

2006-2010 Strategic Plan

Luigi Roth – Chairman

Flavio Cattaneo – Chief Executive Officer

Milan, January 31st, 2006

Agenda

Introduction

L. Roth

Presentation

Strategic Overview

- The New TERNA
- 2006-2010 Strategic Focus

Dividend Policy

Closing Remarks

F. Cattaneo

L. Roth

Q&A

Annexes

The New Terna Group



- Italy
- Brazil

The New TERNA

Strategic Focus

- Enhanced role in the Italian electricity market after integration with TSO activities (Planning and Dispatching)
- Guarantee independence, efficiency and safety for the transmission system
- Disciplined pursuit of growth opportunities
- Optimization of capital structure

Maximise value creation for TERNA stakeholders

The New TERNA

IPO Investment Proposition ...

Italian Operations

- Leadership position in a regulated sector
- Highly predictable revenue stream and proven track record
- Consolidation of the Grid
- Upside from Other Activities

International Operations

- Brazil: attractive returns in a stable regulatory environment
- External growth: selected opportunities

Financial Performance

- Strong financial performance
- Significant and stable cash flow
- Sound balance sheet and conservative capital structure
- High quality rating

Attractive return to shareholders: 100% dividend payout

The New TERNA

... Same Investment Proposition, plus:

Italian Operations



- Enhanced role in the Italian electricity sector (TSO)
- Increased efficiency and cost leadership
- Interconnections

International Operations



- External growth
 - International Scouting
- Brazil:
 - Strategic options to exploit hidden value
 - Finance growth

