
2011 Strategic Plan
February, 14th 2011

Luigi Roth – Chairman
Flavio Cattaneo – Chief Executive Officer



Agenda

- **2010 PRELIMINARY FIGURES** **3**
- **STRATEGIC UPDATE** **4**
 - TRACK RECORD
 - A NEW STRATEGIC PROPOSITION
- **2011-2015 STRATEGIC TARGETS** **6**
 - GROWTH
 - EFFICIENCY
 - NON TRADITIONAL ACTIVITIES
 - CAPITAL STRUCTURE
 - DIVIDEND POLICY
- **CLOSING REMARKS** **17**
- **ANNEXES** **18**

2010 Preliminary Figures

Record-breaking Achievements

- **Double-Digit growth in Low-Growth times**
- **Surprising performance in incentives on dispatching activities**

2010 performance exceeded €150mn; considering the incentive scheme lasts for 3 years, 2010 P&L will only account for a part of the total performance

- **Capex up by 30%, more than breaking the 1bn ceiling**
- **Announced for the Third-Year-in-a-Row a relevant M&A transaction (disposal of PV project)**

€mn	FY09	FY10 ¹	Δ%
Operating Revenues	1,390	> 1,580	14%
EBITDA	1,003	> 1,170	17%
EBITDA Margin	72%	~ 74%	
Capex	895	~ 1,160	30%
Net Debt	3,758	4,722	

Note: Figures net of the PV project

1) Rete Rinnovabile Srl reported as Discontinued Operations

Strategic Update

Track Record and Good Reputation in Delivery

Sustainable Growth

- Since 2005 **€4bn Capex** spent, almost double the amount promised in the first Strategic Plan (2006-2010)
- **Calendar RAB** from €5.3bn to €9.7bn
- **Km of circuits lines under management** from 39,000 to 63,000 km, making Terna the 1st Independent TSO in Europe and the 7th in the world

Operational Efficiency

- **EBITDA margin** improved from 66% to ~74%
- **Top line preserved** thanks to a proactive approach with the Regulator (introduction of volume mitigation mechanism and enhanced Work-in-Progress remuneration)

Financial Discipline

- Generated €4bn of **cumulated cash flows**
- Accretive **M&A**
- **Balanced optimization of capital structure**, capitalizing on LT funding and favorable interest rates scenario (competitive Kd)

Shareholder Value

- **Returned to Shareholders €1.7bn (10% DPS CAGR₀₅₋₀₉)**

Strategic Update

A New Strategic Proposition

- **TERNA: a combination of traditional regulated activities and non traditional initiatives**
- **New Business Plan based on recent macro assumptions and consistent with sector trends**

Traditional Regulated Activities	Demand Growth	<ul style="list-style-type: none"> ▪ Bounced in 2010 (+2%) ▪ M/L term trend confirmed (1.5% CAGR): back to 2007 levels not before 2013/14
	Macro Scenario	<ul style="list-style-type: none"> ▪ CPI/Deflator forecasts assumed higher than few months ago
	Regulatory Framework	<ul style="list-style-type: none"> ▪ No major changes in the regulatory framework ▪ From 2012 onwards, assumptions in continuity with current regulatory period
Non Traditional Activities	Sector Trends	<ul style="list-style-type: none"> ▪ Upstream: decarbonisation ⇒ boost in renewable capacity ▪ Downstream: energy efficiency/saving, technological innovation

2011-2015 Strategic Targets

		OLD	NEW
Traditional Regulated Activities	Growth	<ul style="list-style-type: none"> Total Capex RAB CAGR 	<p>€4.3bn > 5%</p> <p>€5bn 6.6%</p>
	Efficiency	<ul style="list-style-type: none"> EBITDA Margin 	<p>from 74 to 77%</p> <p>from ~74 to 78%</p>
	Capital Structure	<ul style="list-style-type: none"> D/RAB Dividend Policy 	<p>< 60%</p> <p>+4% from DPS08 + Step-Up (Brazilian Disposal)</p> <p>Confirmed +4% from DPS08 + Step Up (Brazilian + Other Disposals)</p>
Non Traditional Activities	Capex		<p>>€300mn</p> <p>Up to €1bn</p>
	Main Focus		<p>PV Project</p> <p>Renewable Capacity Electricity Storage Systems Energy Efficiency</p>

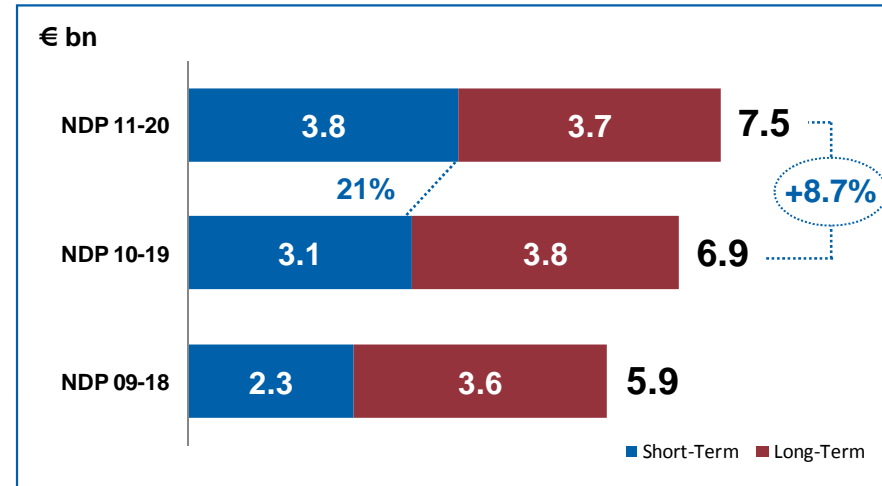
**Traditional
Regulated
Activities**

2011-2015 Strategic Targets

Growth – Capex Plan

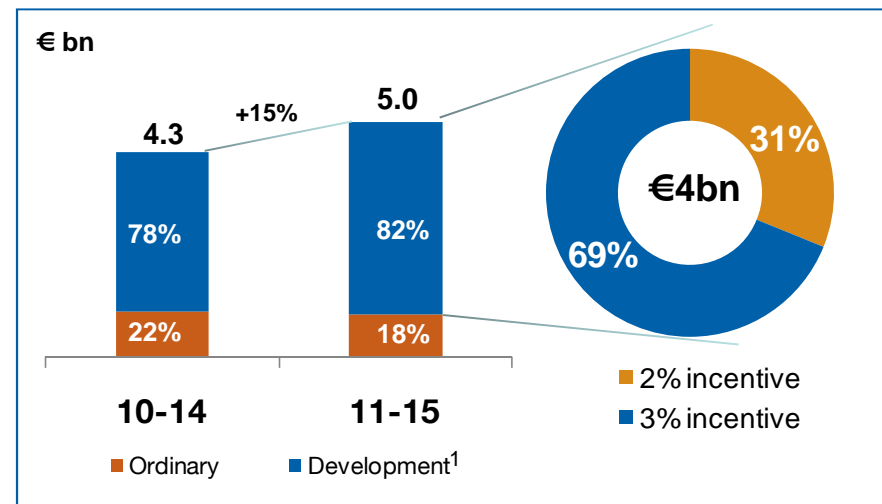
National Grid Development Plan (NDP)

- Roll-over of the 10-yr Plan adds up €600mn (+8.7%)
- Increase in ST capex (+21%) mainly driven by interconnections and constraints caused by the increase in renewable generation



Terna Regulated Capex Plan

- Sustainable growth, with an average annual spending of ca. €1bn
- Additional improvement in the mix



Note: Capex net of Capitalized Financial Charges

1) Including Defence Plan

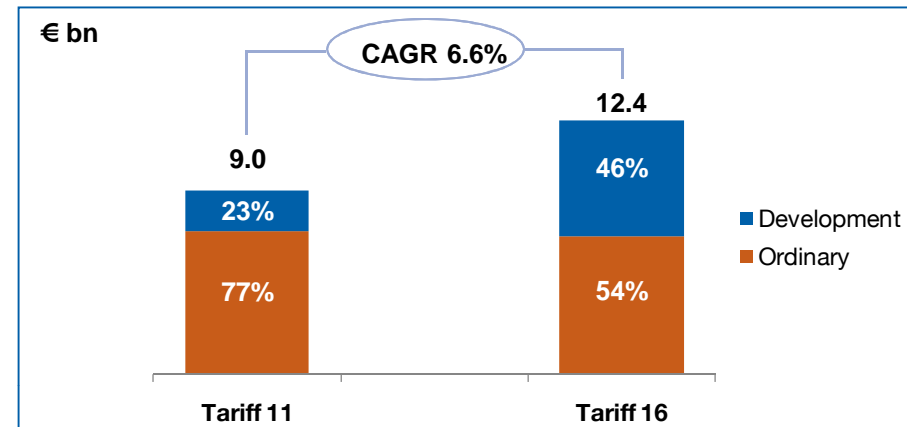
Traditional
Regulated
Activities

2011-2015 Strategic Targets

Growth – RAB Evolution and Blended Return

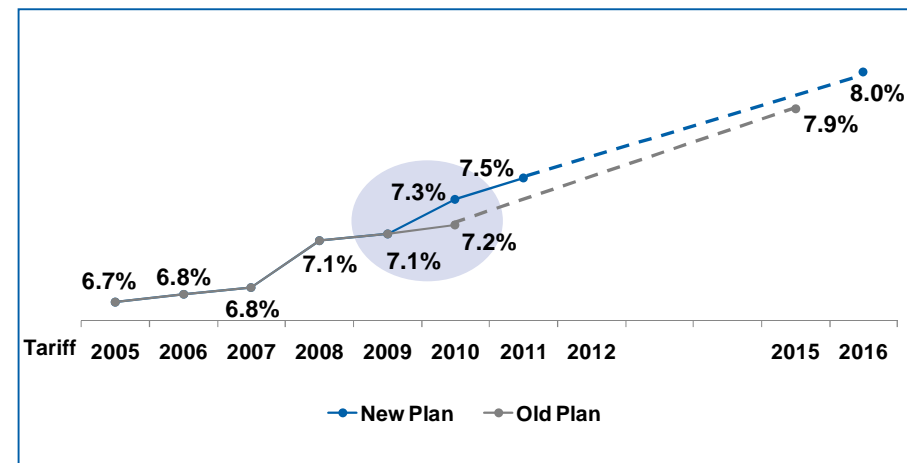
RAB Evolution

- Uplift of RAB CAGR (6.6% vs >5% Old Plan)
- Mix progressively upgrading: at the end of the Plan almost 50% of RAB will be incentivised
- Boost in 2008-2010 capex spending enhanced RAB evolution



