be removed, with a consequent reduction of the environmental impact, for an investment of 126 million euros. The new power line, that will be built using high-tech and innovative pylons, will allow using 550 MW of "freed" power, i.e. power that cannot be presently used owing to the grid congestion.

Developing the grid does not only mean building new lines in addition to the already existing ones. The new plants 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. Upgrading measures are studied, planned and designed as part of a coordinated procedure defined case by case within specific agreements with Regional and Local Bodies. The removal of parts of the lines, made it possible by building new power lines, represents the most significant contribution in respect of the environment, deriving from the grid's development.

Upgrading the Val d'Ossola Sud (Piedmont) grid: 105 km of new electricity lines will be built while 213 km will be removed for an investment of approximately 100 million euros. Upgrading the area south of Pallanzeno concerns, in particular, a portion of the grid characterised by many old power lines (built in the 1920's-30's). In order to guarantee the grid's safety and the necessary service quality, the present lines will be replaced with a smaller number of power lines, but having a greater capacity.

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 to a new tool: the SEA - Strategic Environmental Assessment that Terna has been the first to apply in Italy since 2002. Up to the present, Terna has signed SEA agreements with 15 Regions: Piedmont, Calabria, Emilia-Romagna, Lombardy, Sicily, Campania, Basilicata, Umbria, Tuscany, Marche, Sardinia, Abruzzo, Puglia, Molise and Autonomous Province of Trentino-Alto Adige.

In 2008, in particular, the following Memorandum of Understandings were signed: with the Molise Region for the electricity grid's sustainable development (December 3, 2008); with the City of Matera for restructuring its high voltage grid (October 1, 2008); with the Puglia Region for the electricity grid's sustainable development (September 18, 2008); with Sardinia for an eco-compatible grid (April 23, 2008); with the Veneto Region for restructuring the high voltage grid in Venice and Padua (March 31, 2008); and lastly, with the Piedmont Region for an efficient and eco-sustainable grid (February 27, 2008).

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 build another 6,000 MW of new wind power, for a total of nearly 9,600 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 2013:

• **Sicily**	**2,400 MW**	• **Sardinia**	**1,200 MW**
• **Puglia**	**2,400 MW**	• **Abruzzo**	**300 MW**
• **Campania**	**1,300 MW**	• **Basilicata**	**350 MW**
• **Calabria**	**1,000 MW**	• **Molise**	**350 MW**

The environment

Regarding sustainability, in 2008 Terna pursued the path undertaken consolidating its commitment in defining a growth strategy compatible with the social and environmental aspects, in addition to those connected with the business strategy. At the basis of this, an important objective lies: building and maintaining over time a relation based on trust with all those who invested in the Company, particularly for improving performance also in the medium and the long term.
Based on this objective, at the beginning of 2008 Terna decided, together with other companies, to participate in the establishment of the Fondazione Sodalitas, that continues the commitment of this association for spreading social responsibility and promoting dialogue between companies and the non-profit world.

In 2008, Terna published its third Sustainability Report, relative to the 2007 data, that consolidates and improves the novelties introduced in the previous edition. Drafted along the “Sustainability Reporting guidelines”, also known with the acronym G3, defined in 2006 by the GRI - Global Reporting Initiatives of the United Nations, the Report presents new elements: indicators that had never been used were introduced and information was published in the Supplement to the Guidelines GRI - G3 for companies of the electricity sector. While not yet mandatory, this supplement represented an opportunity for Terna for greater transparency toward its stakeholders.

The importance of the commitment undertaken regarding sustainability was supported also this year by important results. In the environmental field, Terna signed two important agreements: the first was signed with the LIPU (Italian Bird Protection League, part of Birdlife International) which aims at further analysing the interaction between high voltage electricity lines and birdlife and assesses the risk of collision that the transmission grid can represent for migratory or non-migratory birds, and the possible mitigation action.
The memorandum of understanding with the WWF (World Wide Fund for Nature) is aimed at the sustainable development of the national electricity grid and protecting biodiversity. This is the first agreement that the WWF signs with an industrial firm for a 3 year duration: the objectives are greater integration of environmental criteria in planning the electricity grid’s development, reducing territorial impact and a programme for specific measures to be implemented in certain WWF oases.

The importance of climate change and CO_2 emissions control, as a problem of sustainability on a global level, has led Terna to participate in the “Project 10 x 10” launched by Quattroruote. The project aims at reducing CO_2 emissions of the Company’s vehicle fleet through renewing its vehicles, monitoring consumption, optimising both urban and suburban routes, using safe and ecological driving techniques.

Terna pursues its commitment also through cultural investment and with the creation of the Terna Award for contemporary art, the Company aims at interconnecting the art world with that of companies and at favoring the society’s involvement. “The Terna Award is not a simple contest, but a great Italian project for supporting contemporary art and artists. For the first time a company has attempted to interconnect in an original way, art, economics and society. We believe that when a company such as Terna uses the territory so as to impact the environment, it has the duty to restore value to the territory”, commented CEO Flavio Cattaneo during the launching of the project in July 2008.

People

Recently, Terna's organisation faced important changes. In 2008, Terna approved the merger by incorporation project for its fully owned subsidiary RTL Rete Trasmissione Locale. On December 19, Terna signed an agreement with Enel for transferring the entire capital of Enel Linee Alta Tensione (ELAT), a company branch formed by high voltage lines, that will lead to the acquisition of 18,583 km of high voltage lines, increasing by 40% the kilometers of grid managed in Italy.
In Brazil, through its subsidiary Terna Participações, the acquisition was finalised of ETEO, owner of a thirty-year concession for 502 km of transmission lines in the State of Sãn Paulo.
People are Terna's most important capital. A large team made by 3,734 employees that supports the Italian and Brazilian electricity system. Professionals motivated by passion and by the awareness of the deep social value of their work, continuously growing in size and in professionalism.
Every year Terna increases its commitment for creating greater value for its so-called "intangible assets", namely, strengthening its intellectual and organisational capital, and improving interpersonal relations that guarantee the creation of value within the Company.
In 2008 Terna's employees benefited from 27% more of training hours compared to the previous year. During the year, Terna also created a new internal Masters programme aimed at specific courses devoted to young newly hired personnel that will end in 2009.

To meet the need for improving communication within the Company that was revealed by the 2007 "People Satisfaction" survey, in 2008 a staff programme was created based on initiatives for employees: the new company intranet inTERNAmente (inTERNAlly), renewed in its contents and graphics, to facilitate the use and exchange of information; the newsletter Terna News, prepared with the collaboration of all employees, which – with a home delivery of 4,000 copies – collects the stories and comments of the protagonists of company life; the contest CreativInTerna, aimed at employees and their children up to 14 years, that awarded the best artistic works inspired on the theme of energy transmission.
These initiatives, which are all part of a process for creating a new company identity strongly based on human resources and guided by a philosophy based on sharing and on values such as social responsibility and transparency, have led Terna to be awarded the 2008 Aretê Award for internal communication.

1	National Control Centre	**3,734**	Employees in Italy and Brazil
1	Headquarters	**1,143**	Workers and technicians
1	Subsidiary in Brazil	**350**	Engineers
3	Remote operation centres	**10%**	Women employees
8	Regional Operational Areas	**90%**	Male employees

Market recognition

This path has allowed Terna to receive the Best in Class Status 2008 recognition, and to rank among the first 14 European Utilities out of 53 assessed, and to being one of the only two in Italy recognised by the prestigious Norwegian Investment Fund Storebrand for adopting innovative policies in issues regarding Social Responsibility and for a strategy of increasing awareness of social and environmental aspects. Terna registered the greater progress in the sustainability rating of the Electric Utilities sector drawn up by SAM, the prestigious ethical rating agency to which the Dow Jones assigns the assessment for entry into the DJ sustainability indexes on the basis of an analysis conducted of the leading 2500 listed companies in the world. Terna also received the special mention of Sector Mover, that awards the companies that obtained the greatest progress in the 22 areas of sustainability analysed: a result that recognises the approach adopted in the sustainable development of infrastructures. With this result, Terna ranks among the 14 best companies out of the 107 world enterprises in the Electricity sector and has entered the SAM Bronze Class. Terna is among the 10 European companies awarded the Ruban d'Honneur by the European Business Award 2009 in the Sustainability category and also ranks among the top ten of Accountability Rating 2008, the ethical rating that has assessed the 40 major Italian companies of the S&P/MIB Italian stock market index. Furthermore, Terna is among the 5 companies included in the S&P/MIB listing that can boast an integrated management system with certifications for the environment (ISO 14001), quality (ISO 9001) and occupational safety (OHSAS 18001).

The market has recognised Terna's commitment for sustainable development: Terna has been included into the FTSE4Good, the prestigious stock market index of the Financial Times Stock Exchange in London, and also in other ethical indexes (Ethical Index EURO, KLD and AXIA indexes) that group the best listed companies that are socially responsible. Terna's commitment has also been recognised by the international financial community for the presence among its shareholders of Socially Responsible Investors, known as the ethical investors, or investors that give priority to environmental and social aspects in their investment choices. The latest figures indicate that this percentage equals 10% (August 2008).

Terna's numbers

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

0.4	Km in length of the 380 kV shortest line ("Ostiglia-Ostiglia C.le", in Lombardy)
1	National Control Centre
1	Rome headquarters
1	Subsidiary in Brazil
1	Subsidiary in Italy
2	Submarine interconnection cables (Italy-Greece and Italy-Corsica)
3	Remote operation centres
8	Regional Operational Areas (AOT)
10	The percentage of women employees
18	Interconnection lines with other countries
46	Average employee age
73	Wires inside a conductor or electricity cable
90	The percentage of male employees
98	And over, the percentage of the national transmission grid owned
218	Km in length of the longest 380 kV line ("Matera Santa Sofia")
337.6	Billion of kWh required in Italy in 2008
350	Engineers
371	Transforming and switching stations
450	Kilometers of new high-tech power lines
610	Transformers
1,000	MW of transportation capacity of the more powerful lines
1,143	Workers and technicians
1,200	Kilometers of grid that will be removed in 10 regions
1,600	Metres below sea level, the depth of the submarine SAPEI cable (between Sardinia and the Italian mainland)
3,734	Employees (Italy and Brazil)
4,475	Says
4,800	Pylons to be removed
9,771	Km of 220 kV lines
9,821	Km of 380 kV lines
19,864	Km of 150 kV lines
39,456	Total kilometers of transmission lines (nearly 3 times the earth's diameter)
56,822	MW, the national demand on December 18, 2007 (historical record)
118,560	MVA (MegaVoltAmpers) transformation capacity
600,000	Tons of iron pylons that form Terna's grid (82 times the quantity of iron used in the Eiffel Tower)
2,600,000,000	Investments in euros for developing the Grid
3,400,000,000	Expected investments in euros for the 2009-2013 Strategic Plan


N.305
P. 1

Terna's highlights

The National Control Centre

Terna's National Control Centre is the heart of the national electricity system. From the high security central control room on the outskirts of Rome, detailed control can be carried out while having a complete vision of the entire high voltage and extra high voltage grid that transmits electricity to all of Italy. Instant by instant, this center controls the electricity flow produced in our country or imported from other countries. It is here that the transmission of electricity is safely managed on a daily basis carrying out activity that is necessary for balancing the demand and supply of electricity. The monitoring activity is carried out non-stop, 24 hours a day, 365 days a year, to manage the energy flow of approximately 338 billion kWh a year.

337.6 billion kWh
of electricity managed in 2008

The grid

High voltage electricity lines

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

High voltage electricity stations

An electricity transportation station is the part of the grid concentrated in a specific location that is used both for distributing electricity among the grid lines, and for transferring electricity among grids having a different voltage. Terna owns 371 high voltage and extra high voltage electricity stations in Italy. These stations represent another strong point of the service that also for 2008 was selected by the main quality indicators for its very high levels. These results were obtained thanks to the organisation, procedures and work methods used, as well as to technological innovation that has steadily reduced costs for activities.

99.15%
the result according to the ASA quality index (Average System Availability) that measures the real average availability of all the grid elements during the period under examination

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

The SAPEI electricity line, a record cable

700 million euros invested, 1,600 metres in depth: the deepest in the world for a submarine cable. 420 km in length, the second longest connection in the world, after the one between The Netherlands and Norway. These are the main figures for SAPEI, the “super electricity line” that will connect Sardinia with the mainland through a 550 kV direct current double submarine cable. Within the summer of 2009 the first cable will be completed and within 2010 the second one.

Work in progress: authorised in only 12 months (also representing a record), work began in October 2006 with geophysical and geotechnical surveys on the sea floor. In 2008, in line with the scheduled deadlines, the first submarine cable was placed (440 km, 420 km of which of submarine cable) and the placement of the land cables was completed. At the end of November 2008, the voltage tests were successfully performed. Considerable progress for building the two switching stations in Latina and Fiumesanto has been made.

SAPEI’s benefits and advantages:

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

In order to assess the effects of the work on the “Santuario dei Cetacei” marine park in the upper Mediterranean Sea, Terna also relied on successful international experiences such as the Basslink, the direct current connection between the state of Victoria in Australia and the island of Tasmania, based on studies conducted by the Tethys Research Institute demonstrating that cables do not generate negative interference on marine mammals. Furthermore, to reduce the visual impact of the work, high-tech architectural solutions were used.

With regard to the environment, in particular, a monitoring programme was implemented on the state of health of the “*Posidonia oceanica*”, a sea grass representing the Mediterranean Sea’s most important ecosystem. Terna has also planned the environmental redevelopment of the Foglino Park.

SAPEI in numbers

2	Marine cables, land cables, transforming stations
12	Centimetres of cable diameter
22	Meters in height of the buildings hosting transforming stations
50	Tonnes of pull of the cable-laying ship
70	Technical and environmental regulations
90	Total resources involved in the project
420	Km in length
500	KV of voltage
1,000	MW of power
1,600	Lowest depth for cable placing
5,000	Project plans
7,000	Tonnes of capacity of the cable-laying ship
35,000	m^2 the Latina station area
48,000	m^2 the Fiumesanto (SS) station area
50,000	m^3 of land moved
700,000,000	euros invested

Terna and the financial markets

FINANCIAL INDICATORS		December 30, 2008
Weight of Terna shares [1]		
> in the MIB30 index (%)		**1.64%**
> in the S&P/MIB index (%)		**1.58%**
Ratings		
Standard & Poor's	Outlook	**Negative**
	M/L term	**AA -**
	Short term	**A-1+**
Moody's	Outlook	**Stable**
	M/L term	**A1**
	Short term	**Prime -1**
Fitch	Outlook	**Negative**
	M/L term [2]	**A+**
	Short term	**F1**

(1) Source: Borsa Italiana. Figures as at December 30, 2008.
(2) Issuer Default Rating.

Performance of Terna S.p.A. shares

In 2008, a year shaken by the severe international financial crisis, Terna's stock price fell 15.3%, closing the year at € 2.335 per share. However, the decline of the Italian Stock Market, which was among the hardest hit in Europe due to the poor performance of the banking industry in particular, was much steeper.
Benefiting from its defensive nature, Terna shares outperformed the Italian Stock Market by more than 30 percentage points (S&P/MIB fell by 49.5%, Mibtel by 48.7%), putting it in second place among Italian Blue Chips. It was also among the best performing shares in the European utilities segment, outpacing the DJ Stoxx Utilities index (down 38.6%) by 23 percentage points.
Compared with the average for the Italian Stock Market, the performance of Terna's shares was even greater in terms of total shareholder return (i.e. including both stock performance and dividends paid during the period), which came to -10.3%, as compared with the -46.7% for the S&P/MIB index.

During the first few months of the year, the markets were penalised by fears of an increase in inflationary pressures due to rising oil prices and the liquidity crisis in the banking industry.
The declines posted on the world's stock markets slowed in April and May, when Terna shares posted their high for 2008 at € 2.945 a share (on May 22).

Subsequently, the deterioration of conditions in the financial segment, including a number of bankruptcies and bailouts of leading international banks in September, had a major impact on the real economy. The slowing of global demand brought a stop to the rising oil prices, while the publication of disappointing economic numbers in Europe and America worsened the outlook for recovery in the global economy. The growing uncertainty about the future of the economy and global finance translated into a significant fall in the main international stock markets.
In this environment, Terna's share price also declined and, although clearly outperforming the Italian market as a whole, touched its low for the year at € 2.125 per share on December 17.

Despite the ongoing liquidity crisis on the financial markets, average daily trading volumes for the Terna share remained in line with the previous year (at 12 million shares).

Fears of a global recession continued to drive the stock markets in the first few weeks of 2009, leading to further significant declines in the leading market indexes[1] (with the S&P/MIB and DJ Stoxx Utilities down 20% and 13%, respectively). However, the news flow connected with the publication of 2009 rates, the announcement of the acquisition of Enel's high-voltage network, and the presentation of the new business plan buoyed Terna's share price, which posted a sharp turnaround compared with the market, rising more than 8 percentage points and outperforming the Italian market by 28 percentage points and the European industry index by more than 21 points.

Since its IPO in June 2004, Terna's stock price has risen by about 49%, while the S&P/MIB index has fallen by more than 44%. Total shareholder return has also been significantly higher than the average for Italian firms (91%, compared with the -34% of the S&P/MIB)[1].

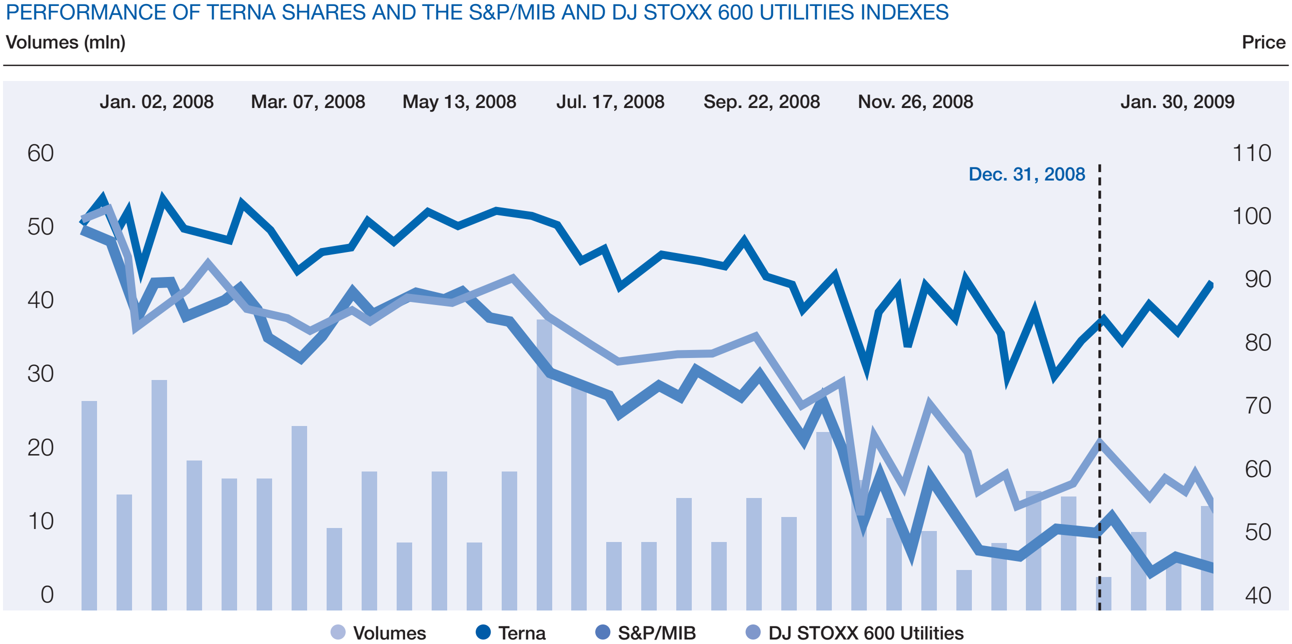
Performance of Terna Participações shares

During 2008, the price of Terna Participações S.A. certificates, which represent one ordinary share and two preference shares each, declined by 29.1%, trading at below their placement value for the first time from the end of October to the beginning of December and reaching a new all-time low of R$ 15.5 on October 28. Nonetheless, the certificates outperformed the local stock market average by 12 percentage points (IBOV at -41.2%).

Total shareholder return since the IPO at the end of 2008 came to 21.9%, also significantly higher than the Brazilian market average (-5.3%).

Average market capitalisation for 2008 exceeded R$ 2.4 billion, or about € 890 million[2].

PERFORMANCE OF TERNA SHARES AND THE S&P/MIB AND DJ STOXX 600 UTILITIES INDEXES



Source: Bloomberg.

(1) At the close of February 20, 2009.
(2) Calculated based on an average annual price of R$ 27.07 per certificate at an annual average euro/real exchange rate of 2.67.

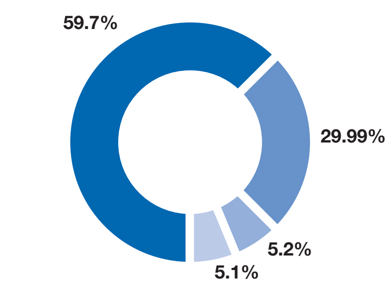
Shareholders

As of February 2009, Terna S.p.A. 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%;
- Major institutional investors: Pictet Asset Management S.A.: 5.2%;
- Other institutional and retail investors: 59.7%.

TERNA SHAREHOLDERS

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

Total 100%

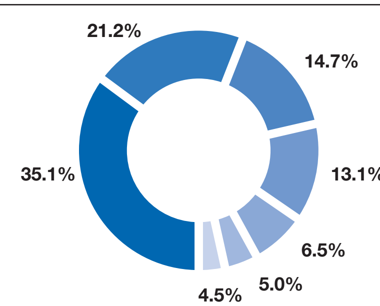


The shareholder structure has undergone no significant changes compared with the start of 2008. The breakdown of other institutional investors (38.5%) and retail investors (21.2%) is unchanged.
Based on the periodic surveys conducted by the Company, it is believed that 63% of Terna S.p.A. shares are held by Italian shareholders, with the remaining 37% being held by foreign institutional investors, primarily within Europe and North America (UK 5%, Germany 4.4%, France 1.9%, US/Canada 4.5%).
It should also be noted that, over the same period, there has been a slight decline in Italian institutional investors, whose holdings fell from 8% to 6.5%, with a corresponding increase in North American investors to 4.5%, from the 3% of the previous year.

TERNA SHAREHOLDERS BY TYPE AND GEOGRAPHIC AREA

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

Total 100%



2008

Directors' Report

Contents

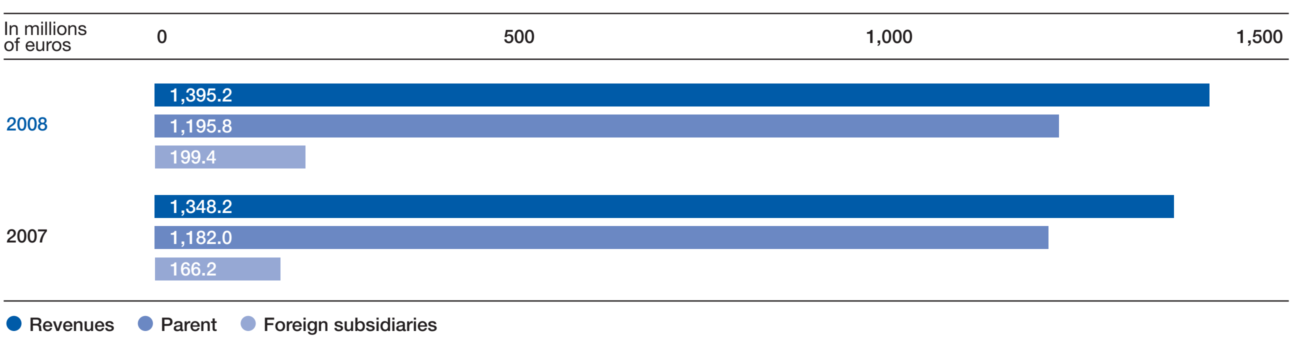
Foreword

In execution of the option envisaged in Legislative Decree no. 32 of February 2, 2007 (amending art. 40 of Legislative Decree no. 127 of April 9, 1991 concerning the Directors' Report on operations), the Terna Group has elected to present the Directors' Report to the separate Terna S.p.A. financial statements and the consolidated statements as a single document.

Highlights

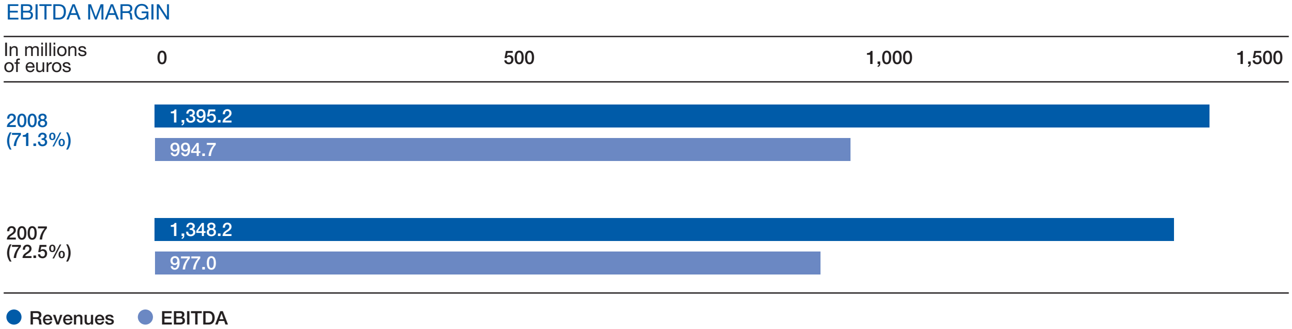
The amounts discussed below have been drawn from the reclassified statements included in the section "Group performance and financial position" of this Report, taken from the consolidated financial statements as described in the notes to the reclassified statements.
The consolidated financial statements at December 31, 2008 closed with **profit for the year of € 341.4 million**, after depreciation and amortisation of about €280.4 million, net financial expense of €179.9 million, and income taxes of €193.0 million.

Revenues amounted to about €1,395.2 million, of which €1,240.3 million for revenues from fees paid for the use of the National Transmission Grid (NTG). Specifically, fees attributable to the Parent came to about €1,060.5 million, declining by €0.3 million from 2007. The contribution of subsidiaries in respect of the fees for use of the Group's Brazilian network came to €179.8 million (€80.2 million of which for Novatrans, €83.5 million for TSN, and €16.1 million for ETEO, which was acquired during the year).

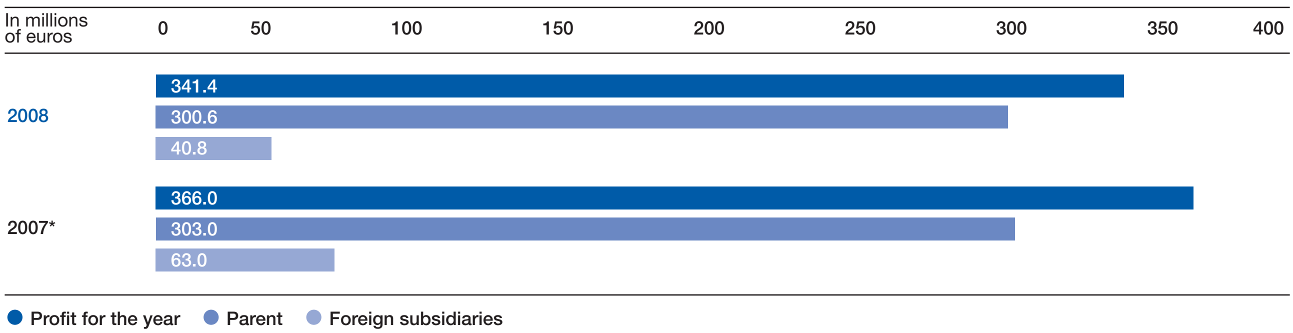


Operating expenses amounted to about €400.5 million, of which €210.7 million relating to personnel expenses and €131.3 million to services. **EBITDA** reached €994.7 million, equal to 71.3% of consolidated revenues, rising by €16.9 million over the € 977.8 million of 2007 (+1.7%). The Brazilian subsidiaries contributed €144.3 million.

EBITDA MARGIN

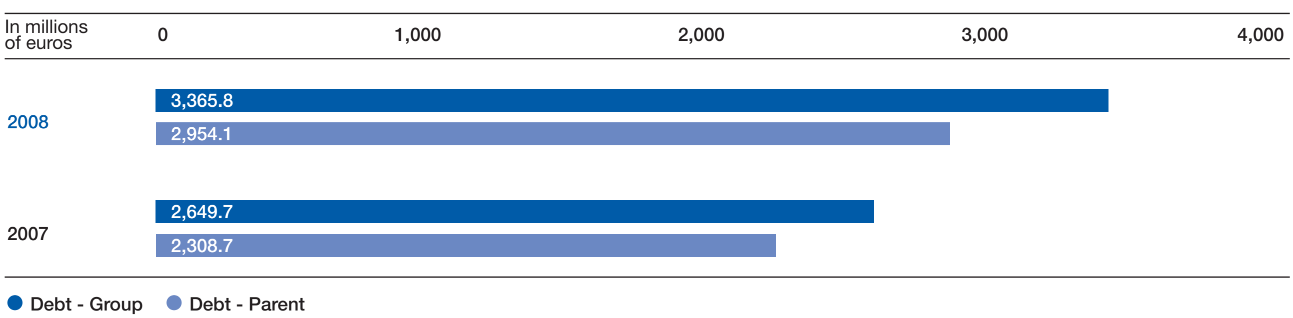


Taxes for the period, in the amount of €193.0 million, include €174.6 million attributable to the Parent, €9.2 million to Novatrans, €7.1 million to TSN, and €2.1 million to ETEO.
Profit for the year came to €341.4 million (-6.7% year on year net of the adjustment to tax rates introduced in the 2008 Finance Act, which in 2007 reduced taxes recognised by €68.2 million), €300.6 million of which attributable to the Parent and €40.8 million to the foreign subsidiaries. Profit attributable to the shareholders of the Parent came to €327.5 million (-5.6% year on year including the aforementioned adjustment).

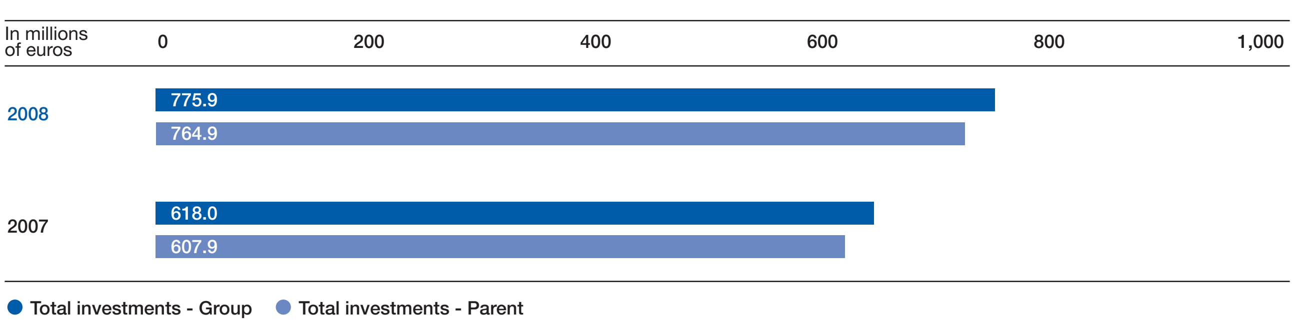


(*) The 2007 figure has been normalised for the one-off item recognised in the previous year for the adjustment to tax rates pursuant to the 2008 Finance Act.

Net non-current assets amounted to €6,562.7 million, while net invested capital was equal to €5,529.5 million, funded by equity of €2,163.7 million (€86.9 million of which attributable to minority interests) and net financial debt of €3,365.8 million.



Total capital expenditure by the Group during the year came to €775.9 million (€747.0 million of which in property, plant and equipment), up 25.6% from the €618.0 million of 2007.



Other information

	2008	2007	Change	%
Energy highlights - Italy (GWh)*				
Net electricity generation	305,540	301,299	4,241	1.4%
Net imports	39,566	45,930	-6,364	-13.9%
Electricity demand	337,642	339,928	-2,286	-0.7%
Peak demand (MW)	55,292	56,822	-1,530	-2.7%
Earnings per share				
Terna S.p.A. earnings per share	0.168	0.204	-0.036	-17.9%
Consolidated earnings per share	0.164	0.208	-0.044	-21.2%

(*) The energy figures for 2008 are provisional.

The table below shows the year-end workforce of the Terna Group.

CHANGE IN WORKFORCE	Italy		Brazil*		Total		
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007	Change
Senior management	65	68	2	1	67	69	-2
Junior management	485	464	14	10	499	474	25
Office staff	1,907	1,875	118	72	2,025	1,947	78
Production workers	1,067	1,088	76	24	1,143	1,112	31
Total	**3,524**	**3,495**	**210**	**107**	**3,734**	**3,602**	**132**

(*) The workforce in Brazil does not follow the same pay grades as established by the Italian collective bargaining agreement for the electrical power industry, so the figures have been broken down into the categories that are approximately similar.

For both years, the figures are shown net of retirements effective as at December 31.
At the end of December 2008, the Group had 3,734 employees, up 132 from December 31, 2007, due primarily to the insourcing of the operations and maintenance of the Brazilian subsidiaries with a view to increasing efficiency.

Organisation

The organisational structure of Terna and its foreign subsidiaries has not changed. Of note, however, were:
- the appointment of Gianni Armani, on December 17, 2008, to the position of COO Italy; the position had been held by the CEO on an interim basis since September 2007;
- the appointment of Alessandro Fiocco, as from June 24, 2008, as the new General Manager of Terna Participações.

Significant events in 2008

Merger & Acquisition

Formation of Terna Serviços Ltda

On **January 25, 2008**, Terna Serviços Ltda was established with share capital of R$ 1,000.00. The company is based in Rio de Janeiro and is 99.9% controlled by Terna Participações. The company's corporate purpose includes the following: project design for the construction and maintenance in the electricity transmission segment; engineering, construction and maintenance services for systems in the electricity transmission segment; leasing, lending or selling equipment and infrastructures related to transmission systems; and providing technical support in the transmission segment. The company has been operational since April 2008.

Completion of the acquisition of Empresa de Transmissão de Energia do Oeste Ltda ("ETEO") and the merger of Lovina Participações S.A.

On **May 30, 2008**, following approval by the local regulatory body Agência Nacional de Energia Elétrica (ANEEL), the entire share capital of Empresa de Transmissão de Energia do Oeste Ltda ("ETEO") was acquired through the subsidiary Lovina Participações.
The total value of the acquisition of ETEO came to R$ 568.4 million (about €223.9 million).
The transaction was entirely financed by Terna Participações with the issue of 1-year commercial paper.
ETEO holds a thirty-year concession on 502 km of 440 kV transmission lines in the state of São Paulo, posting revenues of R$ 91.2 million in 2008 (about €34.2 million) and EBITDA of R$ 80.1 million (about €30.7 million).
The value of net non-current assets on the acquisition date totalled R$ 572.6 million (about €225.4 million), and the company had no debt at the time of the closing.
On June 2, 2008, Lovina Participações S.A. was merged into the newly acquired ETEO.

Acquisition of bays at the Moncalieri electrical station

On **July 30, 2008**, through the subsidiary RTL S.p.A., Terna, together with Iride Energia S.p.A., signed an agreement for the purchase of three new bays at the Moncalieri electrical station at a price of €2.5 million. The transaction completes the purchase of the 220 kV Moncalieri substation of June 28, 2007, between RTL S.p.A. and Iride Energia S.p.A. as part of the acquisition of the entire share capital of AEM Trasporto Energia S.r.l.

Completion of the acquisition of 380 kV Ravenna and 150 kV Brindisi power lines

On **September 15, 2008**, once all of the necessary conditions had been met, the agreement signed on June 27, 2008, by Terna S.p.A. and EniPower Trasmissione S.p.A. for the purchase of the 150 kV (9.2 km) Brindisi power line and the 380 kV (8.6 km) Ravenna power line was completed, for a total of 17.8 km of lines purchased representing 0.07% of the NTG. The total amount paid came to €8.7 million.

Merger of RTL S.p.A. into Terna S.p.A.

On **September 17, 2008**, the Terna Board of Directors approved the merger of the wholly owned subsidiary Rete Trasmissione Locale S.p.A. (RTL S.p.A.) into Terna S.p.A. based on the financial statements as at June 30, 2008, with the cancellation of all shares in the absorbed company in accordance with the approved merger plan.
The merger was approved by the Terna S.p.A. Board of Directors on October 1, 2008 and by the shareholders of RTL S.p.A. on the same date.
The effective date of the merger for legal purposes is December 12, 2008, the date on which the merger instrument was filed for both companies with the Company Register (art. 2504-*bis* of the Italian Civil Code).
In accordance with the merger instrument, the transactions carried out by RTL are recognised in the accounts of the surviving company, and the effective date of the merger for accounting and tax purposes is January 1, 2008. As a result, Terna has recognised all transactions carried out by RTL during the year, and in particular:

- the acquisition from Edison S.p.A. on April 24, 2008, of land pertaining to the 220 kV Taio station and to the 132 kV Mezzocorona station in the Province of Trento for a total of about €5.1 million;
- the sale to EniPower Ferrara S.r.l. on June 27, 2008, of the SS-1 electrical station located on the Ferrara petrochemical site subject to removal of the station from the NTG. The price for transfer of the station, effective as of September 1, 2008, was €6.1 million.

Completion of the acquisition of the 220 kV Castelbello and Glorenza electrical stations (Trentino Alto Adige)

On **October 1, 2008,** following approval by the Italian antitrust authorities, the agreement signed on July 29, 2008, by Terna S.p.A. and Seledison S.p.A. for the purchase of the 220 kV Castelbello and Glorenza (Bolzano) electrical stations, representing 0.10% of the NTG, was completed. The price paid was €8.2 million for the stations and €1.9 million for the land.

Sale of the Enel Distribuzione S.p.A. high-voltage power grid to Terna S.p.A.

On **December 19, 2008**, Terna S.p.A., Enel S.p.A. and Enel Distribuzione S.p.A. reached agreement on the sale to Terna of the entire capital of Enel Linee Alta Tensione S.r.l. ("ELAT"), a wholly owned subsidiary of Enel Distribuzione to which the latter transferred its business unit, comprising high-voltage lines and related legal relationships on December 31, 2008, with effect from January 1, 2009. The business unit, transferred to ELAT includes 18,583 km of high-voltage power lines operating primarily at 132 and 150 kV.
The value of the transaction has been set at €1,152 million, which is to be paid in full at the time of the closing (which is expected to take place in the first half of 2009) and is subject to adjustment based on any changes in ELAT equity between the date of the agreement and the date of the sale.

Terna will finance the entire transaction through the use of debt, drawing on existing lines of credit.
Completion of the transaction is subject to the following conditions:

- verification of the conformity of the transfer of the business unit (which took place on January 19, 2009);
- approval by the antitrust authorities (obtained on February 16, 2009);
- inclusion by the competent authorities of the high-voltage lines being sold in the National Transmission Grid (obtained by Decree of the Minister for Economic Development on February 27, 2009);
- issuance of a measure by the Authority for Electricity and Gas granting the related rate revenues to Elat.

The transaction will enable Terna to increase the total kilometres operated in Italy by more than 40%.

Markets and finance

Terna rating and outlook

On **February 13, 2008**, Standard & Poor's confirmed Terna S.p.A.'s long-term rating at "AA-" and the short-term rating at "A1+". The outlook has been changed from "stable" to "negative".
On May 15, 2008, Moody's revised its long-term rating for the Company from "Aa3" to "A1", with a stable outlook. The agency also confirmed its short-term rating at "Prime -1". On May 30, 2008, Fitch revised its long-term rating for the Company from "AA-" to "A+", with a stable outlook, with its rating for senior unsecured debt changing from "AA" to "AA-". The agency also revised its short-term rating from "F1+" to "F1".
On December 22, 2008, following the agreement to acquire the high-voltage network from Enel Distribuzione S.p.A., Standard & Poor's, Fitch and Moody's all put the Company's rating on the watch list, as discussed in the "Subsequent events" section of this Report.

€650 million syndicated loan and €500 million revolving credit line

On **June 26, 2008,** Terna S.p.A. obtained a loan in the amount of €650 million from a syndicate composed of BBVA, Société Générale, BNP Paribas, Bank of Tokyo-Mitsubishi, and Dexia Crediop (as Joint Mandated Lead Arrangers) and a revolving credit line in the amount of €500 million from the Royal Bank of Scotland and Banco Santander (as Joint Mandated Lead Arrangers).
The syndicated loan was disbursed on October 28, 2008, and has a term of 7 years. It bears interest at Euribor plus 50 basis points and can change on the basis of the credit rating assigned to the Company. The revolving credit line will be available for 5 years and bears interest at Euribor plus 70 basis points, which can vary depending on the percentage use of the credit and the credit rating assigned to the Company. The amount available can be drawn subject to notice for the entire term of the loan. Since October, the rotating credit line had been drawn in the amount of €200 million at December 31, 2008.

Disbursement of a new EIB loan in the amount of €300 million

On **September 15, 2008**, the €300 million loan for Terna S.p.A. from the European Investment Bank (EIB) for the construction of the SAPEI connection was disbursed. The loan has a term of 20 years and will be repaid in semi-annual instalments beginning in the fifth year. The conditions of the loan include an annual interest rate equal to 6-month Euribor plus 5 basis points.

Intercompany loan

On **December 30, 2008**, the shareholders of Terna Participações, meeting in extraordinary session, approved a revolving intercompany line of credit with a term of 12 months and renewable for up to 36 months, with a total maximum amount of R$ 500.0 million, with the Parent Terna S.p.A., in order to obtain alternative financing to face short-term funding needs. The loan agreement was signed on February 16, 2009. For greater details on the transaction, see the section “Subsequent events” of this Report.

Quality indexes and certifications

ISO 14001 and OHSAS 18001 certifications

In **January**, Terna obtained ISO 14001 certification for environmental management and the OHSAS 18001 certification for workplace safety and healthcare management. These two certifications join the ISO 9001 quality certification that Terna obtained in 2001, thereby achieving an integrated system of quality, environment and safety management able to enhance the efficiency of business processes and support a high level of social and environmental responsibility. The significance of this achievement is even greater when considering that, of the 40 companies on the S&P/MIB index, only 14 have obtained the ISO 14001 environmental certification and just 5 have an integrated system.

FTSE confirms Terna on the FTSE4Good sustainability index

On **September 17, 2008**, the FTSE Group confirmed Terna’s place in the FTSE4Good stock market index, which is made up of the best European firms on London’s Financial Times Stock Exchange (FTSE) index in terms of sustainable economic development.

Other items

Update of Brazilian fees

On June 24, 2008, ANEEL issued Resolution no. 670 establishing the new annual concession fee (RAP) in effect from July 1, 2008, to June 30, 2009. The annual concession fee reflects the cumulative inflation adjustment (the IGPM rate) for the period from June 2007 to May 2008, equal to +11.53%. The total amount of the fee for the 2008-2009 cycle, including newly acquired ETEO, is, therefore, equal to R$ 741.8 million, up 10.15% without considering ETEO’s contribution compared with the previous cycle.

ANEEL has also applied a one-off negative fee (PA, for Parcela de Ajuste) to be paid in 12 monthly instalments beginning in July 2008 and totalling R$ 16,532,290.19. The PA reflects adjustments to the revenues of the holders of the transmission concessions to reflect advances or withholdings in the previous cycle caused by differences in the value of the services provided and the amount actually charged.

Other ANEEL resolutions

On January 5, 2009, all companies holding transmission service concessions were notified of ANEEL’s *Oficio Circular* no. 2775/2008, issued on December 24, 2008, which contains instructions for new accounting policies to be followed for year end closures beginning with the 2008 financial year.
With its subsequent *Oficio Circular* no. 127/2009, ANEEL suspended application of the new accounting policies contained in *Oficio Circular* no. 2775/2008 solely for the 2008 financial year.

With its Technical Note no. 374 of December 10, 2008, ANEEL expressed its intent to subject the concessions to a five-year rate updating mechanism, based on which such concessions should transfer efficiency gains achieved through technological innovation to consumers by the end of the update period.
On June 26, 2006, ANEEL approved Resolution no. 270/2007 amending the method of calculating and applying the penalties called for in the concession agreements of the Terna Group companies.

Group performance and financial position

Foreword

The 2008 annual report for the Terna Group 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 Regulation (EC) no. 1606/2002, the Terna Group has prepared the consolidated financial statements as at December 31, 2008, in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission (hereinafter the IFRS-EU).

The 2008 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 paragraphs 23 and 24 of IAS 1) that might cast doubt on its ability to continue as a going concern.

The Terna Group has opted for the early adoption (as of January 1, 2006) of the revised version of IAS 23 - Borrowing Costs (hereinafter IAS 23R) in order to optimise its effects on Group performance. Accordingly, the balances of some captions of the comparative data at December 31, 2007 have been restated. In particular, the borrowing costs in respect of the construction and purchase of property, plant and equipment and intangible assets that meet the requirements of IAS 23 have been capitalised as components of the cost of the assets. The overall impact of the change at December 31, 2007 was to increase equity by €1.6 million (net of the related tax effect).
The 2007 balances also reflect the amounts determined following completion of the allocation of the difference between purchase price for the companies GTESA and PATESA and the fair value of their assets and liabilities at the acquisition date. The allocation was conducted on the basis of a specific appraisal performed by independent experts, in conformity with the applicable accounting standards.

Scope of consolidation

As at December 31, 2008, the scope of consolidation of the Terna Group included the following:
- the wholly owned domestic subsidiary:
  - InTERNAtional S.p.A.[1];
- the Brazilian firms:
  - direct subsidiary (66% held):
    - Terna Participações S.A.;
  - indirect subsidiaries through Terna Participações S.A.:
    - TSN S.A.[2];
    - Novatrans S.A.;
    - Terna Serviços Ltda;
    - Empresa de Transmissão de Energia do Oeste Ltda (ETEO);
- companies accounted for using the equity method:
  - the associated company CESI S.p.A. (in which Terna has a 24.36% stake);
  - joint ventures (held by Terna Participações):
    - ETAU S.A. (52.58% held);
    - Brasnorte Transmissora de Energia S.A. (35% held).

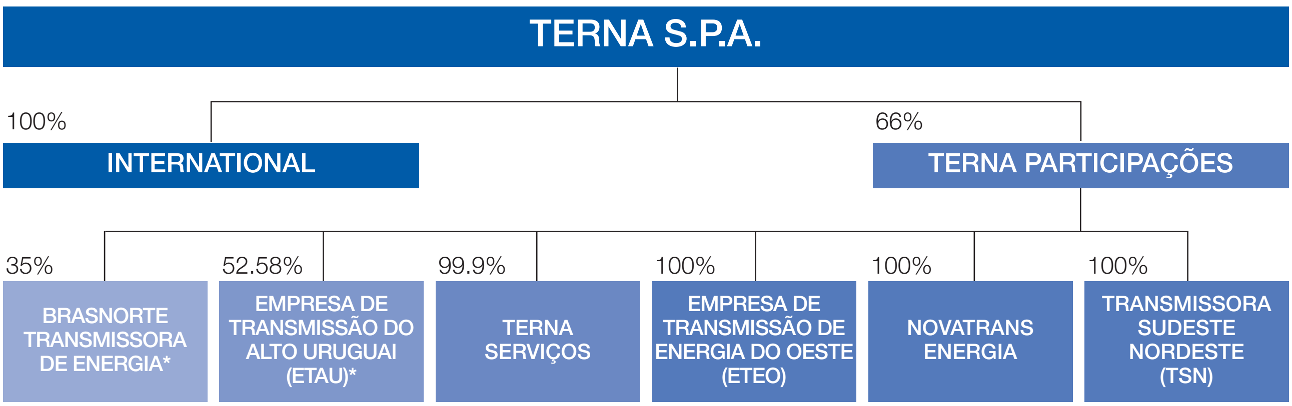
The **changes in the scope of consolidation** compared with December 31, 2007, include:
- the merger of RTL S.p.A. into Terna S.p.A. on December 12, 2008, with an effective date for tax and accounting purposes of January 1, 2008;
- the completion of the acquisition of Empresa de Transmissão de Energia do Oeste Ltda (ETEO) on May 30, 2008, and the merger of Lovina Participações S.A. on June 2, 2008;

(1) During the year, the subsidiary InTERNAtional was not operational, limiting itself solely to managing basic company functioning while continuing to evaluate potential industrial opportunities, so as to enable the company to develop in line with the mission assigned.
(2) As at December 31, 2008, TSN includes the balances of Goiana Transmissora de Energia S.A. (GTESA) and Paraiso Açu Transmissora de Energia S.A. (PATESA), which were acquired and merged into TSN on November 30, 2007.

• the establishment of Terna Serviços Ltda, based in Rio de Janeiro, on January 25, 2008, with share capital of R$ 1,000.00, held entirely by Terna Participações.

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 of the financial statements.

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



(*) Companies measured using the equity method.

Exchange rates

During 2008, the Brazilian real weakened against both the US dollar and the euro. The USD/BRL exchange rate reversed the strengthening trend seen until June 2008, and the exchange rate at the end of December 2008 settled at $ 2.3307, compared with $ 1.7735 at December 2007. During the same period, the euro strengthened against the real by about 24%. The perception of risk for foreign investors worsened during 2008. The spread of Brazilian securities against US treasuries, as calculated by JP Morgan, went from the 222 points seen at the end of 2007 to 416 points at the end of the year under review.

EXCHANGE RATES AT THE END OF EACH QUARTER*	Dec. 07	Mar. 08	Jun. 08	Sep. 08	Dec. 08
USD/BRL	1.7735	1.7426	1.593	1.9244	2.3307
EUR/BRL	2.6108	2.7554	2.5112	2.7525	3.2436
EUR/USD	1.4721	1.5812	1.5764	1.4303	1.3917

(*) Source: Ufficio Italiano Cambi.

Conversely, the average EUR/BRL exchange rate for 2008 remained essentially unchanged from the previous year at €2.6652.

AVERAGE EXCHANGE RATE FOR THE PERIOD*	FY 2007	FY 2008
EUR/BRL	2.6638	2.6652

(*) Source: Ufficio Italiano Cambi.

Reclassified income statement for the Group

A reclassified consolidated income statement for the Terna Group for 2007 and 2008 is shown below.

In millions of euros	2008	2007	Change	%
Revenues				
Grid transmission fees (1)	1,240.3	1,211.0	29.3	2.4
Other energy items (1)	48.4	43.3	5.1	11.8
Other revenues from sales and services (1)	47.6	41.9	5.7	13.6
Other revenues and income	58.9	52.0	6.9	13.3
Total revenues	**1,395.2**	**1,348.2**	**47.0**	**3.5**
Operating expenses				
Personnel expenses (2)	210.7	194.0	16.7	8.6
Services and use of third-party assets	131.3	135.2	-3.9	-2.9
Materials (2)	16.9	10.1	6.8	67.3
Other expenses (3)	41.6	31.1	10.5	33.8
Total operating expenses	**400.5**	**370.4**	**30.1**	**8.1**
Gross operating profit (EBITDA)	**994.7**	**977.8**	**16.9**	**1.7**
Amortisation and depreciation (4)	**280.4**	**255.1**	**25.3**	**9.9**
Operating profit (EBIT)	**714.3**	**722.7**	**-8.4**	**-1.2**
Net financial income/(expense) (5)	-179.9	-114.9	-65.0	56.6
Profit before taxes	**534.4**	**607.8**	**-73.4**	**-12.1**
Income taxes	193.0	173.6	19.4	11.2
Profit for the year	**341.4**	**434.2**	**-92.8**	**-21.4**
Attributable to the shareholders of the Parent	*327.5*	*415.3*	*-87.8*	*-21.1*
Attributable to minority interests	*13.9*	*18.9*	*-5.0*	*-26.5*

In the consolidated income statement:
(1) this figure is included in "Revenues from sales and services";
(2) including "Capitalised internal work" in the amount of €52.9 million under "Personnel expenses" and €13.4 million under "Materials";
(3) corresponds to "Other operating expenses" and "Amortisation, depreciation and impairment losses" for the impairment of trade receivables (€1.8 million);
(4) corresponds to "Amortisation, depreciation and impairment losses" net of the impairment of trade receivables (€1.8 million);
(5) corresponds to the balance of the items described under points 1, 2 and 3 of C - "Financial income/(expense)".

Revenues for 2008, in the amount of €1,395.2 million (€1,195.8 million for the Parent and €199.4 million for the Brazilian subsidiaries), increased by €47.0 million (+3.5% over the €1,348.2 million of 2007).

The increase in revenues essentially reflects the net impact of the following:

- the €29.3 million increase in grid transmission fees as a result of the following factors:
  - lower revenues from energy transport in Italy (down €0 .3 million), due primarily to the following:
    - a €28.9 million decline in revenues due essentially to the reduction in volumes and changes in rates;
    - an increase in revenues of about €3.5 million resulting from the increase in ownership of the national grid following the acquisition (and merger into RTL) of the company RTT in June 2007;
    - greater grid transmission fees related to the defence plan (€4.8 million);

- a € 20.3 million increase in grid transmission fee adjustments due essentially to the release of the provision for a technical dispute that was successfully closed in 2008 (€14.0 million) and the negative adjustment payments in 2007 (€5.2 million) towards other network owners;
  - an increase in revenues by the Brazilian companies in the amount of about €29.6 million attributable essentially to the acquisition of the subsidiary ETEO (€16.1 million), the contribution of the GTESA and PATESA concessions, which were acquired and merged into the subsidiary TSN at the end of the previous year (€5.8 million), and the annual concession fee adjustment, including the offset of higher PIS/Confins taxes (the taxes finance a pension and welfare fund);
- other energy items (up €5.1 million) related essentially to the dispatching services fee (DIS component), which reflects both the effects of Resolution no. 351/07 regarding the new rate component for dispatching (up €10.1 million) as well as additional incentive revenues due to efficiency gains from improvements in forecasting national electricity demand and forecasting energy generated by wind facilities (€5.0 million). This increase was partially offset by the MIS component for metering, which declined by €9.9 million due primarily to the new mechanism for determining the rate component introduced by Resolution no. 348/07;
- other revenues from sales and services were up €5.7 million, due primarily to the increase in income from Engineering, Procure and Construct (EPC) services provided by Terna Serviços to the joint venture Brasnorte (up €4.5 million), as well as to unregulated activities carried out by the Parent;
- other revenues and income (up €6.9 million), attributable primarily to:
  - a €4.1 million gain realised on the disposal of the Ferrara electrical station by the subsidiary RTL (merged into the Parent at the end of the year) subject to removal of the station from the NTG;
  - the partial release of the provision for bad debts accrued in previous years following the approval of the composition agreement with a dispatching customer (€3.6 million).

Operating expenses came to €400.5 million (€345.4 million for the Parent and €55.1 million for the foreign subsidiaries), increasing by €30.1 million (+8.1%) over 2007. This overall change in operating expenses, with €11.2 million attributable to the Parent and €18.9 million to the foreign subsidiaries, is primarily due to the following factors:

- "Personnel expenses" rose by €16.7 million over 2007 as the net effect of the following:
  - greater personnel expenses (€25.0 million) due mainly to the increase in unit labour costs for the Parent and to the average number of employees for the Group (€16.3 million, €4.4 million of which attributable to the Brazilian subsidiaries), as well as to the effect of the curtailment of termination benefits in 2007 in accordance with legislation introduced the previous year (€8.7 million);
  - an increase in capitalised personnel expenses due to the increase in capital expenditure during the year (- €8.3 million);

- "Services and use of third-party assets" amounted to €131.3 million, a decrease of €3.9 million or 2.9% on 2007, due essentially to generalised savings implemented by the Parent (down €6.6 million), which were partially offset by costs for services for the Brazilian firm ETEO (up €2.4 million), which was not consolidated until the year under review;

- "Materials" increased by €6.8 million, due to greater consumption recognised (+ €13.6 million compared with December 31, 2007), partly capitalised by the Parent (+ €6.8 million on the previous year), relating mainly to the following:
  - materials and equipment and other provisions (+ €2.0 million) for ordinary operations and maintenance of plant;
  - costs incurred by Terna Serviços as part of the aforementioned EPC services (+ €4.4 million);

- "Other expenses" rose by €10.5 million, attributable to the Brazilian subsidiaries (€7.0 million), which, as mentioned in the section regarding revenues, were affected in 2008 by the increase in PIS/Cofins taxes over 2007, as well as to the Parent (€3.5 million) due primarily to greater losses on the disposal of plant parts.

EBITDA reached €994.7 million, equal to 71.3% of consolidated revenues, rising by €16.9 million over the €977.8 million of 2007 (+1.7%). The Brazilian subsidiaries contributed €144.3 million.

Amortisation and depreciation for the year rose by €25.3 million over 2007 (+9.9%). Specifically, the increase includes about €18.4 million for the Parent related essentially to the start of operations of new plants and some €6.9 million for the Brazilian subsidiaries, including the amortisation of the concession acquired with ETEO (€3.2 million).

EBIT amounted to €714.3 million, a decrease of 1.2% (€8.4 million) from 2007.

Net financial expense for the year came to €179.9 million (€121.7 million of which related to the Parent and €58.2 million to the Brazilian subsidiaries).
The increase in net financial expense, in the amount of €65.0 million, is essentially attributable to:
- the Parent in the amount of €32.8 million, due essentially to the net effect of:

- an increase in financial expense related to medium- and long-term debt and related hedges (€47.2 million);
- net financial charges (€5.1 million) for the fair value adjustment of bonds and related hedges;
- an increase in financial income on short-term investments (€12.5 million);
- an increase in capitalised costs on non-current assets (€5.6 million) in application of IAS 23R, as discussed above;

- the Brazilian firms in the amount of €32.2 million, due essentially to:
  - greater foreign exchange losses (€18.0 million) related mainly to the foreign-currency loan of the subsidiary TSN due to the weakening of the real against the dollar;
  - greater interest expense on short-term loans to Terna Participações (€16.7 million);
  - the effect of the recognition in 2007 of interest on equity paid to minority shareholders of Terna Participações (€3.8 million).

Income taxes for the year totalled €193.0 million, €174.6 million for the Parent (- €26.0 million for net deferred taxes) and €18.4 million for the Brazilian subsidiaries (- €17.1 million of which for net deferred taxes).
The effective tax rate came to 36.2% (net of adjustments to taxes related to previous years). Income taxes for 2007 had amounted to €173.6 million, for an effective tax rate of 29.2% (net of adjustments to taxes related to previous years).
This increase is due primarily to the recognition in the previous year of the effects of the adjustment of the net deferred taxes of the Parent to the tax rates introduced in the 2008 Finance Act, which reduced taxes by a total of €68.2 million.

