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TERNA: EARLY ESTIMATES ON THE EFFECTS OF THE NEW 2008/2011 TARIFF SYSTEM

Rome, 4 January 2008 – With resolutions n. 348/07 and 351/07, the Authority for Electricity and Gas established the rates for transmission and dispatching activities for the first year of the third regulatory period (2008-2011) as well as the mechanism for adjusting the rates in the following years.

According to Terna, the regulation for such period is based on principles of continuity and coherence with the objective of providing incentives for the national transmission grid's development and guaranteeing a substantial regulatory stability basically in line with the regulation of the gas sector.

The yearly adjustment of the rates will follow the same methods applied to the previous regulatory period, except for the amortizations that will be adjusted on a yearly basis without falling within the price cap mechanism.

On the basis of the new rates, that according to unitary terms will provide reductions for the end users, Terna carried out early estimates on 2008 revenues after having evaluated the resolutions published by the Authority for Electricity and Gas. Considering the volumes of energy as being equal to 339 TWh (terawatthour = billion of kWh) — in line with the figure expected for 2007 and equal to +0.6% compared to 2006 — Terna forecasted that total tariff revenues for 2008 (inclusive of revenues for transmission and dispatching activities) will be approximately 1,085 million euro.

Terna estimated the recognized net invested capital (RAB) to be approximately 6.3 billion euro, 6.1 of which relative to transmission activity and 0.18 relative to dispatching activity.

The resolution also increased the remuneration rate of invested capital (WACC), from the present 6.7% to 6.9% and established an additional remuneration incentive (between 2 and 3%) for development capex for a 12 year period after the investments are made, thus confirming the Authority's intention to promote the National Electricity System's development and safety.

The increased 3% remuneration will be linked to investments for interconnections and investments aimed at solving the grid's congestions.

To all development investments entered into operation by the end of 2007 a 2% incentive up to 2019 will be applied.

With regard to operational costs, the rates will be adjusted every year taking into account the inflation rate and efficiency gains imposed on the Company (*X-factor*): during the previous period, this value equalled 2.5%, while for the 2008/2011 period it will be reduced to 2.3% for transmission costs and to 1.1% for dispatching costs.

With regard to depreciations, the rate will be updated every year taking into account net investments made and it will no longer be subject to the efficiency gain factor.

Resolution n. 351/07 also envisaged the introduction — starting in 2008 — of a remuneration based on reaching specific objectives for improving activity in estimating electricity demands and electricity received from wind power plants.

The Authority also adopted resolution n. 341/07 that includes an incentive/disincentive mechanism for the quality of the transmission service; the economic effects of this resolution will range between +2%/-1.5% of the annual transmission revenues but will however be produced starting from 2010 onwards.