1H08 Consolidated Results

Flavio Cattaneo – Chief Executive Officer

Fabio Todeschini – Chief Financial Officer

July 30th, 2008

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Agenda

Highlights

1H08 Results

Closing Remarks

Annexes

Highlights

1H08 at a Glance

- Good operational performance, despite first year of regulatory period and weak electricity demand

- Capex well underway: confirmed execution capabilities

- Brazil: ETEO acquisition successfully completed

- Regulatory: AEEG published the Technical Note

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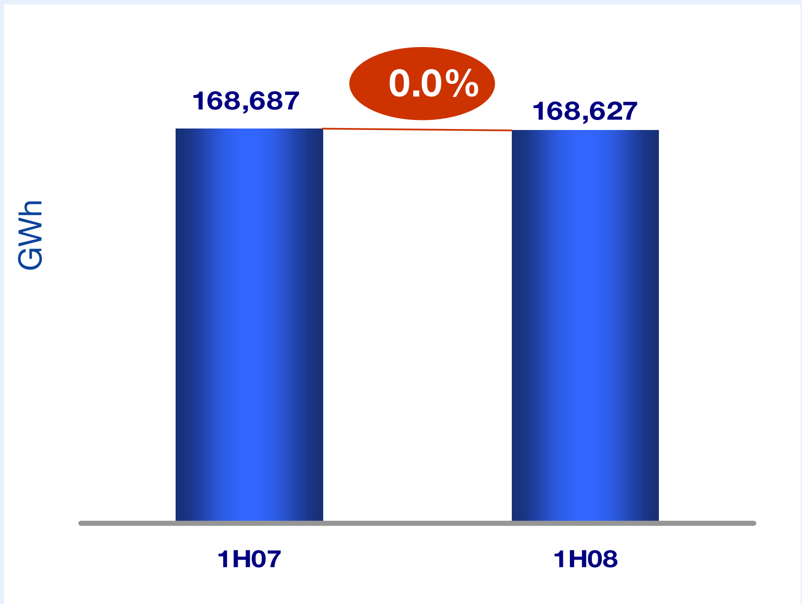
Highlights

Electricity Demand

- Flat demand YTD, mainly driven by weak industrial production, mild weather conditions and calendar differences
- Outlook: in line with 1H trend



Total Net Production	151,845 (+3.2%)
Pumping	3,711 (-2.8%)
Net Import	20,493 (-19.1%)

Note: 2008 provisional figures; 2007 actual figures

Highlights

Macro Trends

Italy

- Inflationary pressure
  - RAB and revenues linked to CPI/Deflator
  - Opex increase due to inflation recovered in tariff
- Poor GDP growth

Brazil

- Inflation and interest rates still on the rise in Q2
- Average currency appreciation vs 1H07 (€/BRL 2.59 vs 2.72)
- Annual update of IGP-M boosted 2008-2009 RAP[1]

(1) Cumulated IGP-M from June 2007 to May 2008 equals 11.53%

Highlights

Financials

In mn Euro

	Consolidated		Change	
	1H07	1H08	mn	Δ%
Operating Revenues	642	668	26	4.0%
EBITDA	471	479	8	1.7%
EBITDA Margin (%)	*73.4%*	*71.7%*		
Group Net Income	194	204	10	5.1%
Capex	254	333	79	31.2%

Profitability in Line with Targets

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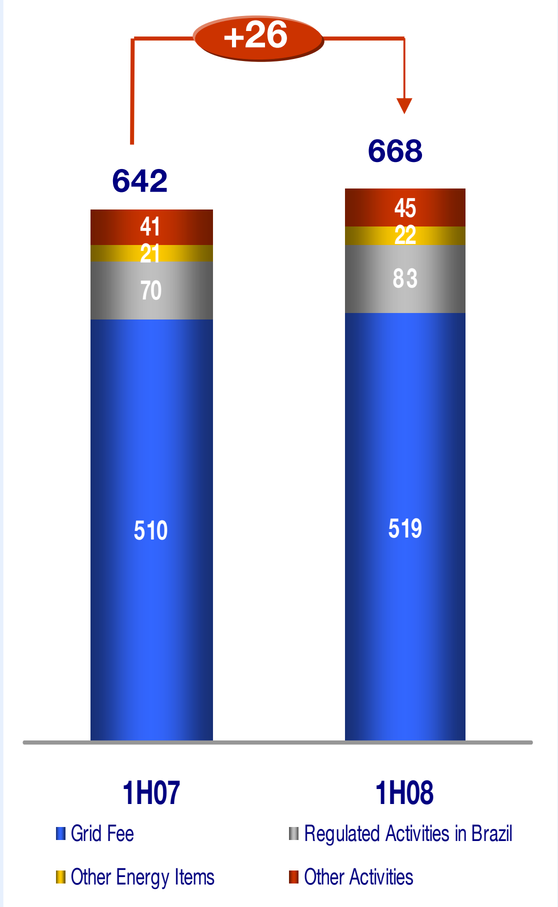
1H 2008 Results

