

1H07 Consolidated Results

Flavio Cattaneo – Chief Executive Officer

Fabio Todeschini – Chief Financial Officer

September 12th, 2007

Agenda

Highlights & Recent Developments

1H07 Results

Closing Remarks

Annexes

Highlights & Recent Developments

Good Results

- 8.2% growth in revenues, net of 2006 one off revenue recovery
- 7.9% growth in earnings

Capex

- Plan on track
- Spent 250mn, +87% vs 1H06

Italy

- Consolidation of AEM Torino (economic impact starting from 2H)
- RTM1 and RTM2 merged into RTL

External Growth

- Steady progresses in Brazil
- Set up good platforms for future projects in the Balkans and North Africa

Regulatory

- First consultation document

Highlights & Recent Developments

Regulatory: First Consultation Document on 3rd Regulatory Period

CONTINUITY

- Key elements characterizing 2nd regulatory period confirmed
 - RAB calculation methodology
 - Incentives on development capex
 - CAPM model to calculate WACC
 - Price-cap mechanism

CONVERGENCE

- Progressive realignment with gas sector

Timing:

- By October 1, 07: Parties to provide comments to the Regulator (AEEG)
- In 4Q07: Second Consultation Document
- December 07: Final Document

Highlights & Recent Developments

Brazil: Acquisition of GTESA and PATESA

Overview

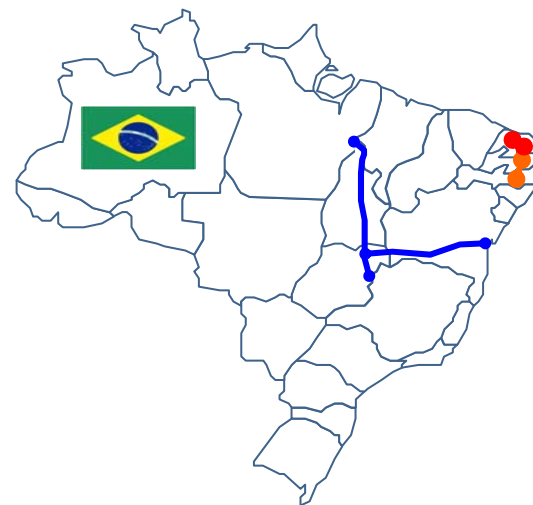
- TSN acquired 100% of GTESA and PATESA
 - Price: €34.9mn; Assets €21.6mn
 - Gross Revenues €5.7mn; Net Income €1.3mn
- Closing:
 - Subject to ANEEL and BNDES approval
 - Expected by November 2007

Strategic Rationale

- Natural outcome of Terna Part. growth strategy
- Scope for significant operational and fiscal synergies
- Attractive geographic position for future green fields

Assets

	PATESA	GTESA
Assets (230kV):	135Km	51Km
30-yr concession granted:	01/07/02	23/08/01
Commercial operations:	2004	2003
RAP:	ca. €4mn	ca. €2mn



- TSN and Novatrans
- PATESA – Paraíso Açú Transmissora de Energia SA
- GTESA – Goiana Transmissora de Energia SA

Building scale in Brazil

Agenda

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1H07 Results

Closing Remarks

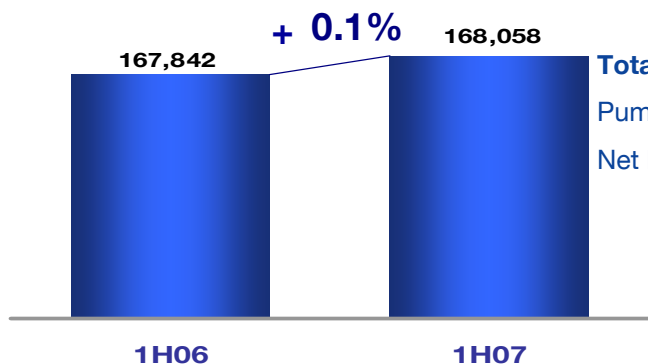
Annexes

1H2007 Results

Energy Items

Electricity Demand

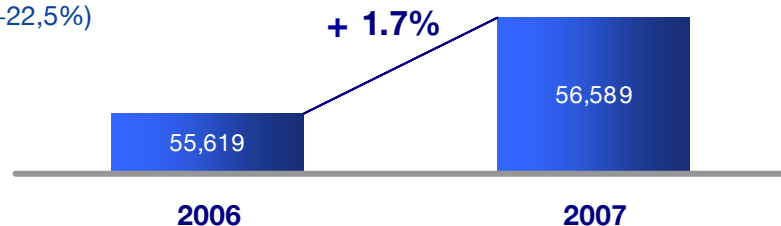
GWh



Total Net Production: 146,722 (-3.3%)
Pumping: 3,853 (-12,5%)
Net Import: 25,189 (+22,5%)

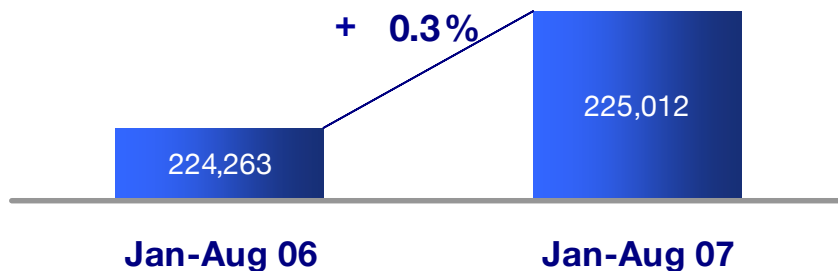
Summer Peak Demand

MW



Demand Evolution YTD

GWh



Demand growth progressively recovering

Note: 2007 provisional figures

1H2007 Results

Financial Highlights

In mn Euro

	1H06	1H07	Δ%
Operating Revenues	641	642	0.2%
Operating Expenses	181	171	-5.5%
EBITDA	460	471	2.4%
<i>EBITDA Margin (%)</i>	72%	73%	
Group Net Income	180	194	7.9%
Capex	134	250	87.3%