Financial Performance

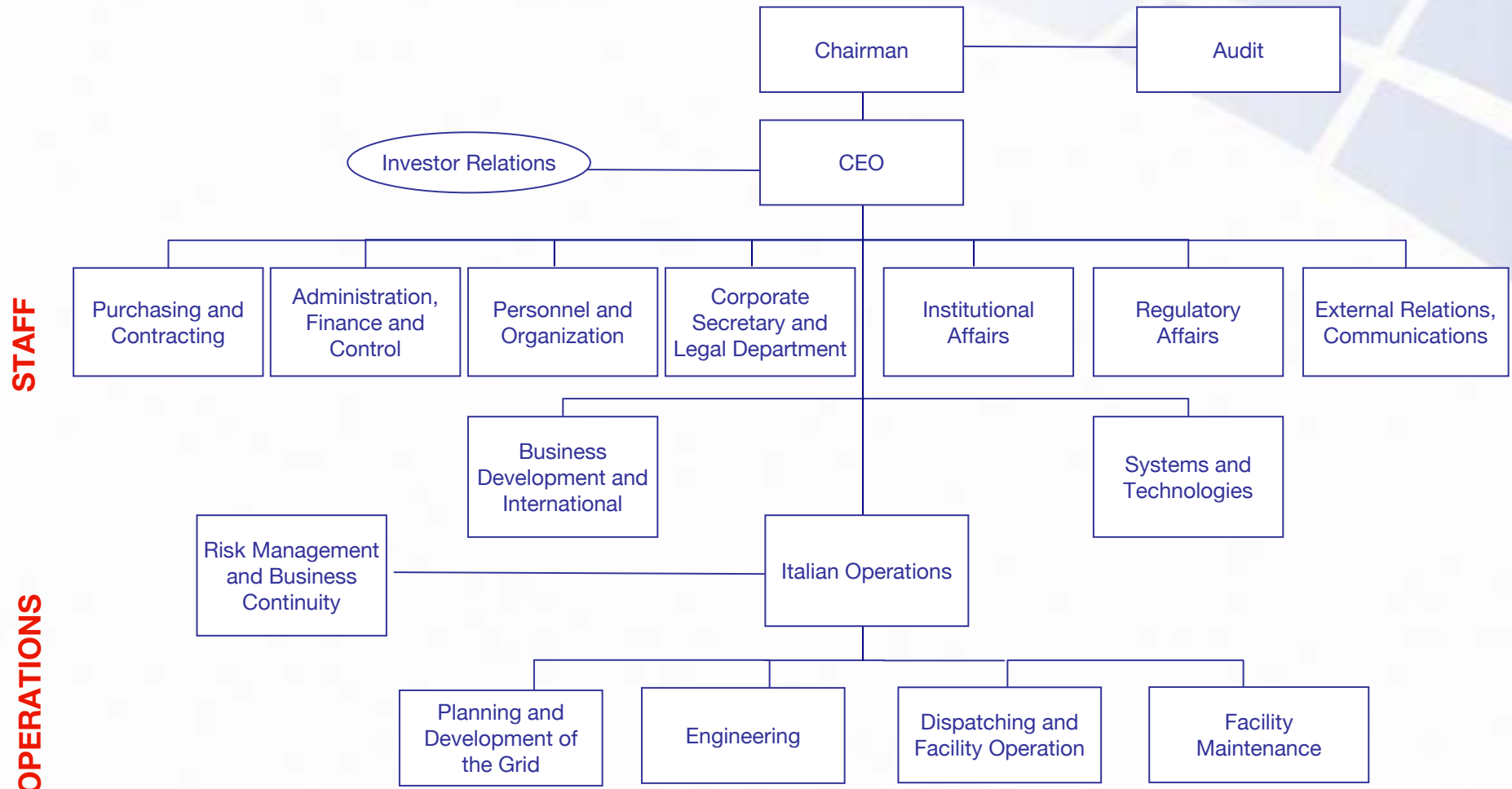


Optimization of capital structure

Focus: Total Shareholder Return + safety and reliability of network

The New TERNA

Organisational Structure



Organisation designed to fit with the new perimeter and mission

Italian Operations

International Operations

Financial Performance

2006-2010 Strategic Focus

Italian Operations – Main Drivers

Development of the Grid

- Upgraded capex plan
- Optimisation of authorisation process

Cost Efficiency

- Exploit synergies arising from TSO model
 - Streamline overheads and support services
 - Rationalisation of processes
- Innovation via technologies

Quality of Service

- Operating excellence in terms of quality of service
- Sensitivity to environmental issues

Growth Opportunities

- Proactive approach with Regulator
- Acquisition of remaining portion of the Grid
- Interconnections

2006-2010 Strategic Focus

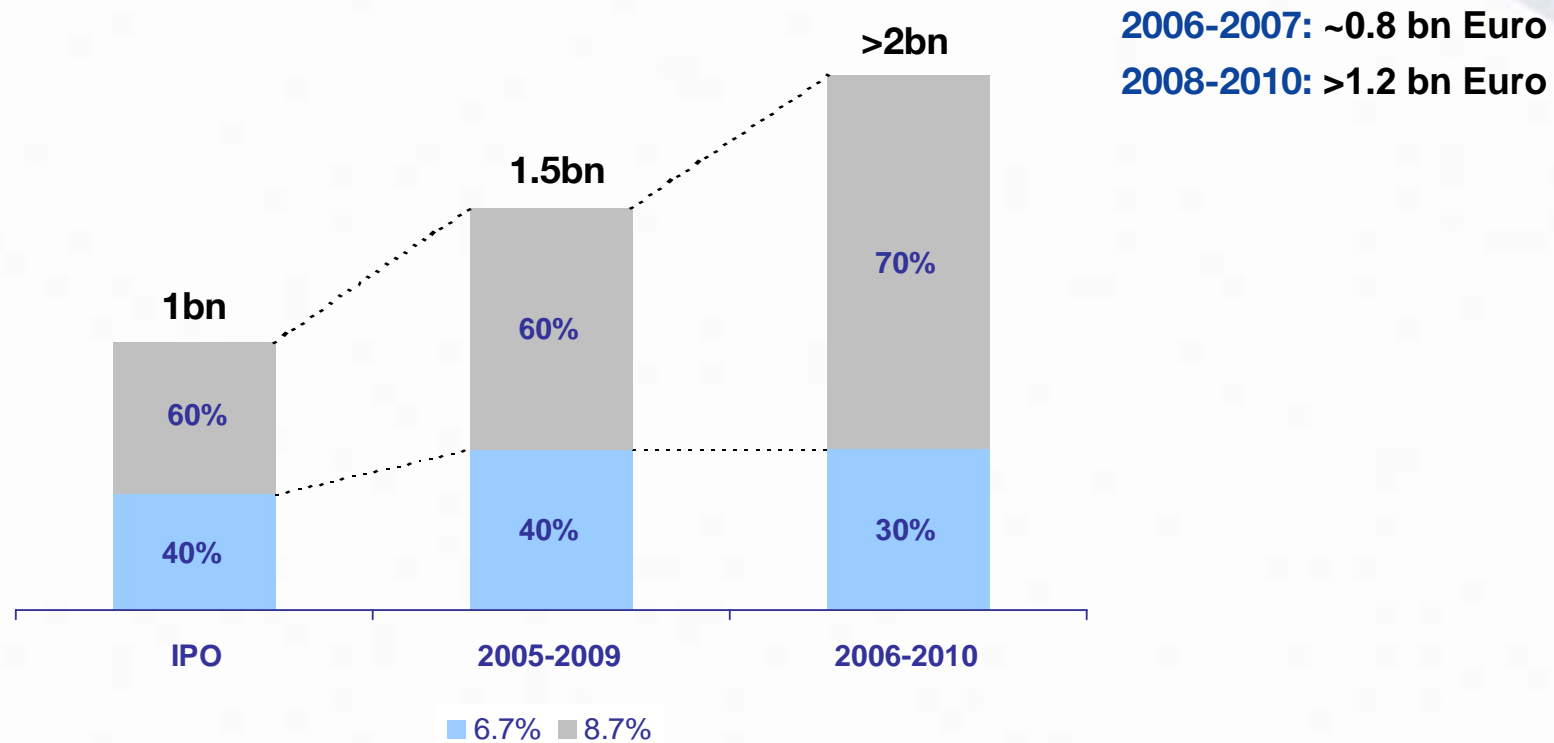
Italian Operations – Main Projects



2006-2010 Strategic Focus

Italian Operations – Development of the Grid

Capex Plan announced (in Euro bn)



