

2007-2011 Strategic Plan

Luigi Roth – Chairman

Flavio Cattaneo – Chief Executive Officer

Milan, January 31st, 2007

Agenda

Introduction

L. Roth

2007-2011 Strategic Targets

F. Cattaneo

Closing Remarks

L. Roth

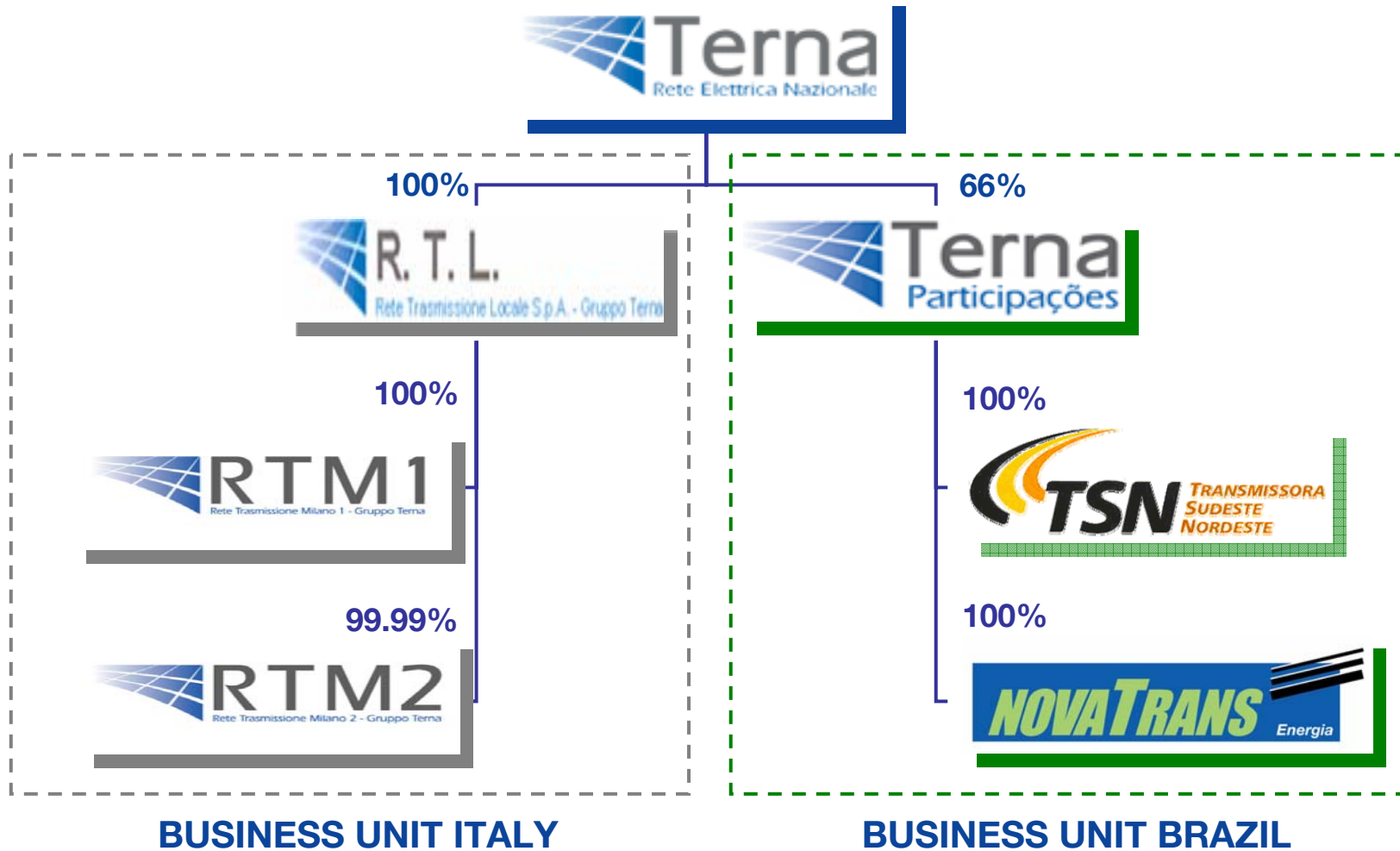
Q&A Session

The Mission

Terna:

- Large-scale operator of electricity transmission grids
- Provides concession services
 - Reliability, quality and economy of the grid over time
 - Equal access conditions to all grid users
- Develops market activities and new business opportunities
- Creates value for its shareholders
 - Professional excellence
 - Responsibility towards the community
 - Respect of the environment

The Group



2007-2011 Strategic Plan

Highlights

Development of the Grid

2.7bn € capex
of which 80% development capex

Cost Efficiency

-60mn operational costs in 2011 (vs 2005)
25% reduction in Opex/GWh

Safety and Reliability

Average Interruption Time < 1.0 min/year
Availability of the Grid > 99%

BU Italy

BU Brazil

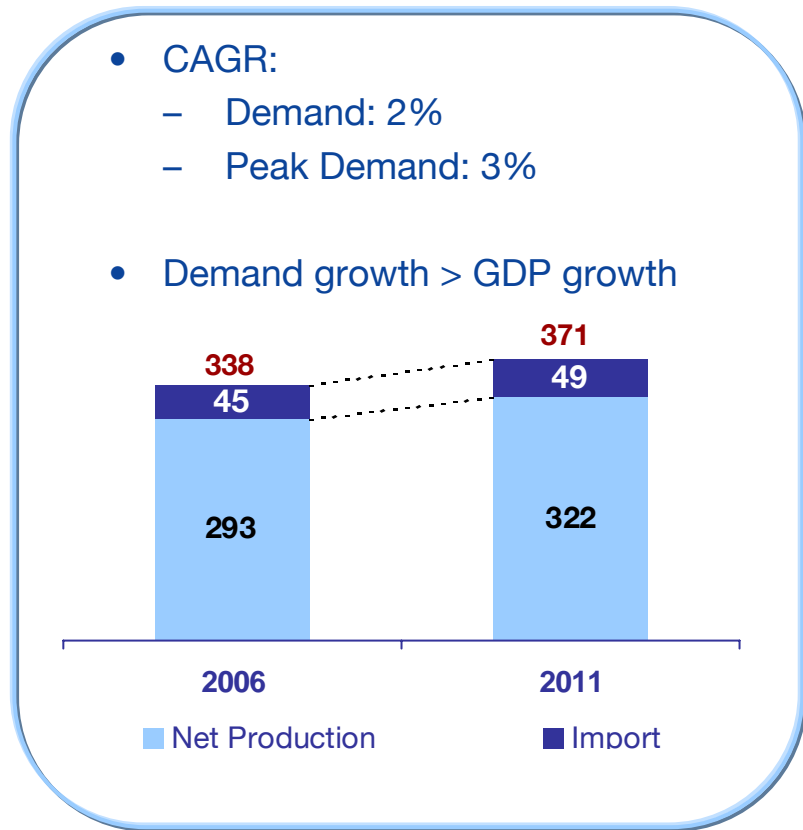
International Expansion

Financial Performance

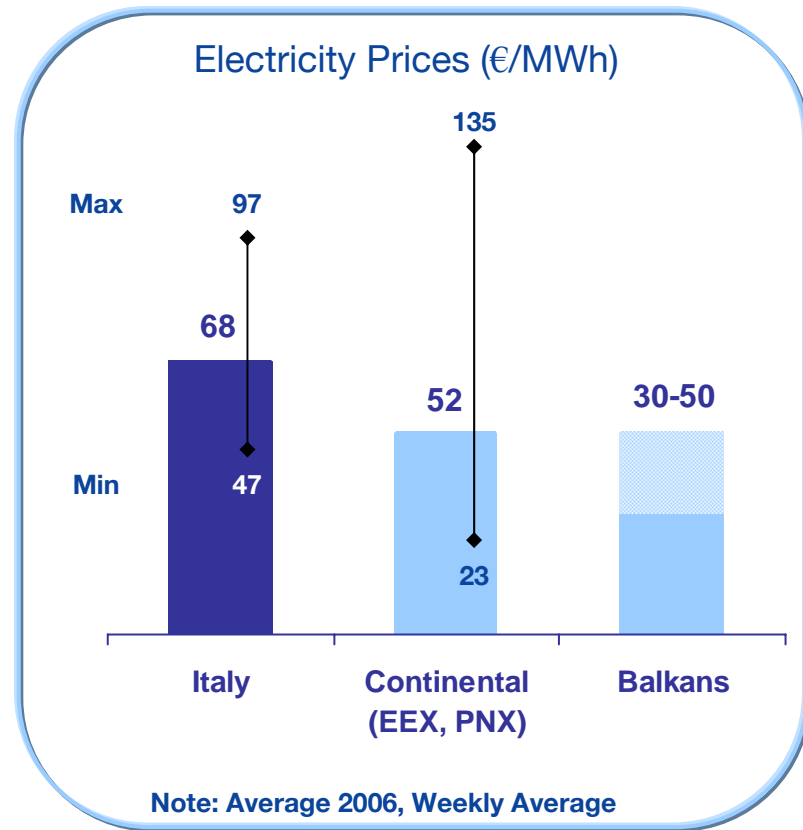
Electricity Market Outlook

General Scenario

Electricity demand in Italy remains strong ...