Profit for the year came to €341.4 million, down 21.4% from the €434.2 million of the previous year. Profit for the year attributable to the shareholders of the Parent, net of the portion attributable to minority interests in the amount of €13.9 million, came to €327.5 million (-21.1% from 2007). When considering normalised performance for 2007 net of the adjustment of deferred taxes for the change in tax rates introduced by the 2008 Finance Act, the decline comes to 6.7% for profit for the year and 5.6% for that attributable to the shareholders of the Parent.

Reclassified balance sheet

The reclassified consolidated balance sheet for the Terna Group for 2008 and 2007 is shown below.

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Net non-current assets			
Intangible assets and goodwill	483.2	380.4	102.8
Property, plant and equipment	6,035.8	5,620.1	415.7
Financial assets (1)	43.7	36.9	6.8
Total	**6,562.7**	**6,037.4**	**525.3**
Net working capital			
Trade receivables	1,730.4	1,541.1	189.3
Inventories	17.7	12.6	5.1
Other assets (2)	26.6	19.1	7.5
Trade payables	1,880.6	1,772.0	108.6
Tax liabilities, net (3)	-11.9	4.1	-16.0
Other liabilities (4)	514.2	448.7	65.5
Total	**-608.2**	**-652.0**	**43.8**
Gross invested capital	**5,954.5**	**5,385.4**	**569.1**
Sundry provisions (5)	425.0	460.6	-35.6
Net invested capital	**5,529.5**	**4,924.8**	**604.7**
Equity attributable to the shareholders of the Parent	2,076.8	2,163.6	-86.8
Equity attributable to minority interests	86.9	111.5	-24.6
Net financial debt (6)	3,365.8	2,649.7	716.1
Total	**5,529.5**	**4,924.8**	**604.7**

In the consolidated balance sheet these correspond to:
(1) "Equity-accounted investees" and "Other non-current assets";
(2) "Other current assets" net of other tax receivables (€ 8.6 million) and "Current financial assets" for the value of accrued interest income (€ 6.3 million);
(3) "Other current assets" for the value of other tax receivables (€ 8.6 million), "Tax assets", "Other current liabilities" for other tax payables (€ 20.8 million), and "Income tax liabilities";
(4) "Current financial assets" for the value of accrued interest on derivatives (€ 0.4 million), "Other non-current liabilities", "Current financial liabilities", and "Other current liabilities" net of other tax payables (€ 73.0 million);
(5) "Employee benefits", "Provisions for contingencies and charges", "Deferred tax liabilities", and "Deferred tax assets";
(6) "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 the short-term loan to ETAU (€ 0.2 million).

The following is a breakdown of net financial debt:

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Bonds	2,031.8	1,840.4	191.4
EIB loans + current portion	811.4	540.9	270.5
BNDES/IDS loans	342.7	456.0	-113.3
Other medium/long-term loans	848.4	-	848.4
Short-term loans	160.2	-	160.2
Other financial liabilities	0.9	-	0.9
Derivative financial instruments	-49.7	58.0	-107.7
Short-term loan to ETAU	-0.2	-1.6	1.4
Cash and cash equivalents	-779.7	-244.0	-535.7
Total financial debt	**3,365.8**	**2,649.7**	**716.1**

The €525.3 million increase in net non-current assets over the figures at December 31, 2007 is attributable to the following:
- **intangible assets and goodwill**, which rose by €102.8 million as the net result of the following changes:
  - a €92.6 million increase in concessions, net of the related amortisation (€4.0 million) and exchange rate differences (- €30.7 million), following the completion of the allocation of the greater value paid for the acquisitions of ETEO (which took place during the year) and of GTESA and PATESA (completed at the end of November 2007) compared with the fair value of their respective assets and liabilities as of the date of acquisition;
  - an increase in goodwill (€32.5 million), considered as assets not individually identified and recognised separately, for the greater value paid for the ETEO acquisition that was not allocated to the Company's assets;
  - a €28.8 million downward adjustment to goodwill related to the foreign subsidiaries to reflect the exchange rate prevailing as at year end (- €28.8 million);
  - a €6.5 million net increase attributable to ordinary transactions during the year for investments by the Parent for applications software, either developed internally or acquired as part of the system development programmes (€28.9 million), as well as amortisation and other transactions (€22.4 million, €5.6 million of which related to the amortisation of the transmission and dispatching concession in Italy).
- **property, plant and equipment**, which increased by €415.7 million.

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

In millions of euros

Investments	
Transmission lines	363.0
Transformation stations	315.6
Other	57.4
Brazil	11.0
Total investments	**747.0**
Depreciation	-251.8
Disposals and other changes	-24.3
Change in the scope of consolidation	98.1
Exchange rate differences	-153.3
Total	**415.7**

The increase (+ €415.7 million) is due essentially to the following:
- plant related to the Group's portion of the NTG in the amount of €482.8 million, which is the net effect of new investment (€736.0 million), depreciation (€228.9 million), and other transactions (a decrease of €24.3 million) during the period;
- a €67.1 million decrease for the Brazilian companies due primarily to the following:
  - exchange rate losses recognised on the value of non-current assets due to the strengthening of the euro against the Brazilian real (a decrease of €153.3 million);
  - new assets from the change in the scope of consolidation (€98.1 million) with the acquisition of ETEO (in May 2008). This amount also includes a portion of the excess cost (€34.9 million) paid for the acquisition of the company upon completing the process of allocating such cost;
  - the net effect of new investments (€11.0 million) and depreciation (€22.9 million).

Total investments made by the Group during the year came to €775.9 million (€747.0 million of which in property, plant and equipment), up 25.6% from the €618.0 million of 2007.
- **financial assets**, which increased by €6.8 million due primarily to the adjustment to equity at year end related to the interests held by the Group in CESI (up €2.3 million) and ETAU (down €4.3 million, due essentially to exchange rate differences), as well as to the recognition of joint-venture investment for the costs incurred to establish the Brazilian firm Brasnorte (€9.4 million).

Net working capital came to a negative €608.2 million, absorbing €43.8 million in liquidity during the year related essentially to the following:
- **trade receivables:** the €189.3 million increase over 2007 is due essentially to receivables for pass-through items arising in respect of electricity dispatching services provided by the Parent (€216.5 million). Of particular note was the increase in receivables for electricity sales on the Power Exchange (€161.2 million, offset by a €174.2 million increase in liabilities for electricity purchases on the Power Exchange). Conversely, non-energy receivables declined by €27.2 million due, for the most part, to lower receivables for grid transmission fees paid to the Parent for transmission services;
- **trade payables:** the €108.6 million increase is due essentially to the following factors:
  - an increase in payables for pass-through items for the Parent (€65.1 million) related primarily to energy purchases;

- greater trade payables (€43.5 million) resulting from the purchase of goods and services due to the increase in investments during the fourth quarter of the year as compared with the same period of 2007;
- tax liabilities/(assets), net: the €16.0 million decrease is due primarily to the tax asset for the Parent as at December 31, 2008, for greater advances on current taxes with respect to the actual tax liability due as at year end: the reduction is attributable to the greater asset in respect of current taxes compared with 2007 (€23.2 million), partially offset by the greater net VAT payable (€11.1 million);
- other liabilities: this item increased by €65.5 million due primarily to the deferment of the portion of revenues of the Brazilian firms TSN and Novatrans for the year, as well as of revenues recognised in previous years and until December 31, 2008 for ETEO, resulting from the recognition of such revenues over the duration of the concession (totalling €56.0 million). Also of note for the Parent was an increase in accrued interest expense on the EIB loans (€10.7 million).

Gross invested capital came to €5,954.5 million, a €569.1 million increase over December 31, 2007.

Sundry provisions amounted to €425.0 million, a decline of €35.6 million due, essentially, to the reduction in provision for net deferred tax liabilities (€48.4 million) and to the increase in provisions for contingencies and charges (€12.3 million), and specifically:

- the provision for net deferred tax liabilities declined by €48.4 million, largely owing to the following changes:
  - a decrease for the Parent (€44.1 million, including the balance for the now absorbed RTL) for:
    - the net use of past allocations for accelerated depreciation and amortisation (€21.5 million) and the release of a portion (€8.4 million) of the provision for deferred IRAP governed by Law no. 244 of December 24, 2007 (the 2008 Finance Act);
    - the accrual of deferred tax assets in respect of the tax effect on cash-flow hedge derivatives (€18.1 million);
  - a decrease for the Brazilian subsidiaries (€4.3 million) due to:
    - the recognition of deferred tax liabilities (€5.1 million) on the temporary differences following the allocation of part of the excess cost paid to acquire GTESA and PATESA (November 2007) and ETEO (May 2008) to the related assets;
    - the net increase in deferred tax assets due to the change in the scope of consolidation (+ €22.0 million) and to the reduction (- €12.6 million) in the tax effects of deferred revenues due to exchange rate effects;
- the provision for contingencies and charges rose by €12.3 million, due essentially to the following:
  - net accruals (€ 18.3 million) for projects for urban and environmental renewal, the aim of which is to offset the environmental impact of the construction of power lines;
  - accruals (€7.0 million) related to grid transmission fees due to the recalculation of the fees to cover the 2005 rate deficit pursuant to Resolution no. 162/06 of the Authority for Electricity and Gas;
  - the release of an accrual of €14.0 million recognised in the previous year due to a technical dispute that occurred in 2007 with a dispatching withdrawal operator, which was settled favourably in 2008.

At December 31, 2008, **net invested capital** came to €5,529.5 million, an increase of €604.7 million over December 31, 2007. Equity, in the amount of €2,163.7 million (€2,076.8 million of which attributable to the shareholders of the Parent), declined by €111.4 million from the €2,275.1 million of December 31, 2007 (a decline of €86.8 million from the €2,163.6 million attributable to the shareholders of the Parent) due mainly to the depreciation of the Brazilian real against the euro (- €79.5 million), as well as to the recognition of the cash-flow hedge derivatives on the Parent's floating-rate loans (- €47.4 million). Net financial debt amounted to €3,365.8 million, an increase of €716.1 million (over the €2,649.7 million of December 31, 2007), due primarily to new financing obtained during the year, as discussed in greater detail below.

The **debt-to-equity ratio** (equal to the ratio between net financial debt and the equity pertaining to shareholders of the Parent and minority interests) at December 31, 2008 therefore increased to 1.56, from 1.17 at December 31, 2007.

Cash flow

In millions of euros	Cash flow Dec. 31, 2008	Reconciliation	Cash flow Dec. 31, 2007	Reconciliation	Change
Opening cash and cash equivalents	**244.0**		**200.4**		**43.6**
Profit for the year	341.4		434.2		-92.8
Amortisation and depreciation	280.4		255.1		25.3
Net change in provisions	-35.6		-105.3		69.7
Deferred tax assets		*-20.5*		*-17.6*	
Employee benefits		*0.5*		*-12.7*	
Provisions for contingencies and charges		*12.3*		*10.2*	
Provisions for deferred taxes		*-27.9*		*-85.2*	
Net losses/(profits) on asset disposals (1)	-2.9		-0.6		-2.3
Self-financing	**583.3**		**583.4**		**-0.1**
Change in net working capital	-43.8		88.3		-132.1
Inventories		*-5.1*		*-3.6*	
Trade receivables		*-189.3*		*-359.0*	
Current financial assets		*-5.8*		*1.3*	
Tax assets		*-22.7*		*-2.6*	
Other current assets		*4.2*		*0.3*	
Trade payables		*108.6*		*491.4*	
Tax liabilities		*-0.5*		*-73.0*	
Current financial liabilities		*13.2*		*4.8*	
Other liabilities		*53.6*		*28.7*	
Cash flows from operating activities	**539.5**		**671.7**		**-132.2**
Investments					
Property, plant and equipment (2)	-747.0		-593.1		-153.9
Intangible assets (3)	-28.9		-24.9		-4.0
Other changes in non-current assets	-106.4		-113.4		7.0
Goodwill		*-3.7*		*-18.9*	
Other intangible assets		*-98.8*		*-19.5*	
Property, plant and equipment		*82.4*		*-82.1*	
Non-current financial assets		*0.1*		*-0.1*	
Other non-current assets		*0.5*		*0.4*	
Equity-accounted investees		*-7.4*		*-24.4*	
Translation of financial statements of foreign companies (equity) (4)		*-79.5*		*31.2*	
Total cash flows generated by/(used in) investing activities	**-882.3**		**-731.4**		**-150.9**
Change in loans	1,251.8		410.5		841.3
Non-current financial assets		*-115.5*		*12.0*	
Current financial assets		*1.4*		*-1.6*	
Non-current financial liabilities		*8.7*		*51.8*	
Long-term loans		*1,189.8*		*397.6*	
Current portion of long-term loans		*7.2*		*0.7*	
Short-term loans		*160.2*		*-50.0*	
Other changes in equity attributable to the shareholders of the Parent	-46.0		4.0		-50.0
Equity attributable to the shareholders of the Parent - share capital and other reserves (4)		*-46.0*		*4.0*	
Dividends (4)	-327.5		-311.3		-16.2
Other changes in equity attributable to minority interests (4)	0.2		0.1		0.1
Total cash flows generated by/(used in) financial activities	**878.5**		**103.3**		**775.2**
Total cash flows for the year	**535.7**		**43.6**		**492.1**
Closing cash and cash equivalents	**779.7**		**244.0**		**535.7**

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

Change in net financial position

In millions of euros	Dec. 31, 2008 (1)	Dec. 31, 2007
Opening net financial debt	**-2,649.7**	**-2,282.8**
Self-financing	**583.3**	**583.4**
Change in net working capital	**-43.8**	**88.3**
Cash flows generated by operating activities	**539.5**	**671.7**
Investments in property, plant and equipment	-747.0	-593.1
Investments in intangible assets	-28.9	-24.9
Other changes in non-current assets	-99.1	-88.9
Change in equity investments	-7.3	-24.5
Cash flows used in investing activities	**-882.3**	**-731.4**
Dividends	-327.5	-311.3
Other changes in equity attributable to the shareholders of the Parent	-46.0	4.0
Other changes in equity attributable to minority interests	0.2	0.1
Self-financing flows	**-373.3**	**-307.2**
Change in financial debt (2)	-716.1	-366.9
Closing net financial debt	**-3,365.8**	**-2,649.7**

(1) For a reconciliation with the items of the consolidated financial statements, see the cash flow statement and the associated notes above.
(2) In the consolidated financial statements, this corresponds to the change in "Non-current financial assets", "Current financial assets" in respect of the loan to ETAU, "Non-current financial liabilities", "Long-term loans", "Current portion of long-term loans", "Short-term loans" and "Cash and cash equivalents".

The cash flow generated from operating activities for the year came to about €539.5 million and is related to self-financing for the period (profits, depreciation and amortisation, and provisions totalling € 583.3 million) less cash flows used in managing working capital (€43.8 million) due largely to the effects of Resolution no. 350/07, which required the Parent to allocate past funds originating from CCT revenues (€117.7 million) by reducing the uplift (the net charge resulting from the measurement of imbalances and sales and purchases by Terna on the day-ahead market and ancillary services market, which is levied proportionately on each consumer through a specific fee) for the year.

Investing activities led to a net use of cash of about € 882.3 million. These cash flows mainly concerned investments in property, plant and equipment (€ 747.0 million) and intangible assets (€ 28.9 million) for the year, as well as plant grants recognised during the year (€ 15.8 million). As concerns ETEO (acquired in May 2008) in this regard, the value of the net non-current assets following allocation of the excess cost paid at the time of the acquisition was as follows: concession (€127.3 million); property, plant and equipment (€98.1 million); and goodwill (€ 32.5 million). The cash flows from investing activities were partially offset by exchange rate losses (€ 133.3 million) recognised at the end of the year as a result of the substantial weakening of the Brazilian real against the euro.

The cash flows absorbed by equity movements are essentially the result of the distribution of the balance on the 2007 dividend (€197.2 million, €7.1 million of which to minority shareholders) and the interim dividend for 2008 (€130.3 million, with €11.8 million to minority interests). Other changes in equity are primarily related to the recognition and adjustment of the fair value of the derivative instruments used as cash-flow hedges for floating-rate debt, net of related tax effects (€47.4 million).
Therefore, the cash flows absorbed by investing activities and equity movements for the year resulted in total uses of liquidity in the amount of € 1,255.6 million, which was covered in part by cash flows generated from operating activities (€ 539.5 million) and in part through new debt (€ 716.1 million).

Net financial debt

Net financial debt for the Group as at December 31, 2008 (€3,365.8 million) can be broken down as follows:

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
A. Medium- and long-term debt			
Bond (1)	2,031.8	1,840.4	191.4
EIB loans and other financing (1)	766.8	511.4	255.4
Brazilian loans and other financing (1)	308.3	413.7	-105.4
Other medium/long-term loans (1)	848.4	-	848.4
Derivative financial instruments (2)	-49.7	58.0	-107.7
Other financial liabilities (2)	0.9	-	0.9
Total A	**3,906.5**	**2,823.5**	**1,083.0**
B. Short-term debt/(liquidity)			
EIB loans and other financing (current portion) (3)	44.6	29.5	15.1
Brazilian loans and other financing (current portion) (3)	34.4	42.3	-7.9
Short-term loans	160.2	-	160.2
Short-term loan to ETAU (4)	-0.2	-1.6	1.4
Cash and cash equivalents - Italy (5)	-689.2	-123.2	-566.0
Cash and cash equivalents - Brazil (5)	-90.5	-120.8	30.3
Total B	**-540.7**	**-173.8**	**-366.9**
Total A+B	**3,365.8**	**2,649.7**	**716.1**

In the consolidated balance sheet:
(1) this figure is included in "Long-term loans";
(2) this figure corresponds to "Non-current financial liabilities" and "Non-current financial assets";
(3) this figure is included under "Current portion of long-term loans";
(4) this figure is included under "Current financial assets";
(5) this figure is included under "Cash and cash equivalents".

During the year, net financial debt increased by €716.1 million. This change is due to the following:

- an increase in **bonds** (€191.4 million) due to fair value adjustments in the amount of €177.7 million and the capitalisation of the 2023 inflation-linked bond in the amount of €13.7 million due to inflation;
- a €270.5 million increase in **European Investment Bank (EIB) loans and other financing** following the disbursement, in the third quarter of 2008, of the aforementioned €300 million loan, less the payments made on other outstanding loans in the amount of €29.5 million;
- a €113.3 million decrease in **long-term debt for the Brazilian firms** TSN and Novatrans (€83.5 million of which due to the strengthening of the euro against the real);
- new **medium- and long-term loans** in the amount of €848.4 million (including the amortised cost) following the disbursement of the aforementioned €650 million syndicated loan and drawings in the amount of €200 million on the aforementioned revolving credit line;
- other increases (€107.7 million) in the value of **derivative financial instruments** due to:
  - a decrease in liabilities related to the fair-value hedge derivatives for bonds in the amount of €173.0 million due to a change in interest rates;
  - new cash-flow hedge derivatives to hedge floating-rate debt, which had a negative fair value of €65.8 million;
  - the closing of the entire portfolio of non-hedge-accounting derivatives, for a positive change of €0.5 million;
- the recognition of the €0.9 million **financial liability** to the Lehman Brothers investment bank. This liability, which represents the fair value less a number of fair-value hedge and non-hedge-accounting derivatives as at September 16, 2008 (the early termination date of relations between Terna S.p.A. and Lehman), has been frozen until completion of the bankruptcy proceeding currently under way;
- a new short-term loan received by Terna Participações in May 2008 with an original value of €224.5 million in order to finance the acquisition of ETEO. After capitalisation of interest expense and the partial repayment of principal, the current value is €160.2 million (including exchange rate effects in the amount of €66.5 million);
- a €1.4 million decrease in the loan granted to the ETAU joint venture;
- a €535.7 million increase in **cash and cash equivalents** for the Group as a result of the increase in liquidity for the Parent due mainly to the receipt of new financing as described above.

Performance by geographic area and by business segment

Segment reporting for the Group's performance in Italy and Brazil and by business segment is included in a specific section of the notes to the financial statements.
The table below summarises the most significant figures for the following foreign subsidiaries, which are consolidated on a line-item basis: Terna Participações, TSN, Novatrans, Terna Serviços, and ETEO.
The figures from the approved financial statements as at December 31, 2008 have been determined in accordance with the accounting policies of the Parent, are expressed in euros, and have been reclassified from the financial statements of the subsidiaries, before consolidation adjustments.

HIGHLIGHTS

In millions of euros	Terna Part.	TSN	Novatrans	Terna Serviços	ETEO
Revenues	-	91.2	87.7	4.4	27.1
EBITDA	-2.8	70.2	66.3	-0.7	19.4
EBIT	-2.8	59.6	55.2	-0.7	13.4
Profit for the year	53.5	23.4	25.9	-0.9	9.2
Net non-current assets	493.1	286.4	277.5	0.7	197.8
Net working capital	3.2	-108.0	-93.6	-0.7	-45.4
Net invested capital	496.3	241.1	231.1	-	163.8
Provisions	-	-62.7	-47.2	-	-11.4
Equity	378.1	80.9	95.4	0.1	165.6
Net financial position	118.2	160.2	135.7	-0.1	-1.8
Investments	-	8.1	2.1	0.8	-

The "alternative performance indicators" used in the table are defined as follows:
Operating performance indicators:
- EBITDA is the sum of operating profit and amortisation and depreciation;
- net working capital is current liabilities less current assets;
- net invested capital is net non-current assets and net working capital, less provisions.

Financial structure indicator:
- Net financial position is short-term and medium/long-term loans and related derivative instruments less cash and cash equivalents and financial assets.

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 92% of the Group's consolidated revenues come from annual fees paid for the services regulated by the energy authorities in Italy and Brazil. Within the scope of such regulations, there are a number of variables that could have an impact on performance.

Volume effect

Terna's revenues from the management, operation and development of the National Transmission Grid and from the management of ancillary services are 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. As a result, a decline in volumes of energy transported normally leads to a drop in revenues for the Company, albeit not to a significant extent (+/-0.5%).
Given the current exceptional economic climate and the consequent decline in power consumption, and to protect transmission revenues from unusually high levels of risk, the Authority for Electricity and Gas has, in way of Resolution no. ARG/elt 188/08, established a guarantee mechanism for the level of revenues 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 2009, 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 2009, the Authority will require Terna to refund the excess revenues for the portion of volumes in excess of a 0.5% deductible.

Given that this mechanism is optional, Terna has notified the Authority of its intention to participate. As such, the volume effect will be minimal for the 2009-2011 period.

Bonuses and penalties

There are also currently a number of mechanisms for calculating bonuses and penalties for the quality of transmission and dispatching services that the Company provides:

- 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 (Resolution no. 351/07) based on Terna's capacity to forecast demand and power output from wind facilities was maintained for 2009;
- with Resolution no. ARG/elt 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 to be defined in greater detail in a measure which the Authority is expected to issue in the first half of 2009;
- with Resolution no. ARG/elt 206/08 (amending Resolution no. 351/07), the Authority provided for a bonus and penalty mechanism to begin in 2009, which will be based on the reduction in volumes of resources acquired by Terna on the ancillary services market for the provision of dispatching services.

Brazilian operations are also subject to a complex set of laws and government regulations. The ongoing updates, which are not necessarily timely or complete, could have an impact on the performance of the subsidiaries (see also the section on significant events for the year).
There is no risk of a reduction in revenues connected with trends in consumption, given that remuneration is not based on the volume of energy transmitted.
However, there is the potential for penalties in the event of network unavailability for the grid operated by the Brazilian concession holders.

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 disaster, 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 increase costs, which could be recovered in part through existing insurance policies.

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 more information.

Financial risks

As a normal part of operations, Terna is exposed to a variety of financial risks: market risk (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.
The goal of Terna’s risk management policies is to identify and analyse the risks to which the Company is exposed, establish appropriate controls and limits, monitor the risks, and ensure compliance with the 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 Company’s operations. 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 2008 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 expected developments in 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 under less favourable market conditions, resulting 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 infrastructure protection and security, which are also in line with the current regulatory framework recently introduced in Europe.

Security Operations Centre (SOC)

In 2008, work continued on setting up the SOC, including the design, realisation and start-up of the data processing centre’s ICT platform.
On this platform, the central component of the PSIS physical security system has been installed and activated. This system is the first business security monitoring system to be put into operation that is dedicated to anti-intrusion monitoring and electrical station video surveillance, and has been integrated with its first electrical station.
In the second half of the year, the first security service provided directly by the SOC was activated in order to provide anti-spam and anti-virus protection for Company e-mail.
A close partnership has also begun with the Department of Civil Defence, during both international-level exercises and in managing actual domestic emergencies and working with other international bodies (OECD).
In the area of external partnerships, the SOC also participated in the efforts of the Italian National Security Observatory of the *Centro Alti Studi per la Difesa*.

Risk Management

In 2008, in order to implement constant monitoring of both the electrical system and the market and to prevent a potential escalation of problems, Terna created a prototype of the management dashboard known as Security Index Monitoring (SIM). This dashboard makes it possible to monitor business processes connected with the operations of the system and the electricity market using data drawn from Terna's various systems. This information is then processed and aggregated in order to generate Key Performance Indicators (KPIs) to be displayed on the dashboard. By comparing these indicators with the targets set by senior management, it is possible to identify potential risks that could lead to significant critical issues. The dashboard is expected to be operational by April 2009.

Control of Management Systems

In 2008, on the back of the certifications obtained in 2007 (UNI EN ISO 14001:2004 and OHSAS 18001:1999), SA/PSG took steps to update and further implement the management systems for the environment and for workplace safety and healthcare, with a view to increasing integration with the quality management system so as to create a true integrated management system.
These efforts led, in October 2008, to confirmation of the UNI EN ISO 9001:2000 and UNI EN ISO 14001:2004 certifications and to the move from the OHSAS 18001:1999 standard to that of BS OHSAS 18001:2007.

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 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 2008, the first 17 anti-intrusion systems have been created, and all related alarms have been centralised within the SOC.

Logical Security

During 2008, the Company's new model of information systems and security governance took shape, culminating in the publication of the *Information Security Policy – Strategic Guidelines*. This document, which was signed by the CEO, will lead the Company towards the adoption of an advanced information security framework, inspired by both the ISO-IEC standards and international best practice.
In this document, the assurance of data integrity, confidentiality and availability and compliance with the rules are no longer seen as merely the result of a (sophisticated) set of technological countermeasures, but as the outcome of a comprehensive process able to identify – with the participation of the various figures involved – the appropriate combination of protective measures for each information system, whether they be of an organisation, physical, logical or operational nature.
This new policy assigns responsibility to the entire organisation, beginning with the key positions such as top management and technology managers down through to the ordinary user, for contributing to the protection of the Company's information assets and lays the groundwork for a virtuous cycle of improvement by defining specific roles, responsibilities and objectives, while promoting a culture of and sensibility to information security throughout the organisation.

Real Estate

In 2008, Terna adopted a new integrated application known as “REmonio” in order to manage investment property, leases and facilities.
A section of the Company’s website was also dedicated to the sale of real estate, which obtained binding buyer commitments during the year totalling more than €4 million.
All of the preparatory and authorisation procedures have been followed for the real estate projects under way in Rome (Galbani head office, new CNC Palmiano office, new AOT Rome office, Campus).

Fraud Management

The Corporate Security Department has a Fraud Management office that is working to implement all the actions needed to protect Company assets (tangible and intangible resources, direct and secondary benefits) and to support the various units of the organisation in compliance-related activities, so as to ensure compliance with laws, regulations, procedures, codes of conduct and best practice in order to reduce or prevent the risk of penalties and protect the Company’s image.

Corporate Social Responsibility

Today, one of Terna’s distinctive characteristics is the organisation’s approach to sustainability integrated into the management of our business. In 2006, a unit was created to manage Corporate Social Responsibility, with the goal of developing the wealth of management practices that has been gained over the years, as well as helping to define the Company’s policies in the areas of ethics, environmental and social responsibility, and the achievement of performance targets. The unit is also responsible for publishing such performance, first and foremost by preparing the annual sustainability report.
The following are a few of the key aspects of Terna’s approach to Corporate Social Responsibility.

Electrical service

Terna has taken to heart the goals defined in the concession agreement and assumes responsibility towards the public at large. The Company is committed to providing a safe, reliable, and cost-effective service; to developing the transmission system and ensuring that it remains operational, as it is both a Terna asset and an infrastructure of critical public importance; and to remaining impartial in relations with all users of the network.

Environment

The most evident impact of Terna’s operations is the physical presence of power lines and substations throughout Italy. For this reason, Terna has developed a system for monitoring and limiting the environmental impact of such operations. The Company also works with the various organisations and authorities concerned so as to take environmental needs into consideration from the initial planning stages of new power lines.
In this way, environmental issues converge with the interests of Terna in implementing its network development investments and with the interests of the general public for a reliable, cost-effective electrical system which respects the environment.

Social responsibility

The people who work for Terna have skills that are rare, or even unique, in the energy industry, which enables Terna to conduct operations efficiently and with professional excellence. The development of these skills is a crucial part of Terna's approach to human resources management. Of no less importance is the issue of workplace safety, given that many aspects of operations entail a great deal of risk, such as working on live power lines.
Moreover, at Terna, we consider social, cultural and humanitarian initiatives to be an integral part of our business and a means of contributing to cultivating the communities in which the Company operates.

One example of this are the Premio Terna 01 contemporary art awards, established to promote Italian artist and which featured more than 3,100 works of art. This project falls within the framework of a memorandum of understanding with the Ministry for Cultural Heritage to promote initiatives of social responsibility in the areas of art and culture. For the Christmas holidays, as suggested by employees who do volunteer work with solidarity associations, the first donation programme was also implemented to support such associations.
In 2008, Terna's commitment to social responsibility was recognised in the form of numerous awards, including:

- first place in the Aretê Award for corporate internal communication;
- the Ruban d'honneur for corporate sustainability given by the European Business Awards;
- recognition as a "Sector Mover" by Sustainable Asset Management for the greatest improvement in rating for electrical utility companies throughout the world.

Because of its track record in sustainability, Terna is included in numerous ethical indexes, such as the FTSE4Good and other indexes of KLD, Axia, and E-Capital Partners.
For a more complete account of Terna's approach to social responsibility, see the Sustainability Report, available on the Company's website in the section dedicated to sustainability, which has been completely revised during the course of 2008.

Terna S.p.A. performance and financial position

Foreword

The 2008 annual report for Terna S.p.A. 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 Regulation (EC) no. 1606/2002, Terna S.p.A. has prepared the separate financial statements as at December 31, 2008, in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission (hereinafter the IFRS-EU).

The 2008 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.

With regard to the financial information contained in this Directors' Report, and in accordance with art. 2409-*ter* of the Italian Civil Code (in application of Legislative Decree no. 58/98), the independent auditors confirm the consistency of such information with the separate financial statements as at December 31, 2008.

As described in the section on the performance and financial position of the Group, Terna S.p.A. has opted for the early adoption (as of January 1, 2006) of the revised version of IAS 23 – Borrowing Costs in order to render its reporting more effective in view of the investments carried out and those that are scheduled to be effected under the business plan.

Accordingly, the balance of some captions of the comparative data at December 31, 2007, have been restated. In particular, the borrowing costs in respect of the construction and purchase of property, plant and equipment and intangible assets that meet the requirements of IAS 23R have been capitalised as components of the cost of the assets. The overall impact of the change at December 31, 2007 was to increase equity by €1.6 million (net of the related tax effect).

The following table reports figures on the performance and financial position of the Parent. For more information, see the related comments provided in the section "Group performance and financial position" above.

Following the merger of RTL into Terna S.p.A. (as discussed in detail in the section "Significant events in 2008" in the Directors' Report), whose accounting and tax effects are retroactive to January 1, 2008, the income statement and balance sheet of Terna S.p.A. at December 31, 2008 reflect the operations of the two companies involved in the merger, while the comparative figures at December 31, 2007 only comprise those of Terna S.p.A. Since the data for RTL at that date are not material compared with those for Terna S.p.A., no *pro forma* comparative statements have been prepared. In the comments on changes from the 2007 figures, the effects of the merger are described where appropriate.

Reclassified income statement

A reclassified income statement for Terna S.p.A. for 2008 and 2007 is shown below.

In millions of euros	2008	2007	Change	%
Revenues				
Grid transmission fees (1)	1,060.5	994.6	65.9	6.6
Other energy items (1)	48.4	43.3	5.1	11.8
Other revenues from sales and services (1)	43.1	49.4	-6.3	-12.8
Other revenues and income	44.1	34.1	10.0	29.3
Total revenues	**1,196.1**	**1,121.4**	**74.7**	**6.7**
Operating expenses				
Personnel expenses (2)	201.2	187.2	14.0	7.5
Services and use of third-party assets	110.7	112.0	-1.3	-1.2
Materials (2)	11.8	9.6	2.2	22.9
Other expenses (3)	21.7	17.4	4.3	24.7
Total operating expenses	**345.4**	**326.2**	**19.2**	**5.9**
EBITDA	**850.7**	**795.2**	**55.5**	**7.0**
Amortisation and depreciation (4)	**253.5**	**208.6**	**44.9**	**21.5**
EBIT	**597.2**	**586.6**	**10.6**	**1.8**
Net financial income/(expense) (5)	-87.3	-30.9	-56.4	182.5
Profit before taxes	**509.9**	**555.7**	**-45.8**	**-8.2**
Income taxes	174.6	147.6	27.0	18.3
Profit for the year	**335.3**	**408.1**	**-72.8**	**-17.8**

In the income statement:
(1) this figure is included in "Revenues from sales and services";
(2) including "Capitalised internal work" in the amount of €52.9 million under "Personnel expenses" and €13.4 million under "Materials";
(3) corresponds to "Other operating expenses" and "Amortisation, depreciation and impairment losses" for the impairment of trade receivables (€1.8 million);
(4) corresponds to "Amortisation, depreciation and impairment losses" net of the impairment of trade receivables (€1.8 million);
(5) corresponds to the balance of the items described under points 1 and 2 of "C – Financial income/(expense)".

For comments on the main changes in revenues and expenses, see the section "Group performance and financial position" above.

However, in the interests of full disclosure, it should also be noted that:
- **grid transmission fees** (up €65.9 million) also include the fees for the full year related to the systems of RTL (€66.2 million). Compared with the previous year, this remuneration declined by €4.3 million due essentially to the reduction in volumes and the change in rates, which was partially offset by the increase in revenues (of about €3.5 million) resulting from expansion of the portion of the NTG following the acquisition (and merger into RTL) of RTT in June 2007;
- the change in **other revenues from sales and services** (down €6.3 million) includes a decline of €9.7 million elimination of revenues on the services and plant operation and maintenance for the subsidiary RTL following its merger into Terna;
- the increase in **amortisation and depreciation** (€44.9 million) is due in part to the accruals for the year related to the plant added from RTL (€24.1 million);
- the increase in **net financial expense** (€56.4 million) was affected by the decline in net financial income from subsidiaries (€22.4 million) due mainly to lower dividends (€13.5 million, €1.6 million of which related to the dividend paid by the now absorbed RTL in 2007) and interest on equity (€7.5 million).

EBIT for Terna S.p.A. therefore came to €597.2 million, an increase of €10.6 million (+1.8%) over 2007.
Profit for the year came to €335.3 million, declining by 2.9% from the figure for the previous year of €345.3 million, after the adjustment of net deferred taxes to the tax rates established with the 2008 Finance Act (which in 2007 reduced taxes recognised by €62.8 million).

Reclassified balance sheet

The reclassified balance sheet for Terna S.p.A. as at December 31, 2007 and 2008 is shown below.

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Net non-current assets			
Intangible assets and goodwill	255.8	160.7	95.1
Property, plant and equipment	5,415.6	4,521.8	893.8
Financial assets (1)	220.7	669.6	-448.9
Total	**5,892.1**	**5,352.1**	**540.0**
Net working capital			
Trade receivables	1,706.0	1,513.6	192.4
Inventories	16.6	12.6	4.0
Other assets (2)	22.8	18.1	4.7
Trade payables	1,874.4	1,779.2	95.2
Tax liabilities, net (3)	-15.6	-7.1	-8.5
Other liabilities (4)	250.3	241.2	9.1
Total	**-363.7**	**-469.0**	**105.3**
Gross invested capital	**5,528.4**	**4,883.1**	**645.3**
Sundry provisions (5)	546.3	546.8	-0.5
Net invested capital	**4,982.1**	**4,336.3**	**645.8**
Equity	2,028.0	2,027.6	0.4
Net financial debt (6)	2,954.1	2,308.7	645.4
Total	**4,982.1**	**4,336.3**	**645.8**

On the balance sheet, these correspond to:
(1) "Other non-current assets" and "Non-current financial assets" for the value of equity investments (€216.1 million);
(2) "Other current assets" net of other tax receivables (€4.6 million) and "Current financial assets" for the value of accrued interest income (€6.3 million);
(3) "Other current assets" for the value of other tax receivables (€4.6 million) and "Tax assets" and "Other current liabilities" for other tax payables (€14.9 million);
(4) "Current financial assets" for the value of accrued interest on derivatives (€0.4 million), "Other non-current liabilities", "Current financial liabilities", and "Other current liabilities" net of other taxes payable (€67.8 million);
(5) "Employee benefits", "Provisions for contingencies and charges", "Deferred tax liabilities", and "Deferred tax assets";
(6) "Long-term loans", "Current portion of long-term loans", "Short-term loans", "Non-current financial liabilities", "Cash and cash equivalents", and "Non-current financial assets" for the value of fair-value hedge derivatives (€115.5 million).

The following is a breakdown of net financial debt:

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Bonds	2,031.8	1,840.4	191.4
EIB loans + current portion	811.4	540.9	270.5
Other medium/long-term loans	848.4	-	848.4
Intercompany current account	0.5	-7.5	8.0
Other financial liabilities	0.9	-	0.9
Derivative financial instruments	-49.7	58.0	-107.7
Cash and cash equivalents	-689.2	-123.1	-566.1
Total financial debt	**2,954.1**	**2,308.7**	**645.4**

For comments on the main changes in the balance sheet accounts, see the section "Group performance and financial position" above.

For the sake of providing greater detail, it should also be noted that:
- within **intangible assets and goodwill** (up €95.1 million), goodwill came to €88.6 million following the merger of RTL into Terna and related primarily to the merger goodwill (€88.4 million recognised on the contribution of RTL equity) related to the mergers in 2007 of the companies RTM1, RTM2 and RTT into RTL, while also including €0.2 million for the cancellation of Terna's equity investment against the initial equity of the merged company RTL;
- the change in **property, plant and equipment** (up €893.8 million) reflects the value of plant for RTL (€411.0 million) recognised as of the effective date of the merger for accounting purposes;
- the decrease in **financial assets** (down €448.9 million) is due mainly to the elimination of equity investments (€449.3 million) following the merger of RTL into the Company;
- the change in **sundry provisions** (down €0.5 million) reflects the merger contribution to the provision for net deferred tax liabilities (€26.5 million) and provisions for contingencies and charges (€2.5 million);
- equity includes the recognition, following the merger, of RTL retained earnings as from the acquisition date (€20.0 million).

Cash flow

In millions of euros	Cash flow Dec. 31, 2008	Reconciliation	Cash flow Dec. 31, 2007	Reconciliation	Change
Opening cash and cash equivalents & intercompany current accounts	**130.6**		**15.1**		**115.5**
Profit for the year	335.3		408.1		-72.8
Amortisation and depreciation	253.5		208.6		44.9
Net change in provisions	-0.5		-68.1		67.6
Deferred tax assets		*-11.1*		*6.6*	
Deferred tax assets - merger contribution		*-1.0*		*-*	
Employee benefits		*0.5*		*-8.4*	
Provisions for contingencies and charges		*14.1*		*10.8*	
Provisions for contingencies and charges - merger contribution		*2.5*		*-*	
Deferred tax liabilities		*-33.0*		*-77.1*	
Deferred tax liabilities - merger contribution		*27.5*		*-*	
Net losses/(profit) on asset disposals (1)	-2.9		-0.5		-2.4
Self-financing	**585.4**		**548.1**		**37.3**
Change in net working capital	-105.3		13.1		-118.4
Inventories		*-4.0*		*-4.9*	
Trade receivables		*-192.4*		*-349.9*	
Current financial assets		*-5.8*		*1.3*	
Tax assets		*-23.3*		*-2.6*	
Other current assets		*9.7*		*-13.5*	
Trade payables		*95.2*		*496.3*	
Tax liabilities		*-*		*-72.2*	
Current financial liabilities		*13.4*		*5.1*	
Other liabilities		*1.9*		*-46.5*	
Cash flows from operating activities	**480.1**		**561.2**		**-81.1**
Investments					
Property, plant and equipment (2)	-736.0		-549.7		-186.3
Intragroup acquisitions	-		-28.4		28.4
Intangible assets (3)	-28.9		-24.9		-4.0
Other changes in non-current assets	-25.7		21.2		-46.9
Property, plant and equipment - merger contribution		*-411.0*		*-*	*-411.0*
Property, plant and equipment		*27.2*		*20.8*	
Intangible assets (3)		*-2.2*		*-*	
Goodwill (4) - merger contribution		*-88.6*		*-*	
Other non-current assets		*0.2*		*0.5*	
Non-current financial assets - elimination of equity investment in merger		*449.3*		*-0.1*	
Non-current financial assets		*-0.6*		*-*	
Total cash flows generated by/(used in) investing activities	**-790.6**		**-581.8**		**-208.8**
Change in loans	1,204.0		418.5		785.5
Current financial assets		*-*		*0.5*	
Non-current financial assets		*-115.5*		*12.0*	
Non-current financial liabilities		*8.7*		*51.8*	
Long-term loans		*1,295.2*		*404.2*	
Current portion of long-term loans		*15.1*		*-*	
Short-term loans		*0.5*		*-50.0*	
Other changes in equity	-26.3		3.6		-29.9
Equity - Other reserves (5)		*-46.3*		*3.6*	
Equity - Retained earnings - merger contribution (5)		*20.0*		*-*	
Dividends (5)	-308.6		-286.0		-22.6
Total cash flows generated by/(used in) financing activities	**869.1**		**136.1**		**733.0**
Total cash flows for the year	**558.6**		**115.5**		**443.1**

(1) Included in the balances of "Other revenues and income" and "Other operating expenses", respectively.
(2) See note 12.
(3) See note 14.
(4) See note 13.
(5) See statement of changes in equity.

Change in net financial position

In millions of euros	Dec. 31, 2008 (1)	Dec. 31, 2007
Opening net financial debt	**-2,308.7**	**-2,005.7**
Self-financing	**556.4**	**548.1**
Self-financing - merger contribution	***29.0***	**-**
Change in net working capital	**-105.3**	**13.1**
Cash flows generated by operating activities	**480.1**	**561.2**
Investments in property, plant and equipment	-736.0	-549.7
Intragroup acquisitions	-	-28.4
Investments in intangible assets	-28.9	-24.9
Other changes in non-current assets	24.6	21.3
Other changes in non-current assets - merger contribution		
Property, plant and equipment	*-411.0*	-
Goodwill	*-88.6*	-
Elimination of equity investment in merger	449.3	-0.1
Cash flows used in investing activities	**-790.6**	**-581.8**
Dividends distributed	-308.6	-286.0
Other changes in equity	-46.3	3.6
Retained earnings - merger contribution	*20.0*	-
Equity movements	**-334.9**	**-282.4**
Change in financial debt (2)	-645.4	-303.0
Closing net financial debt	**-2,954.1**	**-2,308.7**

(1) For a reconciliation with the items of the financial statements, see the cash flow statement and the associated notes above.
(2) In the financial statements, this corresponds to the change in "Non-current financial assets", "Current financial assets" in respect of the loan to ETAU, "Non-current financial liabilities", "Long-term loans", "Current portion of long-term loans", "Short-term loans" and "Cash and cash equivalents".

Cash flows generated from operating activities for the year came to about €480.1 million and comprise self-financing for the period in the amount of €585.4 million (€29.0 million of which related to the provisions for net deferred tax liabilities and for contingencies and charges contributed by the merger) less cash flows used in managing working capital (€105.3 million) due essentially to the effects of Resolution no. 350/07, which required Terna to allocate past resources originating from the CCT revenues (€117.7 million) by reducing the uplift for the year.

Investing activities resulted in a net use of cash flows in the amount of €790.6 million related mainly to investments in property, plant and equipment (€736.0 million) and intangible assets (€28.9 million) during the year. The flow also reflects the change due to the elimination of the investment in RTL (€449.3 million), offset by contributions from the merger in property, plant and equipment (€411.0 million) and goodwill (€88.6 million). Cash flows used in respect of equity movements (€334.9 million) came essentially from the distribution of the balance for the dividend for 2007 (€190.1 million) and the interim dividend for 2008 (€118.5 million), which the Company paid during the year. The other changes in equity concern the recognition and adjustment of the fair value of cash-flow hedge derivatives for floating-rate debt net of related tax effects (down €47.4 million), as well as the recognition, with the merger, of RTL retained earnings from the date of the acquisition (€20.0 million).

Therefore, cash flows absorbed by investing activities and equity movements for the year resulted in total uses of liquidity in the amount of €1,125.5 million, which was covered in part by cash flows generated from operating activities (€480.1 million) and the remaining €645.4 million through new debt.

Net financial debt

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
A. Medium- and long-term debt			
Bonds (1)	2,031.8	1,840.4	191.4
EIB loans and other financing (1)	766.8	511.4	255.4
Other medium/long-term loans (1)	848.4	-	848.4
Derivative financial instruments (2)	-49.7	58.0	-107.7
Other financial liabilities (2)	0.9	-	0.9
Total A	**3,598.2**	**2,409.8**	**1,188.4**
B. Short-term debt/(liquidity)			
EIB loans and other financing (current portion)	44.6	29.5	15.1
Net position on the intercompany treasury account (3)	0.5	-7.5	8.0
Cash and cash equivalents	-689.2	-123.1	-566.1
Total B	**-644.1**	**-101.1**	**-543.0**
Total A+B	**2,954.1**	**2,308.7**	**645.4**

In the balance sheet:
(1) this figure is included in "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 (€115.5 million);
(3) this figure is included in "Short-term loans".

In addition to the factors described with regard to debt for the Group, the increase in net financial debt also reflects the €8.0 million increase in the net position on the intercompany treasury account owing to the elimination of the 2007 financial receivable from RTL (€7.5 million) and the recognition of the financial liability (€0.5 million) related to the intercompany current account with the subsidiary InTERNAtional.

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 2008	Equity Dec. 31, 2008	Profit 2007	Equity Dec. 31, 2007
Parent	**335.3**	**2,028.0**	**408.1**	**2,027.6**
Earnings and equity from subsidiaries	106.2	133.7	131.3	155.9
Translation of financial statements of foreign companies	-	-3.2	-	56.5
Elimination of dividends	-102.4	-	-106.3	-
Adjustment of gain on Terna Part. listing	-	-	-	32.2
Measurement of CESI at equity	2.3	5.2	1.1	2.9
Consolidated figures	**341.4**	**2,163.7**	**434.2**	**2,275.1**
Minority interests	13.9	86.9	18.9	111.5
Terna Group	**327.5**	**2,076.8**	**415.3**	**2,163.6**

Energy overview

Energy demand in Italy

In 2008, according to preliminary figures, domestic energy demand amounted to 337,642 GWh, a decline of 0.7% from 2007 (see table below). In order to compare 2008 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 the number of business days was the same as the previous year, 2008 was a leap year and therefore had one more (non-business) day than in 2007. Secondly, weather conditions were different. In 2008, all months from January to July were, on average, cooler than the same months of 2007, whereas the remaining five months (from August 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 -1.2%.
During the year, 88.3% of the demand for electricity on the network was met by domestic power generation (86.4% in 2007), for a total of 298,076 GWh, net of consumption by ancillary services and pumping, for an increase of 1.5% over 2007. The remaining portion of demand (11.7%) was covered by net imports, for a total of 39,566 GWh in 2008, compared with 46,283 GWh for the previous year (-14.5%).
Looking at the trends in foreign trade, imports declined to 42,997 GWh (-12.1%), compared with the 48,931 GWh for 2007. Exports, on the other hand, went from the 2,648 GWh of 2007 to 3,431 GWh in 2008, for growth of 29.6%.

ITALY'S ENERGY BALANCE

	Balance			
GWh	2008*	2007	Change	%
Gross generation	317,894	313,888	4,006	1.3
Ancillary services	12,354	12,589	-235	-1.9
Net generation	305,540	301,299	4,241	1.4
Imports	42,997	48,931	-5,934	-12.1
Exports	3,431	2,648	783	29.6
Pumping	7,464	7,654	-190	-2.5
Total domestic demand	**337,642**	**339,928**	**-2,286**	**-0.7**

(*) Provisional figures.

Power generation

According to initial estimates, in 2008 net domestic power generation (see table below) increased by 1.4% 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 2.1% from 2007.
In 2008, hydroelectric generation increased significantly year on year, rising 18.3% over 2007.
In that regard, it should be noted that the annual hydroelectric production index was higher than the previous year at 0.91, as compared with the 0.70 posted in 2007.
With regard to renewable energy, net production from wind and photovoltaic sources again posted significant growth over the previous year, up 62.9%, whereas geothermal production fell slightly, down 0.8%.

DOMESTIC POWER GENERATION

GWh	Generation 2008*	2007	Change	%
Gross hydro generation	45,511	38,481	7,030	18.3
Gross thermal generation	260,228	265,764	-5,536	-2.1
Gross geothermal generation	5,518	5,569	-51	-0.9
Gross wind and photovoltaic generation	6,637	4,074	2,563	62.9
Total gross generation	**317,894**	**313,889**	**4,005**	**1.3**
Hydro ancillary services	601	519	82	15.8
Thermal ancillary services	11,429	11,742	-312	-2.7
Geothermal ancillary services	319	326	-7	-2.2
Wind and photovoltaic ancillary services	5	3	2	71.4
Total ancillary services	**12,354**	**12,590**	**-236**	**-1.9**
Net hydro generation	44,910	37,962	6,948	18.3
Net thermal generation	248,799	254,023	-5,224	-2.1
Net geothermal generation	5,199	5,243	-44	-0.8
Net wind and photovoltaic generation	6,632	4,071	2,561	62.9
Total net generation	**305,540**	**301,299**	**4,241**	**1.4**

(*) Provisional figures.

Dispatching and trade

Electricity business

Based on preliminary figures, Italian electricity demand for 2008 came to 337,642 GWh, a decline of 0.7% from the 339,928 GWh of the previous year.

During the year, 88.3% of the demand for electricity on the network was met by domestic power generation (86.4% in 2007), for a total of 298,076 GWh. This figure is net of ancillary services and pumping. The remaining 39,566 GWh of demand (11.7%) was covered by net imports, for a decline of 14.5% from 2007 (46,283 GWh). Net imports are determined by subtracting energy sold to foreign customers from energy received from foreign suppliers.

Energy imported from abroad totalled 42,997 GWh, for a 12.1% decline from the 48,931 GWh of 2007. Exports, on the other hand, went from the 2,648 GWh of 2007 to 3,431 GWh in 2008, for growth of 29.6%.

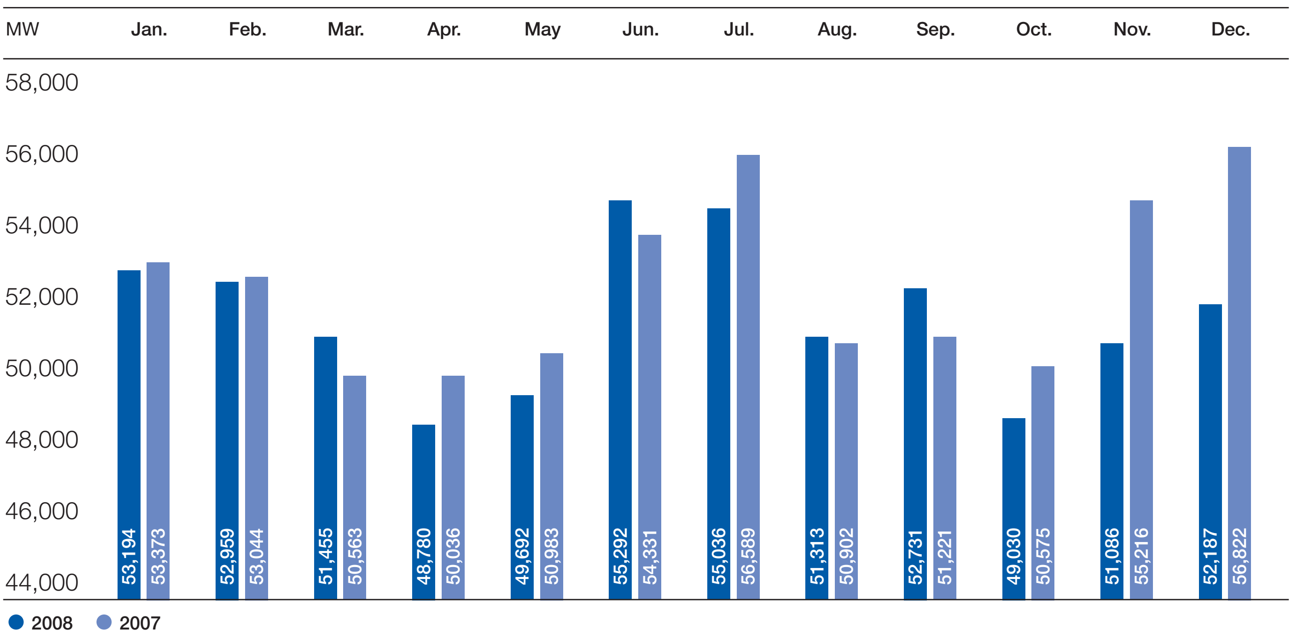
ENERGY BALANCE IN ITALY

GWh	Jan.-Dec. 2008*	Jan.-Dec. 2007	Change	%
Gross generation	317,894	313,888	4,006	1.3
Ancillary services	12,354	12,589	-235	-1.9
Net generation	305,540	301,299	4,241	1.4
Imports	42,997	48,931	-5,934	-12.1
Exports	3,431	2,648	783	29.6
Pumping	7,464	7,654	-190	-2.5
Total demand	**337,642**	**339,928**	**-2,286**	**-0.7**

(*) Provisional figures.

The trend in peak loads by month for 2008, compared with the same figures for 2007, is shown in the figure below. It should be noted that there were no all-time highs in peak load for the domestic network in 2008. In most cases, the monthly peaks remained below the corresponding figures for the previous year, with marked declines in the last three months of 2008. The highest figure for 2008 was recorded on June 26 at noon at a peak load of 55,292 MW. The high for 2007, on the other hand, was recorded on December 18 at 5:00 p.m. at 56,822 MW. The maximum peak load for 2008, therefore, is 2.7% lower than for the previous year.

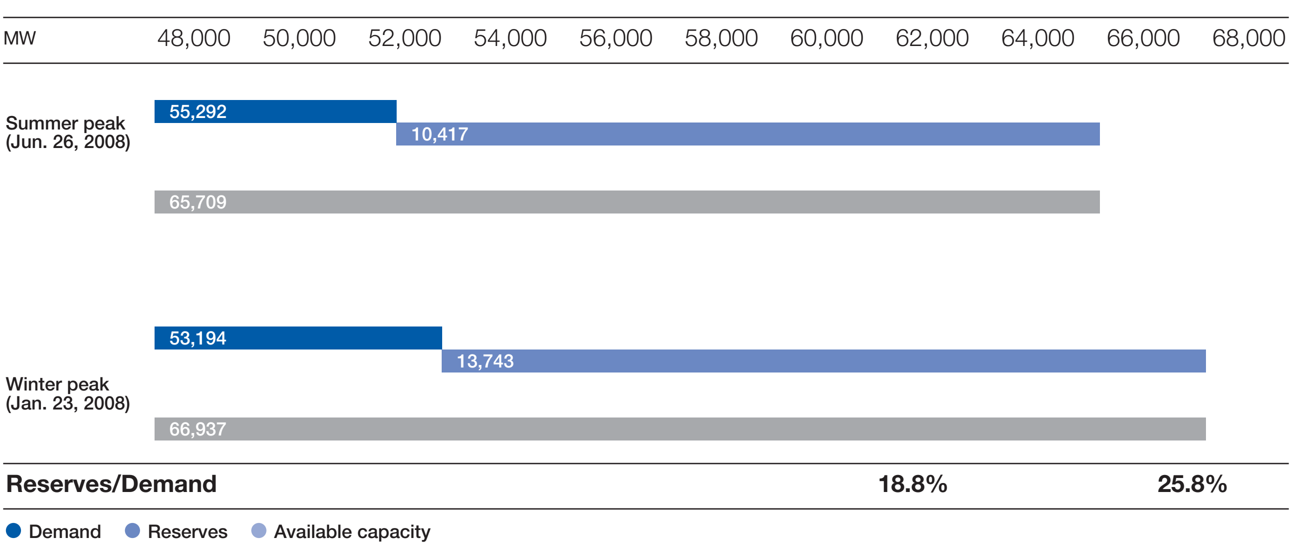
MONTHLY PEAK DEMAND



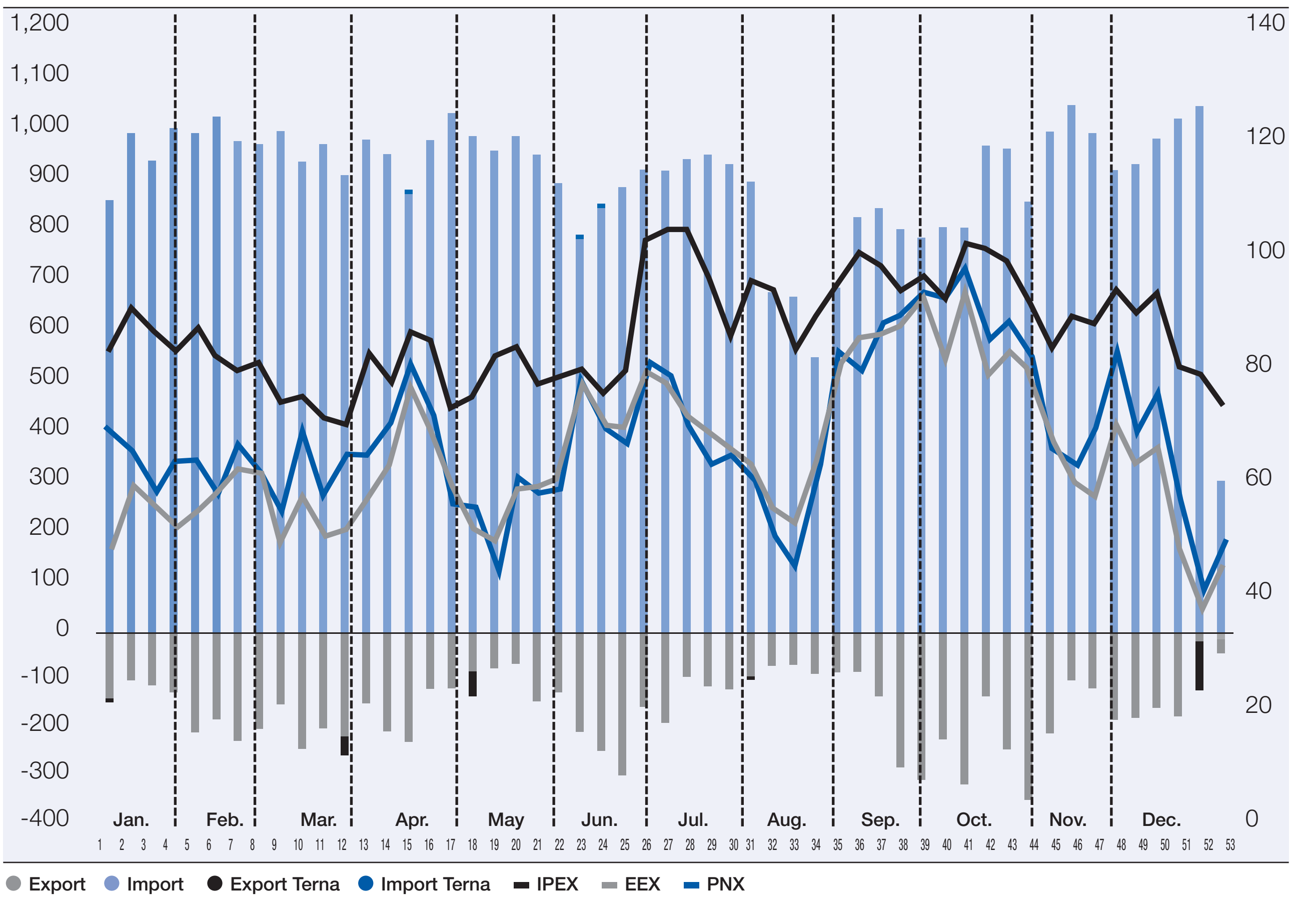
Coverage of demand

The maintenance forecasting and coordination procedures adopted by Terna, together with the start of operations of new generation plants, allowed for demand in 2008 to be covered with an adequate margin of reserves, as shown in the figure below.