Note: 1H06 figures restated according to new interpretation of IAS

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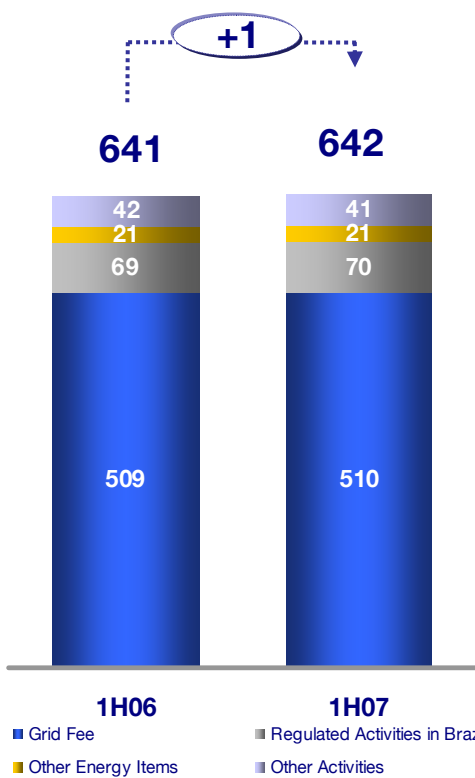
- The evolution of the accounting industry practice had an impact on some decisions and IAS interpretations previously adopted by Terna Group
- Starting from the Interim Results as of June 30, 2007, certain IAS accounting principles have been applied in a more punctual way
 - IAS 18 provides for the normalization of Brazilian revenues
- It should be noted that 2006 financial statements have been restated according to IAS 8
- Minor P&L and BS impacts and on Terna's Consolidated accounts and no impact on the cash flow of the Companies involved