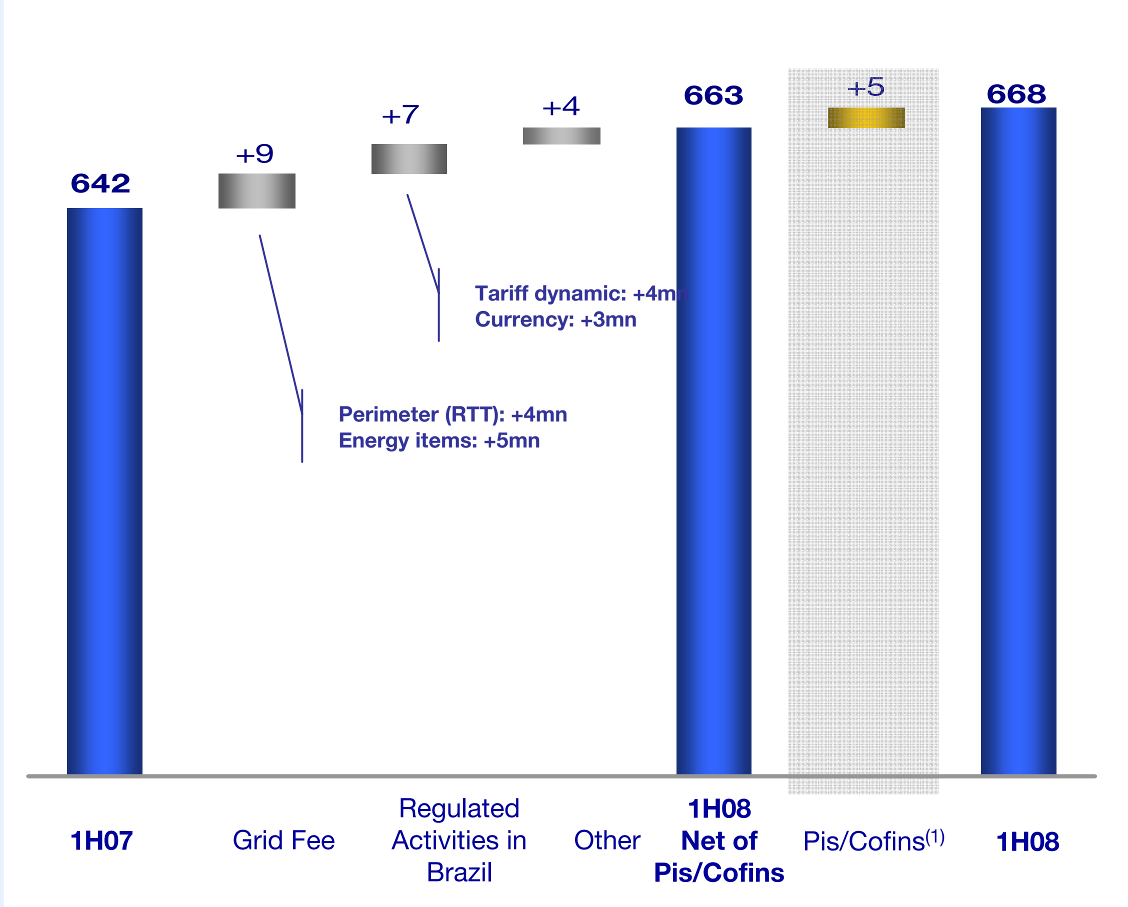
Consolidated Revenues

In mn Euro

Revenues by Nature



Revenues Breakdown



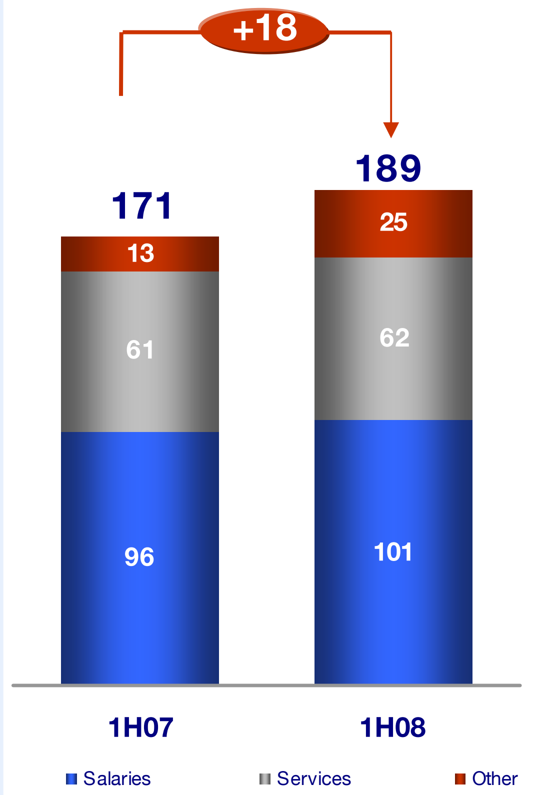
(1) Pass-through items

1H 2008 Results

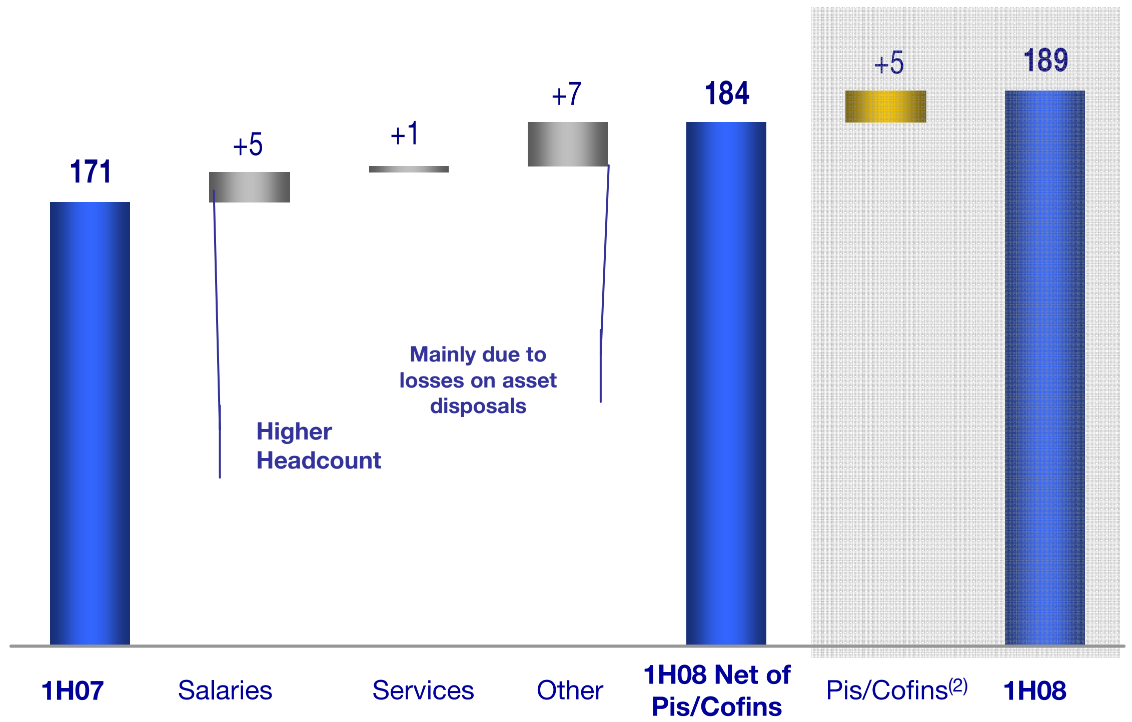
Consolidated Costs

In mn Euro

Costs by Nature[1]