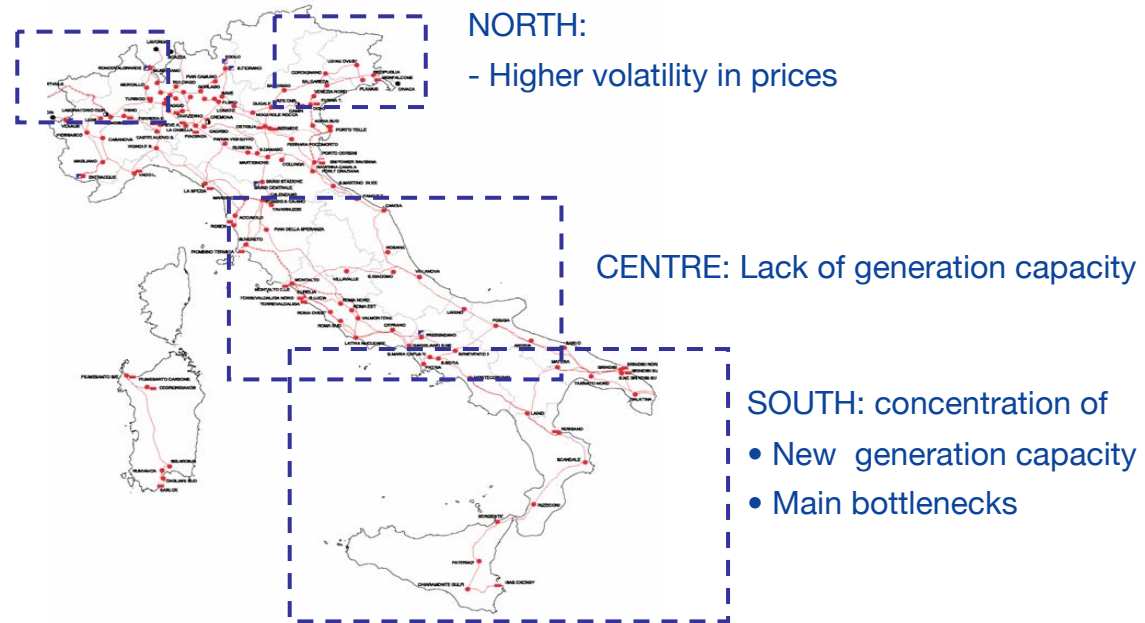


... while volatility in European prices increased



Electricity Market Outlook

Market Trends



Import



- European prices are getting closer to Italian prices especially in peak times
- Balkans: structural overcapacity/net exporters

New Capacity



Expected mainly in the Southern regions (18GW by 2011)

Reliability of the Grid

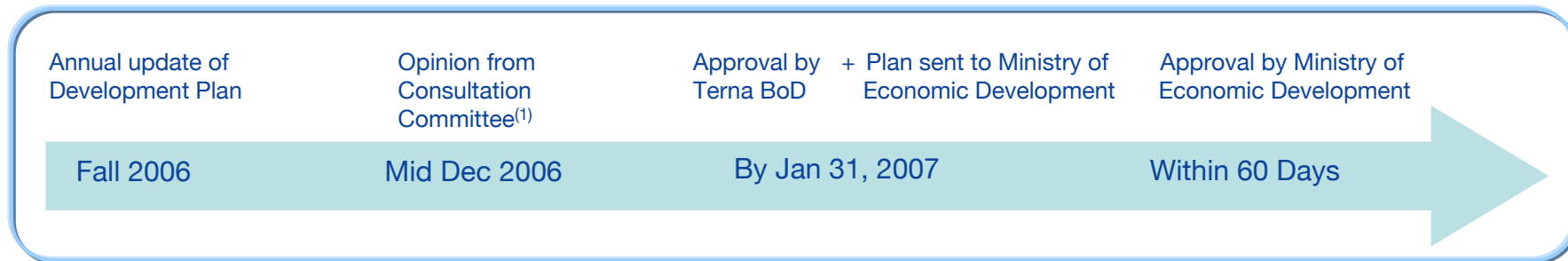


Major investments needed in the Southern regions and islands

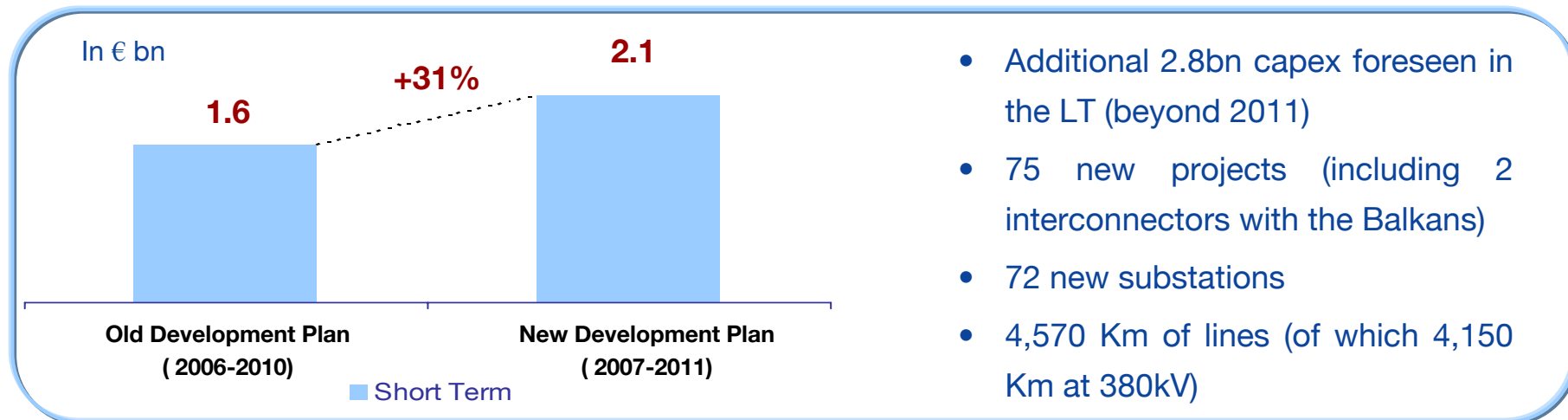
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National Development Plan

Time line for approval compliant with Grid Code and new Concession



Plan for 100% of the Italian Grid



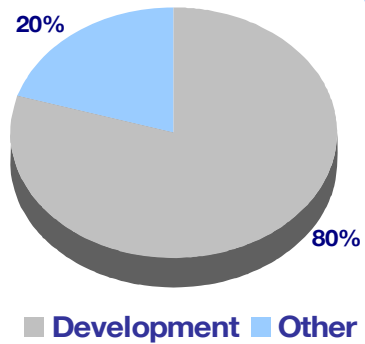
(1) Independent body introduced last year with the revision of the Grid Code