2006-2010 Capex = **~2x** 2001-2005 Capex

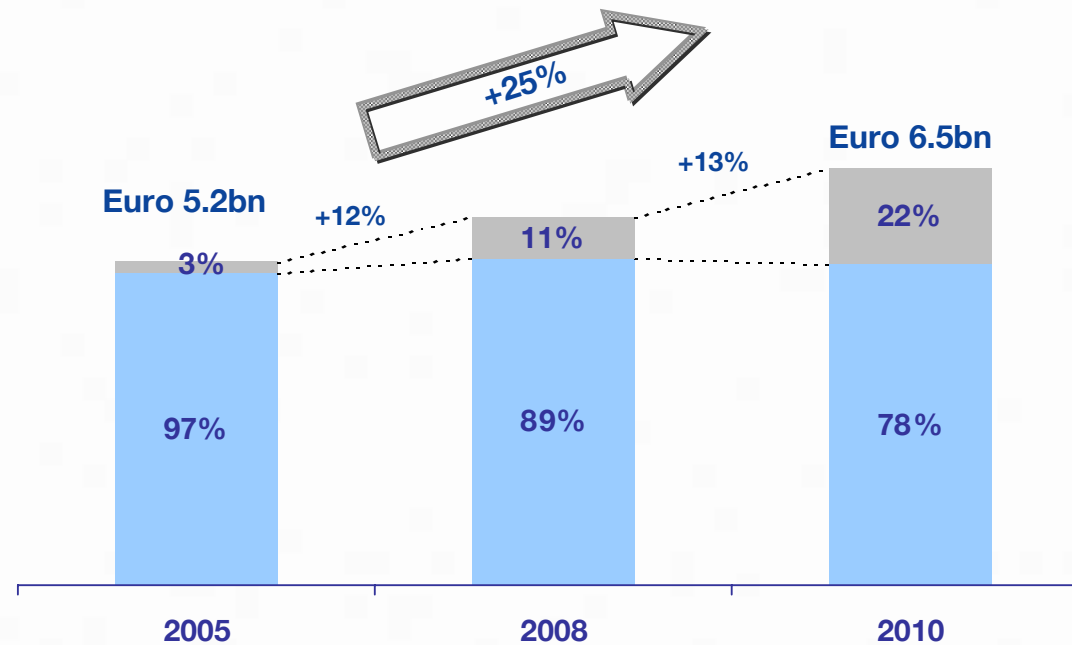
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Italian Operations – RAB Evolution

RAB for Tariff Evolution

Remunerated at:

- 8.7%
- 6.7%

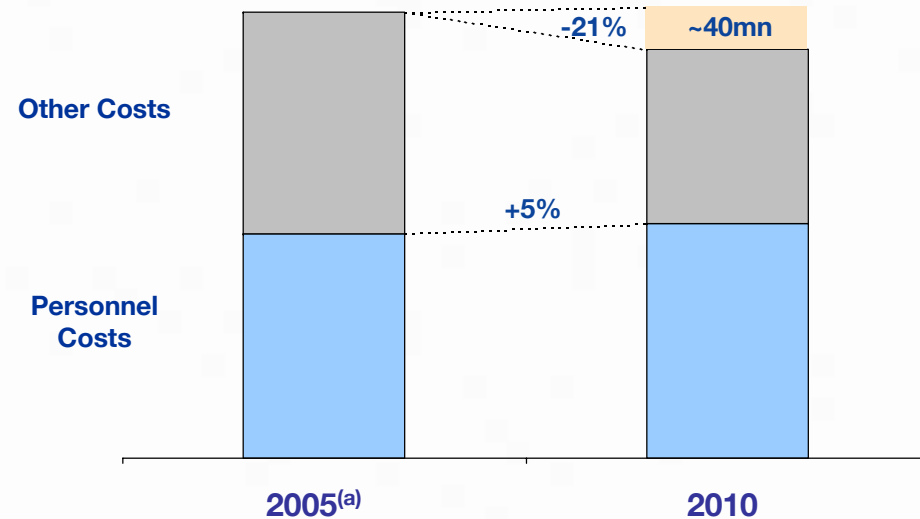


Solid increase of RAB eligible for incentives

2006-2010 Strategic Focus

Cost Efficiency (TERNA Group)

Total Consolidated Costs



Costs/
Revenues (%)

36%

31%

Drivers

Personnel costs

- Right-sizing through retirement/early retirement plans
- 2010 final headcounts: -6%