Costs Breakdown



(1) Net of capitalized costs
(2) Pass-through items

1H 2008 Results

From EBITDA to Net Income

In mn Euro

	Consolidated		Change	
	1H07	**1H08**	**mn**	**Δ%**
EBITDA	**471**	**479**	**8**	**1.7%**
EBITDA Margin (%)	***73.4%***	***71.7%***		
D&A	119	132	13	11.0%
EBIT	**353**	**347**	**-5**	**-1.5%**
Financial (Income) Charges	29	23	6	-20.9%
Taxes	121	109	-12	-10.0%
Tax rate (%)	*37.2%*	*33.4%*		
Total Net Income	**203**	**216**	**13**	**6.2%**
Minority Interest	9	12	3	29.8%
Group Net Income	**194**	**204**	**10**	**5.1%**

Net Income boosted by strong IAS impact on Financial Charges

1H 2008 Results

Financial Charges

	1Q08			1H08		
	Italy	Brazil	Group	Italy	Brazil	Group
Net Financial Charges	30.2	7.9	38.1	61.9	14.1	76.0
Proceeds on Derivatives				-16.4		-16.4
IAS Impact	3.7		3.7	-36.9		-36.9
Total	33.9	7.9	41.8	8.6	14.1	22.7

Main Drivers

Italy

- Mark-to-market of derivatives portfolio caused quarterly swing
- One-off proceeds on sale of derivatives (+16.4mn)

Outlook for 2H08

- Increase in Net Financial Charges
  - Italy:, consistent with higher Debt/interests
  - Brazil: due to ETEO acquisition

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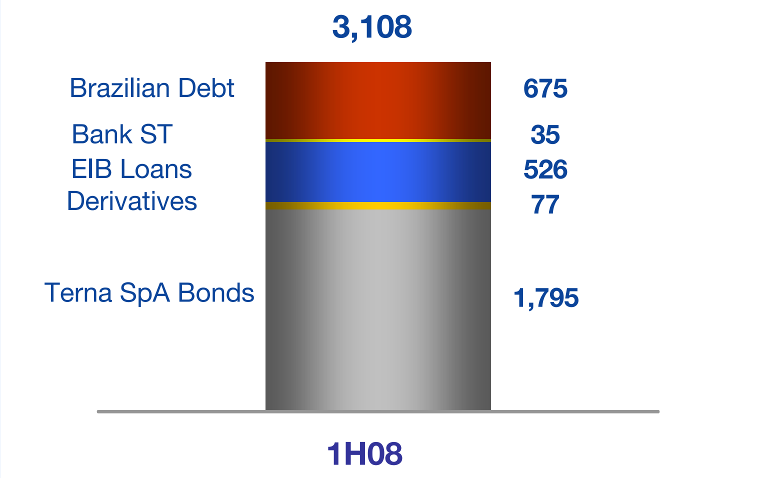
1H 2008 Results

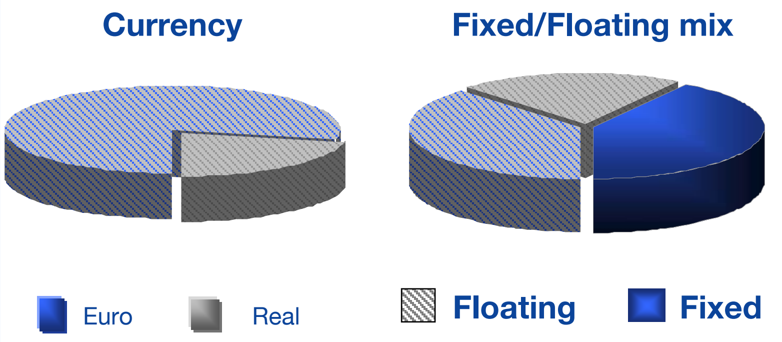
Financial Structure

In mn Euro

Gross Debt by Instrument (€mn)

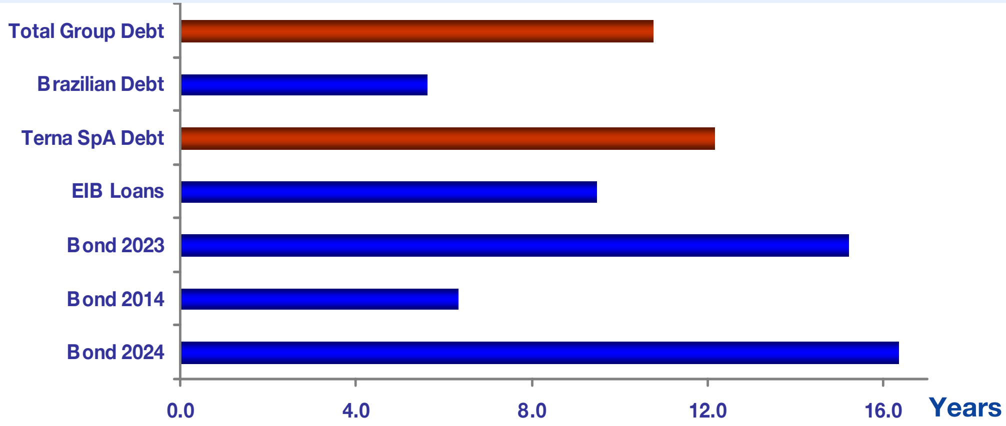


Debt Breakdown



	Floating	Fixed
Italian	48%	52%
Group	59%	41%

Maturity



1H 2008 Results

Rating and Funding Capacity

Rating

LT Debt

	OLD	NEW	Outlook
S&P's	AA-	AA-	Negative
Moody's	Aa3	A1	Stable
Fitch	AA-	A+	Stable

Funding Capacity

- In 2Q08 secured financial flexibility for €1.45bn to support capex plan
- Achieved competitive funding conditions