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Investing in our Grid

Investment Plan

2.7bn capex



Focus on authorization process

n° of authorisations obtained doubled in the last 3 years

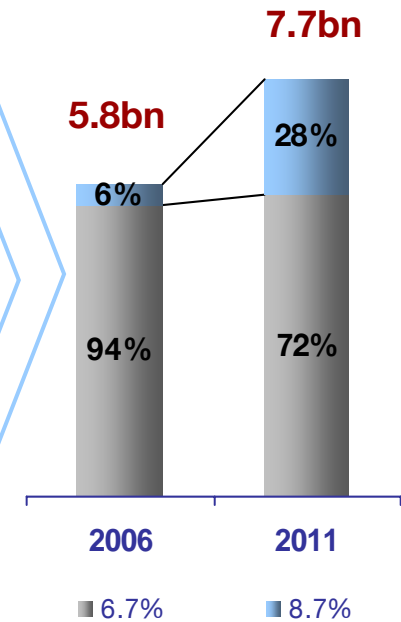
Main Projects



- SAPEI
- Sorgente-Rizziconi
- S Barbara-Casellina
- Foggia-Benevento
- Interconnections

RAB Evolution

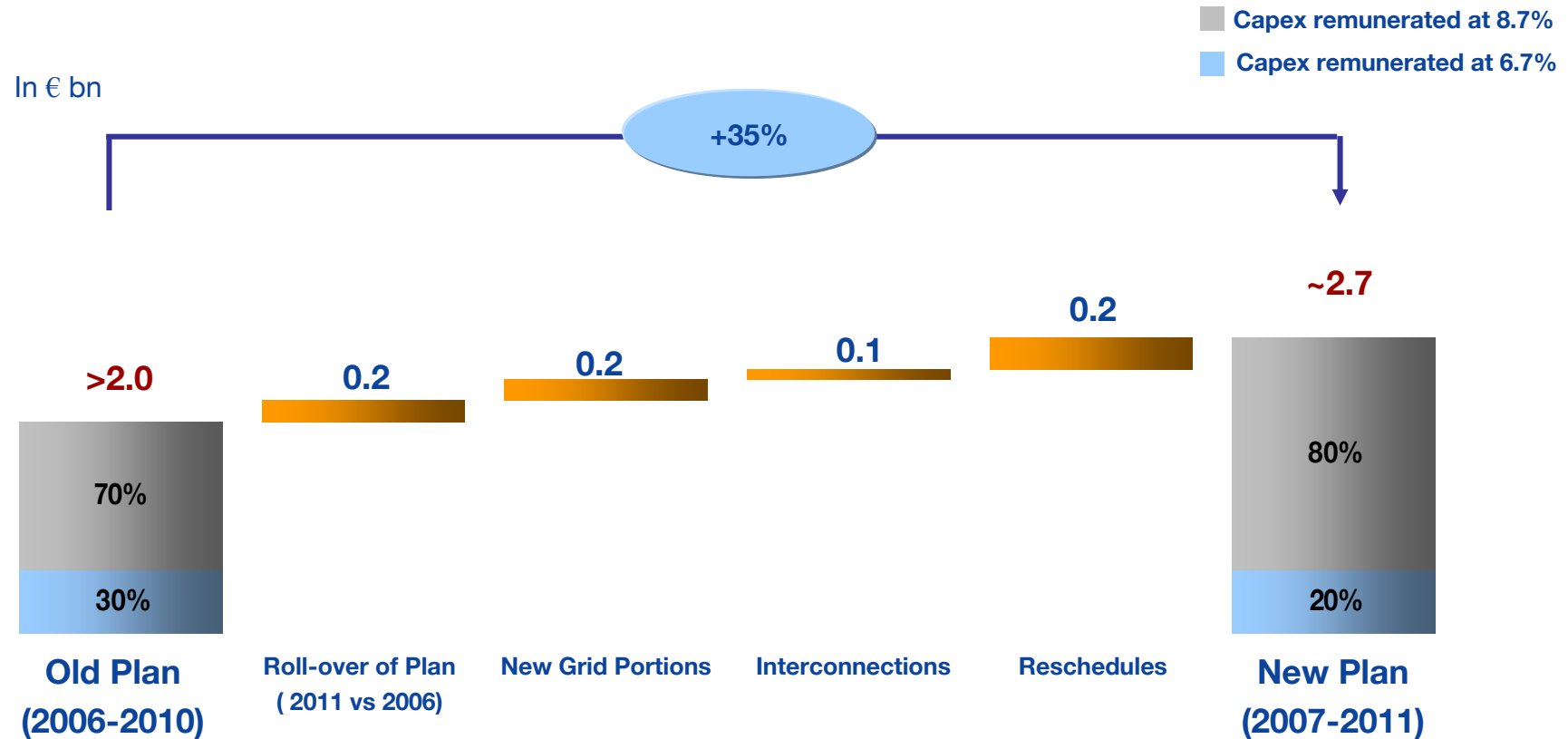
CAGR 06-11: ~ 6%



Significant step-up in capex programme

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Development of the Grid

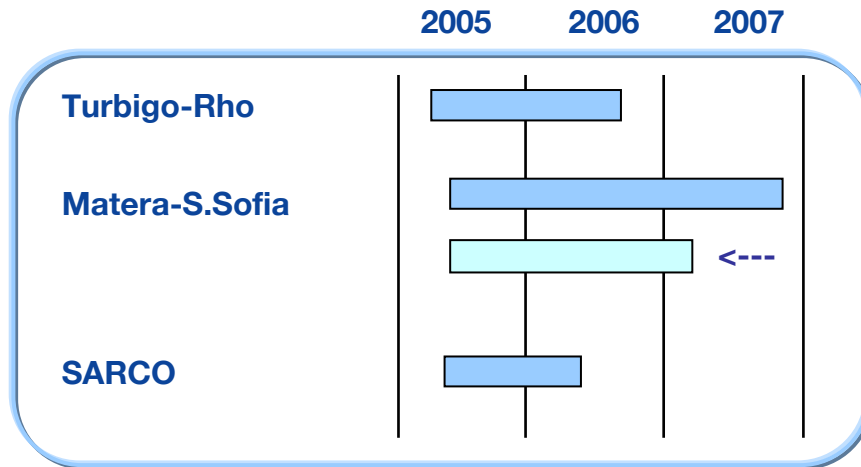


Capex plan supported by the National Development Plan

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Achievements of 2006

Main Projects entered into operation



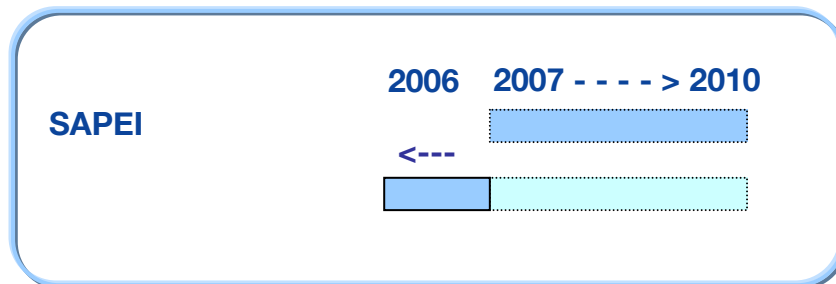
Operational on track

Schedule Announced in January 2006

Operational 3 months ahead of schedule

Operational on track

Key Projects

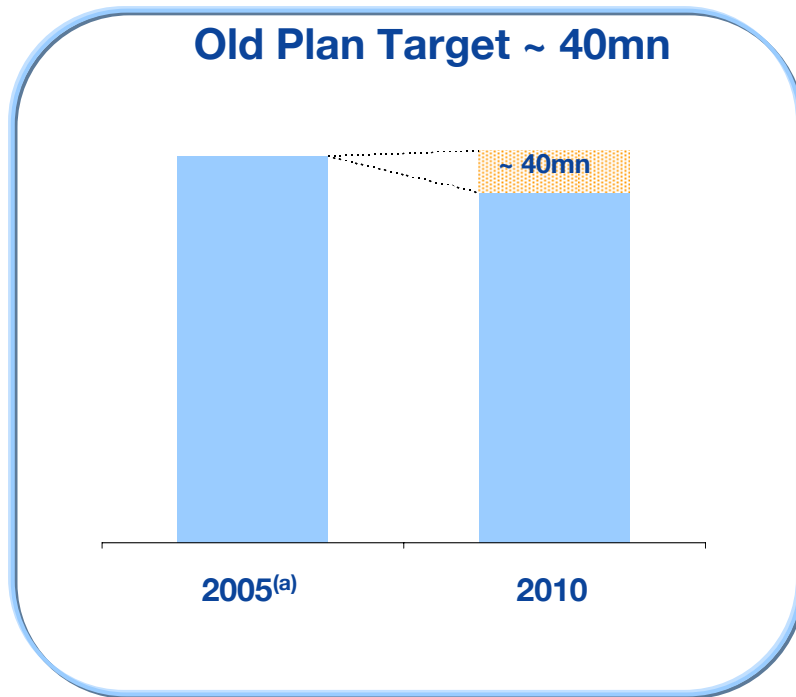


Schedule Announced in January 2006

Ahead of schedule

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Cost Efficiency (TERNA Group)



