



Athens, March 28,2011

Explanatory Report by the Board of Directors of TERNAL ENERGY SA regarding the Amendment of the Allocation Table of raised funds from the Company's share capital increase on 20 June 2007, as such has already been amended by the decision by the Company's Extraordinary General Meeting dated 29 June 2009

Dear Sirs/Madams,

As you already know, the development of Renewable Energy Sources (RES) has been declared a priority by more and more countries also within the European Union, which not only declared its intentions but also committed initially as a participant in the context of the United Nations Framework Convention on Climate Change and subsequently by voting of the Kyoto Protocol for the reduction of greenhouse gas emissions.

Apart from the commitment given by the E.U. other countries have also committed to the provisions of the Kyoto Protocol or have declared and acted on their intentions to undertake significant supportive initiatives to develop RES.

It is obvious that the RES market is continuously improving and changing, a fact that has led to continuous investment and growth opportunities in different countries and markets, which however operate on the same basis, namely the explicit intention to develop RES, certainly however in the context of different in each case approach to promoting investments.

At the same time, the development of RES within the European Union has now passed through from the less committed stage of setting a common policy strategy, to establishing common rules on an institutional level and specifically in a committed manner, and thus currently country members are bound to a significant extent by common development policies. As a result, the RES market in the European Union now operates under fully common, stable and permanent characteristics.

Already, the new directive 2009/28EC¹ issued by the European Parliament and Council *on the promotion of the use of energy from renewable sources and the amendment and subsequent repeal of directives 2001/77 and 2003/30*, undeniably proves that the EU is regulating the RES sector more consistently by facing the relevant market collectively. This has resulted and also been substantiated by the integration on a regulatory level, of political choices and international commitments both by the Community and by country members².

Moreover, the new directive defines the means, mechanisms and methods that may be selected by the country members to promote electric energy produced by RES, without limitation to such however as regards to the specific options of the system to be applied on their territory, but at the same time with commitment of such as to the use and application of the indicatively listed methods. In this manner, regulatory conditions have been introduced to consolidate the market, given that now the defined by country members objectives to promote RES in their energy balance are **binding**, while at the same time common action plans are promoted between the country members, as well as common initiatives by country members and third countries.

The above are further supported by the broad expression of the definition of *support schemes* that are established by country members to promote RES. The support schemes can include **any institution, plan or mechanism that promotes the use of energy produced by RES, through reducing the cost of such energy, increasing the price at which this energy is sold or increasing the sold quantity of electric energy produced by RES**. The directive goes on to define that such objectives can be achieved by providing investment grants, tax exemptions or reductions, the use of green certificates and favorable pricing, while at the same time the *“renewable energy obligation”*, which refers to the obligation of country members to establish national support programs.

Following the above, it is obvious that the RES market in the European Union is now collective and should be treated as such, given that the conditions to promote RES are now established and move towards a common direction.

¹ L 140/16, 5.6.2009

² Already from the 1st point of the directive’s preamble, the Community’s international obligation to comply with the Kyoto Protocol in the United Nations Framework Convention on climate change is highlighted, thus providing a global “starting point” and dimension to the legislation.

Taking all the above statements in consideration, we now consider that our Company's estimates regarding the use of funds raised, as well as the specific markets where such are to be distributed and the allocation to projects either within Greece or abroad, are now commercially and legally, out of date and for reasons of smoothly developing our investments, the use of funds should be amended to investments in European Union country members, which now represent a single market with stable characteristics, and to investments in other countries.

Furthermore, apart from the necessity to re-define the markets for investments in RES, it must be noted that for purposes of better managing its investments and allocating projects and the relevant risks, the Company considers and estimates that the best solution to develop separate investments in RES is to do such through its subsidiaries either within the European Union country members or not. At this point, we must highlight that the majority of subsidiaries that develop RES projects are established by our Company and do not correspond to acquisitions. We cannot however exclude that investment opportunities arise for acquisition of companies, which usually are owners of licenses and have not yet proceeded to implementing investments. Therefore, part of the funds raised to develop projects in different markets may likely be used for the acquisition of such companies, in which case the Company commits to providing further information in accordance with the provisions of article 4.1.3.9.(2) as well as paragraphs c and d of article 4.1.4.1.2 (1) of the Athens Exchange Regulation, if such apply.

It should also be noted that for purposes of avoiding double taxation issues, and after extensively examining all relevant issues, the company considers that the optimal solutions for investments in foreign countries is to implement the development of individual RES projects through its subsidiary in Cyprus, which has already been established with a 100% participation, namely through TERNA ENERGY OVERSEAS Ltd.