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1H 2008 Results

Capex Breakdown

In mn Euro

	1H07	1H08	Change (mn)	Change (%)
Incentivized remuneration [1]	**179**	**250**	**71**	*39%*
Ordinary remuneration [2]	**63**	**70**	**7**	*11%*
- Maintenance	*32*	*42*	*10*	
- Other	*31*	*28*	*-4*	
Non regulated activities	**5**	**8**	**3**	*59%*
TOTAL ITALY	**247**	**328**	**80**	**33%**
TOTAL BRAZIL	**6** [3]	**5**	**-1**	**-22%**
TOTAL CAPEX	**254**	**333**	**79**	**31%**

+31% 1H08 vs 1H07

Strengthened Execution Capabilities

(1) Category I3: WACC at 9.9% Category I2: WACC at 8.9%
(2) Category I1: WACC at 6.9%
(3) Restated to include higher capitalization

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1H 2008 Results

Capex - Update on SAPEI Project

In mn Euro

Spent already 292mn out of the total 700mn

Ground Setting Completed

Substations Construction on track

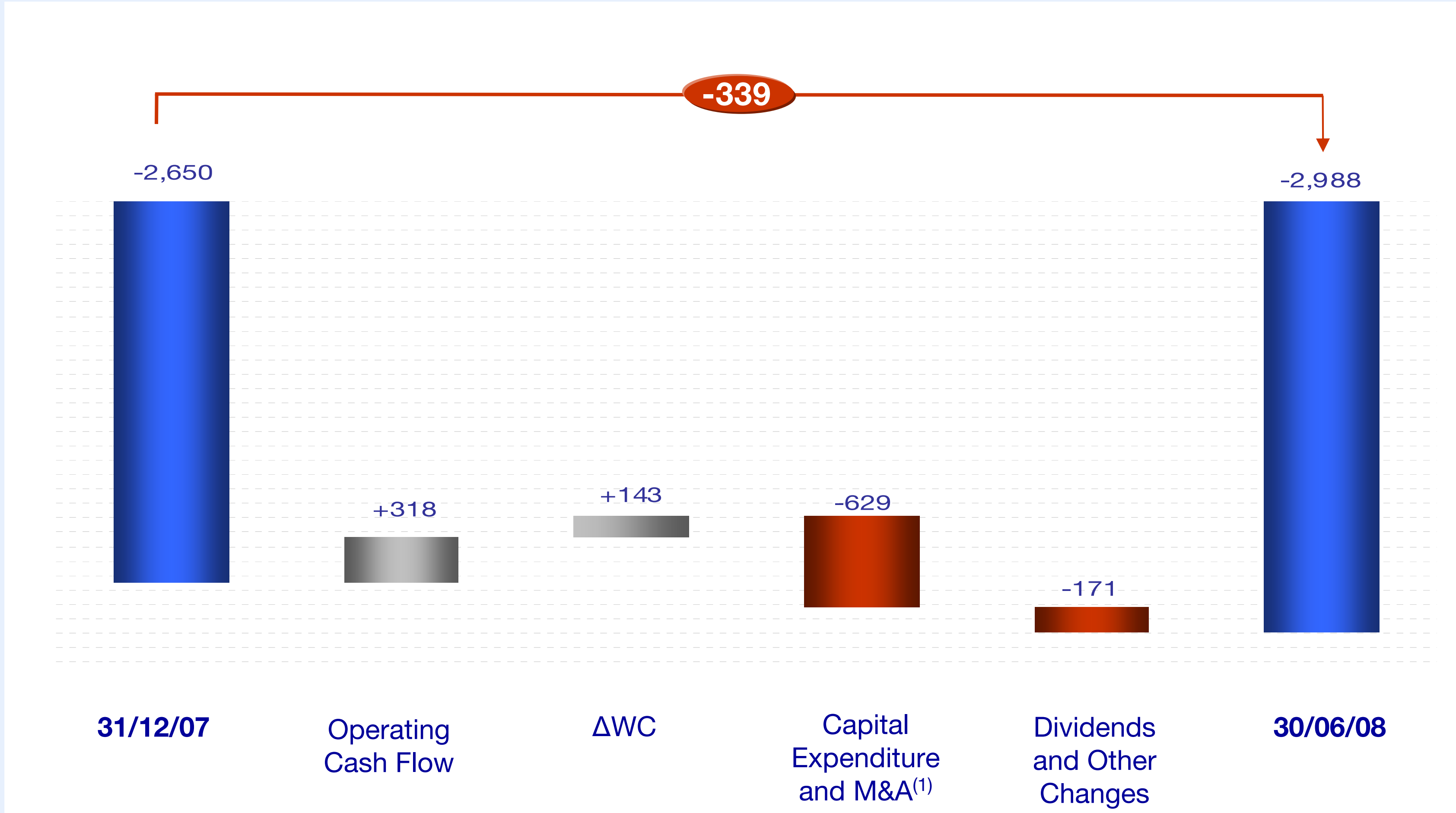
1st Cable: 90% of total length already placed

1H 2008 Results

Consolidated Net Debt

In mn Euro

Net Debt Evolution



(1) *Includes Capex, Other Fixed Asset Change and ETEO acquisition*

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Agenda

Highlights

1H08 Results

Closing Remarks

Annexes

Closing Remarks

Operational Performance

- Solid fundamentals
- Interim dividend to be announced in September, payable in November

