

2012

2008

STRATEGIC PLAN

Luigi Roth - Chairman

Flavio Cattaneo - Chief Executive Officer

Milan, January 31st, 2008



Terna
Rete Elettrica Nazionale

Agenda

Introduction

L. Roth

2008-2012 Strategic Targets

F. Cattaneo

Closing Remarks

L. Roth

Q&A Session

Highlights

2005-2007

- Integration with TSO
- Unification of the Grid
- Development of the Grid
- Cost efficiency
- Valorization of Brazilian assets
- Regulatory review

Achievements

- Done
- Done (from 92% to 98% of the NTG)
- Doubled investment plans
- Done (-50mn opex⁽¹⁾ in 2 years)
- IPO + 4 acquisitions
- Done

2008-2012: Combination of Predictability and Growth

(1) Group's opex vs. 2005 pro-forma to consider full consolidation of TSO +RTL starting from January 1

Main Targets

Development of the Grid

> € 3.1bn capex
of which 80% development capex (€2.5bn)

Margins' Enhancement

Group: EBITDA margin from 71 to 75% (revenue driven)
BU Italy: -50mn operational costs in 2012 (vs 2006⁽¹⁾)

Safety and Reliability

Best practice quality targets
Potential upside from premium schemes

Brazil

Extract value from post-merger synergies

(1) 2006 Pro-forma in order to consider full consolidation of RTM1, RTM2, and RTT starting from January 1

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International Expansion

Financial Performance

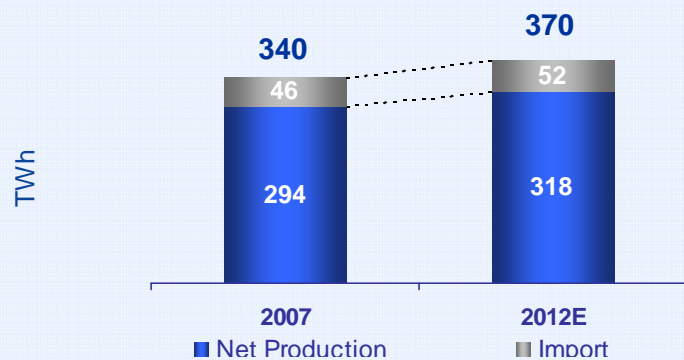
Electricity Demand

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Scenario highlighted in 2007 confirmed ...

Demand Growth

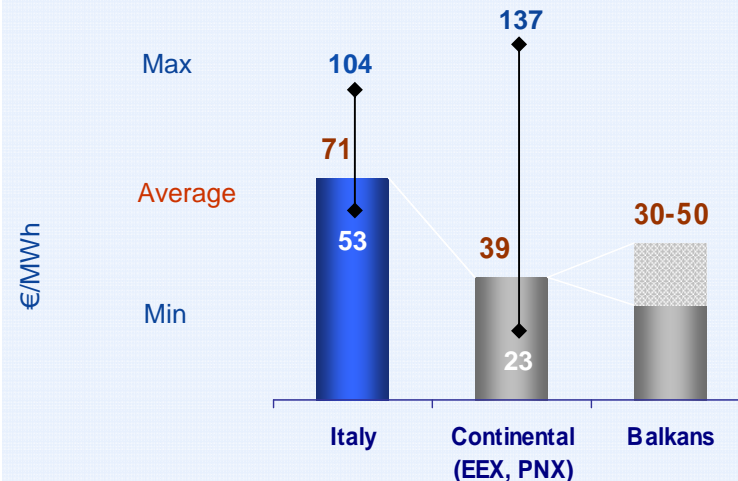
CAGR: Demand 1.7%; Peak Demand 3%



Note: 2007 provisional figures

Strong electricity demand growth, despite weaker GDP growth

Electricity Prices



Note: Average 2007, Weekly Average

- Italian pool prices above European average
- Price volatility in Central Europe and Balkans inverts import/export dynamics

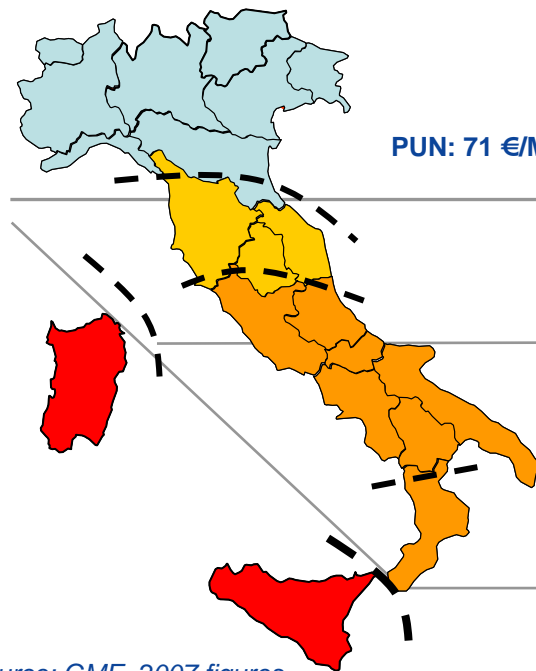
Electricity Market Trends

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... and trends reinforced



--- Critical area



PUN: 71 €/MWh

NORTH: High demand, partially covered by imports

CENTRE: Structural lack of generation capacity

SOUTH:
New generation capacity, but main bottlenecks ⇒ major investments needed

ISLANDS: Critical areas

Source: GME, 2007 figures

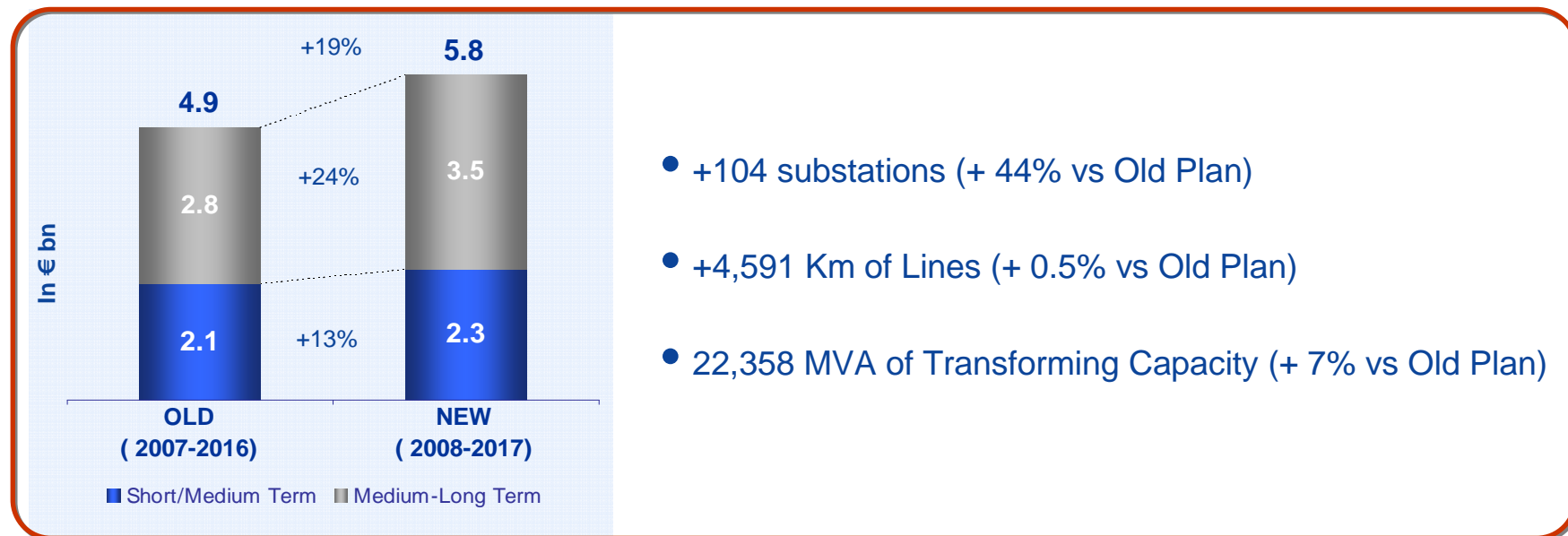
NEW TREND: Strong development of renewable power generation requires the reinforcement of NTG

Planning the Italian Grid

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- TERNA is the sole developer of the National Transmission Grid
- Main elements of the National Development Plan:
 - Reduction/elimination of congestions between electric market zones
 - Grid reinforcement for reliability enhancement and increase in renewable generation
 - Strengthening of the Northern Italy transmission system and neighbouring interconnections