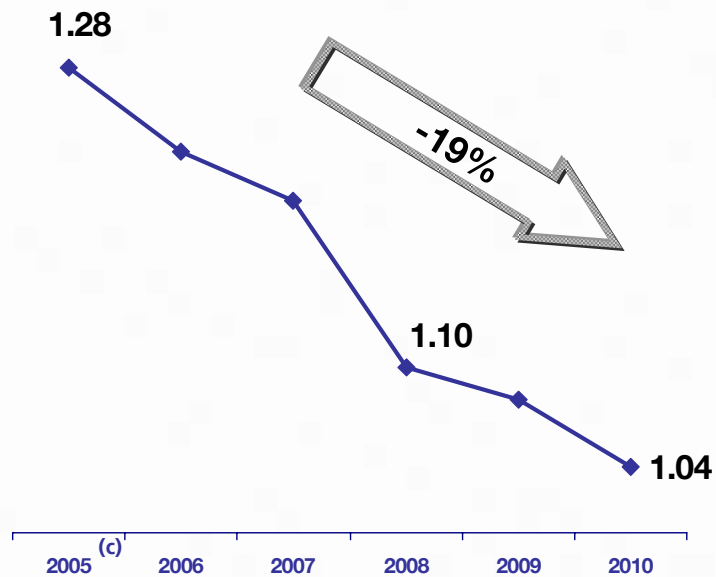
Other Costs

- Rationalisation of O&M
- Insourcing vs. outsourcing
 - Acquisition of real estate vs. rental
 - Streamlining of sites and reduction of facility management costs
 - Reduction of rental fees
 - Acquisition of fleet vs. leasing

2006-2010 Strategic Focus

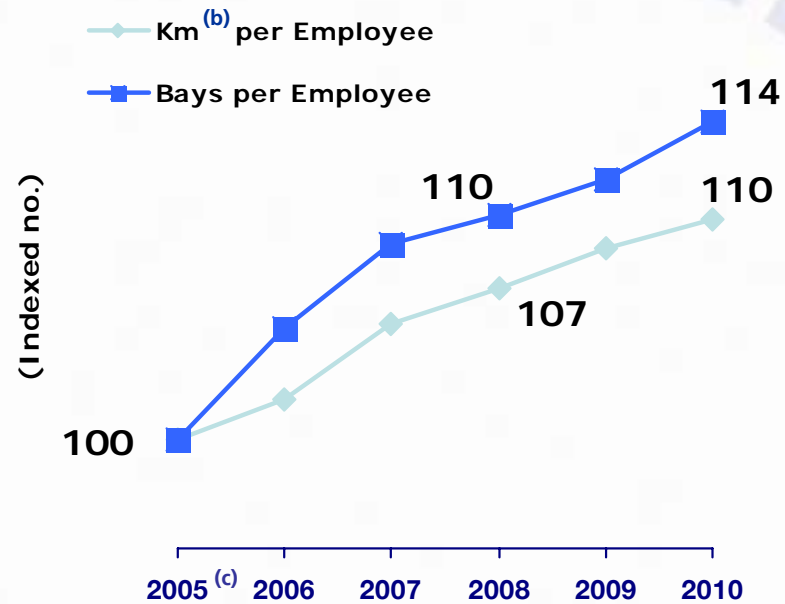
Cost Efficiency (Italian Regulated Activities)

Opex^(a) ('000 Euro/GWh)



Lower core costs ...

Evolution of Key Parameters



...but increasing asset base

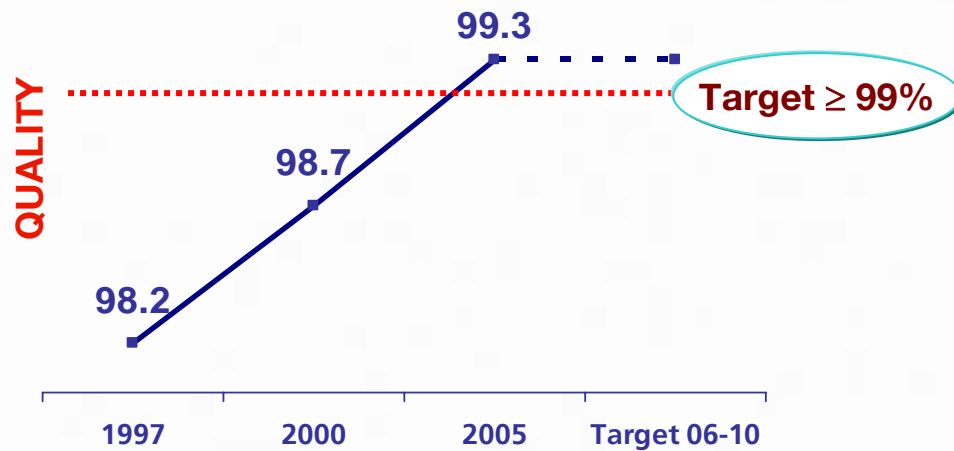
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Italian Operations – Quality and Safety of Service