RAB mix drives blended return up

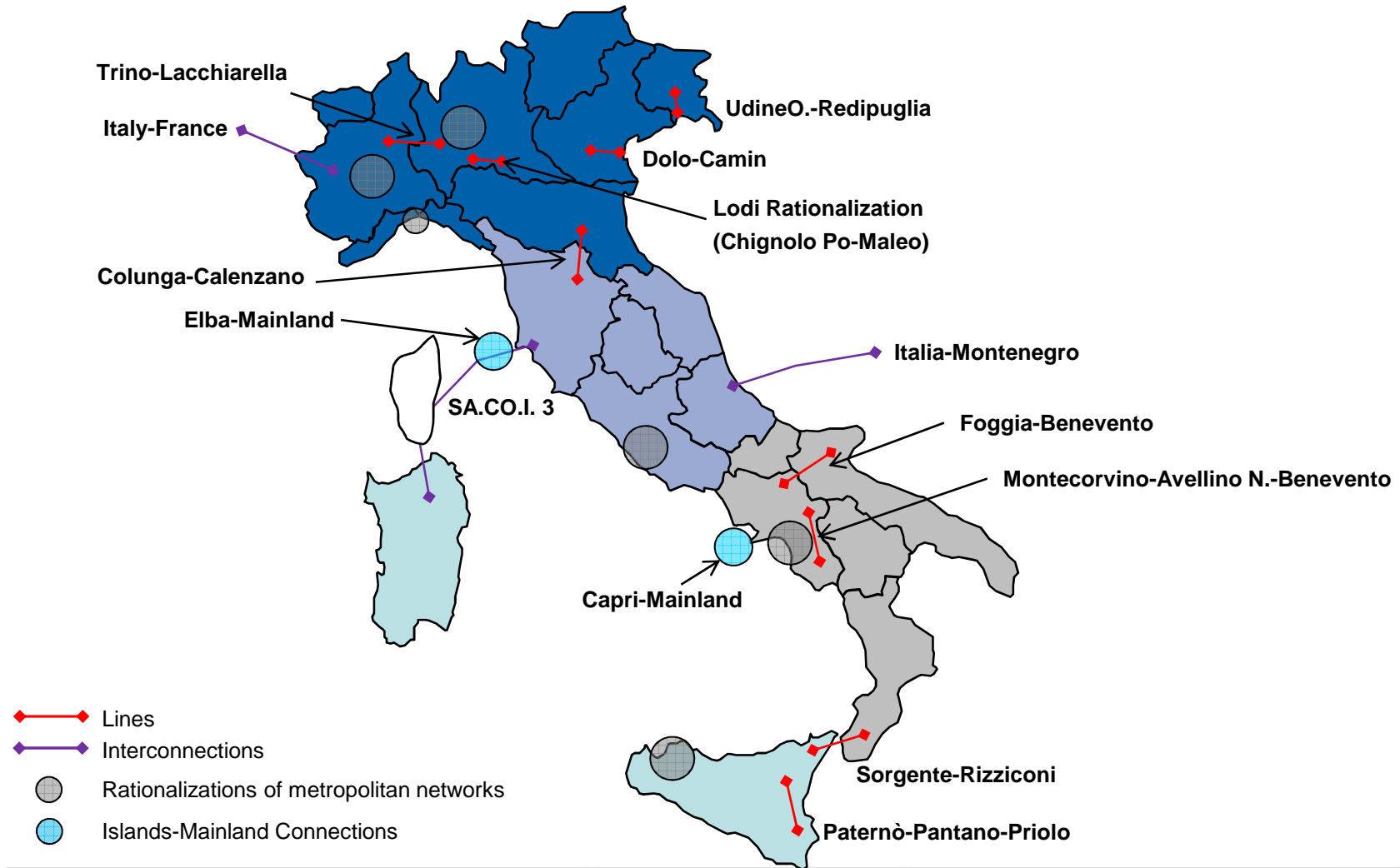
- Accelerating development capex in 2008-2010 was key to maintain high blended returns post 2012



Traditional Regulated Activities

2011-2015 Strategic Targets

Growth – Key Development Projects



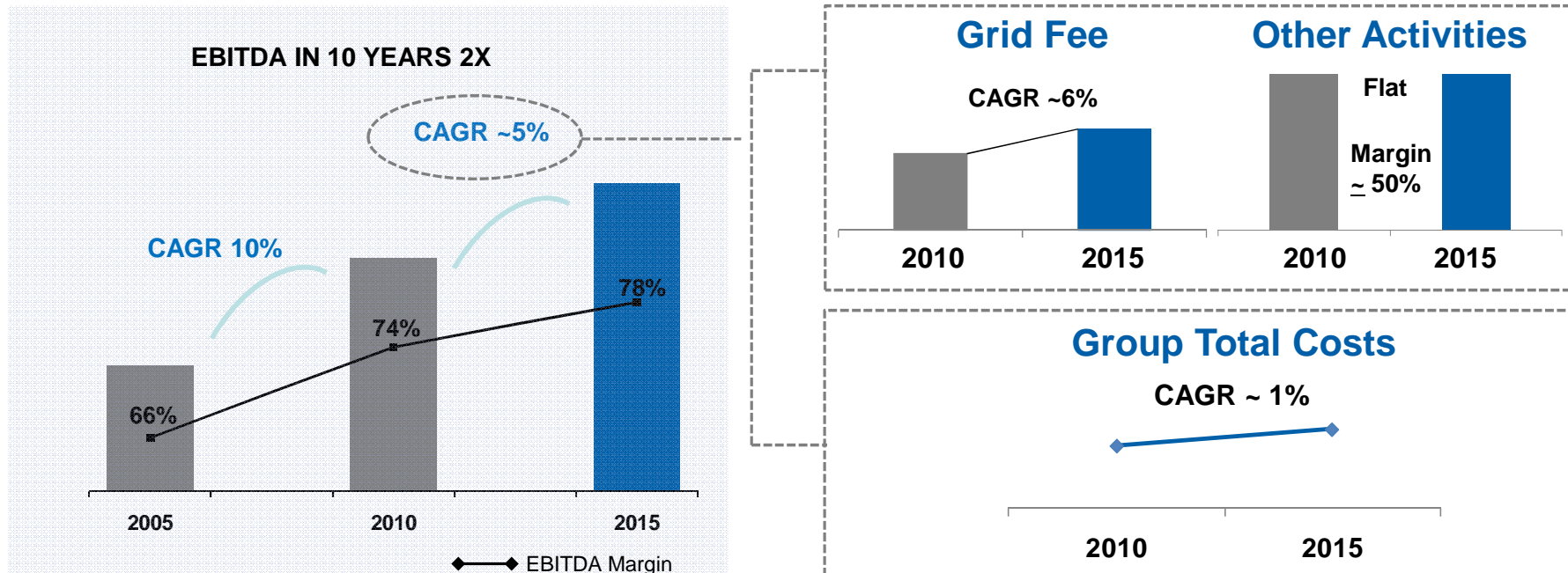
Traditional Regulated Activities

2011-2015 Strategic Targets

Efficiency

Group EBITDA Margin from ~74% to 78%

- Revenues: Grid Fee driven by RAB growth and Allowed D&A, while contribution from Other Activities is flattish in the period
- Costs: reached a steady state



Note: 2010 Preliminary figures

Non
Traditional
Activities

2011-2015 Strategic Targets

Non Traditional Activities: Opportunities in the Market

New sector trends open huge potential for non traditional activities

UPSTREAM

- Boost in construction of **new capacity** (Photovoltaic, Wind)
- Renewables increase volatility
 - Additional **development capex** in the Grid (including interconnections)
 - Electricity **storage systems** a potential *green* solution to balance the Grid (energy accumulation systems and pumping)
- **Connections for third parties** (even abroad, in particular Balkans)

DOWNSTREAM

- Important contribution to the emission reduction commitments coming from **energy saving programmes**
- Public Administrations
 - Favouring these programmes
 - Have budget constraints and limited competences in energy saving

Non
Traditional
Activities

2011-2015 Strategic Targets

Non Traditional Activities: Ongoing or Under Scrutiny

Current focus limited to the few opportunities where Terna can extract value, leveraging on its skills/capabilities and competitive advantage achieved in previous initiatives