2008-2017 National Development Plan

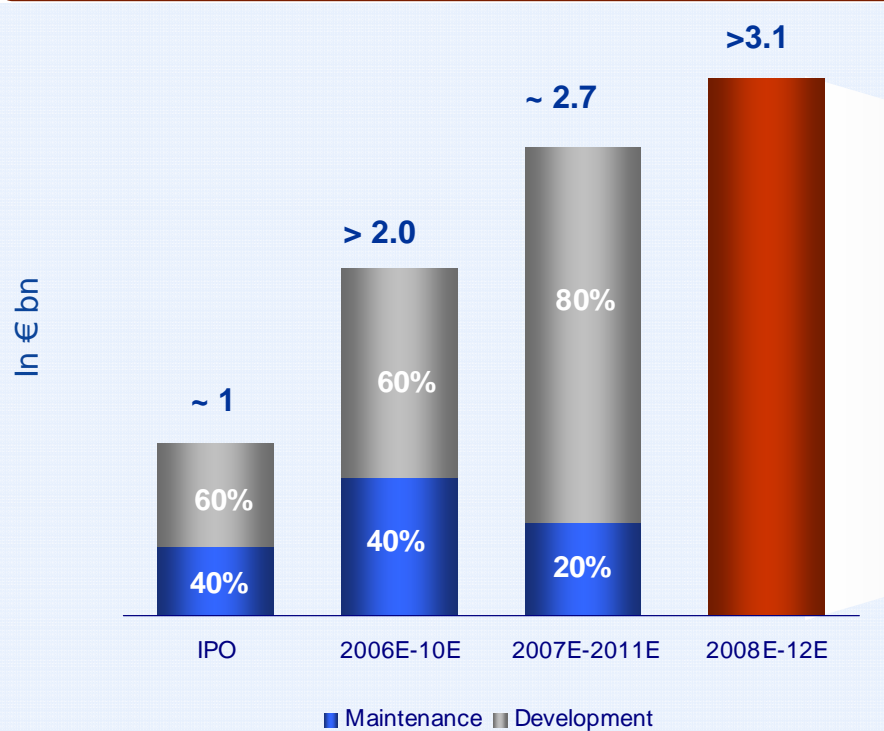


Investing in our Grid

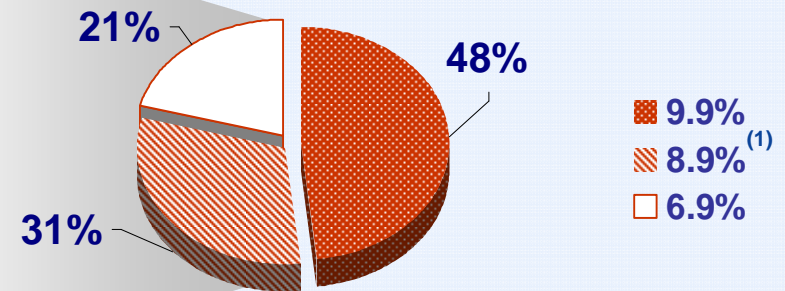
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The Development of the Grid is our Priority:

Capex Plan



Capex Remuneration



- 9.9%⁽¹⁾
- 8.9%⁽¹⁾
- 6.9%

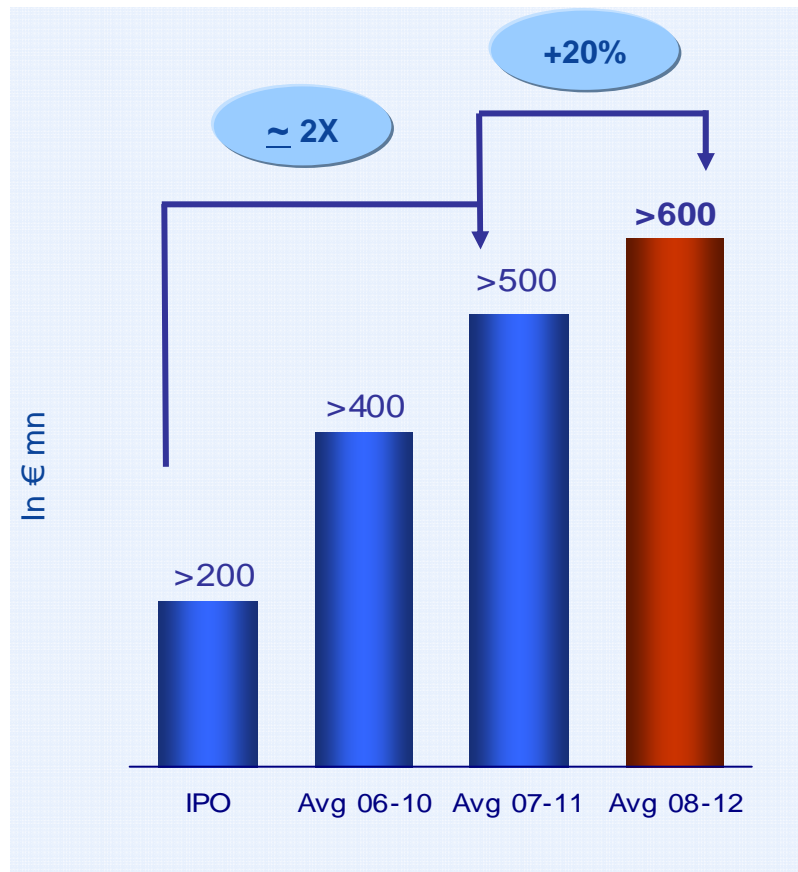
efforts over time tripled ...

(1) Including Defence Plan

Average Annual Spending

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... and the increase in annual spending proved as sustainable



- 2008-2009 peak years due to SAPEI roll-out
- Capex eligible for 3% incentive in tariff RAB from 2010 (in operation since 2008)

Main Projects

Development is not only a matter of great projects...



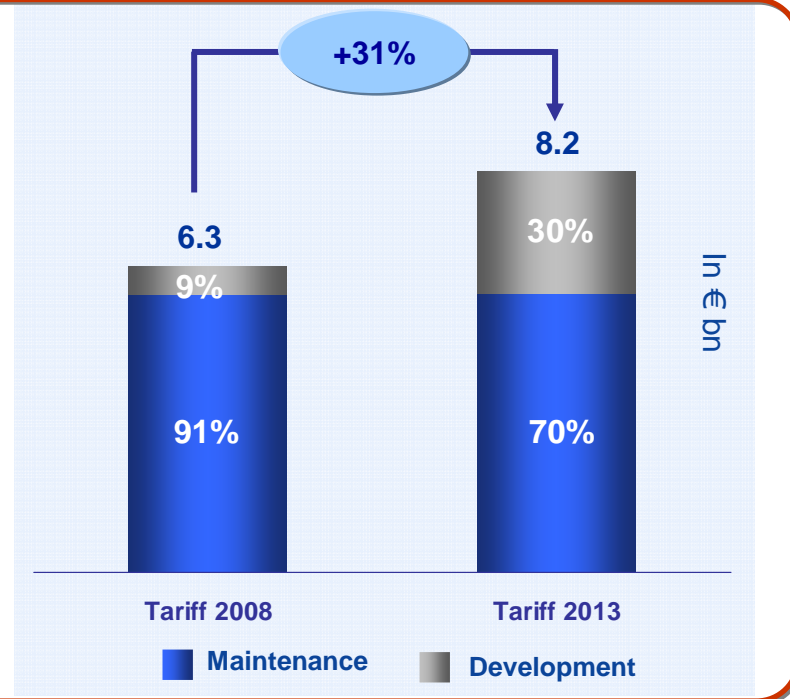
... it also implies respect for the environment and innovative solutions

Evolution of RAB

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CAGR confirmed at 6%, with a step up in initial RAB