This way the company ensures not only a stable investment environment but more importantly, optimal management of its investments, given that the dividends that result from investments abroad by Cypriot companies are fully tax exempt and thus are taxed in Greece, without an intermediate tax on earnings in the company's domicile.

Therefore special reference should be made as regards to projects in each market category (E.U., other countries) when such are implemented through subsidiaries, while specifically for projects that are developed outside of Greece, such will also be implemented through subsidiaries of our company or through subsidiaries of our Cypriot subsidiary TERNA ENERGY OVERSEAS LTD.

Also, it should be noted that part of the use of funds raised per market (EU member states or non-EU countries) will be allocated to acquisition of companies, always in line with the provisions of article 4.1.3.9.(2) together with paragraphs c and d of article 4.1.4.1.2 (1) of the Athens Exchange Regulation, if such apply.

In addition, it should be noted that the approved prospectus for the initial public offering of the company's shares on the Athens Exchange initially stated that the relevant funds raised were also to include an allocation to cover the company's own participation in the individual investment categories. However, the management of the above financial resources of the company until today already indicates, for purposes of efficient management and for avoiding significant delays in the development and implementation of the company's investments, that such should be used either to finance the construction of its projects, until the granting of the expected development program subsidies, or as a guarantee of loan agreements until the completion and execution of the respective investment loan of the project. The use of funds in this manner avoids delays in the company's development plan and also indirectly until the payment of such to cover equity, the relevant funds raised are used for the benefit and progress of the projects

After providing the above general information and reasons for amendment of the use of raised funds, the Company should note that in the context of its activities it has recently decided to also develop activity in the United States of America, where the RES market is attractive also due to the recently established state grants and incentives. After extensive research of the tax circumstances and double taxation avoidance agreements (DTAA) and following an opinion provided by an independent and valid financial consultant, our Company chose to develop its activities through TERNA ENERGY OVERSEAS LTD and our subsidiary in Poland TERNA ENERGY TRANSATLANTIC SPZOO, given that specifically the DTAA between the USA and Poland has the minimum possible tax burdens, provided that our Company remains the final beneficiary of relevant income and the tax liable entity.

Particularly as regards to our investment in the United States of America and the acquisition of companies whose activity exclusively includes the development of Wind Farms for the generation of Electric Energy, we inform you, according to the provisions of article 4.1.4.1.2. par. c of the Athens Stock Exchange Regulation, that our company is proceeding with the acquisition of 10 companies that hold licenses to develop two large groups of Wind Parks in the states of Idaho and Oregon. With a view to such acquisition, the company TERNA ENERGY USA HOLDINGS CORPORATION has been established, so that it becomes the mother company of any acquired companies in the USA. The consideration to be paid for the above acquisition will amount to 20.4 mil USD. In detail, the company is proceeding with the acquisition of the following 6 companies in the state of Idaho:

1. Cold Springs Windfarm LLC
2. Desert Meadow Windfarm LLC
3. Hammet Hill Windfarm LLC
4. Mainline Windfarm LLC
5. Ryegrass Windfarm LLC
6. Two Ponds Windfarm LLC

The above companies hold licenses for the construction of a group of 6 wind farms in the state of Idaho, with a total capacity of maximum 138 MW. The relevant wind farms, according to the applicable legislation and executed agreements, will sell for 20 years the generated energy to the local power company (IDAHO POWER COMPANY), while they are entitled to a capital subsidy amounting to 30% of the generation facilities.

Also, the company is proceeding with the acquisition of the following 4 companies in the state of Oregon:

1. High Plateau Windfarm LLC
2. Lower Ridge Windfarm LLC
3. Mule Hollow Windfarm LLC
4. Pine City Windfarm LLC

which hold licenses for four wind farms located in the state of Oregon, with a total capacity of 40MW. These farms also will sell electric energy, according to the applicable legislation and the executed 20-year agreement, to the power company (Pacific corp), while at the same time they are entitled to a capital subsidy of 30% of the generation facilities.

For the above acquisitions, a report was prepared by the auditing firm “RPS Certified Auditors Business Advisors S.A. members of Mazars”. The experts who conducted the audit are not related in any way to the companies – subject of the acquisition, at least during the last five-years prior to the acquisition.

In particular, we inform you that the above mentioned auditing firm used two (2) different valuation methods: (a) the Discounted Cash Flow – DCF model and (b) the Comparative Valuation method.