Non
Traditional
Activities

2011-2015 Strategic Targets

Non Traditional Activities: Under Scrutiny

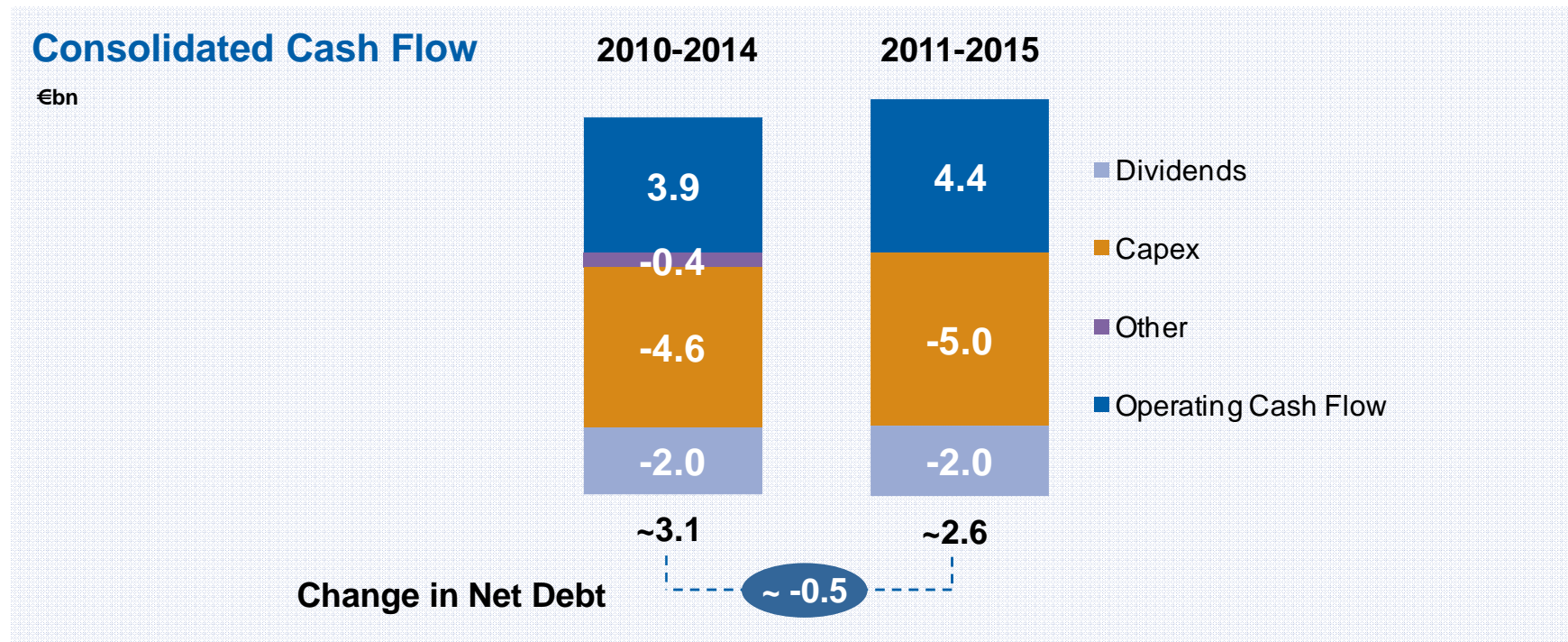
UPSTREAM	Storage Systems	<ul style="list-style-type: none">▪ In 2009 AEEG mandated Terna a study to identify opportunities for developing pumping basins and energy accumulation systems ✓▪ Storage systems could improve the management of dispatching activities of non-programmable renewable sources▪ Opportunity only if regulatory framework ruling the investments
DOWNSTREAM	Energy Efficiency	<ul style="list-style-type: none">▪ Huge market potential:<ul style="list-style-type: none">▪ 8,000 local entities spend ca. €800mn in public lighting▪ Potential savings: 30-50%▪ Fragmented among many local players▪ Opportunity for Terna<ul style="list-style-type: none">▪ Low capital intensive initiative▪ Partnership (minority stake) in an ESCO¹

1) Energy Service Company

2011-2015 Strategic Targets

Capital Structure – Net Debt Evolution

- Net Debt to increase by €2.6bn over the Plan period, **excluding** impacts from future Non Traditional Activities
- Cash Flow generation contains increase in leverage



2011-2015 Strategic Targets

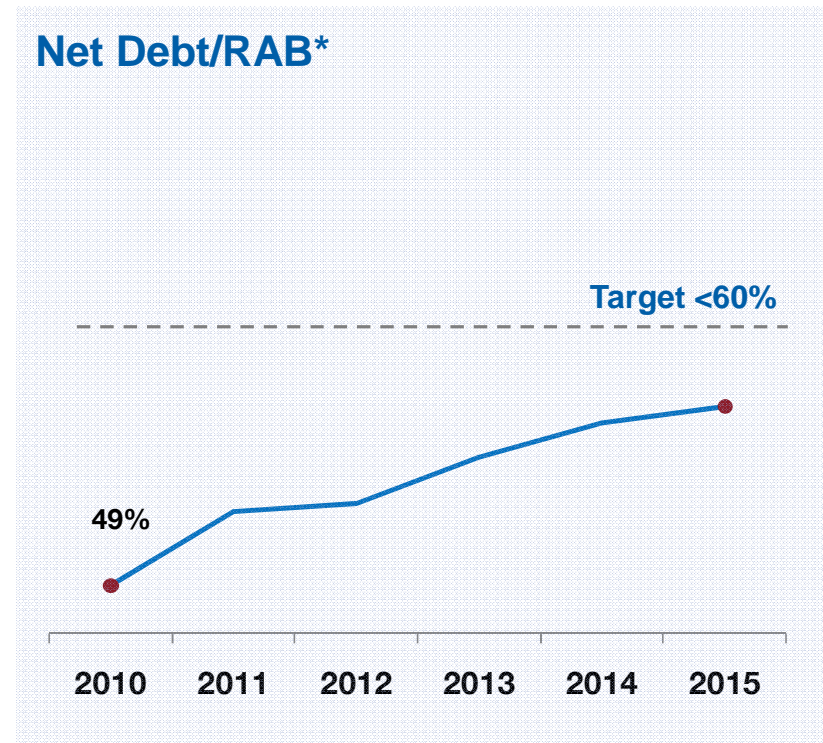
Capital Structure – Funding and Cost of Debt

Leverage

- Leverage target confirmed: D/RAB < 60%
- Strong rating: single A area

Debt Structure

- Balanced mix of fixed/floating rates (55%-45%), to optimise the cost of debt
- Long maturity



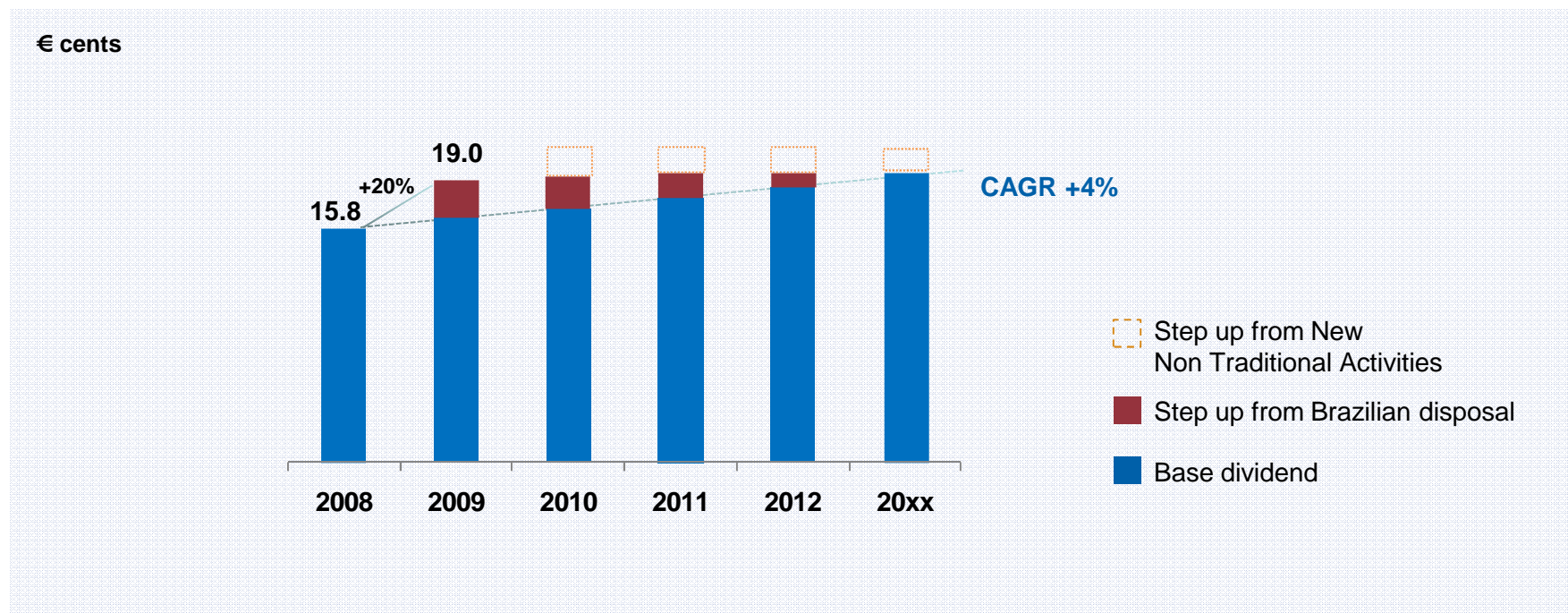
(*) Net Debt regulated business / Calendar RAB

2011-2015 Strategic Targets

Dividend Policy

Dividend Policy

- Ordinary dividend: +4% annual growth, starting from DPS08
- Step-up from Non Traditional Activities: if and when disposed, partial allocation of capital gains