Improved RAB mix



Improved Blended Returns⁽¹⁾

	Starting		Ending
New Plan	7.1%	⇒	7.6%
Old Plan	6.8%	⇒	7.2%

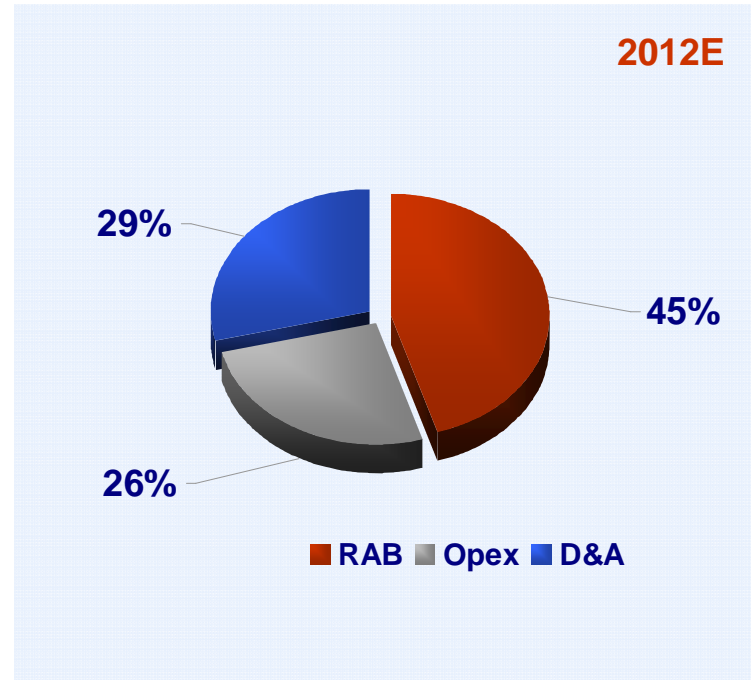
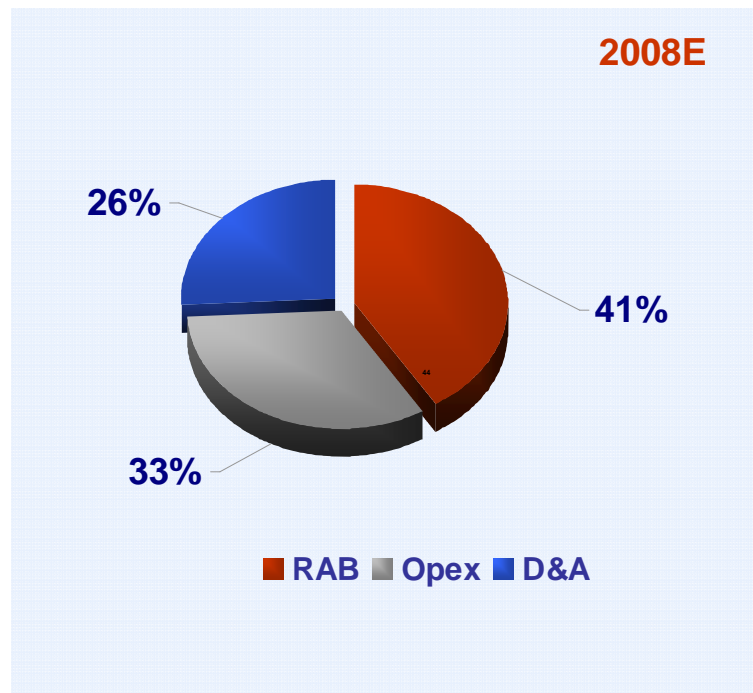
Note: RAB includes Dispatching Activities

(1) Returns calculated as weighed average of various regulatory WACC levels applied to related RAB portions

Third Regulatory Period

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Regulated Revenues⁽¹⁾



2008: volume effect to offset unitary tariff decrease

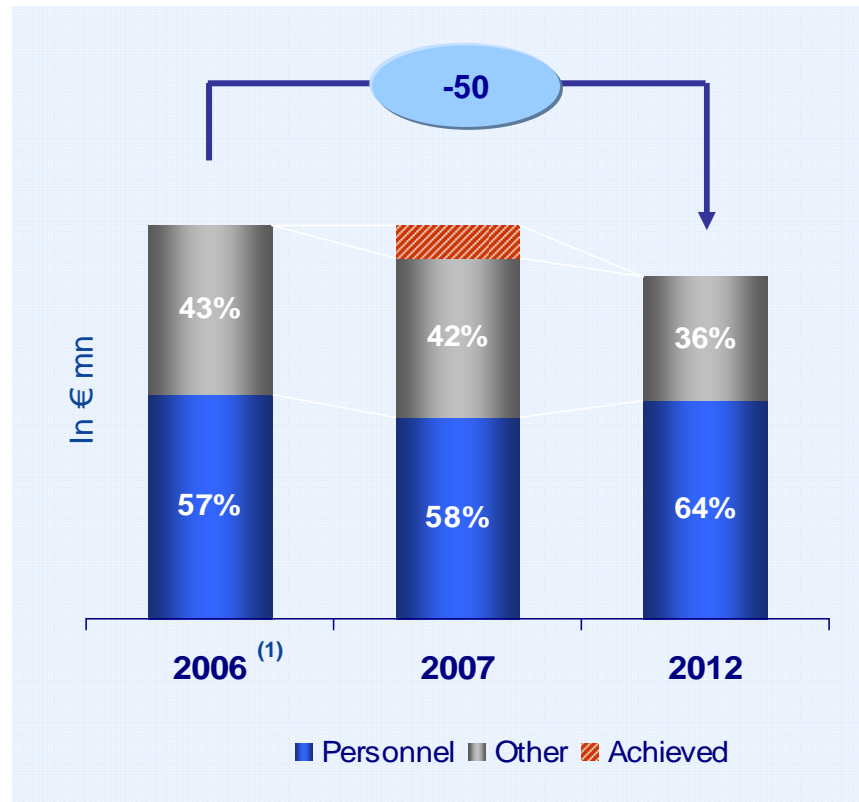
2009-2011: enhanced outlook

(1) Terna's estimates

Cost Efficiency

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Annual efficiency target above regulatory target (-4% vs. 2.3% or 1.1%) ...



- Strong reduction in other costs mostly due to in-sourcing
- Personnel substantially flat notwithstanding labour cost dynamics

... and Opex Outperformance linked to previous efficiency retention

(1) 2006 Pro-forma in order to consider full consolidation of RTM1, RTM2, and RTT starting from January 1

Quality

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Reliability

Ensure reserve margins → Focus on generation/transmission maintenance programs to face high load periods

Enhance system reliability → Defence Plan: capex = 150mn euro (+50% vs previous Plan)

Quality

New quality indicators introduced by the Regulator for transmission and dispatching

- Transmission:**
- Energy Not Supplied
 - Numbers of Disruptions for Grid Users
- Dispatching:**
- Forecast of Daily Energy Consumption
 - Forecast of Wind Power Plant Production

Potential upside from the bonus/penalties schemes

Other Opportunities in Italy

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- **Further consolidation of the Grid**
- **Potential enlargement of the National Transmission Grid**
- **Development of Non-Regulated Businesses**

Non Regulated Businesses

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Other Activities

- Engineering and Construction
- O&M Services for third parties
- Network management services

Drivers

- New generation plants, mainly renewable, to be connected to the Grid
- Renewal of obsolete substations connecting industrial sites to the Grid

Target: Increase Revenues from Non Regulated Activities

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International Expansion

Financial Performance

Main Strategic Targets

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Operational Efficiency

- Synergies from recent M&A
- In-sourcing Practices

Growth Opportunities

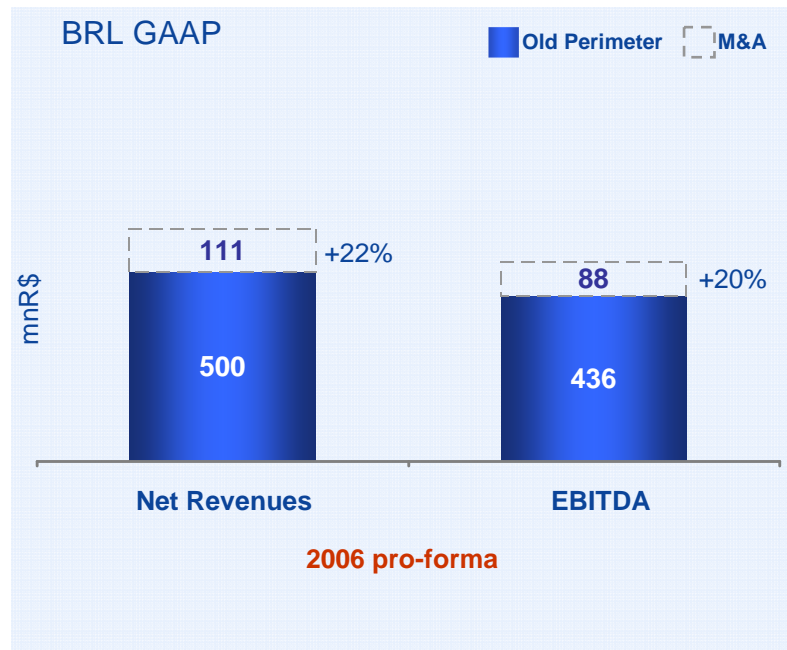
- Organic Growth
- Greenfield Auctions and M&A
- Other Services