RESERVE MARGINS AT PEAK

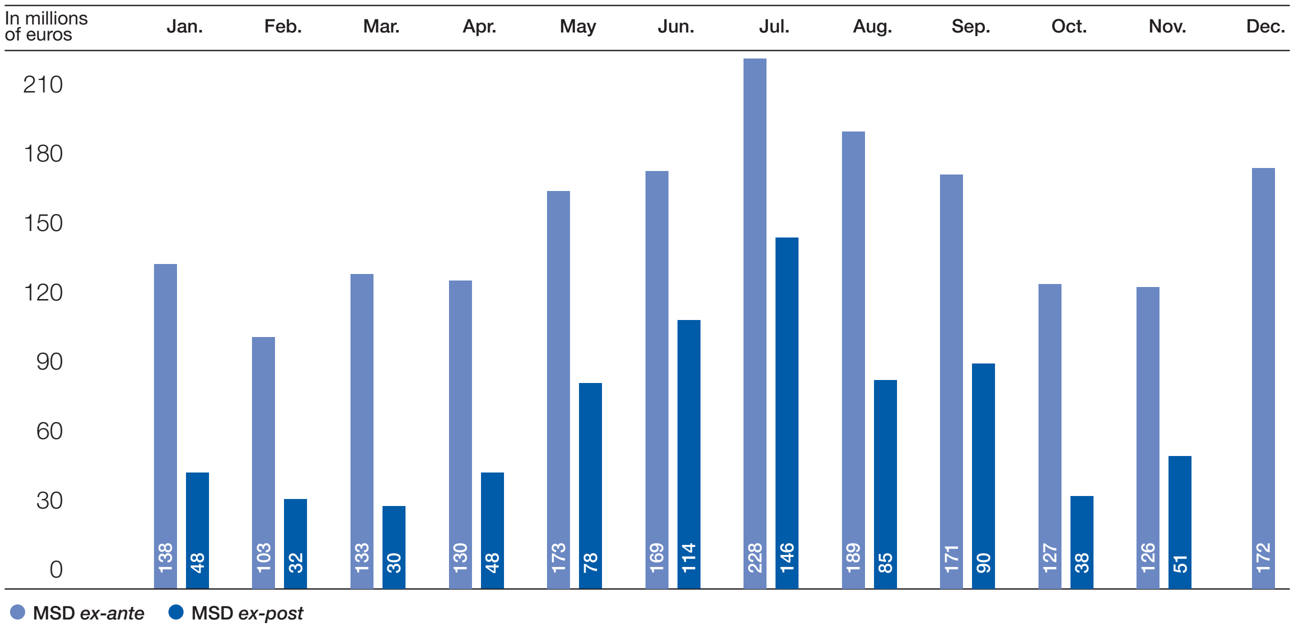


Conversely, the coverage margins for demand in Sicily and Sardinia, as forecasted, were extremely limited due to structural deficiencies in power generation and interconnection capacity with the mainland.
On the whole, the critical points of electrical system management, which were expected on the islands, were encountered in actual operations, thereby confirming the area of risk in covering demand with adequate reserve margins and thus the continuity of electricity supply.
With regard to foreign trade, the average hourly price differential between the Italian electricity market and those of France and Germany during the year was about 38% lower (€19/MWh vs. €32/MWh) than for the prior year. This trend led to a reduction in the net balance of trade of about 6.7 TWh in energy imports.

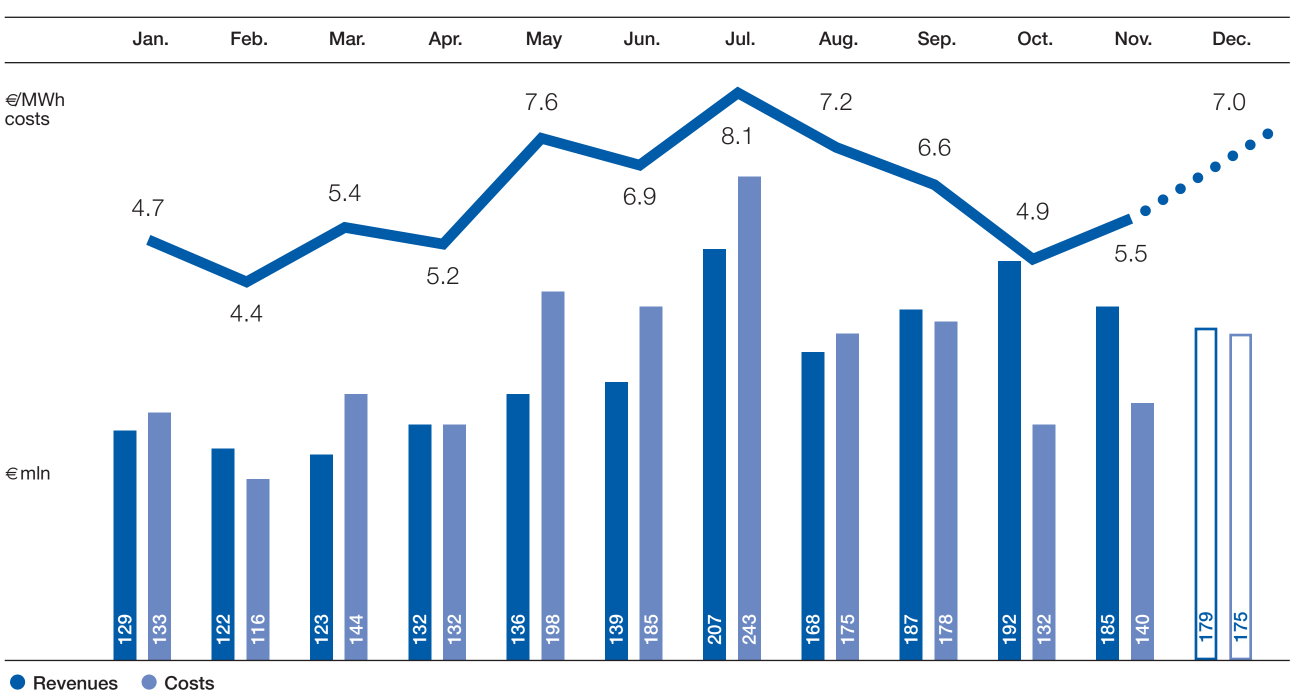


Provisioning of dispatching resources

In 2008, the structure of the energy market did not undergo any significant change. Accordingly, Terna operated on a daily basis on the day-ahead market, selling about 7.8 TWh of energy and purchasing some 3.5 TWh.
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 11.6 TWh of energy and selling 11.5 TWh, for a net outlay of €1,856 million.
Volumes bought and sold in relation to the real-time equalisation phase through November came to 8.8 TWh and 10.6 TWh, respectively, for a net charge of €760 million.



After the real-time phase, Terna verifies the proper execution of commercial obligations by the market participants, in terms both 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 measures based on 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 quota basis to each consumer in a fee called "uplift".
With Resolution no. 350/07, the Authority for Electricity and Gas modified the mechanism for calculating uplift from that of the previous year, effective as of January 2008. In particular, in calculating the actual monthly balance of dispatch charges, any positive balance to Terna resulting from the allocation and exercising of hedges for the volatility risk of the fees for the assignment of transport capacity ("CCC"), together with the assignment of rights to use transport capacity ("CCT") is to be deducted from the total value of the uplift charge.



Interruptibility service

In 2008, as approved by the Authority for Electricity and Gas, Terna allocated the power made available due to contract withdrawals or terminations to owners of resources that can be interrupted either instantaneously or on an emergency basis. This was done in order to ensure the safety of the electrical system in line with the foreseeable critical conditions of summer and winter. This allocation is effective from the first day of the month following that in which the tender process takes place and is valid until December 2010. The instantaneously interruptible power allocated in June and October 2008 totalled 86 MW and 53 MW, respectively.

Service quality, unsupplied energy and other service issues

Service quality in 2008 recorded decidedly positive figures for Energy Not Supplied (ENS) and number of supply failures per user (NDU), falling below the averages seen in recent years: ENS at 814 MW compared with a quality target of 1,425 MW; NDU at 0.20 compared with a quality target of 0.23.
In 2008, only one significant event, not the fault of Terna, occurred, and forest fires had only a limited impact on the availability of the transmission system. Such circumstances contributed to achieving these low numbers for unsupplied energy.
External critical issues included the abundant snowfalls of January 2008 and between November and December, both of which were recognised as being national disasters and which led to a number of power failures due to extraordinary weather conditions, whereas no particularly critical issues were recorded in the availability of gas and water.
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 indexes 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) = 0.67 min./period; National annual target = 1.00 min./year;
- SAIFI + MAIFI (system and momentary average interruption frequency indexes per user directly connected to the Terna NTG attributable to Terna) = 0.21; National annual target = 0.23;
- ENS (Energy Not Supplied attributable to Terna) = 428 MWh; National annual target = 550 MWh;
- ASA (Average System Availability of Terna network elements) = 99.15%; National annual target = 99.05%.

National Transmission Grid

Number of plants - Terna

The number of Terna plants at December 31, 2008, including former RTL assets, compared to the situation for Terna and RTL at December 31, 2007, is reported below:

	Terna Dec. 31, 2008	Terna+RTL Dec. 31, 2007	Terna Dec. 31, 2008	RTL Dec. 31, 2008
Stations	no. 371	no. 366	no. 319	no. 47
Transformers	no. 610 118,539 MVA	no. 610 117,543 MVA	no. 586 115,221 MVA	no. 24 2,322 MVA
Bays	no. 4,475	no. 4,437	no. 4,111	no. 326
Lines	39,456 km	39,446 km	36,142 km	3,304 km
3-phase power lines	no. 2,145 44,172 km	no. 2,159 44,201 km	no. 1,995 40,034 km	no. 164 4,167 km

Stations

The number of stations increased by a total of 5 compared with December 31, 2007, as follows:

1. whole plants:

- new switching stations became operational at Palo del Colle (3 cable bays and 1 parallel bay x 380 kV), Priolo (2 cable bays and 1 parallel bay x 380 kV) and Marcellinara (3 x 150 kV cable bays);
- new Serracapriola and Grottole delivery points became operational, each with an aggregate 3 x 150 kV cable bays;
- decommissioning of the Apuania switching station, inclusive of 2 x 220 kV bays;

2. existing plants:

- new 132 kV sections became operational at the following stations: Magenta (2 cable bays, 1 machinery bay, 1 parallel bay and 1 connector bay), Arco (2 cable bays and 1 parallel bay), Casanova (1 parallel bay and 1 connector bay) and Marginone (1 parallel bay and 1 connector bay);
- new cable bays were activated at the following stations: Rizziconi (1 x 380 kV), Cagno (1 x 380 kV), Moncalieri (3 x 220 kV), Pianezza (1 x 132 kV), Morigallo (1 x 132 kV), Arco (1 x 132 kV), Foiano (1 x 150 kV), Taranto Nord (1 x 150 kV), Bisaccia (1 x 150 kV), Piscioli (1 x 150 kV) and Andria (1 x 150 kV);
- new machinery and/or power factor correction bays were activated at the stations of: Santa Lucia (1 x 380 kV and 1 x 150 kV), Lacchiarella (1 x 380 kV), Sorgente (1 x 220 kV and 1 x 150 kV), Padriciano (2 x 220 kV), Verampio (1 x 220 kV), Magenta (1 x 220 kV) and Carpi Fossoli (1 x 132 kV);
- a new 132 kV parallel bay was activated at the La Casella station, and a new 220 kV connector bay at the Oristano station;
- deactivation and/or demolition of sundry bays at the following stations: Leinì (3 x 220 kV), Avise (2 x 220 kV), Buia (2 x 220 kV), Pallanzeno (1 x 220 kV and 3 x 132 kV), Morigallo (1 x 220 kV and 3 x 132 kV), Pianezza (1 x 220 kV and 2 x 132 kV), Cimego (3 x 132 kV), Verampio (1 x 132 kV) and Somplago (1 x 132 kV).

Over the year, the total number of operating bays increased by 38.

Transformers

The number of transformers was the same as at year-end 2007, though overall operational transformer capacity grew by around 996 MVA over the course of the year.

Long-distance power lines

The total length of long-distance three-phase power lines decreased by around 29 km compared with December 31, 2007. Line length increased by around 10 km. The total number of working power lines decreased by 14 compared with the previous year, after 7 units came online and 21 units were disconnected, for the most part as a result of combining lines for which responsibility was previously shared between Terna and RTL.

National Transmission Grid Development Plan

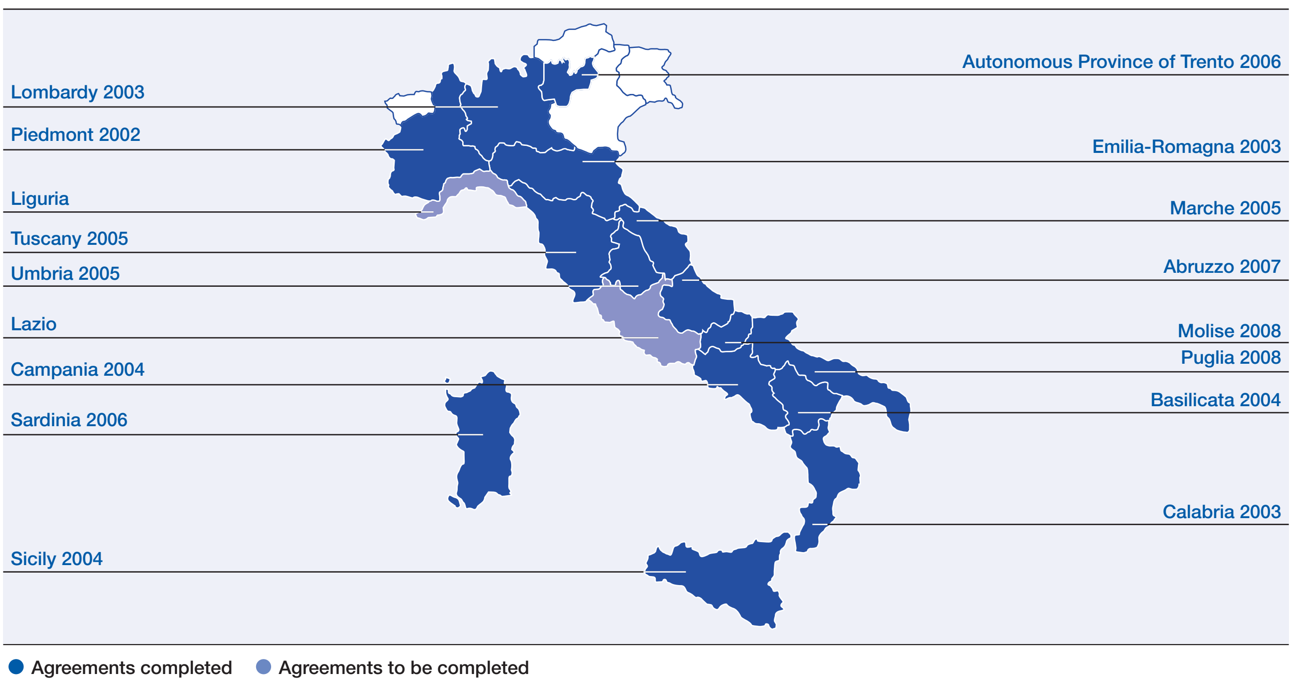
On December 11, 2008, the Ministry for Economic Development approved the National Transmission Grid Development Plan for 2008. The Ministry announced its final decision in a notice published in Official Journal of January 20, 2009, no. 15.
The 2008 Development Plan, which for the first time was subject to a Strategic Environmental Assessment (SEA) pursuant to Legislative Decree no. 152/06 “Environmental Regulations”, and Legislative Decree no. 4/08, was adopted with a number of conditions that were incorporated “as far as technically feasible” – the wording is from the Ministry – into the 2009 Plan.
In compliance with the timescale established in the Grid Code, on December 17, 2008 the Terna Board of Directors approved the 2009 National Transmission Grid Development Plan.
The 2009 Development Plan had already been favourably received (on October 31 and November 30, 2008) by the Users’ Consultative Committee, which, pursuant to the provisions of Antitrust Authority Decision no. 14542 of August 4, 2005, although expressing a “non-binding opinion”, is tasked with listening to the viewpoints of all industry stakeholders.
The 2009 Development Plan follows the structure of the previous year’s plan, and is divided into two sections. The first section is a roadmap of the decision-making process for identifying new actions to promote growth on the basis of a detailed analysis of grid performance over the previous 12 months. The second section recaps actions proposed in previous plans which are still required, and features a progress report on these actions.
In pursuit of a coordinated planning approach to developing the European transmission network, as recommended by the European Commission in its 3rd Energy Package (“[...] network operators would need coordinated long-term planning of system development with a view to planning network investments and monitoring the development of transmission network capacities. These development plans should be sufficiently forward looking (e.g., at least 10 years) so as to allow for the early identification of investment gaps, more especially with cross border capacities in mind […]”) the “Enlarged Europe” transmission grid operators adhered to the “UCTE Transmission Development Plan”, published on June 3, 2008. The impact of this plan on domestic transmission grids has been taken into account in the 2009 Development Plan.
In line with the previous Investment Plan, the 2009 Development Plan sets aside around €2.3 billion for the period from

2009 to 2013. If all interventions are completed, it is expected that over the short/medium term approximately 3,000 km of high-voltage lines will be added and around 80 new stations will be constructed, leading to a 14% increase in the National Transmission Grid's transformation capacity, corresponding to roughly 16,600 MVA.

Strategic Environmental Assessment (SEA) and the Integrated Planning Process

Directive no. 2001/42/EC, concerning the assessment of the effects of certain plans and programmes on the environment, extends environmental assessment (which was previously limited solely to Environmental Impact Assessments for individual projects with a potential impact on the environment) to planning and programming processes.
Terna began piloting the application of SEA to the National Transmission Grid Development Plan through protocols of understanding and framework agreements with regional governments in 2002. The objectives of these instruments are: dialogue regarding development requirements and participation in associated localisation decisions, information and data exchange; preparation of environmental reports; more knowledgeable and informed expressions of regional opinion on Development Plan content; and streamlining of the authorisation process for projects positively evaluated under SEA.
Piedmont was the first region to sign a protocol of understanding for SEA experimentation in 2002, followed, thus far, by thirteen regions and the Autonomous Province of Trento (Figure 1). Protocols of understanding are currently being negotiated with the regional governments of Liguria and Lazio.

SIGNATORY REGIONS TO THE NATIONAL TRANSMISSION GRID SEA PROTOCOL OF UNDERSTANDING



Directive no. 2001/42/EC was transposed into Italian Law in Part II of Legislative Decree no. 152 of April 3, 2006, "Environmental Regulations", which, after two postponements, became effective on July 31, 2007.
These regulations were subsequently amended by Legislative Decree no. 4/2008.
In 2007, Terna first applied SEA to its Development Plan for the National Transmission Grid (2008 Development Plan) in order to assess how best to integrate environmental issues into the planning process. The procedure was completed in October 2008, when the Ministry for Economic Development (MED) received a favourable opinion (including conditions) from the Ministry for the Environment (METPS), and from the Ministry for Cultural Heritage. In December 2008, the Ministry for Economic Development announced its approval of the Development Plan. Between October and December 2008, the proposing party (Terna), the relevant authority (MED), the competent authority (METPS) and other parties involved in the environmental process completed preliminary consultations to identify the extent and level of detail of information to be included in the 2009 Development Plan environmental report.
Pursuant to Legislative Decree no. 4/2008, as with the 2008 Development Plan, the plan will undergo evaluation via an SEA process undertaken by a technical committee comprised of the Ministry for the Environment, the Ministry for Cultural Heritage, the Ministry for Economic Development, and all of Italy's regional governments.

Agreements with bordering grid operators

During 2008 the following principal agreements were signed:

- *Terna and Electricité de France*: on July 2, 2008, Terna and Electricité de France signed a Memorandum of Understanding to conduct a study into the future use of SACOI, the interconnection line that currently runs between Corsica, Sardinia and continental Europe.
- *Montenegro interconnection:*
  - on November 7, 2008, Terna, the Montenegrin Ministry for Economic Development and the Montenegrin electricity company ElektroPrivreda Crne Gore (EPCG) signed an agreement regarding a feasibility study for the new Italy-Montenegro underwater connection;
  - on October 13, 2008, Terna and EPCG signed an agreement to develop the electricity interconnection between Italy and Montenegro.
- *Interconnection survey with Malta*: on June 5, 2008, Terna and Enemalta Corporation, Malta's public distribution grid company, signed an agreement to work together on a feasibility study regarding underwater electricity interconnection between the companies' respective networks. The companies began work on a survey which will investigate technical, environmental, regulatory and economic issues associated with interconnection. The survey is scheduled to be completed by mid-2009.
- *Interconnection survey with Tunisia*: on August 7, 2008, the Italian and Tunisian Ministries for Economic Development signed an intergovernmental agreement, the latest step in an integrated electricity generation and transmission project in Tunisia. Prior to this, on August 1, 2008, Terna had submitted an application for authorisation to build a new interconnection between Sicily and Tunisia, in application of the June 29, 2007 Italy-Tunisia intergovernmental agreement.

Status of authorisation applications

In 2008, 43 procedures were initiated, 27 of which were incorporated under the Development Plan.
During the course of 2008, authorisation was granted for 34 of these, 20 of which were part of the Development Plan (interventions pursuant to Law no. 387 and regional/provincial laws are not included in the tally).

Initiatives undertaken for environmental impact reduction

In 2008, Terna carried out many initiatives to reduce the environmental impact of its plants.
In particular:

- an agreement was signed with the LIPU environmental association. The main objective of the "Terna-LIPU" agreement is to conduct investigations into how birds interact with high-voltage power lines in order to assess the true impact that the transmission grid may have on migratory and non-migratory birds, and to evaluate potential methods for mitigating this impact;
- to offset the residual environmental impact of electricity works, agreements have been signed with local authorities where the following works are taking place: "Rationalisation in Val d'Ossola Sud", "Rationalisation in Lodi", "Udine - Redipuglia", the "Veneto Traverse" line, "New SE Troia", "New SE Avellino Nord", "New SE Bisaccia", "New SE Deliceto", "Restructuring Pollino", "Calabria Traverse" line, and the "Veneto Traverse" line. For the most part, the offsets covered by these agreements consist of co-financing urban and/or environmental renewal projects in the territory of the local authority with which the agreement has been drawn up;
- construction has begun on major rationalisation projects in areas such as the Val d'Ossola Sud and Valcamonica. Old lines are being demolished and new lines are being built using the latest technologies and optimised routes and configurations. Where necessary, underground cables are being installed. In Val d'Ossola, for example, over 40 compact, low-land occupation, low environmental impact pylons are being installed;
- drainage continued of a vast area at the Porto Torres Polluted Site of National Interest located at the SAPEI Fiume Santo converter station – just one example of Terna's policy of working as closely as possible with local governments and the Ministry for the Environment. Terna has been working with CESI to map polluted sites of national interest in or near Terna plants;
- experimentation with high temperature conductors continues, allowing better use of existing lines without further land occupation, route modifications or larger pylons;
- work has begun with ISPRA and CONISMA on multi-year monitoring of areas where SAPEI sea cables are laid.

Information Technology

Significant benefits were achieved in 2008 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 ICT 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 grid perimeter and real-time output (over 8,000 MW).
  The effectiveness of the Defence System was improved by extending disconnectable loads from distribution stations through the new emergency control panel system, which is now operational in the Regions of Campania and Sicily, and by extending monitoring to a greater number of events occurring on the interconnection with France.
- **Operating continuity** – In 2008, the Disaster Recovery project, conceived to ensure that electrical system critical operations continue to function, was extended to technology vital to the functioning of the electricity market. The solution implemented is capable of handling any disaster that may occur by migrating critical power market processes to the Disaster Recovery site, and ensuring that operations continue for internal clients and market operators.
- **Process improvement** – Significant improvements have been achieved in operating processes and, in particular, in the management of grid element and generation downtime. A number of changes to processes and tools have improved quality of service for dispatching users, particularly with regard to planning processes. A re-engineering of planning management processes in 2008 has generated the following benefits:
  - greater flexibility in planning downtime through the introduction of an on-demand mode;
  - an enhanced short- and medium-term suitability assessment approach;
  - enhanced monitoring capacity through the adoption of headline process indicator monitoring tools.
- Grid element downtime management processes are now more closely integrated with plant maintenance through a Geographic Information System platform that supports engineer teams as they track down the problem area. This platform allows operating area management to geo-reference sites scheduled for planned maintenance; through a link to the control and operation system, they may also geo-reference grid element anomalies in real-time and speed up intervention.
- **Dispatching incentives** – A new system for forecasting wind generation based on a neural network approach is now operational. Power requirement forecasting systems have also undergone a substantial overhaul. As a result, forecasting has now been certified to the highest international standards, and qualifies for a substantial part of the 2008 incentives set aside by the Authority for Electricity and Gas (AEEG).

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

- **Telecommunications infrastructure** – In 2008, Terna completed its technological upgrade of the control and operation system network backbone linking around 200 stations. This has generated the following significant benefits:
  - reliability is enhanced through a redundancy system based on the adoption of a variety of transmission technologies and providers;
  - effectiveness is enhanced by reducing redundancy activation times via an automatic routing system;
  - manageability is enhanced by bringing together all vectors of communication in a single monitoring and management tool.
- **Perimeter security** – Telecommunications infrastructure protection levels have been raised by installing perimeter protection devices to ensure that only authorised users and protocols may gain access. Intrusion prevention tools have been installed to monitor any fraudulent use of authorised traffic that may potentially be detrimental to IT network security.

3. Achievement of ICT management efficiency benefits

- The 2008 financial statements show that a significant reduction in ICT costs was achieved. Major efficiencies were registered in telecommunications operations and in IT system operation and maintenance through the adoption of an insourcing strategy which has led to improvements in intervention effectiveness and service costs. The insourcing of maintenance for the control and operation system had a significant influence in fostering these benefits.
- The first Regional Skill Centre was set up in Cagliari to leverage expertise and to speed up innovative projects.

Research and Development

Terna focuses on Research and Development with the aim of introducing technological solutions for plants, instruments and methods in order to boost plant reliability and, consequently, service quality, while making Company processes more efficient. A group of engineering experts monitors how well equipment is functioning, with the support of a specialised IT system (MBI). This group constantly looks for improvements to be made to equipment.
In particular, in 2008, the following projects were identified and implemented, or will be implemented during the course of 2009:
- installation of a new equipment monitoring system for the power plant at Lacchiarella (MCS);
- development of the "Enhanced Efficiency High Voltage" project (the design phase has been completed; currently, prototypes are being built and tested) to ensure higher levels of operating security and reduced maintenance costs;
- on-site trials of disconnection switches, following the start of installation in 2008, to enable remote earthing and bring down operating expenses;
- real model testing to verify electromechanical stresses generated by 63 kA short-circuit current;
- study to improve insulation coordination;
- introduction of the latest lighting technologies to reduce general service consumption;
- specification of machinery for voltage regulation (reactors and capacitors) and to regulate power flows (PST - Phase Shift Transformers);
- development of new compact integrated high-voltage equipment systems to reduce the amount of space occupied, and bring down construction and operating expenses;
- specification and pre-qualification of spacers and dampers for high-temperature wires;
- new software for three-dimensional ELF field calculations;
- start-up of a multi-year monitoring plan for surface insulation on high-voltage aerial lines;
- introduction of new flameproof composite cable terminals for 132/150, 220 and 380 kV voltages;
- new MBI-Line implementation with an online current renewal and acquisition module;
- review of line support calculations, in view of new domestic and international regulations;
- development of new working methods for "self-protecting" safety cable replacement;
- development of working methods for non-conventional structures (Foster pylons);
- development of working methods for tubular pylons and 150 kV insulating brackets;
- development of a new series of 150 kV pylons and tubular pylons for 22.8 mm wires, and a similar series for 31.5 mm wires;
- development of methodologies and specifications for acquiring emergency quick-assembly pylons;
- installation of conductor temperature and environmental parameter control panels for the Venaus-Villaroden long-distance line;
- introduction of new safety cables incorporating 48 optical fibres;
- expansion of 380 kV single-shaft tubular pylons, through the design of new pylons for high angle lines (30°) – a prototype will be built and tested in 2009.

These activities were pursued using internal resources, for the most part by teams organised into work groups in order to disseminate knowledge throughout the Company. Specialist support was drawn from developers, universities and the associated company CESI S.p.A. Terna S.p.A. incurred overall costs in respect of CESI of €11.2 million, of which €9.9 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, 2008.

Human Resources and Organisation

Organisational structure

There were no changes to Terna's organisational structure, with the exception of Gianni Armani's appointment as the new COO for Italy on December 17, 2008; prior to the appointment, the CEO had covered this position on an interim basis since September 2007.

Human resources

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

	Terna		
CHANGE IN THE WORKFORCE	at Dec. 31, 2008	at Dec. 31, 2007	Change
Senior management	65	68	-3
Middle management	485	464	+21
Office staff	1,907	1,875	+32
Production workers	1,067	1,088	-21
Total	**3,524**	**3,495**	**+29**

Figures for both years do not include terminations with effect from December 31.
The change in the headcount can be ascribed to the reinforcement of the organisational units working on the investment plan. The voluntary redundancy programme is still under way.

Human Resource Development

Following the "Terna People Care" action plan drafted after the first People Satisfaction Survey conducted in-house in 2007, during the course of 2008 a "Global Performance System" (GPS) mechanism was developed to manage and train resources and to pilot in-company growth. The GPS is a development tool for stimulating ongoing dialogue between employees and the Company, and supporting managers and collaborators in the performance feedback process necessary to achieving and improving Company results.

The "*Campus - Esperienze in rete*" programme is another training-oriented feature of the action plan introduced in 2008. Indeed, Campus has become the *de facto* basket for all Company training.

The programme systemises, enhances and optimises all education and training initiatives designed to develop soft, technical and professional skills among the Company's human resources. By recruiting the Company's most accomplished human resources to design programmes and teach at the Faculty Campus, Terna's specialist "proprietary" know-how is maintained, transferred and shared, while at the same time facilitating a sense of belonging to and being part of the Group.

Specialist training of employees increased from 2007, with particular attention being paid to safety issues. All line staff participated in a training campaign on updates to Terna's Measures for the Prevention of Electricity-Associated Risks.
During 2008, 3,359 employees took part in at least one training course. Training course hours increased by over 20% compared with 2007 (between 2006 and 2008, training hours rose by 37%).

People Satisfaction

The Company conducted a second survey on employee satisfaction in early 2008. The survey repeated the questions and methods used in 2007, and was sent out to all employees. Participation levels were up 10% on the already high levels recorded during the previous survey. Improvements were reported in areas addressed by the 2007-08 "Terna People Care" plan, which was drafted in the wake of the 2007 survey. Survey results and an updated progress report on the Action Plan were published on the Company intranet, once again proving the Company's commitment to pursuing this policy.

Management incentive plans

Short-term managerial incentive schemes include an MBO plan for 2008 targeted at senior and middle management, related to the achievement of individual, department and company performance objectives.
As regards long-term management incentive schemes, notably the 2006 Stock Option Plan, a further 30% (corresponding to 2,997,600 options) of all options granted (9,992,000) became exercisable from January 1, 2008. Over the course of the financial year, 430,200 options were exercised.
Finally, during its March 11, 2008 meeting, the Terna Board of Directors resolved to introduce a cash-based long-term incentive mechanism (LTI Plan) for Group management in order to create value and achieve the Group's challenging performance targets.
On April 22, 2009, the extraordinary Shareholders' Meeting voted to extend the time limit for exercise of the options under the above stock option plan by a further three years, until March 31, 2013, and consequently to amend Article 5 of the bylaws.

Payroll services

On September 30, 2008, payroll services ceased to be provided by the company Enel - Servizi Amministrazione del Personale.
Following the completion of a tender process, from October 2008 the service was awarded to Byte SH S.p.A.

Italy's regulatory framework

Regulatory framework

Below is a brief description of the main regulatory measures adopted in 2008 that affect the Company.

Legislative Decree no. 4 of January 16, 2008, *"Further corrective measures and amendments to Legislative Decree no. 152 of April 3, 2006, regarding environmental regulations"* published in the *Gazzetta Ufficiale* of January 29, 2008, no. 24, Ordinary Supplement no. 24.

Decree Law no. 90/2008, converted under Law no. 123 of July 14, 2008, *"Conversion into law, inclusive of amendments, of Decree Law no. 90 of May 23, 2008, regarding 'Extraordinary measures to tackle the waste disposal emergency in the Campania Region and additional civil protection measures'"*, published in the *Gazzetta Ufficiale* of July 16, 2007, no. 165.

Legislative Decree no. 81 of April 9, 2008, *"Implementation of art. 1, Law no. 123 of August 3, 2007, regarding occupational health and safety"*, published in the *Gazzetta Ufficiale* of April 30, 2008, no. 110, Ordinary Supplement.

Reform of Legislative Decree no. 42 of January 22, 2004 (the Cultural Heritage and Landscape Code).
Two legislative decrees were adopted that modified and amended legislation regarding, respectively, the landscape and cultural heritage.

A) Legislative Decree no. 62 of March 26, 2008, *"Further corrective measures and amendments to Legislative Decree no. 42 of January 22, 2004, regarding cultural heritage"*, published in the *Gazzetta Ufficiale* of April 9, 2008, no. 84.
B) Legislative Decree no. 63 of March 26, 2008, *"Further corrective measures and amendments to Legislative Decree no. 42 of January 22, 2004, regarding the landscape"*, published in the *Gazzetta Ufficiale* of April 9, 2008, no. 84.

Ministry for the Economy and Finance Decree no. 40 of January 18, 2008, *"Application of art. 48-bis of Presidential Decree no. 602 of September 29, 1973, regarding the regulation of payments by government bodies"*, published in the *Gazzetta Ufficiale* of March 14, 2008, no. 63 and in Ministry for the Economy and Finance Circular no. 22 of July 29, 2008.

Decree Law no. 97 of June 3, 2008, *"Urgent measures on monitoring and transparency regarding public expenditure allocation mechanisms, fiscal issues and deadline extensions"*, ratified with Law no. 129 of August 2, 2008, and published in the *Gazzetta Ufficiale* of August 2, 2008, no. 180.

Decree Law no. 93 of May 27, 2008, *"Urgent measures to protect family purchasing power",* ratified with Law no. 126 of July 24, 2008, published in the *Gazzetta Ufficiale* of July 26, 2008, no. 174.

Decree Law no. 162 of October 23, 2008, in coordination with Conversion Law no. 201 of December 22, 2008, regarding *"Urgent measures for adjustment of the price of raw materials for construction, and support for haulage, agriculture and professional fishing, in addition to funding for G8-associated works and the establishment of tax obligation fulfilment criteria for the Regions of the Marche and Umbria, which were affected by seismic phenomena in 1997"*, published in the *Gazzetta Ufficiale* of December 22, 2008, no. 298.
This decree introduces a temporary compensation package for adjusting raw material prices with regard to work contracts in sectors of special interest, with the exception of work undertaken and entered into the accounts during years prior to 2008, for which contractually-agreed terms remain in force, and excluding *"commissions for which a price-setting mechanism is already provided for under contractual terms and conditions"*.

Decree Law no. 185 of November 29, 2008, *"Urgent measures to support families, labour, employment and business and to redraft national strategic priorities in the light of combating the current crisis",* ratified with Law no. 2 of January 28, 2009, published in the *Gazzetta Ufficiale* of January 28, 2009, no. 22, Ordinary Supplement no. 14.
This Decree establishes a set of guiding principles for new regulations regarding the electricity and ancillary services markets, to be implemented in measures issued by the Ministry for Economic Development and the Authority for Electricity and Gas (AEEG) within three months of the conversion law taking effect.
The reform covers the following areas:
- creation of an intraday energy market functionally integrated into the ancillary services market;
- reform of the ancillary services market, which will be managed by Terna "in order to make it possible to select resource requirements sufficient to ensure electric system security";
- identification of measures to enhance efficiency and provide incentives to Terna for procuring such services;
- empowering the Ministry for Economic Development to split the network into three macro-zones, which may be exercised in 2011 if such a proposal is submitted by the AEEG after consulting Terna.

The decree also provides for a 3 percentage point reduction in corporate income tax (IRES) and regional business tax (IRAP) advance payments for the December 2008 tax period.

Ministry for Economic Development Decree of December 11, 2008, *"Calculation of the terms and conditions of electricity power import and export in 2009, and Acquirente Unico S.p.A. directives regarding multi-year import contracts covering 2009"*, published in the *Gazzetta Ufficiale* of December 30, 2008, no. 303.

Decree Law no. 207 of December 30, 2008, *"Extension of deadlines in urgent legislative and financial measures"*, published in the *Gazzetta Ufficiale* of December 31, 2008, no. 304.
This measure postponed a number of deadlines regarding legislative measures that will impact the Company, including the following:
- scheduled start date for class action legislation introduced by the 2008 Finance Act, now postponed until July 1, 2009;
- application of certain measures under the Consolidated Occupational Safety Law (Legislative Decree no. 81/08), now postponed until May 16, 2009, regarding: 1) compulsory notification of the Italian Workers' Compensation Authority (INAIL) of injuries that entail at least one day's absence from work; 2) prohibition against conducting medical examinations during the pre-hiring process;
- a number of regulations governing risk assessment, pursuant to art. 28, will not come into force until May 16, 2009, especially regarding issues "concerning work-related stress and certified dates" for the associated assessment documentation.

Summary of Authority for Electricity and Gas (AEEG) Resolutions

Reported below is a brief summary of the main resolutions taken by AEEG that affected the Company's activities in 2008.

ARG/elt Resolution no. 30/08

In this measure, the Authority modified Resolution no. 348/07 regarding rates for the 2008-2011 regulatory period. Specifically with regard to Terna, the resolution:

- modified art. 15 concerning the fee for withdrawals of reactive power, allowing for this to be regulated mutually by Terna and the distribution companies;
- required Terna to supply distribution companies with monthly data on energy withdrawn from generation plants connected to the National Transmission Grid;
- added a number of amendments to regulations regarding connections in Annex B of Resolution no. 348/07.

ARG/elt Resolution no. 65/08

In this resolution, regarding "Urgent measures for the calculation of prices relating to the electric power dispatching service in 2005", the Authority urgently intervened in the matter of adjustments to dispatching prices, establishing that:

- the quantities of energy generated and withdrawn in 2005 for which invoices were issued on May 22, 2008 (the date that the measure came into force) will not be subject to further invoices;
- any late adjustment resulting in the issue of a new invoice will be settled between Terna and the individual dispatching user affected by the adjustment, and will not therefore have any impact on all other users;
- adjusted amounts of energy will be assessed at the per-unit fees established under the previous invoice, with the exception of applying an adjustment coefficient to take into account delays in issuing invoices for dispatching service fees;
- the balance of income and expenses reported in the 2005 income statement and any adjustments will be included in calculating the uplift and distributed equally over the subsequent six months.

ARG/elt Resolution no. 68/08

In this resolution, regarding "Amendments to Annex A of the AEEG Resolution no. 111/06 of June 9, 2006, for the purpose of reviewing the terms and conditions of Terna's participation in the day-ahead market should there be a shortfall in demand, and for the purpose of setting the Value of Energy Not Supplied (VENF) should the Emergency Plan for Electric System Security (PESSE) be applied", the Authority made a number of amendments to Resolution no. 111/06, which regulates Terna's participation on the day-ahead market should the electric system experience a shortfall.
Specifically, the resolution establishes that if Terna applies the PESSE during planning or in real time, sales offers accepted on the market for dispatching service (reserve low to high), residual power margins low to high on the same market, and any actual imbalances between units generated and units consumed over the relevant periods and in the zones where Terna has recorded shortcomings in the electric system should be valued with reference to the estimated per-unit VENF to disconnectable loads equivalent to €3,000/MWh.
Furthermore, in order to close the day-ahead market, the resolution calls for Terna to present virtual sales offers for each relevant period and for each relevant zone on this market, at prices corresponding to the VENF for quantities equal to the total quantities covered by purchase bids, without indicating the bid prices placed by consumption units with reference to that relevant period.

ARG/elt Resolution no. 78/08

In this resolution, regarding "Measures concerning equalisation for the years 2005, 2006 and 2007 and extension of deadlines for verification of constraint V1 for the year 2007", the Authority ruled that procedures to define equalisation amounts for the year 2005 should resume immediately. With regard to 2006, the Authority has called for disbursement of an advance payment of equalisation amounts, while reserving the right for a balancing payment to be made. As regards Terna, the resolution establishes that within 60 days of the day that it comes into force (August 16, 2008), Terna, the Electricity Services Operator and the Single Buyer should undertake all balancing operations necessary to calculate final equalisation amounts for 2006.

ARG/elt Resolution no. 81/08

In this resolution, the Authority began proceedings to draft measures regarding the supplying of dispatching service to parts of Italy served by grids that are not interconnected (not even indirectly) with the National Transmission Grid – for the most part, a number of small islands. The procedure was scheduled to be completed by November 30, 2008.

ARG/elt Resolutions nos. 97/08 and 106/08

With these measures, the Authority acknowledged the particularly high uplift (the fee for costs of procuring resources on the ancillary services market, pursuant to art. 44 of Resolution no. 111/06) announced by Terna for the July/September 2008 quarter, and therefore made the following urgent provisions:

- called on Terna to add any market-enabled units connected to the electricity grid in Sicily and Sardinia to the list of units essential to electric system security no later than July 31, 2008;
- requested that Terna conduct a survey in order to assess whether or not there are any other cases in the country that require similar interventions to those adopted on Italy's largest islands, to be completed by September 30, 2008;
- requested that Terna recalculate the uplift value, taking into account the impact of measures contained in these resolutions.

As part of these provisions, the Authority also began proceedings to draft measures governing incentives to Terna for providing dispatching services; these procedures are scheduled to be completed by November 30, 2008.
The Lombardy Regional Administrative Court granted an appeal lodged by a number of operators against ARG/elt Resolutions nos. 97/08 and 106/08, and consequently cancelled the associated application deeds issued by Terna.

ARG/elt Resolution no. 99/08 (TICA)

In this resolution, the Authority adopted the amended text of technical and economic terms and conditions regarding connection to third-party access electricity grids for generating plants (the active connections code, or TICA). The Authority has produced a single code for all regulations regarding the connection of generating plants to all third-party access electricity grids (LV, MV, HV or VHV). The current regulatory framework for generators (Resolution no. 281/05) has substantially been maintained with regard to connection to the National Transmission Grid, with the exception of a few specific cases.

ARG/elt Resolution no. 105/08

In this measure, as in previous years, the Authority adopted measures for 2008 to ensure sufficient generating capacity by setting the fee for remuneration of production capacity availability (known as the capacity payment) for payment to generators over the period January 1 - December 31, 2008.

ARG/elt Resolution no. 110/08

In this resolution, the Authority issued urgent measures for the calculation of sums arising from dispatching operations in 2006. Similar to the provisions of ARG/elt Resolution no. 65/08 covering 2005, the Authority defined procedures for Terna to fulfil its obligations and calculate balancing payments for these amounts.

ARG/elt Resolution no. 115/08 (TIMM)

In this measure, the Authority adopted an "Amended text on wholesale electricity energy market and ancillary services market monitoring" (TIMM), having completely revised the regulations set forth under prior Resolution no. 50/05.
Specifically, the resolution regulates the terms, conditions and criteria that govern the undertaking of activities vital to the Authority's monitoring of the electricity market by Terna, the Electricity Market Operator and the Electricity Services Operator.

ARG/elt Resolution no. 116/08

In this measure, the Authority partially approved the proposal to divide the significant grid into zones, as identified by Terna in implementation of art. 15 of Resolution no. 111/06 and valid for the three-year period 2009-2011. Specifically, the Authority approved the proposal, with the exception of Terna's suggestion of dividing the nodes presently designated as belonging to the Northern zone into two separate zones: North-Western and North-Eastern. At the same time, the Authority ordered Terna to submit a revised proposal for approval by and no later than June 30, 2009, updating its division of the significant grid into zones for the period 2010-2011, specifically regarding the significant grid currently covered under the Northern zone.

ARG/elt Resolution no. 123/08

In this measure, the Authority implemented Community (art. 23 of Directive no. 2004/54/EC) and national (Legislative Decree no. 387/03) measures by approving the Regulation for resolving disputes between generators and grid operators regarding connection to electricity grids. The Regulation applies to connections to any third-party access electricity grids for renewable source-fuelled plants (including the National Transmission Grid).

ARG/elt Resolution no. 169/08

Pursuant to the provisions issued under Resolution no. 341/07, in this measure the Authority set the start and target levels for Terna S.p.A. electricity power transmission service continuity for the 2008-2011 regulatory period for the entire National Transmission Grid and each Terna Operational Area for the years 2008-2011. The levels set are wholly in line with the criteria identified under Resolution no. 341/07.

ARG/elt Resolution no. 182/08

With this measure, the Authority adopted "Access Rules" drafted by Terna in partnership with other grid operators in the working group established under the ERGEG Regional Initiative for Central and South Eastern Europe. The Authority has laid down regulations for 2009 regarding import/export congestion management for grids interconnecting beyond Italy's borders, in line with the measures adopted for 2008.

ARG/elt Resolution no. 187/08

With this measure, the Authority issued regulations requiring Terna to publish information on available capacity at electrical power generation units, starting from February 1, 2009. Specifically, Terna is required to publish the following information:

- the expected hourly value of available generating capacity for units generating no less than 100 MW, taking into account planned maintenance and outages;
- the actual hourly value of output capacity available for all units generating no less than 100 MW;
- the actual hourly value of output capacity available for each unit generating no less than 100 MW.

ARG/elt Resolution no. 188/08

In ARG/elt Resolution no. 188/08, the Authority updated rates for supplying transmission, distribution and electrical power metering services for 2009, along with prices for supplying the connection service. The Authority also brought in an optional bonus/penalty mechanism under which Terna could be eligible for additional remuneration as early as during the "work in progress" stage for specific construction projects deemed by the Authority to be strategic.

The same resolution contains provisions that should mitigate the risks of a drop-off in consumption. The Authority is allowing Terna to choose by March 31, 2009 whether or not to sign up for the guarantee mechanism that would limit Terna's level of risk. If the mechanism comes into force, for the remainder of the regulatory period, that is to say until the end of 2011:

- if the final volumes are lower than those applied for the 2009 rates, the Authority will top up Terna's remuneration for the portion of volume above and beyond a threshold of 0.5%;
- if the final volumes are higher than those applied for the 2009 rates, the Authority will request that Terna pay back its supplementary earnings for the portion of volume above and beyond a threshold of 0.5%.

Terna informed the Authority that it intended to participate in this optional mechanism.

ARG/elt Resolution no. 189/08

In this resolution, the Authority updated the fees set to cover Terna's recognised running costs for 2009 to 0.014 €cents/kWh.

ARG/elt Resolution no. 203/08

With this resolution, the Authority amended Resolution no. 111/06, covering the terms and conditions for supplying merit order dispatching services, and introduced some new regulations for 2009. The main changes are as follows:

- an option for consumption units to participate in the adjustment market, while at the same time closing down the bilateral negotiation platform;
- elimination of Terna's option to submit additional offers on the day-ahead market;
- reduction of the threshold for offers to consumers;
- inclusion in the uplift of an 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 0.013 €cents/kWh.

ARG/elt Resolution no. 205/08

In this measure, the Authority required Terna to assemble and manage a database surveying all electrical power generation plants connected directly or indirectly to third-party access electricity grids. The CENSIMP database, as it will be known, must have a minimum data content as specified in Annex A of the resolution. After recording this data in CENSIMP, for each plant, section and unit into which a plant might be divided, Terna must issue a unique ID code that meets the requirements set down in art. 6 of the resolution.

ARG/elt Resolution no. 206/08

In this measure, the Authority modified Resolution no. 351/07 by introducing an incentive mechanism for dispatching resource provisioning operations. The incentive scheme will be based on metering the volume of resources that Terna procures on the ancillary services market. Specifically, incentives are provided for Terna to reduce the volume it procures on the ancillary services market in 2009 compared with 2008. Up to €40 million in additional remuneration will be provided in exchange for a reduction of at least 13% in volume compared with 2008.

Grid Code

With reference to amendments to Network Transmission, Dispatch, Development and Safety Code (Grid Code):

- on April 3, 2008, a new version of the document "Identification of significant grid zones" (Appendix A. 24 of the Grid Code) was published for consultation by interested parties. After the consultation procedure, the document was sent to the Authority for approval. Partial approval was granted in Resolution no. 116/08;
- on June 3, 2008, an updated version of the following documents were published for consultation by interested parties:
  - Chapter 4 of the Grid Code - Dispatching rules;
  - Annex A. 23 of the Grid Code;
  - Annex A. 25 of the Grid Code;
  - Annex A. 60 of the Grid Code.

These documents must now be sent to the Authority and the Ministry for Economic Development for their respective evaluations:

- on August 7, 2008, the following documents were published (constituting part of or in attachment to the Grid Code):
  - Appendix A. 17 "Wind plant control and protection systems", which successfully passed Authority evaluation under ARG/elt Resolution no. 98/08;
  - Chapter 11 of the Grid Code – Transmission service quality –, which was positively evaluated in Resolution no. 1/08 issued by the director of AEEG's Markets Area;
  - Appendix A. 54 "Classification and recording of interruptions affecting users directly and indirectly connected to the National Transmission Grid", which was also positively evaluated in Resolution no. 1/08 of the director of AEEG's Markets Area;
- on October 2, 2008, in implementation of the Presidential Decree of April 16, 2008, which partially incorporated the result of an extraordinary appeal presented before the President, an updated version of Paragraph 3.9 (Security and Electric Risk) of Chapter 3 of the Grid Code was published;
- on October 17, an updated version of document A.15 "Taking part in the regulation of frequency and frequency/power" was published;
- in implementation of the Authority's ARG/elt Resolutions nos. 97/08 and 106/08, Annex A 27 was modified concerning the list of units essential to system security for the current year. This document was subsequently amended following a ruling by the Lombardy Regional Administration Court regarding appeals submitted by a number of operators challenging these resolutions. The amended version was published on October 24, 2008.

In regards to the Users' Consultative Committee pursuant to art. 1, paragraph 4 of the Prime Minister's Decree dated May 11, 2004, during meetings held prior to the date that this report was drafted, the Committee expressed opinions on the proposed amendments and updates to the Grid Code. As is customary, the Committee expressed two opinions on the 2009 Development Plan: an opinion on new interventions under the 2009 Development Plan, and a final opinion on the Terna 2009 Development Plan.

Operations in Brazil

Number of plants

The Group's plants in Brazil are detailed in the following table:

	TSN		NOVATRANS		ETEO		Total	
	No.	km	No.	km	No.	km	No.	km
Stations	12	-	6	-	3	-	21	-
Transformers	14	-	-	-	-	-	14	-
Bays	39	-	10	-	6	-	55	-
Lines	-	1,362	-	1,278	-	502		3,142

Compared with 2007, the number of plants increased essentially as a result of acquiring ETEO.

Operating activities

Novatrans Energia (NVT)

Line maintenance is carried out by Company employees starting January 2008, following the total insourcing of Operation and Maintenance activities (O&M).
Brazilian Electricity Regulator (ANEEL) Resolution no. 270 came into force in June 2008, establishing new rules regarding application of the variable fee (*Parcela Variavel*, an adjustment in monthly bills of transmission concession holders for actual availability of transmission equipment).

Stations

In 2008, maintenance activity at the stations continued through inspections and technical checks. Corrective maintenance operations included work on Thyristor Controlled Series Compensations (TCSC) at Imperatriz and Serra da Mesa, eliminating operational constraints that were restricting variable mode performance.
Control and monitoring activities continued with greater frequency for reactors contaminated with corrosive oil, though no breakdown has ever occurred in NVT's reactors. Work began on replacing contaminated coils.

Lines

No outages due to breakdowns or anomalies on the line occurred. Company staff has begun carrying out live maintenance operations.

Implementation activities

Upgrades (*melhorias*) authorised by ANEEL were carried out on the installation of additional ground switches at the TCSC, implementation and activation of a line breakdown localiser, while ancillary services work for independent stations was completed at Furnas and Eletronorte.

Service quality

Availability and failure rate indicators are provided below for 2007 and 2008.
These figures are calculated in accordance with the *Procedimentos de Rede* (grid procedures) of the Brazilian national system operator (Operador Nacional do Sistema elétrico - ONS).

NVT

Availability*	Dec. 2007	Dec. 2008	Failure rate*	Dec. 2007	Dec. 2008
NVT Linha	99.87%	99.96%	NVT Linha	0.47	0.39
NVT TCSC	99.31%	98.14%	NVT TCSC	6.10	7.13
NVT FSC	99.95%	99.80%	NVT FSC	1.00	1.34

(*) Excluding outages due to external causes or force majeure and owing to extensions and renewals.

Transmissora Sudeste Nordeste (TSN)

From February 1, 2008, all TSN and Munirah concession O&M activities were taken over by TSN employees.
From January 2008, GTESA and PATESA concessionary line maintenance was carried out by in-house personnel.
Modifications were made to GTESA's and PATESA's control and telecommunications systems in 2008. Station operations and maintenance were taken over by in-house personnel from January 2009.
ANEEL Resolution no. 270 came into force in June 2008, establishing new rules regarding application of the variable fee (*Parcela Variavel*).

Stations

Maintenance activities at the stations continued through inspections and technical checks.
Following the signing of agreements with reactor suppliers, in 2008 the working parts of 68% of reactors at risk of breakdown due to corrosive sulphur were replaced.
As a result of this, no breakdowns were reported at TSN reactors during the year.
In May 2008, ANEEL passed a resolution that from June 2009, outages associated with corrosive oil will no longer be considered as caused by force majeure. ANEEL has been petitioned to reconsider this position.

Lines

No permanent outages due to breakdowns or anomalies on the line occurred. Live maintenance operations have been taken in-house.

Implementation activities

Upgrading and reinforcement work (*melhorias* and *reforços*) authorised by ANEEL was carried out on new bays at the Serra da Mesa and Bom Jesus da Lapa stations. Construction work began on in-and-out bays on the Serra da Mesa-Rio das Eguas line at the new Serra da Mesa II station.

Service quality

Availability and failure rate figures are provided below for 2007 and 2008, broken down by concession.

These figures are calculated in accordance with ONS's *Procedimentos de Rede* (grid procedures).

TSN

Availability*	Dec. 2007	Dec. 2008	Failure rate*	Dec. 2007	Dec. 2008
TSN Linha	99.97%	99.98%	TSN Linha	0.57	0.28
TSN SVC	99.04%	99.60%	TSN SVC	2.02	5.02
TSN ATR	100.00%	99.85%	TSN ATR	0.25	0.25
TSN RT	100.00%	100.00%	TSN RT	-	-

(*) Excluding outages due to external causes or force majeure and owing to extensions and renewals.

MUNIRAH

Availability*	Dec. 2007	Dec. 2008	Failure rate*	Dec. 2007	Dec. 2008
Munirah Linha	100.00%	100.00%	Munirah Linha	-	-

(*) Excluding outages due to external causes or force majeure and owing to extensions and renewals.

GTESA

Availability*	Dec. 2007	Dec. 2008	Failure rate*	Dec. 2007	Dec. 2008
GTESA Linha	99.99%	100.00%	GTESA Linha	1.96	-

(*) Excluding outages due to external causes or force majeure and owing to extensions and renewals.

PATESA

Availability*	Dec. 2007	Dec. 2008	Failure rate*	Dec. 2007	Dec. 2008
PATESA Linha	100.00%	99.96%	PATESA Linha	-	-

(*) Excluding outages due to external causes or force majeure and owing to extensions and renewals.

Empresa de Transmissão de Energia do Oeste (ETEO)

O&M activities are almost wholly outsourced through a contract with CTEEP. Corrective and extraordinary maintenance was carried out by in-house employees.
A decision was made to take over line maintenance from January 19, 2009, and to bring the remaining O&M operations inhouse from January 2010.

Stations

In 2008, maintenance activity at stations continued with inspections and technical checks. Specific monitoring was carried out of the reactors contaminated with corrosive oil.

Lines

No outages due to breakdowns or anomalies on the line occurred.

Service quality

The availability and failure rate figures are provided below for 2007 and 2008.
These figures are calculated in accordance with ONS's *Procedimentos de Rede* (grid procedures).