Closing Remarks

TERNA: not only *Engineers of the Grid*, but also *Engineers of our future*

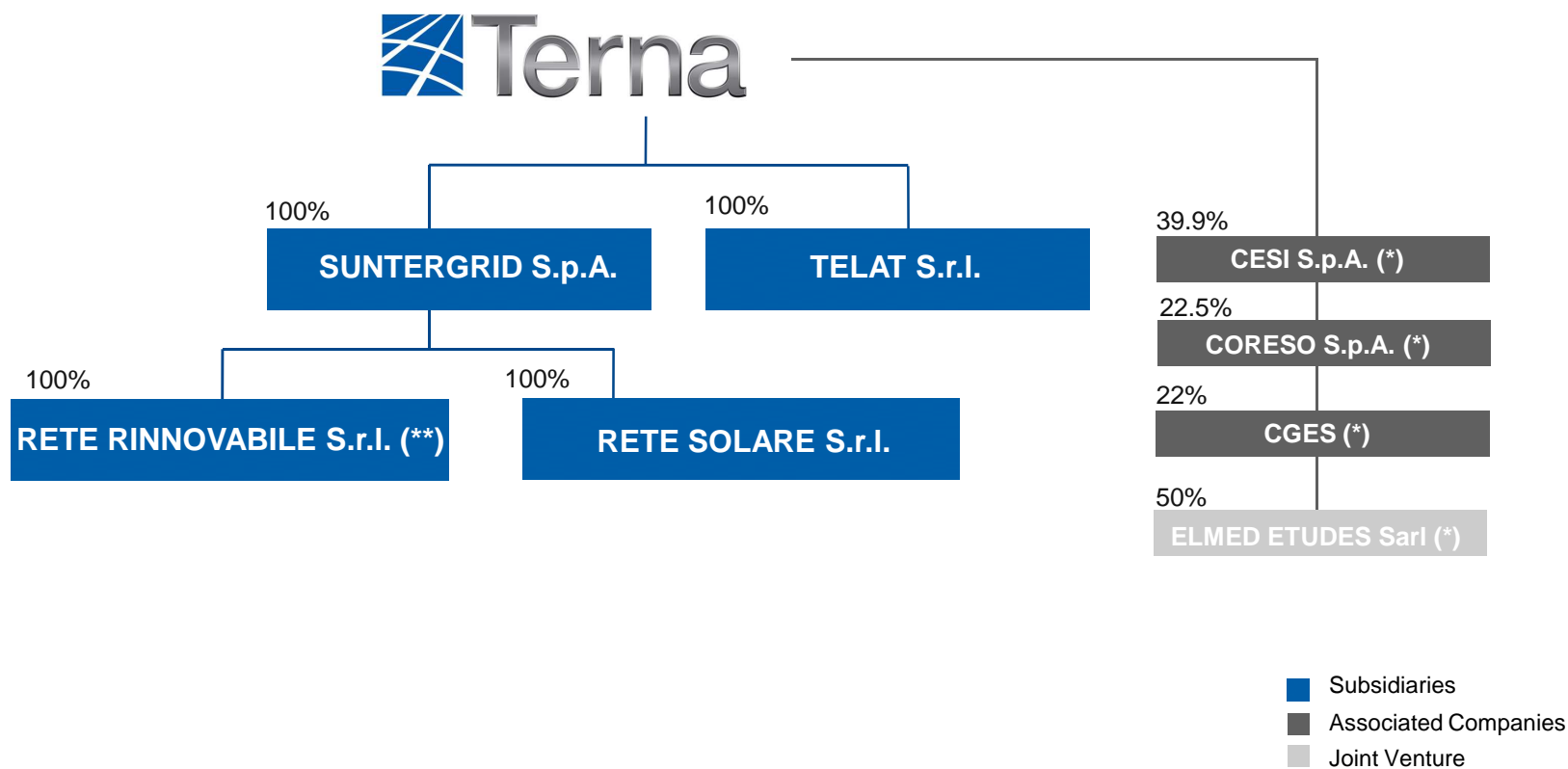
- Developing our transmission network
- Expanding our capabilities
- Identifying new non traditional activities to enhance productivity

Flexibility in thinking and speed in actions

- Shaping the Company to be ready to cast future sector agenda (energy and climate change)

ANNEXES

The Group



Note: As of February 2011

(*) Companies measured via Equity Method

(**) Treated as Discontinued Operations, not included in the Plan perimeter. Rete Rinnovabile owns 98.5% of Valmontone Energia S.r.l.

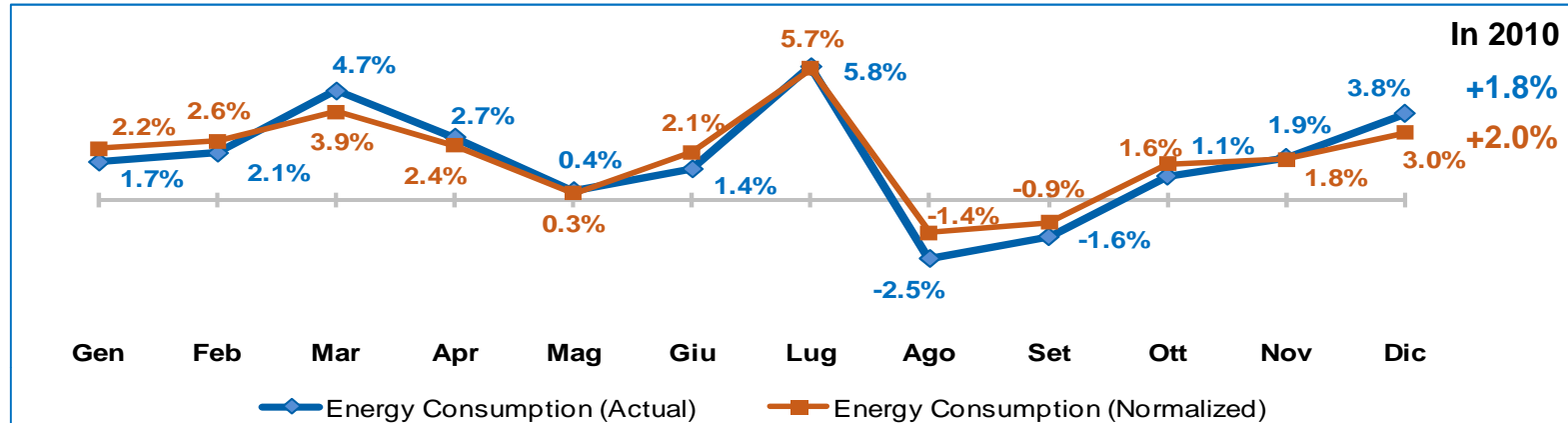
Exposure to Macro Factors

	Demand	Capex	Interest Rate	Inflation	Re-financing
Exposure	Low	Low	Low	Low	Low
Key Factors	Integration mechanism on volumes Capex mainly driven by system efficiency	Based on Long Term National Development Plan Authorization and execution track record	Hedging for each regulatory period Strong Rating to contain spread costs	Revenues annually revised for inflation IL Bond	Long maturities Access to capital markets