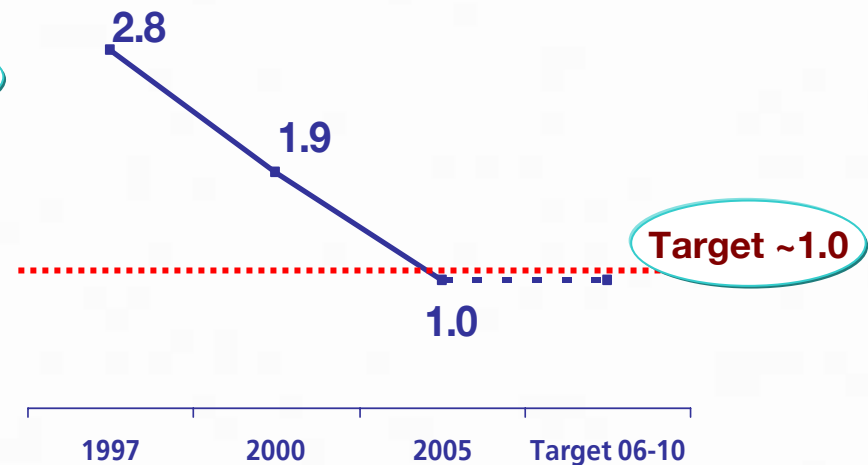
SAFETY

- Guarantee service → Safe reserve margin
- Enhance security of system → Defence Plan (capex 2006-10 = ca. 80mn euro)

Availability of the System (%)



Average Interruption Time AIT (Min/year)



2006-2010 Strategic Focus

Italian Operations – Proactive Role with the Regulator

Future Tariff Revision

(from 2008 onwards)

- Incentives for Development Capex
- Discuss “X” factor
- Discuss RAB remuneration considering also the changes occurred in the fiscal treatment

Incentive Schemes

- Incentives for Grid consolidation
- Upside from incentives schemes for dispatching activities
- Incentives for interconnections

2006-2010 Strategic Focus

Italian Operations: Grid and Interconnections

Consolidation of the Grid

- Acquisition of remaining portion of the Grid
 - RAB : ca. 0.4/0.5bn
 - Revenues: ca. 70mn
- Acquisition of other HV lines to increase functionality of National Electricity Grid

Interconnections

- Development of interconnections' opportunities in the Mediterranean ring
 - Differentiation of sourcing
 - Upside for additional remuneration

Italian Operations

International Operations

Financial Performance

2006-2010 Strategic Focus

International Operations

International Scouting

- Disciplined approach:
 - Strategic fit with current operations
 - Long term value creation (potential for synergies)
 - IRR > hurdle rate
- Focus: South America + Balkans

Brazilian Operations

- High returns from existing assets
- Seek growth opportunities
- Extract value to finance growth

Opportunities for value creation

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International Operations - Brazil

Attractive Returns

- EBITDA margin: ~75%
- Limited incremental capex (lines in operations since 2004)
- Capital repatriation through dividends, Interest on Equity and repayment of redeemable shares

Growth Opportunities

- Signed contract for the acquisition of Munirah
- Expressed interest in other transactions
- Participation in green-fields (auctions by ANEEL)

Extract Value

- IPO → fund raising
- Access local markets for funding future growth
- Timing: by end 2006