1H2007 Results

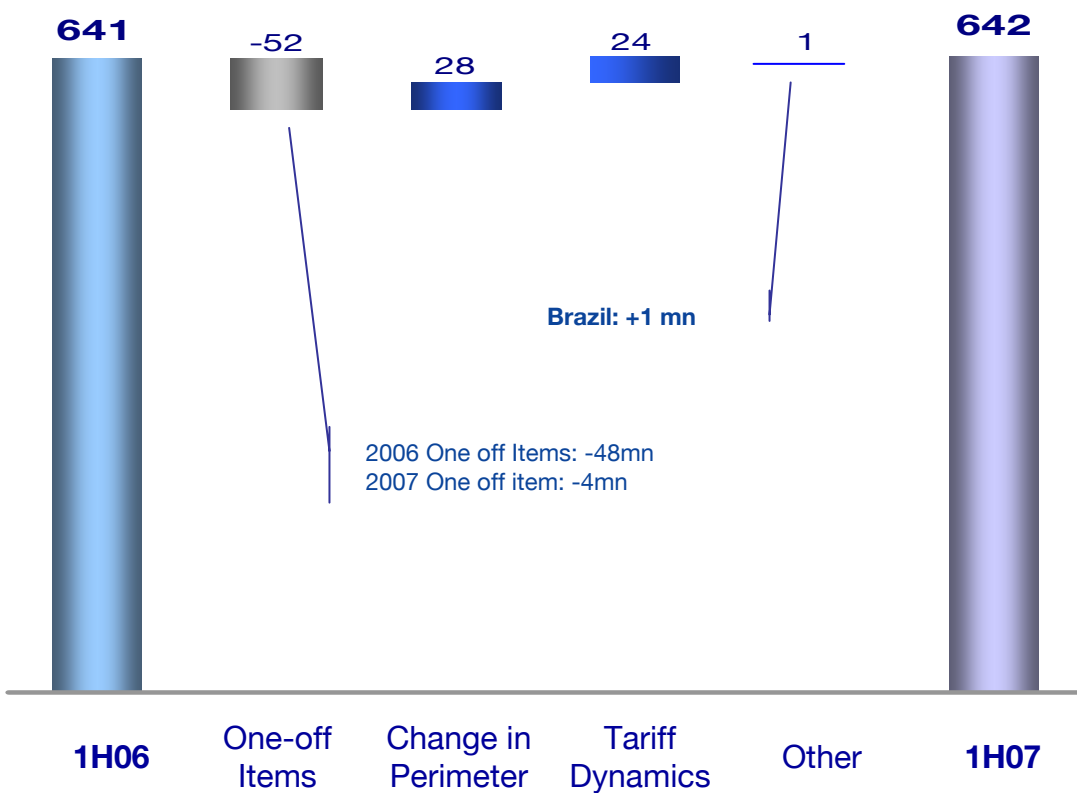
Consolidated Revenues

In mn Euro

Revenues by Nature



Revenues Breakdown

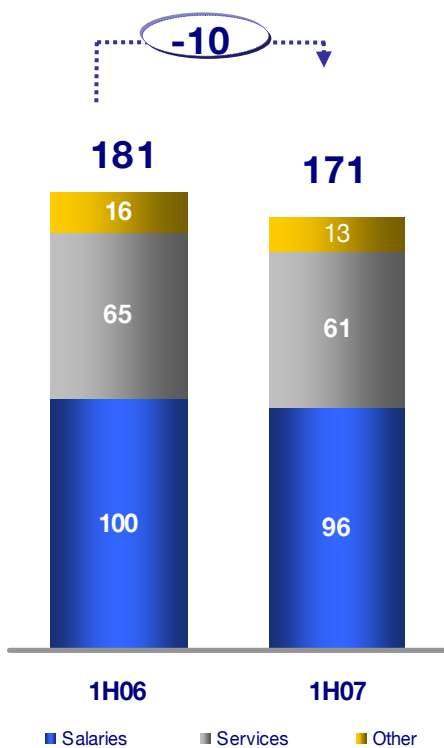


1H2007 Results

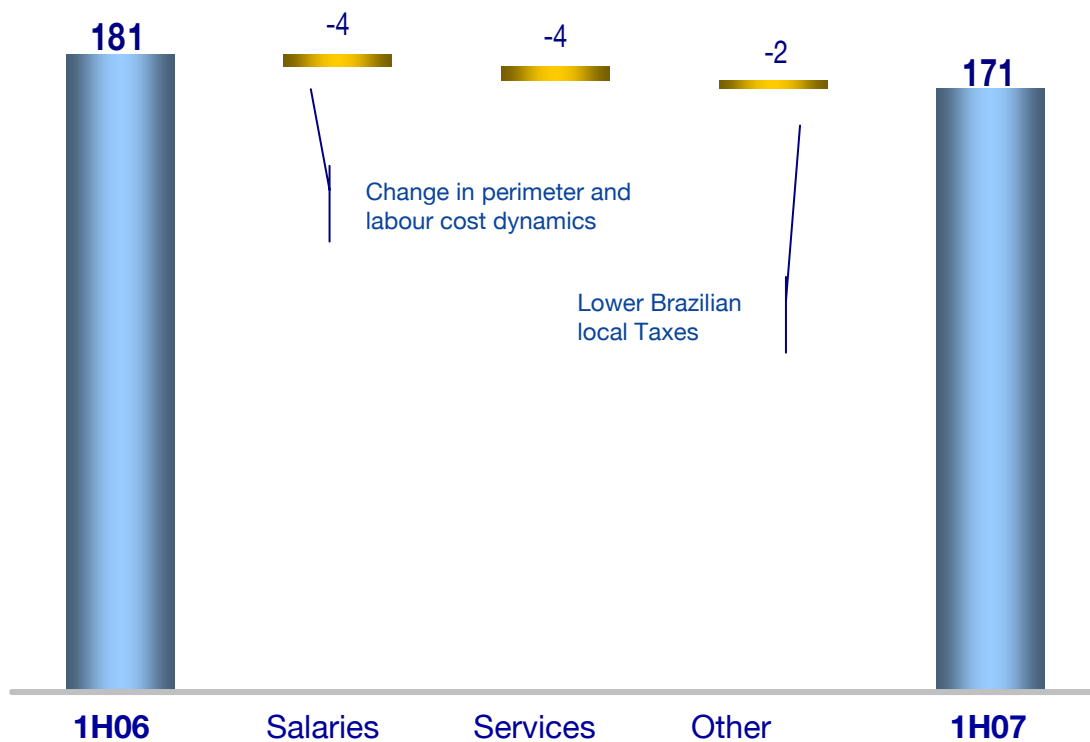
Consolidated Costs

In mn Euro

Costs by Nature ⁽¹⁾



Costs Breakdown



(1) Net of capitalized costs

1H2007 Results

From EBITDA to Net Income

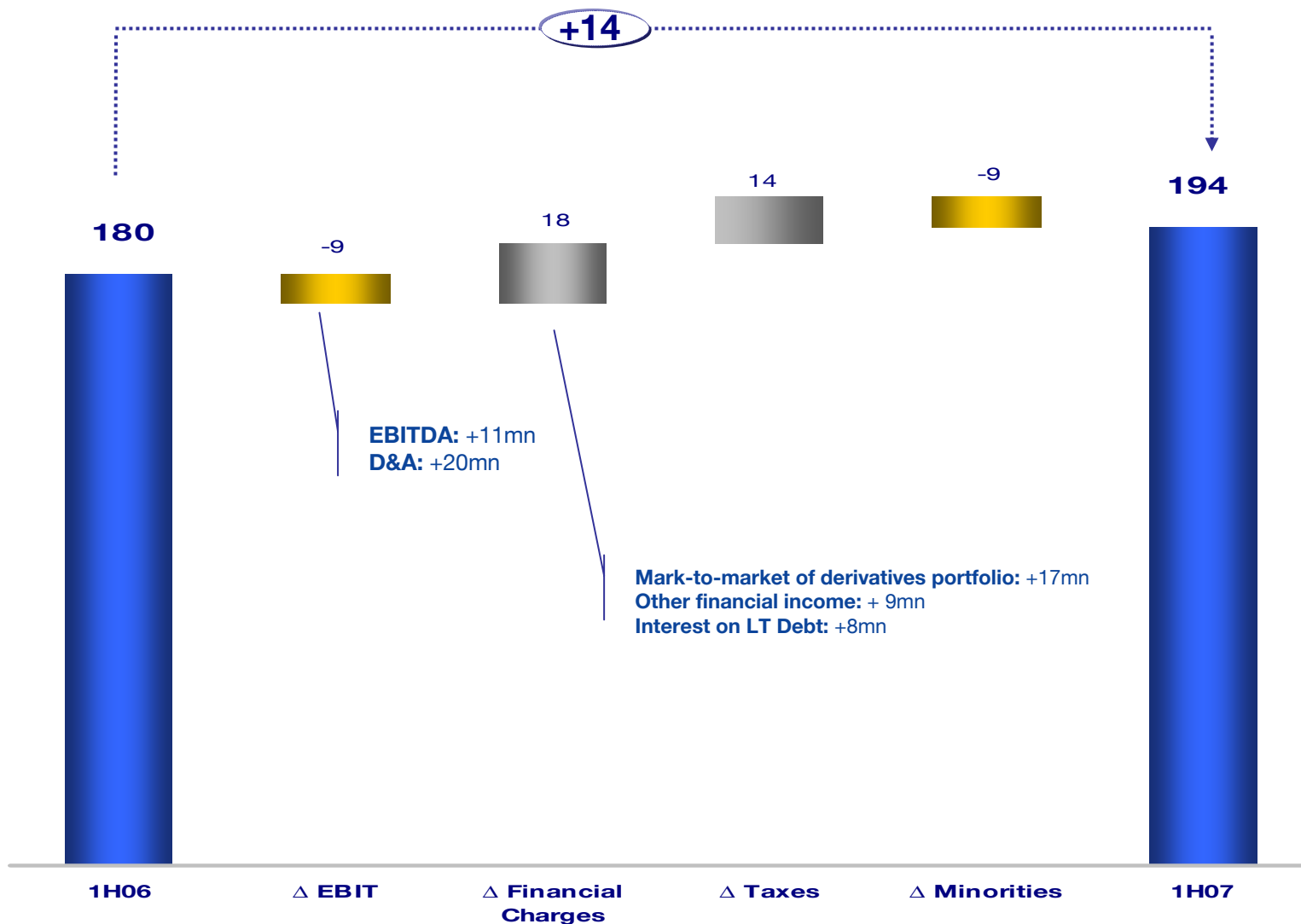
In mn Euro

	Consolidated		Change	
	1H06	1H07	mn	Δ%
EBITDA	460	471	11	2.4%
EBITDA Margin (%)	72%	73%		
<i>Italy EBITDA Margin (%)</i>	71%	72%		
<i>Brazil EBITDA Margin (%)</i>	79%	81%		