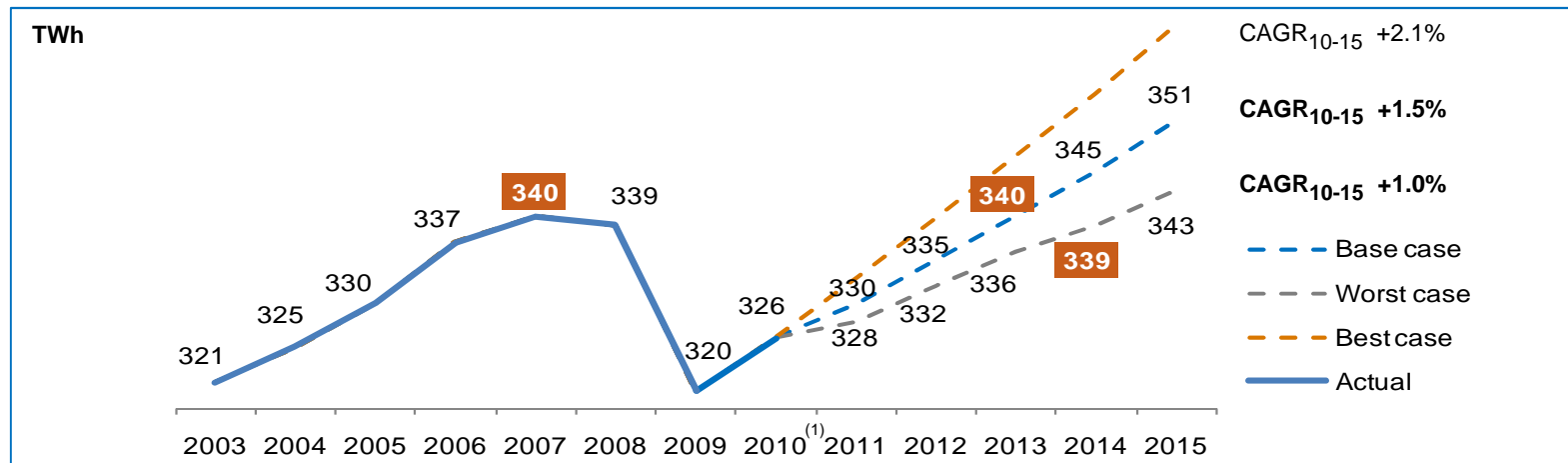
Limited Exposure to Macro Factors

Electricity Market Trends

2010 Monthly Trend



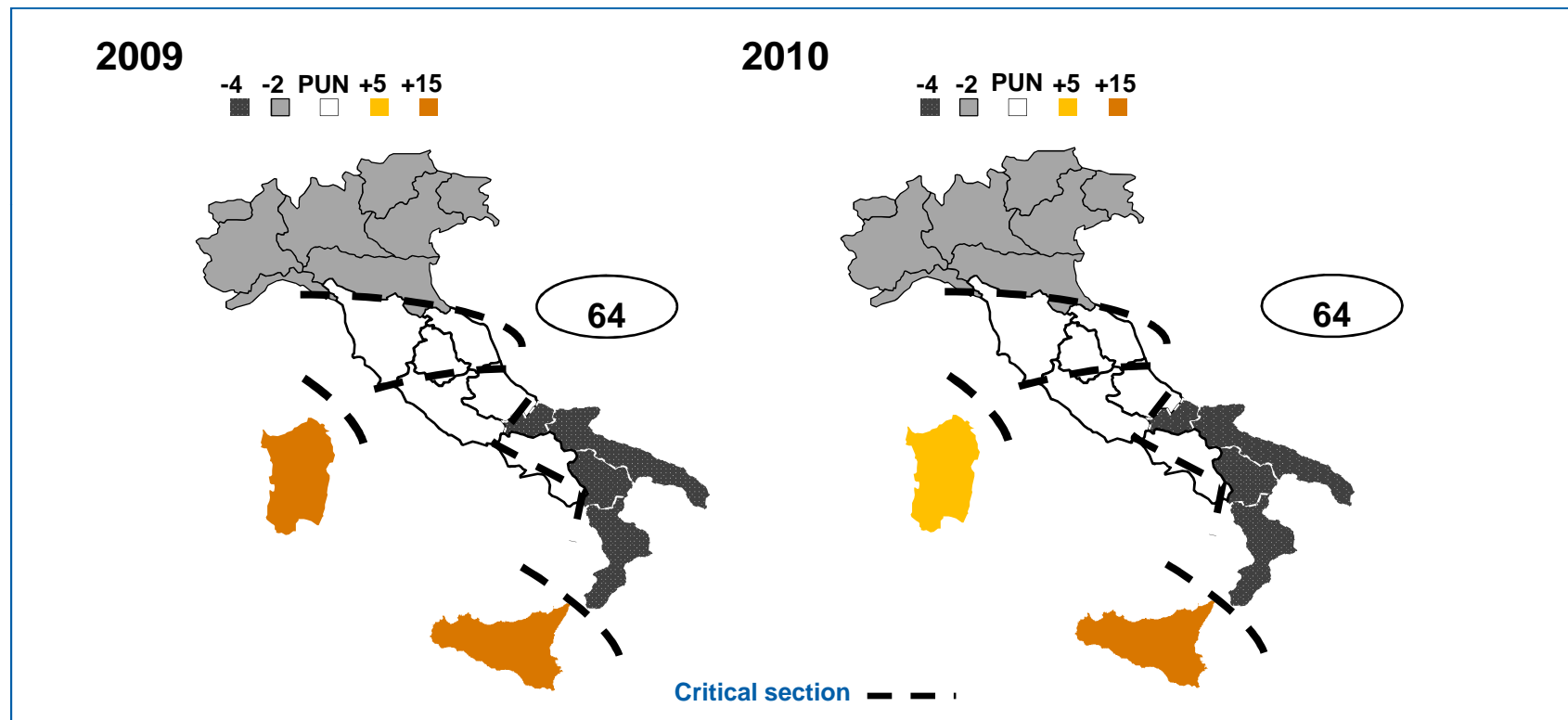
Estimates on Demand Evolution



1) 2010 provisional figures

Electricity Prices

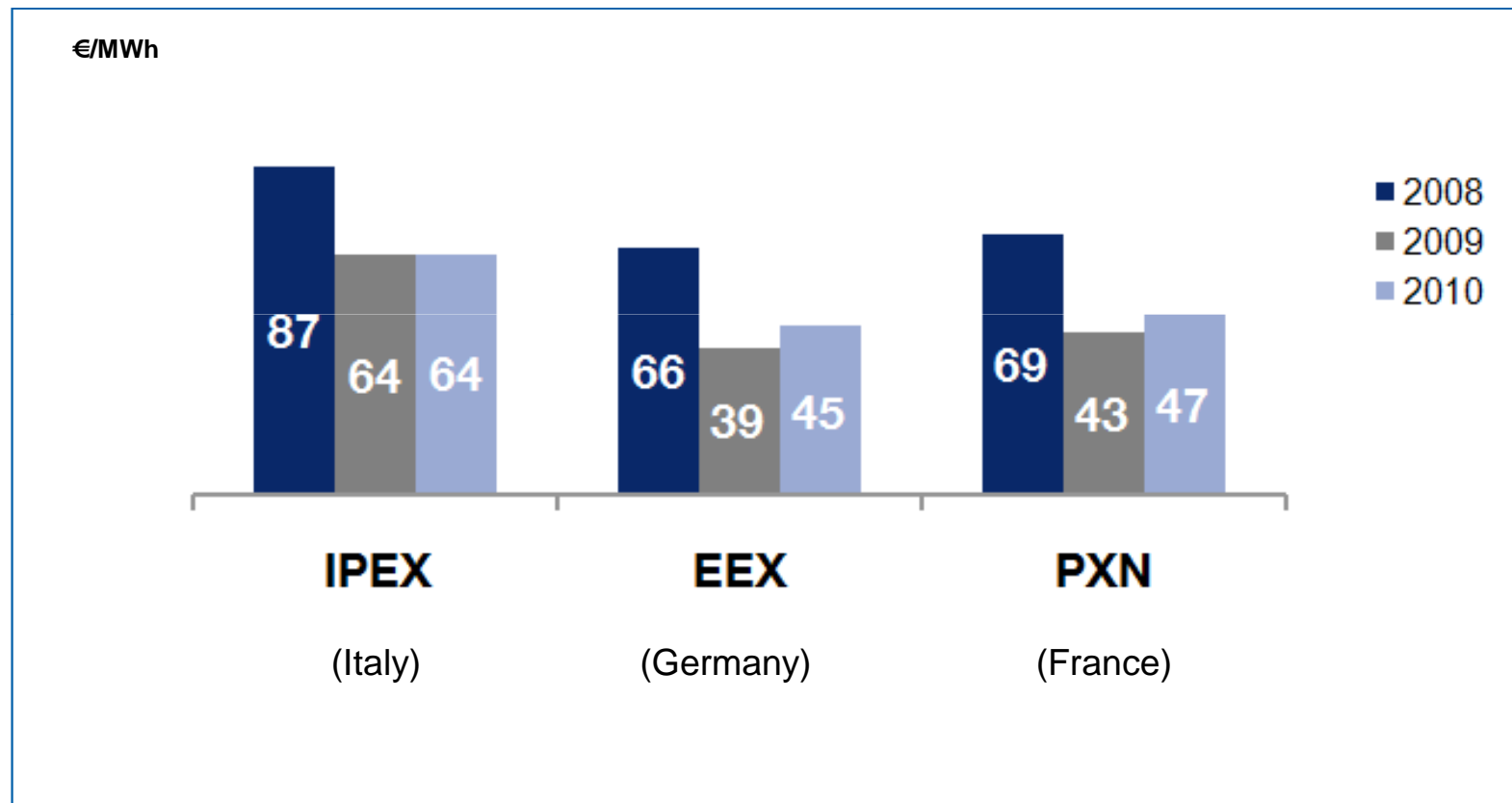
- 2010 National Pool Price stable vs 2009 and lower than in previous years
- Thanks to SAPEI, the prices in Sardinia decreased by 10%
- Sicily remains the most congested area with the highest price