Outlook

- Full year results confirmed, notwithstanding weak demand and higher financing costs

Growth Opportunities

- Unification of the Italian Grid: steady progresses
  - On track to reach 98.3% of the Italian Grid(1)
- Enlargement of the National Grid
  - Ongoing talks on potential HV lines acquisitions

(1) Percentage based on 2007 updated National Transmission Grid perimeter

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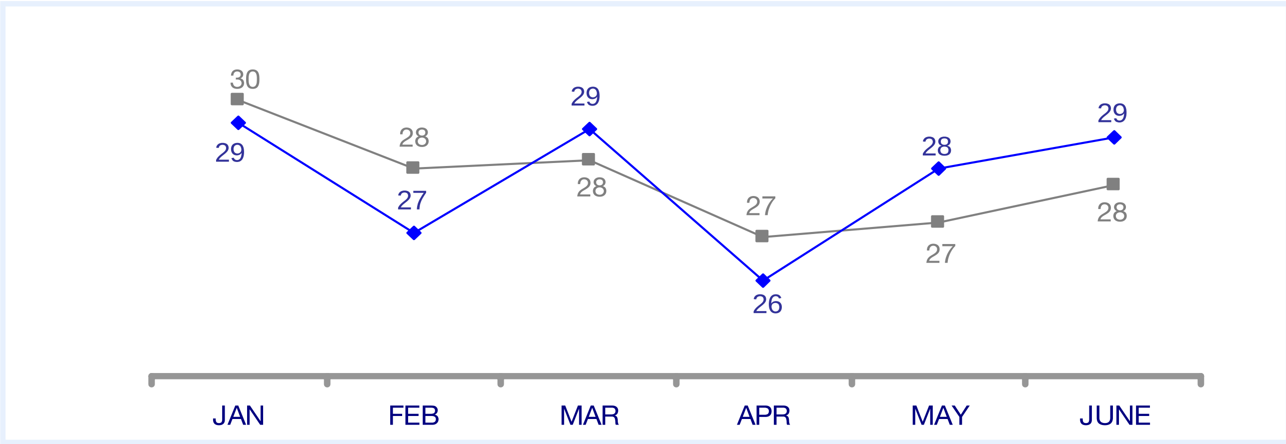
Italian Electricity Market Evolution

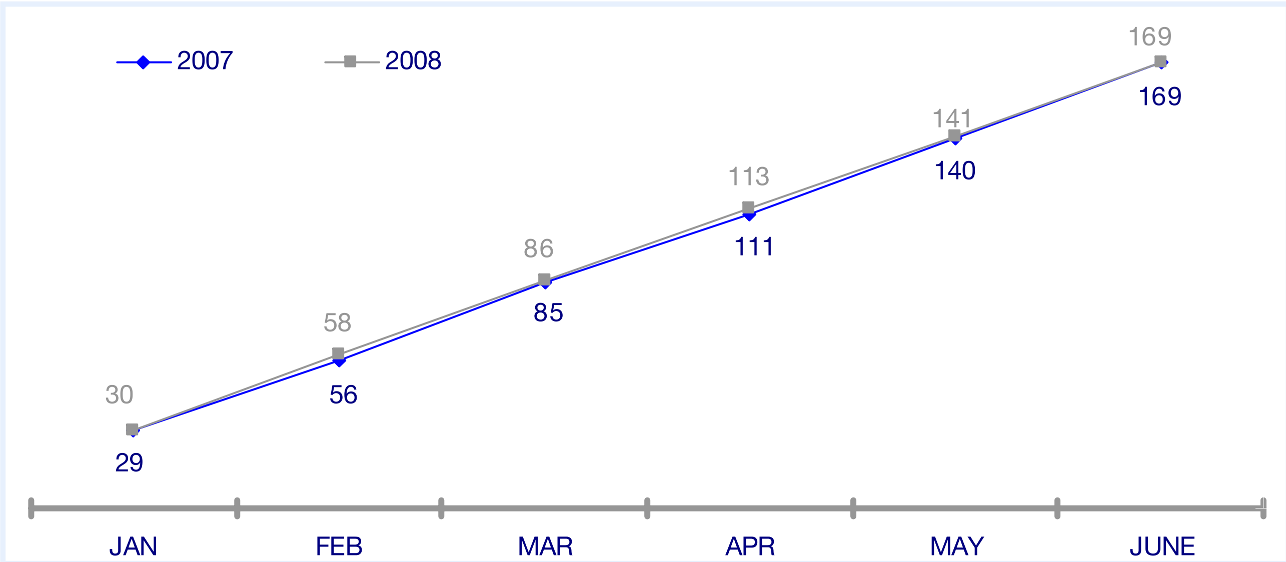
Energy Demand

TWh

Monthly Trend



Cumulated Trend



Source: 2007, 2008 TERNA monthly reports

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1H 2008 Results

Consolidated Income Statement

In mn Euro

	Consolidated		Change	
	1H07	1H08	mn	Δ%
Operating Revenues	**642**	**668**	**26**	**4.0%**
Grid Fee	*510*	*519*	*9*	*1.8%*
Other Energy Items	*21*	*22*	*0*	*1.4%*
Regulated Activities in Brazil	*70*	*83*	*12*	*17.3%*
Other Activities	*41*	*45*	*4*	*9.8%*
Operating Expenses	**171**	**189**	**18**	**10.4%**
Salaries	*96*	*101*	*5*	*4.9%*
Services	*61*	*62*	*1*	*1.8%*
Other	*13*	*25*	*12*	*88.8%*
EBITDA	**471**	**479**	**8**	**1.7%**
Italy	*408*	*409*	*2*	*0.5%*
Brazil	*64*	*70*	*6*	*9.3%*
D&A	119	132	13	11.0%
EBIT	**353**	**347**	**-5**	**-1.5%**
Financial (Income) Charge	29	23	-6	-20.9%
Taxes	121	109	-12	-10.0%
Tax rate (%)	*37.2%*	*33.4%*		
Total Net Income	**203**	**216**	**13**	**6.2%**
Minority Interest	9	12	3	29.8%
Group Net Income	**194**	**204**	**10**	**5.1%**