D&A	99	119	20	20.0%
EBIT	361	353	-9	-2.4%
Financial (Income) Charge	47	29	18	-38.4%
Taxes	135	121	-14	-10.6%
<i>Tax rate (%)</i>	42.8%	37.2%		
Total Net Income	180	203	24	13.1%
Minority Interest	0	9	9	
Group Net Income	180	194	14	7.9%

1H2007 Results

Consolidated Net Income Evolution

In mn Euro

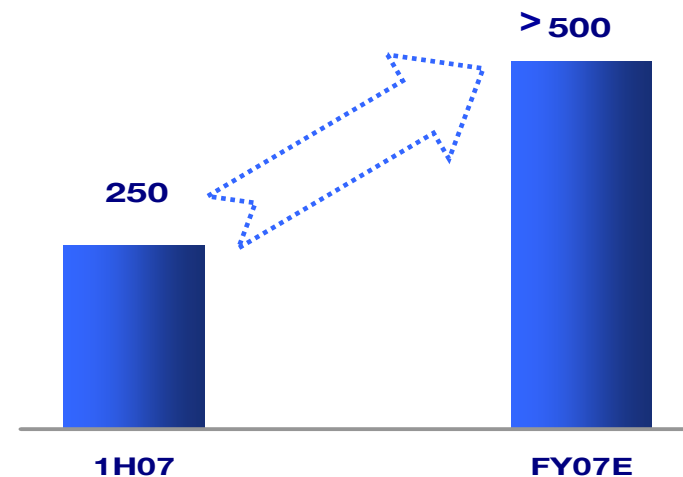


1H2007 Results

Capex Breakdown

In mn Euro

	1H06	1H07	Change
8.7% Remuneration- Development	81	184	103
6.7% Remuneration	48	63	15
- Maintenance	27	32	5
- Other	22	31	10
TOTAL ITALY	129	247	118
TOTAL BRAZIL	4	3	-1
TOTAL CAPEX	134	250	117