Source: GME

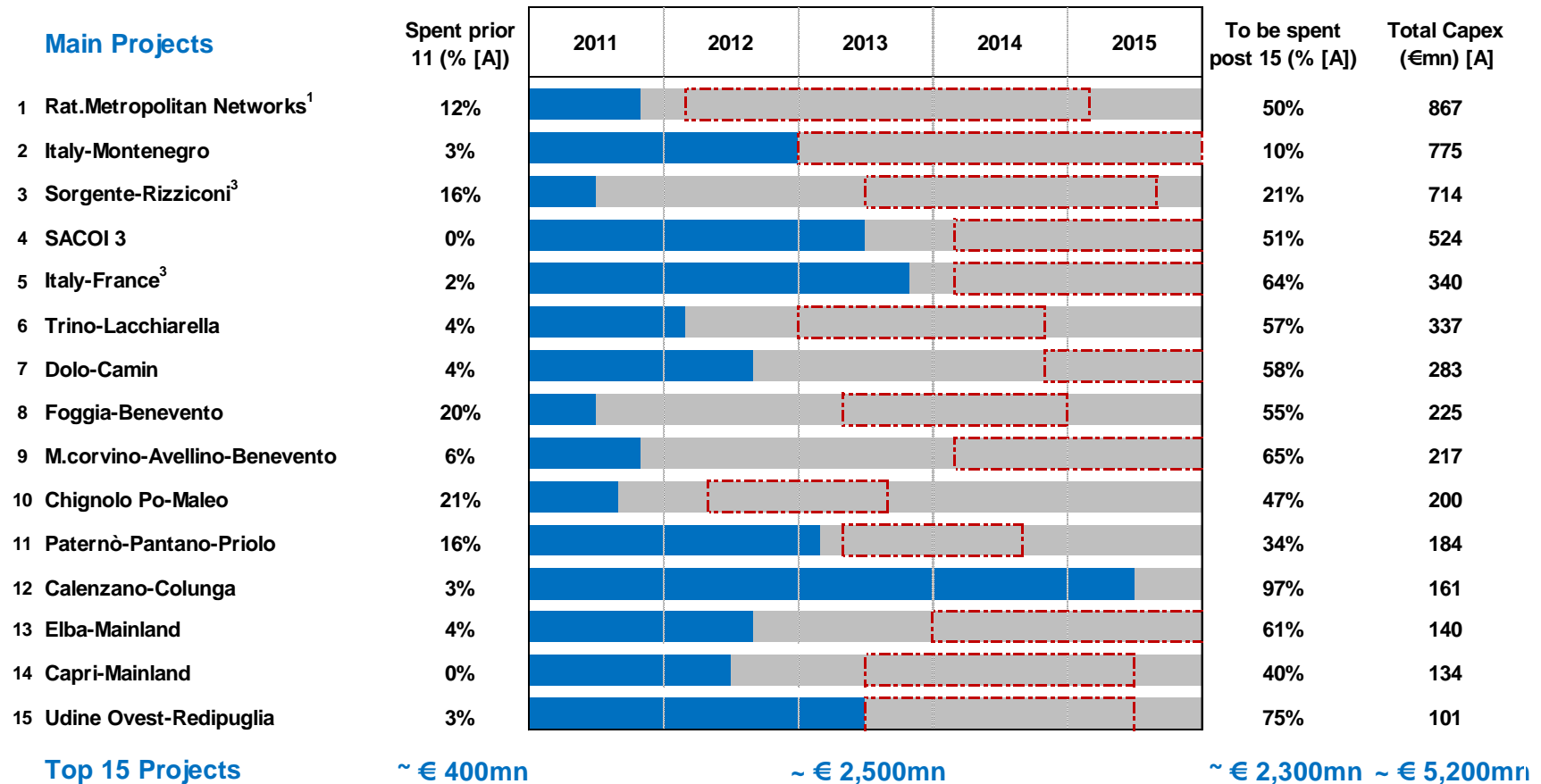
Electricity Prices

European Pool Prices




Source GME, Weekly average

Pipeline of the Key Development Projects



1) Milano, Napoli, Roma, Genova, Palermo, Torino

2) National Development Plan

3)  Co-financed by the European Union
European Energy Programme for Recovery

New Development Projects

SA.CO.I 3

- Technical Information

Total Capex: **€524mn**, peak in 2014-2015

Length: 318km, of which 272 underwater cable

- Rationale

Exploit production from renewables in Sardinia

Increase the adequacy of the system



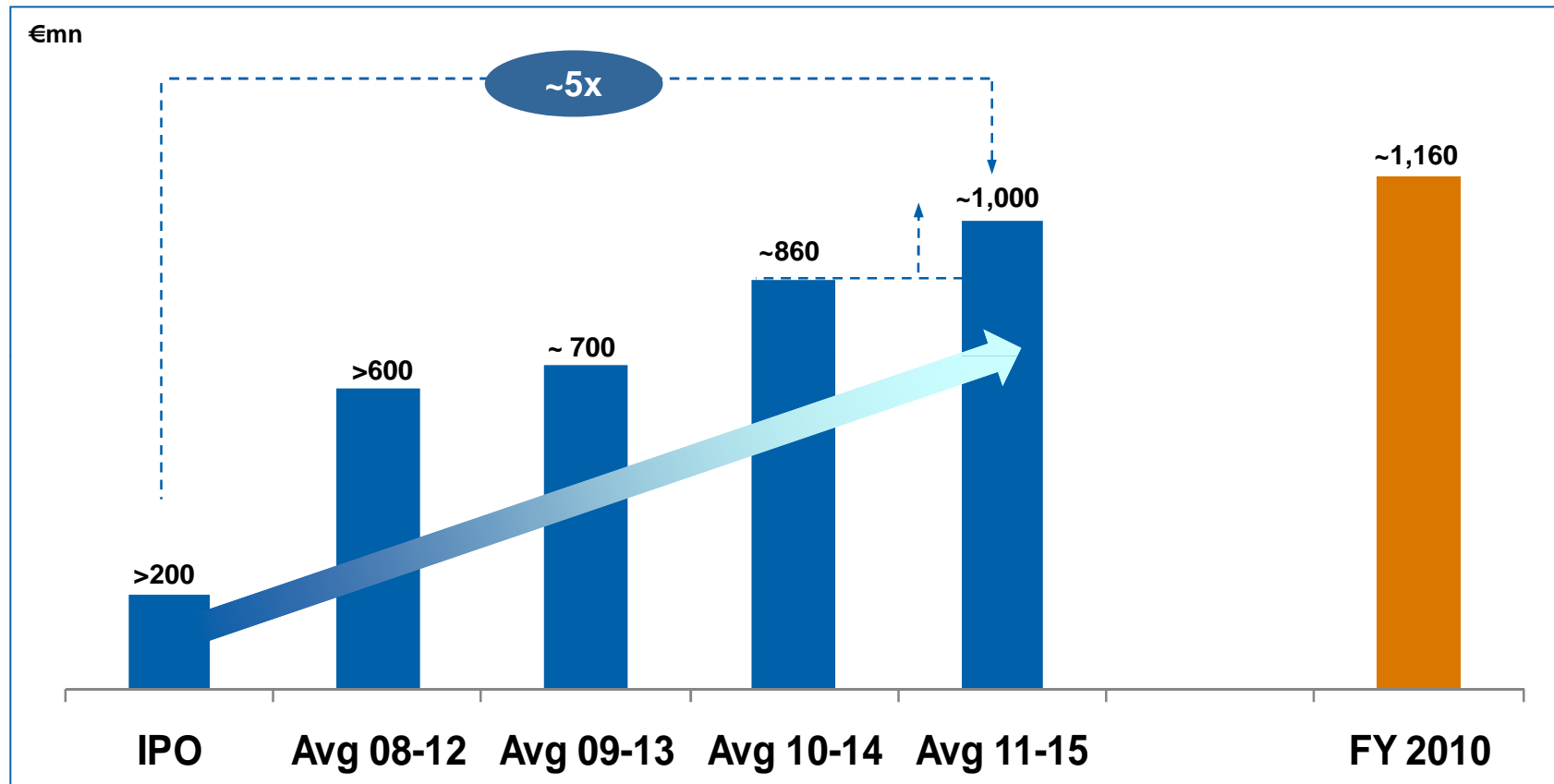
Investments for Renewables

Capex: **~€400mn**

The expected increase in renewables requires connections to the Grid and debottlenecking especially in South Italy



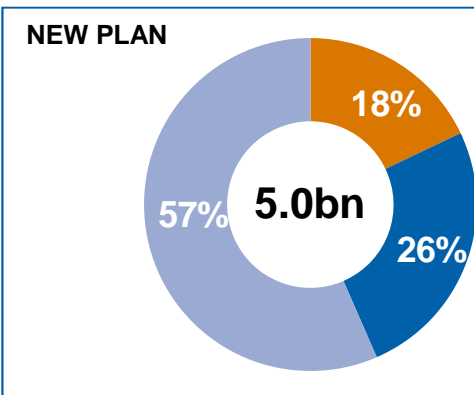
Capex: Average Annual Spending



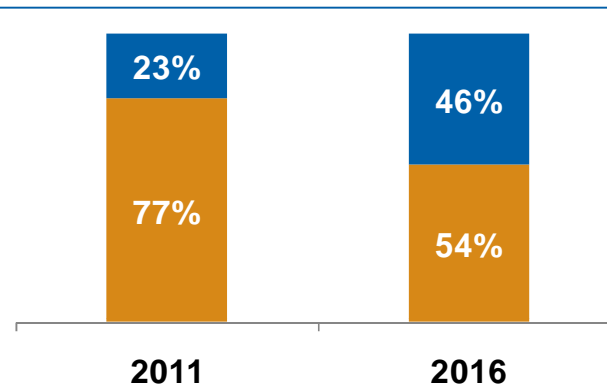
Note: capex related only to regulated activities

Capex Plan and RAB

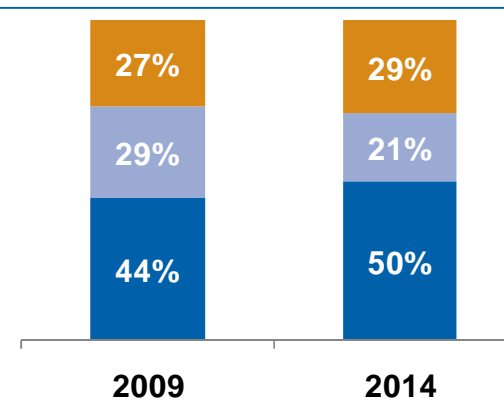
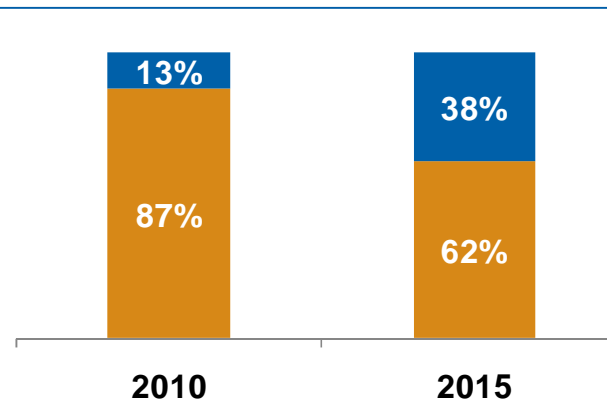
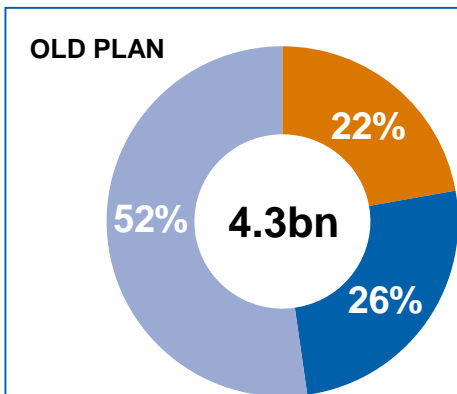
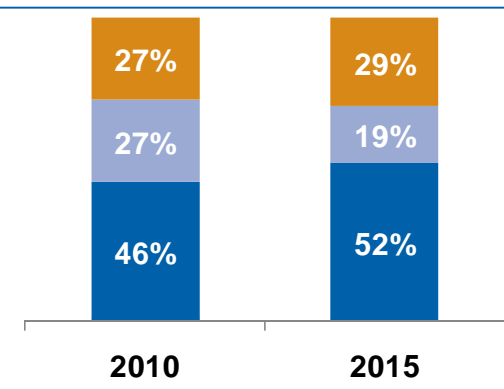
Regulated Capex Breakdown



RAB for Tariffs



Reg. Revenues Breakdown



6.9% 8.9% 9.9%

Maintenance Development

RAB Opex D&A

Note: Terna's estimates

Incentive Schemes

	Dispatching Activities <i>(Resolution 213/09)</i>	Demand + Wind Production <i>(Resolution 351/07)</i>	TOTAL
Strategic Plan 2010-14	€80mn (cumulated in 2010-12 period)	€10mn (cumulated in the 2010-11 period)	€90mn
Strategic Plan 2011-15	2010 performance >€150mn	€5mn (2011)	

Quality of Service (Resolution 341/07)

Best practice quality targets

Montenegro

1 Italy-Montenegro Interconnection Cable

- Total Capex: €775mn
- Capacity: 2x500MW HVDC cables
- Length: 415km (of which 390 via submarine)

2 22% stake in local TSO, CGES¹

- Functional for protecting TERNA's investment framework
- CGES in charge of the reinforcement of the local grid to guarantee the operation and full utilization of the cable

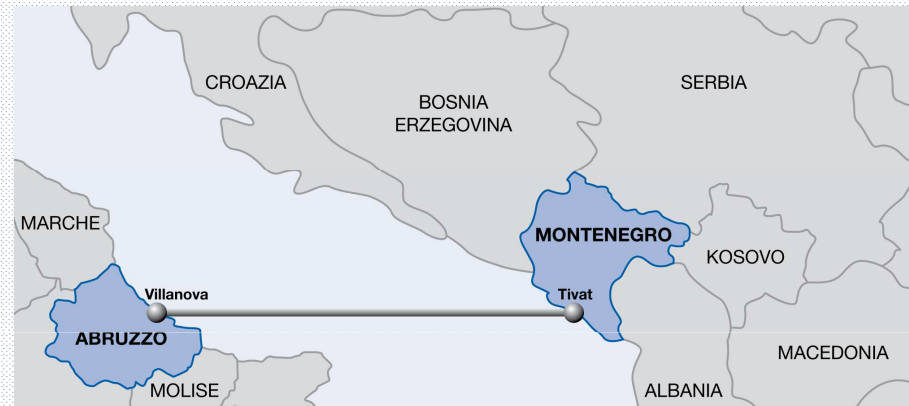


1) CrnoGorski Elektroprenosni Sistem AD (CGES)

Interconnections and Connections for Third Parties

Future opportunities in the Balkans

- Building and managing infrastructures for connecting new plants to the local grid
- new private interconnection lines between Montenegro and its neighboring countries