ETEO

Availability*	Dec. 2007	Dec. 2008	Failure rate*	Dec. 2007	Dec. 2008
ETEO Linha	99.99%	99.96%	ETEO Linha	0.20	1.19
ETEO RT	99.77%	99.82%	ETEO RT	-	0.50

(*) Excluding outages due to external causes or force majeure and owing to extensions and renewals.

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 consist 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 with Anas S.p.A.

The Parent's corporate governance rules, which are detailed in the specific report attached to this Directors' Report and available on the www.terna.it website (refer to this for information), 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 revenues and costs posted for the year, and receivables and payables at December 31, 2008, 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 expenses" and "Services", respectively.
Below is a list of the main intercompany transactions affecting the shareholders of the foreign subsidiaries over the year:

Dividends and interest on equity

On March 25, 2008, following a resolution of the ordinary shareholders' meeting of March 10, 2008, Terna Participações S.A. distributed to its shareholders the balance of its dividend and interest on equity for 2007. The aggregate payout corresponded respectively to R$ 54,562,216.09 (R$ 0.62 per unit) and R$ 12,325,769.47 (R$ 0.14 per unit). The total paid out to Terna S.p.A. amounted to R$ 35,962,874.04 (around €13.3 million) in dividends and R$ 8,124,121.90 (around €3.0 million) in interest on equity.
During the third quarter of 2008, following a resolution of the ordinary shareholders' meeting of July 30, 2008, Terna Participações S.A. distributed an interim dividend for FY 2008 (on August 28, 2008) to its shareholders. The aggregate payout corresponded respectively to R$ 84,673,873.25 (R$ 0.964179 per unit); the payout to the Parent Terna amounted to R$ 55,770,429.79 (around €23.2 million).

ETEO capital reduction

On October 22, 2008, the ETEO extraordinary shareholders' meeting authorised the reduction of the company's share capital by R$ 123.0 million by cancelling the shares held by Terna Participações. As a consequence of the financial crisis and credit crunch commencing in October, pursuant to the provisions of art. 173 of Law no. 6.404176, shareholders approved a R$ 40.0 million reduction, rather than a R$ 123.0 million reduction, by cancelling 10,305,650 ordinary shares and 29,694,350 redeemable preferred shares. After the capital reduction, shareholders' equity amounted to R$ 125,688,086.

Redemption of TSN preferred shares

On September 30, 2008, pursuant to art. 5 § 4 of the company Bylaws, the Board of Directors authorised the redemption of preferred shares up to a ceiling of R$ 180.0 million by drawing on a specially established statuary reserve pursuant to art. 28 of the articles of association. Subject to approval by the Banco Nacional de Desenvolvimento Economico e Social, which was received on December 23, the share redemption took place on December 29, and involved 1,341,191 redeemable shares for a value of R$ 7.0 million.

Terna Serviços capital increase

In December, the company's shareholders' meeting authorised a R$ 2.3 million share capital increase through the issue of 2.3 million new shares at a par value of R$ 1.00 each. The capital increase was fully subscribed by the sole shareholder, Terna Participações.

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 2008, 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 (2007)	Number of shares acquired (in 2008)	Number of shares sold (in 2008)	Number of shares held at the end of the current year (2008)	Type of possess [1]
Luigi Roth	Terna S.p.A.	0	0	0	0	-
	Terna Participações S.A.	1	1	0	1	ownership
Flavio Cattaneo	Terna S.p.A.	0	100,000	0	100,000	ownership
	Terna Participações S.A.	1	1	0	1	ownership
Cristiano Cannarsa [2]	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.	20,000 [3]	20,000 [4]	0	40,000 [5]	ownership
Michele Polo	Terna S.p.A.	0	0	0	0	-
Vittorio Rispoli	Terna S.p.A.	0	0	0	0	-
Luigi De Paoli [6]	Terna S.p.A.	10,000 [7]	5,000	5,000	10,000 [8]	ownership
Mario Garraffo [6]	Terna S.p.A.	0	0	0	0	-
Carmine Macrì [6]	Terna S.p.A.	0	0	0	0	-
Piero Giuseppe Maranesi [6]	Terna S.p.A.	0	0	0	0	-
Franco Smurro [6]	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	-
Giovanni Ferreri	Terna S.p.A.	0	0	0	0	-
Giancarlo Russo Corvace	Terna S.p.A.	0	0	0	0	-
Roberto Tasca	Terna S.p.A.	3,000	0	0	3,000	ownership
Vito Di Battista	Terna S.p.A.	0	0	0	0	-
Bruno Franceschetti	Terna S.p.A.	0	0	0	0	-

(1) This column – which is in addition to the format provided 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) In office since April 28, 2008.
(3) Including: 20,000 held by spouse.
(4) Including: 20,000 held by spouse.
(5) Including: 40,000 held by spouse.
(6) In office up to April 28, 2008.
(7) Including: 7,000 personally and 3,000 held by spouse.
(8) Including: 7,000 personally and 3,000 held by spouse.

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

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

Other information

Treasury shares

The Company does not hold any treasury shares or shares in Cassa Depositi e Presiti 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 2008 Security Policy Document pursuant to the Personal Data Protection Code (Legislative Decree no. 196 of June 30, 2003). During the year, the Company incorporated "privacy management" into its internal procedures, where applicable, as specified in a measure by the Privacy Authority published in the *Gazzetta Ufficiale* of July 1, 2008, no. 152.

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 (Attachment - Corporate Governance), which is attached to the Directors' Report.

Certification pursuant to art. 2.6.2 of the Borsa Italiana 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 (16191/2007).
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

Loan from Cassa Depositi e Prestiti

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. The funds will be used to meet the financing needs of Terna for its 2009-2013 investment programme.
The interest rate on the financing disbursed will be equal to Euribor increased by CDP's funding costs plus a margin of 70 basis points applied by CDP.

2009-2013 Business Plan

On **February 3, 2009**, Terna presented its 2009-2013 Business Plan, approved by the Board of Directors that same day, to financial analysts.
Thanks to the achievement of targets for the development and consolidation of the grid by means of the acquisition, completed according to plan, of Enel Linee Alta Tensione S.r.l. ("ELAT"), which gave it control of Enel's high-voltage grid, and thanks also to a sound regulatory environment recognising the Company's role as a provider of infrastructure, the Terna Group was able to proceed with the definition of its 2009-2013 Business Plan, which sets out four main guidelines, as follows:

- sustainable growth, by developing the National Transmission Grid through investments totalling around €3.4 billion in the period 2009-2013, which marks an increase of €300 million compared with the previous plan;
- improved margins, mainly by increasing revenues and containing costs in respect of regulated activities in Italy;
- strengthening and enhancing the sustainability of the capital structure of Terna S.p.A., which will already be partly realised in 2009 once the Group has finalised the acquisition of ELAT;
- system safety and reliability, through the Group's commitment to ensuring top-level safety in the electricity system and guaranteeing the reliability of the National Transmission Grid, in accordance with the instructions of the AEEG and international best practices.

Rating

Following Terna's presentation of its five-year Business Plan, the rating agencies made the following changes:
Moody's: revised Terna's long-term rating from "A1" to "A2", and assigned a stable outlook;
Standard & Poor's: revised Terna's long-term rating from "AA-" with a negative outlook to "A+" with a stable outlook; and revised the rating on short-term debt from "A-1+" to "A-1";
Fitch: maintained its negative rating watch on Terna's long-term debt at "A+", on senior unsecured debt at "AA-" and on short-term debt at "F1", while it will proceed with a downgrading of Terna rating by a maximum of one notch after the operation for the acquisition of Enel Linee Alta Tensione (ELAT) has been approved and completed.
The decision to carry out a limited downgrade of Terna, which nonetheless retains a very strong rating that is one of the best in the industry, is based on the expectation of the higher level of debt envisaged in the 2009-2013 Business Plan.
In addition to the acquisition of ELAT as described above, the Business Plan envisages investment spending to develop the National Transmission Grid and a confirmation of the Group's policy on dividends.

Purchase of securities from Cassa Depositi e Prestiti

On **February 12, 2009**, Terna finalised an operation for the purchase of bonds worth €700 million from Cassa Depositi e Prestiti. The bonds mature on February 2, 2010 and carry a two-monthly coupon of 2-month Euribor plus 0.65 percentage points. The arrangement allows the buyer to request early redemption at specified dates.

Intercompany lending and the extinguishment of promissory notes

On **February 16, 2009**, Terna S.p.A. and Terna Participações signed an agreement for an intercompany loan in the nominal amount of R$ 500 million. The loan was made on an arm's length basis (the interest rate is set at the CDI interbank rate plus 115 basis points until May 31, 2009 and 300 basis points thereafter). The agreement allows for the early repayment of the loan and its renewal for up to three years, at the discretion of Terna S.p.A. The loan was disbursed on February 19, 2009 (value dated February 25, 2009) and totals €169,721,656.48.
The loan enabled Terna Participações to make early repayment on the promissory notes maturing on May 31, 2009 used to fund the acquisition of ETEO.

Outlook

The year 2009 will be focused on the implementation of 2009-2013 Business Plan, approved by the Board of Directors and discussed under "Subsequent events". Specifically, the Company will be engaged in the implementation of investments called for under the Development Plan, while achieving operating efficiencies and pursuing its objective of providing the highest possible standards of service quality. The Company will also be completing its acquisition of ELAT S.r.l., and managing that business in compliance with the Group's criteria of quality and efficiency.

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as of December 31, 2008

Terna

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Consolidated income statement

In millions of euros	Notes	2008	2007	Change
A. Revenues				
1. Revenues from sales and services	1	1,336.3	1,296.2	40.1
of which from related parties		*1,425.9*	*1,100.7*	*325.2*
2. Other revenues and income	2	58.9	52.0	6.9
of which from related parties		*4.0*	*4.1*	*-0.1*
Total revenues		**1,395.2**	**1,348.2**	**47.0**
B. Operating expenses				
1. Raw materials and consumables	3	30.3	16.7	13.6
2. Services	4	131.3	135.2	-3.9
of which to related parties		*10.0*	*13.8*	*-3.8*
3. Personnel expenses	5	263.6	238.6	25.0
of which to related parties		*2.1*	*3.0*	*-0.9*
4. Amortisation, depreciation and impairment losses	6	282.2	257.3	24.9
5. Other operating expenses	7	39.8	28.9	10.9
of which to related parties		*0.5*	*0.8*	*-0.3*
6. Capitalised internal work	8	-66.3	-51.2	-15.1
Total expenses		**680.9**	**625.5**	**55.4**
A-B Operating profit		**714.3**	**722.7**	**-8.4**
C. Financial income/(expense)				
1. Financial income	9	35.0	34.8	0.2
of which to related parties		*0.4*	-	*0.4*
2. Financial expense	9	-217.5	-150.8	-66.7
3. Share of profit/(losses) of equity-accounted investees	10	2.6	1.1	1.5
D. Profit before taxes		**534.4**	**607.8**	**-73.4**
E. Income taxes	11	193.0	173.6	19.4
F. Profit for the year		**341.4**	**434.2**	**-92.8**
Profit for the year attributable to the shareholders of the Parent		**327.5**	**415.3**	**-87.8**
Profit for the year attributable to minority interests		**13.9**	**18.9**	**-5.0**
Basic earnings per share	12	0.164	0.208	-0.044
Diluted earnings per share	12	0.163	0.207	-0.044

Consolidated balance sheet assets

In millions of euros	Notes	at Dec. 31, 2008	at Dec. 31, 2007	Change
A. Non-current assets				
1. Property, plant and equipment	13	6,035.8	5,620.1	415.7
of which from related parties		*21.1*	*16.5*	*4.6*
2. Goodwill	14	203.9	200.2	3.7
3. Intangible assets	15	279.3	180.2	99.1
4. Deferred tax assets	16	187.1	166.6	20.5
5. Equity-accounted investees	17	38.2	30.8	7.4
6. Non-current financial assets	18	115.5	0.1	115.4
7. Other non-current assets	19	5.5	6.0	-0.5
Total non-current assets		**6,865.3**	**6,204.0**	**661.3**
B. Current assets				
1. Inventories	20	17.7	12.6	5.1
2. Trade receivables	21	1,730.4	1,541.1	189.3
of which from related parties		*102.3*	*187.2*	*-84.9*
3. Current financial assets	18	6.9	2.5	4.4
of which from related parties		*0.2*	*1.6*	*-1.4*
4. Cash and cash equivalents	22	779.7	244.0	535.7
5. Tax assets	23	25.9	3.2	22.7
6. Other current assets	19	28.9	33.1	-4.2
of which from related parties		*0.1*	*0.0*	*0.1*
Total current assets		**2,589.5**	**1,836.5**	**753.0**
Total assets		**9,454.8**	**8,040.5**	**1,414.3**

Consolidated balance sheet liabilities

In millions of euros	Notes	at Dec. 31, 2008	at Dec. 31, 2007	Change
C. Equity attributable to the shareholders of the Parent				
1. Share capital		440.2	440.1	0.1
2. Other reserves		771.3	817.4	-46.1
3. Retained earnings		656.3	602.8	53.5
4. Interim dividend		-118.5	-112.0	-6.5
5. Profit for the year		327.5	415.3	-87.8
Total equity attributable to the shareholders of the Parent		**2,076.8**	**2,163.6**	**-86.8**
D. Equity attributable to minority interests		86.9	111.5	-24.6
Total equity	24	**2,163.7**	**2,275.1**	**-111.4**
E. Non-current liabilities				
1. Long-term loans	25	3,955.3	2,765.5	1,189.8
2. Employee benefits	26	153.9	153.4	0.5
3. Provisions for contingencies and charges	27	81.6	69.3	12.3
4. Deferred tax liabilities	28	376.6	404.5	-27.9
5. Non-current financial liabilities	25	66.7	58.0	8.7
6. Other non-current liabilities	29	407.6	358.0	49.6
of which from related parties		*0.8*	*0.8*	-
Total non-current liabilities		**5,041.7**	**3,808.7**	**1,233.0**
F. Current liabilities				
1. Short-term loans	25	160.2	-	160.2
2. Current portion of long-term loans	25	79.0	71.8	7.2
3. Trade payables	30	1,880.6	1,772.0	108.6
of which to related parties		*52.2*	*88.6*	*-36.4*
4. Income tax liabilities	30	1.8	2.3	-0.5
5. Current financial liabilities	25	34.0	20.8	13.2
6. Other current liabilities	30	93.8	89.8	4.0
of which to related parties		*7.0*	*1.3*	*5.7*
Total current liabilities		**2,249.4**	**1,956.7**	**292.7**
Total equity and liabilities		**9,454.8**	**8,040.5**	**1,414.3**

Statement of changes in consolidated equity*

DECEMBER 31, 2007 - DECEMBER 31, 2008
CONSOLIDATED SHARE CAPITAL AND RESERVES

				Translation reserve	
In millions of euros	Share capital	Legal reserve	Other reserves	Goodwill	Other
At December 31, 2007	**440.1**	**88.0**	**729.4**	**30.9**	**25.6**
Allocation of profit for 2007					
Dividends					
Profit for 2007 to be allocated					
Retained earnings					
Translation of financial statements of foreign companies				-28.8	-30.9
Cash flow hedges			-47.4		
Stock options	0.1		1.3		
2008 interim dividend					
Profit for the year					
At December 31, 2008	**440.2**	**88.0**	**683.3**	**2.1**	**-5.3**

(*) For more details, please see note 24 “Equity attributable to the shareholders of the Parent”.

DECEMBER 31, 2006 - DECEMBER 31, 2007
CONSOLIDATED SHARE CAPITAL AND RESERVES

				Translation reserve	
In millions of euros	Share capital	Legal reserve	Other reserves	Goodwill	Other
At December 31, 2006	**440.0**	**88.0**	**731.5**	**23.0**	**23.4**
Allocation of profit for 2006					
Retained earnings					
Dividends					
Changes recognised directly in equity					
Translation of financial statements of foreign companies				*7.9*	*15.3*
Effective portion of changes in the fair value of cash flow hedges			*2.2*		
Exercise of stock options	*0.1*		*1.7*		
Reclassifications			*-6.0*		*-13.1*
2007 interim dividend					
Profit for the year					
At December 31, 2007	**440.1**	**88.0**	**729.4**	**30.9**	**25.6**

Retained earnings	Interim dividend	Profit for the year	Equity attributable to the shareholders of the Parent	Share capital and reserves attributable to minority interests	Profit for the year attributable to minority interests	Equity attributable to minority interests	Total equity
546.3	-112.0	415.3	2,163.6	92.6	18.9	111.5	2,275.1
	112.0	-302.1	-190.1		-7.1	-7.1	-197.2
			-			-	-
113.2		-113.2	-	11.8	-11.8	-	-
			-59.7	-19.8		-19.8	-79.5
			-47.4			-	-47.4
			1.4	0.2		0.2	1.6
	-118.5		-118.5	-11.8		-11.8	-130.3
		327.5	327.5		13.9	13.9	341.4
659.5	-118.5	327.5	2,076.8	73.0	13.9	86.9	2,163.7

Retained earnings	Interim dividend	Profit for the year	Equity attributable to the shareholders of the Parent	Share capital and reserves attributable to minority interests	Profit for the year attributable to minority interests	Equity attributable to minority interests	Total equity
417.9	-106.0	389.2	2,007.0	102.3	7.5	109,8	2.116,8
109.2		-109.2	-	-3.9	3.9	-	-
	106.0	-280.0	-174.0		-11.4	-11.4	-185.4
			23.2	8.0		8.0	31.2
			2.2				2.2
			1.8	0.1		0.1	1.9
19.2			0.1			-	0.1
	-112.0		-112.0	-13.9		-13.9	-125.9
		415.3	415.3		18.9	18.9	434.2
546.3	-112.0	415.3	2,163.6	92.6	18.9	111.5	2,275.1

Consolidated cash flow statement*

In millions of euros	December 31, 2008	December 31, 2007
Profit for the year	**341.4**	**434.2**
Adjustments for:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on non-current property, plant and equipment and intangible assets**	272.3	248.7
Exchange rate gains/(losses) on assets and liabilities (including cash and cash equivalents)	5.8	-3.3
Accruals to provisions (including employee-related provisions) and impairment losses	54.5	33.8
(Gains)/Losses on disposals of property, plant and equipment	-2.9	-0.6
Financial (income)/expense	169.3	123.0
Income taxes	193.4	177.4
Cash flows generated by operating activities, before changes in net working capital	**1,033.8**	**1,013.2**
Decrease in provisions (including employee-related and tax provisions)	-46.2	-43.0
(Increase)/Decrease in inventories	-5.1	-3.6
(Increase)/Decrease in trade receivables and other current assets	-193.7	-357.0
Increase/(Decrease) in other non-current liabilities	-58.1	58.2
Increase/(Decrease) in other non-current assets	-137.8	-41.0
Increase/(Decrease) in trade payables and other liabilities	268.7	481.7
Interest income and other financial income received	165.8	55.3
Interest expense and other financial expense paid	-333.1	-171.1
Income taxes paid	-242.7	-328.0
Cash flows generated by operating activities [a]	**567.8**	**664.7**
Investments in property, plant and equipment, net of recognised grants	-731.2	-576.7
Recognition of acquired companies' property, plant and equipment	-98.1	-53.6
Revenues from sale of non-current property, plant and equipment	9.2	3.2
Investments in non-current intangible assets	-28.9	-24.9
Recognition of intangible assets (concession) of new acquisitions	-127.3	-19.5
Goodwill from acquisitions	-32.5	-11.0
Acquisition of equity investment in joint ventures	-9.4	-23.3
Cash flows generated by investing activities [b]	**-1,018.2**	**-705.8**
Change in capital	0.1	0.1
Change in reserves	1.8	1.8
Change in medium/long-term financial payables (including short-term portions)***	1,107.5	435.4
Change in short-term financial payables and term credit lines	226.7	-50.0
Dividends paid	-327.5	-311.3
Cash flows generated by financing activities [c]	**1,008.6**	**76.0**
Exchange rate effect on cash and cash equivalents [d]	-22.5	8.7
Increase/(Decrease) in cash and cash equivalents [a+b+c+d]	**535.7**	**43.6**
Opening cash and cash equivalents	244.0	200.4
Closing cash and cash equivalents	779.7	244.0

(*) For comments on consolidated cash flow statement, please see the section "Notes to the consolidated cash flow statement" in the notes.
(**) Net of plant grants recognised in the income statement.
(***) Net of FVH derivatives.

Notes to the financial statements

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A. has registered offices in Via Arno 64, Rome, Italy. Its consolidated financial statements as at and for the year ended December 31, 2008 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 11, 2009.
The consolidated financial statements as of and for the year ended December 31, 2008 are available upon request at the Terna S.p.A. registered offices in via Arno 64, Rome, or at the Company website www.terna.it.

Conformity with IAS/IFRS

The consolidated financial statements as of and for the year ended December 31, 2008 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 no. 15519 (*"Provisions governing financial statements in implementation of art. 9 paragraph 3, of Legislative Decree no. 38/2005"*) and no. 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.

Presentation criteria

The consolidated financial statements are comprised of the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes thereto.
In the balance sheet, assets and liabilities are classified on a "current/non-current" basis, with specific mention of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for 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 balance sheet date.
The income statement is classified on the basis of the nature of costs, while the cash flow statement has been prepared using the indirect method.
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.

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.

In the preparation of the consolidated financial statements as of and for the year ended December 31, 2008, the balance of some captions of the comparative data at December 31, 2007 have been restated on the basis of the early application of IAS 23 (revised in 2007), hereinafter also IAS 23R, endorsed by the European Commission at the end of December. The new standard endorsed by the European Commission takes effect as from January 1, 2009, with the possibility of early application. In addition, the standard also allows entities to set a date (the "commencement date") as from which to begin the capitalisation of borrowing costs that meet the requirements for capitalisation provided for in IAS 23R. The Company

has therefore elected to apply IAS 23R early as from 2008 and has set January 1, 2006 as the commencement date. The early application of the standard means that the borrowing costs in respect of the construction and purchase of property, plant and equipment and intangible assets that, as of January 1, 2006, meet the requirements of IAS 23R have been capitalised as components of the cost of the assets. Until last year all financial expense had been taken to profit or loss in the period in which it was incurred.
The overall impact of the changes, accounted for in accordance with IAS 23R and IAS 8, increased profit for the year and equity at December 31, 2007, by € 1.4 million and € 1.6 million (net of the related tax effect) respectively.
Earnings per share and diluted earnings per share for 2007 were essentially unchanged. The adjustments to the comparative figures for 2007 regarded the following items of the balance sheet and the income statement:
property, plant and equipment (+ € 2.2 million), deferred tax liabilities (+ € 0.6 million), retained earnings (+ € 0.2 million), financial expense (- € 2.0 million) and taxes for the year (+ € 0.6 million).
For a more complete discussion of the assumptions adopted, please see the section "Financial income and expense" below.

The 2007 balances also reflect the amounts determined following completion of the allocation of the difference between purchase price for the companies GTESA and PATESA and the fair value of their assets and liabilities at the acquisition date. The allocation was conducted on the basis of a specific appraisal performed by independent experts. In particular, the final determination of the fair values of the assets acquired and liabilities assumed is described in the section "F. Business combinations".

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 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	Share capital	Currency	Direct % holding	Consolidation method
		Companies controlled directly by Terna S.p.A.				
Terna Participações S.A.	Rio de Janeiro (Brazil)	Holding of investments in other companies that operate in the electricity transmission sector	1,312,254,696	real	66%	Line-by-line
InTERNAtional S.p.A.	Rome	Construction and maintenance of electricity transmission grids in Italy and abroad	120,000	euro	100%	Line-by-line
		Control through Terna Participações S.A.				
TSN Transmissora Sudeste Nordeste S.A. (Brazil)	Rio de Janeiro (Brazil)	Construction and maintenance of electricity transmission grids	273,310,121	real	100%	Line-by-line
Novatrans Energia S.A.	Rio de Janeiro (Brazil)	Construction and maintenance of electricity transmission grids	373,135,465	real	100%	Line-by-line
Terna Serviços Ltda	Rio de Janeiro (Brazil)	Design studies and execution of engineering services for the construction and maintenance of assets in the electricity transmission sector; rental and sale of equipment related to the transmission system; technical support in the electricity transmission sector	2,371,000	real	99.9%	Line-by-line
Empresa de Transmissão de Energia do Oeste Ltda	Rio de Janeiro (Brazil)	Construction and maintenance of electricity transmission grids	125,688,086	real	100%	Line-by-line

Compared with December 31, 2007, the change in the scope of consolidation regards:

- the merger of RTL S.p.A. into Terna S.p.A. on December 12, 2008, with accounting and tax effects as from January 1, 2008;
- the completion of the acquisition of Empresa de Transmissão de Energia do Oeste Ltda ("ETEO") and its absorption of Lovina Participações S.A. on May 30, 2008 and June 2, 2008, respectively;
- the establishment on January 25, 2008 of Terna Serviços Ltda with registered office in Rio de Janeiro and share capital of R$ 1,000.00, fully subscribed by Terna Participações S.A.

The nature and procedures of the aforesaid aggregations, as well as their impact on the consolidated financial statements, are described in the specific section "Business combinations" in the notes, as well as in the comments on individual captions, to which reference should be made.

Associates

Investments in associates are those over which the Terna Group has significant influence but which are neither subsidiaries nor joint ventures. In assessing whether or not the Parent has significant influence, potential voting rights that are presently exercisable or convertible are also considered.
These investments are initially 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 construction obligations of the investee or, in any case, to cover its losses.

Joint ventures

Investments in joint ventures, in which the Group has a joint interest with other entities, 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.
In assessing whether or not the Parent has a joint interest, potential voting rights that are presently exercisable or convertible are also considered.

The following table reports joint ventures:

Company	Registered office	Business activity	Share capital	Currency	Direct % holding	Consolidation method
		Joint venture through Terna Participações S.A. (directly controlled by Terna S.p.A. with holding of 66%)				
ETAU Empresa de Trasmissão do Alto Uruguai S.A.	Rio de Janeiro (Brazil)	Construction and maintenance of electricity transmission grids	34,895,364	real	52,58%	Equity method
Brasnorte Trasmissora de Energia S.A.	Rio de Janeiro (Brazil)	Construction and maintenance of electricity transmission grids	88,000,00	real	35%	Equity method

Compared with December 31, 2007, the joint venture Jaurù Transmissora de Energia S.A., established in 2007 and in which Terna Participações S.A. holds a stake of 35%, changed its name in January 2008 to Brasnorte Transmissora de Energia S.A. The company is still in the start-up phase.

Consolidation policies

All financial statements of investees used to prepare the consolidated financial statements are as of and for the year ended December 31, 2008, 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, revenues 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 in foreign currency

For the purposes of the consolidated financial statements, profits and losses, assets and liabilities are expressed in euro, 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 euro, including goodwill and consolidation adjustments, are converted into euro at the exchange rate prevailing at the balance sheet date. Income statement figures included in these financial statements are converted at the average exchange rate of the year. Any resulting exchange rate differences are taken directly to equity, and are classified separately in a specific equity reserve. This reserve is then released to 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 are 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 under construction begins when the assets become available for use.
Liabilities associated with items of property, plant and equipment are taken to a specific provision as a balancing entry to the related asset. The amount is taken to profit or loss through the depreciation of the asset.

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

DEPRECIATION RATE	
Civil and industrial buildings	2.50% - 4.00%
Power lines	2.50%
Transformer stations:	
Electrical machinery	2.38% - 3.00%
Electrical devices and equipment	3.13% - 4.50%
Automation and control systems	5.00% - 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 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 for 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 for 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.

Brazil
As with Terna's concession, the Brazilian companies hold concessions granted free of charge to use the portion of the electricity transmission grid they own. The term of the concession is thirty years from the grant date. Upon expiry, the plant, rights and privileges of the concession shall be transferred to the Federal Government against payment of an indemnity commensurate with the undepreciated portions of investments in the related assets made to ensure guaranteed service continuity.

Accordingly, the assets directly related to the transmission and dispatching activities, including 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 November 2006, the International Financial Reporting Interpretations Committee ("IFRIC") issued IFRIC Interpretation 12 Service Concession Arrangements. The Parent is currently evaluating its applicability and any effects that would arise from the adoption of this interpretation.

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 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. Amortisation begins when the asset becomes available for use.

Intangible assets substantially 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 for 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 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.
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 selling costs 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 if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure recoverable amount.

Inventories

Inventories are stated at the lower of purchase cost and net 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 selling costs.

Contract work in progress

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

Financial instruments

Financial assets

Any financial assets 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. 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 calculated on the basis of the present value of estimated future cash flows, discounted using the initial effective interest rate.
Receivables with due dates that fall under normal commercial terms are not discounted.

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

Trade payables
Trade payables are initially recognised at fair value and subsequently 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 subject to fair value hedges, they are adjusted to reflect changes in fair value with respect to the hedged risk.

Derivative financial instruments
Derivatives are 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 are 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 relating to defined benefit plans (termination benefits, additional month's pay, indemnity for lack of notice, energy discount, ASEM health benefits and other benefits) or other long-term employee benefits (loyalty bonus) is 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 expenses over the vesting period, with a corresponding increase in equity, considering the best possible estimate of the number of options that employees will be able to exercise. Such estimate is reviewed 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 maturity, the estimate is revised through the income statement to recognise the actual amount corresponding to the number of equity instruments that have actually matured, 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, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, accruals are measured by discounting estimated future cash flows using a pre-tax discount rate that reflects current market assessment of the time value of money and those risks specific to the liability, if present. Where discounting is used, the increase in the provision due to the passage of time is 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 revenues are 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 revenues, 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 conditions for recognition are satisfied.

Revenues

Revenues are 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, revenues are recognised on the basis of the following specific criteria:
- revenues from the sale of goods are 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;
- revenues from the rendering of services are recognised with reference to the stage of completion of the transaction. If revenues cannot be reliably measured, they are recognised to the extent of recoverable costs;
- revenues accrued during the year in respect of contract work in progress are 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 revenues include 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. Revenues are also adjusted for any penalties for delays attributable to Group companies;

- when there is uncertainty concerning the recovery of an amount already recognised in revenues, 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 revenues 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 revenues 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 part of a general pool, 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 2006 is 3.60%, that for 2007 is 4.17% and that for 2008 is 4.93%.

Other financial income and expense is 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 consolidated 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.

New reporting standards

With Regulation (EC) no. 1004/2008, the European Commission endorsed two amendments to IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: Additional Disclosures. The amendments took effect as from July 1, 2008, and concern the possibility of reclassifying certain non-derivative financial instruments. Since the situations governed by the amendments do not regard Terna, the entry into force of the measures had no impact on the financial statements.

With the exception of the cases discussed below, no other international accounting standards or interpretations took effect in 2008.

In 2008 and in 2009 up to the date of preparation of these financial statements, the European Commission endorsed the following international accounting standards and interpretations:

IAS 23 - Borrowing Costs (Revised in 2007)
The revised version of IAS 23, endorsed with Regulation (EC) no. 1260/2008, is intended to harmonise the international accounting standards issued by the IASB with US GAAP.
The main change eliminates the possibility of choosing whether to capitalise borrowing costs incurred in the acquisition or construction of assets that qualify for capitalisation. Such costs must now be capitalised. IAS 23R takes effect as from January 1, 2009 and earlier application is allowed.
As discussed earlier, until the financial statements as of and for the year ended December 31, 2007, the Terna Group did not capitalise borrowing costs incurred for the acquisition or construction of its plant, but with the new rules established with IAS 23R it has elected to apply the standard early as from the 2008 financial year, setting the commencement date at January 1, 2006, in accordance with the transitional provisions of the new standard.

IAS 1 - Presentation of Financial Statements (Revised in 2007)
Regulation (EC) no. 1274/2008 endorsed the revised version of IAS 1, which takes effect for financial periods beginning on or after January 1, 2009. Earlier application is allowed.
The amendments to IAS 1 include the following:
- 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;
- transactions between minority shareholders are presented in the statement of other components of comprehensive income;
- the titles of the financial statements have been modified, with the statement of financial position and the statement of comprehensive income, while the statement of cash flows and the statement of changes in equity are virtually unchanged;
- revenues and costs can be presented in a single statement of comprehensive income or in two separate statements: a separate income statement with the components of profit (loss) for the period and a second statement of comprehensive income that starts with profit (loss) for the period and then reports other components of comprehensive income, to be reported net of tax effects;
- dividends and dividends per share are presented in the statement of changes in equity or in the notes (not in the statement of comprehensive income).

Improvements to the IFRS
Regulation (EC) no. 70/2009 endorsed a series of amendments to numerous international accounting standards.
The IASB has decided to publish an annual document containing all minor amendments to previously published accounting standards, rather than publishing each separately.
The amendments take effect as from January 1, 2009; Terna is assessing the impact of the changes.
The European Commission also endorsed the following amendments and interpretations concerning issues that currently have no material impact on the financial statements of:

- Amendments to IFRS 1 and IAS 27 - Cost of an investment in a subsidiary, jointly-controlled entity or associate (takes effect as from January 1, 2009);
- Amendments to IAS 32 and IAS 1 - Puttable financial instruments and obligations arising on liquidation (takes effect as from January 1, 2009);
- Amendment to IFRS 2 - Share-based payments: vesting conditions and cancellations (takes effect as from January 1, 2009);
- IFRIC 13 - Customer loyalty programmes (takes effect as from January 1, 2009);
- Amendment of IFRIC 14 and IAS 19: the limit on a defined benefit asset, minimum funding requirements and their interaction (takes effect as from January 1, 2008).

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:

IFRIC 12 - Service Concession Arrangements

IFRIC 12 governs the accounting treatment of service concession arrangements that 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 revenues 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.

The interpretation took effect for periods beginning on or after January 1, 2008, but as it has not yet completed the EU endorsement process, first time adoption is not expected to be mandatory for the Member States before January 1, 2009.

IFRS 3 - Business Combinations (Revised) and Amendment of IAS 27 - Consolidated and Separate Financial Statements

The revised version of IFRS 3 introduces various changes to the current version. The main changes regard the treatment of costs related to combinations, determination of the moment from which the effects of an operation that produces an acquisition begin, recognition of goodwill and, finally, accounting for minority interests. The amendments will take effect as from July 1, 2009.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items

The amendment clarifies two issues concerning hedging relationships: identification of inflation as a risk and hedges using options. The amendment will take affect for the financial statements for periods beginning on or after July 1, 2009.

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:

***Revised IFRS 1 First-time Adoption of IFRS* (published in November 2008);**
IFRIC 15 - *Agreement for the Construction of Real Estate*;
IFRIC 16 - *Hedges of a Net Investment in a Foreign Operation*;
IFRIC 17 - *Distributions on Non-Cash Assets to Owners*;
IFRIC 18 - *Transfers of Assets from Customers*;
***Amendments to IAS 39 Reclassification of Financial Assets: Effective Date and Transition*.**

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.
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 related systems are revised on a regular basis in order to reflect any changes in market conditions and the Company's activities.
As part of the risk management policies approved by the Board of Directors, the Group has defined responsibilities and operational procedures for managing such financial risks, making specific reference to the instruments to be used and setting clear operating limits in managing them.
The exposure of the Terna Group to the aforementioned risks is substantially represented by the exposure of the Parent. Accordingly, 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 Parent's financial statements at December 31, 2008.

Market risk

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.
The Parent 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 balance sheet 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.
Fair value is measured with reference to official prices for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured 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 an asset or liability associated with fluctuations in interest rates (fixed-rate bonds);
- trading derivatives, related to hedges of interest and 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 aiming to reconcile this approach with the regulatory framework that 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, two types of plain vanilla derivatives are used, i.e. 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 the Parent, classified according to the type of interest rate (fixed or floating).

In millions of euros	Carrying amount Dec. 31, 2008	Carrying amount Dec. 31, 2007	Change
Fixed-rate financial instruments:			
- assets	-	12.4	-12.4
- liabilities	2,098.5	1,840.4	258.1
Floating-rate financial instruments:			
- assets	804.7	130.6	674.1
- liabilities	1,660.3	611.3	1,049.0
Total	**2,954.1**	**2,308.7**	**645.4**

Sensitivity to interest rate risk

As regards the management of interest rate risk, Terna has entered, on the one hand, into fixed-to-floating interest rate swaps (FVH) to hedge the fair value of the fixed-rate risk bonds and, on the other, into 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 Parent 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.

	Profit or loss			Equity		
In millions of euros	Current rates +10%	Rates at Dec. 31, 2008	Current rates -10%	Current rates +10%	Rates at Dec. 31, 2008	Current rates -10%
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*
Dec. 31, 2007						
Positions sensitive to interest rate variations (FVH, bonds)	-1.4	-0.5	9.8			
Hypothetical change	*-0.9*	-	*10.3*			

Inflation risk

As regards inflation rate risk, the rates established by regulators to remunerate Terna's activities are 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 Parent used an inflation-linked bond issue to obtain an effective hedge of profit for the year: any decrease in expected revenues due to a decrease in the inflation rate would be offset by lower financial expense.

Exchange rate risk

In order to reduce exchange rate risk, Terna uses forward contracts and currency options to hedge cash flows in currencies other than the euro. Items that could generate exchange rate risk for Terna S.p.A. comprise cash flows from Brazil associated with the return of capital and/or payments of dividends and interest on equity, for which the advisability of conducting specific hedging transactions is assessed on a case-by-case basis.

Generally Terna hedges exchange rate risk through the forward sale or purchase of currencies 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 a depreciation or appreciation 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.
At December 31, 2008, no financial instruments exposed to exchange rate risk were present.

Liquidity risk

Considering that there is normally a negative difference between interest received on loans granted and interest paid on loans received, financial optimisation activities are geared towards minimising liquidity positions in line with the Parent's funding needs in the special crisis conditions in the financial markets.
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, 2008 Terna had € 1,050 million in medium-term credit lines and € 922.7 million in short-term credit lines. Such amount is sufficient to refinance the debt falling due discussed in the section on long-term loans (€ 44.6 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 Parent.
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.
The effects of the default of Lehman Brothers had no material impact on the income statement.
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 preventative 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 revenues), 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, 2008	Carrying amount Dec. 31, 2007	Change
FVH derivatives	115.5	-	115.5
Cash and cash equivalents	689.2	130.6	558.6
Trade receivables	1,706.0	1,513.6	192.4
Total	**2,510.7**	**1,644.2**	**866.5**

The total value of the exposure to credit rate risk at December 31, 2008 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	2008	2007	2006
Italy	1,674.7	1,393.3	1,144.7
Euro-area countries	26.6	111.9	11.1
Other countries	4.7	8.4	8.0
Total	**1,706.0**	**1,513.6**	**1,163.7**

CUSTOMER TYPE	Carrying amount		
In millions of euros	2008	2007	2006
Distributors	179.6	206.8	206.2
Input dispatching contractors	678.0	532.5	503.4
Withdrawal dispatching contractors (non distributors)	805.5	736.2	405.9
Receivables from unregulated activities	42.8	38.2	48.2
Total	**1,706.0**	**1,513.6**	**1,163.7**

The following table breaks down customers receivables by expiry class, reporting any potential impairment:

	2008		2007		2006	
In millions of euros	Provisions for bad debts	Gross	Provisions for bad debts	Gross	Provisions for bad debts	Gross
Not yet past due		1,496.3		1,364.0	-3.2	1,064.5
0-30 days past due	-1.0	148.4		107.5	-	76.6
31-120 days past due		43.9		38.3	-9.1	32.3
More than 120 days past due	-10.7	29.1	-13.8	17.6	-0.8	3.4
Total	**-11.7**	**1,717.7**	**-13.8**	**1,527.4**	**-13.1**	**1,176.9**

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

In millions of euros	2008	2007	2006
Balance at January 1	-13.8	13.2	1.0
Reversal of provision	3.9	-	-
Impairment for the year	-1.8	0.6	12.1
Balance at December 31	**-11.7**	**13.8**	**13.2**

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

In millions of euros	2008	2007	2006
Input dispatching activity	192.8	219.1	149.0
Withdrawal dispatching activity	1,025.6	610.0	264.4
Grid transmission fees - distributors	168.9	-	-
Balance at December 31	**1,387.3**	**829.1**	**413.4**

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the Parent 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, 2008, please see the section “Loans and financial liabilities”.

As regards the subsidiaries:

- the subsidiaries have not entered into any outstanding financial derivative contracts, whether for hedging or trading purposes;
- the impact of interest rates fluctuations on the Brazilian subsidiaries is negligible: the main source of interest rate risk derives from the indexing of most of the Brazilian debt to a subsidised interest rate granted by BNDES. This debt has not been hedged in consideration of the fact that the subsidised rate granted by BNDES (TJLP) is characterised by a reduced volatility and is favourable if compared both with short-term domestic rates (CDI) and analogous rates for debt of similar maturities. The value of other loans exposed to interest rate risk is limited if considered in relation to consolidated volumes (a total of R$ 600.6 million, equal to approximately € 185.2 million);
- as regards the Brazilian subsidiaries, the exposure to exchange rate risk is limited to fluctuations of the real against the currencies that compose the basket of currencies of the BNDES loan, whose total amount is R$115.5 million (€ 35.6 million). The effect of an appreciation or a depreciation of the real against the currencies in the basket is not material if considered at the consolidated level.

B. Segment reporting

The identification of segments and the specification of the Terna Group's primary and secondary segments was performed on the basis of the organisational structure and internal reporting system. In particular, since the risks and rewards of the Group's investments are exclusively affected by differences in the services provided, the primary basis of segment reporting is based on the activities performed (transmission, dispatching, metering), while geographical information is provided on a secondary basis for transmission activities, since they are carried out in Italy and Brazil.
Income and expenses not specifically attributable to individual sectors and the related assets and liabilities (in particular, financial assets and liabilities, tax assets and liabilities and deferred tax assets and liabilities) are indicated separately.
In addition, intersegment transfers are measured on current market terms and conditions.
Reporting by business segment is provided below for 2008 and 2007.

2008

	Regulated activities				Unregulated activities	Total
	Transmission		Dispatching	Metering		
In millions of euros	Italy	Brazil	Italy			
Revenues	1,061.4	194.9	76.0	0.2	62.7	1,395.2
Segment results	**703.4**	**117.3**	**-18.8**	**-1.3**	**25.4**	**826.0**
Non-allocated expenses						111.7
Operating profit						**714.3**
Financial income/(expense)						-182.5
Share of profits/(losses) of equity accounted investees	2.3	0.3				2.6
Income taxes						193.0
Profit for the year						**341.4**
Other information						
Assets/(Liabilities) attributable to segment						
Segment assets	5,107.8	910.1	1,952.9	13.9	355.0	8,339.7
Segment liabilities	298.1	274.4	1,574.6	4.5	465.9	2,617.5
Assets/(Liabilities) not attributable to segment						
Financial assets, cash and equivalents						902.1
Financial liabilities						4,295.2
Tax assets						213.0
Tax liabilities						378.4
Investments	**716.3**	**11.0**	**48.2**	**0.4**	**-**	**775.9**
Amortisation, depreciation and impairment losses	**225.0**	**26.9**	**30.1**	**0.2**	**-**	**282.2**
Other non-monetary costs	**0.2**	**-**	**-**	**-**	**-**	**0.2**

The negative results of the dispatching and metering segments are essentially attributable to the new rates set in Resolution no. 348/07 for the 2008/2011 regulatory period. In 2007, the dispatching segment benefited from the specific rate structure envisaged for the TSO sector.

2007

	Regulated activities				Unregulated activities	Total
	Transmission		Dispatching	Metering		
In millions of euros	Italy	Brazil	Italy			
Revenues	998.0	166.2	119.0	10.1	54.9	1,348.2
Segment results	**658.6**	**110.0**	**24.2**	**9.0**	**29.5**	**831.3**
Non-allocated expenses						108.6
Operating profit						**722.7**
Financial income/(expense)						-116.0
Share of profits/(losses) of equity accounted investees	1.1					1.1
Income taxes						173.6
Profit for the year						**434.2**
Other information						
Assets/(Liabilities) attributable to segment						
Segment assets	4,936.0	873.3	1,531.9	3.0	281.5	7,625.7
Segment liabilities	521.2	209.0	1,458.2	0.3	253.7	2,442.4
Assets/(Liabilities) not attributable to segment						
Financial assets, cash and equivalents						244.9
Financial liabilities						2,916.2
Tax assets						169.9
Tax liabilities						406.8
Investments	**516.6**	**10.0**	**91.2**	**0.2**	**-**	**618.0**
Amortisation, depreciation and impairment losses	**210.7**	**20.0**	**26.4**	**0.2**	**-**	**257.3**
Other non-monetary costs	**5.0**	**-**	**-**	**-**	**-**	**5.0**

C. Notes to the consolidated income statements

Revenues

1. Revenues from sales and services - € 1,336.3 million

The table below details revenues of the year:

In millions of euros	2008	2007	Change
Grid transmission fees	1,225.2	1,216.2	9.0
Adjustments for prior year grid transmission fees	15.1	-5.2	20.3
Other energy revenues	48.4	43.3	5.1
Other revenues from sales and services	47.6	41.9	5.7
Total	**1,336.3**	**1,296.2**	**40.1**

Grid transmission fees

Most of this caption (€ 1,060.5 million) regards the remuneration paid to the Parent for use of the National Transmission Grid. It also comprises the net revenues from fees for the plant of the subsidiary RTL (€ 67.7 million). The revenues of the Brazilian companies (€ 179.8 million) are generated by the fixed fee established in the concession for the operation of transmission lines issued by the local energy authority (ANEEL).
The increase of € 29.3 million is the net result of the following factors:

- an increase in revenues from the Brazilian subsidiaries (€ 29.6 million), largely due to the effect of the expansion of the scope of consolidation with the acquisition of ETEO (€ 16.1 million) and GTESA and PATESA, which were folded into TSN at the end of 2007 (+ € 5.8 million) as well as the annual adjustment of the concession fee, including the compensation of increased PIS/Cofins taxes for the period;
- a decline in revenues from fees for use of the National Transmission Grid (- € 0.3 million). More specifically, the decline is attributable to the reduction in the unit fee and volumes of electricity transported (€ 28.9 million) as well as lower revenues from net prior-year adjustments (€ 7.7 million), partially offset by the rise (€ 28.0 million) resulting from the release of provisions accrued in 2007 in respect of a dispute with an operator, which was settled positively in 2008, the increase in the NTG resulting from the acquisition of RTT (merged into RTL) in June 2007 (an estimated € 3.5 million), and the larger share of revenues in respect of the defence plan (€ 4.8 million).

Other energy revenues

This caption comprises fees paid to the Parent by electricity companies for dispatching services (the DIS component) and metering (MIS component). The increase of € 5.1 million is mainly the net result of :

- the effects of Resolution no. 351/07 on the DIS component, setting new rates for dispatching (€ 10.1 million) as well as additional incentive revenues due to efficiency gains from improvements in forecasting national electricity demand and forecasting energy generated by wind facilities (€ 5.0 million);
- the MIS component as a result of the new mechanism for determining the fee introduced with Resolution no. 348/07 (- € 9.9 million).

Other energy items - pass-through revenues/costs

This caption includes revenues 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.
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	2008	2007*	Change
Revenues - Power Exchange:			
- foreign market - exports	8.9	8.5	0.4
- sale of energy on the day-ahead market, adjustment market, ancillary services market and others	1,473.4	918.3	555.1
- unbalancing and others	1,428.6	1,570.0	-141.4
- ancillary service resources procurement	1,903.1	1,516.8	386.3
- congestion fees - DCT Res. no. 288/06	848.0	718.8	129.2
- other items - Power Exchange	64.8	8.5	56.3
Total revenues - Power Exchange	**5,726.8**	**4,740.9**	**985.9**
Revenues under Res. nos. 168/04 - 237/04 and others	709.1	647.8	61.3
Other items (CBT and other)	89.6	243.9	-154.3
Revenues from grid transmission fees of other owners and GRTN share CIP 6	19.6	24.0	-4.4
Total revenues from outside the Power Exchange	**818.3**	**915.7**	**-97.4**
Total pass-through energy revenues	**6,545.1**	**5,656.6**	**888.5**
Energy purchases:			
- on day-ahead market and adjustment market	718.1	434.1	284.0
- to provide the dispatching service	3,067.7	3,047.9	19.8
- for unbalancing	1,156.1	481.8	674.3
- on the foreign market - imports	1.7	45.6	-43.9
- Electricity Market Operator fees	5.8	6.5	-0.7
- congestion fees - DCT Res. no. 288/06	769.2	718.8	50.4
- other items - Power Exchange	8.2	6.2	2.0
Total costs - Power Exchange	**5,726.8**	**4,740.9**	**985.9**
Purchase of energy market related services	709.1	647.8	61.3
Other items (CBT and other)	89.6	243.9	-154.3
Fees to be paid to NTG owners, GRTN and other	19.6	24.0	-4.4
Total services and fees	**818.3**	**915.7**	**-97.4**
Total pass-through energy costs	**6,545.1**	**5,656.6**	**888.5**

(*) The items for 2007 have been reclassified, where necessary, on the basis of AEEG rule amendments in 2008.

Other revenues from sales and services

Other revenues from sales and services amounted to € 47.6 million (€ 41.9 million at December 31, 2007), and mainly relate to revenues from a variety of specialised high- and very high-voltage services that the Parent provides to third-party customers (€ 43.1 million); the amount reflects revenues from:

- maintenance for high-voltage plants (€ 19.1 million), notably the maintenance contract for the high-voltage lines owned by Enel Distribuzione S.p.A. (€ 15.7 million, unchanged on 2007);
- the operation, maintenance and development of the optical fibre owned by the Wind Group hosted on Terna S.p.A. plant (safety cables) (€ 2.2 million), unchanged with respect to the previous year;
- a variety of specialised high-voltage services for sundry customers (€ 16.1 million);
- requests to connect to the National Transmission Grid as per AEEG Resolution no. 281/05 (€ 3.6 million), unchanged on 2007;
- the contribution due to the Company for coverage of cost incurred for electricity discounts to its employees (€ 2.1 million).

The caption increased by € 5.7 million with respect to the previous year, primarily owing to engineering and construction services provided by the subsidiary Terna Serviços (€ 4.5 million) in performance of the EPC (Engineering Procure and Construct) contract with Brasnorte.

2. Other revenues and income - € 58.9 million

This caption is mainly attributable to the Parent. In particular, it reports:

- rental income of € 16.8 million (mostly from the Wind Group for the housing of optical fibre on the Parent's grid - € 12.4 million);
- accrued portions of previous third-party contributions for connections to the National Transmission Grid released during the year (€ 8.1 million);
- ordinary out-of-period revenues (€ 7.0 million);
- insurance settlements for losses (€ 2.7 million);
- sales of material to third parties (€ 1.2 million) and capital gains on the sale of plant parts to third parties (€ 6.6 million).

Brazilian revenues include Ade and Adene tax incentives granted by the Brazilian government to TSN and Novatrans for investments in the areas involved (€ 15.1 million).
Other revenues and income increased by € 6.9 million with respect to the balance of € 52.0 million at December 31, 2007, mainly due to the capital gain on the disposal of the SS-1 electrical station at Ferrara (€ 4.1 million), the partial release of the provision for bad debts accrued in previous years following the approval of the composition agreement with a dispatching customer (€ 3.6 million) and the reduction in insurance settlements (€ 0.4 million).

Operating expenses

3. Raw materials and consumables - € 30.3 million

The caption totalled € 30.3 million at December 31, 2008. It comprises costs incurred for the purchase of sundry materials and equipment used in the operation and maintenance of plant. The increase of € 13.6 million on the previous year (€ 16.7 million) is mainly attributable to increased provisioning of materials and equipment by the Parent during the year (€ 6.3 million) and to costs incurred in respect of supplies of materials and equipment by Terna Serviços (€ 4.4 million), which was not consolidated in 2007.

4. Services - € 131.3 million

In millions of euros	2008	2007	Change
Tenders on plants	24.2	34.2	-10.0
Maintenance and sundry services	70.0	62.5	7.5
Insurance	5.7	4.6	1.1
Remote transmission and telephone	13.6	13.7	-0.1
IT services	4.6	6.5	-1.9
Use of third-party assets	13.2	13.7	-0.5
Total	**131.3**	**135.2**	**-3.9**

The caption reports costs incurred in respect of services by the Parent (€110.7 million) and the Brazilian subsidiaries (€ 20.6 million).
The decrease of € 3.9 million with respect to the previous year is the net result of:

- the continuation of the Parent's cost rationalisation policy, which generated savings of € 6.6 million (also considering the costs incurred by RTL in 2007, equal to € 5.3 million);
- an increase in costs at the Brazilian subsidiaries (€ 2.7 million), essentially due to the inclusion of ETEO in the scope of consolidation (€ 2.4 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 service	Expiry of term	Remuneration	Bonus and other incentives	Total
Guarna Luca Aurelio	Chairman	Apr. 08 - Dec. 08	Approval of 2010 financial statements	37,125		37,125
Cosconati Marcello*	Statutory Auditor	Apr. 08 - Dec. 08	Approval of 2010 financial statements	30,375		30,375
Pozza Lorenzo	Statutory Auditor	Apr. 08 - Dec. 08	Approval of 2007 financial statements	30,375		30,375
Ferreri Giovanni	Chairman	Jan. 08 - Apr. 08	Approval of 2007 financial statements	18,333		18,333
Corvace Giancarlo	Statutory Auditor	Jan. 08 - Apr. 08	Approval of 2007 financial statements	15,000		15,000
Tasca Roberto	Statutory Auditor	Jan. 08 - Apr. 08	Approval of 2007 financial statements	15,000		15,000
Total Statutory Auditors fees				**146,208**		**146,208**

(*) Fees for the position were paid to the Ministry for the Economy.

5. Personnel expenses - € 263.6 million

In millions of euros	2008	2007	Change
Wages, salaries and other short-term employee benefits	240.8	226.3	14.5
Termination benefits, electricity discount and other post-employment benefits	16.7	4.2	12.5
Early retirement incentives	5.9	7.6	-1.7
Employees' stock option plans	0.2	0.5	-0.3
Total	**263.6**	**238.6**	**25.0**

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.
Personnel expenses increased by € 25.0 million, of which € 20.6 million attributable to the Parent, taking account of the costs incurred by RTL in 2007. The change is largely the net effect of:

- short-term benefits in respect of higher employee compensation and social security contributions (€ 14.5 million) following an increase in unit labour costs and a rise in the average workforce;
- termination benefits, electricity discount and other employee benefits (€ 12.5 million), mainly due to the rise in the number of employees and the curtailment of termination benefits carried out in 2007 in application of the new rules introduced that year;
- a reduction in charges for the voluntary early termination of employment for employees who are eligible for retirement (- € 1.7 million).

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****	Total
Roth Luigi	Chairman/Director	Jan. 08 Dec. 08	Approval of 2010 financial statements	528,500		67,538	596,038
Cattaneo Flavio	CEO	Jan. 08 Dec. 08	Approval of 2010 financial statements	200,000	250,000	500,000	950,000
Cannarsa Cristiano*	Director	Apr. 08 Dec. 08	Approval of 2010 financial statements	16,875			16,875
Dal Pino Paolo	Director	Apr. 08 Dec. 08	Approval of 2010 financial statements	84,375			84,375
Del Fante Matteo*	Director	Apr. 08 Dec. 08	Approval of 2010 financial statements	50,625			50,625
De Paoli Luigi	Director	Jan. 08 Apr. 08	Approval of 2007 financial statements	25,000			25,000
Garaffo Mario	Director	Jan. 08 Apr. 08	Approval of 2007 financial statements	45,000			45,000
Machetti Claudio**	Director	Jan. 08 Dec. 08	Approval of 2010 financial statements	25,000			25,000
Machì Salvatore	Director	Jan. 08 Dec. 08	Approval of 2010 financial statements	115,500			115,500
Macrì Carmine	Director	Jan. 08 Apr. 08	Approval of 2007 financial statements	41,667			41,667
Maranesi Piero Giuseppe	Director	Jan. 08 Apr. 08	Approval of 2007 financial statements	25,000			25,000
Polo Michele	Director	Apr. 08 Dec. 08	Approval of 2010 financial statements	50,625			50,625
Rispoli Vittorio	Director	Jan. 08 Dec. 08	Approval of 2010 financial statements	85,000			85,000
Smurro Franco	Director	Jan. 08 Apr. 08	Approval of 2007 financial statements	25,000			25,000
Total Directors fees				**1,318,167**	**250,000**	**567,538**	**2,135,705**

(*) Fees for the position were paid to Cassa Depositi e Prestiti.
(**) Fees for the position were paid to Enel S.p.A.
(***) The amount regards the variable portion of remuneration and fees for 2008.
(****) The amount regards remuneration for senior management duties.

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

	Average number		Number at	
	2008	2007	Dec. 31, 2008	Dec. 31, 2007
Managers	69	73	67	69
Junior managers	487	453	499	474
Office staff	2,001	1,949	2,025	1,947
Production workers	1,143	1,103	1,143	1,112
Total	**3,700**	**3,578**	**3,734**	**3,602**

The net change with respect to December 31, 2007 was an increase of 132, of which 103 at the Brazilian companies, mainly attributable to the insourcing of operational and maintenance activities in order to boost efficiency.
Reference should be made to section “26. 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 - € 282.2 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 (€ 280.4 million), as well as include accruals to the provision for bad debts relating to receivables for items which are reasonably unlikely to be collected (€ 1.8 million).
The caption shows increases (+ € 24.9 million) on 2007, mainly due to the following:
- increased amortisation and depreciation (€ 25.3 million), largely accounted for by:
  - new plant and intangibles entering service on the NTG during the year (€ 18.4 million);
  - the Brazilian companies (€ 6.9 million), of which € 3.2 million regarding the amortisation of the concession for the transmission operations of ETEO, which joined the scope of consolidation in May 2008, and € 0.8 million in respect of the amortisation of the concessions of GTESA and PATESA, which were merged into TSN;
- increased provisions for receivables in respect of energy items which are unlikely to be collected (€ 1.2 million);
- partially offset by the recognition in 2007 of impairment losses (€ 1.6 million) in respect of property, plant and equipment that were not present in 2008.

7. Other operating expenses - € 39.8 million

The caption mainly includes:
- local indirect taxes (€ 24.4 million);
- ordinary prior-year expenses (€ 4.1 million);
- losses on the sale/disposal of plant (€ 3.7 million);
- accruals to the provision for contingencies and charges (€ 2.9 million);
- other expenses (€ 4.7 million).