Operational Efficiency

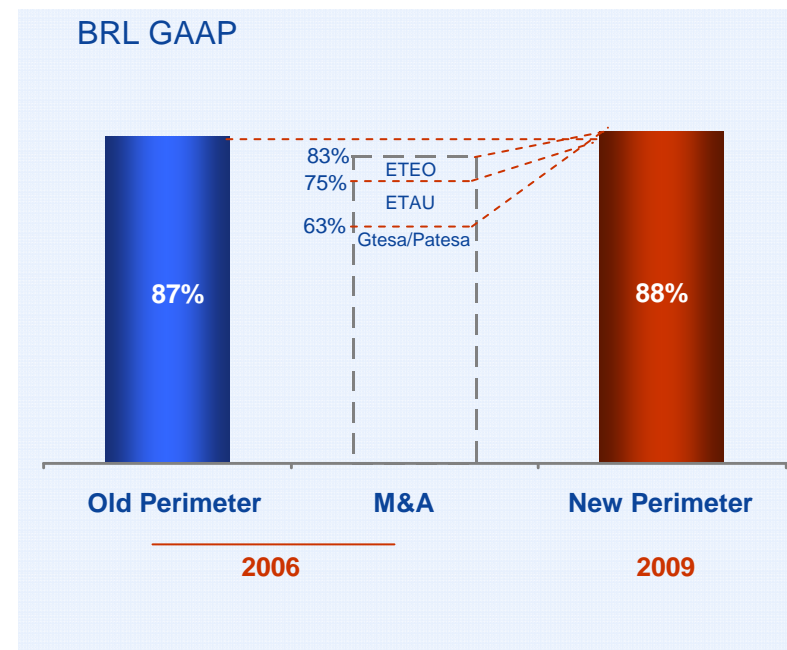
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Expected increase in Net Revenues...

Net Revenues and EBITDA



EBITDA Margin

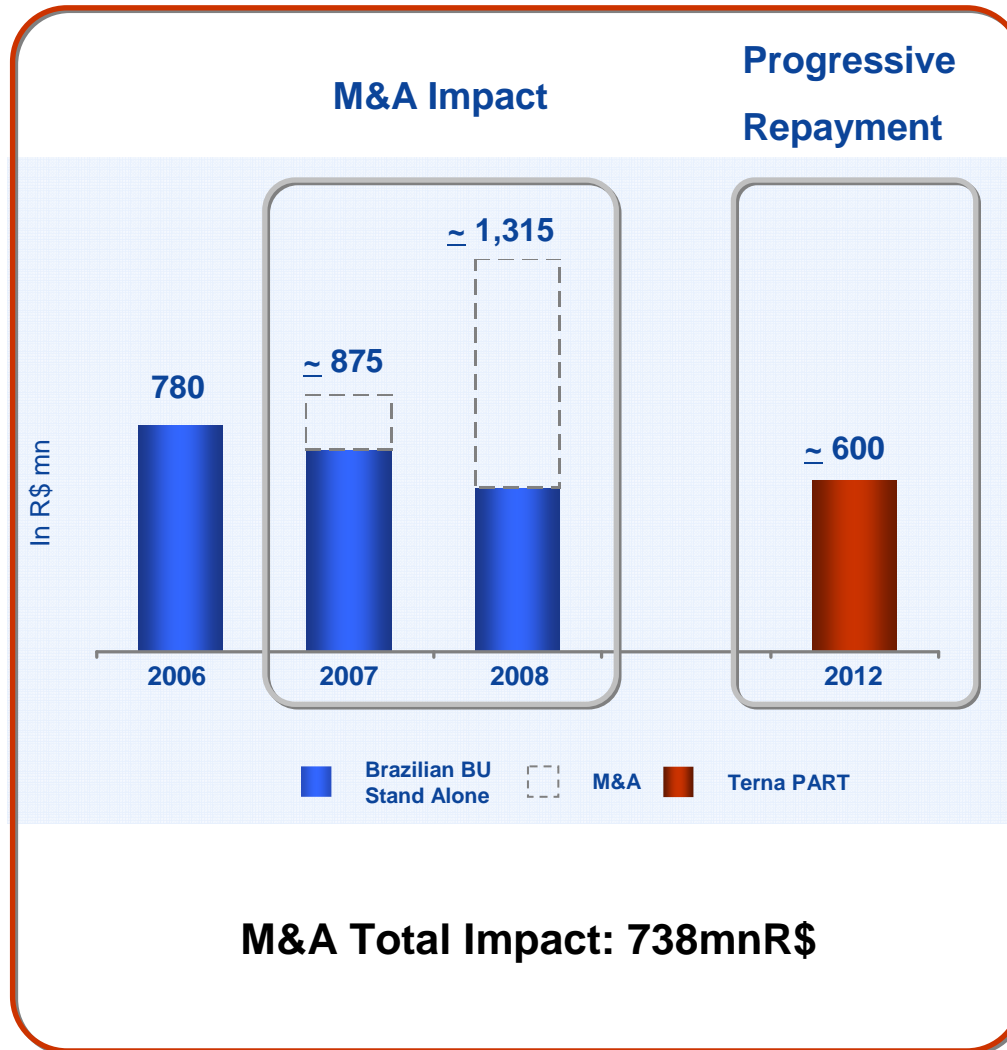


...and improvement in EBITDA Margin

Note: ETAU is consolidated proportionally (52.58%)

Net Debt Evolution

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Growth

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- About 30mnR\$ of capex required by ANEEL, will bring additional RAP every year
- Maintenance capex at minimum level

Greenfield and M&A

Auctions pipeline in 2008

- Transamazonica (Tucuruí-Manaus)
- Rio Madeira

Other Services

Formation of “Terna Services”, that will offer specific technical services to third parties

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International Expansion

Financial Performance

International Expansion

Confirmation of Terna's strategic approach based on our dual-country presence



Brazil and LatAm

Market Fundamentals:

- Favourable macro economic scenario
- Appealing regulatory framework
- Huge need for transmission infrastructures

Opportunities:

- TERNA Part to act as a consolidator

Balkans and North Africa

Market Fundamentals:

- Surplus of energy from cheaper and green sources available in the mid-long term
- Significant differential of electricity prices

Opportunities:

- Italy as "electricity hub" in the Mediterranean basin
- Leverage on TERNA reputation and "know how" to seal agreements with local TSOs

Strategic Approach

Interconnections

Trends:

- Italy strongly dependent on imported electricity
- Overcapacity and long term favourable price differential in neighbouring regions (Balkans and North Africa)

Rationale:

- Increase security of supply and reliability of the Italian electric system
- Enhance liquidity of the Italian electricity market through access to cheaper and green electricity

Balkans

Opportunities:

- Create/reinforce Inter-State transmission Corridors, through the promotion of partnerships with local TSOs
- Nurture and follow up opportunities of private capital investments in the Region (public private partnerships, privatisation processes)