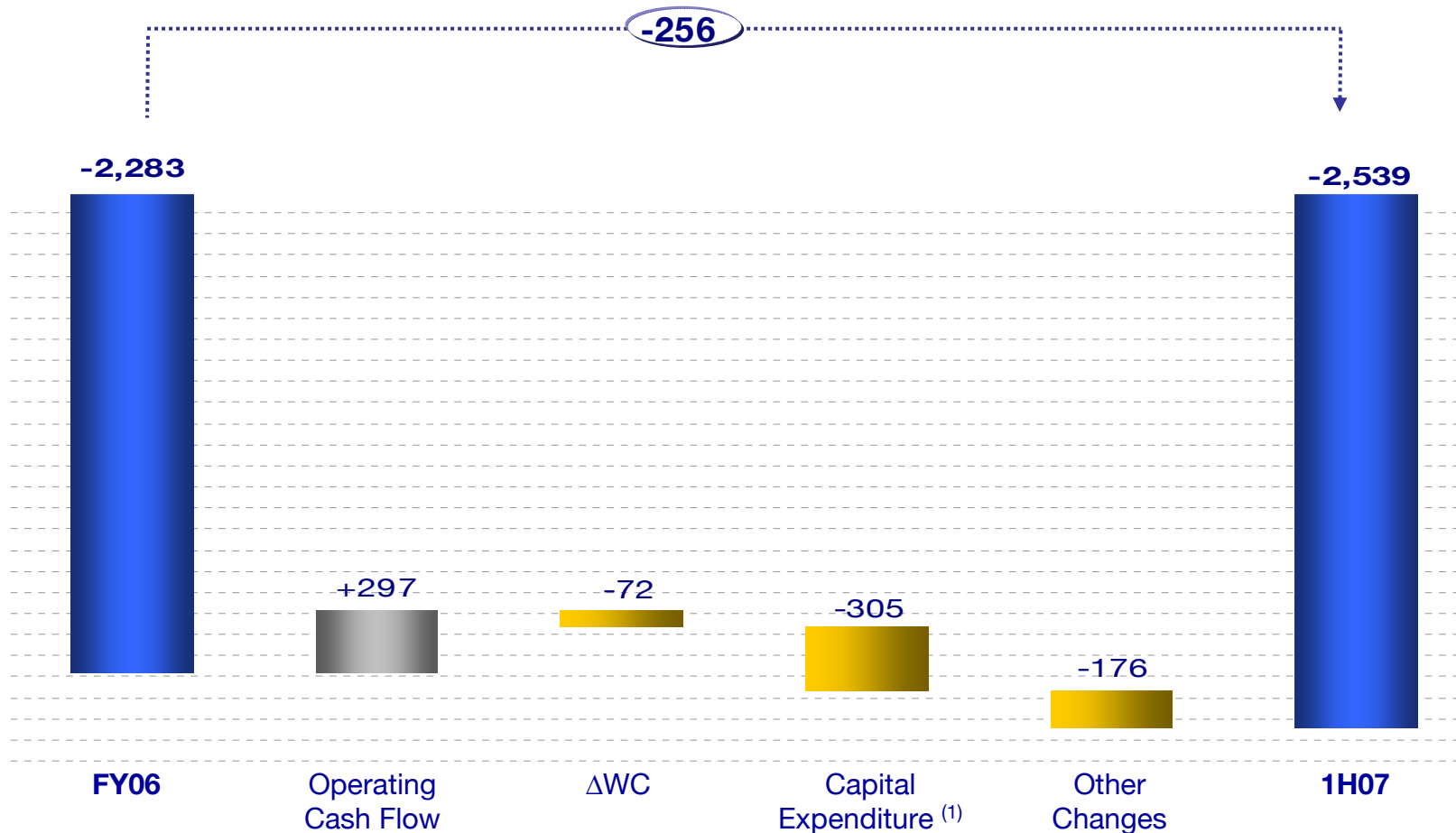
+87% 1H07 vs. 1H06

1H2007 Results

Consolidated Net Debt

In mn Euro

Net Debt Evolution



⁽¹⁾ Includes Capex and Other Fixed Asset Change

Agenda

Highlights & Recent Developments

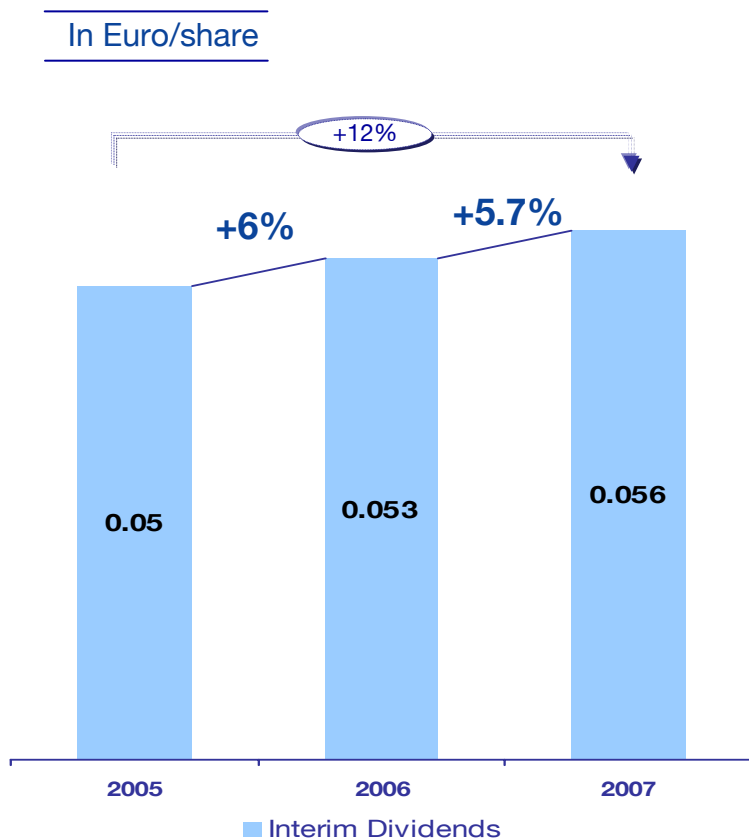
1H07 Results

Closing Remarks

Annexes

Closing Remarks

Dividends



Dividend Policy

- Minimum 3% annual growth in DPS
- DPS05 floor

Delivery

- 2007 Interim Dividend:
 - +12% vs Interim 05
 - + 5.7% vs Interim 06
- Ex date: November 19, 2007
- Payment date: November 22, 2007