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1H 2008 Results

Consolidated Income Statement – Quarterly Analysis

In mn Euro

	1Q07	1Q08	Change	2Q07	2Q08	Change
Operating Revenues	**325**	**337**	**12**	**318**	**331**	**13**
Grid Fee	*260*	*265*	*5*	*250*	*254*	*4*
Other Energy Items	*11*	*11*	*0*	*11*	*11*	*0*
Regulated Activities in Brazil	*36*	*42*	*7*	*35*	*40*	*5*
Other Activities	*18*	*19*	*1*	*23*	*26*	*3*
Operating Expenses	**85**	**91**	**6**	**86**	**98**	**12**
EBITDA	**240**	**246**	**6**	**232**	**233**	**1**
Italy	*207*	*211*	*4*	*200*	*198*	*-2*
Brazil	*33*	*35*	*2*	*31*	*35*	*4*
D&A	58	65	7	61	67	7
EBIT	**182**	**182**	**0**	**171**	**166**	**-5**
Financial (Income) Charge	25	42	17	4	-19	-23
Taxes	63	50	-13	57	59	1
Net Income (Group and minority interests)	**94**	**90**	**-4**	**110**	**127**	**17**
Minority Interest	5	5	0	5	7	2
Group Net Income	**89**	**84**	**-5**	**105**	**120**	**14**

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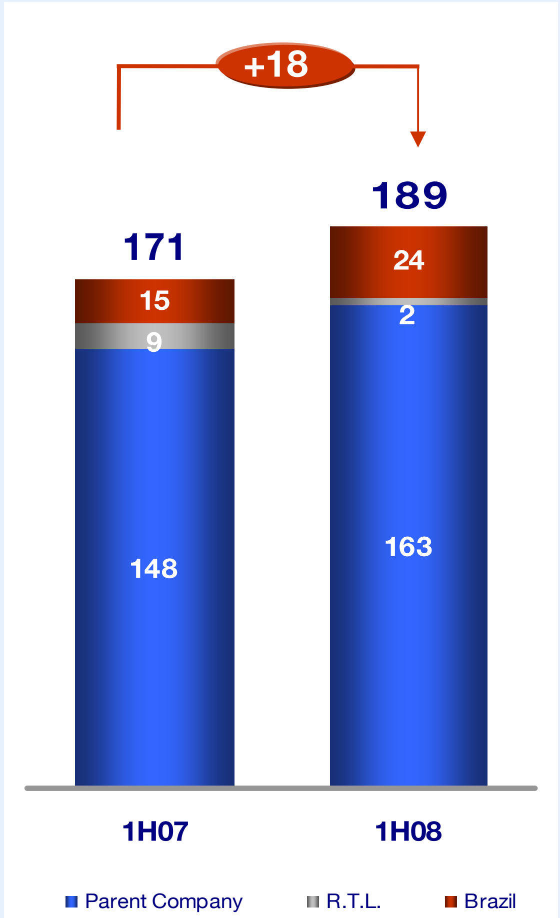
1H 2008 Results

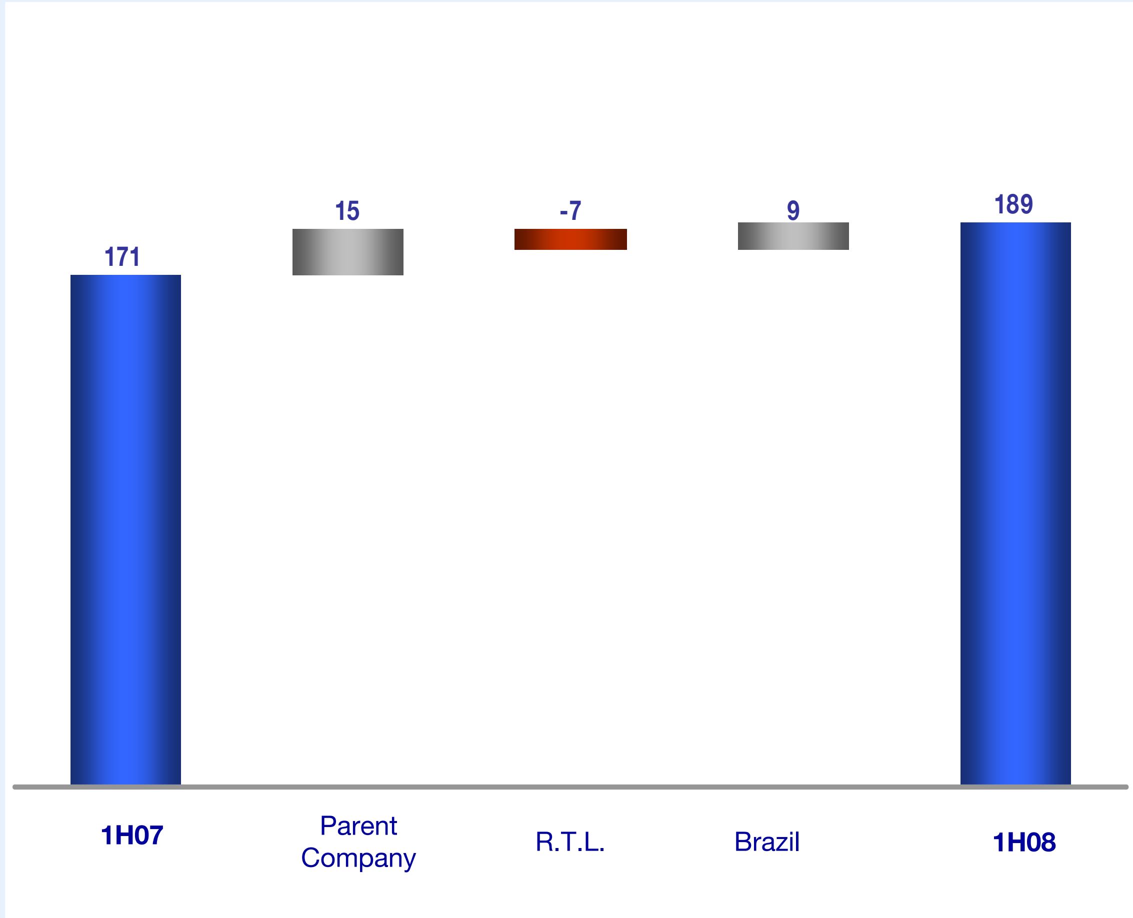
Consolidated Costs

In mn Euro

Costs by Entity[1]