Long-term Opportunities

- Technological innovation catalizator for future opportunities
- Desertec¹ and Medgrid represent an important window on the future with North Africa



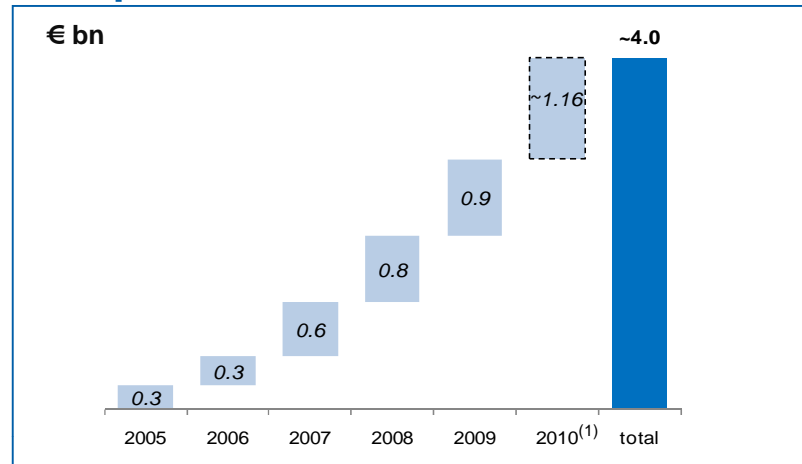
1) Terna joined on September 30th, 2010

Funding Available

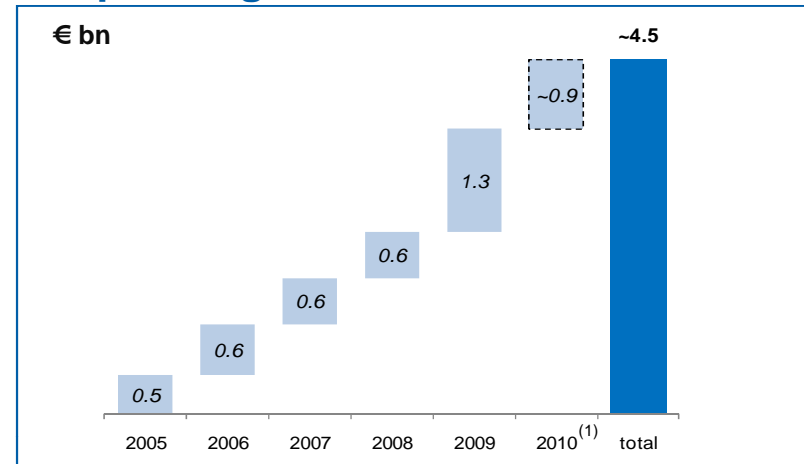
€ mn	Amount	Still Available
Bond 2014	600	
Bond 2024	800	
Bond IL 2023	530	
Revolving Credit Facility 2013	750	
Revolving Credit Facility 2013		500
Term Loan 2015	650	
EIB	1,080	
CdP		500
Private Placement 2019	600	
Cash FY10 (preliminary)		78
TOTAL	5,010	1,078

Secure Balanced and Sustainable Core Growth

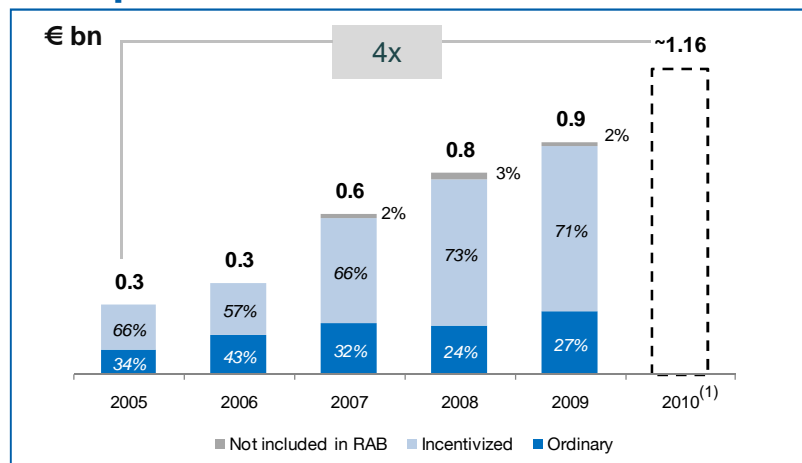
Capex



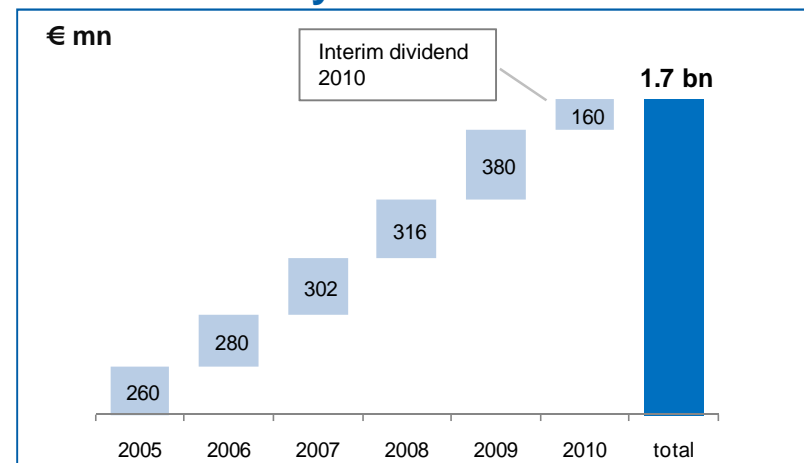
Operating Cash Flow*



Capex Breakdown



Dividend Payout

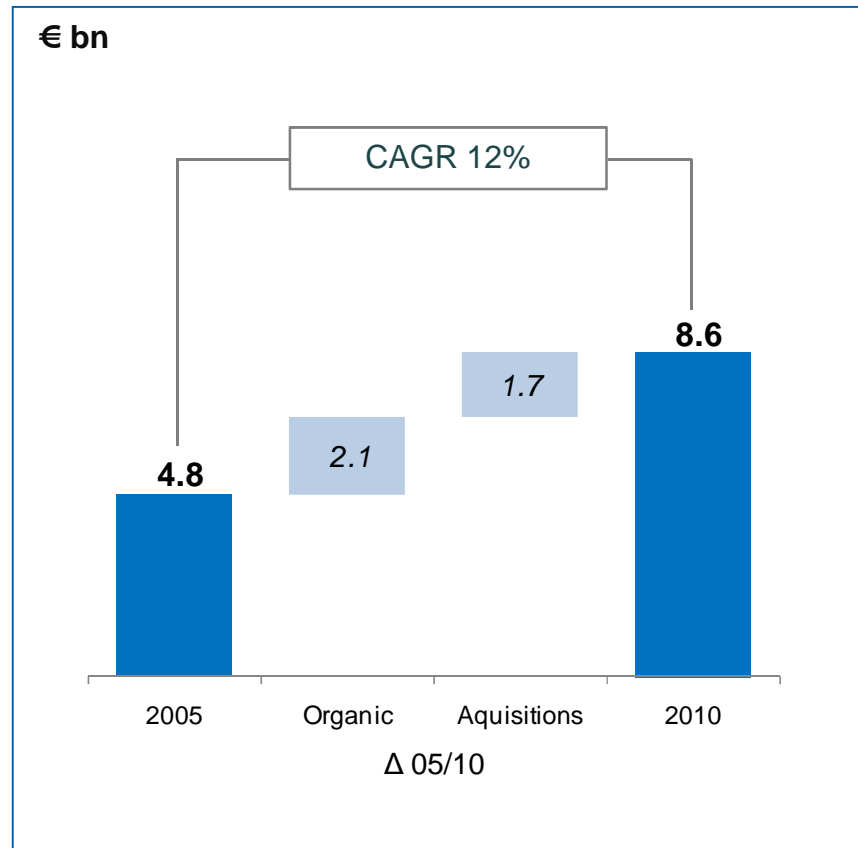


* Net Income+D&A+Net Change in Funds

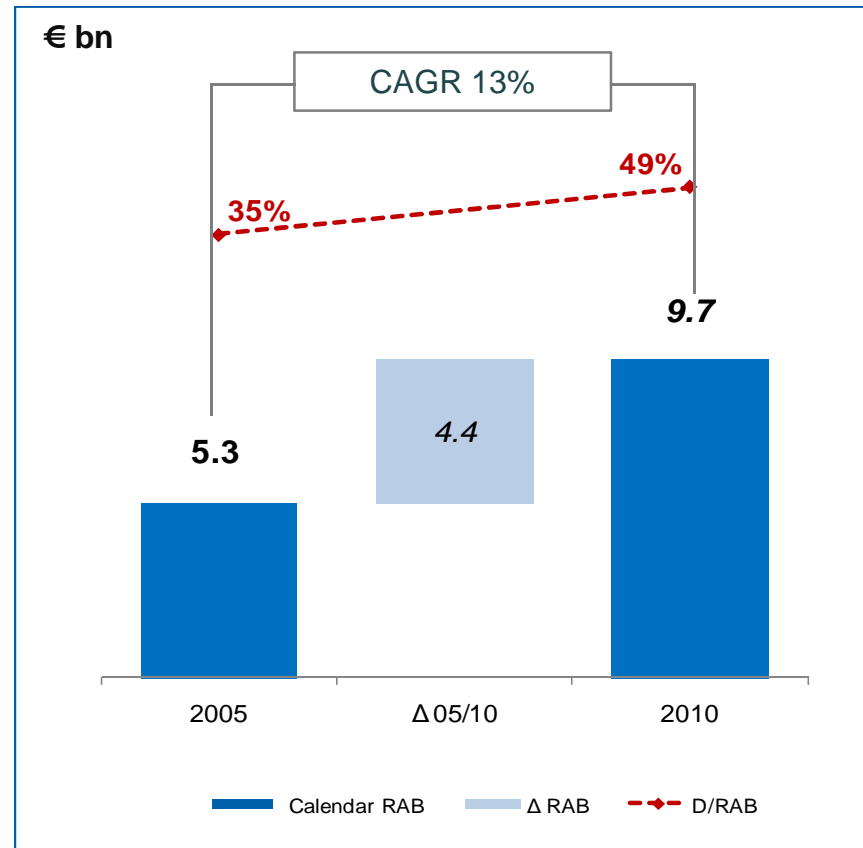
1) 2010 preclosing figures. Capex related only on regulated activities. Excluding Capital Gain from Rete Rinnovabile disposal.