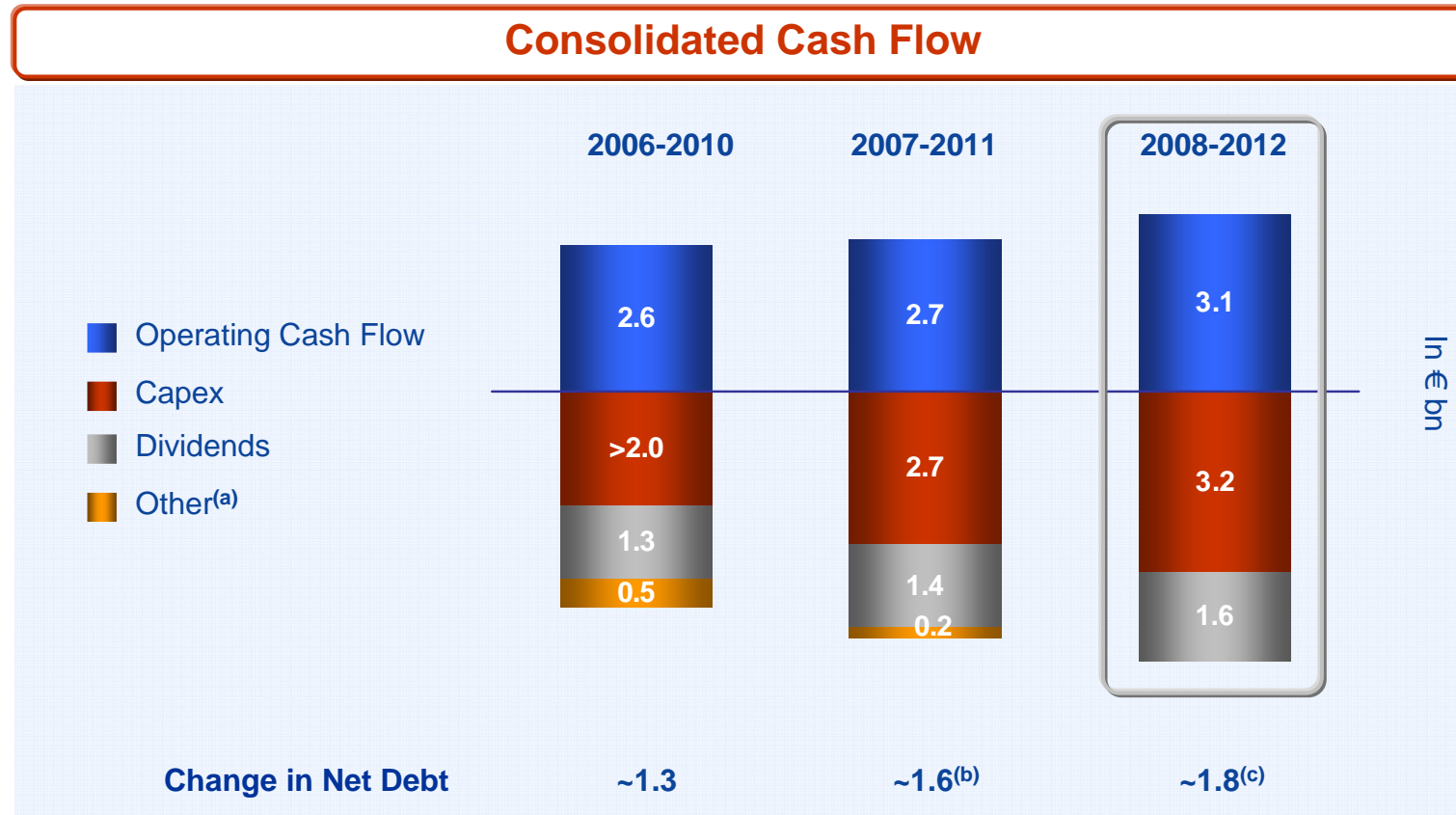
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International Expansion

Financial Performance

Net Debt Evolution



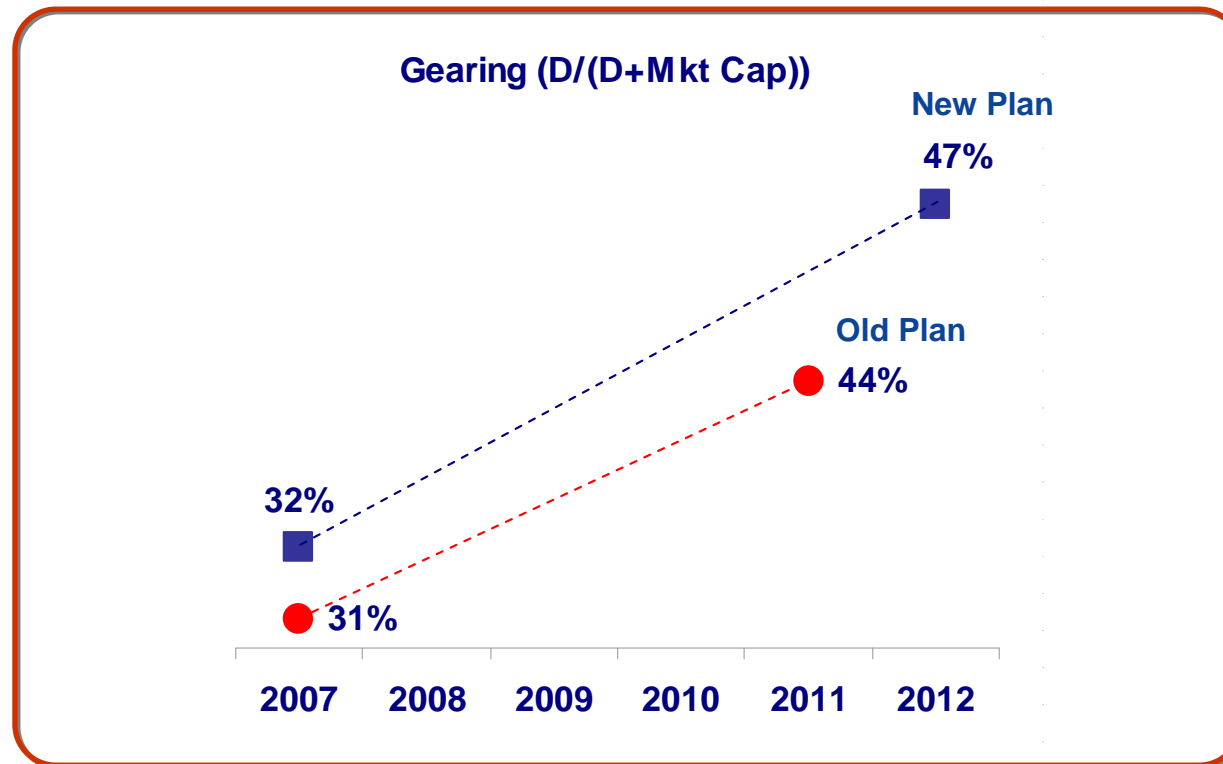
Growth in Operating Cash Flow offset by increase in capex

- a) Acquisition of Grid portions
- b) Starting from a Net debt for 2006 of about 2.3bn euro
- c) Starting from an expected Net debt for 2007 of about 2.7bn euro

Financial Efficiency in the Italian Regulated Business

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Higher financial efficiency achieved within the Plan...



... with WACC outperformance already in 2008 (Internal WACC < Allowed WACC)

Fiscal Impacts

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- Italian Budget Law introduced new lower tax rates:
 - IRES: from 33% to 27.5%
 - IRAP: from 4.25% to 3.9%

- Implications for Terna:
 - Reduction of average tax rate: about 35/36% vs previous 40%
 - Impact on Deferred Tax Fund (expected release of about 60mn in 2007)

Dividend Policy

- Floor: confirmed DPS05
- New growth: minimum 4% annual growth
- Confirmed Interim dividend practice
- Best in class among peers

High-yield stock with market friendly track record

Corporate Social Responsibility

Proceeding on the sustainability path...

Latest Achievements

- 2006 Sustainability Report according to GRI G3 Guidelines and checked by external auditors
- Environment:
 - Obtained ISO 14001 certification
 - Development of the Grid focusing on minimal environmental impact
- Employees:
 - People Satisfaction Survey
 - Safety: obtained OHSAS 18001 certification

Future Commitments

- Increase Transparency (e.g. more Group G3 indicators)
- Improve stakeholders engagement