Extract value to finance growth

Italian Operations

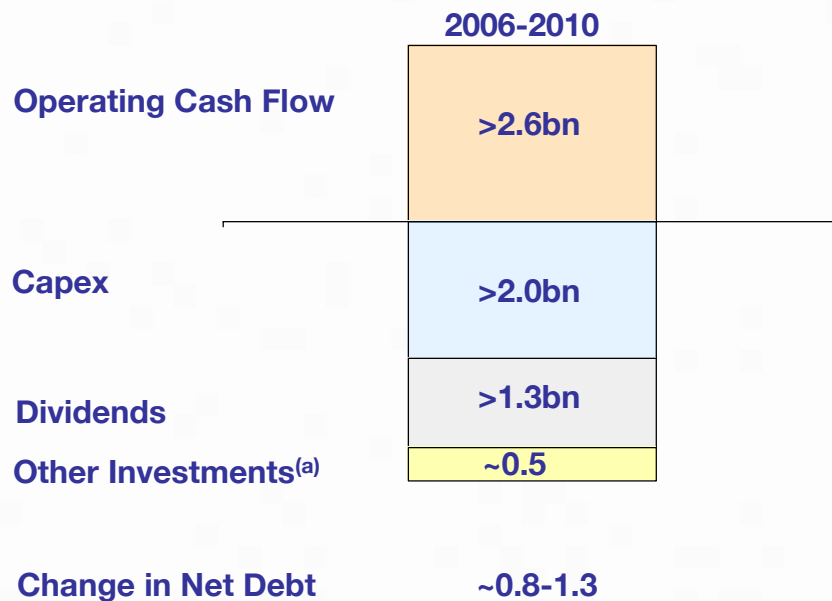
International Operations

Financial Performance

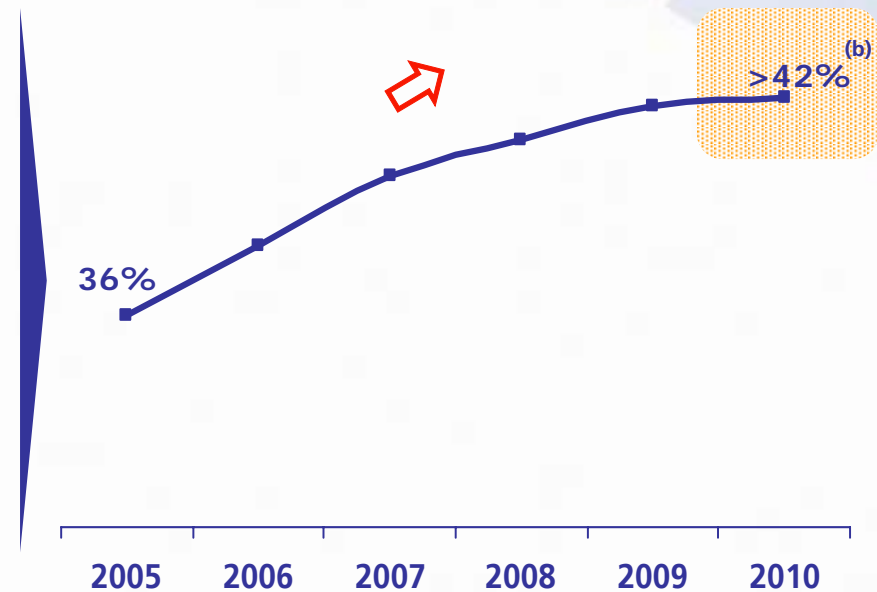
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Financial Performance

Change in Net Debt



Gearing (D/(D+Mkt Cap))



Cash Flow absorption leads ...

...towards optimal Capital Structure

Dividend Policy

Dividend Policy

- Minimum 3% annual growth in DPS (DPS05E floor)
- Interim dividend practice confirmed

2005 Dividend

- Announcement date: March 15, 2006
- Ex date: June 19, 2006
- Payment date: June 22, 2006

Additional commitment: DPS annual growth > inflation

Closing Remarks

Opex Reduction (2005^(a)-2010)

~40mn

Capex Plan (2006-2010)

2bn euro

RAB CAGR (2005-2010)

~ 5% p.a.

Target Gearing^(b) (D/(D+Mkt Cap))

>40% by 2010

Dividend Policy

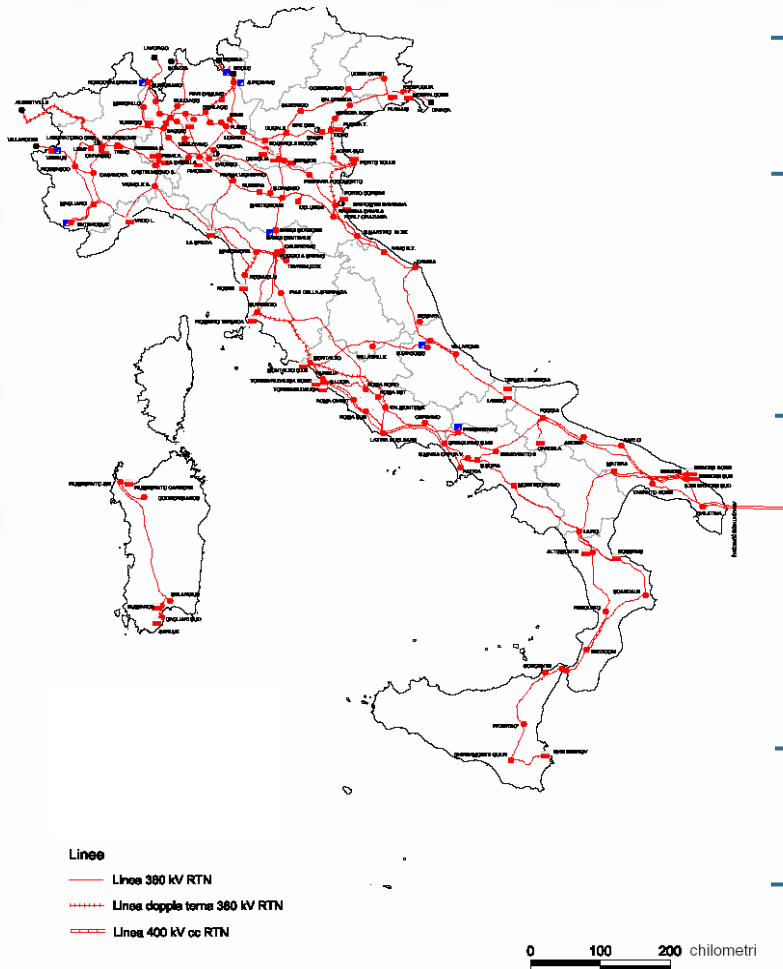
DPS05E (Floor) +3% annual

Combining yield with growth, and limited risk profile

Q&A

ANNEXES

Italian Assets Overview



Ownership of National Trasmission Grid

- ~92%^(a) Ownership of National Transmission Grid

Transmission Lines (as of June 30th, 2005)

- 10,268 km 380 kV^(b)
- 9,894 km 220 kV^(c)
- 18,613 km ≤ 150 kV

Substations (as of June 30th, 2005)

▪ Transformers (n.)	567
▪ Primary transformer/switching substations (n.)	300
▪ Other substations (n.)	18
▪ Transforming capacity (MVA)	108,409
▪ Bays	3,918

Remote control Grid

Bari, Rondissone, Dolo	3 centres
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Electricity demand ^(d)