Agenda

Highlights & Recent Developments

1H07 Results

Closing Remarks

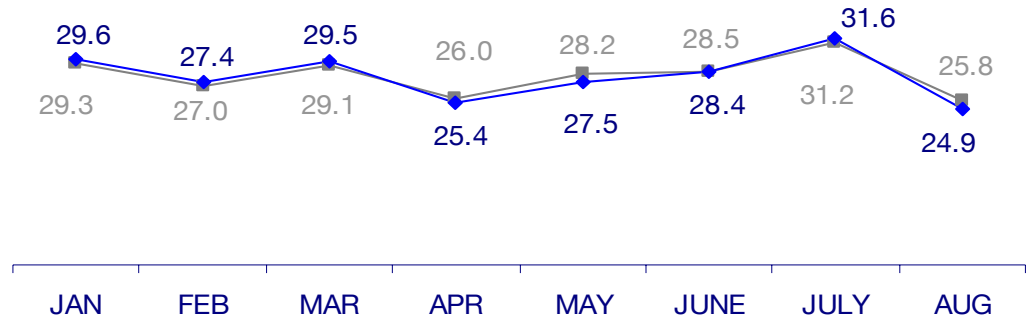
Annexes

Italian Electricity Market Evolution

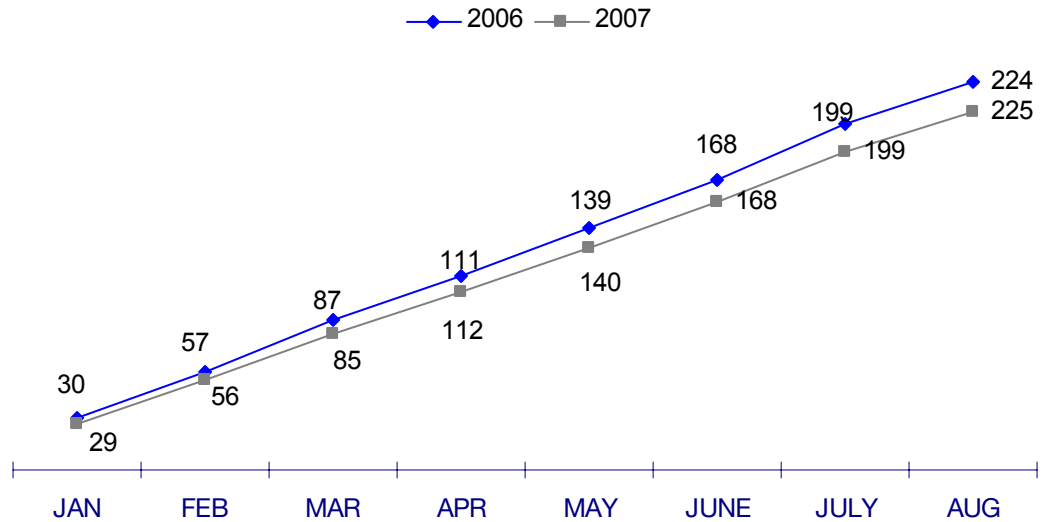
TWh

Energy Demand

Monthly Trend



Cumulated Trend



Source: 2006, 2007 TERNA monthly reports

1H2007 Results

In mn Euro

Consolidated - Income Statement

Consolidated			Change	Consolidated			Change
2Q06	2Q07	Δ%		1H06	1H07	Δ%	
343	318	-7.5%	Operating Revenues	641	642	0.2%	
280	250	-10.7%	Grid Fee	509	510	0.1%	
10	11	2.9%	Other Energy Items	21	21	2.9%	
32	35	8.4%	Regulated Activities in Brazil	69	70	1.9%	
21	23	6.1%	Other Activities	42	41	-2.9%	
92	86	-6.2%	Operating Expenses	181	171	-5.5%	
50	45	-10.3%	Salaries	100	96	-3.5%	
37	34	-6.5%	Services	65	61	-6.1%	
5	7	31.5%	Other	16	13	-15.2%	
252	232	-7.9%	EBITDA	460	471	2.4%	
221	200	-9.4%	Italy	401	408	1.6%	
30	31	3.6%	Brazil	59	64	7.5%	
50	61	20.3%	D&A	99	119	20.0%	
201	171	-15.0%	EBIT	361	353	-2.4%	
28	4	-85.0%	Financial (Income) Charge	47	29	-38.4%	
79	58	-26.6%	Taxes	135	121	-10.6%	
45.5%	34.6%		Tax rate (%)	42.8%	37.2%		
95	109	15.5%	Total Net Income	180	203	13.1%	
0	4		Minority Interest	0	9		
95	105	10.8%	Group Net Income	180	194	7.9%	

1H2007 Results

Consolidated - Income Statement

In mn Euro

	Consolidated		Change
	1H06 OLD	1H06 NEW	Δmn
Operating Revenues	658	641	-17
<i>Grid Fee</i>	509	509	0
<i>Other Energy Items</i>	21	21	0
<i>Regulated Activities in Brazil</i>	92	69	-23
<i>Other Activities</i>	36	42	6
Operating Expenses	181	181	0
<i>Salaries</i>	100	100	0
<i>Services</i>	65	65	0
<i>Other</i>	16	16	0
EBITDA	478	460	-17
<i>Italy</i>	401	401	0
<i>Brazil</i>	77	59	-17
<i>D&A</i>	99	99	0
EBIT	379	361	-17
<i>Financial (Income) Charge</i>	47	47	0
<i>Taxes</i>	142	135	-7
<i>Tax rate (%)</i>	42.7%	42.8%	
Total Net Income	190	180	-10
<i>Minority Interest</i>	0	0	0
Group Net Income	190	180	-10

1H2007 Results

Consolidated - Income Statement

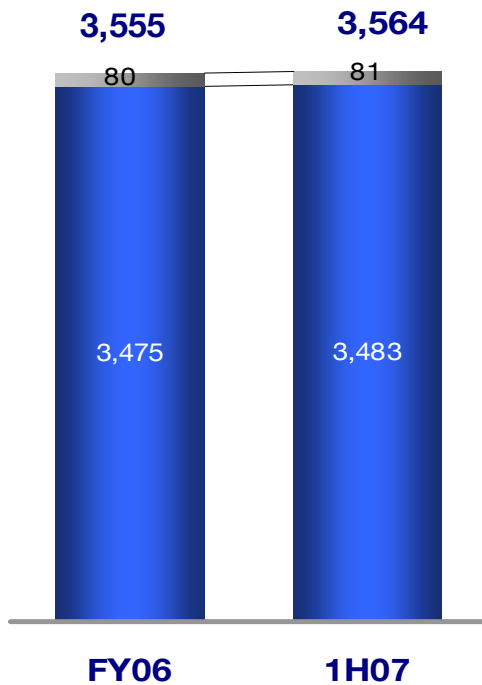
In mn Euro

	1Q06	1Q07	Change	2Q06	2Q07	Change
Operating Revenues	298	325	27	343	318	-26
<i>Grid Fee</i>	230	260	30	280	250	-30
<i>Other Energy Items</i>	10	11	0	10	11	0
<i>Regulated Activities in Brazil</i>	37	36	-1	32	35	3
<i>Other Activities</i>	21	18	-3	21	23	1
Operating Expenses	89	85	-4	92	86	-6
EBITDA	209	240	31	252	232	-20
<i>Italy</i>	180	207	27	221	200	-21
<i>Brazil</i>	29	32	4	30	31	1
<i>D&A</i>	49	58	10	50	61	10
EBIT	160	181	21	201	171	-30
Financial (Income) Charge	19	25	6	28	4	-24
Taxes	56	63	7	79	58	-21
Net Income (Group and minority interests)	85	94	9	95	109	15
Minority Interest	-	5	5	-	4	4
Group Net Income	85	89	4	95	105	10