- Keep on focusing on the environmental impact of our activities

- Improve internal communication and HR policies

Closing Remarks

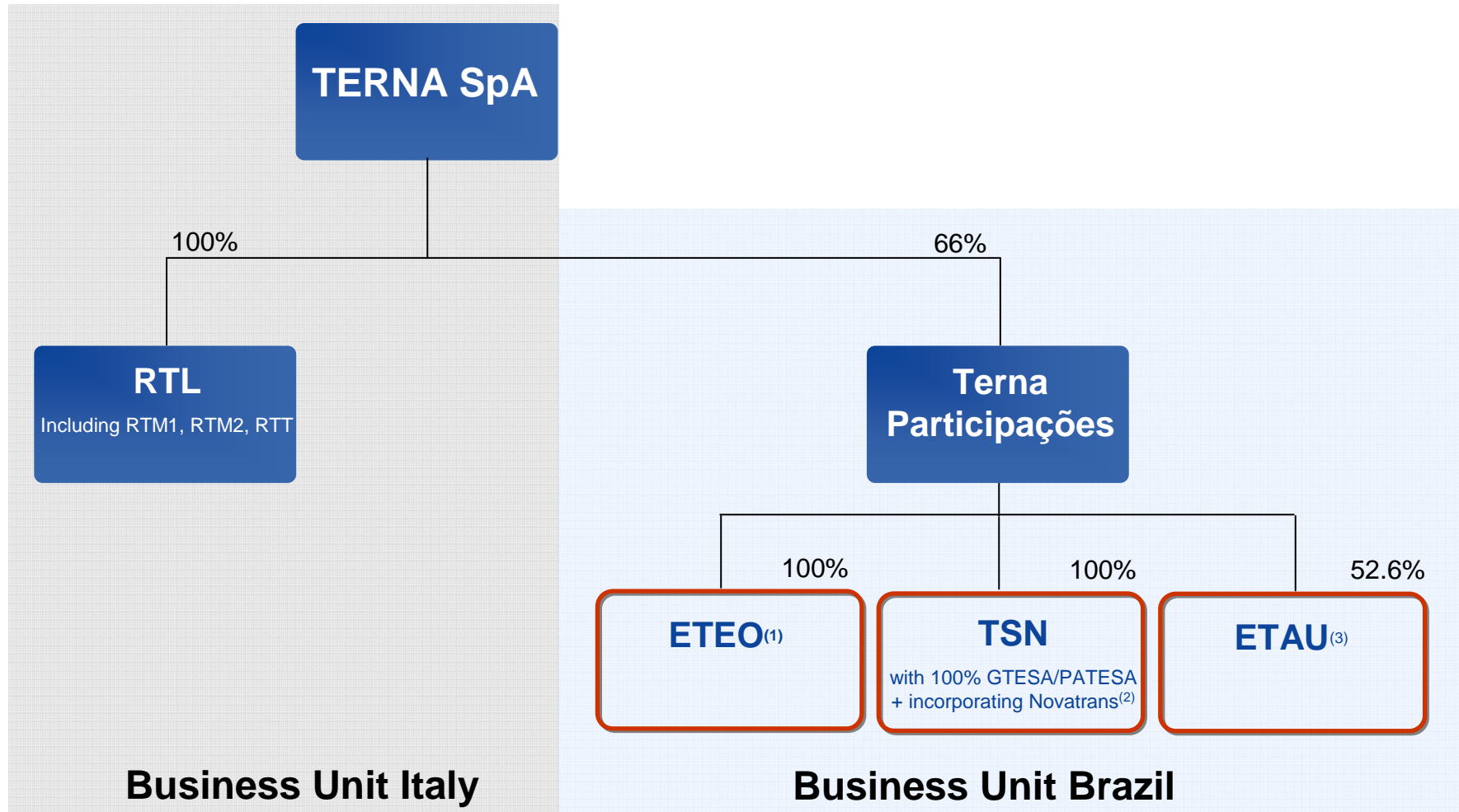
2008-2012: Combination of Predictability and Growth

Defensive Profile + High Total Shareholders' Returns

Q&A

ANNEXES

Business Units



- (1) Pending ANEEL approval
- (2) Novatrans incorporation still subject to ANEEL and BNDES approval
- (3) Consolidated with the Equity Method

National Development Plan

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Timeline for approval compliant with Grid Code and new Concession

Annual update of Development Plan	Fall 2007
Opinion from Consultation Committee	Mid Dec 2007
Approval by Terna BoD	By Jan 2008
Plan sent to the Ministry of Economic Development	By End of Jan 2008
Environmental Strategic Evaluation	By 2Q2008
Approval by the Ministry of Economic Development	By 3Q2008

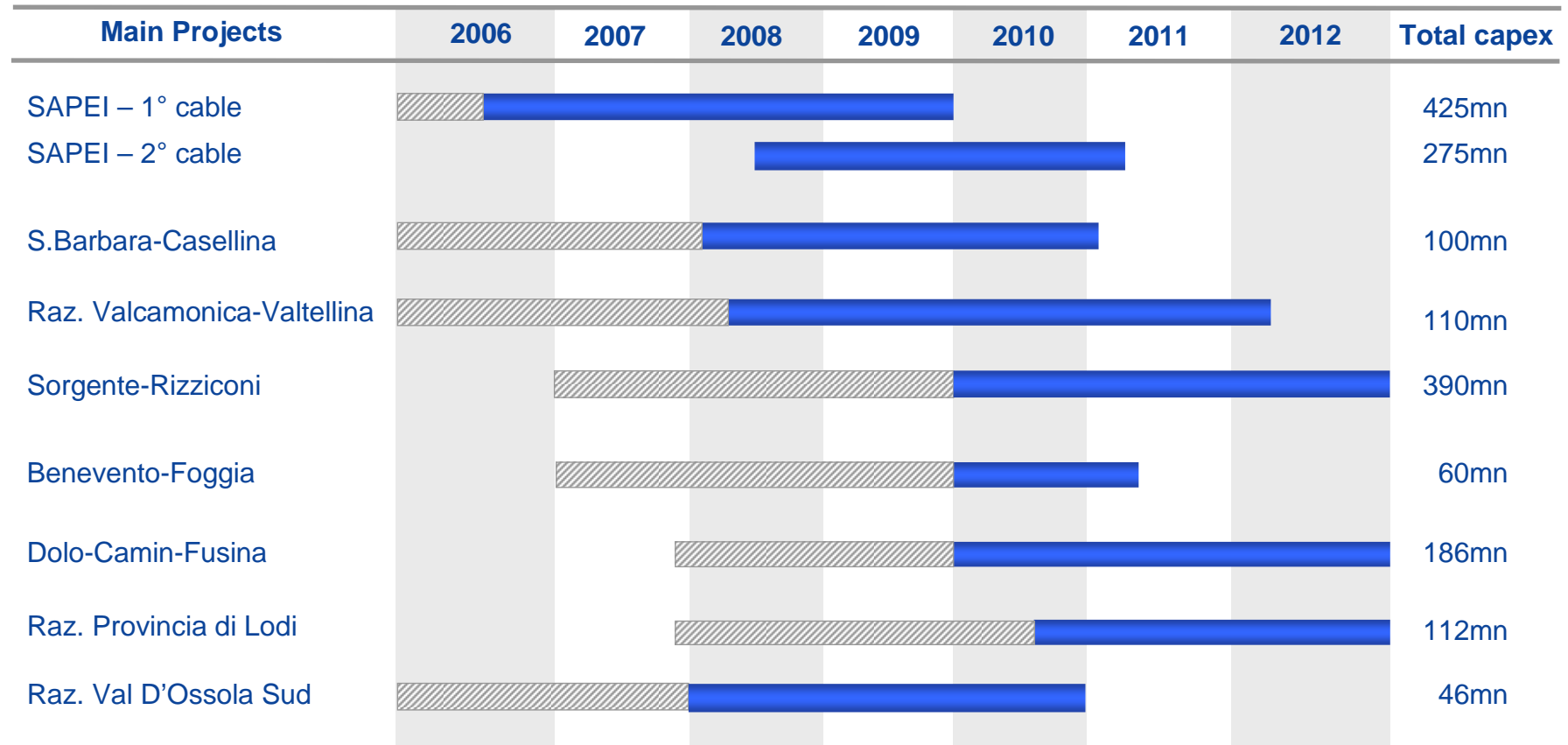
RAB Evolution



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Pipeline of Main Projects

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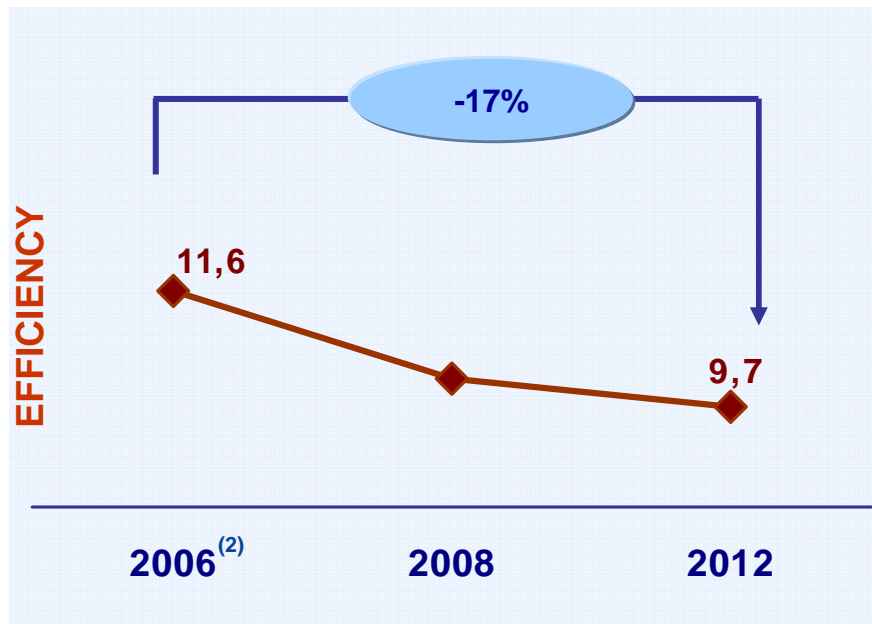