Using the above two methods, the aforementioned auditing firm concluded to a valuation range from 47,250 thousand USD to 94,172 thousand USD and an average weighted price of 70,249 thousand USD as a reasonable and fair value of the above 10 companies, in comparison to the price of 20.4 mil USD which has been agreed for the acquisition of the above mentioned 10 companies.

The total cost of the investment (including all the expenses and the purchase price) is estimated at approximately 346 million USD. The financing will be allocated as follows: approximately 20% equity, 30% subsidy on the generation facilities, thus approximately 27% of the total cost of investment and the remaining from the financial market.

The construction of the Idaho project is expected to begin in the third quarter of 2011 and is estimated to be completed in the third quarter of 2012, after which the commercial operation of the projects will begin.

The construction of the Oregon projects will begin in the fourth quarter of 2011 and is expected to be completed by the end of the third quarter of 2012, after which the commercial operation of the projects will begin.

Given all the above and according to article 4.1.3.9. of the Athens Exchange Regulation and taking into account the provisions of the above article **we propose the amendment of the use and time schedule of the raised funds of our Company** from the share capital increase of 20 July 2007, which was previously amended according to the resolution by the General Meeting dated 29/06/2009, as follows:

The raised funds of our company will be allocated to cover its own participation in the individual investment categories. Intermediately and until the payment time of equity, the funds will be used by the company either to finance the construction of its projects or as a guarantee on loan agreements until the completion and execution of the respective investment loan of the project.

The Board of Directors proposes the following revised Allocation Table of Funds Raised for approval by the Annual General Meeting of Shareholders.

ALLOCATION TABLE OF FUNDS RAISED (AMENDED ACCORDING TO THE GENERAL MEETING 19.4.2011)									
TIME FRAME	Utilization of Funds Raised						Total	Total utilized capital	Non-utilized capital 31/12/2010
	08/11/07-31/12/07	01/01/08-31/12/08	01/01/09-31/12/09	01/01/10-31/12/10	01/01/11-31/12/11	01/01/11-31/12/12			
in thousand €									
Wind Park Investments within the European Union	4.084	12.994	44.552	43.250	40.000	40.070	184.950	104.880	80.070
Wind Park Investments outside the European Union					50.000	5.000	55.000	0	55.000
Total investments in hydroelectric stations	2.661	2.853	2.199	7.456	2.000	3.045	20.214	15.169	5.045
Photovoltaic stations	0	0	0	0	6.500	5.000	11.500	0	11.500
Electric energy production from biomass	0	0	0	3.448	6.552	5.000	15.000	3.448	11.552
Total investments from funds raised	6.745	15.847	46.751	54.154	105.052	58.115	286.664	123.497	163.167
Issue expenses	13.380	528					13.908	13.908	0
Total	20.125	16.375	46.751	54.154	105.052	58.115	300.572	137.405	163.167

We also present the currently effective Allocation Table for reference.

ALLOCATION TABLE OF FUNDS RAISED (AMENDED ACCORDING TO THE EXTRAORDINARY GENERAL MEETING DATED 29.06.2009)								
TIME FRAME	Utilization of Funds Raised						Total utilized capital 08/11/07 to 31/12/2010	Non-utilized capital 31/12/2010
	08/11/07-31/12/07	01/01/08-31/12/08	01/01/09-31/12/09	01/01/10-31/12/10	01/01/11-31/12/11	Total		
in thousand €								
Total investments in wind parks	4.084	10.494	48.200	99.472	15.200	177.450	71.680	105.770
Total investments in hydroelectric stations	2.661	2.853	1.300	6.700	6.700	20.214	15.169	5.045
Photovoltaic stations	0	0	1.500	4.000	6.000	11.500	0	11.500
Electric energy production from biomass	0	0	0	5.000	10.000	15.000	3.448	11.552
Wind parks abroad	0	2.500	5.000	15.000	20.000	42.500	22.500	20.000
Acquisition of companies - RES licenses	0	0	6.000	7.000	7.000	20.000	10.700	9.300
Total investments from funds raised	6.745	15.847	62.000	137.172	64.900	286.664	123.497	163.167
Issue expenses	13.380	528				13.908	13.908	0
Total	20.125	16.375	62.000	137.172	64.900	300.572	137.405	163.167

Notes on the Tables:

1. The categories "Total investments in wind parks", "Wind parks abroad" and "Acquisitions of companies RES licenses" in the currently effective Table are incorporated in the categories "Wind Park Investments in the European Union" and "Wind Park Investments outside the European Union" in the proposed revised Table.
2. The proposed revised Table extends the allocation time frame by one year (2012) with a new allocation of amounts
3. The funds raised for years 2007-2010 presented in the proposed revised Table are ex post