1H2007 Results

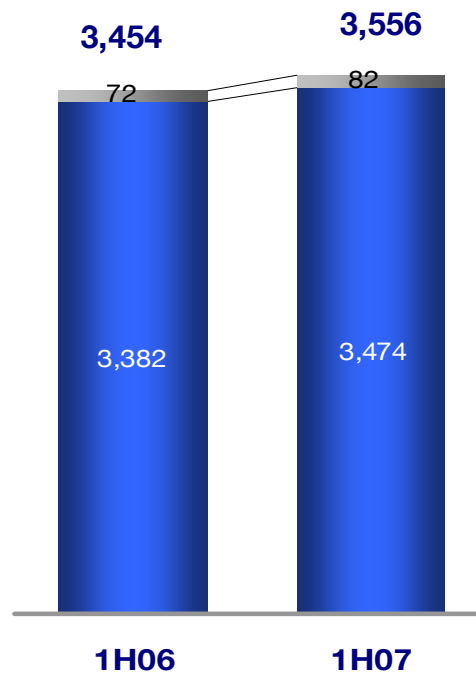
Headcount Evolution

Final Headcount



- Italy: +8
- Brazil: +1

Average Headcount



- Italy: +92
- Brazil: +10

■ Italy

■ Brazil

1H2007 Results

Consolidated – Balance Sheet

In mn Euro

	FY06 *	1H07	Δ%
Assets			
PP&E	5,159	5,352	3.7%
Intangible Asset, net	341	362	6.4%
Financial Inv. and Other	13	13	0.8%
Total Fixed Assets	5,513	5,728	3.9%
Net WC	-547	-475	-13.1%
<i>of which related to energy items</i>	<i>-140</i>	<i>-151</i>	<i>8.5%</i>
Funds	-566	-541	-4.4%
Net Invested Capital	4,399	4,712	7.1%
Financed by:			
Net Debt	2,283	2,539	11.2%
Total Shareholder's Equity	2,117	2,172	2.6%
<i>Terna Group</i>	<i>2,007</i>	<i>2,056</i>	<i>2.4%</i>
<i>Minorities</i>	<i>110</i>	<i>117</i>	<i>6.2%</i>
D/E ratio	1.08	1.17	8.4%

* FY06 has been restated for IAS PPA (Purchase price allocation) and for IAS 8

1H2007 Results

Consolidated – Cash Flows

In mn Euro

	1H06	1H07
Net Income	180	203
Depreciation ⁽¹⁾	99	118
Net Change in Funds	5	-25
Operating Cash Flows	284	297
Change in WC	72	-72
<i>of which related to energy items</i>	99	12
Cash Flow from Operating Activities	357	225
Capital Expenditures	-134	-250
Other Fixed Asset Changes	-38	-55
Free Cash Flow ⁽²⁾	185	-80
Dividends	-160	-185
Change in Capital	1	1
Change in Financial Position ⁽²⁾	26	-265