Future efficiency sources: IT/TLC costs, staff reorganization, in-sourcing

(a) Proforma to consider full consolidation of TSO + RTL starting from January 1

(b) Proforma to consider full consolidation of TSO +RTL (also including RTM1 and RTM2) starting from January 1

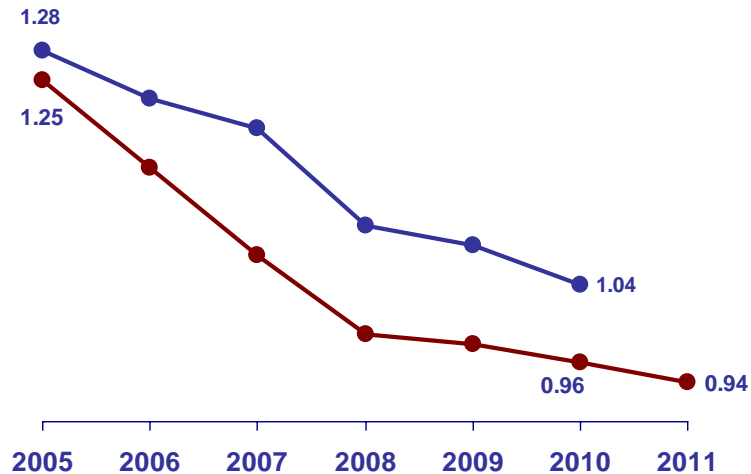
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Cost Efficiency (Italian Regulated Activities)

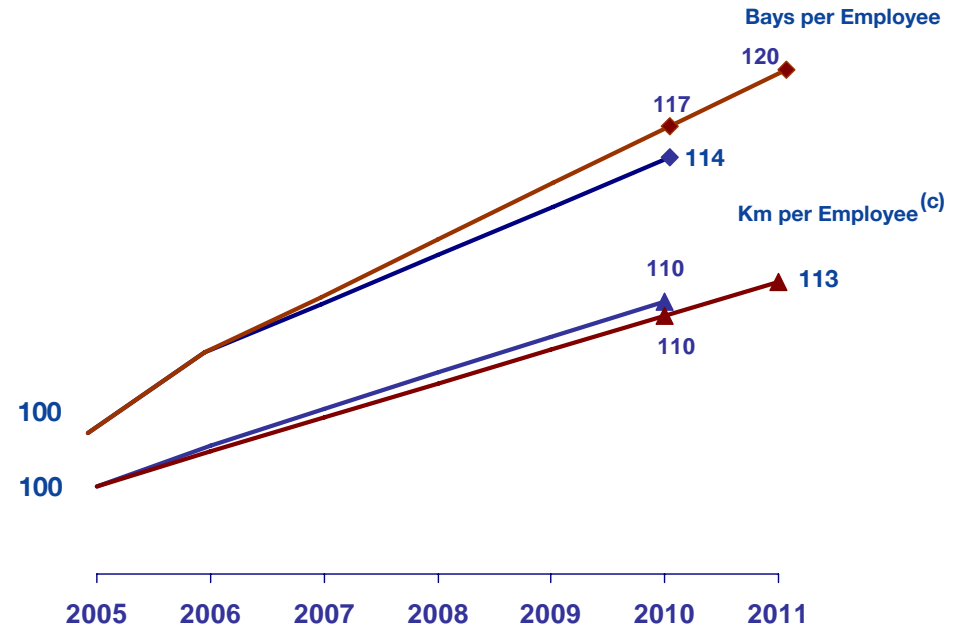
— OLD Plan
— NEW Plan

Opex ('000 Euro/GWh)

Old plan^(a) 2010 vs 2005 -19%
New plan^(b) 2011 vs 2005 -25%



Evolution of Key Parameters



Significant economies of scale drive efficiency

(a) Old Plan: Opex Core (**Terna SpA**, excluding "Piano di Difesa" and Pass-through items+RTL)/Energy (**Terna SpA+RTL**)

(b) New Plan: Opex Core (**Terna SpA**, excluding "Piano di Difesa" and Pass-through items+RTL (also including RTM1 and RTM2))/Energy (**Terna SpA+RTL** (also including RTM1 and RTM2))

(c) Lines managed by Terna (since 2001 includes Enel Distribuzione's HV assets)

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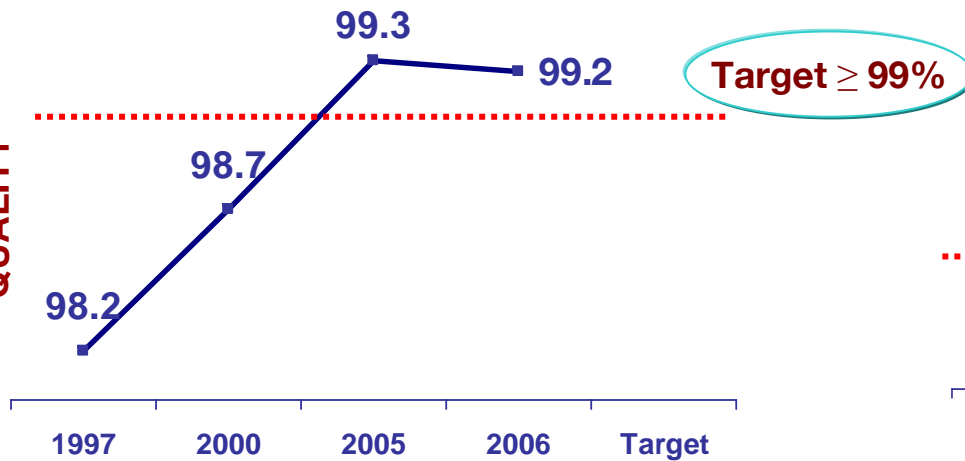
Italian Operations – Quality and Reliability of Service

RELIABILITY

- Guarantee service → Safe reserve margin
- Enhance system reliability → Defence Plan (capex 2007-11 = ca. 100mn euro)

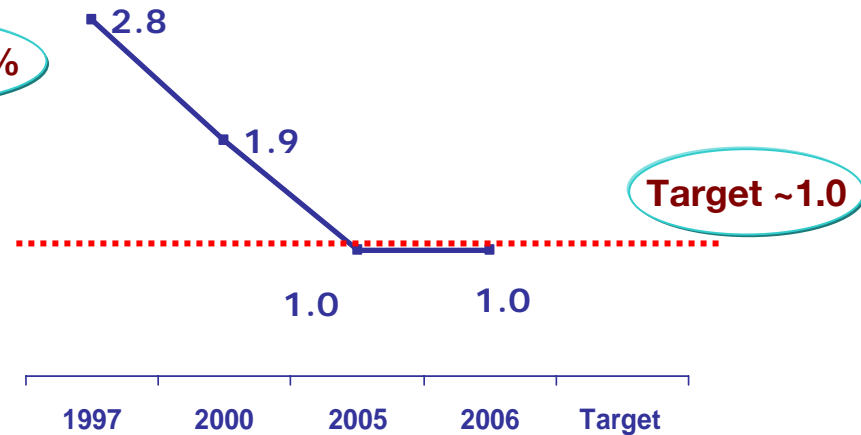
QUALITY

System Availability (%)