The item rose by € 10.9 million on the previous year, which is largely the net result of the following factors:
- increased local taxes and duties of the Brazilian companies (€ 9.1 million), of which € 8.0 million for increased local PIS/Cofins taxes (in 2007 the subsidiaries TSN and Novatrans had benefited from the realignment of PIS/Cofins taxes on the RAP provided for in Resolution no. 355 of ANEEL in the amount of € 6.0 million), and the Parent (€ 0.4 million, taking account of local taxes and duties of RTL in 2007), mainly in respect of Tosap and ICI (local public land use tax and municipal property tax, respectively);
- an increase in losses on the disposal of plant parts of the Parent (€ 3.0 million);
- a € 2.1 million decrease in the Parent's provisions for contingencies and charges, mainly due to the provision for the contribution to be paid to the Exceptional Events Provision established at the Electricity Equalisation Fund with Resolution no. 333/07 for power outages (€ 2.0 million), 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) and net provisions (€ 5.0 million) in 2007, in respect of a dispute still under way between the Electricity Services Operator and an electricity market operator concerning subsidised rates for electricity withdrawal and supply. If the request is granted, Terna will have to reimburse excess payments made (between 2001 and the acquisition of the TSO business unit) for use of the National Transmission Grid.

8. Capitalised internal work - € -66.3 million

Capitalised costs relate to personnel expenses (€ 52.9 million) and the consumption of materials and equipment in inventories (€ 13.4 million) for plants under construction by the Parent. The € 15.1 million increase on 2007 (€ 8.3 million for personnel and € 6.8 million for materials) is attributable to increased capital expenditure during the year.

Financial income and expense

9. Net financial income/(expense) - € -182.5 million

The caption breaks down as follows:

In millions of euros	2008	2007	Change
Financial income			
Interest income and other financial income	33.8	27.2	6.6
Debt adjustment (bonds) and related hedges	-	0.6	-0.6
Income on non-hedge-accounting derivatives	1.2	-	1.2
Exchange rate gains	-	7.0	-7.0
Total income	**35.0**	**34.8**	**0.2**
Financial expense			
Interest expense on medium/long-term loans and related hedges	-181.6	-138.3	-43.3
Interest expense on short-term loans and other financial expense	-19.0	-7.4	-11.6
Charges on non-hedge-accounting derivatives	-	-1.5	1.5
Debt adjustment (bonds) and related hedges	-4.5	-	-4.5
Accretion of termination benefit and other personnel-related provisions	-6.8	-5.6	-1.2
Exchange rate losses	-13.2	-	-13.2
Capitalised financial expense	7.6	2.0	5.6
Total expense	**-217.5**	**-150.8**	**-66.7**
Total	**-182.5**	**-116.0**	**-66.5**

Net financial expense amounted to € 182.5 million, comprising € 217.5 million in financial expense and € 35 million in financial income. The increase of € 66.5 million with respect to 2007 can be attributed to:

- the Parent in the amount of + € 34.0 million, the net effect of:
  - an increase in financial income from short-term bank investments (€ 12.5 million) and lower default interest (- € 0.8 million);
  - the net loss from the adjustment to fair value of bonds and related hedges compared with the previous year (€ 5.1 million);
  - increased income from non-hedge-accounting derivatives (€ 2.7 million);
  - an increase in financial expense in respect of medium/long-term debt attributable to both an increase in market interest rates (€ 24.1 million) and additional borrowing (€ 23.1 million); other items include financial expense of € 0.2 million in respect of cash flow hedge derivatives closed in 2007, the reserve for which was taken to the income statement in line with the term of the hedged loans;
  - a decrease in interest expense on short-term loans (€ 1.7 million) as a result of reduced use of such financing;
  - exchange rate losses (€ 2.2 million);
  - increased financial expense in respect of the accretion of employee benefit provisions (€ 1.2 million);
  - increased capitalised financial expense (€ 5.6 million) owing to greater capital expenditure during the year in application of the revised IAS 23, as discussed in greater detail in section A. Accounting policies and measurement criteria.
- the Brazilian companies in the amount of + € 32.5 million, the net effect of:
  - a decrease in interest income (€ 5.4 million) on cash and cash equivalents, mainly the result of the listing of the subsidiary Terna Participações (end of 2006), the funds from which were invested in 2007 and then used for the acquisitions of GTESA, PATESA (end of 2007) and ETAU (March 2008);
  - an increase in financial expense on Brazilian debt (€ 13.2 million), attributable to increased short-term borrowing (€ 16.7 million) net of the effect of repayment of maturing loans (- € 3.5 million);
  - exchange rate losses (€ 11.0 million) recognised in the period following the depreciation of the real against the dollar and the euro, after having appreciated in 2007, generating exchange rate gains (€ 7.0 million);
  - lower interest expense (€ 3.8 million) owing to the recognition in 2007 of the interest on equity of minority shareholders of Terna Participações;
  - interest income accrued in the period on the loan to the joint venture ETAU (€ 0.3 million).

As regards the systematic hedging of interest rate/exchange rate risk, the financial income and expense on derivatives transactions offset each other almost entirely, indicating the virtual lack of risk borne by the Terna Group.

10. Share of profit/(losses) of equity-accounted investees - € 2.6 million

The caption refers to the adjustment to the equity at December 31, 2008, of the investments in the associate CESI S.p.A. (€ 2.3 million) and the Brazilian joint venture ETAU (€ 0.3 million), both accounted for using the equity method.
The caption reports no change in respect of the investment in the joint venture Brasnorte (of which Terna Participações holds 35.0%), which is still in the start-up phase and is accounted for using the equity method, since equity did not change with respect to its value upon initial recognition.

11. Income taxes - € 193.0 million

Income taxes for the year amount to € 193.0 million, for an effective tax rate of 36.2% (net of tax adjustments relating to previous years). In 2007 taxes for the year amounted to € 173.6 million, for a tax rate of 29.2% (net of tax adjustments relating to previous years).
Income taxes for the year break down as follows:

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Income taxes			
Current taxes:			
- IRES	155.4	196.6	-41.2
- IRAP	45.5	43.8	1.7
- Brazilian companies	35.6	36.2	-0.6
Temporary differences:			
- deferred tax assets	-35.0	-33.2	-1.8
- deferred tax liabilities	4.6	7.4	-2.8
Reversal of temporary differences:			
- deferred tax assets	20.3	18.4	1.9
- deferred tax liabilities	-33.3	-23.6	-9.7
- rate adjustment	0.3	-68.2	68.5
Adjustments to income taxes of previous years	-0.4	-3.8	3.4
Total	**193.0**	**173.6**	**19.4**

The increase with respect to the previous year, equal to € 19.4 million, is mainly attributable to:

- the recognition in the previous year of the effects of the adjustment of the deferred tax assets and liabilities of the Parent and RTL to the tax rates introduced in the 2008 Finance Act, which reduced taxes by a total of € 68.2 million;
- lower income taxes for the Parent in the amount of € 41.1 million, considering the current taxes for RTL in 2007 as well, mainly due to the lower tax rate compared with the previous year, which generated a decrease of € 31.1 million, as well as the deduction from taxable income of 10% of the regional business tax (IRAP) paid, as envisaged under art. 6 of Law no. 2 of January 29, 2009, in the amount of € 4 million;
- the use of the provision for deferred taxes for IRAP purposes, which is governed by Law no. 244 of December 24, 2007 (the 2008 Finance Act), by the Parent in the amount of € 8.4 million;
- increased net accruals of deferred tax assets by the Brazilian subsidiaries (€ 1.9 million), mainly attributable to the effect of greater provisions for deferred tax liabilities (€ 4.6 million) as a result of the allocation of the excess cost paid in the acquisition of GTESA/PATESA (merged into TSN) and ETEO, as well as greater accruals of deferred tax assets (€ 6.5 million) as a result of the normalisation of revenues.

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	Dec. 31, 2008	Dec. 31, 2007
Theoretical tax charge	**147.0**	**200.6**
IRAP	45.5	43.8
Brazil	-2.1	6.6
Permanent differences	3.0	-73.6
Actual tax charge	**193.4**	**177.4**
Actual rate	**36.19%**	**29.19%**
Prior year adjustments	-0.4	-3.8
Actual tax charge net of prior year adjustments	**193.0**	**173.6**

12. Earnings per share

Basic earnings per share amount to € 0.164, in which the numerator and denominator amount to € 327.5 million and 2,000,908.8 thousand, respectively.
Diluted earnings per share amount to € 0.163 in which the numerator and denominator amount to € 327.5 million and 2,009,992.0 thousand, respectively.

D. Notes to the consolidated balance sheet

Assets

13. Property, plant and equipment - € 6,035.8 million

Property, plant and equipment amounted to € 6,035.8 million (€ 5,620.1 million at December 31, 2007). 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, 2008	**27.2**	**720.1**	**8,547.3**	**47.3**	**61.0**	**547.7**	**9,950.6**
Investments	9.9	12.8	159.3	3.6	6.9	554.5	747.0
Plant start-up	0.3	18.6	134.4	-	1.0	-154.3	-
Change in scope of consolidation	-	-	110.5	-	0.2	-	110.7
Exchange rate differences	-	-3.5	-166.5	-	-0.6	-7.1	-177.7
Disposals	-	-0.6	-31.4	-0.4	-0.2	-	-32.6
Other changes	-	-0.1	-11.1	-	-	-4.6	-15.8
Reclassifications	1.4	-1.5	0.3	-0.1	0.1	-2.4	-2.2
Cost at Dec. 31, 2008	**38.8**	**745.8**	**8,742.8**	**50.4**	**68.4**	**933.8**	**10,580.0**
Accumulated depreciation and impairment losses at Dec. 31, 2008	**-**	**-244.1**	**-4,019.9**	**-33.9**	**-32.6**	**-**	**-4,330.5**
Depreciation for the year	-	-15.9	-224.5	-2.7	-8.7	-	-251.8
Change in scope of consolidation	-	-	-12.5	-	-0.1	-	-12.6
Exchange rate differences	-	0.5	23.7	-	0.2	-	24.4
Disposals	-	0.5	25.3	0.4	0.1	-	26.3
Accumulated depreciation and impairment losses at Dec. 31, 2008	**-**	**-259.0**	**-4,207.9**	**-36.2**	**-41.1**	**-**	**-4,544.2**
Carrying amount							
At December 31, 2008	38.8	486.8	4,534.9	14.2	27.3	933.8	6,035.8
At December 31, 2007	27.2	476.0	4,527.4	13.4	28.4	547.7	5,620.1

The caption “plant and machinery” includes the electricity transmission grid, the transformation stations in Italy and Brazil, the central systems for remote management and the national electricity control system.
The Brazilian plant includes:

- the Southeast-Northeast transmission line, which has a nominal voltage of 500 kV and is about 1,062 km long, beginning at the Serra da Mesa substation, in the State of Goias, and ending at the Sapeaçu substation, in the State of Bahia; with the acquisition of GTESA and PATESA (November 2007), TSN acquired an additional 186 km of 230 kV transmission lines in the States of Paraiba, Pernambuco and Rio Grande do Norte;
- the North-South II transmission line, which has a nominal voltage of 500 kV and is approximately 1,280 km long, beginning at the Imperatriz substation, in the State of Maranhão, and ending at the Samambaia, in the Federal District;
- the Taquaruçu-Assis-Sumaré line, which crosses the State of São Paulo, with a nominal voltage of 440 kV and a length of about 500 km.

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	363.0
Transformation stations	315.6
Other	57.4
Brazil	11.0
Total investments	**747.0**
Depreciation	-251.8
Disposals and other changes	-24.3
Change in scope of consolidation	98.1
Exchange rate differences	-153.3
Total	**415.7**

In addition to ordinary changes in the year relating to investments (€ 747.0 million, of which € 7.6 million in capitalised borrowing costs), disposals and other changes (€ 24.3 million), exchange rate losses (€ 153.3 million) and depreciation (€ 251.8 million), the caption also reflects the change in the scope of consolidation following the acquisition in the first half of 2008 of the Brazilian company ETEO (€ 98.1 million), the concession holder for 502 km of 440 kV transmission line in the State of São Paulo.
Capital expenditure for the year relating to the Italian transmission grid (€ 736.0 million) mainly regards the construction of the underwater long distance line SAPEI (€ 247.1 million), work on the Moncalieri station (€ 20.6 million, including acquisition of the bays), rationalisation work at Val D'Ossola Sud (€ 15.3 million), work on the 380 kV Casellina-Tavarnuzze-Santa Barbara power line (€ 11.2 million) and work on rationalising the Bussolengo area (€ 10.8 million), the acquisition of stations from Seledison (€ 10.1 million) and the development of the optical fibre network (€ 10.1 million).
Other expenditures regarded the intruder system project (€ 9.0 million), the purchase of the Ravenna station from Enipower (€ 8.3 million), the new armoured plant at Cardano (€ 7.9 million) and progress on the works (concertation costs) on the La Casella-Caorso line (€ 7.7 million).
Among investments in Brazil (€ 11.0 million), the most significant (€ 5.4 million) regarded the reinforcement works requested by ANEEL (Serra da Mesa I, Serra da Mesa II and Bom Jesus da Lapa); among these, the largest contribution was made by the Bom Jesus da Lapa project, which involved € 3.8 million in capital expenditure for the acquisition and installation of new reactors.

In terms of assets under construction and payments on account, the main grid development and re-powering projects, worth more than € 5 million, are listed below:

Transmission lines:	In millions of euros
SAPEI	255,868,033
AEM Moncalieri	21,559,396
Val d'Ossola Sud	19,193,079
Santa Barbara-Tavarnuzze-Casellina	17,099,271
Valcamonica	11,655,774
La Casella-Caorso	8,307,832
Rationalisation of Bussolengo (VR) area	6,952,133
Tirreno power plant of Napoli Levante (upgrading lines)	6,935,761
CP Lonadi connection of lines	5,035,319
380 kV transformation stations:	
SAPEI station (Fiumesanto and Latina)	142,736,810
Brindisi Pignicelle	18,725,545
Casellina station	14,437,142
Castegnero station	5,762,640
Leinì station	5,285,366
220 kV transformation stations:	
Cardano station	7,885,624
Colombano station	5,170,677

Following the completion of the allocation of the excess cost paid for the acquisition of GTESA and PATESA, the recognition of the fair value in property, plant and equipment has also been reflected in the comparative figures at December 31, 2007 in the amount of € 4.9 million.

14. Goodwill - € 203.9 million

Goodwill amounted to € 203.9 million (€ 200.2 million at December 31, 2007). The balance and the changes by cash generating unit are shown in the table below:

CASH GENERATING UNIT	Terna Participações				
In millions of euros	NVT	TSN	ETEO	Terna	Total
Balance at Dec. 31, 2007	**33.4**	**78.2**	**-**	**88.6**	**200.2**
Change in the scope of consolidation	-	-	32.5	-	32.5
Exchange rate differences	-6.5	-15.2	-7.1	-	-28.8
Balance at Dec. 31, 2008	**26.9**	**63.0**	**25.4**	**88.6**	**203.9**

At December 31, 2008 goodwill amounted to € 203.9 million and regards in part the difference between the price paid by the Group with respect to the equity of subsidiaries at the acquisition date, adjusted – for foreign subsidiaries – to reflect the effects of the year-end exchange rate, and in part the goodwill arising in respect of the merger of RTL into Terna (€ 88.6 million).
The increase (€ 3.7 million) with respect to the previous year regards:
- the change in the scope of consolidation in the amount of € 32.5 million following the acquisition on May 31, 2008 of the Brazilian subsidiary ETEO;
- the adjustment of the goodwill in respect of the foreign subsidiaries to reflect the negative effects of the exchange rate prevailing at year end (€ 28.8 million).

Following the completion of the allocation of the excess cost paid for the acquisition of GTESA and PATESA, the definitive measurement of goodwill has also been reflected in the comparative figures at December 31, 2007 as a decrease of € 23.8 compared with the provisional determination recognised the previous year.

Impairment testing

Cash Generating Unit - Terna

The recoverable amount of the goodwill in respect of the Terna CGU (as a result of the merger of RTL into Terna), on the basis of the cash flows that Terna is expected to generate in the future, exceeds the carrying amount of the CGU reported above. In addition, the market price of Terna shares at December 31, 2008 (€ 2.335), less estimated selling costs comprising commissions of 0.19%, does not show the presence of trigger events.

Cash Generating Unit - Brazil

The recoverable amount of goodwill on the three Brazilian cash generating units (Trasmissora Sudeste-Nordeste/TSN, Novatrans/NVT and Terna Participações) was estimated based on the market price of Terna Participações certificates (representing 3 shares each) at December 31, 2008 (R$ 21.99), less estimated selling costs comprising local commissions and taxes of 4.1%. Based on the above, the recoverable amount of goodwill exceeds the carrying amount of the CGUs reported above.

15. Intangible assets - € 279.3 million

Intangible assets amounted to € 279.3 million (€ 180.2 million at December 31, 2007). The increase on the previous year (€ 99.1 million) is attributable to ordinary changes in respect of investments in application software either developed internally or purchased as part of system evolution and development projects (€ 28.9 million), other changes (€ 2.2 million), amortisation (€ 28.6 million) and exchange rate losses (€ 30.7 million), as well as the change in the scope of consolidation following the acquisition in the first half of 2008 of the Brazilian company ETEO (€ 127.3 million).
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.

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, 2007	**142.8**	**22.9**	**14.5**	**180.2**
Change in the scope of consolidation	127.3	-	-	127.3
Investments	-	25.5	3.4	28.9
Entry into service	-	12.9	-12.9	-
Other changes	-	-	2.2	2.2
Amortisation	-9.6	-19.0	-	-28.6
Exchange rate differences	-30.7	-	-	-30.7
Balance at Dec. 31, 2008	**229.8**	**42.3**	**7.2**	**279.3**
Cost	250.8	118.0	7.2	376.0
Accumulated amortisation	-21.0	-75.7	-	-96.7
Balance at Dec. 31, 2008	**229.8**	**42.3**	**7.2**	**279.3**

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

These software applications are amortised over their estimated residual useful life, which is normally three years given their rapid obsolescence.
Following the completion of the allocation of the excess cost paid for the acquisition of GTESA and PATESA, the fair value of the subsidiaries' concession has also been reflected in the comparative figures at December 31, 2007 in the amount of € 19.5 million.

16. Deferred tax assets - € 187.1 million

Deferred tax assets regard the following captions:

In millions of euros	Dec. 31, 2007	Impact recognised in profit or loss: Accruals	Impact recognised in profit or loss: Utilisation	Other changes in equity only	Dec. 31, 2008
Provisions for contingencies and charges	15.8	5.9	-7.2	-	14.5
Provision for bad debts	1.9	-	-1.0	-	0.9
Employee benefits	29.8	5.7	-8.9	-	29.8
FVH-CFH derivatives	-	-	-	18.1	15.0
Financial income and expenses Brazil	117.6	23.4	-1.7	-34.3	105.0
Change in the scope of consolidation	-	-	-	22.0	22.0
Other	1.5	-	-1.5	-	-0.1
Deferred tax assets	**166.6**	**35.0**	**-20.3**	**5.8**	**187.1**

The net increase (€ 20.5 million) on 2007 is essentially due to:
- the effect on deferred tax assets of the financial income and expense of the Brazilian subsidiaries, notably a net decrease of € 12.6 million, mainly attributable to the portion of revenues deferred over the life of the concession (€ 23.4 million) and the appreciation of the euro against the real (€ 34.3 million);
- the change in the scope of consolidation, in the amount of € 22.0 million, following the acquisition of the Brazilian subsidiary ETEO;
- the change on derivatives of € 18.1 million attributable to the tax effect, which has no impact on the income statement, in respect of changes in cash flow hedge instruments;
- a net € 1.3 million in releases from the provision for contingencies and charges and € 1.0 million from the provision for bad debts;
- a net € 1.5 million in releases from other provisions.

17. Equity-accounted investees - € 38.2 million

Investments in equity-accounted investees amount to € 38.2 million and relate to:
- the investment (€ 9.8 million) of Terna S.p.A. in the associate CESI S.p.A., equal to 24.4%;
- the investment (€ 19.0 million) of the subsidiary Terna Participações in the joint venture ETAU, equal to 52.58%;
- the investment (€ 9.4 million) of the subsidiary Terna Participações in the joint venture Brasnorte, equal to 35%.

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 carrying amount of this investment increased by € 2.3 million on 2007.
As permitted by current regulations, CESI opted not to apply IFRS to the preparation of its financial statements at December 31, 2008. Consequently, its financial statements at December 31, 2008 were prepared in accordance with Italian GAAP.
ETAU operates in the transmission field and owns approximately some 188 km of 230 kV transmission lines.
The value of the investment declined by € 4.3 million on 2007, essentially owing to exchange rate losses.
Brasnorte, which is not yet operational, holds a concession for the transmission of electricity over about 402 km of 230 kV lines.
The main figures of the above associates, restated in accordance with the presentation and measurement criteria applied by Terna Group, are as follows:

	Assets		Liabilities		Equity	Revenues	Profit for the year
	Current	Non-current	Current	Non-current			
CESI	63.2	49.7	48.4	24.4	40.1	73.7	9.5
ETAU	1.7	38.0	3.2	24.3	12.1	7.7	0.6
Brasnorte	10.2	24.5	7.3	0.3	27.1	-	-

18. Financial assets

The following table details financial assets recognised in the consolidated financial statements:

	Carrying amount		
In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
FVH derivatives	115.5	-	115.5
Accounts on investments	-	0.1	-0.1
Non-current financial assets	**115.5**	**0.1**	**115.4**
Deferred assets on CFH derivative contracts	0.4	-	0.4
Other current financial assets	6.5	2.5	4.0
Current financial assets	**6.9**	**2.5**	**4.4**
Total	**122.4**	**2.6**	**119.8**

At December 31, 2008, "non-current financial assets", equal to € 115.5 million, reported the fair value measurement of fair value hedges.
The increase in the fair value of derivatives (€ 115.4 million) compared with December 31, 2007 is attributable to the change in the yield curve, which gave rise to a positive change in FVH derivatives in the amount of € 173.0 million (€ 57.5 million as a reduction in non-current financial liabilities and € 115.5 million as an increase in non-current financial assets).

"Current financial assets" came to € 6.9 million (€ 2.5 million at December 31, 2007) and regarded the loan granted by Terna Participações to ETAU (€ 0.2 million) and interest accrued but not yet received at the balance sheet date in respect of derivatives contracts entered into to hedge floating-rate debt (€ 0.4 million) and liquidity deposited on current accounts (€ 6.3 million).
The increase of € 4.4 million on the previous year is the net result of the following factors:
- CFH derivatives entered into during the year to hedge floating-rate debt, with the recognition of deferred assets on these instruments (€ 0.4 million);
- an increase in deferred assets in respect of current accounts (€ 5.4 million);
- repayment of an intercompany loan to ETAU (- € 1.4 million).

19. Other assets

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Receivables due from others			
Loans and advances to employees	4.3	4.5	-0.2
Assets on deposit with third parties	1.2	1.5	-0.3
Other non-current assets	**5.5**	**6.0**	**-0.5**
Other tax receivables	8.6	14.9	-6.3
Receivables due from others			
Advances to employees	1.8	0.2	1.6
Others	18.5	18.0	0.5
Other current assets	**28.9**	**33.1**	**-4.2**

Non-current assets, detailed above, have not undergone any significant changes with respect to the previous year, and relate mostly to loans and advances paid to the Parent's employees.

Other current assets amount to € 28.9 million (€ 33.1 million at December 31, 2007) and mainly relate to the following:
- other tax receivables (€ 8.6 million), mainly related to:
  - withholding tax on interest income accrued on investments (€ 2.4 million);
  - tax receivables accrued abroad (€ 5.7 million);
- receivables due from others (€ 20.3 million), mainly regarding:
  - receivables from the Greek tax authorities for indirect taxes (€ 9.1 million) in relation to the activities carried out by Terna's branch in Greece;
  - assets in the amount of € 4.5 million referred to costs already paid but pertaining to subsequent years, mainly attributable to costs on contracts to use assets, which the Parent took over following the transfer of plant from Enel Distribuzione (€ 1.1 million) and insurance premiums (€ 3.0 million);
  - sundry advances to employees (€ 1.8 million) and third parties (€ 0.2 million).

20. Inventories - € 17.7 million

Inventories under current assets include materials and equipment used in the operation, maintenance and construction of plants in the amount of € 17.7 million (€ 12.6 million at December 31, 2007); the increase of € 5.1 million is mainly due to ordinary maintenance of plant in Italy.

21. Trade receivables - € 1,730.4 million

Trade receivables are composed as follows:

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Non energy-related receivables	259.0	286.2	-27.2
Energy-related receivables	1,471.4	1,254.9	216.5
Trade receivables	**1,730.4**	**1,541.1**	**189.3**

Trade receivables amounted to € 1,730.4 million, up € 189.3 million on 2007 entirely due to pass-through items originating in respect of dispatching activities carried out by Terna.
Receivables are measured net of impairment losses, relating to items considered uncollectible and recognised as an adjustment in the provision for bad debts (€ 10.3 million for energy items and € 1.4 million for other items in 2008, compared with € 12.9 million for energy-related items and € 0.9 million for other items in 2007).

Non energy-related receivables - € 259.0 million

These amount to € 259.0 million and mainly relate to grid transmission fees (€ 191.7 million) paid to the Parent and other owners for use of the National Transmission Grid by distributors and generators. They also include accrued fees for operation of the Brazilian lines, comprising both the portion already invoiced and that to be invoiced (€ 24.4 million).
Other trade receivables mainly regard receivables due from Italian customers (€ 26.2 million), from Enel Group companies (€ 6.7 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 three years (€ 3.6 million) and to cover the cost incurred in respect of the employee electricity discount (€ 2.1 million), and receivables for longterm contract work in progress (€ 1.4 million) for third-party customers.

Energy-related receivables - € 1,471.4 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. 237/04) in the amount of € 5.0 million.

The balance increased by € 216.5 million on the previous year, mainly attributable to the net effect of:

- greater receivables in respect of sales on the Power Exchange (€ 161.2 million), offset, as detailed in the section on trade payables below, by an increase in payables for purchases on the Power Exchange (€ 174.2 million);
- an increase in the receivable pending resolution by the AEEG (€ 38.8 million) for charges suspended under participation in the ETSO-CBT (European Transmission System Operators - Cross Board Trade) agreement concerning the offsetting of costs for electricity transiting on foreign electricity grids. Under Resolution no. 15/2005, the AEEG ensured the coverage of the above charges and established that repayment terms will be set out in a specific measure. In a recent resolution (no. 203/08) the AEEG specified the procedures for coverage of costs in respect of electricity transiting on foreign electricity grids with effect from 2009;
- a decrease in receivables (€ 22.1 million) under other pass-through items, largely due to the end of electricity transactions pursuant to Legislative Decree no. 387/03, transferred to the Electricity Services Operator as from 2008 (€ 26.0 million), which also appear under trade payables, and to the increase in electricity exports (€ 4.5 million);
- an increase in receivables (€ 18.6 million) as a result of the new system for recognising sales costs incurred by operators and settled by Terna, which under AEEG Resolution no. 349/07 are covered through the Electricity Equalisation Fund.

The amount of guarantees issued by the Terna Group to third parties at the end of 2008 was € 13.3 million. The item refers to sureties issued to secure contractual obligations assumed in relation to operating activity.

22. Cash and cash equivalents - € 779.7 million

At December 31, 2008, the Parent held cash and cash equivalents amounting to € 689.2 million, including € 645.0 million in liquidity invested in available short-term deposits (bearing interest at a rate of 5.07%), € 44.1 million held in bank current account deposits (bearing interest at a rate of 3.04%), and € 0.1 million in cash on hand held by operational units.
At December 31, 2008, the cash and cash equivalents held by Brazilian subsidiaries (bearing interest at a rate of 13.32%) amounted to € 90.5 million, of which available current account deposits of € 53.1 million and term deposits of € 37.4 million to guarantee loans granted.

23. Tax assets - € 25.9 million

Tax assets came to € 25.9 million (€ 3.2 million at December 31, 2007, including the balance for RTL). They were generated by greater payments on account in respect of IRES/IRAP compared with the actual tax liability determined as at the end of 2008.

Liabilities

24. Equity attributable to the shareholders of the Parent - € 2,076.8 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.
The increase of € 0.1 million on 2007 is due to the issue of new shares for the stock option plan in 2008 (for a total of 430,200 options) described and commented below.

Legal reserve - € 88.0 million

The legal reserve is equal to 20% of the Parent's share capital.

Other reserves - € 683.3 million

Other reserves underwent a net change of - € 46.1 million mainly as a result of the following:

- recognition and adjustment to fair value of derivatives hedging floating-rate loans of the Parent (cash flow hedge derivatives), which produced a decrease of € 65 million, net of the related tax effect (+ € 18.1 million);
- the recognition of the cost of the stock option plan described below and of the share premium reserve in respect of the portion exercised during the year (+ € 1.3 million).

Retained earnings - € 656.3 million

Retained earnings increased by € 53.5 million, due essentially to the following:

- allocation to retained earnings (€ 113.2 million) of the consolidated profit for the year ended December 31, 2007, equal to the residual amount of profit after the distribution of the 2007 dividend (€ 302.1 million);
- decrease in the translation reserve following the decline in translation differences (€ 59.7 million) arising on the consolidation of the foreign subsidiaries, as a result of the substantial depreciation of the Brazilian real against the euro compared with 2007. In this respect, the adjustment of goodwill at the year-end exchange rate produced a € 28.8 million decrease in that caption.

2008 interim dividend

After receiving the report of the auditors as per art. 2433-*bis* of the Italian Civil Code, the Parent's Board of Directors, on September 17, 2008, approved the distribution of an interim dividend of € 118.5 million, equal to € 0.0592 per share, which was paid beginning from November 27, 2008.
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, 2008	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*	285.4	A, B, C	285.4
Retained earnings	656.3	A, B, C	656.3
Interim dividend	-118.5	A, B, C	-
Profit for 2008	327.5	-	-
Total	**2,076.8**		**1,426.9**

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 € 49.4 million.

Of the total available portion, € 734.6 million regards untaxed income-related reserves.

Equity attributable to minority interests - € 86.9 million

Equity attributable to minority interests relates to the Brazilian subsidiaries. It decreased by € 24.6 million, essentially due to translation differences (- € 19.8 million) as a result of the significant depreciation of the real against the euro compared with the previous year, as well as the net effect of the following changes:

- attribution of the relevant share of profit/(loss) (€ 13.9 million) and the Terna Participações S.A. stock option reserve (€ 0.2 million) accrued during the year;
- distribution of the 2007 dividend (€ 7.1 million) and the 2008 interim dividend (€ 11.8 million).

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 (Resolution of 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 exercisable options, beginning from the date specified in the notice announcing that the exercise conditions have been met;
   - up to 60% of exercisable options, beginning from the first day of the first year subsequent to that in which the notice announcing that the exercise conditions have been met is issued;

- up to 100% of exercisable 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 exercise of the options under the above stock option plan by a further three years, until March 31, 2013, and consequently to amend Article 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.
Changes in the options granted under the plan as at December 31, 2008 were as follows:

Terna S.p.A.	Number of options
Outstanding at January 1, 2008	9,513,400
Unopted during the year	9,083,200
Exercised during the year	430,200
Outstanding at December 31, 2008	9,083,200
Exercisable at December 31, 2008	5,086,400

The weighted average price of the shares at the exercise date was equal to:

- € 2.905* at January 30, 2008;
- € 2.945* at May 22, 2008.

(*) Source: Bloomberg.

The table below shows the residual vesting period of options at December 31, 2008 and their fair value:

Options granted (at December 21, 2005)	End of vesting period	Fair value* at grant date (euros)
3,996,800	2009	0.115

(*) probability factor set at 100%.

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%.

Terna Participações S.A. stock option plans

On December 14, 2006, the Terna Participações S.A. Board of Directors, following approval by the extraordinary shareholders' meeting on October 5, 2006, resolved to adopt the first stock option plan for three managers of Terna Participações SA. The main characteristics of the Brazil 2007 stock option plan are described below.

Rules governing the 2006 stock option plan (Resolution of December 14, 2006)

The plan provides for the distribution of a maximum of 163,472 options to three Terna Participações managers, who hold the most important roles in terms of achieving the company's strategic targets, including the General Manager as a senior manager of the company.

Under the approved rules governing the stock option plan:
• the strike price of each unit amounts to R$ 21.0;
• the exercise of the options and, consequently, the right to subscribe units of newly-issued Terna Participações shares depends on achieving a performance parameter. In particular:
a) Terna Participações EBITDA for the grant year 2006, and of the first half of 2007 must be greater than that established in the budget approved by the Board of Directors;
• if the exercise conditions are met, individual beneficiaries can exercise their options by December 31, 2011 up to the following maximum quantities:
a) up to 30% of exercisable options, beginning from the date specified in the notice announcing that the exercise conditions have been met;
b) up to 60% of exercisable options, beginning from December 31 of the year in which the notice announcing that the exercise conditions have been met is scheduled to be issued;
c) up to 100% of exercisable options, beginning from December 31 of the first calendar year subsequent to the year in which the notice announcing that the exercise conditions have been met is issued.
The assessment that the conditions underlying the exercise have been met was carried out by the Board of Directors on the approval of the half-year report at June 30, 2007.
The options granted by the plan at December 31, 2008 number 13,358:

	Number of options
Outstanding at January 1, 2008	114,430
Unopted during the year	27,685
Exercised during the year	86,745
Outstanding at December 31, 2008	13,358
Exercisable at December 31, 2008	86,745

The weighted average price of the shares at the exercise date was equal to:
• R$ 30.3* per unit at February 27, 2008;
• R$ 29.2* per unit at April 30, 2008;
• R$ 31.99* per unit at June 27, 2008.

(*) Source: Bloomberg.

25. Loans and financial liabilities

The following table details loans and financial liabilities recognised in the consolidated financial statements at December 31, 2008.

	Carrying amount		
In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Bonds	2,031.8	1,840.4	191.4
Bank loans	1,923.5	925.1	998.4
Long-term loans	**3,955.3**	**2,765.5**	**1,189.8**
CFH derivatives	65.8	-	65.8
FVH derivatives	-	57.5	-57.5
Non-hedge-accounting derivatives	-	0.5	-0.5
Other liabilities	0.9	-	0.9
Non-current financial liabilities	**66.7**	**58.0**	**8.7**
Short-term loans	160.2	-	160.2
Current portion of long-term loans	79.0	71.8	7.2
Short-term loans and current portion of medium/long-term loans	**239.2**	**71.8**	**167.4**
Total	**4,261.2**	**2,895.3**	**1,365.9**

Gross debt increased by € 1,365.9 million to € 4,261.2 million.
Of the total rise in bonds (€ 191.4 million), € 177.7 million is attributable to the change in the fair value of the hedged exposure and € 13.7 million to the capitalisation of inflation for the period (€ 16,9 million) net of the amortised cost effect. The aggregate includes € 56.7 million in respect of inflation-linked bonds and € 134.7 million in respect of the 2014-2024 bonds. The change associated with hedging of interest rate risk was offset by the increase in the fair value of derivatives (a total of € 173.0 million, of which € 115.5 million in respect of the increase in financial assets and € 57.5 million as a reduction in financial liabilities).
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, 2008: 105.09(**) and price at December 31, 2007: 96.45(*);
- bond maturing 2014 price at December 31, 2008: 100.68(**) and price at December 31, 2007: 95.93(*);
- bond maturing 2023 price at December 31, 2008: 91.12(**) and price at November 12, 2007: 101.155(*).

(*) Source: Bloomberg.
(**) Source: Reuters.

Consequently, compared with a total carrying amount of € 2,031.8 million (€ 1,840.4 million at December 31, 2007), the fair value amounted to € 1,918.4 million (€ 1,855.8 million at December 31, 2007).

As regards debt originally bearing floating rates, the net increase of € 1,165.8 million is due to:

- a net increase in loans and other financing from the European Investment Bank (EIB) of € 270.5 million as a result of the disbursement in the third quarter of 2008 of a € 300 million loan and the repayment of maturing debt in the amount of € 29.5 million;
- an increase in other loans as a result of the drawing of € 200 million on the 2006 revolving credit facility and the disbursement of € 648.4 million in respect of the Club Deal loan in October;
- a decrease in the debt of the Brazilian companies TSN and Novatrans in the amount of € 113.3 million (of which € 83.5 million attributable to the appreciation of the euro against the real;
- the recognition of a short-term loan of Terna Participações granted in May 2008 with an original value of € 224.5 million for the purpose of acquiring ETEO, which, considering capitalised financial expense and partial repayment of principal during the year, amounted to € 160.2 million (including the exchange rate effect of € 66.5 million).

Long-terms loans

The following table shows the carrying amount of long-term debt and the repayment plan at December 31, 2008, broken down by loan type, including amounts falling due within one year.

In millions of euros	Maturity	Dec. 31, 2007	Dec. 31, 2008	Due within one year	Due after one year	2010	2011	2012	2013	2014	After
Bonds	2014-2024	1,337.6	1,472.3	-	1,472,3	-	-	-	-	-	1,472.3
IL bonds	2023	502.8	559.5	-	559.5	-	-	-	-	-	559.5
Total fixed rate		**1,840.4**	**2,031.8**	**-**	**2,031.8**	**-**	**-**	**-**	**-**	**-**	**2,031.8**
EIB no. 20271	2014	47.7	40.9	6.8	34.1	6.8	6.8	6.8	6.8	6.8	0.1
EIB no. 21159	2016	193.2	170.5	22.7	147.8	22.7	22.7	22.7	22.7	22.7	34.3
EIB no. 22947	2020	100.0	100.0	4.6	95.4	9.1	9.1	9.1	9.1	9.1	49.9
EIB no. 22947	2018	200.0	200.0	10.5	189.5	21.1	21.1	21.1	21.1	21.1	84.0
EIB no. 22947	2028	-	300.0	-	300.0	-	-	-	9.7	9.7	280.6
Club Deal	2015	-	648.4	-	648.4	-	-	-	-	-	648.4
RCF 2006	2011	-	200.0	-	200.0	-	200.0	-	-	-	-
Brazil loans		456.0	342.7	34.4	308.3	37.2	40.2	43.5	47.1	45.6	94.7
Total floating rate		**996.9**	**2,002.5**	**79.0**	**1,923.5**	**96.9**	**299.9**	**103.2**	**116.5**	**115.0**	**1,192.0**
Total		**2,837.3**	**4,034.3**	**79.0**	**3,955.3**	**96.9**	**299.9**	**103.2**	**116.5**	**115.0**	**3,223.8**

The total loans at December 31, 2008 of the Terna Group amount to € 4,034.3 million, including loans of € 3,955.3 million due after one year and € 3,223.8 million due after the fifth year.

The bonds are recognised at their carrying amount at December 31, 2008, which is measured in the manner described in the previous section. The repayment of the nominal amount of the 2014-2024 bonds (€ 1,400 million) will entail a payment of € 600 million on October 28, 2014 and € 800 million on October 28, 2024.

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 table below breaks down long-term debt by currency and average interest rate, including amounts falling due within one year.

In millions of euros	Maturity	Original currency	Dec. 31, 2008	Due within one year	Due after one year	Average interest rate at Dec. 31, 2008
Bonds	2014-2024	euro	1,472.3	-	1,472.3	4.62%
IL Bonds	2023	euro	559.5	-	559.5	5.99%
Fixed rate			**2,031.8**	**-**	**2,031.8**	
EIB no. 20271	2014	euro	40.9	6.8	34.1	4.88%
EIB no. 21159	2016	euro	170.5	22.7	147.8	4.97%
EIB no. 22947	2020	euro	100.0	4.6	95.4	5.00%
EIB no. 22947	2018	euro	200.0	10.5	189.5	4.90%
EIB no. 22947	2028	euro	300.0	-	300.0	5.37%
Club Deal	2015	euro	648.4	-	648.4	5.65%
RCF 750	2011	euro	200.0	-	200.0	5.09%
Brazil loans	2018	real	342.7	34.4	308.3	10.27%
Floating rate			**2,002.5**	**79.0**	**1,923.5**	
Total			**4,034.3**	**79.0**	**3,955.3**	

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 5.26%.

In line with the Group's financial risk management policies and consistent with the policy applied to long-term fixed-rate debt issued in 2004 (the 2014 and 2024 bonds), the 2023 inflation-linked bond, issued with a fixed rate, was synthetically transformed to a floating rate security by means of derivative contracts with the same maturity. Taking hedges into account, and assuming a 3.37% inflation rate, the average interest rate paid in the year was 6.19%.

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, 4.90%; EIB no. 21159, 5.03%; EIB no. 22947 (€ 100-million tranches), 5.02%; the € 650-million Club Deal loan, 5.03%. The average interest rates on the other hedged floating-rate loans remain substantially unchanged.

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

Type of loan In millions of euros	Nominal debt at Dec. 31, 2007	Carrying amount at Dec. 31, 2007	Repayments and capitalisations	New issues	Exchange rate differences	Diff. in fair value and amortised cost Dec. 31 2007-Dec. 31, 2008	Difference in carrying amount	Nominal debt at Dec. 31, 2008	Carrying amount Dec. 31, 2008
Listed fixed rate bonds	1,400.0	1,337.6	-	-	-	134.7	134.7	1,400.0	1,472.3
Listed fixed rate IL bond	502.9	502.8	16.9	-	-	39.8	56.7	519.8	559.5
Total bonds	**1,902.9**	**1,840.4**	**16.9**	**-**	**-**	**174.5**	**191.4**	**1,919.8**	**2,031.8**
Bank loans of the Parent	540.9	540.9	(29.5)	1,150.0	-	(1.6)	1,118.9	1,661.4	1,659.8
Bank loans of subsidiaries	456.0	456.0	(29.8)	-	(83.5)	-	(113.3)	342.7	342.7
Total bank loans	**996.9**	**996.9**	**(59.3)**	**1,150.0**	**(83.5)**	**(1.6)**	**1,005.6**	**2,004.1**	**2,002.5**
Total financial debt	**2,899.8**	**2,837.3**	**(42.4)**	**1,150.0**	**(83.5)**	**172.9**	**1,197.0**	**3,923.9**	**4,034.3**

Compared with December 31, 2007, long-term debt shows a total increase of € 1,197.0 million, of which € 1,150.0 million refers to the new borrowing in the year, € 16.9 million to the capitalisation of inflation for the period in relation to the IL bond, € 174.5 million to the increase in the fair value of the bonds as a result of a fall in interest rates, € 1.6 million to the measurement of the Club Deal loan at amortised cost, € 59.3 million to repayments on the bank loans of the Group, and € 83.5 million to the effect of the euro/real exchange rate.
The following are some notable changes that took place in the year:

- the disbursement on September 15, 2008 of an EIB loan of € 300 million. The loan, which has a 20-year term, will be paid in half-yearly instalments beginning from the fifth year, and carries an annual interest rate equal to 6-month Euribor plus 5 basis points;
- the disbursement on October 28, 2008 of a syndicated bank loan of € 650 million with a 7-year term and repayable at maturity. The rate has been set at Euribor plus 50 basis points, and may vary on the basis of the credit rating assigned to the Company by rating agencies;
- drawings, beginning in October, on the 2006 revolving credit facility, which at the end of December totalled € 200 million.

The loans in Brazil are secured by collateral in the form of a pledge on all the shares of the TSN, Novatrans, ETAU and ETEO subsidiaries. Terna Participações retains the voting rights.
At December 31, 2008, the Parent retained additional borrowing capacity of more than € 1,972.0 million, of which more than € 922.0 million consisted of short-term credit lines and € 1,050.0 million in syndicated revolving credit lines.

Non-current financial liabilities

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

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
FVH derivatives	-	57.5	-57.5
Non-hedge-accounting derivatives	-	0.5	-0.5
CFH derivatives	65.8	-	65.8
Other liabilities	0.9	-	0.9
Total	**66.7**	**58.0**	**8.7**

Non-current financial liabilities include the fair value of fair cash flow hedge and the net debt payable to Lehman Brothers. Considering its current debt situation and the composition of its portfolio of derivatives, Terna decided at the end of the financial year to eliminate the non-hedge-accounting component and replace it with cash flow hedges with the aim of sterilising the impact of differences in fair value on profit or loss to the greatest possible extent. At year-end, therefore, cash flow hedges covering the Group's floating-rate debt had a fair value of € 65.8 million.
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, 2007 generated a total increase of € 173.0 million in fair value hedge derivatives. The increase was the net result of a € 57.3 million decrease in non-current financial liabilities and a € 115.5 million increase in non-current financial assets. The change is commented on in the foregoing section on "financial assets".

Other financial liabilities of € 0.9 million refer to the estimated net payable to Lehman Brothers. This is the estimated 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. The value of the payable has been frozen pending the outcome of ongoing bankruptcy proceedings.

Short-term loans

Short-term loans, which total € 160.2 million, are composed of a loan taken out by Terna Participações with an original value of € 224.5 million to finance the acquisition of ETEO. After the capitalisation of interest and the partial repayment of the principal during the financial year, the loan value has been reduced to its current total of € 160.2 million (which includes an exchange rate effect of € 66.5 million).
On February 16, 2009, as noted in the section on subsequent events, an intercompany loan was agreed between Terna S.p.A. and Terna Participações with a nominal maximum value of R$ 500 million. The funds provided by Terna S.p.A. enabled Terna Participações to repay the loan for the acquisition of ETEO ahead of its maturity date of May 31, 2009.

Current financial liabilities

Current financial liabilities, generated by the financial expense accrued on financial instruments but not yet settled, increased by € 13.2 million, mostly as a result of the increase during the year of debt linked both originally and synthetically to floating rates.
The following table details deferred liabilities on the basis of the financial liabilities to which they relate:

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Deferred liabilities on:			
Derivative contracts			
- hedging	*2.9*	*0.8*	*2.1*
- non hedge accounting	*-*	*-0.4*	*0.4*
Total	**2.9**	**0.4**	**2.5**
Bonds			
- inflation linked	*4.2*	*4.1*	*0.1*
- ten-year	*4.5*	*4.5*	*-*
- twenty-year	*7.0*	*7.0*	*-*
Total	**15.7**	**15.6**	**0.1**
Loans			
- Italy	13.9	3.1	10.8
- Brazil	1.5	1.7	-0.2
Total	**15.4**	**4.8**	**10.6**
Total	**34.0**	**20.8**	**13.2**

The following table details the net financial position broken down by individual components:

In millions of euros	Carrying amount Dec. 31, 2008
A. Cash on hand	779.7
B. Other liquidity (details)	-
C. Securities held for trading	-
D. Cash and cash equivalents (A) + (B) + (C)	**779.7**
E. Short-term loan to ETAU	0.2
F. Current financial receivables	**0.2**
G. Current bank debt	160.2
H. Current portion of long-term debt	79.0
I. Current financial debt (G) + (H)	**239.2**
J. Net current financial debt (I) - (D) - (F)	**-540.7**
K. Non-current bank debt	1,923.5
L. Bonds	2,031.8
M. Derivative financial instruments in portfolio	-49.7
N. Other financial liabilities	0.9
O. Net non-current financial debt (K) + (L) + (M) + (N)	**3,906.5**
P. Net financial debt (O) + (J)	**3,365.8**

Apart from the relationship with ETAU, 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.
Some of the long-term loans of Terna S.p.A. contain covenants typical of international business practice. The main such covenants regard:

1. the Company's bond debt in respect of two issues of € 600 million and € 800 million carried out in 2004 and one issue of € 500 million in 2007 under the € 2,000,000,000 Euro Medium Term Notes Programme;
2. the bank debt in respect of two revolving credit lines of € 500 million and € 750 million and the Club Deal syndicated loan of € 650 million;
3. the financing from the European Investment Bank (EIB) in the form of a series of loans in the total amount of € 925 million.

None of the covenants 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 and the Club Deal 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 crossdefault 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 provide 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.

26. Employee benefits - € 153.9 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).
Post-employment benefits consist of the following:
- discount on electrical energy consumed for domestic use. This benefit is offered to all Company employees hired before June 30, 1996 (electricity discount);
- 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, 2008 is detailed below, along with changes in the period:

In millions of euros	Dec. 31, 2007	Accruals	Interest cost	Utilisations and other changes	Dec. 31, 2008
Employee benefits					
Loyalty bonus	5.1	0.2	0.2	-0.4	5.1
Total	**5.1**	**0.2**	**0.2**	**-0.4**	**5.1**
Termination benefits					
Termination benefits	73.8	9.9	3.3	-12.6	74.4
Additional month's pay	7.3	0.3	0.4	-0.6	7.4
Indemnities in lieu and other similar benefits	3.6	-	0.1	-0.2	3.5
Total	**84.7**	**10.2**	**3.8**	**-13.4**	**85.3**
Post-employment benefits					
Electricity discount	51.6	0.7	2.6	-3.0	51.9
ASEM	12.0	-	0.2	-0.6	11.6
Total	**63.6**	**0.7**	**2.8**	**-3.6**	**63.5**
Total	**153.4**	**11.1**	**6.8**	**-17.4**	**153.9**

The caption, which shows a total of € 153.9 million at December 31, 2008 (€ 153.4 million at December 31, 2007) is substantially unchanged with respect to the prior year. The accruals for the period (€ 11.1 million) include the value of actuarial losses of € 0.9 million, of which € 0.2 million in respect of the indemnity for lack of notice and € 0.7 million in respect of the ASEM health plan.
The main assumptions made in the actuarial estimate of employee benefit obligations are as follows:

Percentage figures	2008	2007
Discount rate	4.8%	4.6%
Rate of increase in personnel expenses	2.0%-5.0%	2.0%-4.0%
Rate of increase in healthcare costs	3.0%-4.0%	3.0%

27. Provisions for contingencies and charges - € 81.6 million

The items and changes of the provisions for contingencies and charges at December 31, 2008 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, 2007	**16.3**	**42.5**	**10.5**	**69.3**
Accruals	0.3	38.7	2.6	41.6
Utilisations	(1.7)	(26.9)	(0.7)	(29.3)
Balance at Dec. 31, 2008	**14.9**	**54.3**	**12.4**	**81.6**

Provision for disputes and litigation - € 14.9 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 net decrease of €1.4 million, consisting of accruals of € 0.3 million and utilisations of € 1.7 million.
Litigation for which no potential charge can be calculated are described under "Off-balance sheet items".

Provision for other contingencies and charges - € 54.3 million

The provision shows an increase of € 11.8 million compared with end-2007, primarily ascribable to accruals of € 38.7 million and utilisations of € 25.7 million by the Parent in the course of the year. More specifically:

- net accruals (€ 18.3 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;
- an accrual of € 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;
- an accrual of € 2.0 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;
- an accrual for the charges envisaged in the memorandum of understanding for the promotion of Italian contemporary art signed with the Ministry for Cultural Heritage (€ 0.6 million);
- the release of an accrual of € 14.0 million recognised in the previous year due to a technical dispute that occurred in 2007 with a dispatching withdrawal operator, which was settled favourably in 2008.

Provision for early retirement incentives - € 12.4 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.

28. Deferred tax liabilities - € 376.6 million

Changes in this caption are detailed as follows:

In millions of euros	Dec. 31, 2007	Impact recognised in profit or loss		Contribution of ETEO	Reclassifications and other changes	Dec. 31, 2008
		Accruals	Utilisations			
Property, plant and equipment	401.2	4.9	-32.4	1.8	-2.7	372.8
Employee benefits and financial instruments	3.3	-	-0.9	-	1.4	3.8
Total	**404.5**	**4.9**	**-33.3**	**1.8**	**-1.3**	**376.6**

Deferred tax liabilities decreased by € 27.9 million compared with end-2007, mostly owing to the combined effect of the following:

- net utilisation of previous accruals for accelerated amortisation and depreciation recognised by the Parent in excess of ordinary amortisation and depreciation rates (€ 21.5 million);
- the release, pursuant to Law no. 244 of December 24, 2007 (the 2008 Finance Act), of the utilisable portion of the deferred tax provision for IRAP, which amounted to € 8.4 million in the financial year 2008;
- the release of deferred tax liabilities of € 2.4 million, corresponding to the amortisation charge for the financial year on the differences arising from the merger cancellations allocated to property, plant and equipment following the extraordinary operations carried out by RTL in 2007;
- accruals of € 5.1 million, net of the exchange rate effect, relating to the allocation of part of the excess cost paid in the acquisition of GTESA/PATESA (merged into TSN) and ETEO, following the completion of the allocation process.

29. Other non-current liabilities - € 407.6 million

The caption (€ 407.6 million) shows an increase of € 49.6 million compared with the previous financial year, owing to the combined effect of the following:

- the deferral, in the amount of € 56.0 million, of the portion of Brazilian revenues for 2008, in application of the principle of distribution of revenues over the entire duration of the concession (€ 257.2 million at December 31, 2008);
- the release, in the amount of € 5.1 million, of the portions of plant grants in connection with depreciation for the year applicable to the plants involved (a total of € 146.1 million at December 31, 2008);
- the release, in the amount of € 1.3 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, 2008 the portions, deferred to subsequent years, totalled € 4.3 million).

30. Current liabilities

Current liabilities at December 31, 2008 consist of the following:

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Short-term loans*	160.2	-	160.2
Current portion of long-term loans*	79.0	71.8	7.2
Trade payables	1,880.6	1,772.0	108.6
Tax liabilities	1.8	2.3	-0.5
Current financial liabilities*	34.0	20.8	13.2
Other current liabilities	93.8	89.8	4.0
Total	**2,249.4**	**1,956.7**	**292.7**

(*) See the comments in note 25. Loans and financial liabilities.

Trade payables - € 1,880.6 million

Trade payables at December 31, 2008 consist of the following:

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Suppliers			
Suppliers:			
- non energy-related payables	*319.9*	*274.8*	*45.1*
- energy-related payables	*1,554.3*	*1,489.2*	*65.1*
Associates - CESI	5.5	7.5	-2.0
Payables for contract work in progress			
Payables for contract work in progress	0.9	0.5	0.4
Total	**1,880.6**	**1,772.0**	**108.6**

Suppliers

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 (€ 45.1 million) reflects the higher investment spending on purchases and services in the final quarter of 2008 compared with the corresponding period of 2007.

Energy-related payables

This caption reports the effects on the balance sheet 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 increase of € 65.1 million compared with 2007 is essentially attributable to:

- an increase of € 174.2 million in payables for the purchase of energy on the Power Exchange, offset by an increase (as described above in the relevant section) in receivables from the sale of electricity on the exchange (€ 161.2 million);
- a decrease of € 29.9 million in payables for the assignment of rights for the utilisation of transmission capacity on cross-border interconnections. The decrease derives from the updating of AEEG Resolution no. 288/06 for 2008 (pursuant to Resolution no. 329/07);
- a decrease of € 45.6 million in payables for imports of electricity from abroad;
- a decrease of € 33.7 million brought about by a reduction in debtor items still undefined by the AEEG at December 31, 2007, relating to the distribution of CCT revenues (€ 117.7 million), a reduction in the fee invoiced to Terna for the coverage of uplift and interconnection in the period (€ 0.3 million), net of the increase in the payables in respect of UESS (essential generation units) in the amount of € 11.6 million and capacity payments of € 72.7 million.

Payables to associates

This caption amounts to € 5.5 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 decrease (€ 2.0 million), compared with end-2007, is the result of a reduction in services delivered in the final part of the year.

Group commitments with suppliers totalled € 2,156.0 million and refer to purchase commitments relating to normal operating activities for the period 2009-2014.

Payables for contract work in progress

This caption amounted to € 0.9 million, and was substantially unchanged with respect to December 31, 2007. It is composed as follows:

In millions of euros	Payments on account	Contract value	Balance at Dec. 31, 2008	Payments on account	Contract value	Balance at Dec. 31, 2007
Other	-1.7	0.8	-0.9	-2.8	2.3	-0.5
Total	**-1.7**	**0.8**	**-0.9**	**-2.8**	**2.3**	**-0.5**

Tax liabilities - € 1.8 million

The caption refers to the Group's tax payables for the financial year and refers to:

- the TSN subsidiary in the amount of € 0.8 million;
- the Novatrans subsidiary in the amount of € 1.0 million.

The caption shows substantially no change on the previous year. It does not include tax liabilities of the Parent, which has paid accounts in excess of its obligations and therefore has a credit with the tax authorities.

Other current liabilities - € 93.8 million

Other current liabilities are detailed below:

In millions of euros	Dec. 31, 2008	Due within one year	Due after one year	Dec. 31, 2007	Change
Payments on account	10.0	1.3	8.7	6.8	3.2
Other tax liabilities	20.8	20.8	-	19.9	0.9
Amounts payable to social security institutions	19.0	19.0	-	16.2	2.8
Amounts payable to employees	25.6	25.6	-	30.9	-5.3
Other payables	18.4	8.2	10.2	16.0	2.4
Total	**93.8**	**74.9**	**18.9**	**89.8**	**4.0**

Payments on account

This caption (€ 10.0 million) includes grants related to plant received by the Parent for non-current assets still under construction at December 31, 2008.

The caption shows a net increase of € 3.2 million compared to 2007 (€ 6.8 million), which is the net effect of:

- new payments on account received from third parties (€ 19.0 million);
- a reclassification, in the amount of € 15.8 million, of grants that directly reduce the carrying amount of the related assets.

Other tax liabilities

Other tax liabilities, which amount to € 20.8 million, include € 14.9 million relating to the Parent and mainly consist of a VAT payable in respect of settlement of the December tax liability (€ 8.7 million) and payables for withholding taxes (€ 6.2 million).

The remaining balance of € 5.9 million refers to local taxes for the Group's Brazilian subsidiaries.

The balance is essentially unchanged (+ € 0.9 million) compared with the previous year.

Amounts payable to social security institutions

This caption amounts to € 19.0 million (€ 16.2 million at December 31, 2007), and mostly consists of the Parent's payables of € 18.6 million to INPS for December. The caption also includes the payable of € 5.1 million to the Fondo Previdenza Elettrici (FPE, a complementary pension fund for the electricity industry).

Amounts payable to employees

Payables to employees, € 25.6 million (€ 30.9 million at end-2007), essentially refer to the Parent (€ 25.2 million), and consist mainly of:

- accruals made for staff incentives to be paid in 2009 (€ 14.4 million);
- payments due to employees for unused holiday time and abolished public holidays (€ 8.0 million);
- termination benefits due to employees whose employment was terminated before December 31, 2008 (€ 0.7 million).

Other payables

Other payables, € 18.4 million (€ 16.0 million at 31 December 2007), mostly relate to the Parent (€ 14.1 million), and are essentially composed of guarantee deposits of € 10.3 million relating to Terna's obligations as an electricity market operator holding dispatching contracts. The caption also includes other liabilities of the Brazilian subsidiaries (€ 4.3 million) in respect of the monthly invoicing relating to the payment on account of system revenues for 2008, in addition to the Annual Concession Fee, which will be settled through the compensation of future RAP, as authorised by the ONS, on July 1, 2009.