 Start-up capex: authorization
 Main capex: construction and commissioning

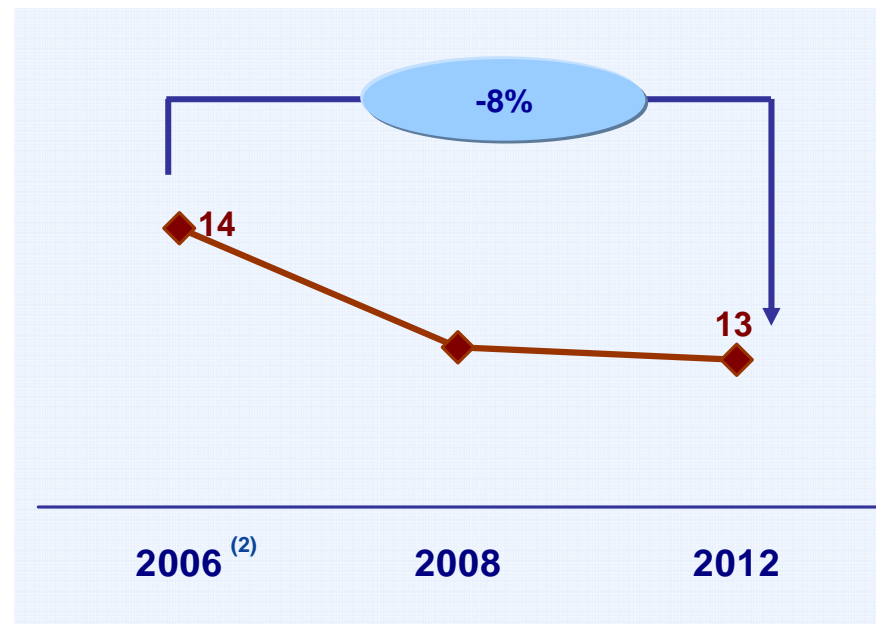
Cost Efficiency

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Transmission Opex ('000 Euro/eq.Asset)⁽¹⁾



Dispatching Opex ('000 Euro/Bays)



Significant Economies of Scale Drive Efficiency

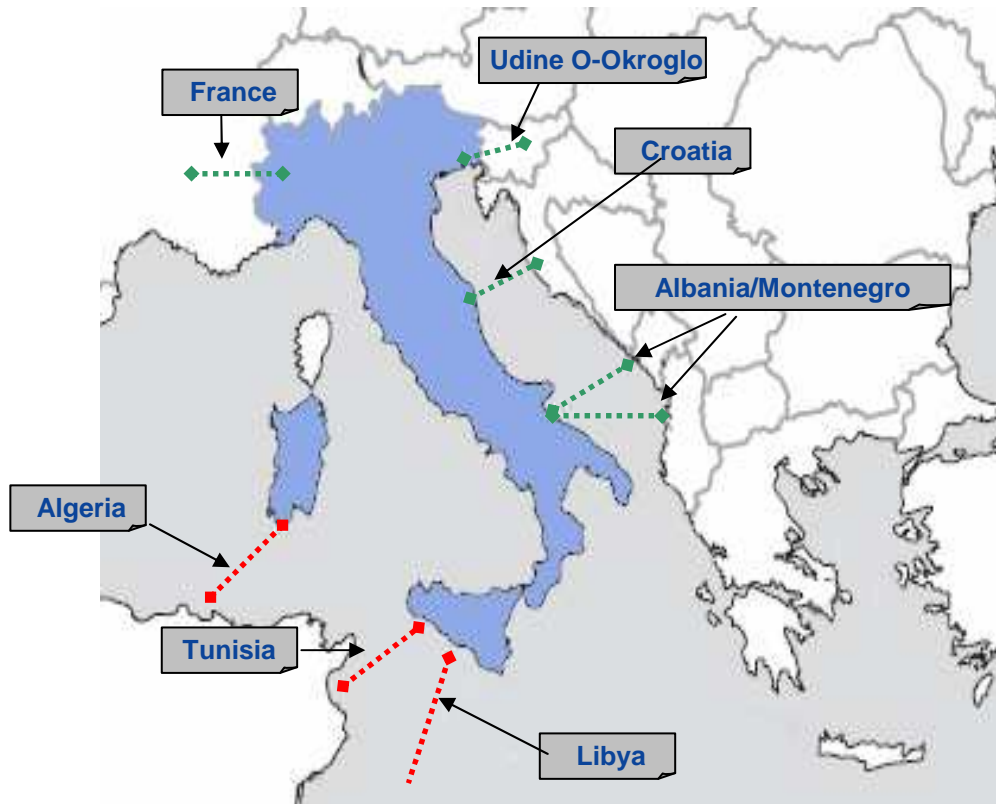
- (1) The equivalent asset is a conventional indicator that allows a homogeneous measurement of the efficiency on different typologies of assets, that have – given their nature – different costs for maintenance
- (2) 2006 Pro-forma in order to consider full consolidation of RTM1, RTM2, and RTT starting from January 1

Depreciation Rates

Asset Category	Depreciation Rates
Transmission Lines	2.50%
Substations	
– Transformers	2.38%
– Other Electrical Equipment	3.13%
– Buildings	2.50%
– Automation and control system	6.70%
Dispatching and Control Systems	
– Electronic Components	5.00%
– Buildings	2.50%
– Equipment	10.00%
Real Estate	2.50%
Software	33.33%
Car fleet	20%-25%

Interconnections

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- Plan 2008-2012
- Development plan 2012-2016
- Long Term feasibility study

18 interconnection lines:

- 4 France
- 9 Switzerland
- 1 Austria
- 2 Slovenia
- 1 Greece (sub-marine)
- 1 Corsica (sub-marine)

Plan 2008-2012:

- Start up Udine Ovest-Okroglo
- Italy-France (Reinforcement existing grid)
- Start up of Ist Balkan interconnections

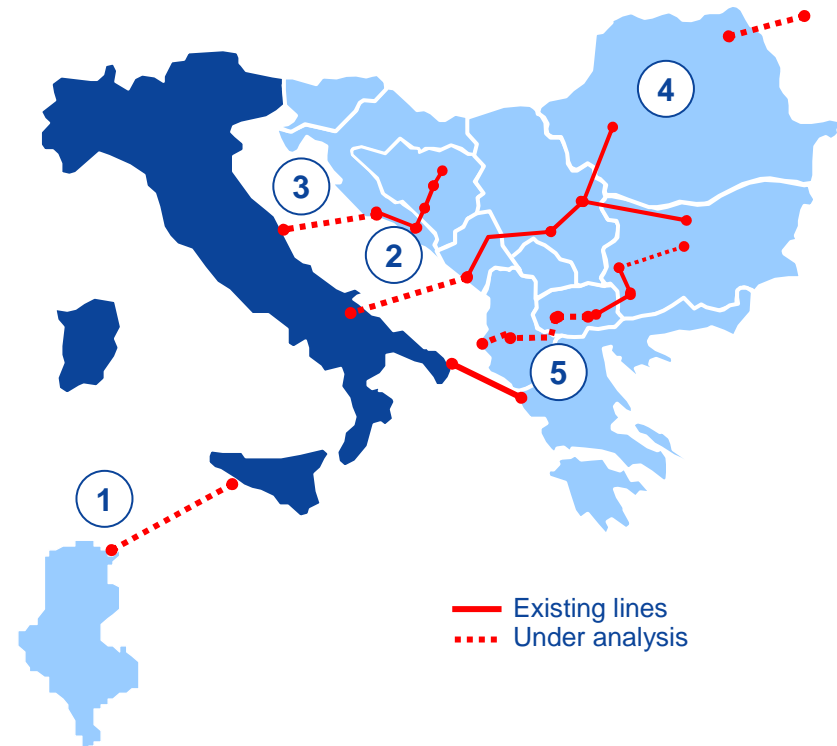
Post 2012:

- Start up of IInd Balkan interconnections

Italy as an “electric Mediterranean Hub”

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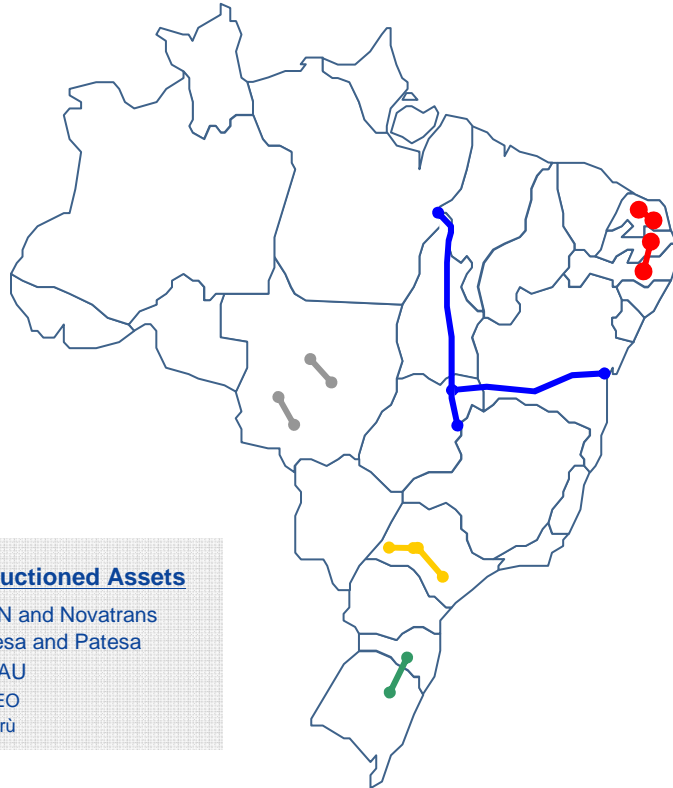
- ① **Tunisia**
 - Intergovernmental agreement (June 2007)
 - MoU between TERNA and STEG (June 2007)
- ② **Montenegro**
 - **MoU between TERNA and EPCG for feasibility study on new interconnection** (November 2007), study under realisation phase
 - **Intergovernmental agreement** providing institutional support (December 2007)
- ③ **Croatia**
 - **Feasibility study on new interconnection** under completion by TERNA and Croatian TSO HEP-OPS
- ④ **Romania**
 - **MoU with Transelectrica on joint infrastructural development** over Romania-Moldova border (October 2007)
- ⑤ **Macedonia-Albania**
 - **MoU among TERNA and TSOs from Albania and Macedonia** for new interconnection line Macedonia-Albania (July 2007)



Building the Italian Electricity Hub

Terna Participações - Overview

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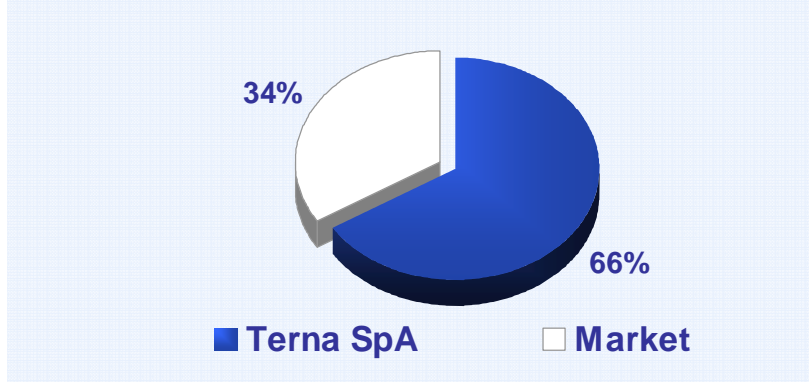


Existing/Auctioned Assets

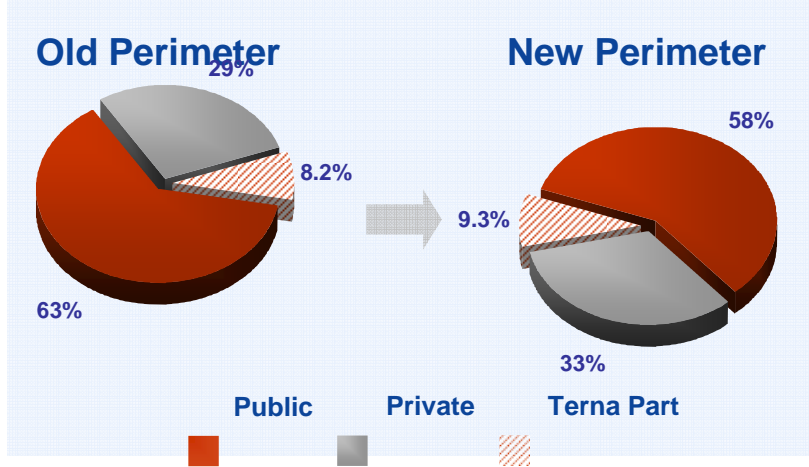
- TSN and Novatrans
- Gtesa and Patesa
- ETAU
- ETEO
- Jaurú

- 3,382 km of Transmission Lines
- 27 Substations
- 8 Concessions

Ownership Structure

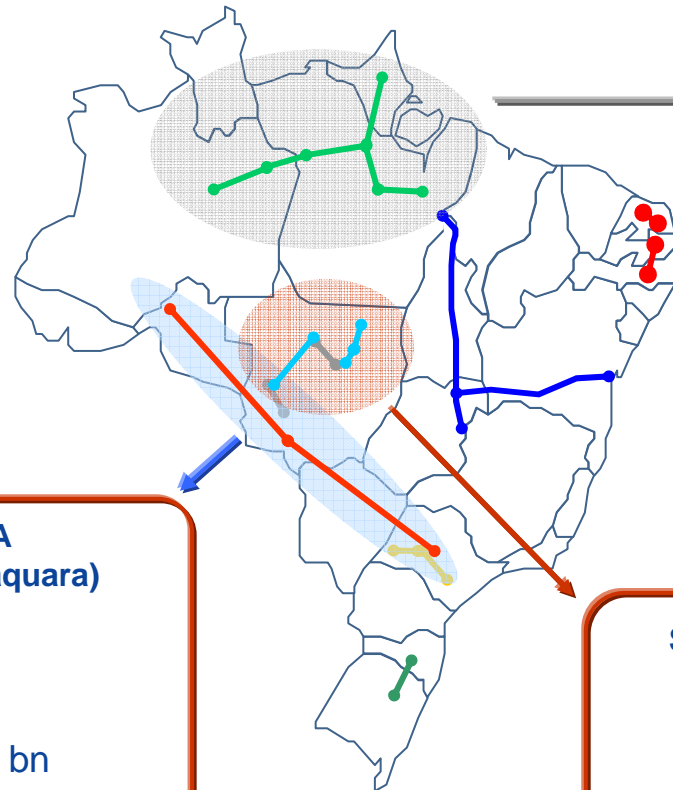


Market Share



Terna Participações – Greenfields

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**RIO MADEIRA
(Porto Velho- Araraquara)**

- Lines: 2,500 Km
- Capex: about R\$ 7.6 bn
- Tender Rules: expected in 1Q 2008

**TRANSAMAZÔNICA
(Tucuruí-Manaus)**

- Lines: 1,811 Km
- Capex: about R\$ 3.4 bn
- Tender Rules: expected in 2Q 2008

**Sinop – Sorriso – Nova Mutum
Maggi - Juba**

- Lines: 471 Km
- Capex: about R\$200 mn
- Tender Rules: expected in 2Q 2008

Existing/Auctioned Assets

Blue line	TSN and Novatrans
Red line	Gtesa and Patesa
Green line	ETAU
Yellow line	ETEO
Grey line	Jaurú (Lot C)

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THE PLAN WAS ELABORATED IN ACCORDANCE WITH CURRENT ACCOUNTING PRINCIPLES, NOT TAKING INTO ACCOUNT THE HYPOTHETICAL IFRIC12 APPLICATION

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