Costs Breakdown



(1) Net of capitalized costs

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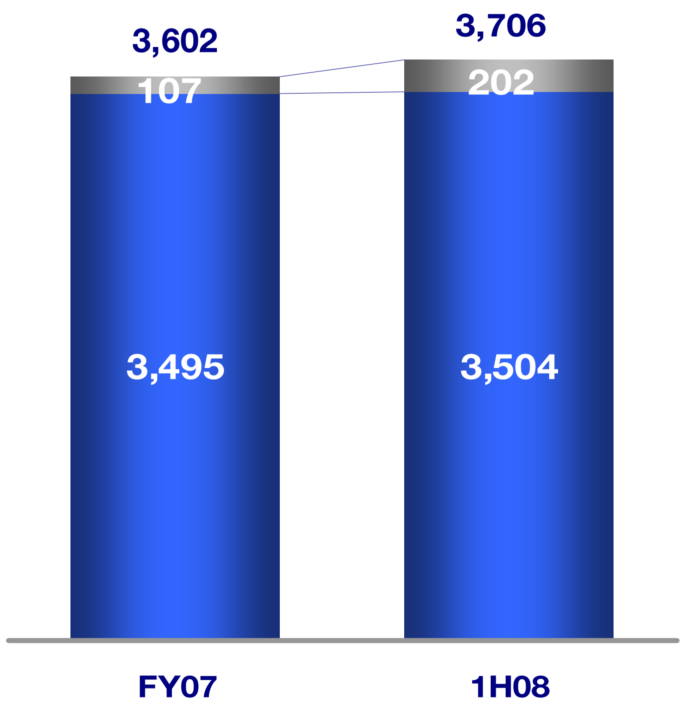
1H 2008 Results

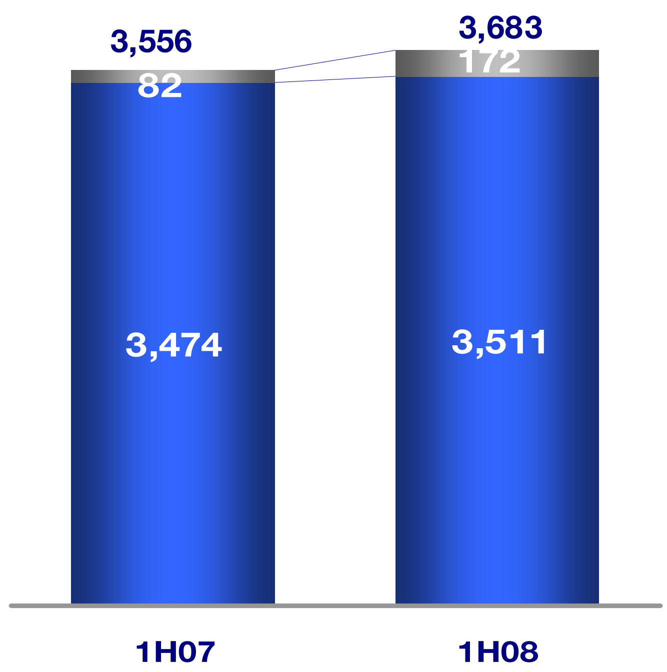
Headcount Evolution

Final Headcount



- Italy: +9
- Brazil: +95

Average Headcount



- Italy: +37
- Brazil: +90

Italy Brazil

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1H 2008 Results

Consolidate Balance Sheet

In mn Euro

	Consolidated		Change
	31 Dec 2007	**30 Jun 2008**	**Δ%**
Assets			
PP&E	5,613	5,896	5.0%
Intangible Asset, net	385	584	51.8%
Financial Inv. and Other	37	44	18.4%
Total Fixed Assets	**6,035**	**6,524**	**8.1%**
Net WC	-652	-795	22.0%
Funds	-459	-428	-6.8%
Net Invested Capital	**4,923**	**5,300**	**7.7%**
Financed by:			
Net Debt	2,650	2,988	12.8%
Total Shareholder's Equity	**2,273**	**2,312**	**1.7%**
Terna Group	*2,162*	*2,191*	1.3%
Minorities	*112*	*122*	9.0%
D/E ratio	**1.17**	**1.29**	**10.9%**

1H 2008 Results

Consolidated Cash Flows

In mn Euro

	FY07	1H08
Net Income	433	216
Depreciation (1)	254	134
Net Change in Funds	-107	-32
Operating Cash Flows	**581**	**318**
Change in WC	88	143
Cash Flow from Operating Activities	**669**	**462**
Capital Expenditures	-616	-333
Other Fixed Asset Changes	-98	-296
Free Cash Flow	**-45**	**-167**
Dividends	-311	-197
Change in Capital	2	2
Change in Financial Position (2)	**-354**	**-362**

Note: 1H07 figures has been restated according to new interpretation of IAS
(1) Net of assets disposals
(2) Not including Δ €/$R exchange rates and Δ fair value on Bonds and derivatives