1/1/2005 – 31/12/2005	329.4 TWh
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(a) As of December 31, 2004 (it includes RTL)
 (b) Includes the 400 kV Italy-Greece DC connection
 (c) Includes the 200 kV Sardinia-Corsica-Italian mainland DC connection
 (d) Terna as of December 2005

2006-2010 Strategic Focus

Macroeconomic Assumptions

Italian Macroeconomic assumptions

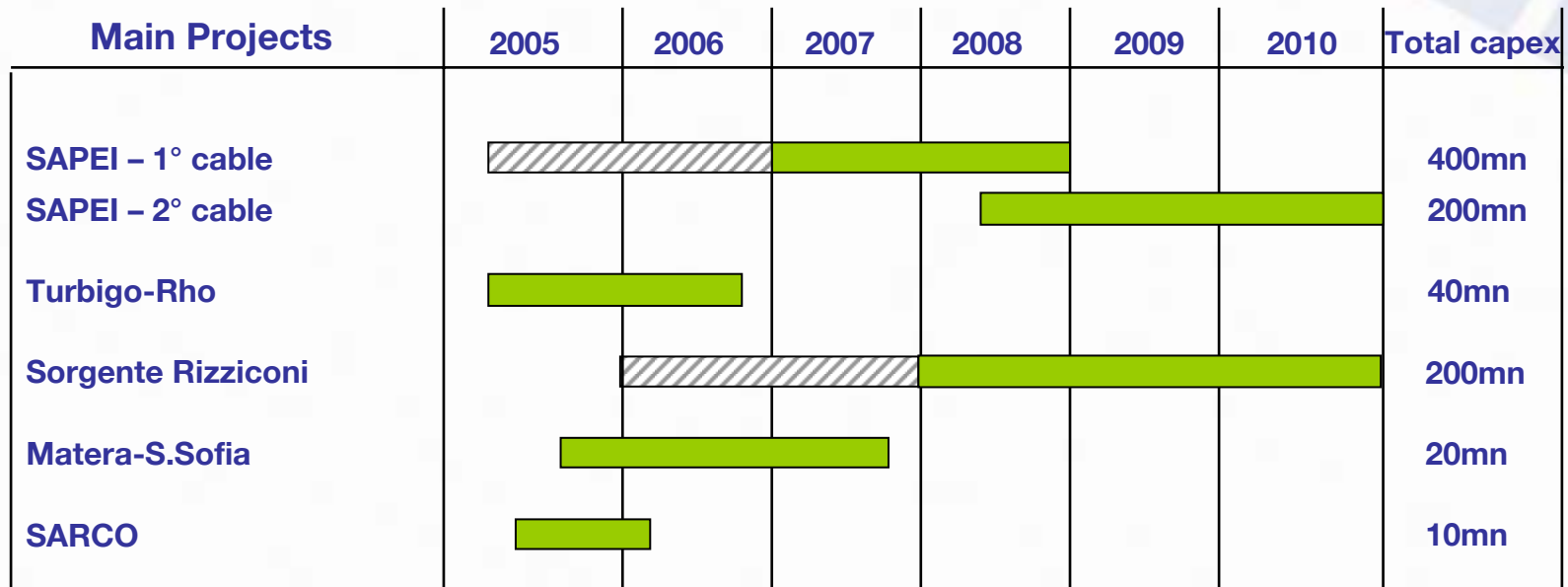
Drivers	IPO	Strategic Plan
Annual Demand growth	2.9%	2%
Inflation:		
- CPI	2%	2%
- RAB deflator	1.8%	1.8%

Brazilian Macroeconomic assumptions

Drivers	IPO	Strategic Plan
Annual IGPM	ca. 5.6%	ca. 5%
Annual TJLP	ca. 9.3%	ca. 9%
BRL/Euro	ca 38% depreciation	ca 30% depreciation

Capex Plan

Pipeline of Main Projects



 Start up capex: design, engineering and authorizations

 Main capex: construction and commissioning

Capex Plan

Main Projects - SAPEI

Features

- Terminals: FIUME SANTO– LATINA
- Tension: ± 500 kVcc
- Installed Capacity: 1.000 MVA
- Submarine cable: 2x 400 km

Authorization Process

October 2004

April 2005

Autumn 2005

1H2006

2008

2010

[Expected]

[Expected]

[Expected]