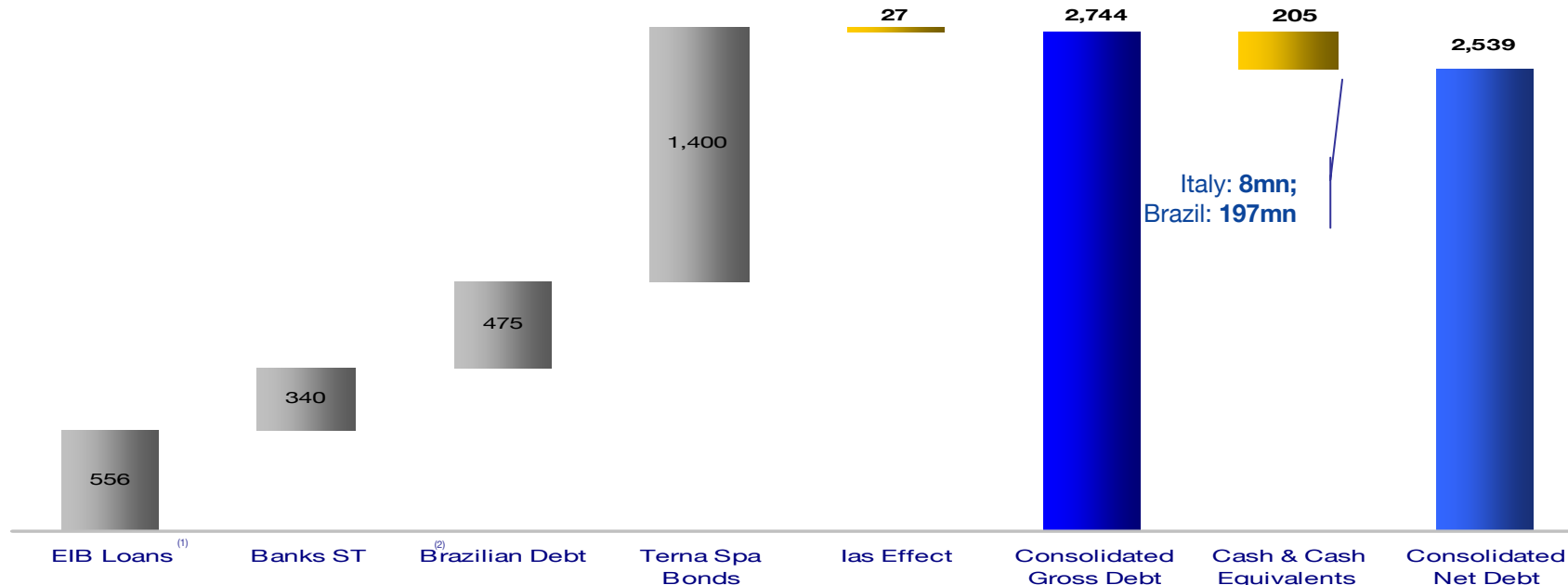
(1) Net of assets disposals

(2) Not including Δ €/SR exchange rates and Δ fair value on Bonds

1H2007 Results

Consolidated Net Financial Position

In mn Euro



Change in Net Financial Position

Net Debt 31/12/06 2,283

Δ Fair value on Bonds and Derivatives (28)

Change in Financial Position 265

Δ Exchange Rates + Int. Cap. 19

Net Debt 30/06/07 2,539

Change in Net Debt +256

(1) EIB (European Investment Bank) Loans

(2) No recourse project finance debt

1H2007 Results

Financial Structure

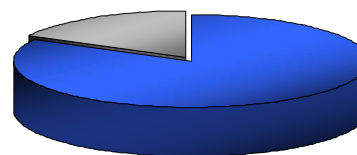
Financial Ratios

	FY06	1H07
Net Debt (€mn)	2,283	2,539
Avg. Maturity (yrs)	12.1	11.7
LT Debt Ratings		

S&P's	AA-	AA-
Moody's	Aa3	Aa3
Fitch	AA	AA

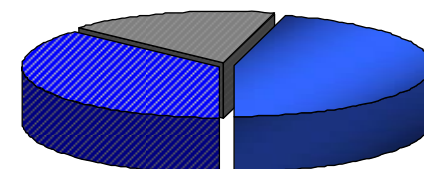
Debt Breakdown

Currency



■ Euro ■ Real

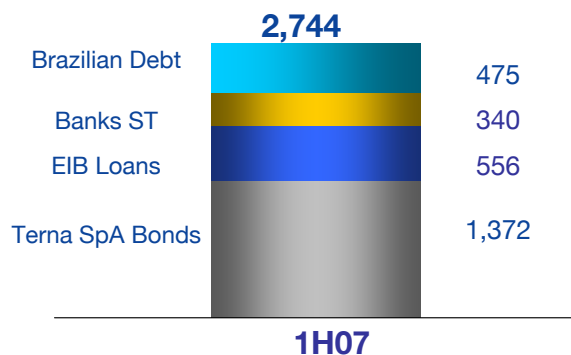
Fixed/Floating mix



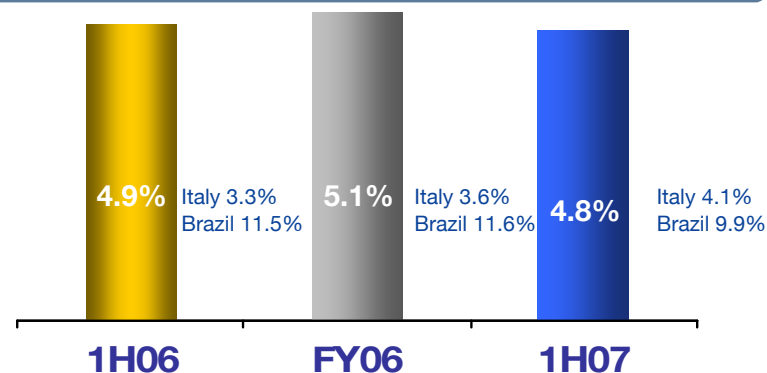
▨ Floating □ Fixed

Italian Group 45% 55%
54% 46%

Gross Debt by Instrument (€mn)



Average Cost of Debt



1H2007 Results

TERNA Partecipações (IAS)

In mn Euro

	1H06	1H07	Δ%
Operating Revenues	75	79	4%
Operating Expenses ⁽¹⁾	16	15	-10%
EBITDA	59	64	8%
D&A	9	10	4%
EBIT	50	54	9%
Net Interest Expenses	19	16	-14%
Taxes	13	10	-18%
Net Income	18	28	51%
Net Invested Capital	622	621	0%
Financed by			
Net Debt	440	278	-37%
Shareholders' Equity	182	342	88%

(1) Net of capitalized costs

1H2007 Results

TERNA Participações (BRL\$)

In mn BRL\$

	IAS			Brazilian GAP		
	1H06	1H07	Δ%	1H06	1H07	Δ%
Operating Revenues	203	213	5%	240	253	5%
Operating Expenses ⁽¹⁾	43	40	-8%	31	33	4%
EBITDA	161	174	8%	209	221	6%
D&A	25	27	5%	32	34	6%
EBIT	135	147	9%	177	187	6%
Net Interest Expenses	51	44	-13%	54	46	-14%
Taxes	34	28	-18%	53	48	-9%
Net Income	50	75	49%	71	93⁽²⁾	31%
Net Debt	1,213	723	-40%	1,219	728	-40%

(1) Net of capitalized costs

(2) Net Income 1H07 net of Interest on Equity 17.79mnBRL\$

1H2007 Results

Exchange Rates

	1H06	1H07	FY06
Closing Rate Euro/BRL\$	2.76	2.60	2.81
Average Rate for the Period	2.70	2.72	2.73
IGPM	1.41%	1.46%	3.85%

Impacts on: (€mn)

1H07

EBIT	-0.4
Net Financial Interests	-0.1
Net Income	-1.7

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