2006: +20bps from target

Average Interruption Time AIT (Min/year)



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Regulatory Framework

General

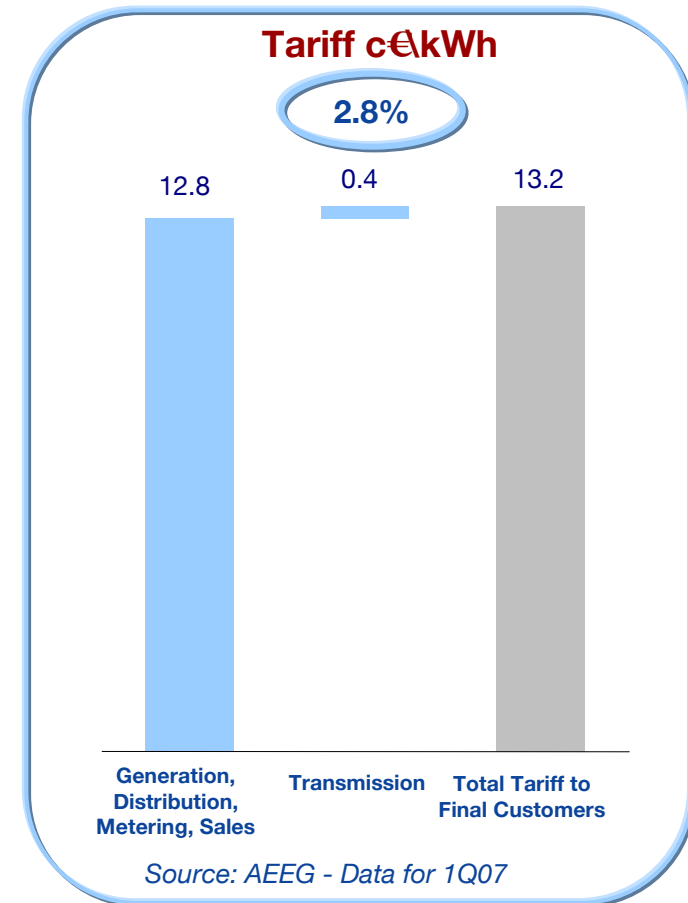
- Transmission tariff represents less than 3% of overall electricity tariff
- General consensus on the need of infrastructures upgrades in Italy
 - Utilization of existing grid over the last 30 years:
 - Italy: +60%
 - Europe: +5%

Regulator

- Latest gas transmission sector review (166/05), realigned electricity and gas returns

Tariff Review

- Tariff review sets regulated revenues from 2008 to 2011
- Discussion process already started and consultation document to be issued soon



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Regulatory Outlook

Possible areas of regulatory intervention

- Length and value of capex incentives
- RAB: time lag in the rollover mechanism
- Possible inclusion of depreciation from new investments
- Allowed return

Possible further source of revenues

- Incentive schemes on dispatching activities, currently pass-through items

Tariff review to provide incentives for investments and fair risk/return mix

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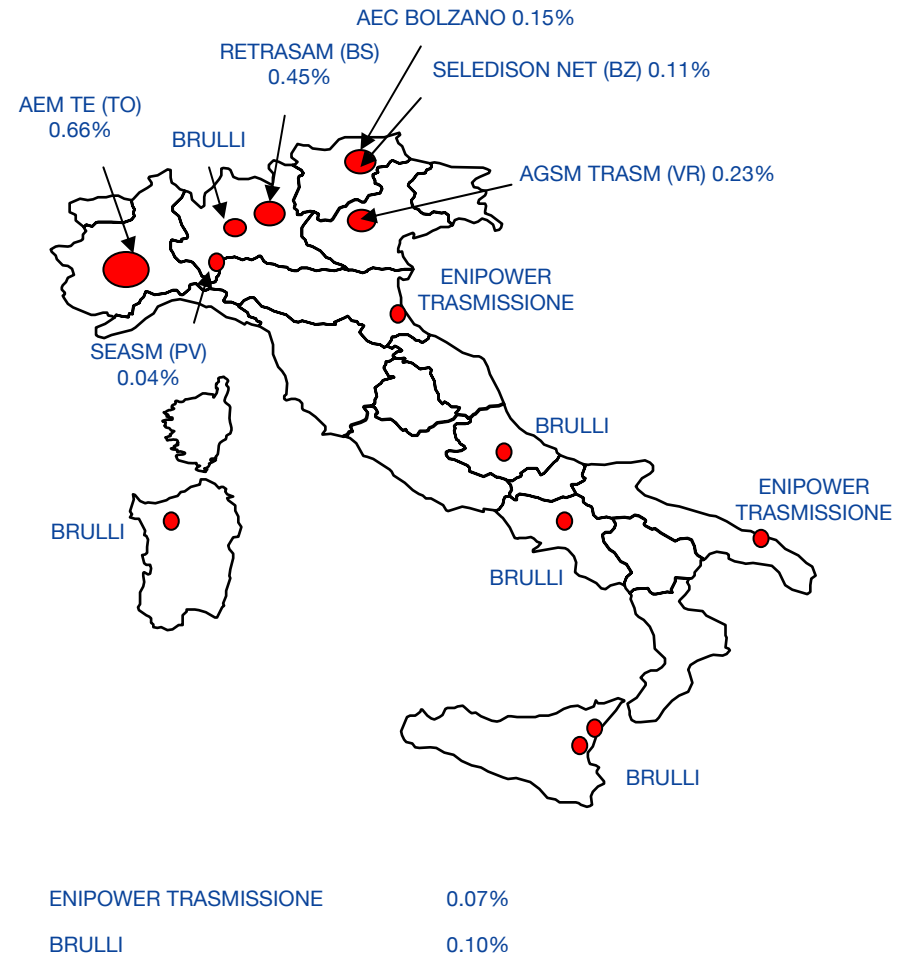
Other Opportunities in Italy

- **Consolidation of the Grid**

- Integration of RTM1 and RTM2 on track
- Acquisition of the remainder of the Grid expected by year-end

- **Other Opportunities**

- Acquisition of other HV lines to increase functionality of National Electricity Grid



BU Italy

BU Brazil

International Expansion

Financial Performance

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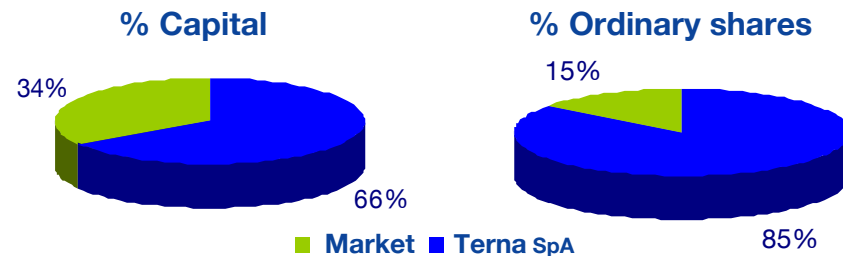
Terna Partecipações

Initial Public Offering

Use of Proceeds

- Gross proceeds: 232mn euro
 - Primary: 137mn euro
 - Secondary: 95mn euro
- Use of proceeds: to finance growth

Shareholding Structure



Business Strategy

Growth

- Concessions for new lines and M&A
- Rigorous financial criteria

Operational Efficiency

- Focus on critical activities
- Minimize unavailability

Financial Efficiency

- Efficient capital structure
- Attractive dividend policy

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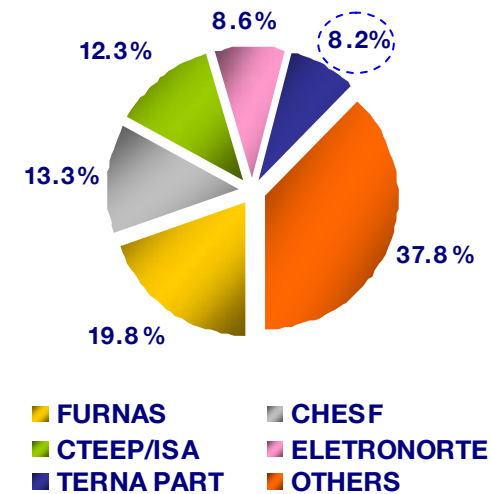
Brazilian Operations - Sector

A growing sector ...