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, 2008 are discussed below; as regards the subsidiaries, no commitments and contingencies in respect of off-balance sheet items were present at the reporting date.

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.
The Prime Minister's Order of July 8, 2003, which completed the provisions of Framework Law no. 36 of February 22, 2001, established the levels of the three parameters (exposure limits, warning values and quality standards) provided for by the Law, with which electrical systems must comply. This order had a favourable impact on the pending litigation, as the scope of the framework law had been limited to general principles only.
Only in a few cases have adverse judgements been issued against the Company. These have been appealed and the appeals are still pending. However, no claims for damages for harm to health have been upheld.

Electric and magnetic field legislation

The Framework Law of February 22, 2001 gives the Government responsibility for issuing specific measures to establish the reference parameters (exposure limits, warning values and quality standards) with which plants must comply.
The framework law provides for a recovery mechanism for reclamation costs, calculated in accordance with the criteria set by the Authority for Electricity and Gas pursuant to Law no. 481/95, as these are costs incurred in the public interest.
On August 29, 2003, the Prime Minister's Order of July 8, 2003 establishing exposure limits, warning values and quality standards for the protection of the public from electric and magnetic fields at the grid frequency (50 Hz) generated by power lines was published in the *Gazzetta Ufficiale della Repubblica Italiana*. It established the levels of the three parameters provided for by the framework law.

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 and/or MAP measures relating to activities operated under the concession. Only in those cases in which the plaintiffs claim not only 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, 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.
The issue involved in the dispute between Terna and INPS that arose following the publication of Circular no. 63 of May 6, 2005, is now moot. In the circular, INPS had ruled that state industrial enterprises and public entities engaged in privatised industrial activities were required to pay contributions into the CIG, CIGS, DS and *Mobilità* unemployment schemes as from the date on which “the legal status of the enterprises changed following privatisation”.
In a ruling issued on December 3, 2008, the Court of Rome declared that the matter in issue was moot because:

- Terna is not liable for contributions under the DS and *Mobilità* systems (which follow the contribution rules governing involuntary unemployment) as a result of the exemption decree of April 13, 2007;
- Terna is not liable for contributions under the CIG and CIGS schemes before May 2005;
- Terna has paid and continues to pay CIG and CIGS contributions as from May 2005.

F. Business combination

Acquisitions Brazil

In 2008, the Group continued to grow and expand in Brazil through its subsidiaries. Specifically, on May 30, 2008, Terna Participações, through the subsidiary Lovina Participações S.A., acting jointly with Tyco International LTD, finalised the acquisition of the entire capital of Empresa de Transmissao de Energia do Oeste Ltda – “ETEO” for a price of R$ 562.2 million, equal to around € 219.3 million. The equity investment entailed a total of R$ 6.2 million in incidental costs, consisting of advisory fees and taxes on financial transactions, which raised the total cost of the investment to R$ 568.4 million. On June 2, 2008, the boards of ETEO and Lovina approved the merger of the latter into the former.
ETEO holds a 30-year operating concession for 502 kilometres of 440-kV lines in the state of São Paulo.
The acquisition was entirely financed by Terna Participações, which used a one-year bank loan obtained through the issuance of commercial paper, as described more fully in the section on “Short-term loans”.
At the time of the acquisition (May 30, 2008) the excess cost of € 192.2 million was provisionally allocated to “Goodwill”. Following the preparation of the consolidated financial statements at December 31, 2008, the final allocation was carried on the basis of a specific appraisal conducted by independent experts.
The table below shows, for each class of asset and liability of the companies in question at the time of acquisition, the IFRS values before the business combination and the fair value after the purchase price allocation was completed.

	IFRS carrying amount before the business combination		Fair value	
	R$	Thousands of euros	R$	Thousands of euros
Non-current assets	**216,612,548.45**	**85,310.76**	**628,646,548.45**	**247,586.37**
1. Property, plant and equipment	160,546.607.05	63,229.73	249,270,607.05	98,172.82
3. Intangible assets	-	-	323,310,000.00	127,332.52
4. Deferred tax assets	55,772,572.04	21,965.49	55,772,572.04	21,965.49
7. Other non-current assets	293,369.36	115.54	293,369.36	115.54
Current assets	**15,087,761.03**	**5,942.17**	**15,087,761.03**	**5,942.17**
1. Inventories	3,362,496.86	1,324.29	3,362,496.86	1,324.29
2. Trade receivables	10,508,299.02	4,138.59	10,508,299.02	4,138.59
4. Cash and cash equivalents	825,930.99	325.28	825,930.99	325.28
5. Other current assets	391,034.16	154.01	391,034.16	154.01
Total assets	**231,700,309.48**	**91,252.93**	**643,734,309.48**	**253,528.54**
Non-current liabilities	**138,171,459.25**	**54,417.49**	**142,795,193.30**	**56,238.51**
4. Deferred tax liabilities	-	-	4,623,734.05	1,821.01
6. Other non-current assets	138,171,459.25	54,417.49	138,171,459.25	54,417.49
Current liabilities	**15,105,031.03**	**5,948.97**	**15,105,031.03**	**5,948.97**
3. Trade payables	2,830,120.41	1,114.62	2,830,120.41	1,114.62
4. Tax liabilities	10,473,013.62	4,124.70	10,473,013.62	4,124.70
6. Other current liabilities	1,801,897.00	709.66	1,801,897.00	709.66
Total liabilities	**153,276,490.28**	**60,366.46**	**157,900,224.33**	**62,187.48**
Net identifiable assets and liabilities	**78,423,819.20**	**30,886.46**	**485,834,085.15**	**191,341.06**
Goodwill from acquisition	-	-	82,551,835.34	32,512.24
Consideration	**568,385,920.49**	**223,853.30**	**568,385,920.49**	**223,853.30**

The revenues and the profit for the year of ETEO in 2008, calculated in accordance with the Terna Group's accounting policies, amounted to, respectively, € 27.1 million and € 9.2 million. Measured from the date of acquisition, the contribution of ETEO to consolidated profit for 2008 was € 4.5 million.
The purchase price allocation process was also completed for the acquisition of GTESA and PATESA. 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 € 4.9 million;
• concession in the amount of € 19.5 million;
• deferred tax liabilities in the amount of € 0.6 million.
Accordingly, following the allocation process, and taking account of the tax effect, the goodwill generated by the business combination amounted to € 1.8 million.
This amount was also reflected in the comparative figures at December 31, 2007 of these consolidated financial statements.

G. Related party transactions

As discussed in the relevant section of the Directors' Report, the Terna Group's transactions with related parties regarded the associate company CESI S.p.A., the joint ventures ETAU and Brasnorte, the employee pension funds (Fondenel and Fopen) 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.
The following table sets out the nature of the Terna Group's transactions, assets and liabilities with related parties, as well as the relevant revenues and costs for the year and receivables and payables at December 31, 2008.

Related party	Assets	Liabilities
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
ETAU S.A.	**Non energy-related items** Financing	
Brasnorte de Energia S.A.	**Non energy-related items** Diversified assets	
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 fees **Non energy-related items** Restitution of electric power discount, personnel administration, building services, 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, cover of transmission costs, remuneration of grid **Non energy-related items** Line maintenance	**Energy-related items** Energy purchase, cover of joint management costs, National Transmission Grid remuneration
Ferrovie dello Stato 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** Social security contributions payable by Terna Group

Company In millions of euros	Income statement balances					
	Revenues			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 related items	Non energy-related items
Associates:						
CESI S.p.A.						1.3
Total associates	**-**	**-**	**-**	**-**	**-**	**1.3**
Joint ventures:						
ETAU S.A.			0.3			
Brasnorte de Energia S.A.			4.5			
Total joint ventures	**-**	**-**	**4.8**	**-**	**-**	**-**
Other related parties:						
GSE Group	26.2	2,178.7	0.4		900.1	
Enel Group	921.0	1,128.5	21.0	6.6	2,040.9	9.2
Eni Group	7.5	167.6	0.1	0.7	91.8	
Ferrovie dello Stato Group	0.4	26.5	0.1	7.0	7.4	
Anas S.p.A.			1.8			
Total other related parties	**955.1**	**3,501.3**	**23.4**	**14.3**	**3,040.2**	**9.2**
Pension funds:						
Fondenel						0.5
Fopen						1.6
Total pension funds	**-**	**-**	**-**	**-**	**-**	**2.1**
Total	**955.1**	**3,501.3**	**28.2**	**14.3**	**3,040.2**	**12.6**

	Balance sheet balances				
	Property, plant and equipment	Receivables and other assets			
Company In millions of euros	Capitalised costs	Other	Financing	Payables and other liabilities	Guarantees*
Associates:					
CESI S.p.A.	9.9			5.5	3.5
Total associates	**9.9**	**-**	**-**	**5.5**	**3.5**
Joint ventures:					
ETAU S.A.			0.2		
Brasnorte de Energia S.A.		0.1			
Total joint ventures	**-**	**0.1**	**0.2**	**-**	**-**
Other related parties:					
GSE Group		0.3		0.1	
Enel Group	2.5	99.3		33.9	522.3
Eni Group	8.7	0.5		9.3	29.7
Ferrovie dello Stato Group				8.7	22.0
Anas S.p.A.		2.2		1.2	
Total other related parties	**11.2**	**102.3**	**-**	**53.2**	**574.0**
Pension funds:					
Fondenel					
Fopen				1.3	
Total pension funds	**-**	**-**	**-**	**1.3**	**-**
Total	**21.1**	**102.4**	**0.2**	**60.0**	**577.5**

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

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

No significant, non-recurring, atypical or unusual transactions were carried out during 2008, either with third parties or with related parties, other than those discussed above.

I. Notes to the cash flow statement

The cash flow generated from **operating activities** in the financial year amounts to around € 567.8 million, which reflects around € 1,033.8 in cash from operational activities (self-financing) and around € 466.0 million in financial resources absorbed in the management of net working capital.

Investing activities used net financial resources of around € 1,018.2 million, and included € 731.2 million of investment in property, plant and equipment (€ 747.0 million minus grants totalling € 15.8 million for plant construction received in the year), and € 28.9 million of investment in intangible assets. As regards ETEO, the company acquired in May 2008, the value of property, plant and equipment and intangible assets after the allocation of the excess cost paid upon acquisition broke down as follows:

- property, plant and equipment in the amount of € 98.1 million;
- goodwill in the amount of € 32.5 million;
- intangible assets (concessions) in the amount of € 127.3 million,

The net change in cash flows in respect of **financing activities** shows an increase of € 1,008.6 million, essentially due to an expansion of medium/long-term debt (including short-term portion net of the variation in FVH derivatives and not including the related exchange rate effect) in the amount of € 1,107.5 (€ 150.0 million), and to increased short-term loans (not including the exchange rate effect) in the amount of € 226.7 million, which was partially offset by the distribution of the balance of dividends for 2007 (€ 197.2 million, of which € 7.1 million to minority interests) and by the payment of interim dividends for 2008 to the shareholders of the Parent (€ 118.5 million) and to the minority shareholders of the Brazilian subsidiaries (€ 11.8 million).

Consequently, the financial resources required for investing activities and the remuneration of equity amounted to € 1,343.8 million in 2008, part of which (€ 567.8 million) was covered by cash flows generated from operating activities, and the rest of which (€ 776.0 million) by recourse to new borrowing.

L. Subsequent events

Loan from Cassa Depositi e Prestiti

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. The funds will be used to meet the financing needs of Terna for its 2009-2013 investment programme.
The interest rate on the financing disbursed will be equal to Euribor increased by CDP's funding costs plus a margin of 70 basis points applied by CDP.

2009-2013 Business Plan

On **February 3, 2009**, Terna presented its 2009-2013 Business Plan, approved by the Parent's Board of Directors that same day, to financial analysts.
Thanks to the achievement of targets for the development and consolidation of the grid by means of the acquisition, completed according to plan, of Enel Linee Alta Tensione S.r.l. ("ELAT"), which gave it control of Enel's high-voltage grid, and thanks also to a sound regulatory environment recognising the Company's role as a provider of infrastructure, the Terna

Group was able to proceed with the definition of its 2009-2013 Business Plan, which sets out four main guidelines, as follows:
- **sustainable growth**: by developing the National Transmission Grid through investments totalling around € 3.4 billion in the period 2009-2013, which marks an increase of € 300 million compared with the previous plan;
- **improved margins**: mainly by increasing revenues and containing costs in respect of regulated activities in Italy;
- **strengthening and enhancing the sustainability of the capital structure** of Terna S.p.A., which will already be partly realised in 2009 once the Group has finalised the acquisition of ELAT;
- **system safety and reliability**: through the Group's commitment to ensuring top-level safety in the electricity system and guaranteeing the reliability of the National Transmission Grid, in accordance with the instructions of the AEEG and international best practices.

Rating

Following Terna's presentation of its five-year Business Plan, the rating agencies made the following changes:
Moody's: revised Terna's long-term rating from "A1" to "A2", and assigned a stable outlook;
Standard & Poor's: revised Terna's long-term rating from "AA-" with a negative outlook to "A+" with a stable outlook; and revised the rating on short-term debt from "A-1+" to "A-1";
Fitch: maintained its negative rating watch on Terna long-term debt at "A+", on senior unsecured debt at "AA-" and on short-term debt at "F1", while it will proceed with a downgrading of Terna rating by a maximum of one notch after the operation for the acquisition of Enel Linee Alta Tensione (ELAT) has been approved and completed.
The decision to carry out a limited downgrade of Terna, which nonetheless retains a very strong rating that is one of the best in the industry, is based on the expectation of the higher level of debt envisaged in the 2009-2013 Business Plan.
In addition to the acquisition of ELAT as described above, the Business Plan envisages investment spending to develop the National Transmission Grid and a confirmation of the Group's policy on dividends.

Purchase of securities from Cassa Depositi e Prestiti

On **February 12, 2009**, Terna finalised an operation for the purchase of bonds issued by Cassa Depositi e Prestiti with a nominal value of € 700 million.
The bonds mature on February 2, 2010 and carry a two-monthly coupon of 2-month Euribor plus 0.65 percentage points.
The arrangement allows the buyer to request early redemption at specified dates.

Intercompany lending and the extinguishment of promissory notes

On **February 16, 2009** Terna S.p.A. and Terna Participações signed an agreement for an intercompany loan in the nominal amount of R$ 500 million. The loan was made on an arm's length basis (the interest rate is set at the CDI interbank rate plus 115 basis points until May 31, 2009 and 300 basis points thereafter). The agreement allows for the early repayment of the loan and its renewal for up to three years, at the discretion of Terna S.p.A.
The loan was disbursed on February 19, 2009 (value dated February 25, 2009) and totals € 169,721,656.48.
The loan enabled Terna Participações to make early repayment on the promissory notes maturing on May 31, 2009 used to fund the acquisition of ETEO.

Information provided pursuant to art. 149-*duodecies* of the CONSOB Issuer Regulations

The following table, prepared pursuant to art. 149-*duodecies* of the CONSOB Issuer Regulations, reports the fees for 2008 for the audit and the non-audit services provided to the Terna Group by the same auditing firm. No services were provided by entities belonging to the auditor's network.

In millions of euros	Company	Amounts due for 2008 - Italy	Amounts due for 2008 - Abroad
Auditing and financial statements	KPMG S.p.A.	271,530.9	297,852.5
Certification services	KPMG S.p.A.	191,180.0	76,411.9
Total		**462,710.9**	**374,264.4**

Certification of the consolidated financial statement pursuant to art. 81-*ter* of CONSOB Regulation no. 11971 of 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 no. 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 2008.

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, 2008:
- was prepared in compliance with the applicable international accounting standards recognised by the European Union pursuant to Regulation (EC) no. 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 no. 38/2005;
- corresponds to the results of the books and accounting records;
- 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 Directors' Report includes an accurate and faithful analysis of the management trend and results and of the company's situation, and of all the companies included in the consolidation, together with the description of the principal risks and uncertainties faced.

March 30, 2009

CEO	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

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 2008, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement 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.

The consolidated financial statements present the prior year corresponding figures for comparative purposes. As disclosed in the notes, the parent's directors restated such corresponding figures included in the prior year consolidated financial statements. We audited such financial statements and issued our report thereon on 7 April 2008. We have examined the methods used to restate the prior year corresponding figures and related disclosures to the extent that we considered to be necessary to express an opinion on the consolidated financial statements at 31 December 2008.

3 In our opinion, the consolidated financial statements of the TERNA Group as at and for the year ended 31 December 2008 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 2008, the results of its operations, changes in its equity and its cash flows for the year then ended.

KPMG

TERNA Group
Report of the auditors
31 December 2008

4 The directors of TERNA S.p.A. are responsible for the preparation of a directors' report on the financial statements in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report with the financial statements to which it refers, as required by article 156.4-bis.d of Legislative decree no. 58/98. 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 is consistent with the consolidated financial statements of the TERNA Group as at and for the year ended 31 December 2008.

Rome, 31 March 2009

KPMG S.p.A.

(signed on the original)

Marco Maffei
Director of Audit

Separate financial statements

as of December 31, 2008

Terna

Contents

Financial statements

Income statement - Terna S.p.A.

In euros	Notes	2008	2007	Change
A. Revenues				
1. Revenues from sales and services	1	1,151,965,436	1,087,315,715	64,649,721
of which from related parties		*1,421,383,510*	*1,110,324,530*	*311,058,980*
2. Other revenues and income	2	44,115,212	34,076,725	10,038,487
of which from related parties		*4,028,935*	*4,488,575*	*-459,640*
Total revenues		**1,196,080,648**	**1,121,392,440**	**74,688,208**
B. Operating expenses				
1. Raw materials and consumables	3	25,247,177	16,219,229	9,027,948
of which to related parties		*30,885*	*1,127,560*	*-1,096,675*
2. Services	4	110,672,390	111,997,091	-1,324,701
of which to related parties		*10,028,635*	*13,864,583*	*-3,835,948*
3. Personnel expenses	5	254,092,509	229,542,678	24,549,831
of which to related parties		*2,068,775*	*2,972,236*	*-903,461*
4. Amortisation, depreciation and impairment losses	6	255,304,617	210,807,937	44,496,680
5. Other operating expenses	7	19,851,463	15,202,598	4,648,865
of which to related parties		*493,449*	*825,044*	*-331,595*
6. Capitalised internal work	8	-66,341,085	-48,912,822	-17,428,263
Total expenses		**598,827,071**	**534,856,711**	**63,970,360**
A-B Operating profit		**597,253,577**	**586,535,729**	**10,717,848**
C. Financial income/(expense)	9			
1. Financial income		58,369,880	68,990,139	-10,620,259
of which from related parties		*36,772,272*	*59,703,674*	*-22,931,402*
2. Financial expense	9	-145,708,480	-99,856,174	-45,852,306
of which to related parties		*17,614*	*-535,388*	*553,002*
D. Profit before taxes		**509,914,977**	**555,669,694**	**-45,754,717**
E. Income taxes	10	174,623,989	147,532,702	27,091,287
F. Profit for the year		**335,290,988**	**408,136,992**	**-72,846,004**
Basic earnings per share	11	0.168	0.204	-0.036
Diluted earnings per share	11	0.167	0.203	-0,036

Balance sheet assets - Terna S.p.A.

In euros	Notes	at Dec. 31, 2008	at Dec. 31, 2007	Change
A. Non-current assets				
1. Property, plant and equipment	12	5,415,610,567	4,521,803,079	893,807,488
of which from related parties		*21,102,250*	*45,034,420*	*-23,932,170*
2. Goodwill	13	88,577,142	-	88,577,142
3. Intangible assets	14	167,202,001	160,679,527	6,522,474
4. Deferred tax assets	15	60,058,039	48,007,015	12,051,024
5. Non-current financial assets	16	331,526,685	664,752,683	-333,225,998
6. Other non-current assets	17	4,644,397	4,814,880	-170,483
Total non-current assets		**6,067,618,831**	**5,400,057,184**	**667,561,647**
B. Current assets				
1. Inventories	18	16,640,688	12,565,123	4,075,565
2. Trade receivables	19	1,705,981,614	1,513,630,656	192,350,958
of which from related parties		*102,310,484*	*189,471,856*	*-87,161,372*
3. Current financial assets	16	6,739,656	900,634	5,839,022
4. Cash and cash equivalents	20	689,183,999	130,556,229	558,627,770
of which from related parties			*7,446,167*	*-7,446,167*
5. Tax assets	21	25,848,954	2,637,276	23,211,678
6. Other current assets	17	21,096,407	30,786,451	-9,690,044
of which from related parties			*2,647,215*	*-2,647,215*
Total current assets		**2,465,491,318**	**1,691,076,369**	**774,414,949**
Total assets		**8,533,110,149**	**7,091,133,553**	**1,441,976,596**

Balance sheet liabilities - Terna S.p.A.

In euros	Notes	at Dec. 31, 2008	at Dec. 31, 2007	Change
C. Equity				
1. Share capital		440,199,936	440,105,292	94,644
2. Other reserves		770,565,378	817,043,140	-46,477,762
3. Retained earnings		600,365,600	474,322,015	126,043,585
4. Interim dividend		-118,453,801	-112,026,802	-6,426,999
5. Profit for the year		335,290,988	408,136,992	-72,846,004
Total equity	22	**2,027,968,101**	**2,027,580,637**	**387,464**
D. Non-current liabilities				
1. Long-term loans	23	3,646,940,434	2,351,735,716	1,295,204,718
2. Employee benefits	24	153,929,935	153,429,443	500,492
3. Provisions for contingencies and charges	25	81,603,585	65,038,042	16,565,543
4. Deferred tax liabilities	26	370,879,681	376,376,060	-5,496,379
5. Non-current financial liabilities	23	66,685,904	57,986,046	8,699,858
6. Other non-current liabilities	27	150,381,569	156,811,261	-6,429,692
of which to related parties		*783,412*	*809,576*	*-26,164*
Total non-current liabilities		**4,470,421,108**	**3,161,376,568**	**1,309,044,540**
E. Current liabilities				
1. Short-term loans	23	503,487	-	503,487
of which to related parties		*503,487*	-	*503,487*
2. Current portion of long-term loans	23	44,617,297	29,545,454	15,071,843
3. Trade payables	28	1,874,362,814	1,779,221,004	95,141,810
of which to related parties		*52,218,309*	*101,576,144*	*-49,357,835*
4. Tax liabilities	28			
5. Current financial liabilities	23	32,510,479	19,120,142	13,390,337
6. Other current liabilities	28	82,726,863	74,289,748	8,437,115
of which to related parties		*6,981,501*	*1,473,247*	*5,508,254*
Total current liabilities		**2,034,720,940**	**1,902,176,348**	**132,544,592**
Total equity and liabilities		**8,533,110,149**	**7,091,133,553**	**1,441,976,596**

Statement of changes in equity* - Terna S.p.A.

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

In millions of euros	Share capital	Legal reserve	Other reserves	Retained earning	Interim dividend	Profit for the year	Equity
At December 31, 2007	**440.1**	**88.0**	**729.0**	**474.4**	**-112.0**	**408.1**	**2,027.6**
Allocation of profit for 2007							
- Retained earnings				*106.0*		*-106.0*	**-**
- Dividend					*112.0*	*-302.1*	**-190.1**
Income and expenses recognised directly in equity							
- RTL merger contribution				*20.0*			**20.0**
- Effective portion of changes in the fair value of cash flow hedges			*-47.4*				**-47.4**
- Exercise of stock options	*0.1*		*1.0*				**1.1**
2008 interim dividend					**-118.5**		**-118.5**
Profit for the year						**335.3**	**335.3**
At December 31, 2008	**440.2**	**88.0**	**682.6**	**600.4**	**-118.5**	**335.3**	**2,028.0**

(*) For more details, please see note 22.

DECEMBER 31, 2006 - DECEMBER 31, 2007
TERNA S.P.A. SHARE CAPITAL AND RESERVES

In millions of euros	Share capital	Legal reserve	Other reserves	Retained earning	Interim dividend	Profit for the year	Equity
At December 31, 2006	**440.0**	**88.0**	**725.5**	**398.4**	**-106.0**	**356.0**	**1,901.9**
Allocation of profit for 2006							
- Retained earnings				*76.0*		*-76.0*	**0.0**
- Dividend					*106.0*	*-280.0*	**-174.0**
Income and expenses recognised directly in equity							
- Effective portion of changes in the fair value of cash flow hedges			*2.2*				**2.2**
- Exercise of stock options	*0.1*		*1.3*				**1.4**
2007 interim dividend					**-112.0**		**-112.0**
Profit for the year						**408.1**	**408.1**
At December 31, 2007	**440.1**	**88.0**	**729.0**	**474.4**	**-112.0**	**408.1**	**2,027.6**

Cash flow statement* - Terna S.p.A.

In millions of euros	Dec. 31, 2008	Dec. 31, 2007
Profit for the year	**335,3**	**408,1**
Adjustments for:		
Amortisation, depreciation, impairment losses/(reversals of impairment losses) on non-current property, plant and equipment and intangible assets**	245.4	202.4
Accruals to provisions (including employee-related provisions) and impairment losses	54.5	32.1
(Gains)/Losses on disposal of property, plant and equipment	-2.9	-0.5
Financial (income)/expense	85.1	30.9
Income taxes	175.0	151.4
Cash flows generated by operating activities, before changes in net working capital	**892.4**	**824.4**
Decrease in provisions (including employee-related and tax provisions)	-44.9	-31.3
Deferred tax liabilities and provisions for contingencies and charges – merger contribution	30.0	-
(Increase)/Decrease in inventories	-4.0	-4.9
(Increase)/Decrease in trade receivables and other current assets	-156.4	-297.1
Increase/(Decrease) of other non-current liabilities	2.1	-7.6
Increase/(Decrease) of other non-current assets	-191.5	-92.0
Deferred tax assets – merger contribution	-1.0	-
Increase/(Decrease) in trade payables and other liabilities	252.9	498.0
Interest income and other financial income received	191.7	92.9
Interest expense and other financial expense paid	-255.1	-125.5
Income taxes paid	-217.4	-296.0
Cash flows generated by operating activities [a]	**498.8**	**560.9**
Investments in property, plant and equipment, net of recognised grants	-720.2	-562.0
Property, plant and equipment – merger contribution	-411.0	-
Revenues from sale of property, plant and equipment	9.2	3.1
Investments in intangible assets	-28.9	-24.9
Goodwill – merger contribution	-88.6	-
(Increase)/Decrease in equity investments	-0.6	-0.1
Elimination of equity investment in respect of merger	449.3	0.0
Cash flows generated by investing activities [b]	**-790.8**	**-583.9**
Increase in reserves	1.3	1.3
Retained earnings – merger contribution	20.0	-
Dividends paid	-308.6	-286.0
Change in share capital	0.1	0.1
Change in medium/long-term financial payables (including short-term portion)***	1,137.3	473.1
Change in short-term financial payables and term credit lines	0.5	-50.0
Cash flows generated by financing activities [c]	**850.6**	**138.5**
Increase/(Decrease) in cash and cash equivalents [a+b+c]	**558.6**	**115.5**
Opening cash and cash equivalents	130.6	15.1
Closing cash and cash equivalents	689.2	130.6

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

Notes to the financial statements

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A., which operates in the electrical energy transmission and dispatching sector, is a public limited company based in Via Arno 64, Rome, Italy.
These separate financial statements were approved for publication by the Directors on March 11, 2009.
The separate financial statements as of and for the year ended December 31, 2008 are available upon request at the Terna S.p.A. registered offices in via Arno 64, Rome, or at the Company website www.terna.it.

Conformity with IAS-IFRS

The separate financial statements as of and for the year ended December 31, 2008 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.

Presentation criteria

The separate financial statements are comprised of the income statement, balance sheet, statement of changes in equity, cash flow statement and the notes thereto.
The income statement is classified on the basis of the nature of costs, while the cash flow statement has been prepared using the indirect method.
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 balance sheet, assets and liabilities are classified on a "current/non-current" basis, with specific mention of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for 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 balance sheet date.
The financial statements have been prepared in euros, while the figures in the notes are given in millions of euros, unless otherwise specified.
The financial statements have been prepared using the historic cost method, with the exception of captions that are recognised at fair value in accordance with IFRS-EU, as indicated in the accounting policies for each caption.

Following the merger of RTL into Terna S.p.A. (as discussed in detail in the section "Significant events in 2008" in the Directors' Report), whose accounting and tax effects are retroactive to January 1, 2008, the income statement and balance sheet of Terna S.p.A. at December 31, 2008 reflect the operations of the two companies involved in the merger, while the comparative figures at December 31, 2007 only comprise those of Terna S.p.A.
Since the data for RTL are not material compared with those for Terna S.p.A., no *pro forma* comparative statements have been prepared. However, in order to provide a clearer view of actual changes in the period, some detailed tables contain an additional column entitled "2007 aggregate", which reports the sum of the accounting data for the financial statements at December 31, 2007 of the two companies involved in the merger.

In these cases, the actual changes for the year are reported with respect to the balances at December 31, 2008 and the "aggregate" figures for the previous year.
The merger increased the equity of Terna S.p.A. by € 20.0 million, corresponding to the merger gain generated by the elimination of the carrying amount of the investment in RTL S.p.A. (acquired in 2005) against the latter's equity.

In the preparation of the separate financial statements as of and for the year ended December 31, 2008, the balance of some captions of the comparative data at December 31, 2007, have been restated on the basis of the early application of IAS 23 (revised in 2007), hereinafter also IAS 23R, endorsed by the European Commission at the end of December. The new standard endorsed by the European Commission takes effect as from January 1, 2009, with the possibility of early application. In addition, the standard also allows entities to set a date (the "commencement date") as from which to begin the capitalisation of borrowing costs that meet the requirements for capitalisation provided for in IAS 23R. The Company has therefore elected to apply IAS 23R early as from 2008 and has set January 1, 2006 as the commencement date. The early application of the standard means that the borrowing costs in respect of the construction and purchase of property, plant and equipment and intangible assets that, as of January 1, 2006, meet the requirements of IAS 23R have been capitalised as components of the cost of the assets. Until last year all financial expense had been taken to profit or loss in the period in which it was incurred.

The overall impact of the changes, accounted for in accordance with IAS 23R and IAS 8, increased profit for the year and equity at December 31, 2007, by € 1.4 million and € 1.6 million (net of the related tax effect) respectively.
Earnings per share and diluted earnings per share for 2007 were essentially unchanged. The adjustments to the comparative figures for 2007 regarded the following items of the balance sheet and the income statement: property, plant and equipment (+ € 2.2 million), deferred tax liabilities (+ € 0.6 million), retained earnings (+ € 0.2 million), financial expense (- € 2.0 million) and taxes for the year (+ € 0.6 million).
For a more complete discussion of the assumptions adopted, please see the section "Financial income and expense" below.

Use of estimates

The preparation of the balance sheet 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".

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.

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 euro, 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 are 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 under construction begins when the assets become available for use.

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

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

DEPRECIATION RATE	
Civil and industrial buildings	2.50%
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 profits or losses over the term of the lease.
The concession granted free of charge to the Company, with effect from November 1, 2005, by the Ministry for 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 for 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 November 2006, the International Financial Reporting Interpretations Committee ("IFRIC") issued IFRIC Interpretation 12 Service Concession Arrangements. The Company is currently evaluating its applicability and any effects that would arise from the adoption of this interpretation.

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 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.
Amortisation begins when the asset becomes available for use.
The estimated useful lives of the main intangible assets are given in the specific notes to the caption.
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 for 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 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 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.
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 annually.
Recoverable amount is equal to the greater of fair value less selling costs 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 stated 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 selling costs.

Contract work in progress

When the profit or loss on a contract can be reliably estimated, the related contract costs and revenues 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 balance sheet assets or liabilities, considering any impairment losses on the work carried out so as to take into account the risks of customers' refusal to 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 calculated on the basis of the present value of estimated future cash flows, discounted using the initial effective interest rate.
Receivables with due dates that fall under normal commercial terms are not discounted.

Cash and cash equivalents

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

Trade payables

Trade payables are initially recognised at fair value and subsequently 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 subject to fair value hedges, they are adjusted to reflect changes in fair value with respect to the hedged risk.

Derivative financial instruments

Derivatives are 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 are 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 relating to defined benefit plans (termination benefits, additional month's pay, indemnity for lack of notice, energy discount, ASEM health benefits and other benefits) or other long-term employee benefits (loyalty bonus) is 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, 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 in 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 expenses over the vesting period, with a corresponding increase in equity, considering the best possible estimate of the number of options that employees will be able to exercise. Such estimate is reviewed 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 maturity, the estimate is revised through the income statement to recognise the actual amount corresponding to the number of equity instruments that have actually matured, 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, 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 conditions for recognition are satisfied.

Revenues

Revenues are 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, revenues are recognised on the basis of the following specific criteria:
- revenues from the sale of goods are 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;
- revenues from the rendering of services are recognised with reference to the stage of completion of the transaction. If revenues cannot be reliably measured, they are recognised to the extent of recoverable costs;
- revenues accrued during the year in respect of contract work in progress are 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 revenues include 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. Revenues are also adjusted for any penalties for delays attributable to the Company;
- when there is uncertainty concerning the recovery of an amount already recognised in revenues, 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 revenues 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 revenues 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 part of a general pool, 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 2006 is 3.60%, that for 2007 is 4.17% and that for 2008 is 4.93%.
Other financial income and expense, other than capitalised amounts, is 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.

New reporting standards

With Regulation (EC) no. 1004/2008, the European Commission endorsed two amendments to IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: Additional Disclosures. The amendments took effect as from July 1, 2008, and concern the possibility of reclassifying certain non-derivative financial instruments. Since the situations governed by the amendments do not regard Terna, the entry into force of the measures had no impact on the financial statements.
With the exception of the cases discussed below, no other international accounting standards or interpretations took effect in 2008.
In 2008 and in 2009 up to the date of preparation of these financial statements, the European Commission endorsed the following international accounting standards and interpretations:

IAS 23 - Borrowing Costs (Revised in 2007)

The revised version of IAS 23, endorsed with Regulation (EC) no. 1260/2008, is intended to harmonise the international accounting standards issued by the IASB with US GAAP.
The main change eliminates the possibility of choosing whether to capitalise borrowing costs incurred in the acquisition or construction of assets that qualify for capitalisation. Such costs must now be capitalised. IAS 23R takes effect as from January 1, 2009 and earlier application is allowed.
As discussed earlier, until the financial statements as of and for the year ended December 31, 2007, Terna did not capitalise borrowing costs incurred for the acquisition or construction of its plant, but with the new rules established with IAS 23R it has elected to apply the standard early as from the 2008 financial year, setting the commencement date at January 1, 2006, in accordance with the transitional provisions of the new standard.

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

Regulation (EC) no. 1274/2008 endorsed the revised version of IAS 1, which takes effect for financial periods beginning on or after January 1, 2009. Earlier application is allowed.
The amendments to IAS 1 include the following:

- 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;
- transactions between minority shareholders are presented in the statement of other components of comprehensive income;
- the titles of the financial statements have been modified, with the statement of financial position and the statement of comprehensive income, while the statement of cash flows and the statement of changes in equity are virtually unchanged;
- revenues and costs can be presented in a single statement of comprehensive income or in two separate statements: one a separate income statement with the components of profit (loss) for the period and a second statement of comprehensive income that starts with profit (loss) for the period and then reports other components of comprehensive income, to be reported net of tax effects;
- dividends and dividends per share are presented in the statement of changes in equity or in the notes (not in the statement of comprehensive income).

Improvements to the IFRS

Regulation (EC) no. 70/2009 endorsed a series of amendments to numerous international accounting standards.
The IASB has decided to publish an annual document containing all minor amendments to previously published accounting standards, rather than publishing each separately.
The amendments take effect as from January 1, 2009; Terna is assessing the impact of the changes.
The European Commission also endorsed the following amendments and interpretations concerning issues that are not material to the financial statements of Terna:

- Amendments to IFRS 1 and IAS 27 - Cost of an investment in a subsidiary, jointly-controlled entity or associate (takes effect as from January 1, 2009);
- Amendments to IAS 32 and IAS 1 - Puttable financial instruments and obligations arising on liquidation (takes effect as from January 1, 2009);
- Amendment to IFRS 2 - Share-based payments: vesting conditions and cancellations (takes effect as from January 1, 2009);
- IFRIC 13 - Customer loyalty programmes (takes effect as from January 1, 2009);
- Amendment of IFRIC 14 and IAS 19: the limit on a defined benefit asset, minimum funding requirements and their interaction (takes effect as from January 1, 2008).

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:

IFRIC 12 - Service Concession Arrangements
IFRIC 12 governs the accounting treatment of service concession arrangements that 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 revenues 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.
The interpretation took effect for periods beginning on or after January 1, 2008, but as it has not yet completed the EU endorsement process, first time adoption is not expected to be mandatory for the Member States before January 1, 2009.

IFRS 3 - Business Combinations (Revised) and Amendment of IAS 27 - Consolidated and Separate Financial Statements
The revised version of IFRS 3 introduces various changes to the current version. The main changes regard the treatment of costs related to combinations, determination of the moment from which the effects of an operation that produces an acquisition begin, recognition of goodwill and, finally, accounting for minority interests. The amendments will take effect as from July 1, 2009.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
The amendment clarifies two issues concerning hedging relationships: identification of inflation as a risk and hedges using options. The amendment will take effect for the financial statements for periods beginning on or after July 1, 2009.
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:

***Revised IFRS 1 First-Time Adoption of IFRS* (published in November 2008);**
IFRIC 15 - *Agreement for the Construction of Real Estate*;
IFRIC 16 - *Hedges of a Net Investment in a Foreign Operation*;
IFRIC 17 - *Distributions on Non-Cash Assets to Owners*;
IFRIC 18 - *Transfers of Assets from Customers;*
***Amendments to IAS 39 Reclassification of Financial Assets: Effective Date and Transition*.**

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 2008 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.
In particular, as part of the risk management policies approved by the Board of Directors, Terna has defined responsibilities and operational procedures for managing such financial risks, making specific reference to the instruments to be used and setting clear operating limits in managing them.

Market risk

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 Company's 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 balance sheet 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.
Fair value is measured with reference to official prices for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured 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 interest and 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, two types of plain vanilla derivatives are used, i.e. 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, 2008	Carrying amount Dec. 31, 2007	Change
Fixed-rate financial instruments:			
- assets	-	12.4	-12.4
- liabilities	2,098.5	1,840.4	258.1
Floating-rate financial instruments:			
- assets	804.7	130.6	674.1
- liabilities	1,660.3	611.3	1,049.0
Total	**2,954.1**	**2,308.7**	**645.4**

Sensitivity to interest rate risk

As regards the management of interest rate risk, Terna has entered, on the one hand, into fixed-to-floating interest rate swaps (FVH) to hedge the fair value of the fixed-rate risk bonds and, on the other, into 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.

	Profit or loss			Equity		
In millions of euros	Current rates +10%	Rates at Dec. 31, 2008	Current rates -10%	Current rates +10%	Rates at Dec. 31, 2008	Current rates -10%
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*
Dec. 31, 2007						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	-1.4	-0.5	9.8			
Hypothetical change	*-0.9*	-	*10.3*			

Inflation risk

As regards inflation rate risk, the rates established by regulators to remunerate Terna's activities are 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 revenues due to a decrease in the inflation rate would be offset by lower financial expense.

Exchange rate risk

In order to reduce exchange rate risk, Terna uses forward contracts and currency options to hedge cash flows in currencies other than the euro. Items that could generate exchange rate risk for Terna S.p.A. comprise cash flows from Brazil associated with the return of capital and/or payments of dividends and interest on equity, for which the advisability of conducting specific hedging transactions is assessed on a case-by-case basis.
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.

At December 31, 2008, no financial instruments exposed to exchange rate risk were present.
Terna's exposure to interest rate risk at December 31, 2007 was entirely accounted for by receivables in respect of the Brazilian subsidiaries for interest on equity in the amount of R$ 6.9 million, equal to about € 2.6 million.

Liquidity risk

Considering that there is normally a negative difference between interest received on loans granted and interest paid on loans received, financial optimisation activities are geared towards minimising liquidity positions in line with the Company's funding needs in the special crisis conditions in the financial markets.
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, 2008 Terna had € 1,050 million in medium-term credit lines and € 922.7 million in short-term credit lines. Such amount is sufficient to refinance the debt falling due discussed in the section on long-term loans (€ 44.6 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.
The effects of the default of Lehman Brothers had no material impact on the income statement.
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 preventative 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 revenues), 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, 2008	Carrying amount Dec. 31, 2007	Change
FVH derivatives	115.5	-	115.5
Cash and cash equivalents	689.2	130.6	558.6
Trade receivables	1,706.0	1,513.6	192.4
Total	**2,510.7**	**1,644.2**	**866.5**

The total value of the exposure to credit rate risk at December 31, 2008 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	2008	2007	2006
Italy	1,674.7	1,393.3	1,144.7
Euro-area countries	26.6	111.9	11.1
Brazil	-	-	-
Other countries	4.7	8.4	8.0
Total	**1,706.0**	**1,513.6**	**1,163.7**

CUSTOMER TYPE	Carrying amount		
In millions of euros	2008	2007	2006
Distributors	179.6	206.8	206.2
Input dispatching contractors	678.0	532.5	503.4
Withdrawal dispatching contractors (non distributors)	805.5	736.2	405.9
Receivables from unregulated activities	42.8	38.2	48.2
Total	**1,706.0**	**1,513.6**	**1,163.7**

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

In millions of euros	2008		2007		2006	
Gross	Provisions for bad debts	Gross	Provisions for bad debts	Gross	Provisions for bad debts	Gross
Not yet past due		1,496.3		1,364.0	-3.2	1,064.5
0-30 days past due	-1.0	148.4		107.5	-	76.6
31-120 days past due		43.9		38.3	-9.1	32.3
More than 120 days past due	-10.7	29.1	- 13.8	17.6	-0.8	3.4
Total	**-11.7**	**1,717.7**	**-13.8**	**1,527.4**	**-13.1**	**1,176.9**

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

In millions of euros	2008	2007	2006
Balance at January 1	-13.8	13.2	1.0
Reversal of provision	3.9	-	-
Impairment for the year	-1.8	0.6	12.1
Balance at December 31	**-11.7**	**13.8**	**13.2**

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

In millions of euros	2008	2007	2006
Input dispatching activity	192.8	219.1	149.0
Withdrawal dispatching activity	1,025.6	610.0	264.4
Grid transmission fees - distributors	168.9	-	-
Balance at December 31	**1,387.3**	**829.1**	**413.4**

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, 2008, please see the section “Loans and financial liabilities” in the notes to the financial statements of Terna S.p.A.

B. Segment reporting

The identification of the Company's business segments was performed on the basis of the organisational structure and internal reporting system. In particular, since the risks and rewards of the Company's investments are exclusively affected by differences in the services provided, the primary basis of segment reporting is based on the activities performed.
Income and expenses not specifically attributable to individual sectors and the related assets and liabilities (in particular, financial assets and liabilities, tax assets and liabilities and deferred tax assets and liabilities) are indicated separately.
In addition, intersegment transfers are measured on current market terms and conditions and Terna operates exclusively in Italy.
Reporting by business segment is provided below for 2008 and 2007.

2008

In millions of euros	Regulated activities - Italy			Unregulated activities	
Description	**Transmission**	**Dispatching**	**Metering**		**Total**
Revenues	1,061.7	76.0	0.2	58.2	1,196.1
Segment results	**689.8**	**-18.8**	**-1.3**	**25.9**	**695.6**
Non-allocated expenses					98.4
Operating profit					**597.2**
Financial income/(expense)					-87.3
Income taxes					174.6
Profit for the year					**335.3**
Other information					
Assets/(Liabilities) attributable to segment					
Segment assets	5,111.5	1,952.9	13.9	341.5	7,419.8
Segment liabilities	370.8	1,574.6	4.5	393.1	2,343.0
Assets/(Liabilities) not attributable to segment					
Financial assets, cash and equivalents					1,027.4
Financial liabilities					3,791.3
Tax assets					85.9
Tax liabilities					370.9
Investments	**716.3**	**48.2**	**0.4**	**-**	**764.9**
Amortisation and depreciation	**225.0**	**30.1**	**0.2**	**-**	**255.3**
Other non-monetary costs	**0.2**	**-**	**-**	**-**	**0.2**

The negative results of the dispatching and metering segments are essentially attributable to the new rates set in Resolution no. 348/07 for the 2008/2011 regulatory period. In 2007, the dispatching segment benefited from the specific rate structure envisaged for the TSO sector.

2007

In millions of euros	Regulated activities - Italy			Unregulated activities	
Description	Transmission	Dispatching	Metering		Total
Revenues	930.0	119.0	10.1	62.3	1,121.4
Segment results	**618.0**	**24.2**	**9.0**	**27.7**	**678.9**
Non-allocated expenses					92.3
Operating profit					**586.6**
Financial income/(expense)					-30.9
Income taxes					147.6
Profit for the year					**408.1**
Other information					
Assets/(Liabilities) attributable to segment					
Segment assets	4,360.7	1,531.9	3.0	348.5	6,244.1
Segment liabilities	410.4	1,458.2	0.3	359.8	2,228.7
Assets/(Liabilities) not attributable to segment					
Financial assets, cash and equivalents					796.3
Financial liabilities					2,458.4
Tax assets					50.7
Tax liabilities					376.4
Investments	**483.2**	**91.2**	**0.2**	**-**	**574.6**
Intercompany acquisitions within the Group	**28.4**	**-**	**-**	**-**	**28.4**
Amortisation and depreciation	**184.2**	**26.4**	**0.2**	**-**	**210.8**
Other non-monetary costs	**5.0**	**-**	**-**	**-**	**5.0**

C. Notes to the income statement

Revenues

1. Revenues from sales and services - € 1,152.0 million

The table below details revenues of the year:

In millions of euros	2008	2007	Change
Grid transmission fees	1,045.4	998.9	46.5
Adjustments for prior year grid transmission fees	15.1	-4.3	19.4
Other energy revenues	48.4	43.3	5.1
Other revenues from sales and services	43.1	49.4	-6.3
Total	**1,152.0**	**1,087.3**	**64.7**

Grid transmission fees
This caption reports revenues from the Company's core business, comprising fees paid to it for use of the national transmission system. It also includes the fees, for the entire year, paid for the plants of RTL in the amount of € 66.2 million.

Considering adjustments from previous years, actual changes in the period are shown in the table below, compared with the aggregate data for 2007:

				2007	
In millions of euros	2008	2007	Change	Aggregate	Change
Grid transmission fees	1,045.4	998.9	46.5	1,066.0	-20.6
Adjustments for prior year grid transmission fees	15.1	-4.3	19.4	-5.2	20.3
Total	**1,060.5**	**994.6**	**65.9**	**1,060.8**	**-0.3**

The item is broadly unchanged (- € 0.3 million) on the aggregate balance for 2007, and reflects:
- the joint effect (- € 24.6 million) of the reduction in the unit fee and volumes of electricity transported;
- a reduction in revenues in respect of RTL plants (- € 4.3 million) for the reasons discussed earlier, partly offset by greater revenues (about € 3.5 million) attributable to the expansion of the NTG through the acquisition (and merger into RTL) of RTT in June 2007;
- greater NTG fees in respect of the defence plan (+ € 4.8 million);
- the increase of € 28.0 million attributable to the effect of the provision accrued in 2007 and subsequently released last year (€ 14.0 million) in respect of a dispute with an operator, which was settled positively in 2008;
- lower revenues from net prior-year adjustments (- € 7.7 million), mainly (- € 7.0 million) regarding 2005, which had been specifically redetermined under AEEG Resolution no. 162/06.

Other energy revenues
This caption comprises fees paid to the Company by electricity companies for dispatching services (the DIS component) and metering (MIS component). The increase of € 5.1 million is mainly the net result of:
- the effects of Resolution no. 351/07 on the DIS component, setting new rates for dispatching (€ 10.1 million) as well as additional incentive revenues due to efficiency gains from improvements in forecasting national electricity demand and forecasting energy generated by wind facilities (€ 5.0 million);
- the MIS component as a result of the new mechanism for determining the fee introduced with Resolution no. 348/07 (- € 9.9 million) for the 2008-2011 regulatory period.

Other energy items - pass-through revenues/costs

This caption includes revenues and costs of a "pass-through" nature (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. It also includes the grid utilisation fee which Terna pays to other owners of the grid. In order to provide a more accurate representation of developments during the year, the comparative figures for 2007 do not include the RTL fee discussed in the section Grid transmission fees.
The components of these transactions are detailed below.

In millions of euros	2008	2007*	Change
Revenues - Power Exchange:			
- foreign market - exports	8.9	8.5	0.4
- sale of energy on the day-ahead market, adjustment market, ancillary services market and others	1,473.4	918.3	555.1
- unbalancing and others	1,428.6	1,570.0	-141.4
- ancillary service resources procurement	1,903.1	1,516.8	386.3
- congestion fees - DCT Res. no. 288/06	848.0	718.8	129.2
- other items - Power Exchange	64.8	8.5	56.3
Total revenues - Power Exchange	**5,726.8**	**4,740.9**	**985.9**
Revenues under Res. nos. 168/04 - 237/04 and others	709.1	647.8	61.3
Other items (CBT and other)	89.6	243.9	-154.3
Revenues from grid transmission fees of other owners and GRTN share CIP 6	19.6	24.0	-4.4
Total revenues from outside the Power Exchange	**818.3**	**915.7**	**-97.4**
Total pass-through energy revenues	**6,545.1**	**5,656.6**	**888.5**
Energy purchases:			
- on day-ahead market and adjustment market	718.1	434.1	284.0
- to provide the dispatching service	3,067.7	3,047.9	19.8
- for unbalancing	1,156.1	481.8	674.3
- on the foreign market - imports	1.7	45.6	-43.9
- Electricity Market Operator fees	5.8	6.5	-0.7
- congestion fees - DCT Res. no. 288/06	769.2	718.8	50.4
- other items - Power Exchange	8.2	6.2	2,0
Total costs - Power Exchange	**5,726.8**	**4,740.9**	**985.9**
Purchase of energy market related services	709.1	647.8	61.3
Other items (CBT and other)	89.6	243.9	-154.3
Fees to be paid to NTG owners, GRTN and other	19.6	24.0	-4.4
Total services and fees	**818.3**	**915.7**	**-97.4**
Total pass-through energy costs	**6,545.1**	**5,656.6**	**888.5**

(*) The items for 2007 have been reclassified, where necessary, on the basis of AEEG rule amendments in 2008.

Other revenues from sales and services

Other revenues from sales and services amounted to € 43.1 million and mainly relate to revenues from a variety of specialised high- and very high-voltage services that the Company provides to third-party customers. The amount reflects revenues from:

- maintenance for high-voltage plants (€ 19.1 million), notably the maintenance contract for the high-voltage lines owned by Enel Distribuzione S.p.A. (€ 15.7 million, unchanged on 2007);
- the operation, maintenance and development of the optical fibre owned by the Wind Group hosted on Terna S.p.A. plant (safety cables) (€ 2.2 million), unchanged with respect to the previous year;
- a variety of specialised high-voltage services for sundry customers (€ 16.1 million);
- requests to connect to the National Transmission Grid as per AEEG Resolution no. 281/05 (€ 3.6 million), unchanged on 2007;
- the contribution due to the Company for coverage of cost incurred for electricity discounts to its employees (€ 2.1 million).

The decrease of € 6.3 million is essentially attributable to the effect of revenues realised in 2007 (€ 9.7 million) for plant maintenance and management fees to the benefit of RTL as well as the new mechanism provided for in Resolution no. 348/07 for the coverage of electricity discount costs. It had previously been included under transmission costs and covered as a component of the NTG fee.

2. Other revenues and income - € 44.1 million

Other revenues and income break down as follows:

in millions of euros	2008	2007	Change
Rental income	16.8	16.1	0.7
Third-party contributions for high-voltage connections	8.1	7.8	0.3
Insurance settlements for losses	2.7	1.9	0.8
Capital gains on the sale of plant parts	6.6	1.2	5.4
Out-of-period revenues	7.0	3.6	3.4
Sales to third parties	1.2	1.2	-
Other revenues	1.7	2.3	-0.6
Total	**44.1**	**34.1**	**10.0**

Rental income mainly regards rent from the Wind Group for the housing of optical fibre on the grid (€ 12.4 million) and Enel Distribuzione's use of Company infrastructure for power line communication (€ 4.0 million).
The increase in other revenues and income amounted to € 10.0 million and essentially reflects:

- increased gains on disposals (€ 5.4 million), mainly attributable to the sale of the Ferrara electrical station to EniPower Ferrara S.r.l. (for a gain of € 4.1 million);
- the rise in out-of-period revenues attributable to the partial release of the provision for bad debts accrued in previous years following the approval of the composition agreement with a dispatching customer (€ 3.6 million).

Operating expenses

3. Raw materials and consumables - € 25.2 million

The caption totalled € 25.2 million at December 31, 2008. It comprises costs incurred for the purchase of sundry materials and equipment used in the ordinary operation and maintenance of plant. The increase of € 9.0 million on the previous year (€ 16.2 million) is mainly attributable to increased provisioning of inventories during the year (€ 7.4 million).

4. Services - € 110.7 million

Costs in respect of services break down as follows:

In millions of euros	2008	2007	Change
Tenders on plants	24.2	25.3	-1.1
Maintenance and sundry services	52.4	51.6	0.8
Insurance	4.8	3.6	1.2
Remote transmission and telephone	12.3	12.5	-0.2
IT services	4.6	6.5	-1.9
Use of third-party assets	12.4	12.5	-0.1
Total	**110.7**	**112.0**	**-1.3**

The main components of the item regard costs in respect of tenders and ordinary maintenance of plants, as well as costs for general services (totalling € 76.6 million), remote transmission and telephone services (€ 12.3 million) and leases and rentals (€ 12.4 million).
The small decline (- € 1.3 million) on the previous year is mainly attributable to the Company's continued pursuit of its cost rationalisation policy. The decrease is significantly larger (- € 6.6 million) if compared against the aggregate figure for 2007 (€ 117.3 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	Bonus and other incentives	Total
Guarna Luca Aurelio	Chairman	Apr. 08 - Dec. 08	Approval of 2010 financial statements	37,125		37,125
Cosconati Marcello*	Statutory Auditor	Apr. 08 - Dec. 08	Approval of 2010 financial statements	30,375		30,375
Pozza Lorenzo	Statutory Auditor	Apr. 08 - Dec. 08	Approval of 2010 financial statements	30,375		30,375
Ferreri Giovanni	Chairman	Jan. 08 - Apr. 08	Approval of 2007 financial statements	18,333		18,333
Corvace Giancarlo	Statutory Auditor	Jan. 08 - Apr. 08	Approval of 2007 financial statements	15,000		15,000
Tasca Roberto	Statutory Auditor	Jan. 08 - Apr. 08	Approval of 2007 financial statements	15,000		15,000
Total Statutory Auditors fees				**146,208**		**146,208**

(*) Fees for the position were paid to the Ministry for the Economy.

5. Personnel expenses - € 254.1 million

Personnel expenses break down as follows:

In millions of euros	2008	2007	Change
Wages, salaries and other short-term employee benefits	231.3	217.5	13.8
Termination benefits, electricity discount and other post-employment benefits	16.7	3.9	12.8
Early retirement incentives	5.9	7.6	-1.7
Employees' stock option plans	0.2	0.5	-0.3
Total	**254.1**	**229.5**	**24.6**

This caption includes the cost of wages and salaries, social security contributions and other personnel expenses, such as 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 expenses increased by € 24.6 million, largely attributable to the net effect of:
- short-term benefits in respect of higher employee compensation and social security contributions (€ 13.8 million) following an increase in unit labour costs and a rise in the average workforce;
- termination benefits, electricity discount and other employee benefits (€ 12.8 million), mainly due to the rise in the number of employees and the curtailment of termination benefits carried out in 2007 in application of the new rules introduced that year;
- a reduction in charges for the voluntary early termination of employment for employees who are eligible for retirement (- € 1.7 million).

The fees paid to the Directors of Terna S.p.A. 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****	Total
Roth Luigi	Chairman/Director	Jan. 08 Dec. 08	Approval of 2010 financial statement	528,500		67,538	596,038
Cattaneo Flavio	CEO	Jan. 08 Dec. 08	Approval of 2010 financial statement	200,000	250,000	500,000	950,000
Cannarsa Cristiano*	Director	Apr. 08 Dec 08	Approval of 2010 financial statement	16,875			16,875
Dal Pino Paolo	Director	Apr. 08 Dec. 08	Approval of 2010 financial statement	84,375			84,375
Del Fante Matteo*	Director	Apr. 08 Dec. 08	Approval of 2010 financial statement	50,625			50,625
De Paoli Luigi	Director	Jan. 08 Apr. 08	Approval of 2007 financial statement	25,000			25,000
Garaffo Mario	Director	Jan. 08 Apr. 08	Approval of 2007 financial statement	45,000			45,000
Machetti Claudio**	Director	Jan. 08 Dec. 08	Approval of 2010 financial statement	25,000			25,000
Machì Salvatore	Director	Jan. 08 Dec. 08	Approval of 2010 financial statement	115,500			115,500
Macrì Carmine	Director	Jan. 08 Apr. 08	Approval of 2007 financial statement	41,667			41,667
Maranesi Piero Giuseppe	Director	Jan. 08 Apr. 08	Approval of 2007 financial statement	25,000			25,000
Polo Michele	Director	Apr. 08 Dec. 08	Approval of 2010 financial statement	50,625			50,625
Rispoli Vittorio	Director	Jan. 08 Dec. 08	Approval of 2010 financial statement	85,000			85,000
Smurro Franco	Director	Jan. 08 Apr. 08	Approval of 2007 financial statement	25,000			25,000
Total Directors fees				**1,318,167**	**250,000**	**567,538**	**2,135,705**

(*) Fees for the position were paid to Cassa Depositi e Prestiti.
(**) Fees for the position were paid to Enel S.p.A.
(***) The amount regards the variable portion of remuneration and fees for 2008.
(****) The amount regards remuneration for senior management duties.

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

	Average number		Number at	
	2008	2007	Dec. 31, 2008	Dec. 31, 2007
Senior managers	68	72	65	68
Junior managers	475	450	485	464
Office staff	1,895	1,844	1,907	1,875
Production workers	1,073	1,083	1,067	1,088
Total	**3,511**	**3,449**	**3,524**	**3,495**

The net change with respect to December 31, 2007 was an increase of 29.
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 - € 255.3 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 plant, property and equipment and intangible assets as well as include accruals to the provision for bad debts relating to receivables for items which are reasonably unlikely to be collected. The amortisation and depreciation in respect of the plant acquired with the RTL merger amounted to € 24.1 million.