GRTN kicked off the authorization process

Project sent to MAP/MINT for approval

Approval of the project and authorization granted

Start up capex

Operational launch 1° cable

Operational launch 2° cable



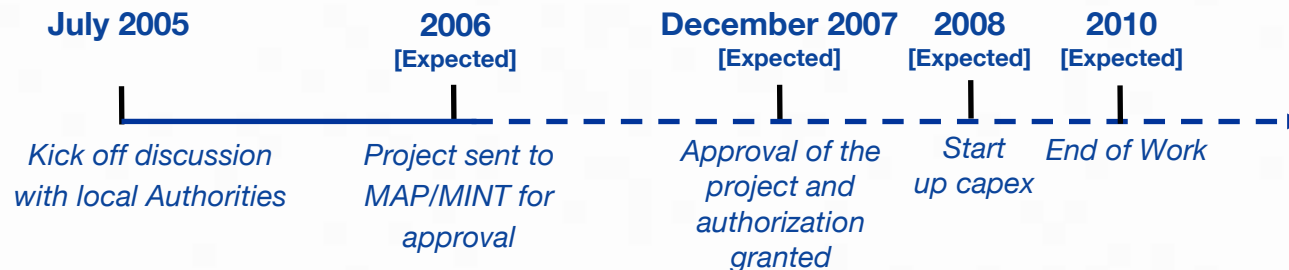
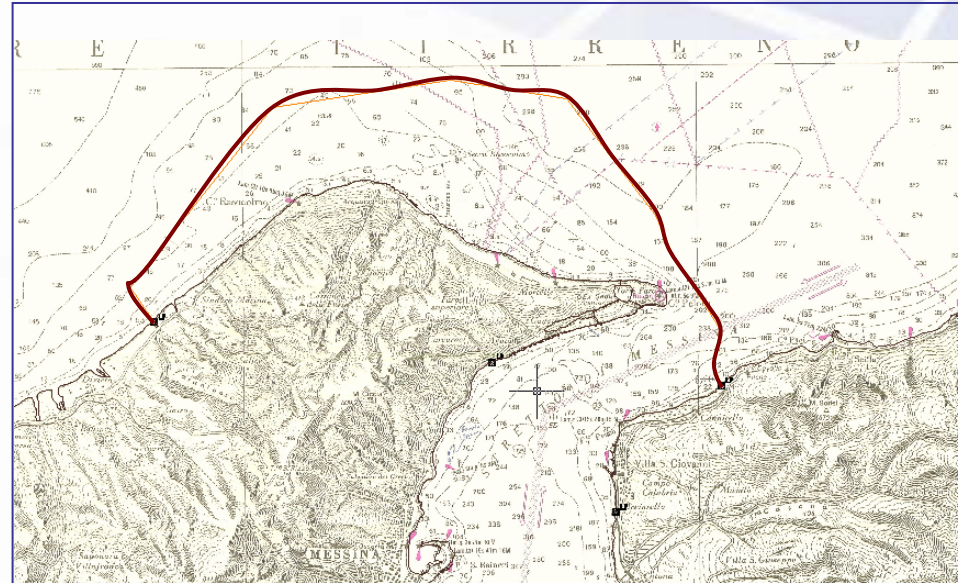
Capex Plan

Main Projects – Sorgente-Rizziconi

Features

- Terminals: Sorgente– Rizziconi
- Tension: ± 400 kV
- Installed Capacity: 2.000 MVA
- Submarine cable: 2x 30 km
- Line cable: 40 Km d.t.

Authorization Process



Capex Plan

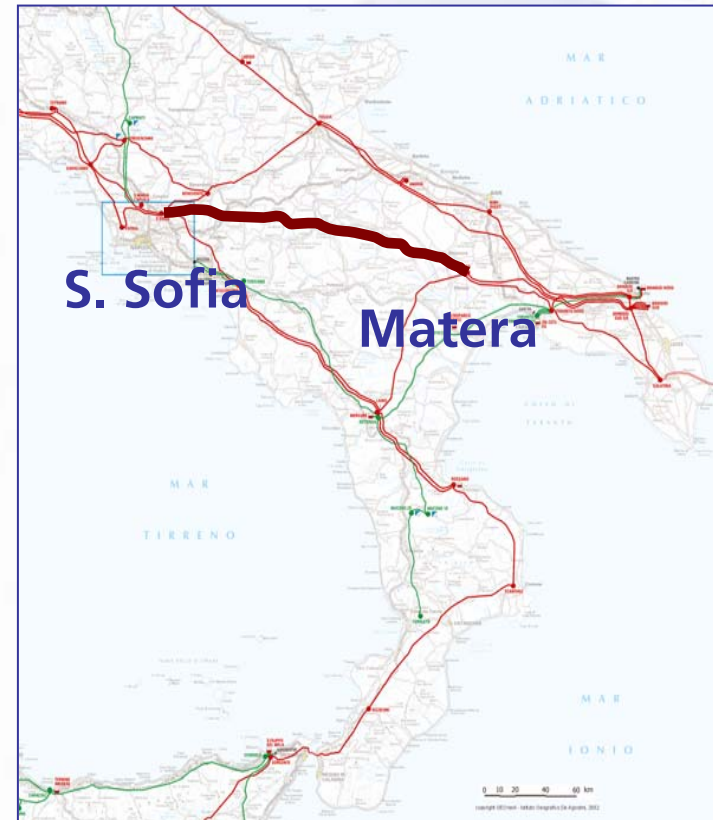
Main Projects – Matera-S. Sofia

Features

- Terminals: Matera- S.Sofia
- Tension: $\pm 380\text{kV}$
- Installed Capacity: 1.000 MVA
- Line cable: 210 Km d.t.

Work Progress

- 27 km to be realized – delays due to the opposition of Rapolla and Melfi.
- End of work expected by 2007



Interconnections

Potential Projects



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