- | | CAGR 06-11 |
|--|-------------------|
| • GDP | 3.5% |
| • Electricity Demand | 5.7% |
| • Required annual investments to meet the demand up to 2011: 5bn US\$ (of which 1 in transmission lines) | |
| • >20,000km of new lines needed until 2015 (i.e. 2,000 – 3,000 km per year) | |

... and potential for consolidation

Sector fragmented with high participation of construction companies



Based on RAP 2006 – 2007 for the Basic Grid including only the operational concessions

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Brazilian Operations – Growth Opportunities

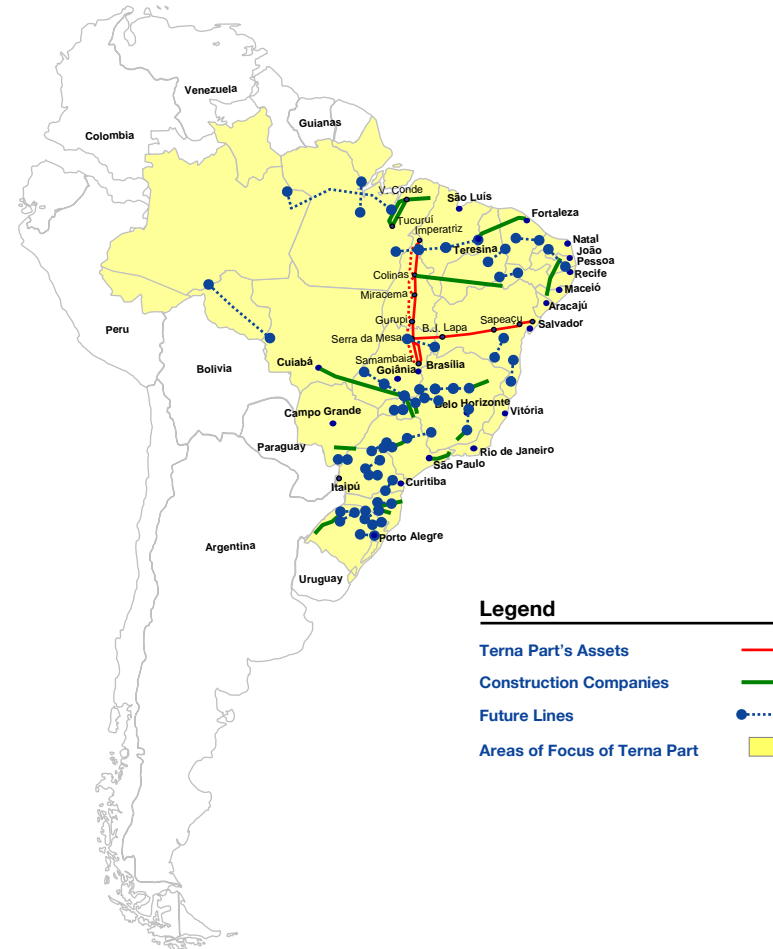
Concession for New Lines

Participation in green-field projects when justified by industrial and financial rationale

M&A

- Divestures by local and international construction groups
- Potential privatizations

Location of Assets



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BU Brazil

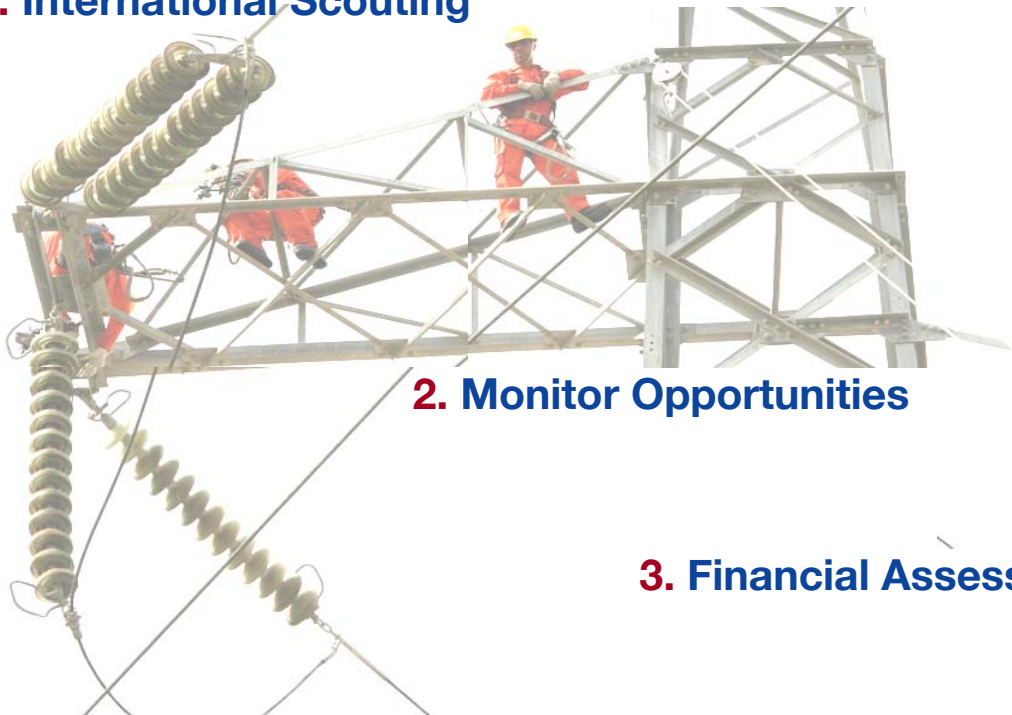
International Expansion

Financial Performance

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External Growth: Focused on being a Pure Transmission Player

1. International Scouting



2. Monitor Opportunities



3. Financial Assessment

4. Remunerate Shareholders

A four-step strategy to “build” growth

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External Growth

1. International Scouting

- Strategic approach
- Opportunistic approach



2. Monitor Opportunities

- Strategic targets
 - MoU with Croatia for interconnector
 - Various service contracts (i.e. Albania)
- Selected opportunistic targets

4. Remunerate Shareholders

- Dividends keep up with growth

3. Strict Financial Criteria

- Stable environment (macro, regulatory, political)
- Low risk
- High returns on invested capital