Changes in the period are reported in the following table with comparative figures for the aggregate amounts for 2007:

In millions of euros	2008	2007	Change	2007 Aggregate	Change
Depreciation	228.9	185.2	43.7	211.7	17.2
Amortisation	24.6	23.4	1.2	23.4	1.2
Impairment of property, plant and equipment	-	1.6	-1.6	1.6	-1.6
Impairment of trade receivables	1.8	0.6	1.2	0.6	1.2
Total	**255.3**	**210.8**	**44.5**	**237.3**	**18.0**

The caption shows an increase (€ 18.0 million) on 2007, the net effect of the following:

- increased amortisation and depreciation of the Company's new plant and intangibles entering service during the year (€ 18.4 million);
- the recognition in 2007 of impairment losses (€ 1.6 million) in respect of property, plant and equipment;
- increased provisions for receivables in respect of energy items which are unlikely to be collected (€ 1.2 million).

7. Other operating expenses - € 19.9 milion

Other operating expenses break down as follows:

In millions of euros	2008	2007	Change
Accruals to provisions for contingencies and charges	2.9	5.0	-2.1
Local taxes and duties	4.8	3.9	0.9
Out-of-period expenses	4.1	2.2	1.9
Losses on the disposal/retirement of plants	3.7	0.7	3.0
Other operating expenses	4.4	3.4	1.0
Total	**19.9**	**15.2**	**4.7**

The item rose by € 4.7 million (of which € 0.9 million in respect of RTL) on the previous year, which is largely the net result of the following factors:

- an increase in losses on the disposal and retirement of plant parts (€ 3.0 million) and of out-of-period expenses (€ 1.9 million);
- a € 2.1 million decrease in the provisions for contingencies and charges, attributable to:
  - the provision for the contribution to be paid to the Exceptional Events Provision established at the Electricity Equalisation Fund with Resolution no. 333/07 for power outages (€ 2.0 million);
  - 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);
  - net provisions (€ 5.0 million) in 2007 in respect of a dispute still under way between the Electricity Services Operator and an electricity market operator concerning subsidised rates for electricity withdrawal and supply. If the request is granted, Terna will have to reimburse excess payments made (between 2001 and the acquisition of the TSO business unit) for use of the National Transmission Grid;
- an increase in local indirect taxes (€ 0.9 million) mainly in respect of Tosap and ICI (local public land use tax and municipal property tax, respectively);
- increased legal expense (€ 0.7 million) as a result of unfavourable court rulings.

8. Capitalised internal work - € -66.3 million

Capitalised costs relate to personnel expenses (€ 52,9 million) and the consumption of materials and equipment in inventories (€ 13.4 million) for plants under construction by the Company. The € 17.4 million increase on 2007 is attributable to increased capital expenditure during the year.

Financial income and expense

9. Net financial income/(expense) - € -87.3 million

The caption breaks down as follows:

In millions of euros	2008	2007	Change
Financial income			
Interest income and other financial income	20.4	8.7	11.7
Financial income from subsidiaries	36.8	59.7	-22.9
Debt adjustment (bonds) and related hedges	-	0.6	-0.6
Income on non-hedge-accounting derivatives	1.2	-	1.2
Total income	**58.4**	**69.0**	**-10.6**
Financial expense			
Interest expense on medium/long-term loans and related hedges	-138.0	-90.8	-47.2
Interest expense on short-term loans and other financial expense	-1.8	-3.5	1.7
Financial expense from subsidiaries	-	-0.5	0.5
Charges on non-hedge-accounting derivatives	-	-1.5	1.5
Debt adjustment (bonds) and related hedges	-4.5	-	-4.5
Accretion of termination benefit and other personnel-related provisions	-6.8	-5.6	-1.2
Exchange rate losses	-2.2	-	-2.2
Capitalised financial expense	7.6	2.0	5.6
Total expense	**-145.7**	**-99.9**	**-45.8**
Total	**-87.3**	**-30.9**	**-56.4**

Net financial expense amounted to € 87.3 million, comprising € 145.7 million in financial expense and € 58.4 million in financial income. The increase of € 56.4 million with respect to 2007 can be mainly attributed to:

- an increase in financial income from short-term investments of liquidity (€ 11.7 million) and lower default interest (- € 0.9 million);
- lower financial income from subsidiaries in the Terna Participações Group in respect of dividends (€ 11.9 million) and interest on equity (€ 7.5 million) and the recognition in 2007 of dividends (€ 1.6 million) and net interest income on the intercompany current account (€ 1.4 million) in respect of the now-merged RTL;
- the net loss from the adjustment to fair value of bonds and related hedges compared with the previous year (€ 5.1 million);
- increased income from non-hedge-accounting derivatives (€ 2.7 million);
- an increase in financial expense in respect of medium/long-term debt attributable to both an increase in market interest rates (€ 24.1 million) and additional borrowing (€ 23.1 million); other items include financial expense of € 0.2 million in respect of cash flow hedge derivatives closed in 2007, the reserve for which was taken to the income statement in line with the term of the hedged loans;
- a decrease in interest expense on short-term loans (€ 1.7 million) as a result of reduced use of such financing;
- exchange rate losses (€ 2.2 million);
- increased financial expense in respect of the accretion of employee benefit provisions (€ 1.2 million);
- increased capitalised financial expense (€ 5.6 million) owing to greater capital expenditure during the year in application of the revised IAS 23R, as discussed in greater detail in section A. Accounting policies and measurement criteria.

10. Income taxes - € 174.6 million

Income taxes for the year amount to € 174.6 million, for an effective tax rate of 34.2% (34.3% net of tax adjustments relating to previous years). In 2007 taxes for the year amounted to € 147.6 million, for a tax rate of 26.6% (27.2% net of tax adjustments relating to previous years). The increase in the tax rate is mainly attributable to the recognition in the previous year of the effects of the adjustment of deferred tax assets and liabilities to the tax rates introduced in the 2008 Finance Act, which reduced taxes by a total of € 62.8 million.

The following table reports changes in taxes with respect to the aggregate balance for 2007:

In millions of euros	2008	2007	Change	2007 Aggregate	Change
Income taxes					
Current taxes:					
- IRES	155.5	185.1	-29.6	196.6	-41.1
- IRAP	45.5	42.0	3.5	43.8	1.7
Total current taxes	**201.0**	**227.1**	**-26.1**	**240.4**	**-39.4**
Temporary differences:					
- deferred tax assets	-11.6	-13.6	2.0	-16.3	4.7
- deferred tax liabilities	-	7.3	-7.3	7.3	-7.3
Reversal of temporary differences:					
- deferred tax assets	18.6	13.7	4.9	16.7	1.9
- deferred tax liabilities	-33.3	-20.3	-13.0	-23.6	-9.7
- rate adjustment	0.3	-62.8	63.1	-68.2	68.5
Total deferred tax assets and liabilities	**-26.0**	**-75.7**	**49.7**	**-84.1**	**58.1**
Adjustments to income taxes of previous years	-0.4	-3.8	3.4	-3.8	3.4
Total	**174.6**	**147.6**	**27.0**	**152.5**	**22.1**

Current taxes
Current taxes declined by € 39.4 million compared with the aggregate balance for 2007, mainly in respect of IRES for the year (- € 41.1 million) as a result of the lower pre-tax profit and the lower tax rate.

Deferred tax assets and liabilities
Deferred tax assets and liabilities, equal to a net - € 26.0 million, showed a net decrease of € 58.1 million on the aggregate figures for 2007. The change is mainly attributable to:
- the positive financial impact of the adjustment of deferred tax assets and liabilities to the new tax rates in 2007;
- the use of the deferred tax provision for IRAP purposes for the release of the accrued portion (€ 8.4 million) governed by the 2008 Finance Act.

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	509.9		
IRES - theoretical tax charge (27.50%)		140.2	
IRAP - theoretical tax charge (4.36% on operating profit of € 597.2 million)		26.1	
		166.3	
Theoretical tax rate			**32.6%**
Permanent IRES differences			
Dividends - exempt portion		-10.1	-2.0%
Non-deductible telephone and rental expenses		2.1	0.4%
Other increases/decreases		6.2	1.2%
IRAP - art. 6 Law Jan. 29, 2009		-1.1	-0.2%
Permanent IRAP differences			
Personnel expenses		10.9	2.1%
Other increases/decreases		0.3	0.1%
Total taxes for the year		**174.6**	
Effective tax rate			**34.2%**

11. Earnings per share

Basic earnings per share amount to € 0.168, in which the numerator and denominator amount to € 335.3 million and 2,000,908.8 thousand, respectively. Diluted earnings per share amount to € 0.167 in which the numerator and denominator amount to € 335.3 million and 2,009,992.0 thousand, respectively.

D. Notes to the balance sheet

Assets

12. Property, plant and equipment - € 5,415.6 million

Property, plant and equipment amounted to € 5,415.6 million (€ 4,521.8 million at December 31, 2007). 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, 2008	**26.3**	**688.3**	**7.294.7**	**46.6**	**58.2**	**517.9**	**8,632.0**
Investments	9.9	12.7	159.0	3.6	6.4	544.4	736.0
Plant start-up	0.3	18.6	134.4	-	1.0	-154.3	-
Merger contribution	2.1	12.6	522.1	0.7	0.3	2.4	540.2
Disposals	-	-0.6	-31.4	-0.4	-0.2	-	-32.6
Other changes (grants)	-	-0.1	-11.1	-	-	-4.6	-15.8
Reclassifications	-	-	-	-0.1	0.1	-2.2	-2.2
Cost at Dec. 31, 2008	**38.6**	**731.5**	**8,067.7**	**50.4**	**65.8**	**903.6**	**9,857.6**
Accumulated depreciation and impairment losses at Jan. 1, 2008	**-**	**-241.3**	**-3,803.6**	**-33.6**	**-31.7**	**-**	**-4,110.2**
Depreciation for the year	-	-15.3	-202.6	-2.7	-8.3	-	-228.9
Merger contribution	-	-0.4	-128.2	-0.3	-0.3	-	-129.2
Disposals	-	0.5	25.2	0.4	0.2	-	26.3
Accumulated depreciation and impairment losses at Dec. 31, 2008	**-**	**-256.5**	**-4,109.2**	**-36.2**	**-40.1**	**-**	**-4,442.0**
Carrying amount							
At December 31, 2008	38.6	475.0	3,958.5	14.2	25.7	903.6	5,415.6
At December 31, 2007	26.3	447.0	3,491.1	13.0	26.5	517.9	4,521.8

The caption "plant and machinery" includes the electricity transmission grid, the transformation stations, the central systems for remote management and the national electricity control system.
In addition to ordinary changes for the period, the item also reflects the value of the property, plant and equipment of RTL (€ 411.0 million) recognised as of the effective accounting date of the merger.
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	363.0
Transformation stations	315.6
Other	57.4
Total investments	**736.0**
Merger contribution	**411.0**
Depreciation	-228.9
Disposals and other changes	-24.3
Total	**893.8**

Capital expenditure for the year relating to the Italian transmission grid (€ 736.0 million, of which € 7.6 million in capitalised borrowing costs) mainly regards the construction of the underwater long distance line SAPEI (€ 247.1 million), work on the Moncalieri station (€ 20.6 million, including acquisition of the bays), rationalisation work at Val D'Ossola Sud (€ 15.3 million), work on the 380 kV Casellina-Tavarnuzze-Santa Barbara power line (€ 11.2 million) and work on rationalising the Bussolengo area (€ 10.8 million), the acquisition of stations from Seledison (€ 10.1 million) and the development of the optical fibre network (€ 10.1 million).
Other expenditures regarded the intrusion prevention project (€ 9.0 million), the purchase of the Ravenna station from Enipower (€ 8.3 million), the new armoured plant at Cardano (€ 7.9 million) and progress on the works (concertation costs) on the La Casella-Caorso line (€ 7.7 million).

In terms of assets under construction and payments on account, the main grid development and re-powering projects, worth more than € 5 million, are listed below:

Transmission lines:	In euros
SAPEI	255,868,033
AEM Moncalieri	21,559,396
Val d'Ossola Sud	19,193,079
Santa Barbara-Tavarnuzze-Casellina	17,099,271
Valcamonica	11,655,774
La Casella-Caorso	8,307,832
Rationalisation of Bussolengo (VR) area	6,952,133
Tirreno power plant of Napoli Levante (upgrading lines)	6,935,761
CP Lonadi connection of lines	5,035,319
380 kV transformation stations:	
SAPEI station (Fiumesanto and Latina)	142,736,810
Brindisi Pignicelle	18,725,545
Casellina station	14,437,142
Castegnero station	5,762,640
Leinì station	5,285,366
220 kV transformation stations:	
Cardano station	7,885,624
Colombano station	5,170,677

13. Goodwill - € 88.6 million

Goodwill at December 31, 2008 amounted to € 88.6 million.

In millions of euros	Terna
Balance at Dec. 31, 2007	**-**
Merger contribution	88.6
Balance at Dec. 31, 2008	**88.6**

The goodwill, recognised following the merger of RTL into Terna, comprises € 88.4 million in respect of goodwill arising on the merger (recognised with the contribution of the equity of RTL) in 2007 of RTM1, RTM2 and RTT into RTL and € 0.2 million in respect of the cancellation of Terna's equity investment with the net initial equity of the merged company.

Impairment testing

Cash Generating Unit - Terna

The recoverable amount of the goodwill in respect of the Terna CGU (as a result of the merger of RTL into Terna), on the basis of the cash flows that Terna is expected to generate in the future, exceeds the carrying amount of the CGU reported above. In addition, the market price of Terna shares at December 31, 2008 (€ 2.335), less estimated selling costs comprising commissions of 0.19%, does not show the presence of trigger events.

14. Intangible assets - € 167.2 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, 2007	**123.3**	**22.9**	**14.5**	**160.7**
Investments	-	25.5	3.4	28.9
Entry into service	-	12.9	-12.9	-
Other changes	-	-	2.2	2.2
Amortisation	-5.6	-19.0	-	-24.6
Balance at Dec. 31, 2008	**117.7**	**42.3**	**7.2**	**167.2**
Cost	135.4	118.0	7.2	260.6
Accumulated amortisation	-17.7	-75.7	-	-93.4
Balance at Dec. 31, 2008	**117.7**	**42.3**	**7.2**	**167.2**

Intangible assets amounted to € 167.2 million (€ 160.7 million at December 31, 2007). The increase on the previous year (€ 6.5 million) is attributable to changes in respect of investments in application software either developed internally or purchased as part of system evolution and development projects (€ 28.9 million), other changes (€ 2.2 million) and amortisation (€ 24.6 million).

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 mainly relate to the following, in addition to software applications and generic utilisation licences:

- the development and evolution of application software to manage the energy invoicing process;
- the development and evolution of application software to protect the electricity system;
- software applications related to the development of the Power Exchange, particularly relating to the register of operators, consumption units and the development of foreign procedures.

These software applications are amortised over their estimated residual useful life, which is normally three years, given their rapid obsolescence.

15. Deferred tax assets - € 60.1 million

Deferred tax assets regard the following captions:

		Impact recognised in profit or loss				
In millions of euros	Dec. 31, 2007	Accruals	Utilisation	Merger contribution	Other changes in equity only	Dec. 31, 2008
Provisions for contingencies and charges	15.7	5.9	-7.2	0.1	-	14.5
Provision for bad debts	1.9	-	-1.0	-	-	0.9
Employee benefits	29.1	5.7	-8.9	0.7	-	26.6
FVH-CFH derivatives	-	-	-	-	18.1	18.1
Other	1.3	-	-1.5	0.2	-	-
Deferred tax assets	**48.0**	**11.6**	**-18.6**	**1.0**	**18.1**	**60.1**

The net increase (€ 12.1 million) on 2007 is essentially due to:

- a net € 1.2 million change in the provision for contingencies and charges attributable to utilisation (€ 1.3 million) and the contribution of the merger of RTL into Terna (€ 0.1 million) that had no impact on profit or loss;
- a change of € 1.0 million in respect of the utilisation of the provision for bad debts;
- the net change on derivatives of € 18.1 million attributable to the tax effect, which has no impact on the income statement, in respect of changes in cash flow hedge instruments;
- a net change of € 1.3 million in other provisions, attributable to utilisation in the amount of € 1.5 million and the contribution of the merger of RTL into Terna (€ 0.2 million) that had no impact on profit or loss.

16. Financial assets

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

	Carrying amount		
In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
FVH derivatives	115.5	-	115.5
Investments in subsidiaries	211.5	660.2	-448.7
Investments in associates	4.6	4.6	-
Non-current financial assets	**331.6**	**664.8**	**-333.2**
Deferred assets on FVH derivative contracts	0.4	-	0.4
Other current financial assets	6.3	0.9	5.4
Current financial assets	**6.7**	**0.9**	**5.8**
Total	**338.3**	**665.7**	**-327.4**

At December 31, 2008, "non-current financial assets", equal to € 331.6 million, reported the value of equity investments and the fair value measurement of derivatives.
The increase in the fair value of derivatives (€ 115.5 million) compared with December 31, 2007 is mainly attributable to the change in the market conditions that led to their recognition. The movement in the yield curve gave rise to a positive change in FVH derivatives in the amount of € 173.0 million (€ 57.5 million as a reduction in non-current financial liabilities and € 115.5 million as an increase in non-current financial assets).

"Investments in subsidiaries" refers to investments in subsidiaries directly held by Terna S.p.A., of which further details are given below. Since they are measured at cost, the change on December 2007 regards the elimination of the equity investment in RTL following the merger (€ 449.3 million), the capital payment of about € 0.5 million to InTERNAtional (carried as a capital reserve) and the increase in the investment in Terna Participações through the purchase of ordinary shares on the market (10,000 units) with a value of about € 0.1 million.
"Investments in associates" refers exclusively to the 24.4% stake in CESI S.p.A., equal to € 4.6 million, with no changes with respect to December 31, 2007. The company operates in the implementation and management of laboratories and plants for testing, trials, studies and experimental research relating to electronics in general and technical and scientific progress in this area.

The following table summarises Terna S.p.A.'s direct investments in subsidiaries and associates at December 31, 2008, with data drawn from the most recent approved financial statements:

Name	Registered office	Business activity	Share capital	Currency	% holding	Carrying amount
		Subsidiaries				
Terna Participações S.A.	Rio de Janeiro (Brazil)	Holding company for investments in other companies operating in the electricity transmission industry	1,312,254,696	real	66%	210,814,756
InTERNAtional S.p.A.	Rome	Construction and maintenance of electricity transmission grids in Italy and abroad	120,000	euro	100%	672,709
		Associates				
CESI S.p.A.	Milan	Experimental electro-technical research	8,550,000	euro	24.4%	4,570,764

"Current financial assets" came to € 6.7 million (€ 0.9 million at December 31, 2007) and regarded interest accrued but not yet received at the balance sheet date in respect of derivatives contracts entered into to hedge floating-rate debt (€ 0.4 million) and liquidity deposited on current accounts (€ 6.3 million).
The increase of € 5.8 million on the previous year is the net result of the following factors:
- CFH derivatives entered into during the year to hedge floating-rate debt, with the recognition of deferred assets on these instruments (€ 0.4 million);
- an increase in deferred assets in respect of current accounts (€ 5.4 million).

17. Other assets

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Receivables due from others			
Loans and advances to employees	4.3	4.5	-0.2
Assets on deposit with third parties	0.3	0.3	-
Other non-current assets	**4.6**	**4.8**	**-0.2**
Other tax receivables	4.6	13.6	-9.0
Receivables due from others			
Advances to employees	0.2	0.2	-
Others	16.3	17.0	-0.7
Other current assets	**21.1**	**30.8**	**-9.7**

Other non-current assets, detailed above, have not undergone any significant changes with respect to the previous year.
"Other current assets" amount to € 21.1 million (€ 30.8 million at December 31, 2007) and mainly relate to the following:
- other tax receivables (€ 4.6 million), essentially in respect of withholding tax on interest income accrued on investments (€ 2.4 million) and tax receivables accrued abroad (€ 1.7 million);
- receivables due from others (€ 16.5 million), mainly regarding:
  - receivables from the Greek tax authorities for indirect taxes (€ 9.1 million) in relation to the activities carried out by Terna's branch in Greece;
  - assets in the amount of € 4.3 million referred to costs already paid but pertaining to subsequent years, mainly attributable to insurance premiums (€ 2.7 million) and costs on contracts to use assets, which the Parent took over following the transfer of plant from Enel Distribuzione (€ 1.1 million);
  - sundry advances to employees (€ 0.2 million) and third parties (€ 0.2 million).

18. Inventories - € 16.6 million

Inventories under current assets amount to € 16.6 million (€ 12.6 million at December 31, 2007) and include materials and equipment used in the operation, maintenance and construction of plants; the increase of € 4.0 million is mainly due to ordinary maintenance of plant.

19. Trade receivables - € 1,706.0 million

Trade receivables are composed as follows:

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Non energy-related receivables:			
- receivables from subsidiaries	-	2.3	-2.3
- receivables from others	234.6	256.4	-21.8
Energy-related receivables	1,471.4	1,254.9	216.5
Trade receivables	**1,706.0**	**1,513.6**	**192.4**

Trade receivables amounted to € 1,706.0 million, up € 192.4 million on 2007 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 (€ 10.3 million for energy items and € 1.4 million for other items in 2008, compared with € 12.9 million for energy-related items and € 0.9 million for other items in 2007).

Non energy-related receivables - € 234.6 million

These mainly relate to grid transmission fees (€ 191.7 million) due to the Company and other owners for use of the National Transmission Grid by distributors and generators. They mainly regard the fees accrued for the last two months of 2008.
Other trade receivables mainly regard receivables due from Italian customers (€ 26.2 million), from Enel Group companies (€ 6.7 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 three years (€ 3.6 million) and to cover the cost incurred in respect of the employee electricity discount (€ 2.1 million) and receivables for long-term contract work in progress (€ 1.4 million) for third-party customers. The latter break down as follows:

In millions of euros	Payments on account	Contract value	Balance at Dec. 31, 2008	Payments on account	Contract value	Balance at Dec. 31, 2007
Others	-2.3	3.7	1.4	-5.1	6.5	1.4
Total	**-2.3**	**3.7**	**1.4**	**-5.1**	**6.5**	**1.4**

Energy-related receivables - € 1,471.4 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. 237/04) in the amount of € 5.0 million.
The balance increased by € 216.5 million on the previous year, mainly attributable to the net effect of:

- greater receivables in respect of sales on the Power Exchange (€ 161.2 million), offset, as detailed in the section on trade payables below, by an increase in payables for purchases on the Power Exchange (€ 174.2 million);
- an increase in the receivable pending resolution by the AEEG (€ 38.8 million) for charges suspended under participation in the ETSO-CBT (European Transmission System Operators - Cross Board Trade) agreement concerning the offsetting of costs for electricity transiting on foreign electricity grids. Under Resolution no. 15/2005, the AEEG ensured the coverage of the above charges and established that repayment terms will be set out in a specific measure. In a recent resolution (no. 203/08) the AEEG specified the procedures for coverage of costs in respect of electricity transiting on foreign electricity grids, with effect from 2009;
- a decrease in receivables (€ 22.1 million) under other pass-through items, largely due to the end of electricity transactions pursuant to Legislative Decree no. 387/03, transferred to the Electricity Services Operator as from 2008 (€ 26.0 million), which also appear under trade payables, and to the increase in electricity exports (€ 4.5 million);

- an increase in receivables (€ 18.6 million) as a result of the new system for recognising sales costs incurred by operators and settled by Terna, which under AEEG Resolution no. 349/07 are covered through the Electricity Equalisation Fund.

The amount of guarantees issued by Terna to third parties at the end of 2008 was € 13.3 million. The item refers to sureties issued to secure contractual obligations assumed in relation to operating activity.

20. Cash and cash equivalents - € 689.2 million

At December 31, 2008, Terna held cash and cash equivalents amounting to € 689.2 million, including € 645.0 million in liquidity invested in available short-term deposits (bearing interest at a rate of 5.07%, € 44.1 million held in bank current account deposits (bearing interest at a rate of 3.04%), and € 0.1 million in cash on hand held by operational units.

21. Tax assets - € 25.9 million

Tax assets came to € 25.9 million (€ 2.6 million at December 31, 2007). They were generated by greater payments on account in respect of IRES/IRAP compared with the actual tax liability determined as at the end of 2008.

Liabilities

22. Equity - € 2,028.0 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. The increase of € 0.1 million on 2007 is due to the issue of new shares for the stock option plan in 2008 (for a total of 430,200 options) described and commented below.

Legal reserve - € 88.0 million

The legal reserve is equal to 20% of the Company's share capital.

Other reserves - € 770.6 million

Other reserves underwent a net change of € 46.4 million mainly as a result of the following:

- recognition and adjustment to fair value of derivatives hedging floating-rate loans (cash flow hedge derivatives), which produced a decrease of € 65.5 million, net of the related tax effect (+ € 18.1 million);
- the recognition of the cost of the stock option plan described below (+ € 0.1 million) and of the share premium reserve in respect of the portion exercised during the year (+ € 0.9 million).

Retained earnings - € 600.4 million

Changes in the caption regard:

- allocation to retained earnings (€ 106.0 million) of the profit for the year ended December 31, 2007, equal to the residual amount of profit after the distribution of the 2007 dividend (€ 302.1 million);
- the recognition with the merger of the retained earnings of RTL as from the acquisition date for that company (€ 20.0 million).

2008 interim dividend

After receiving the report of the auditors as per art. 2433-*bis* of the Italian Civil Code, the Board of Directors, on September 17, 2008, approved the distribution of an interim dividend of € 118.5 million, equal to € 0.0592 per share, which was paid beginning from November 27, 2008.
The following table reports the origin, availability and possibility of distribution of the components of equity:

In millions of euros	Dec. 31, 2008	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*	284.7	A, B, C	284.7
Retained earnings	600.4	A, B, C	599.6
Interim dividend	-118.5	A, B, C	-
Profit for 2008	335.3	-	-
Total	**2,028.0**		**1,370.2**

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 € 49.4 million.

Of the total available portion, € 734.6 million regards untaxed income-related reserves.

Stock option plans

On December 21, 2005, based on a proposal of the Remuneration Committee, the Board of Directors resolved to adopt a stock option plan for Terna managers holding the most important roles in terms of achieving the Group'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 (Resolution of 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 exercisable options, beginning from the date specified in the notice announcing that the exercise conditions have been met;
   - up to 60% of exercisable options, beginning from the first day of the first year subsequent to that in which the notice announcing that the exercise conditions have been met is issued;
   - up to 100% of exercisable options, beginning from December 31 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 exercise of the options under the above stock option plan by a further three years, until March 31, 2013, and consequently to amend Article 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.
Changes in the options granted under the plan as at December 31, 2008 were as follows:

Terna S.p.A.	Number of options
Outstanding at January 1, 2008	9,513,400
Unopted during the year	9,083,200
Exercised during the year	430,200
Outstanding at December 31, 2008	9,083,200
Exercisable at December 31, 2008	5,086,400

The weighted average price of the shares at the exercise date was equal to:

- € 2.905* at January 30, 2008;
- € 2.945* at May 22, 2008.

(*) Source: Bloomberg.

The table below shows the residual vesting period of options at December 31, 2008 and their fair value:

Options granted (at December 21, 2005)	End of vesting period	Fair value* at grant date (euros)
3,996,800	2009	0.115

(*) Probability factor set at 100%.

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%.

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, 2008.

	Carrying amount		
In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Bonds	2,031.8	1,840.4	191.4
Bank loans	1,615.2	511.4	1,103.8
Long-term loans	**3,647.0**	**2,351.8**	**1,295.2**
CFH derivatives	65.8	-	65.8
FVH derivatives	-	57.5	-57.5
Non-hedge-accounting derivatives	-	0.5	-0.5
Other liabilities	0.9	-	0.9
Non-current financial liabilities	**66.7**	**58.0**	**8.7**
Short-term loans	0.5	-	0.5
Current portion of long-term loans	44.6	29.5	15.1
Short-term loans and current portion of medium/long-term loans	**45.1**	**29.5**	**15.6**
Total	**3,758.8**	**2,439.3**	**1,319.5**

Gross debt increased by € 1,319.5 million to € 3,758.8 million.
Of the total rise in bonds (€ 191.4 million), € 177.7 million is attributable to the change in the fair value of the hedged exposure and € 13.7 million to the capitalisation of inflation for the period (€ 16,9 million) net of the amortised cost effect. The aggregate includes € 56.7 million in respect of inflation-linked bonds and € 134.7 million in respect of the 2014-2024 bonds. The change associated with hedging of interest rate risk was offset by the increase in the fair value of derivatives (a total of € 173.0 million, of which € 115.5 million in respect of the increase in financial assets and € 57.5 million as a reduction in financial liabilities).
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 in 2024 price at December 31, 2008: 105.09(**) and price at December 31, 2007: 96.45(*);
- bond maturing in 2014 price at December 31, 2008: 100.68(**) and price at December 31, 2007: 95.93(*);
- bond maturing in 2023 price at December 31, 2008: 91.12(**) and price at November 12, 2007: 101.155(*).

(*) Source: Bloomberg.
(**) Source: Reuters.

Consequently, compared with a total carrying amount of € 2,031.8 million (€ 1,840.4 million at December 31, 2007), the fair value amounted to € 1,918.4 million (€ 1,855.8 million at December 31, 2007).

As regards debt originally bearing floating rates, the net increase of € 1,119.4 million is due to:

- a net increase in loans and other financing from the European Investment Bank (EIB) of € 270.5 million as a result of the disbursement in the third quarter of 2008 of a € 300 million loan and the repayment of maturing debt in the amount of € 29.5 million;
- an increase in other loans as a result of the drawing of € 200 million on the 2006 revolving credit facility and the disbursement of € 648.4 million in respect of the Club Deal loan in October;
- the opening of the intercompany current account with InTERNAtional (€ 0.5 million).

Long-term loans

The following table shows the carrying amount of long-term debt and the repayment plan at December 31, 2008, broken down by loan type, including amounts falling due within one year.

In millions of euros	Maturity	Dec. 31, 2007	Dec. 31, 2008	Due within one year	Due after one year	2010	2011	2012	2013	2014	After
Bonds	2014-2024	1,337.6	1,472.3	-	1,472.3	-	-	-	-	-	1,472.3
IL bonds	2023	502.8	559.5	-	559.5	-	-	-	-	-	559.5
Total fixed rate		**1,840.4**	**2,031.8**	**-**	**2,031.8**	**-**	**-**	**-**	**-**	**-**	**2,031.8**
EIB no. 20271	2014	47.7	40.9	6.8	34.1	6.8	6.8	6.8	6.8	6.8	0.1
EIB no. 21159	2016	193.2	170.5	22.7	147.8	22.7	22.7	22.7	22.7	22.7	34.3
EIB no. 22947	2020	100.0	100.0	4.6	95.4	9.1	9.1	9.1	9.1	9.1	49.9
EIB no. 22947	2018	200.0	200.0	10.5	189.5	21.1	21.1	21.1	21.1	21.1	84.0
EIB no. 22947	2028	-	300.0	-	300.0	-	-	-	9.7	9.7	280.6
Club Deal	2015	-	648.4	-	648.4	-	-	-	-	-	648.4
RCF 2006	2011	-	200.0	-	200.0	-	200.0	-	-	-	-
Total floating rate		**540.9**	**1,659.8**	**44.6**	**1,615.2**	**59.7**	**259.7**	**59.7**	**69.4**	**69.4**	**1,097.3**
Total		**2,381.3**	**3,691.6**	**44.6**	**3,647.0**	**59.7**	**259.7**	**59.7**	**69.4**	**69.4**	**3,129.1**

The repayment of the nominal amount of the 2014-2024 bonds (€ 1,400.0 million) will entail a payment of € 600.0 million on October 28, 2014 and € 800.0 million on October 28, 2024. 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, 2008 of Terna amount to € 3,691.6 million, including loans of € 3,647.0 million due after one year and € 3,129.1 million due after the fifth year.

The table below breaks down long-term debt by currency, average interest rate and type of debt, including amounts falling due within one year.

In millions of euros	Maturity	Original currency	Dec. 31, 2008	Due within one year	Due after one year	Average interest rate at Dec. 31, 2008
Bonds	2014-2024	euro	1,472.3	-	1,472.3	4.62%
IL bonds	2023	euro	559.5	-	559.5	5.99%
Fixed rate			**2,031.8**	**-**	**2,031.8**	
EIB no. 20271	2014	euro	40.9	6.8	34.1	4.88%
EIB no. 21159	2016	euro	170.5	22.7	147.8	4.97%
EIB no. 22947	2020	euro	100.0	4.6	95.4	5.00%
EIB no. 22947	2018	euro	200.0	10.5	189.5	4.90%
EIB no. 22947	2028	euro	300.0	-	300.0	5.37%
Club Deal	2015	euro	648.4	-	648.4	5.65%
RCF 750	2011	euro	200.0	-	200.0	5.03%
Floating rate			**1,659.8**	**44.6**	**1,615.2**	
Total			**3,691.6**	**44.6**	**3,647.0**	

The table shows the average interest rate for each type of financial liability. Below we also comment on the Company'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 5.26%.
In line with Terna's financial risk management policies and consistent with the policy applied to long-term fixed rate debt issued in 2004 (the 2014 and 2024 bonds), the 2023 inflation-linked bond, issued with a fixed rate, was synthetically transformed to a floating rate security by means of derivative contracts with the same maturity.

Taking hedges into account, and assuming a 3.37% inflation rate, the average interest rate paid in the year was 6.19%. 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, 4.90%; EIB no. 21159, 5.03%; EIB no. 22947 (€ 100-million tranches), 5.02%; the € 650-million Club Deal loan, 5.03%. The average interest rates on the other hedged floating-rate loans remain substantially unchanged.

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

Type of loan In millions of euros	Nominal debt at Dec. 31, 2007	Carrying amount at Dec. 31, 2007	Repayments and capitalisations	New issues	Diff. in fair value and amortised cost Dec. 31, 2007-Dec. 31, 2008	Difference in carrying amount at Dec. 31, 2008	Nominal debt at Dec. 31, 2008	Carrying amount at Dec. 31, 2008
Listed fixed rate bonds	1,400.0	1,337.6	-	-	134.7	134.7	1,400.0	1,472.3
Listed fixed rate IL bond	502.9	502.8	16.9	-	39.8	56.7	519.8	559.5
Total bonds	**1,902.9**	**1,840.4**	**16.9**	**-**	**174.5**	**191.4**	**1,919.8**	**2,031.8**
Bank loans	540.9	540.9	(29.5)	1,150.0	(1.6)	1,118.9	1,661.4	1,659.8
Total bank loans	**540.9**	**540.9**	**(29.5)**	**1,150.0**	**(1.6)**	**1,118.9**	**1,661.4**	**1,659.8**
Total financial debt	**2,443.8**	**2,381.3**	**(12.6)**	**1,150.0**	**172.9**	**1,310.3**	**3,581.2**	**3,691.6**

Compared with December 31, 2007, long-term debt shows a total increase of € 1,310.3 million, of which € 1,150.0 million refers to the new borrowing in the year, € 16.9 million to the capitalisation of inflation for the period in relation to the IL bond, € 174.5 million to the increase in the fair value of the bonds as a result of a fall in interest rates, € 29.5 million to the repayment of EIB financing and € 1.6 million to the measurement of the Club Deal loan at amortised cost.
The following are some notable changes that took place in the year:
- the disbursement on September 15, 2008 of an EIB loan of € 300 million. The loan, which has a 20-year term, will be paid in half-yearly instalments beginning from the fifth year, and carries an annual interest rate equal to 6-month Euribor plus 5 basis points;
- the disbursement on October 28, 2008 of a syndicated bank loan of € 650 million with a 7-year term and repayable at maturity. The rate has been set at Euribor plus 50 basis points, and may vary on the basis of the credit rating assigned to the Company by rating agencies;
- drawings, beginning in October, on the 2006 revolving credit facility, which at the end of December totalled € 200 million.

At December 31, 2008, Terna retained additional borrowing capacity of more than € 1,972.0 million, of which more than € 922.0 million consisted of short-term credit lines and € 1,050.0 million in syndicated revolving credit lines.

Non-current financial liabilities

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

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
FVH derivatives	-	57.5	-57.5
Non-hedge-accounting derivatives	-	0.5	-0.5
CFH derivatives	65.8	-	65.8
Other liabilities	0.9	-	0.9
Total	**66.7**	**58.0**	**8.7**

Non-current financial liabilities include the fair value of fair cash flow hedge and the net debt payable to Lehman Brothers. Considering its current debt situation and the composition of its portfolio of derivatives, Terna decided at the end of the financial year to eliminate the non-hedge-accounting component and replace it with cash flow hedges with the aim of sterilising the impact of differences in fair value on profit or loss to the greatest possible extent. At year-end, therefore, cash flow hedges covering the Group's floating-rate debt had a fair value of € 65.8 million.
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, 2007 generated a total increase of € 173.0 million in fair value hedge derivatives. The increase was the net result of a € 57.5 million decrease in non-current financial liabilities and a € 115.5 million increase in non-current financial assets. The change is commented on in the foregoing section on "financial assets".
Other financial liabilities of € 0.9 million refer to the estimated net payable to Lehman Brothers. This is the estimated 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. The value of the payable has been frozen pending the outcome of ongoing bankruptcy proceedings.

Current financial liabilities

Current financial liabilities, generated by the financial expense accrued on financial instruments but not yet settled, increased by € 13.4 million, mostly as a result of the increase during the year of debt linked both originally and synthetically to floating rates.

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

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Deferred liabilities on:			
Derivative contracts			
- hedging	*2.9*	*0.8*	*2.1*
- non hedge accounting	*-*	*-0.4*	*0.4*
Total	**2.9**	**0.4**	**2.5**
Bonds			
- inflation linked	*4.2*	*4.1*	*0.1*
- ten-year	*4.5*	*4.5*	*-*
- twenty-year	*7.0*	*7.0*	*-*
Total	**15.7**	**15.6**	**0.1**
Loans	13.9	3.1	10.8
Total	**32.5**	**19.1**	**13.4**

The following table details the net financial position broken down by individual components:

In millions of euros	Carrying amount Dec. 31, 2008
A. Cash on hand	689.2
B. Other liquidity (details)	-
C. Securities held for trading	-
D. Cash and cash equivalents (A) + (B) + (C)	**689.2**
E. Current bank debt	-
F. Current portion of long-term debt	44.6
G. Net position on intercompany current account with the subsidiary International	0.5
H. Current financial debt (E) + (F) + (G)	**45.1**
I. Net current financial debt (H) - (D)	**-644.1**
J. Non-current bank debt	1,615.2
K. Bonds	2,031.8
L. Derivative financial instruments in portfolio	-49.7
M. Other financial liabilities	0.9
N. Net non-current financial debt (J) + (K) + (L) + (M)	**3,598.2**
O. Net financial debt (I) + (N)	**2,954.1**

Some of the long-term loans of Terna S.p.A. contain covenants typical of international business practice. The main such covenants regard:

1. the Company's bond debt in respect of two issues of € 600 million and € 800 million carried out in 2004, and one issue of € 500 million in 2007 under the € 2,000,000,000 Euro Medium Term Notes Programme;
2. the bank debt in respect of two revolving credit lines of € 500 million and € 750 million and the Club Deal syndicated loan of € 650 million;
3. the financing from the European Investment Bank (EIB) in the form of a series of loans in the total amount of € 925 million.

None of the covenants 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 and the Club Deal 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 (e.g., failure to pay, false statements, insolvency, business closure, breach of contractual terms and conditions, etc.), whose occurrence 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 - € 153.9 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 Company 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, 2008 is detailed below along with changes in the period:

In millions of euros	Dec. 31, 2007	Accruals	Interest cost	Utilisations and other changes	Dec. 31, 2008
Employee benefits					
Loyalty bonus	5.1	0.2	0.2	-0.4	5.1
Total	**5.1**	**0.2**	**0.2**	**-0.4**	**5.1**
Termination benefits					
Termination benefits	73.8	9.9	3.3	-12.6	74.4
Additional month's pay	7.3	0.3	0.4	-0.6	7.4
Indemnities in lieu and other similar benefits	3.6	-	0.1	-0.2	3.5
Total	**84.7**	**10.2**	**3.8**	**-13.4**	**85.3**
Post-employment benefits					
Electricity discount	51.6	0.7	2.6	-3.0	51.9
ASEM	12.0	-	0.2	-0.6	11.6
Total	**63.6**	**0.7**	**2.8**	**-3.6**	**63.5**
Total	**153.4**	**11.1**	**6.8**	**-17.4**	**153.9**

The caption, which shows a total of € 153.9 million at December 31, 2008 (€ 153.4 million at December 31, 2007) is substantially unchanged with respect to the prior year. The accruals for the period (€ 11.1 million) include the value of actuarial losses of € 0.9 million, of which € 0.2 million in respect of the indemnity for lack of notice and € 0.7 million in respect of the ASEM health plan.

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

	2008	2007
Discount rate	4.8%	4.6%
Rate of increase in personnel expenses	2.0%-5.0%	2.0%-4.0%
Rate of increase in healthcare costs	3.0%-4.0%	3.0%

25. Provisions for contingencies and charges - € 81.6 million

The items and changes of the provisions for contingencies and charges at December 31, 2008 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, 2007	**15.7**	**38.8**	**10.5**	**65.0**
Merger contribution	-	2.5	-	2.5
Accruals	0.3	38.7	2.6	41.6
Utilisations	(1.1)	(25.7)	(0.7)	(27.5)
Balance at Dec. 31, 2008	**14.9**	**54.3**	**12.4**	**81.6**

Provision for disputes and litigation - € 14.9 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 € 0.8 million. Litigation for which no potential charge can reasonably be calculated are described under "Off-balance sheet items".

Provision for other contingencies and charges - € 54.3 million

The provision shows an net increase of € 15.5 million compared with end-2007. In addition to the contribution of the merger with RTL (€ 2.5 million), the rise is ascribable to accruals of € 38.7 million and utilisations of € 25.7 million in the course of the year. More specifically:

- net accruals (€ 18.3 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;
- an accrual of € 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;
- an accrual of € 2.0 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;
- an accrual for the charges envisaged in the memorandum of understanding for the promotion of Italian contemporary art signed with the Ministry for Cultural Heritage (€ 0.6 million);
- the release of an accrual of € 14.0 million recognised in the previous year due to a technical dispute that occurred in 2007 with a dispatching withdrawal operator, which was settled favourably in 2008.

Provision for early retirement incentives - € 12.4 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.

26. Deferred tax liabilities - € 370.9 million

Changes in this caption are detailed as follows:

In millions of euros	Dec. 31, 2007	Merger contribution	Accruals	Utilisations	Reclassifications	Dec. 31, 2008
Property, plant and equipment	373.1	27.5	0.3	-32.4	-1.4	367.1
Employee benefits and financial instruments	3.3	-	-	-0.9	1.4	3.8
Total	**376.4**	**27.5**	**0.3**	**-33.3**	**-**	**370.9**

Compared with 2007, the provision decreased by € 5.5 million, largely as a result of the following developments:

- the contribution from the merger with RTL, equal to € 27.5 million;
- net utilisation of previous accruals for accelerated amortisation and depreciation recognised in excess of ordinary amortisation and depreciation rates (€ 21.5 million);
- the release, pursuant to Law no. 244 of December 24, 2007 (the 2008 Finance Act), of the utilisable portion of the deferred tax provision for IRAP, which amounted to € 8.4 million;
- the release of deferred tax liabilities of € 2.4 million, corresponding to the amortisation charge for the financial year on the differences arising from the merger cancellations allocated to property, plant and equipment following the extraordinary operations carried out by RTL in 2007.

27. Other non-current liabilities - € 150.4 million

The caption totalled € 150.4 million at December 31, 2008. It reports the deferred portion of plant grants (€ 146.1 million) as well as the deferred portion of grid transmission fees remunerating future costs in respect of the safety plan for the NTG (€ 4.3 million). The decrease of € 6.4 million in the item with respect to the previous year regards:

- the release, in the amount of € 5.1 million, of the portions of plant grants in connection with depreciation for the year applicable to the plants involved;
- the release, in the amount of € 1.3 million, of the accrued portion of the grid transmission fee to cover the costs in the year of the National Transmission Grid safety plan.

28. Current liabilities

The caption "tax liabilities" is nil as the Company paid more in advances on income tax than the actual tax charge recognised at the end of the year.
Current liabilities break down as follows at December 31, 2008:

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Short-term loans*	0.5	-	0.5
Current portion of long-term loans*	44.6	29.5	15.1
Trade payables	1,874.4	1,779.2	95.2
Current financial liabilities*	32.5	19.1	13.4
Other current liabilities	82.7	74.3	8.4
Total	**2,034.7**	**1,902.1**	**132.6**

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

Trade payables - € 1,874.4 million

Trade payables at December 31, 2008 consist of the following:

In millions of euros	Dec. 31, 2008	Dec. 31, 2007	Change
Suppliers			
Suppliers:			
- non energy-related payables	*313.7*	*268.9*	*44.8*
- energy-related payables	*1,554.3*	*1,489.2*	*65.1*
Associates - CESI	5.5	7.5	-2.0
Subsidiaries	-	13.0	-13.0
Payables for contract work in progress			
Payables for contract work in progress	0.9	0.6	0.3
Total	**1,874.4**	**1,779.2**	**95.2**

Suppliers

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 (€ 44.8 million) reflects the higher investment spending on purchases and services in the final quarter of 2008 compared with the corresponding period of 2007.

Energy-related payables

This caption reports the effects on the balance sheet 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 increase of € 65.1 million compared with 2007 is essentially attributable to:

- an increase of € 174.2 million in payables for the purchase of energy on the Power Exchange, partly offset by an increase (as described above in the relevant section) in receivables from the sale of electricity on the exchange (€ 161.2 million);
- a decrease of € 29.9 million in payables for the assignment of rights for the utilisation of transmission capacity on cross-border interconnections. The decrease derives from the updating of AEEG Resolution no. 288/06 for 2008 (pursuant to Resolution no. 329/07);
- a decrease of € 45.6 million in payables for imports of electricity from abroad;
- a decrease of € 33.7 million brought about by a reduction in debtor items still undefined by the AEEG at December 31, 2007, relating to the distribution of CCT revenues (€ 117.7 million), a reduction in the fee invoiced to Terna for the coverage of uplift and interconnection in the period (€ 0.3 million), net of the increase in the payables in respect of UESS (essential generation units) in the amount of € 11.6 million and capacity payments of € 72.7 million.

Payables to subsidiaries

The caption has a nil balance, whereas in the previous year it reported payables in respect of invoices to be received for transmission fees due to RTL for its part of the NTG (€ 13.0 million).

Payables to associates

This caption amounts to € 5.5 million and relates to payables to CESI for services provided to Terna in the construction and management of laboratories and plants for tests, inspections, studies and experimental research in the general electro-technical field and technological and scientific progress. The decrease (€ 2.0 million) compared with end-2007 is the result of a reduction in services delivered in the final part of the year.

Commitments with suppliers totalled € 2,094.0 million and refer to purchase commitments relating to normal operating activities for the period 2009-2014.

Payables for contract work in progress

This caption amounted to € 0.9 million, and was substantially unchanged with respect to December 31, 2007. It is composed as follows:

In million of euros	Payments on account	Contract value	Balance at Dec. 31, 2008	Payments on account	Contract value	Balance at Dec. 31, 2007
Other	-1.7	0.8	-0.9	-3.3	2.7	-0.6
Total	**-1.7**	**0.8**	**-0.9**	**-3.3**	**2.7**	**-0.6**

Other current liabilities - € 82.7 million

Other current liabilities are detailed below:

In millions of euros	Dec. 31, 2008	Due within one year	Due after one year	Dec. 31, 2007	Change
Payments on account	9.9	1.2	8.7	6.2	3.7
Other tax liabilities	14.9	14.9	-	9.0	5.9
Amounts payable to social security institutions	18.6	18.6	-	14.6	4.0
Amounts payable to employees	25.2	25.2	-	30.6	-5.4
Other payables to third parties	14.1	3.9	10.2	13.9	0.2
Total	**82.7**	**63.8**	**18.9**	**74.3**	**8.4**

Payments on account

This caption includes grants related to plant received by the Company for non-current assets still under construction at December 31, 2008.

The caption shows a net increase of € 3.7 million compared with 2007 (€ 6.2 million), which is the net effect of new payments on account received from third parties (€ 19.5 million) and a decrease of € 15.8 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, which amount to € 14.9 million, essentially include the VAT payable in respect of settlement of the December tax liability (€ 8.7 million) and payables for withholding taxes (€ 6.2 million).

The increase of € 5.9 million on December 31, 2007 is essentially attributable to the VAT receivable recognised by the Company at December 31, 2007 and the discharge of the debt in respect of indirect taxes for previous acquisitions (€ 2.8 million).

Amounts payable to social security institutions

The caption (€ 18.6 million) is broadly in line with 2007. It reports the payable to INPS for December.

Amounts payable to employees

Payables to employees, € 25.2 million (€ 30.6 million at end-2007), essentially refer to:

- accruals made for staff incentives to be paid in 2009 (€ 14.4 million);
  payments due to employees for unused holiday time and abolished public holidays (€ 8.0 million);
  termination benefits due to employees whose employment was terminated before December 31, 2008 (€ 0.7 million).

Other payables to third parties

Other payables to third parties, € 14.1 million (€ 13.9 million at December 31, 2007), mostly relate to guarantee deposits of € 10.3 million relating to obligations of electricity market operators holding dispatching contracts.

E. Commitments and contingencies arising from 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 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.

The Prime Minister's Order of July 8, 2003, which completed the provisions of Framework Law no. 36 of February 22, 2001, established the levels of the three parameters (exposure limits, warning values and quality standards) provided for by the law, with which electrical systems must comply. This order had a favourable impact on the pending litigation, as the scope of the framework law had been limited to general principles only.

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

Electric and magnetic field legislation

The Framework Law of February 22, 2001 gives the government responsibility for issuing specific measures to establish the reference parameters (exposure limits, warning values and quality standards) with which plants must comply. The framework law provides for a recovery mechanism for reclamation costs, calculated in accordance with the criteria set by the Authority for Electricity and Gas pursuant to Law no. 481/95, as these are costs incurred in the public interest.

On August 29, 2003, the Prime Minister's Order of July 8, 2003 establishing exposure limits, warning values and quality standards for the protection of the public from electric and magnetic fields at the grid frequency (50 Hz) generated by power lines was published in the Gazzetta Ufficiale della Repubblica Italiana. It established the levels of the three parameters provided for by the framework law.

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 claim not only defects in the measures, but also alleges 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, 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.
The issue involved in the dispute between Terna and INPS that arose following the publication of Circular no. 63 of May 6, 2005, is now moot. In the circular, INPS ruled that state industrial enterprises and public entities engaged in privatised industrial activities were required to pay contributions into the CIG, CIGS, DS and *Mobilità* unemployment schemes as from the date on which "the legal status of the enterprises changed following privatisation".
In a ruling issued on December 3, 2008, the Court of Rome declared that the matter in issue was moot because:

- Terna is not liable for contributions under the DS and *Mobilità* systems (which follow the contribution rules governing involuntary unemployment) as a result of the exemption decree of April 13, 2007;
- Terna is not liable for contributions under the CIG and CIGS schemes before May 2005;
- Terna has paid and continues to pay CIG and CIGS contributions as from May 2005.

F. Business combinations

No business combinations were carried out in 2008.

G. Related party transactions

As discussed in the relevant section of the Directors' Report, Terna's transactions with related parties regarded the associate company CESI S.p.A., the employee pension funds (Fondenel and Fopen) as well as companies belonging to:

- the GSE Group;
- the Enel Group;
- the Eni Group;
- the Ferrovie dello Stato Group;
- Anas S.p.A.

The following table sets out the nature of Terna S.p.A.'s transactions, assets and liabilities with related parties, as well as the relevant revenues and costs for the year and receivables and payables at December 31, 2008.

Related party	Assets	Liabilities
Brazil Group	**Non energy-related items** Dividends	
InTERNAtional S.p.A.		**Non energy-related items** Treasury services
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 fees **Non energy-related items** Restitution of electric power discount, personnel administration, building services, 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 joint management costs, National Transmission Grid remuneration
Ferrovie dello Stato Group	**Energy-related items** Line moving	**Energy-related items** National Transmission Grid remuneration **Non energy-related items** Right of way fees
Anas S.p.A.	**Energy-related items** Line moving	**Non energy-related items** Right of way fees
Fondenel and Fopen		**Non energy-related items** Social security contributions payable by Terna

Company In million of euros	Income statement balances					
	Revenues			Expenses		
	Grid transmission fee and other energy items	Pass-through energy items	Non energy-related items	Grid transmission fee and other energy	Pass-through energy items	Non energy-related items
Associates:						
CESI S.p.A.	-	-	-	-	-	1.3
Total associates	**-**	**-**	**-**	**-**	**-**	**1.3**
Joint ventures:						
ETAU S.A.			0.3			
Brasnorte de Energia S.A.			-4.5			
Total joint ventures	**-**	**-**	**4.8**	**-**	**-**	**-**
Other related parties:						
GSE Group	26.2	2,178.7	0.4	-	900.1	-
Enel Group	921.0	1,128.5	21.0	6.6	2,040.9	9.2
Eni Group	7.5	167.6	0.1	0.7	91.8	-
Ferrovie dello Stato Group	0.4	26.5	0.1	7.0	7.4	-
Anas S.p.A.	-	-	-	-	-	1.8
Total other related parties	**955.1**	**3,501.3**	**23.4**	**14.3**	**3,040.2**	**9.2**
Pension funds:						
Fondenel	-	-	-	-	-	0.5
Fopen	-	-	-	-	-	1.6
Total pension funds	**-**	**-**	**-**	**-**	**-**	**2.1**
Total	**955.1**	**3,501.3**	**23.4**	**14.3**	**3,040.2**	**12.6**

Company In millions of euros	Balance sheet balances Property, plant and equipment Capitalised costs	Receivables and other assets Other	Financing	Payables and other liabilities	Guarantees*
Associates:					
CESI S.p.A.	9.9			5.5	3.5
Total associates	**9.9**	**-**	**-**	**5.5**	**3.5**
Joint ventures:					
ETAU S.A.			0.2		
Brasnorte de Energia S.A.		0.1			
Total joint ventures	**-**	**0.1**	**0.2**	**-**	**-**
Other related parties:					
GSE Group		0.3		0.1	
Enel Group	2.5	99.3		33.9	522.3
Eni Group	8.7	0.5		9.3	29.7
Ferrovie dello Stato Group				8.7	22.0
Anas S.p.A.		2.2		1.2	
Total other related parties	**11.2**	**102.3**	**-**	**53.2**	**574.0**
Pension funds:					
Fondenel					
Fopen				1.3	
Total pension funds	**-**	**-**	**-**	**1.3**	**-**
Total	**21.1**	**102.3**	**0.2**	**60.0**	**577.5**

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

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

No significant, non-recurring, atypical or unusual transactions were carried out during 2008, either with third parties or with related parties.

I. Notes to the cash flow statement

The cash flow generated from **operating activities** in the financial year amounts to around € 498.8 million, which reflects around € 892.4 million in cash from operational activities (self-financing) and around € 393.6 million in financial resources absorbed in the management of net working capital.

Investing activities used net financial resources of around € 790.8 million, and included € 720.2 million of investment in property, plant and equipment (€ 736.0 million net of grants totalling € 15.8 million for plant construction received in the year), and € 28.9 million of investment in intangible assets. Also making an impact was the change due to the elimination of the investment in RTL (€ 449.3 million) offset by the value of the merger contribution of property, plant and equipment (€ 411.0 million) and goodwill (€ 88.6 million).

The net change in cash flows in respect of **financing activities** shows an increase of € 850.6 million, essentially due to an expansion of medium/long-term debt including the short-term portion net of the variation in FVH derivatives (€ 1,137.3 million), partially offset by the distribution of the balance of dividends for 2007 (€ 190.1 million) and by the payment of interim dividends for 2008 to the shareholders of the Company (€ 118.5 million).

The change in equity also reflects the retained earnings of RTL as from the acquisition date (€ 20.0 million).
Consequently, the financial resources required for investing activities and the remuneration of equity amounted to € 1,078.0 million in 2008, part of which (€ 498.8 million) was covered by cash flows generated from operating activities, and the rest of which (€ 579.2 million) by recourse to new borrowing.

L. Subsequent events

Loan from Cassa Depositi e Prestiti

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. The funds will be used to meet the financing needs of Terna for its 2009-2013 investment programme.
The interest rate on the financing disbursed will be equal to Euribor increased by CDP's funding costs plus a margin of 70 basis points applied by CDP.

2009-2013 Business Plan

On **February 3, 2009**, Terna presented its 2009-2013 Business Plan, approved by the Board of Directors that same day, to financial analysts.
Thanks to the achievement of targets for the development and consolidation of the grid by means of the acquisition, completed according to plan, of Enel Linee Alta Tensione S.r.l. ("ELAT"), which gave it control of Enel's high voltage grid, and thanks also to a sound regulatory environment recognising the Company's role as a provider of infrastructure, the Terna Group was able to proceed with the definition of its 2009-2013 Business Plan, which sets out four main guidelines, as follows:

- **sustainable growth**: by developing the National Transmission Grid through investments totalling around € 3.4 billion in the period 2009-2013, which marks an increase of € 300 million compared with the previous plan;
- **improved margins**: mainly by increasing revenues and containing costs in respect of regulated activities in Italy;

- **strengthening and enhancing the sustainability of the capital structure** of Terna S.p.A., which will already be partly realised in 2009 once the Group has finalised the acquisition of ELAT;
- **system safety and reliability**: through the Group's commitment to ensuring top-level safety in the electricity system and guaranteeing the reliability of the National Transmission Grid, in accordance with the instructions of the AEEG and international best practices.

Rating

Following Terna's presentation of its five-year Business Plan, the rating agencies made the following changes:
Moody's: revised Terna's long-term rating from "A1" to "A2", and assigned a stable outlook;
Standard & Poor's: revised Terna's long-term rating from "AA-" with a negative outlook to "A+" with a stable outlook; and revised the rating on short-term debt from "A-1+" to "A-1";
Fitch: maintained its negative rating watch on Terna long-term debt at "A+", on senior unsecured debt at "AA-" and on short-term debt at "F1", while it will proceed with a downgrading of Terna rating by a maximum of one notch after the operation for the acquisition of Enel Linee Alta Tensione (ELAT) has been approved and completed.

The decision to carry out a limited downgrade of Terna, which nonetheless retains a very strong rating that is one of the best in the industry, is based on the expectation of the higher level of debt envisaged in the 2009-2013 Business Plan.
In addition to the acquisition of ELAT as described above, the Business Plan envisages investment spending to develop the National Transmission Grid and a confirmation of the Group's policy on dividends.