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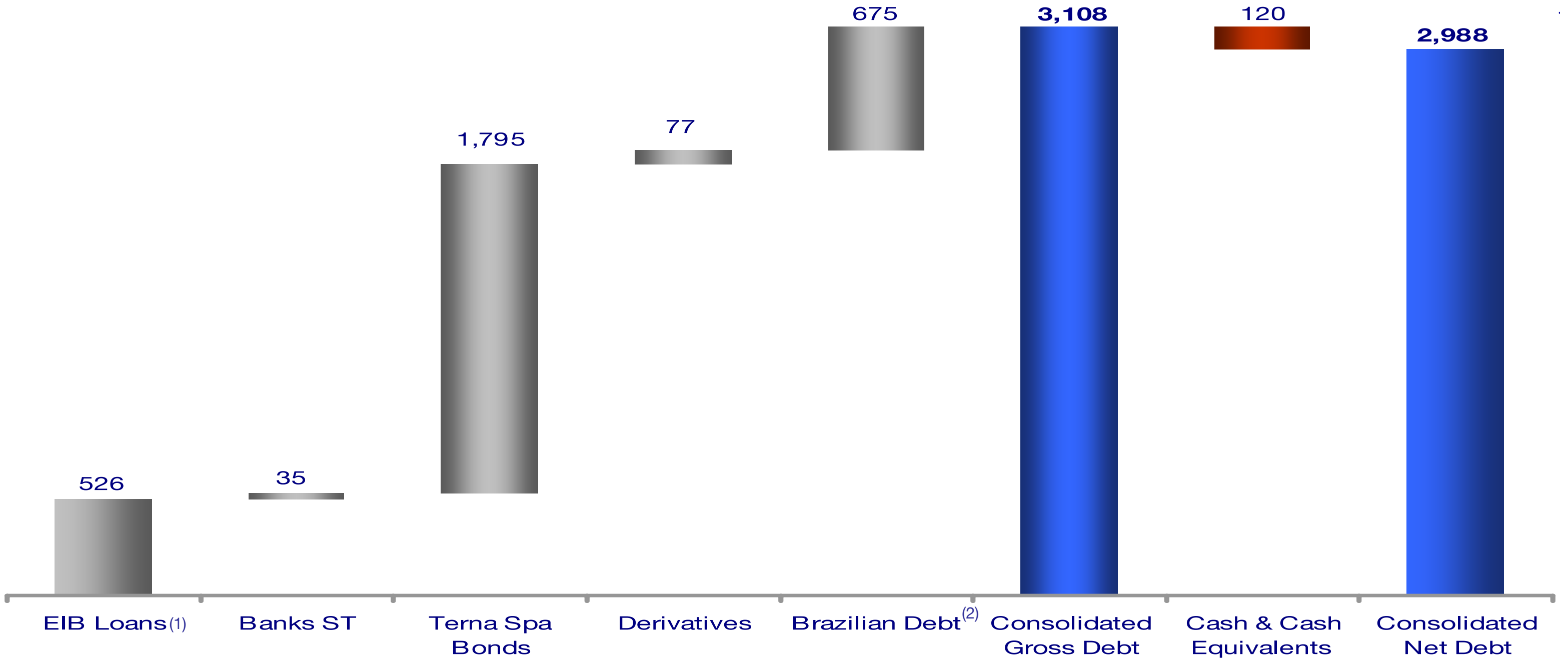
Consolidated Net Financial Position

In mn Euro



Change in Net Financial Position

Net Debt 31/12/07	**2,650**
Δ Fair value on Bonds and Derivatives	*(37)*
Change in Financial Position	*362*
Δ Exchange Rates + Int. Cap.	*13*
Net Debt 30/06/08	**2,988**
Change in Net Debt	**(339)**

(1) *EIB (European Investment Bank) Loans*
(2) *No recourse project finance debt*

Recent Fund Raising

		Amount	Maturity	Costs
Italy	EIB Loan	€300mn	20yrs	Euribor + 5bps
	Syndicated Loan	€650mn	7yrs	Euribor + 50bps
	Revolving Credit Facility	€500mn	5yrs	Euribor + 70bps
Brazil	Promissory Notes	229mn€	1yr	CDI + 115bps

1H 2008 Results

TERNA Participações (IAS)

	In mn Euro			In mn BRL$		
	1H07	1H08	Δ%	1H07	1H08	Δ%
Operating Revenues	**79**	**94**	**19%**	**213**	**243**	**14%**
Operating Expenses[1]	15	24	63%	40	62	55%
EBITDA	**64**	**70**	**9%**	**174**	**181**	**4%**
EBITDA Margin (%)	***81%***	***75%***		***81%***	***75%***	
D&A	10	11	11%	27	28	6%
EBIT	**54**	**59**	**9%**	**147**	**153**	**4%**
Net Interest Expenses	16	14	-13%	44	37	-17%
Taxes	10	9	-11%	28	24	-15%
Net Income	**28**	**36**	**30%**	**75**	**93**	**24%**
Net Invested Capital	**621**	**899**	**45%**	**1,612**	**2,258**	**40%**
Financed by						
Net Debt	**278**	**542**	**95%**	**723**	**1,361**	**88%**
Shareholders' Equity	**342**	**357**	**4%**	**889**	**897**	**1%**

(1) Net of Capitalized Costs

1H 2008 Results

Exchange Rates

	1H07	FY07	1H08
Closing Rate Euro/BRL$	2.60	2.61	2.51
Average Rate for the Period	2.72	2.66	2.59
IGPM	3.90%	7.75%	13.44%

Impacts on: (€mn)	1H08
Revenues	+4.1
EBITDA	+3.0
EBIT	+2.5
Net Financial Interests	+0.6
Net Income	+1.4

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Third Regulatory Period

Technical Note: WACC

	3° Regulatory Period 2008-2011	2° Regulatory Period 2004-2007
Debt/(Debt+Equity)	44.4%	41.2%
K_d	**4.90%**	**4.67%**
Risk Free (Rf)	4.45%	4.25%
Spread	0.45%	0.42%
K_e	**6.75%**	**6.45%**
Risk Premium (Rm-Rf)	4.00%	4.00%
b Unlevered	0.37	0.37
b Levered	0.58	0.55
Tax Shield	33.00%	33.00%
Inflation	1.70%	1.70%
Tax Rate	40.00%	40.00%
WACC real pre-tax	**6.9%**	**6.7%**

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