BU Italy

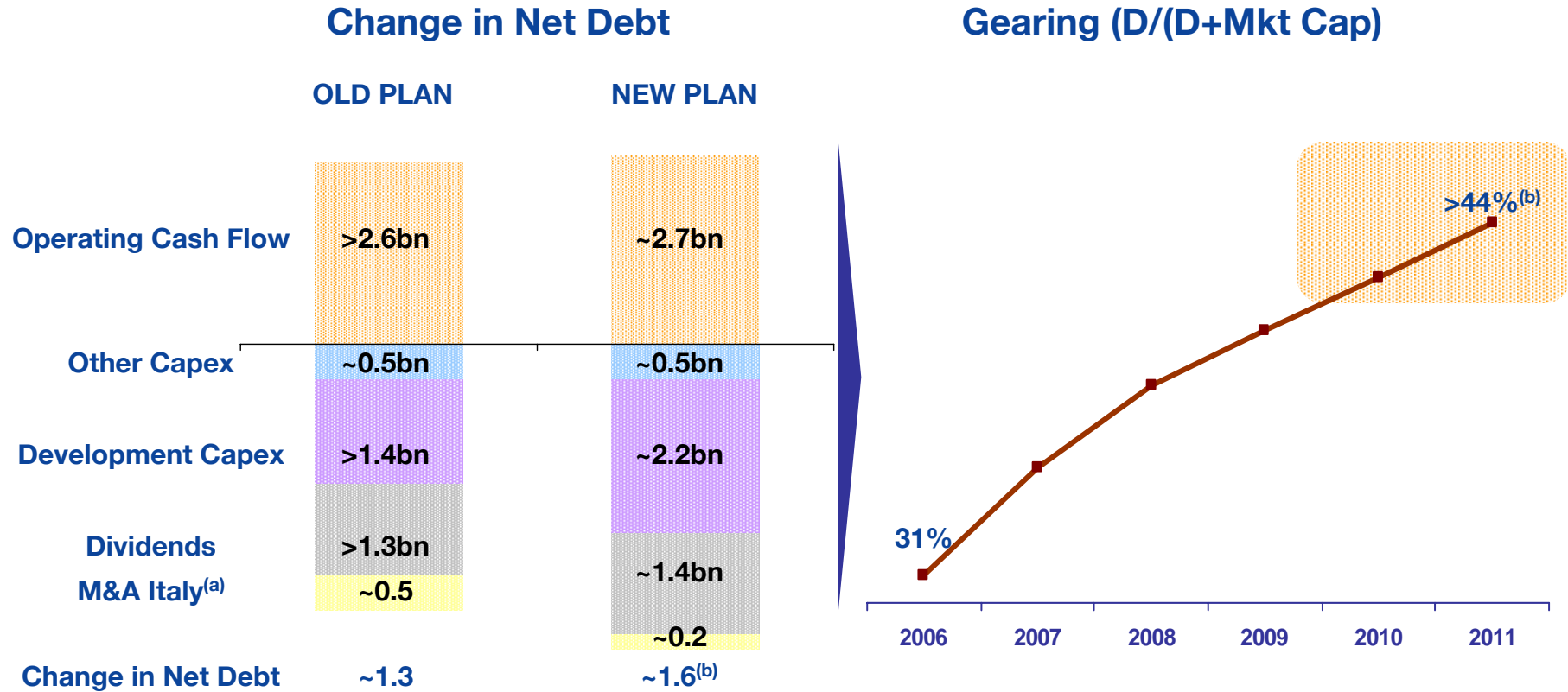
BU Brazil

International Expansion

Financial Performance

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Financial Performance

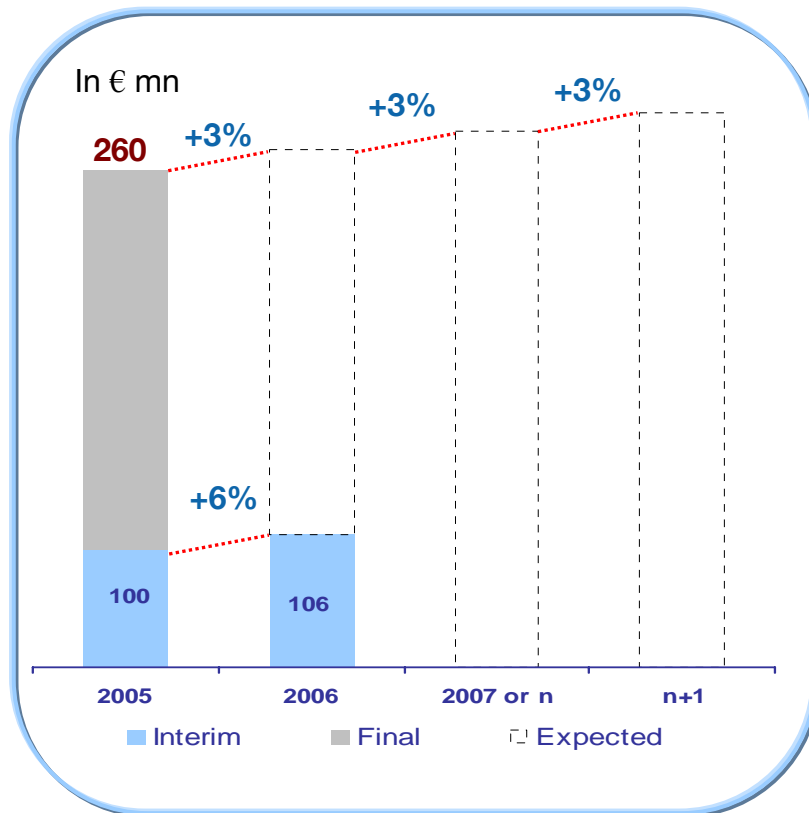


Re-gearing story going on

(a) Acquisition of Grid portions

(b) Starting from an expected Net debt for 2006 of about 2.3bn euro

Dividend Policy



- Dividend policy confirmed:
 - Minimum 3% annual growth in DPS
 - DPS05 floor
 - Interim dividend practice confirmed
- Additional opportunity:
 - Step-up of guaranteed growth in case of relevant acquisitions
- 2006 Dividend
 - Interim: +6% (already paid in November)
 - Final: to be announced on March 21

Returns to shareholders with an attractive upside

Corporate Social Responsibility

2006

- Created a corporate function responsible for CSR
- New Mission
- New Ethical Code
- First Sustainability Report
- Confirmed constituent of  FTSE4Good

2007

- Focus on internal and external diffusion of Ethical Code and CSR issues
- Sustainability Report: an annual fixture
- Environmental Management System: ISO 14001 certification
- First employee climate survey

Building up our reputation acting responsibly

Closing Remarks

We are ...

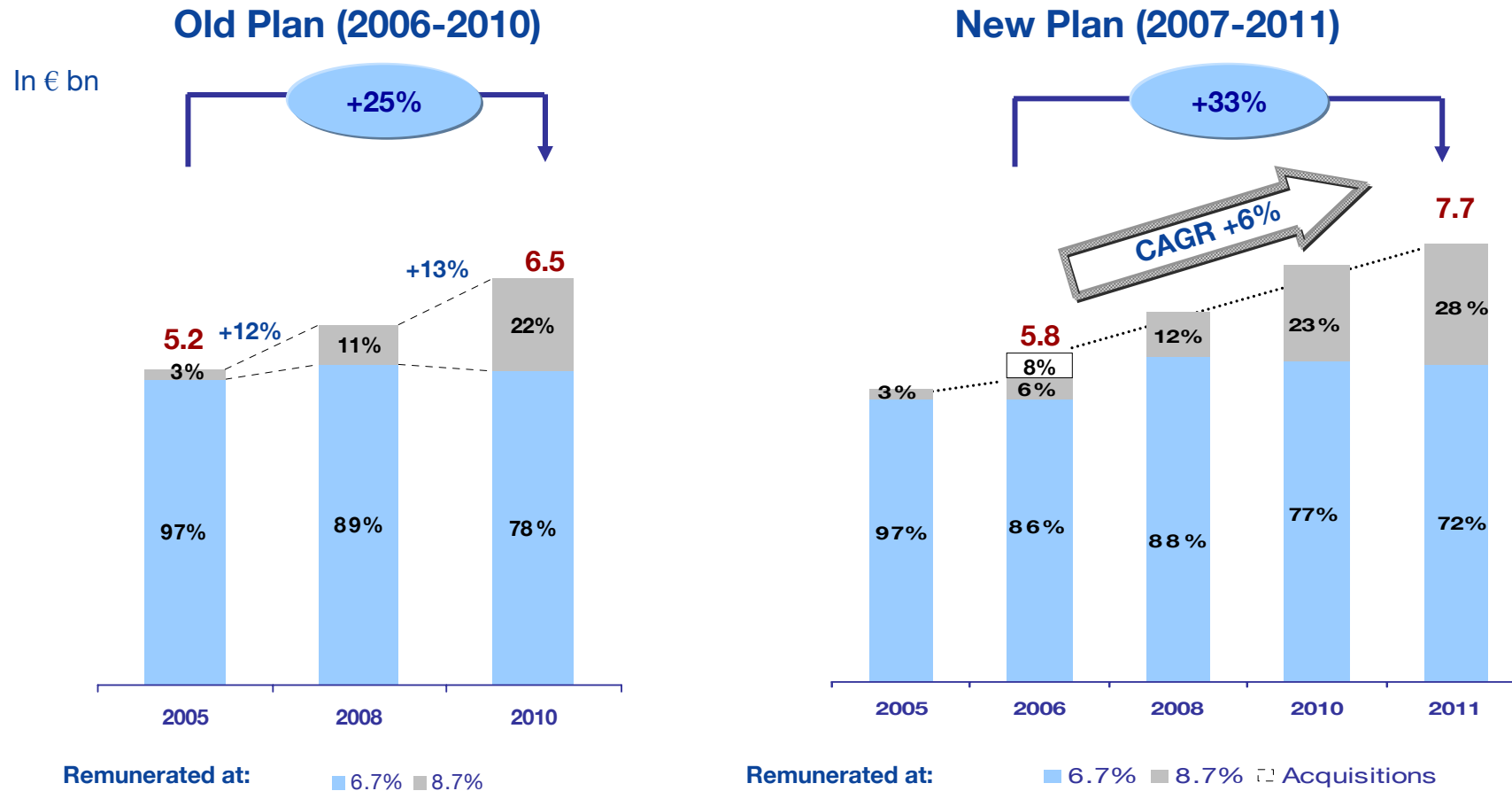
- Investing in our Grid to grow our domestic business
- Managing regulatory relationship
- Improving operational and financial performance
- Identifying new opportunities both in Italy and abroad
- Operating in a responsible way