Purchase of securities from Cassa Depositi e Prestiti

On **February 12, 2009**, Terna finalised an operation for the purchase of bonds issued by Cassa Depositi e Prestiti with a nominal value of € 700 million.
The bonds mature on February 2, 2010 and carry a two-monthly coupon of 2-month Euribor plus 0.65 percentage points.
The arrangement allows the buyer to request early redemption at specified dates.

Intercompany lending and the extinguishment of promissory notes

On **February 16, 2009** Terna S.p.A. and Terna Participações signed an agreement for an intercompany loan in the nominal amount of R$ 500 million. The loan was made on an arm's length basis (the interest rate is set at the CDI interbank rate plus 115 basis points until May 31, 2009 and 300 basis points thereafter). The agreement allows for the early repayment of the loan and its renewal for up to three years, at the discretion of Terna S.p.A.
The loan was disbursed on February 19, 2009 (value dated February 25, 2009) and totals € 169,721,656.48.
The loan enabled Terna Participações to make early repayment on the promissory notes maturing on May 31, 2009 used to fund the acquisition of ETEO.

Information provided pursuant to art. 149-*duodecies* of the CONSOB Issuer Regulations

The following table, prepared pursuant to art. 149-*duodecies* of the CONSOB Issuer Regulations, reports the fees for 2008 for the audit and the non-audit services provided to Terna S.p.A. by the same auditing firm. No services were provided by entities belonging to the auditor's network.

In millions of euros	Company	Amounts due for 2008
Auditing and financial statements	KPMG S.p.A.	265,130.9
Certification services	KPMG S.p.A.	191,180.0
Total		**456,310.9**

Certification of the financial statement pursuant to art. 81-*ter* of CONSOB Regulation no. 11971 of 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 no. 58 of February 24, 1988, hereby certify:

- the adequacy with regard to the characteristics of the company and
- the actual application

of the administrative and accounting procedures for preparing the financial statement for 2008.

2. With regard to the above, nothing significant emerged.
3. It is also certified that

3.1 the financial statement as of December 31, 2008:
- was prepared in compliance with the applicable international accounting standards recognised by the European Union pursuant to regulation (EC) no. 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 no. 38/2005;
- corresponds to the results of the books and accounting records;
- 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 Directors' Report includes an accurate and faithful analysis of the management trend and results and of the company's situation, together with the description of the principal risks and uncertainties faced.

March 30, 2009

CEO	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 of the Board of Statutory Auditors to the Shareholders' Meeting of Terna S.p.A.

(pursuant to art. 153 of Legislative Decree n. 58/98)

Shareholders,

During the year that ended on December 31, 2008, 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.

Auditing activity, pursuant to Legislative Decree no. 58/1998, was assigned and carried out by the KPMG S.p.A. Auditing firm whose report is 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 Bylaws.

Also in compliance with the provisions issued by CONSOB with Notice no. DEM/125564 of 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 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 Bylaws 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 statements, 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 2008 financial statements according to the international accounting standards (IAS/IFRS), as was also done for the previous year (2007). The Notes include the accounting standards and the evaluation criteria adopted. Terna S.p.A.'s 2008 Financial Statement was submitted to the evaluation of the KPMG S.p.A. Auditing firm which issued its auditing report on March 31, 2009 without anything significant to report. Significant events that occurred during 2008 are included in the Directors' Report and can be examined more in detail:
  - Through its subsidiary Lovina Participações, the Company acquired the entire share capital of Empresa de Trasmissao de Energia do Oeste Ltda (ETEO) for a total value of approximately € 223 million. The transaction was financed through its subsidiary Terna Participações.

- Following a resolution passed by the Board of Directors on September 17, in 2008 the Company carried out a merger by incorporation of its subsidiary RTL - Rete Trasmissione Locale S.p.A. into Terna S.p.A. The legal obligations became effective as of December 12, 2008, date of registration for both companies of the merger deed with the Register of Companies.

Accounting and tax obligations were retroactive as of January 1, 2008.

- At the end of 2008, the Company signed an agreement with Enel Distribuzione S.p.A., for acquiring the entire capital of Enel Linee Alta Tension S.r.l. ("ELAT") owner of 18,583 kilometers of high-voltage lines ("HV Lines").
- the Company obtained from the European Investment Bank a loan of € 300 million for building the SAPEI interconnection line.

- The Company drew up the Terna Group's 2008 consolidated financial statements applying the international accounting standards (IFRS/IAS) as it did for the previous year; the Terna Group's consolidated financial statements was submitted to the evaluation of the KPMG S.p.A. auditing firm that issued its auditing report on March 31, 2009 without anything significant to report. Furthermore, the foreign branches of KPMG S.p.A. submitted the reporting packages to auditing, which were drawn up for the purposes of the consolidated financial statement, of the subsidiaries and/or companies subject to joint control. The foreign branches of KPMG S.p.A. had nothing significant to report.
- In the Directors' Report, the Directors fully complied with the informative obligations pursuant to art. 154 *ter* of Legislative Decree no. 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 organisational 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 no. 58/59 by acquiring information from the Heads of the designated company departments and through meetings held with the auditing firm 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 analysing results of the work carried out by the KPMG S.p.A. auditing firm.
  Moreover, the previous Board of Statutory Auditors verified the management activity and the structural aspects of the subsidiary Terna Participações. 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 2008 financial statements) a) the compliance and effective application of administrative and accounting procedures; b) the compliance of the contents of the accounting documents with the international accounting standards IFRS /IAS approved by the European Union, as well as with the provisions issued by CONSOB pursuant to Legislative Decree no. 38/2005; c) the 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 statements.

- We monitored the adequacy of the Internal Control System also through periodic meetings with the Executive in charge of Internal Control and the participation in all meetings of the Internal Control Committee, 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, Legislative Decree no. 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 reported 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 requirement of independence of its members, the Board of Statutory Auditors verified its existence during the meeting held on February 12, 2009;
  - 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 pursuant to art. 160 of Legislative Decree no. 58, dated February 24, 1998.

- With regard to Legislative Decree no. 231/2001, the Company adopted an organisational 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 2008, the Company attributed the KPMG S.p.A. auditing firm other assignments for a total amount of € 249,440 for the following activities:

Requesting Company	Service description	Amount
Terna S.p.A.	Unbundling review for AEEG (including expenses)	45,760
	Reporting packages review 30.06.08 (including expenses)	16,060
	Reporting packages review 31.12.08 (including expenses)	16,060
	Opinion of interim dividend (including expenses)	40,040
	Verification of Income Tax Form and 770 Form	4,500
	Certification for sustainability report	56,210
	Comfort Letter EMTN Programme	62,810
RTL S.p.A. (Incorporated in 2008)	Verification of Income Tax Form and 770 Form	6,000
Terna International	Verification of Income Tax Form and 770 Form	2,000

- During 2008, no legal actions pursuant to ex. 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 statements and of the draft consolidated Financial statement of the Group, of the respective Illustrative Notes and Directors' Report, 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; 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 2008 the Board of Statutory Auditors (considering the activity carried out also by the Board of Statutory Auditors in office until April 28, 2008) met 15 times, attended the 13 meetings of the Board of Directors and participated in the 10 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 statements as of December 31, 2008 in compliance with the proposal of the Board of Directors.

Rome, April 1, 2009

The Board of Statutory Auditors

Luca A. Guarna
Lorenzo Pozza
Marcello Cosconati

List of assignments, as established by art. 144-*quinquiesdecies* of the Issuer Regulations

Mr. Luca Aurelio GUARNA
Number of assignments held in issuers: 1
Number of total assignments held: 25

Company name	Position held	Expiration*
Ambi S.p.A.	Standing Auditor	31.12.2010
Arquati S.r.l.	Chairman of the Board of Statutory Auditors	31.12.2009
Bieffe Medital S.p.A.	Standing Auditor	31.12.2009
BLG Solutions Logistic Italia S.r.l.	Standing Auditor	31.12.2009
Capitoloquattro S.p.A.	Sole Director	Until revocation
Capitolocinque S.r.l.	Sole Director	Until revocation
Capitoloquattro S.p.A.	Chairman of the Board of Directors	31.12.2009
Delmi S.p.A.	Standing Auditor	31.12.2010
Duec S.r.l.	Standing Auditor	31.12.2008
Eagle Pictures S.p.A.	Standing Auditor	31.12.2009
Electro Power Systems S.p.A.	Chairman of the Board of Statutory Auditors	31.12.2011
Ge Capital Services S.r.l.	Standing Auditor	31.12.2010
Hamworthy Combustion Engineering S.r.l.	Chairman of the Board of Statutory Auditors	31.03.2010
Immucor Italia S.p.A.	Standing Auditor	31.05.2009
Michel Rettili S.r.l.	Standing Auditor	31.12.2008
Sinergia S.p.A.	Standing Auditor	31.12.2008
Synpa S.p.A.	Chairman of the Board of Statutory Auditors	31.12.2008
Tech Data Italia S.r.l.	Standing Auditor	31.01.2011
Terna S.p.A.	Chairman of the 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	31.12.2008
Windows on Europe S.p.A.	Standing Auditor	31.12.2010
Zed Italia S.r.l.	Chairman of the Board of Statutory Auditors	31.12.2010

*approval of the financial statements

Prof. Lorenzo POZZA
Number of assignments held in issuers: 2
Number of total assignments held: 11

Company name	Position held	Expiration*
Angelab S.r.l.	Director	Until revocation
Angelab Funds S.r.l.	Director	Until revocation
Bit Systems S.p.A.	Standing Auditor	31.12.2009
Bracco Imaging S.p.A.	Standing Auditor	31.12.2009
Casa Damiani S.p.A.	Director	31.03.2010 (1)
Euraleo S.r.l.	Standing Auditor	31.12.2009
Leonardo & Co. S.p.A.	Standing Auditor	31.12.2008 (2)
Partners S.p.A.	Director	31.12.2010
Special Olympics O.n.l.u.s.	Director	31.12.2012
Steli S.p.A.	Standing Auditor	31.12.2010
Terna S.p.A.	Standing Auditor	31.12.2010

* approval of the financial statements
(1) On March 2, 2009 he resigned from his position; such resignation will be effective as of April 6, 2009 when the Company's Meeting will take place.
(2) On April 2, 2009 during the Company's Meeting, he was re-appointed for an additional three-year term.

Mr. Marcello COSCONATI
Number of assignments held in issuers: 1
Number of total assignments held: 3

Company name	Position held	Expiration*
Sace S.p.A	Chairman of the Board of Statutory Auditors	2010
Tirrenia S.p.A.	Chairman of the Board of Statutory Auditors	April 2010
Terna S.p.A.	Standing Auditor	31.12.2010

* approval of the financial statements

KPMG S.p.A.
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(Translation from the Italian original which remains the definitive version)

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

To the shareholders of
TERNA S.p.A.

1 We have audited the separate financial statements of TERNA S.p.A. as at and for the year ended 31 December 2008, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement 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.

The separate financial statements present the prior year corresponding figures for comparative purposes. As disclosed in the notes, the company's directors restated such corresponding figures included in the prior year separate financial statements. We audited such financial statements and issued our report thereon on 7 April 2008. We have examined the methods used to restate the prior year corresponding figures and related disclosures to the extent that we considered to be necessary to express an opinion on the separate financial statements at 31 December 2008.

3 In our opinion, the separate financial statements of TERNA S.p.A. as at and for the year ended 31 December 2008 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 2008, the results of its operations, changes in its equity 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 in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report with the financial statements to which it refers, as required by article 156.4-bis.d of Legislative decree no. 58/98. 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 is consistent with the separate financial statements of TERNA S.p.A. as at and for the year ended 31 December 2008.

Rome, 31 March 2009

KPMG S.p.A.

(signed on the original)

Marco Maffei
Director of Audit

2008

Corporate Governance

(traditional administration and management model)

Issuer: «Terna – Rete Elettrica Nazionale Società per Azioni» (in brief Terna S.p.A.)
website: www.terna.it
Reporting Period: 2008
Date of approval: March 11, 2009

Terna

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Foreword

As of 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 2008 and up to the approval date of the 2008 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.

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, considering that the sense of responsibility towards the social and environmental effects of its activities influences the management aspects and is transformed into programmes, actions and initiatives aiming at generating and preserving trust from interlocutors, has identified sustainability as a characterising feature of its activities.
Terna's main Corporate Social Responsibility (CSR) aspects are provided by the Company's mission and by the Code of Ethics. 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 system to the other ones.
From the point of view of sustainability, respect for the environment and the territory are particularly important. The physical presence of lines and stations and their interaction with the environment and the territory are indeed crucial for Terna's activities. That is why Terna has chosen the approach of negotiation with local authorities, to take environmental needs into consideration from the early stages of planning new lines, and has 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, low-cost and environmentally safe electricity system.
The management approach adopted and the objectives and results reached in the field of social 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 G3 Guidelines was marked as B+. Among the main 2008 results for CSR it is worth mentioning:

- collaboration agreements entered with two important environmental associations (WWF and LIPU, the Italian partner of Birdlife International) aiming at integrating biodiversity preservation criteria in planning new lines and in managing the existing ones, with particular reference to the interaction between transmission lines and natural oases;
- confirmed certification for the integrated environmental (ISO 14001), quality (ISO 9001) and occupational safety (OHSAS 18001) management system.

Underlining the commitment taken in its CSR approach in 2008, Terna was reconfirmed in the FTSE4Good (FTSE4Good Global and FTSE4Good Europe), the stock market index that selects the companies that stand out for sustainability, as well as in other sustainability indexes (E.Capital Index Euro, AXIA and KLD indexes).

Corporate 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) amendmentsto the Bylaws, and (V) the issuance of convertible bonds;
- an Executive in Charge of the preparation of the Company's accounting documents, who is given all assignments and responsibilities provided by 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 auditors also have similar engagements with the Company's main subsidiaries.
Further to prohibition of supplying certain services imposed to audit companies by Legislative Decree no. 58/98 (Consolidated Finance Act) 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 are 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 are 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 Regulations.

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 new appointment of the corporate bodies that had expired following the approval of the 2007 financial statements.

Section II **Information on shareholding structure**

Share capital structure

The Company's share capital as of March 11, 2009 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 favour of subjects identified by shareholders.

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.

Relevant participations in share capital and shareholders agreements

On the basis of the shareholders' book, communications received pursuant to CONSOB Resolution no. 11971/99 and available information, and with reference to the Company's share capital as of March 11, 2009, 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 for Economy and Finance of the Italian Republic owns 70%), with 29.986%; Pictet Funds (Europe) S.A. (directly and indirectly) with 5.154%; Enel S.p.A. with 5.116%.
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

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 subsection, of the Civil Code and art. 134, subs. 2, of Legislative Decree no. 58 of February 24, 1998 (Consolidated Finance Act), as provided for by art. 5.3 of the Company Bylaws.
Pursuant to 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. The maximum term for the total subscription of the increase is March 31, 2010.
The 2006 stock option plan is currently the only existing plan at Terna S.p.A.

The share-based incentive plan adopted by the Board of Directors following the Resolution dated April 1, 2005, is detailed in Terna S.p.A.'s Directors' Report to the financial statements as of December 31, 2008 (paragraph "Managerial incentive systems" in "Human Resources") as well as in Terna S.p.A.'s Directors' Report to the financial statements as of December 31, 2007 (pages 129 and 130), and in the Directors' Report to the financial statements 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.

Change of control clauses

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.

An agreement for a syndicated loan of € 750 million granted to Terna S.p.A. by a bank pool provides that, as usual for this type of transactions, changes in Company's shareholding, pursuant to art. 2359 nos. 1 and 2, subs. 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 ("SAPEI High Voltage Cable Link" and "Terna Electricity Grids"), in the event the Company proceeds to or is involved in a merger, a split or transfer of a Company branch, or resolves relevant changes in the corporate purpose.

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.
As regards concessions for electricity transmission granted in Brazil to companies indirectly controlled by Terna S.p.A., clauses exist that envisage authorisation from the granting local authority in the event of change, direct or indirect, of control. Moreover, some financing contracts signed by these Brazilian companies with investment banks (City Bank, Santander and BNP Paribas) and BNDES (Banco Nacional de Desenvolvimiento Econômico e Social) request prior approval from the latter in the event of change in control.

Restrictions in share transfer and shares granting special powers

No Bylaws limitations exist to the availability of shares except for the provisions stated by the Bylaws regarding rules for privatisation based on the Decree Law 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, subs. 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, subs. 227, of Law no. 350 of December 24, 2003) can be exercised by the Italian Government, represented in this case by the Ministry for Economy and Finance, notwithstanding the number of Terna's shares potentially owned by the Ministry itself.
In particular, the Ministry for Economy and Finance, as agreed with the Ministry for Productive Activities, 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 Legislative Decree no. 58 of February 24, 1998 (Consolidated Finance Act), 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 Minister for Economy and Finance, in agreement with the Minister for Productive Activities, 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 10 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's Decree of June 10, 2004.

The "maximum limit of share ownership" (provided for by art. 6.4 of the Bylaws and pursuant to art. 3 of Legislative Decree no. 332 of May 31, 1994, converted with modifications by Law no. 474 of July 30, 1994 and following amendments and additions ("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, subs. 1 and 2, of the Civil Code. Association occurs in cases under art. 2359, subs. 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 Legislative Decree no. 58 of February 24, 1998 (Consolidated Finance Act), with reference to other companies, if these agreements or pacts refer to at least 10% of the share capital with right to vote, in case of listed companies, or 20% in case of non-listed companies. With reference to the calculation of the 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 art.106 or 107 of Legislative Decree no. 58 of February 24, 1998 (Consolidated Finance Act).
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 constitution of the Shareholders' Meeting.

Restrictions to the right to vote

Pursuant to privatisation regulations, restrictions exist (under art. 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 of May 11, 2004 regarding "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 lett. e) of Company Bylaws).

Appointment and substitution of Directors and Bylaws amendments

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* subs. 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 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 honour, professionalism and independence.
The Company's Directors must meet certain integrity and professionalism requirements, similar to those required by the Statutory Auditors of listed companies (art. 15.2 of the Bylaws).
The appointed Directors must communicate without hesitation the loss of requirement as per current regulations and 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 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* subs. 4 of the Consolidated Finance Act 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, subs. 3, of the Consolidated Finance Act; considering the specific activity carried out by the Company, the requirements of independence provided for by article 10 of Directive no. 2003/54/EC are applicable to the Executive Directors under art. 15.5 of he Bylaws.
The presence of "independent" Directors, as provided for by the 2006 Corporate Governance Code for listed companies of Borsa Italiana, becomes important in the composition of the Board Committees, as provided for by the Code itself.
The Board of Directors assesses the presence of honour, professionalism and independence requirements for every one of its members, and periodically assesses the presence of requirements of independence for every one of its non-executive members, 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 system, which does not apply to the appointment of the Director designated by the Italian Government, states – in line with the provisions of art. 4 of Legislative Decree no. 332 of May 31, 1994 converted into Law no. 474/94 ("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*, subs. 3, of the Consolidated Finance Act, 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. 21.1), according to Law provisions, attribute 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 for Economy 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 share granting special powers".
Furthermore, as provided for by art. 3, subs. 3, of Legislative Decree no. 332 of May 31, 1994, converted with modifications by Law no. 474 of July 30, 1994 and art. 3, subs. 2, lett. 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 relationships inherent to the management of the National Transmission Grid as per art. 1, subs. 1, of the Prime Minister's Decree of May 11, 2004 (November 1, 2005).

Indemnities for Directors in case of resignation, discharge or cessation of relation following a public take-over bid

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.

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/chisiamo/ufficiostampa/comunicatistampa/2006 /codiceautodisciplina_pdf.htm) that Terna has adopted, as illustrated before, with resolution by the Board of Directors of December 21, 2006.
Further action 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.
Since 2004, the year in which the Company's shares were listed in the telematic market of the Italian Stock Exchange, Terna has provided, as an addendum to the annual financial statement, an informative report regarding the development of its Corporate Governance with reference to the provisions of the Corporate Governance Code of the Italian Stock Exchange, to which the Company has complied with.
Any non-compliance with specific regulations of the Corporate Governance Code is motivated in the section of this report that regards the practice of governance and otherwise applied by the Company.

Section IV **Managing and coordination activities**

Terna is subject to the *de-facto* control of Cassa Depositi e Prestiti S.p.A. with a 29.986% ownership of the share capital. The assessment, from which the existence of such control emerged, has been carried out by Cassa Depositi e Prestiti S.p.A. and made public on April 19, 2007. As of today, no activity of direction and coordination has been officialised nor exercised; Terna carries out its activity either directly or through its subsidiaries under management and negotiation independence.

Section V **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 e Vittorio Rispoli (Directors appointed within the minority list submitted by Gruppo Assicurazioni Generali). Following the statements made for the appointment, the vote count and the end of the voting, the appointed Board of Directors meets the requirements envisaged by art. 147-*ter*, paragraph 3, of the Consolidated Finance Act 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. Following those appointments, the Board is currently comprised of the members listed below. A brief description of their professional background is also provided:

- **Luigi Roth**, 68 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 2001, Mr. Roth has serviced as Chairman of the Fondazione Fiera Milano. Since November 2005, he has been Chairman of Terna S.p.A. and since May 2006 he has been Deputy Chairman of Terna Participações S.A., a subsidiary of Terna S.p.A. Since April 2007, Mr. Roth has been independent Director at Pirelli & C. S.p.A. and also Director of Avvenire Nuova Editoriale Italiana S.p.A. Mr. Roth began his career as a business manager with the Pirelli Group, handling activities in Italy and abroad. He then joined Metropolitana Milanese as Director of Planning. Since 1980, he has managed mid-sized companies in the manufacturing and real estate sectors, in the positions of General Manager and CEO. From 1986 to 1993, he served as CEO 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 Università Luigi Bocconi. From January 2004 to April 2007 he was Deputy Chairman at Cassa Depositi e Prestiti S.p.A., and from May 2004 to April 2007 he was Board Member at Telecom Italia S.p.A.

- **Flavio Cattaneo, 45 years old – CEO**
  [born in Rho (MI) 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, he has been CEO of Terna S.p.A. and has been Chairman of Terna Participações S.A., a subsidiary of Terna S.p.A., since March 2006. 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.

- **Cristiano Cannarsa, 46 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 Infrastructures and Major Works of 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 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, 46 years old – Director**
  [born in Milan on June 26, 1962]

With a degree in Economics from the University of Pavia, he is presently Senior Advisor of the Private Equity Cyrte Investments fund. From January 2006 to June 2007 he has been the 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, 41 years old – Director**
  [born in Florence on May 27, 1967]

He has a degree in Economic Policy from the Bocconi University in Milan. From December 2003 he is Head of the Financial Management of Cassa Depositi e Prestiti S.p.A. At the Cassa Depositi e Prestiti Group, from March 2009 he has been CEO of CDP Investimenti SGR S.p.A., from September 2006 he was Director of the Galaxy Infrastructure Fund, from May 2007 also Director at the SINLOC consulting company. He began his management career at JPMorgan in 1991 holding positions of increasing responsibility: from 1999 to 2003, as Managing Director in London, he managed significant financial and strategic operations in Europe. At the Cassa Depositi e Prestiti Group, from March 2005 to May 2008, he was a member of the Supervisory Board and of the Audit Committee of STMicroelectronics NV.

- **Claudio Machetti, 50 years old – Director**
  [born in Rome on October 30, 1958]

Mr. Machetti has a degree in Statistics from the Rome's University "La Sapienza".
He was appointed CFO of Enel S.p.A. in March 2000. Within the Enel Group, he also served as Chairman of the Board of Directors of Enel Factor S.p.A., Enel Energy Europe S.r.l., Enel Capital S.r.l., Enel Reinsurance Ltd, Enel Ireland Finance Ltd, Enel Finance International S.A., Enel Green Power Holding Sarl, Enel.NewHydro S.r.l. and Fopen (Fondo Pensione

Personale Enel). He is also Director at Enel Distribuzione S.p.A., Enel Investment Holding BV, Enel Produzione S.p.A., Enel Energia S.p.A., Enel Trade S.p.A., Enel Rete Gas S.p.A., Enel Green Power S.p.A. and Enel Green Power International BV. He is also Director of the listed company Endesa S.A.
He began his career as business manager in 1983 in the Financial Department of Banco di Roma. From 1992 to 2000, he held various positions with Ferrovie dello Stato S.p.A. (assistant to the CFO, head of the Financial Markets Central Service, Operating Finance Manager) taking over Fercredit S.p.A. in the FS Group as CEO in 1997. From April 2004 to November 2005 and then from March 2007 he was Director of Terna S.p.A.

- **Salvatore Machì, 71 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 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, 51 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 Director of the Department of Economics 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, 49 years old – Director**
  [born in Soverato (CZ) on May 31, 1959]

With a degree in Law from Rome's University "La Sapienza", 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 310 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 honour 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 11, 2009 according to the terms stated in the following paragraph "Independent Directors".
The attached tables include the information regarding the composition of the Board of Directors as of March 11, 2009 and its Directors who resigned from office during 2008.

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, the Board of Directors approved its own guidelines regarding the maximum number of positions as Director or Statutory

Auditor in significantly large companies that can be held 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 Article 107 of Legislative Decree no. 385/1993 (i.e. "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 311 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 11, 2009 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 in significantly large companies is provided in the attached tables.
There have not been exceptions, issued by Terna's Shareholders' Meeting, to the prohibition of competition by the Directors provided for by art. 2390 of the Civil Code.

Role of the Board of Directors

The Company's Board of Directors 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) attribute 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 lett. c) of the Corporate Governance Code);
- receives, similarly to the Board of Statutory Auditors, constant and exhaustive updates from the CEO on activities performed during the year in 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 lett. 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 lett. 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 lett. b) of the Corporate Governance Code). Such definition relates to Terna Participações S.A.;

- examines and approves strategic, business and financial plans. In this respect, the current structure of Company powers provides that, in particular, the Board of Directors approves the Company's annual budget and long-term plans (which include the combined annual budgets and long-term plans of the subsidiaries) (art. 1.C.1 lett. 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. lett. a) of the Corporate Governance Code);
- examines and approves transactions with a significant impact on the Company's financial position and results, especially if they are related party transactions or could otherwise give rise to a potential conflict of interest. In 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 National Transmission Grid's Development Plan (art. 1.C.1 lett. f) of the Corporate Governance Code);
- arranges for the exercise of voting rights at the shareholders' meetings of subsidiaries and other investees, resolving regarding the establishment of new companies, the purchase or transfer of shares in companies, namely, of companies or company branches as well as the appointment of directors and auditors in subsidiaries having a strategic importance (art. 1.C.1 lett. 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 lett. 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 lett. 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 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 2008, the Board met 13 times, with the Directors regularly participating and each meeting lasting an average of one hour and a half. The Board of Statutory Auditors also attended (art. 1.C.1 lett h) of the Corporate Governance Code).

For 2009, 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 18, 2008. 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

Terna's Board of Directors which was appointed in the Meeting of April 28, 2008 assessed the Board's size, composition and performance, as well as that of its Committees, as required by the Corporate Governance Code published by Borsa Italiana. 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 2009 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 also taking into account the involvement of the new Directors appointed during the renewal of the Board that took place in April 2008; b) identifying the elements that can hinder or improve the performance and efficiency of the Board and its Committees.

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 of the understanding of processes and the knowledge of issues; the optimal composition of the Board under the personal and professional profile of its members that ensures its proper and efficient performance; the highly positive evaluation of the top managers and the perfect balance of the roles of Chairman and CEO that continues to be the strong point and outstanding functional aspect for the Company's efficiency. 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 noticed that also the Chairman does not play an executive role, since the indicated and important functions held in the Group – connected both to the role, acknowledged by the Bylaws' provisions, of guarantor of the application of correct Corporate Governance within the Board of Directors, and the tasks of representation acknowledged by the Board itself, as well as the tasks of vigilance on the activities of internal auditing – are not carried out on specific managerial duties.

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 2008, 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 of the National Transmission Grid and with the purpose of increasing their acquaintance with the framework and business dynamics in order to carry out their role effectively (art. 2.C.2 of the Corporate Governance Code).

Independent Directors

A suitable number, also for competence, of Non-executive Directors is independent.
The Board of Directors has evaluated the existence of 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 11, 2009 – 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 (art. 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, subs. 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 VI **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 Legislative Decree no. 58/98 (Consolidated Finance Act) 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 with effect from 1 April 2006, replacing 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 (reporting directly to the CEO or Chairman), as they have regular access to privileged information and may take management decisions that could affect the outlook and future development of Terna.

This procedure includes the following qualifying elements, which are considered adequate in heightening the qualitative content:
- application of internal dealing transparency obligations towards twenty-three “relevant persons” within the Company and its subsidiaries (in addition to the Directors and Standing Auditors of Terna). To ensure adequate flexibility in the scope of “relevant persons”, the procedure also provides for the possibility of extending the transparency obligations to other people, with the separate approval of the Chairman and CEO of the Company;
- “relevant persons” are not 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 VII **Board Internal Committees**

Within the Board of Directors, the Remuneration Committee and the Internal Control Committee have been set, both with proposal-making and advisory functions, and made up of at least three Directors, the majority of which independent, pursuant to Corporate Governance Code.
The committees have been attributed the tasks provided for by the Corporate Governance Code. The criteria for the composition, the tasks and the responsibilities attributed in compliance with the Corporate Governance Code and the modalities of 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 VIII **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 IX **Remuneration Committee**

Functions of the Remuneration Committee

In 2004, the Board of Directors set up the Remuneration Committee, responsible for making proposals to the Board (I) for the remuneration of the CEO and 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 2008, the Remuneration Committee held 3 meetings, with the regular participation of all members. The meetings lasted an average of one hour each. None of the Directors participated in the Committee meetings in which proposals regarding their remuneration were submitted to the Board of Directors.
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 the year, the Committee made specific proposals to the Board of Directors that provided for a portion of the Executive Directors' 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 2008, the Remuneration Committee examined the incentive plans for the Company's top management.
During the meeting of March 11, 2009, 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 X **Remuneration of Directors**

The compensation of the Directors is established by the Shareholders' Meeting for each Director.
A portion of the compensation of the Executive Directors is bound to economic results achieved by the Company and to the attainment of objectives indicated in advance by the Board of Directors in line with art. 7.C.1 of the Corporate Governance Code.
The compensation of the Non-executive Directors is adequate to the commitment demanded to every one of them, considering the 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 notes to the financial statements.

Section XI **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 statements (art. 8.C.3 lett. a) of the Corporate Governance Code);
- expressing opinions on request of the CEO, on specific aspects concerning identification of main Company risks and planning, implementation and management of the Internal Control System (art. 8.C.3 lett. b) of the Corporate Governance Code);
- examining the work plan prepared by the Executive in Charge of internal control, as well as the periodical reports prepared by him (art. 8.C.3 lett. c) of the Corporate Governance Code);
- evaluating the proposals coming from 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 lett. d) of the Corporate Governance Code);
- supervising the effectiveness of the auditing process (art. 8.C.3 lett. e) of the Corporate Governance Code);
- reporting, at least every six months, to the Board of Directors about activity carried out and adequacy of the Internal Control System (art. 8.C.3 lett. g) of the Corporate Governance Code);
- carrying out further duties potentially assigned by the Board of Directors especially concerning relations with the auditing company.

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 2008, the Internal Control Committee met 10 times, with the regular participation of all members. Each meeting lasted an average of one hour and a half; the Chairman of the Board of Statutory Auditors or another Statutory Auditor appointed thereby was present at each meeting, given the Board's specific supervisory functions with respect to the Internal Control System, as required by current legislation concerning listed companies (art. 8.C.4 of the Corporate Governance Code).

In particular, in 2008, the Internal Control Committee examined the guidelines for the Internal Control System and the adequacy of the audit process, as well as the relative 2008 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 "Plan 262"). 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 accounting standards. The Committee also received due information from the supervisory board under Legislative Decree no. 231/01 with reference to the adequacy and the development of the model and the activity carried out by this board.

During the meeting of March 11, 2009, 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.
Further specific tasks were attributed to the Committee within the Organisational Model adopted by Terna, pursuant to Legislative Decree no 231/01 and to Terna's new Code of Ethics.

The Committee was granted adequate financial resources.

Section XII **Internal Control System**

With respect to internal control, on the basis of the preliminary assessment of the Internal Control Committee, on December 21, 2006, the Board of Directors updated the "Terna Group's Internal Control System" (ICS) 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 (articles 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.

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.

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.

The Board of Directors' meeting of Terna of March 11, 2009, in compliance with the opinion rendered by the Internal Control Committee on the basis of the analyses made in the course of 2008, 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 lett. c) of the Corporate Governance Code).

In its report, the Internal Control Committee also discussed in relation to the report of the supervisory board appointed pursuant to Legislative Decree no. 231/01 on the implementation of the 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 (Internal Control System) of the Group, implementing the guidelines defined by the Board of Directors, planning it, implementing it, managing it and dealing with the identification of the main risks for the Group, which he periodically submits to the Board of Directors (artt. 8.C.1 lett. b) and 8.C.5 lett. a), b) and c) of the Corporate Governance Code).

Executive in charge 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 lett. a) and b) and 8.C.7 of the Corporate Governance Code.

The Audit responsible reports 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, lett. 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 lett. 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 lett. 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.
At the end of 2008, as envisaged by the international standards issued by the Institute of Internal Audit (IIA), Terna's Audit department was submitted to an External Quality Assessment in order to assess the effectiveness of the Audit 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 at the beginning of February 2009 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

Since May 2002, Terna's Board of Directors resolved to adopt the Code of Ethics (updated in March 2004), as it was aware of the social and environmental impact of the Company's activities, and given the importance both of cooperating with stakeholders and of maintaining its good reputation (both internally and externally).
In 2006, the Company updated the Code of Ethics to equip Terna, following the change that rendered it an independent operator on 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 in ethical terms Terna's uniqueness, both by detailing its peculiarities and by spreading the values and universal policies that all companies should have at the heart of their operations, to encourage trust in their stakeholders. It is a series of rules of conduct for an organisation and a governance tool for relations. It is broken down into five sections, which discuss, in this order:

- Terna's fundamental ethical policies, which are organised into general ethical principles (legality, honesty and accountability), which are based on broad and transversal values for all conduct at all times within the Company, and into four main policies that Terna believes are particularly important, given its activities and nature (good management, respect, fairness and transparency);
- the conduct required, especially from employees, based on three transversal elements: loyalty to the Company, conflicts of interest and the integrity of Company assets;
- general instructions for the conduct to follow in 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 totally to all of Terna Group's subsidiaries for sections 1 (policies) and 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.

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 crimes committed by their Directors, managers or employees in the Company's interest or to its benefit. The model was updated in June 2004, after the Company's shares were listed.
Over time, the Model underwent changes and updates and was adapted to Law provisions and subsequent addition of new crimes 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 2008, in particular, integrations and updates were approved to the Model relative to money laundering crimes and

to violating regulations on occupational and health protection; “Compliance regulations for preventing administrative market abuse crimes” were also specifically adopted aimed at providing the recipients of the Model with an additional operational tool for assessing their conduct regarding administrative market abuse crimes and consequently preventing any conduct that would be a potential source of administrative liability for the Company.
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 crimes provided for by the Decree from being committed.
The Model is currently organised into eight 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 crimes committed in dealings with the public administration;
- a “special section B”, which discusses corporate crimes;
- a “special section C”, which deals with crimes of terrorism or subversion of the democratic order;
- a “special section D”, on crimes against individuals;
- a “special section E”, concerning market abuse offences, with the addition of a specific “Compliance regulations for the prevention of crimes 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 Legislative 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.

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 (http://www.terna.it) under the Investor Relations section.
Additional updates and integrations to the Model are currently underway in relation to subsequent legislation, which extended the scope of crimes provided for by Legislative Decree no. 231/2001 or amended other relevant legislation.

Audit Company

The assignment of audit of the 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 Legislative Decree no. 58 of February 24, 1998 (Consolidated Finance Act) and of art. 8, subs. 7, of Legislative Decree no. 303 of December 29, 2006 (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 Legislative Decree no. 58 of February 24, 1998 (Consolidated Finance Act) – introduced by Law no. 262 of December 28, 2005 and subsequently modified by Legislative Decree no. 303 of December 29, 2006 – 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*, subs. 4 of the Consolidated Finance Act).
The Executive must also be in possession of requirements of honour indicated by Law and of professionalism indicated in the 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 honour 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, the compliance, under art. 154-*bis*, subs. 2 of the Consolidated Finance Act, of 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*, subs. 4, of the Consolidated Finance Act.
Under art. 154-*bis*, subs. 3 of the Consolidated Finance Act, the Executive prepares suitable administrative and accounting procedures for the preparation of the financial statements, consolidated financial statements and half-year reports, and certifies, together with the delegated administrative bodies, their adequacy and effective application, under subs. 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*, subs. 2 and 5, of the Consolidated Finance Act, 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 subs. 3 of art. 154-*bis* of the Consolidated Finance Act, through a process of identification, management and monitoring of the main risks on the preparation of the financial statements. 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 2008, 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. Moreover, in 2008, Terna implemented the provisions envisaged by Legislative Decree no. 195/2007, which in turn implements the provisions envisaged by European Directive no. 2004/19/EC “Transparency Directive”. This Decree includes, among other things, the inclusion into the Directors’ Report of a paragraph relative to the principal risks and uncertainties that Terna and the companies included in the consolidation are exposed to. Consequently, the contents of the certification issued by the CEO and by the Executive in Charge were also modified.
According to the Corporate Governance Code, the Executive in Charge assessed, together with the Internal Control Committee, the correct use of the accounting standards.

Section XIII **Directors’ interests and related party transactions**

Even before listing its shares 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 accounting 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 risks that could arise for Terna and its subsidiaries in connection with the transaction;
- the Board of Directors and Board of Statutory Auditors should receive specific periodic reporting on transactions other than the above, with the exception of related party transactions totaling less than € 10,000 which are excluded from the Board of Directors authorization and reporting requirement;
- Directors who have an interest (including potential or indirect interests) in the transaction:
  - are required to inform the Board of Directors and Board of Statutory Auditors in due time of the existence of the interest, specifying its nature, terms, origin and scope;
  - are required to leave the Board meeting or abstain from voting at that time, unless the Board specifically 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.

Section XIV **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 honour and professionalism requirements as per the special legislation for statutory auditors of listed companies (art. 148, subs. 4, of Consolidated Finance Act) now under Minister for Justice's 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, heads 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, subs. 3, of the Consolidated Finance Act.
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 who, 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, subs. 2, of the Consolidated Finance Act, at least one effective member is appointed by the minority shareholders who are not connected, not even indirectly, with the shareholders who have introduced or voted the list winning for 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 subs. 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 honour and professionalism established by the Law.

Section XV **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.). Following the statements made for the appointment, the vote count and ending of the voting, a standing member is appointed by the minority members that are not connected, not even indirectly, with the members who have submitted or voted the list that won for the number of votes.
The standing auditors forming the Board are listed below, along with a summary of their professional background:

- **Luca Aurelio Guarna, 36 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 "Luigi 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 a member of the Advisory Board of the IDeAe Co-Investment Fund and is a Standing Auditor in other companies such as: Delmi S.p.A. (company belonging to the A2A Group belonging to the 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, 59 years old – Standing Auditor**
  [born in Presenzano (CE) 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 Economy and Finance he has held positions in different offices. In representation of the Ministry of Economy 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 Tirrenia Navigazione and Auditor of the "Cotugno" Hospital in Naples. He is also a tax judge with the Tax Commission in Caserta.
He has worked as a Professor for seminars organised by the Public Administration and by the Roll of Accountants in the Province of Caserta.

- **Lorenzo Pozza, 42 years old – Standing Auditor**
  [born in Milan on October 11,1966]

He has a degree in Business Administration from the "Luigi Bocconi" University, and he is a tax consultant and auditor. Since 2001, he has been Associate Professor of Business Administration at the "Luigi Bocconi" University and Professor of Methodology and quantitative standards for companies and International accounting principles, 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). He has held administrative and auditing positions with various different companies in the industrial, financial, real estate and insurance sectors: he is Director at AngeLab Funds S.r.l., AngeLab S.r.l., Partners S.p.A., Casa Damiani S.p.A.; he is Auditor at Bit system S.p.A., Steli S.p.A., Leonardo & Co S.p.A., Euraleo S.r.l. and Bracco Imaging S.p.A.
He also carries out professional activity in the Provasoli studio since 1990 and has been a founding member of the Partners S.p.A. consulting firm. He is the author of two 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.

The attached tables include information regarding the composition of the Board of Statutory Auditors as of March 11, 2009 and regarding the members that resigned from office during 2008.
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 the assignments in other companies according to Book V, Title V, Chapter V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the Civil Code, included in art 144-*quinquiesdecies* of CONSOB Issuer Regulations, is indicated in the attached tables.

During 2008, the Board of Statutory Auditors held 15 meetings which lasted in average approximately 2 hours and a half each, with the regular participation of the standing Auditors.
The Board of Statutory Auditors of February 12, 2009 – on the basis of the criteria already defined for the evaluation of independence of the members in compliance with the criteria indicated by the Corporate Governance Code adopted by the Directors and on the basis of the information supplied by the single members – 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 2008, 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, and (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 to the Brazilian subsidiary Terna Participações S.A., 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 Finance Act 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 is coordinated with the internal audit department and with the Internal Control Committee according to the terms included in the previous "Section XII: Internal Control System" (art. 10.C.6 and 10.C.7 of the Corporate Governance Code) with the Control Body pursuant to Legislative Decree no. 231/01 and with the Executive in Charge pursuant to Law no. 262/05.

Section XVI **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 for relations with institutional investors (via Arno, 64 00198 Rome – tel. + 39 06 8313 8145 – fax + 39 06 8313 9018 e-mail: investor.relations@terna.it) and (II) a department for relations with general shareholders under the Corporate and Legal Affairs Department (via Arno, 64 00198 Rome – tel. +39 06 8313 8136 – fax + 39 06 8313 8317 e-mail: azionisti.retail@terna.it) – (artt. 11.C.1 and 11.C.2 of the Corporate Governance Code).
Furthermore, the Company has further encouraged dialogue with investors by creating a specific section 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 XVII **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) envisage 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 prior communication 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 Law (art. 126-*bis* of the Consolidated Finance Act). 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).
Although this regulation is not included in the Bylaws, it is approved by ordinary meetings under the specific power given to the shareholders by the Bylaws. The contents of the regulation have been aligned to the most sophisticated models prepared by trade associations (Assonime and ABI), for listed companies.
The "Regulations for Terna S.p.A.'s Shareholders Meetings" can be found in the Company's website:
http://www.terna.it/default/Home/INVESTOR_RELATIONS/corporate_governance/regolamento_assemblee/tabid/115/Default.aspx.
Moreover, the Board of Directors reports to the Shareholders' Meeting on the activities carried out and planned during the financial statement 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 resolutions, both for the ordinary and extraordinary Shareholders' Meeting, both on first, second or third call, are passed with the majority required by the Law in each case (art. 13.2 of the Bylaws).
During 2008 – 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 three tables summarise some of the most significant information included in the fifth, tenth and fifteenth sections of the document.

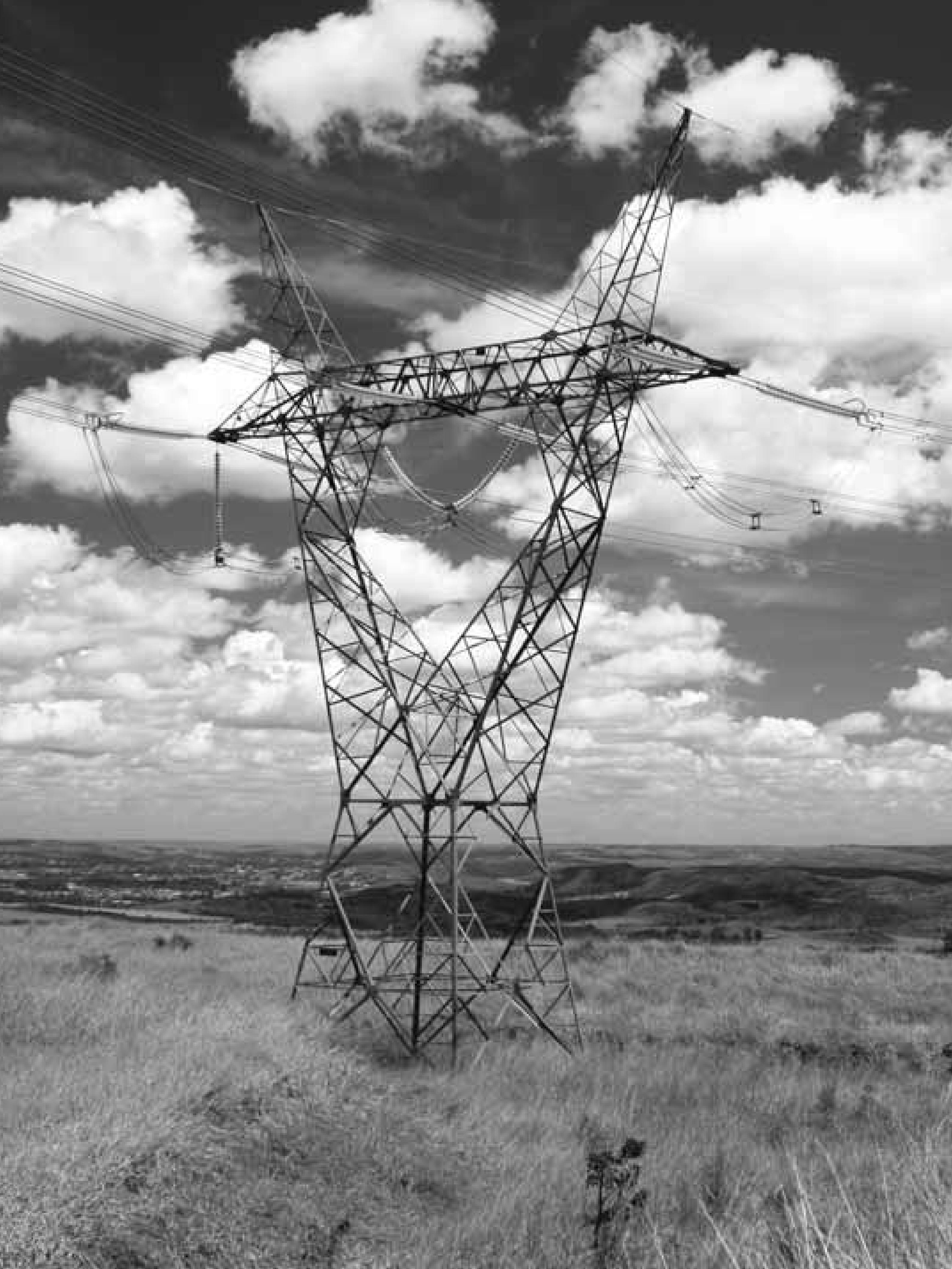

Table 1

COMPOSITION OF TERNA'S BOARD OF DIRECTORS

Name	Position	Start of office	List	Exec.	Non exec.	Indep.	Indep. Consolidated Finance Act	% BoD	Other assignments
Luigi Roth	Chairman	Nov. 2, 2005	M		●			100	3
Flavio Cattaneo	CEO	Nov. 2, 2005	M	●				100	1
Cristiano Cannarsa	Director	Apr. 28, 2008	M		●			100	0
Paolo Dal Pino	Director	Apr. 28, 2008	M		●	●	●	100	0
Matteo del Fante	Director	Apr. 28, 2008			●			77.78	1
Claudio Machetti	Director	Mar. 21, 2007	m		●			84.62	2
Salvatore Machì	Director	Nov. 2, 2005	m		●	●	●	100	1
Michele Polo	Director	Apr. 28, 2008	M		●	●	●	88.89	0
Vittorio Rispoli	Director	Jul. 13, 2006	m		●	●	●	92.31	3

DIRECTORS WHO QUIT OFFICE DURING THE YEAR

Name	Position	In office from/to	List	Exec.	Non exec.	Indep.	% BoD
Luigi De Paoli	Director	from Nov. 2, 2005 to Apr. 28, 2008	M		●	●	100
Mario Garraffo	Director	from Nov. 2, 2005 to Apr. 28, 2008	M		●	●	75
Carmine Macrì	Director	from Nov. 2, 2005 to Apr. 28, 2008	M		●	●	100
Piero Giuseppe Maranesi	Director	from Nov. 2, 2005 to Apr. 28, 2008	M		●	●	100
Franco Smurro	Director	from Nov. 2, 2005 to Apr. 28, 2008	M		●	●	75

Key

Position indicates if Chairman, Deputy Chairman, CEO, etc.
List it indicates M/m depending if the Director has been appointed from the list voted by the majority or the minority.
Exec. it is crossed if the Director can be qualified as executive.
Non exec. it is crossed if the Director can be qualified as non executive.
Indep. it is crossed if the Director can be qualified as independent pursuant to the criteria established by the Corporate Governance Code.
Indep. Consolidated Finance Act it is crossed if the Director is in possession of requirements of independence under art. 148, subs. 3, of the Consolidated Finance Act as recalled by art. 147-*ter*, subs. 4 of the Consolidated Finance Act.
% BoD indicates the presence, in terms of percentage, of the Director in the Board meetings (in calculating such percentage, the number of meetings was considered to which the Director has participated in comparison to the number of Board meetings held during the year or after the assumption of the assignment).
Other assignments indicates the declared total number of assignments held in other companies listed in regulated markets (also foreign), in holding companies, banking, insurance or of important size, based on the criteria defined by the Board. It does not keep account of those eventually held in subsidiaries, directly and/or indirectly, or Terna's investees. In case of more assignments held within the same Group, also due to a work relationship with one of the companies of the same, only the assignment with "greater importance" is considered.

For the list of the assignments held by each Director reference should be made to the summary of the professional profiles in the Report.

Table 2

COMPOSITION OF INTERNAL COMMITTEES OF TERNA'S BOARD OF DIRECTORS

Name	Position	EC	% EC	AC	% AC	RC	% RC	ICC	% ICC
Luigi Roth	Chairman					●	100		
Flavio Cattaneo	CEO								
Cristiano Cannarsa	Director								
Paolo Dal Pino	Director					●	100	●	83.33
Matteo del Fante	Director							●	83.33
Claudio Machetti	Director								
Salvatore Machì	Director					●	100	●	100
Michele Polo	Director							●	66.67
Vittorio Rispoli	Director					●	100		

DIRECTORS WHO QUIT OFFICE DURING THE YEAR

Name	Position	EC	% EC	CN	% CN	RC	% RC	ICC	% ICC
Luigi De Paoli	Director							●	100
Mario Garraffo	Director					●	100	●	66.67
Carmine Macrì	Director					●	100	●	100
Piero Giuseppe Maranesi	Director							●	100
Franco Smurro	Director					●	100		

Key

EC	Executive Committee; C/M if chairman or member.
% EC	indicates the presence, in terms of percentage, of the director in the Executive Committee meetings (in calculating such percentage, the number of meetings was considered to which the Director has participated in comparison to the number of EC meetings held during the year or after the assumption of the assignment).
AC	Appointment Committee; C/M if chairman or member.
% AC	indicates the presence, in terms of percentage, of the director in the Appointment Committee meetings (in calculating such percentage, the number of meetings was considered to which the Director has participated in comparison to the number of AC meetings held during the year or after the assumption of the assignment).
RC	Remuneration Committee; C/M if chairman or member.
% RC	indicates the presence, in terms of percentage, of the director in the Remuneration Committee meetings (in calculating such percentage, the number of meetings was considered to which the Director has participated in comparison to the number of RC meetings held during the year or after the assumption of the assignment).
ICC	Internal Control Committee; C/M se if chairman or member.
% ICC	indicates the presence, in terms of percentage, of the director in the Internal Control Committee meetings (in calculating such percentage, the number of meetings was considered to which the Director has participated in comparison to the number of ICC meetings held during the year or after the assumption of the assignment).

Table 3

COMPOSITION OF TERNA'S BOARD OF STATUTORY AUDITORS

Name	Position	Start of office	List	Indep. (under Code)	% part. BSA	Other assignments
Luca Aurelio Guarna	Chairman	Apr. 28, 2008	m	●	100	24
Marcello Cosconati	Standing Auditor	Apr. 28, 2008	M	●	66.67	2
Lorenzo Pozza	Standing Auditor	Apr. 28, 2008	M	●	100	10
Stefania Bettoni	Alternate Auditor	Apr. 28, 2008	m	-	-	-
Mario Paolillo	Alternate Auditor	Apr. 28, 2008	M	-	-	-

STATUTORY AUDITORS WHO QUIT OFFICE DURING THE YEAR

Name	Position	In office from/to	List	Indep. (under Code)	% part. BSA
Giovanni Ferreri	Chairman	from April 1, 2005 to April 28, 2008	M	●	100
Giancarlo Russo Corvace	Standing Auditor	from April 1, 2005 to April 28, 2008	M	●	100
Roberto Tasca	Standing Auditor	from April 1, 2005 to April 28, 2008	m	●	100
Bruno Franceschetti	Alternate Auditor	from April 1, 2005 to April 28, 2008	M	-	-
Vito Di Battista	Alternate Auditor	from April 1, 2005 to April 28, 2008	m	-	-

Key

Position indicates if Chairman, Standing Auditors, Alternate Auditors.
List: M/m according to appointment from majority or minority list (art. 144-*decies*, of CONSOB Issuer Regulations).
Indep. it is crossed if the director can be qualified as independent pursuant to the criteria established by the Code, indicating in the table if those principles have been amended and/or integrated.
% part. BSA indicates the presence, in terms of percentage, of the Auditor in the meetings (in calculating such percentage, the number of meetings was considered to which the auditor has participated in comparison to the number of meetings held during the year or after the assumption of the assignment).
Other assignments indicates the total number of assignments covered in other companies according to Book V, Title V, Chapter V (S.p.A.), VI (SApA) and VII (S.r.l.) of the Civil Code, mentioned in art. 144-*quinquiesdecies* of the CONSOB Issuer Regulation for the report on supervisory and control activity. CONSOB Resolution no. 15915 of May 3, 2007 established that for the fist informative report to the public, the list mentioned in article 144-*quinquiesdecies* should be attached to the reports on the supervisory and control activity drafted in compliance with art. 153, paragraph 1 of the Consolidated Finance Act, and issued for the meetings in which annual financial statements are approved as of June 30, 2008.

Glossary

Connection
Set of grid elements consisting of the transmission line and the stalls at the ends of the same, including the relative circuit sectioning devices. Classification of connections by voltage level is carried out with reference to the nominal voltage. The length of the connection is normally the length of the line constituting the actual link.
Connection line
Any power line that links the power distribution plant with the user's plant, or the power distribution plant with the connection station.
Development
Intervention within the electricity grid involving an adaptation or expansion of the transport, transformation, connection and interconnection capacity, an increase in operating flexibility of the grid or a disposal of grid elements.
Dispatching
Electricity cannot be stored. It is therefore necessary to continuously produce the quantity of energy requested by consumers and deliver it to the National Transmission Grid in such a way as to keep electricity supply and demand in equilibrium, thereby ensuring continuing and security in supplying this service. Management of these flows of electricity along the grid is known as Dispatching.
Extra-high voltage
Nominal voltage over 220 kV.
Frequency
Represents the number of oscillations per second, during which the value of an alternating quantity, such as voltage, varies from positive polarity to negative polarity. It is measured in Hertz (Hz).
Generator
Electrical machine that transforms a source of primary energy into electricity.
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.
Interconnection line
High-voltage power line in alternating current (AC) or direct current (DC) which links two different electrical transmission or distribution grids or even two generation plants.
Interconnection of electricity grids
Connection between electricity grids required for the transfer of electricity.
Interoperability of electricity grids
Operating method for the completion of management, operation, maintenance and development activities for two or more interconnected grids, in order to ensure simultaneous and coordinated functioning of the same.
kilowatt-hour (kWh)
Unit of measurement that expresses the quantity of electricity equal to 1,000 watts provided or requested in one hour.
kW
Unit of measurement of power (1 kW=1000 J/sec).
kWh
Unit of measurement of energy.
Maintenance
Measures and intervention aimed at the maintenance or restoration of efficiency and proper functioning of electricity plants, taking into account any declines in performance.
Maximum total transport capacity on interconnection with foreign countries
Maximum transport capacity for importing along the lines of the interconnection grid with the electricity plants of neighbouring countries.
Medium voltage
Nominal voltage greater than 1 kV and less than or equal to 35 kV.
Megawatt (MW)
Unit of measurement equal to one million watts.

National Transmission Grid (NTG)
National electricity transmission grid as defined by the Decree of the Ministry of Industry of June 25, 1999 and subsequent amendments and additions.
Net production of electricity
Sum of the quantities of electrical energy produced, measured at the outgoing points of the production plants.
Operations planning
Preparation of plans and schedules for operation of the electricity system.
Peak power
The highest value of electrical power supplied or absorbed at any point of the system during a specific time interval.
Planning
Definition of the usage plans, for a specific period of time, for the available means of production and transmission, in order to satisfy the energy requirements with respect to quality and continuity of service.
Power station
Part of a grid, concentrated and closed within a specific site, used to distribute electricity among the lines of a grid, transfer electricity among grids at different voltages and transform electricity into the lowest voltage for the user.
Producer
Natural or legal person that produces electricity, regardless of ownership of the generation plant.
Production
Generation of electrical energy, in any way.
RAB (Regulatory Asset Base)
Value of the net capital invested, as recognized by the Italian Authority for Electricity and Gas for transport and distribution companies for the purposes of determining the applicable tariffs.
Requirement
Demand for electrical energy to be satisfied by the national electricity system. It shows a variable trend throughout the day, month and year.
Stall
Set of power plants and accessory systems linked to a power line or transformer that links said elements to the grid with the busbars of a power station.
Switch
Sectioning and manoeuvring device able to carry and interrupt current under normal operating conditions, as well as during specific exceptional operating conditions, such as in the case of short circuits.
Switching station
Part of a grid consisting of the set of equipment used to distribute the electricity among the lines of a grid at the same level of voltage.
Transformer
Electrical machine used for the connection and transfer of energy between grids at difference voltage levels.
Transmission
Electricity transport and transformation activities along the interconnected high and extra-high voltage grid for the purposes of delivery to clients, distributors and recipients of self-produced energy.
Transmission activity
The activity of transporting and transformation electricity across the grid.
Transmission line
High and extra-high voltage power line, overhead or cable, used for the transport of electricity from the production plants to the distribution systems or to users.
Transformation station
Part of a grid consisting of the set of equipment used to transfer electricity between grids with different voltages.
Unified management of the grid
Coordinated management of all portions of the Grid.
Volt
Unit of measurement of voltage.
Watt
Unit of measurement of electric power.

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