Asset Growth and Financial Structure

▪ RAB for Tariffs Evolution

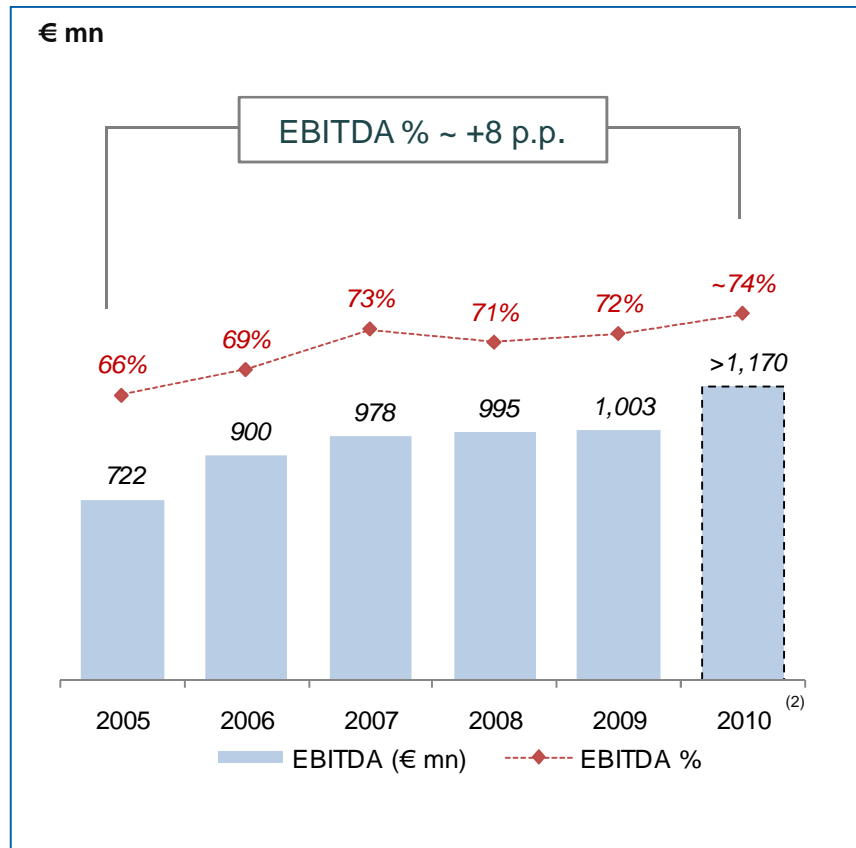


▪ Calendar RAB Evolution

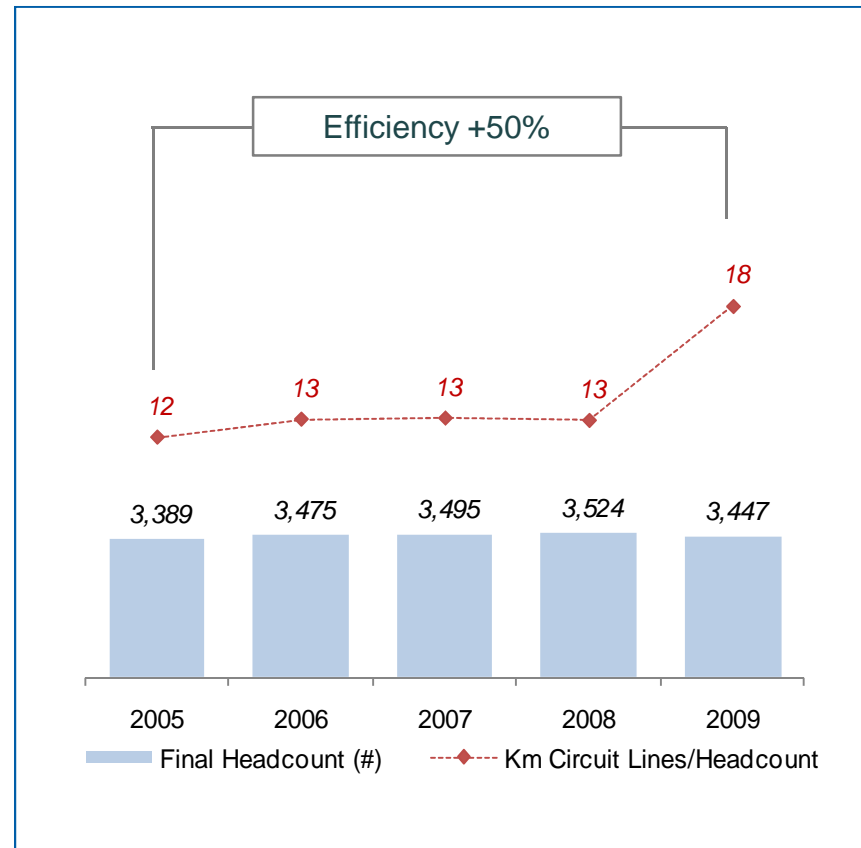


Cost Structure Optimization

EBITDA and Margin Evolution⁽¹⁾



Personnel Efficiency

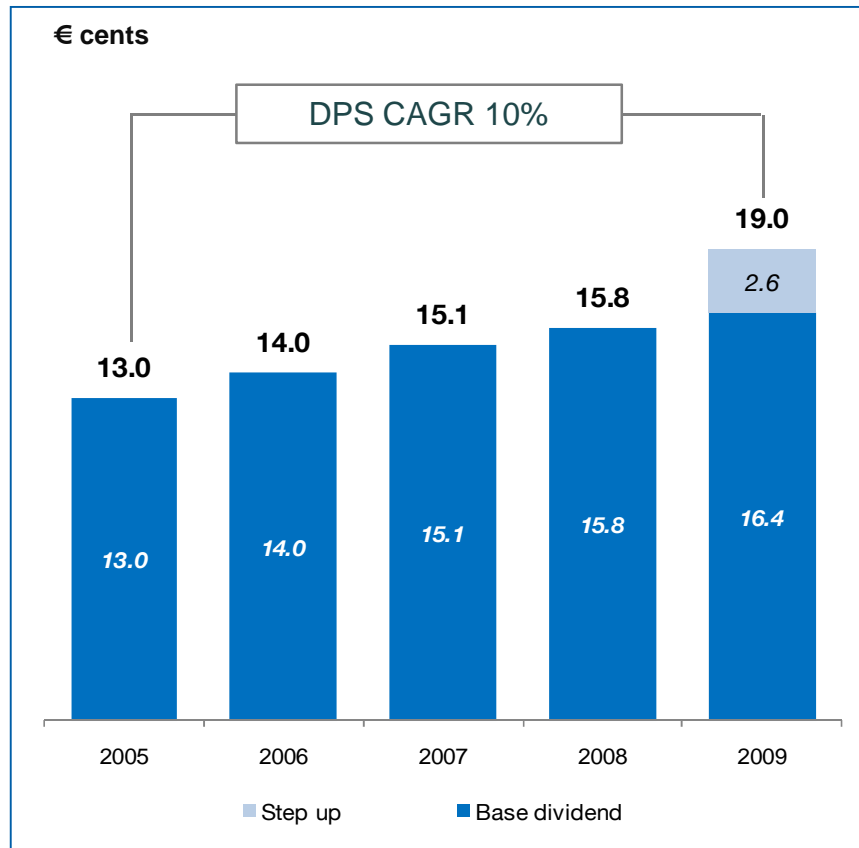


1) 2005-2008 figures include Terna Part.; 2009 and 2010 include IFRIC 12 effect

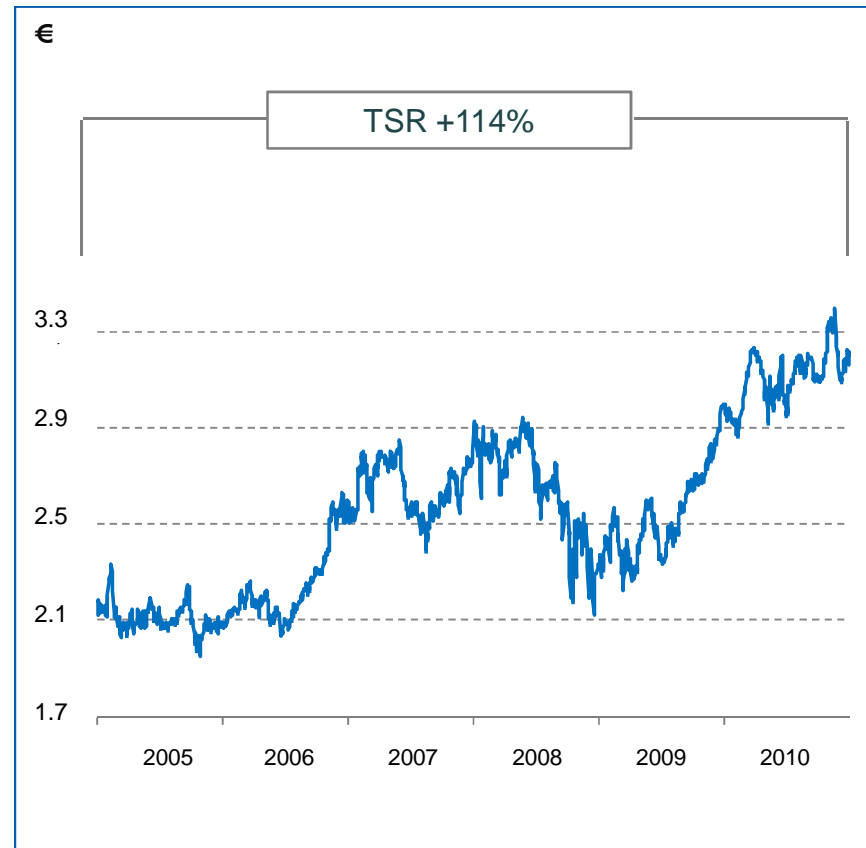
2) 2010 preclosing figures

Shareholder Value Maximization

▪ DPS Evolution



▪ Market Performance



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