Q&A

ANNEXES

2007-2011 Strategic Plan

RAB Evolution



Future growth boosted by new capex + consolidation of the Grid

2007-2011 Strategic Focus

Italian Operations - Main Projects

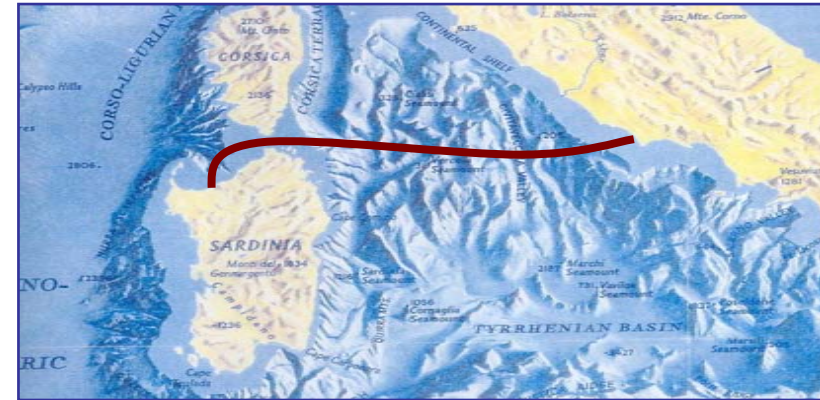


Capex Plan

Main Projects

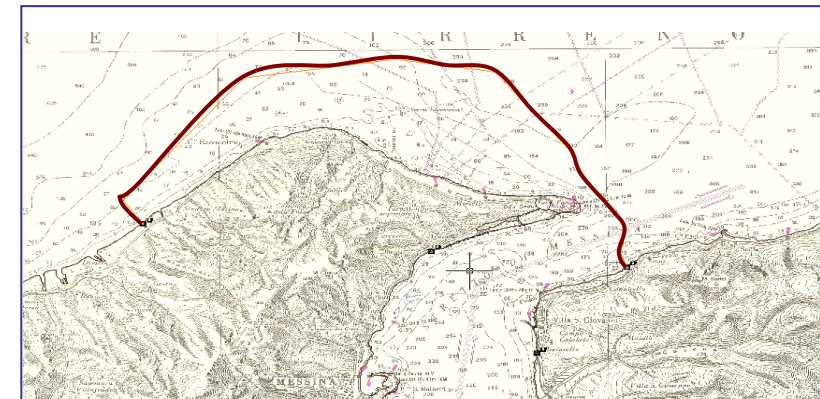
Features- **SAPEI**

- Terminals: FIUME SANTO– LATINA
- Voltage: ± 500 kVcc
- Installed Capacity: 1,000 MW
- Submarine cable: 2x 420 km



Features- **Sorgente-Rizziconi**

- Terminals: Sorgente– Rizziconi
- Voltage: 380 kV
- Installed Capacity: 2,000 MW
- Submarine cable: 2x 30 km
- Line length: 40 Km d.t.



Capex Plan

Main Projects

Features – **Matera- S.Sofia**

- Terminals: **Matera- S.Sofia**
- Voltage: $\pm 380\text{kV}$
- Installed Capacity: 1,000 MW
- Line length: 210 Km d.t.



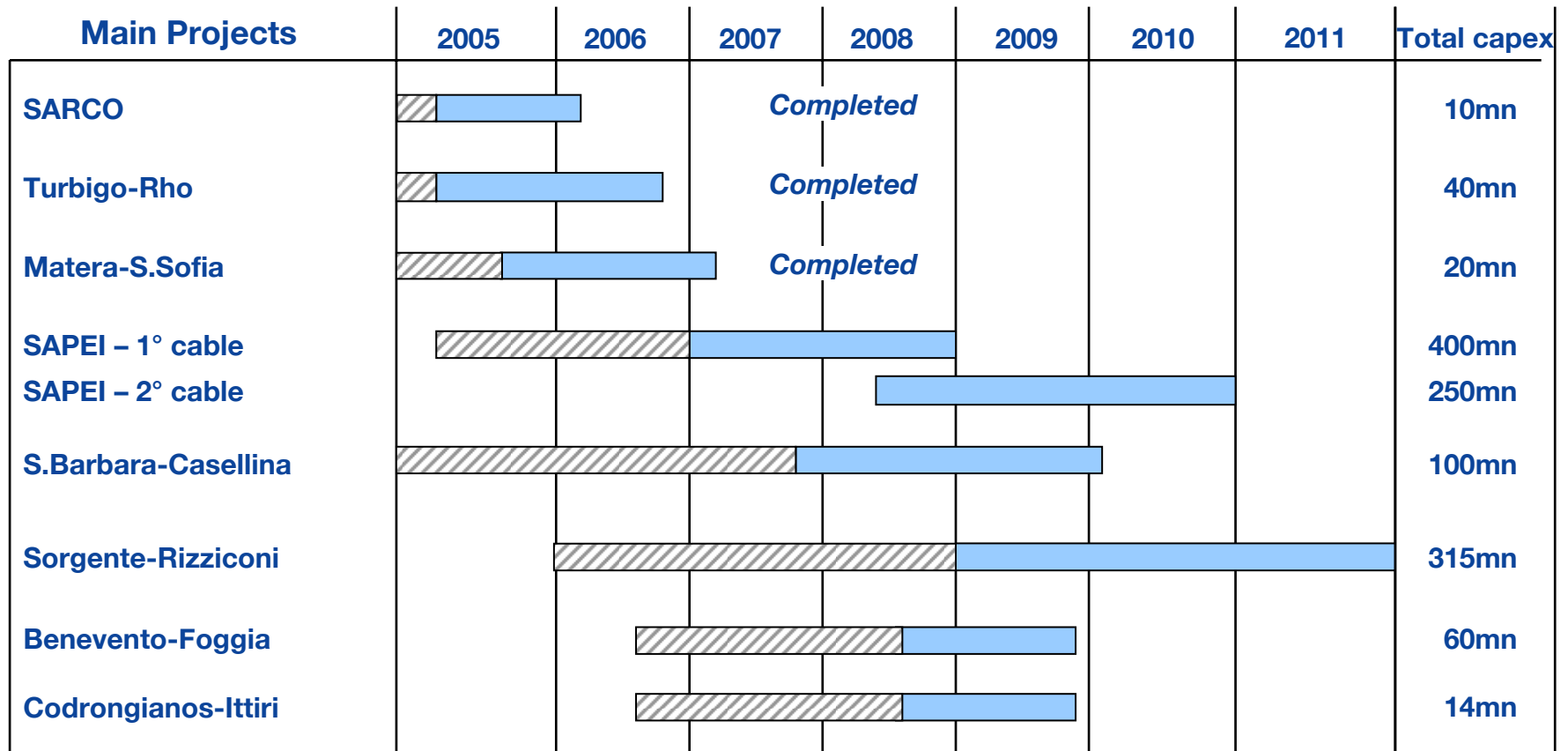
Features- **S.Barbara- Casellina**

- Terminals: **S.Barbara-Casellina**
- Tension: 380 kV
- Installed Capacity: 1,000 MW
- Line length: : 40 Km s.t.



Capex Plan

Pipeline of Main Projects



 Start up capex: design, engineering and authorizations

 Main capex: construction and commissioning

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