

2010 14 Strategic Plan

February, 18th 2010

Luigi Roth – Chairman
Flavio Cattaneo – Chief Executive Officer



Terna

Agenda

▪ A TRACK RECORD OF EXCELLENCE	3
▪ 2009 PRELIMINARY FIGURES	5
▪ 2010-2014 STRATEGIC TARGETS	6
New Targets	6
Electricity Market Trends	7
National Development Plan	8
Sustainable Growth	9
Photovoltaic	13
Margin Enhancement	14
Quality of Service	16
Dividend Policy	17
Financial Efficiency	18
▪ CLOSING REMARKS	20
▪ ANNEXES	21

A Track Record of Excellence

Delivering on Promises

- **Achievement of results is a value for us**
- **Since 2005, we fulfilled our promises**
 - Growth: **Tariff RAB up by ~60%**
 - Operational efficiency: **EBITDA margin from 66%¹ to 74%**
 - Profitability: **Net Income from continuing operations up by 32%**
 - Returns to shareholders: **Granted more than 2x the minimum guaranteed annual growth**
 - Financial discipline: **Accretive M&A**
 - Best-in-class operational performances
- **The legacy of this economic and operational excellence is our starting point**

1) Including Brazilian assets

A Track Record of Excellence

Moving Fast in a Changing Environment

- **Our attitude: proactive rather than reactive to change**

Timely protection from risks



Definition of a mitigation mechanism on volumes

Regulatory upsides



Incentive schemes on quality targets and dispatching activities

Possible upsides from remuneration of *Work-in-Progress*

Leveraging on market opportunities



Extracting value from Brazilian activities

Unused land property converted into solar project

Long Term Funding

Capitalizing on anti-crises measures



Simplified or accelerated authorization procedures¹ to boost capex spending

- **Future challenges will be addressed with the same winning approach**

1) Energy Law (99/09) and Anti-crises Decree (78/09)

2009 Preliminary Figures

A Year of Records

- Completed the most relevant reshuffling of the Group's asset portfolio since Terna's incorporation
- Double digit growth at all levels:
 - Revenues** up by >13% Highest level in history (same perimeter basis)
 - EBITDA** up by 18% EBITDA margin at 74%
 - Capex** up by 18% Highest capex level ever
 - Net Debt** reflects higher capex and M&A impacts
- Maximised incentives on dispatching activities (40mn)

€ mn	FY08	FY09
Operating Revenues	1,196	>1,350
EBITDA	850	~1,000
EBITDA Margin (%)	71%	~74%
Capex	765	~900
Net Debt	2,954	3,755

Note: 2008 net of Brazilian operations

2010-2014 Strategic Targets

New Targets

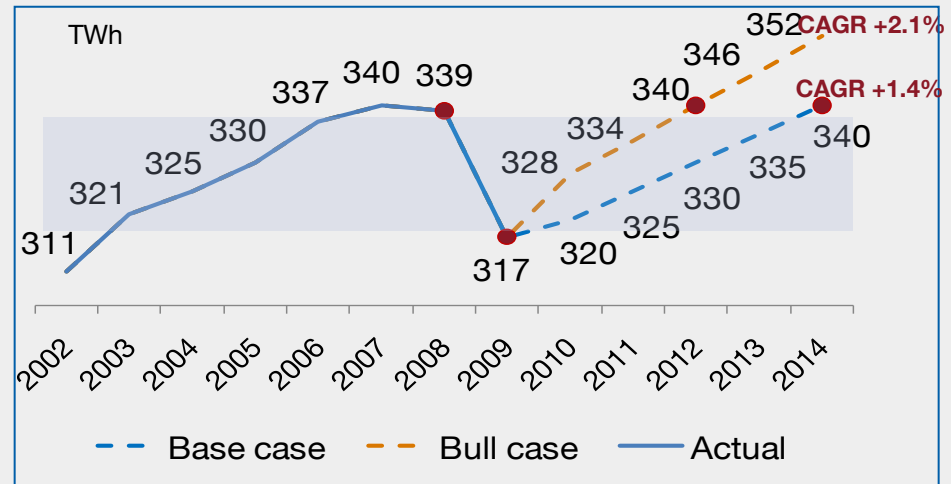
	OLD	NEW	
▪ Sustainable Growth			
Capex (excl. photovoltaic)	3.4bn	4.3bn	+26%
<i>of which Development</i>	2.6bn	3.3bn	+27%
<i>of which Interconnections</i>	<100mn	~650mn	
RAB CAGR	+5%	>5%	
▪ Margin Enhancement			
EBITDA Margin	from 71% to 77%	from 74% to 77%	
▪ Opportunistic Activities			
	Sale of Brazilian activities ✓	Photovoltaic Project (Capex >300mn)	
▪ Balancing the Capital Structure			
D/RAB	<60%	Confirmed <60%	
Dividend Policy	+4% from DPS 05	+4% from DPS 08 + Step up	
▪ Quality of Service			
	Maximisation of incentive schemes (Dispatching) Best practice quality targets	Cumulated 90mn in the Plan Confirmed	

2010-2014 Strategic Targets

Electricity Market Trends

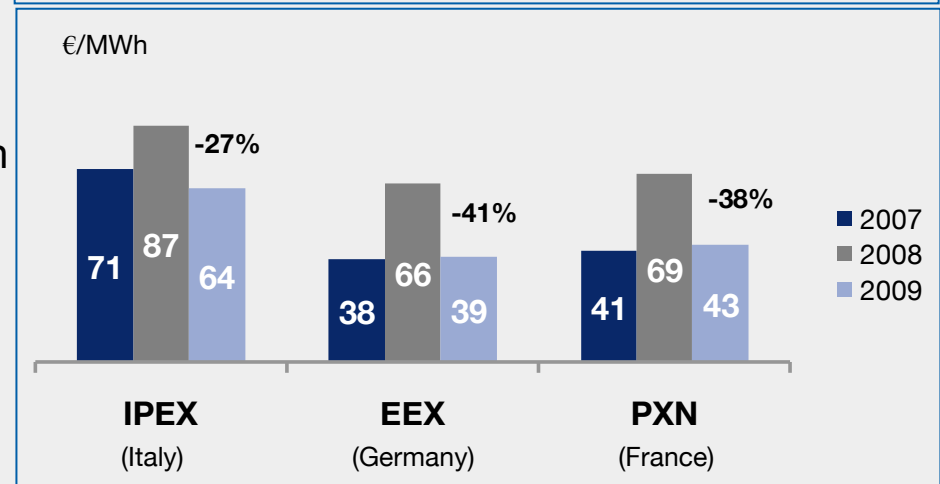
■ Demand Trend

In current forecasts, electricity demand back to 2007 levels not before 2012/2014



■ European Pool Prices

Spread versus French and German prices widened



Source: GME. Weekly average

2010-2014 Strategic Targets

National Grid Development Plan

- **Roll Over of the 10-Year Plan**

Enhance reliability of the system

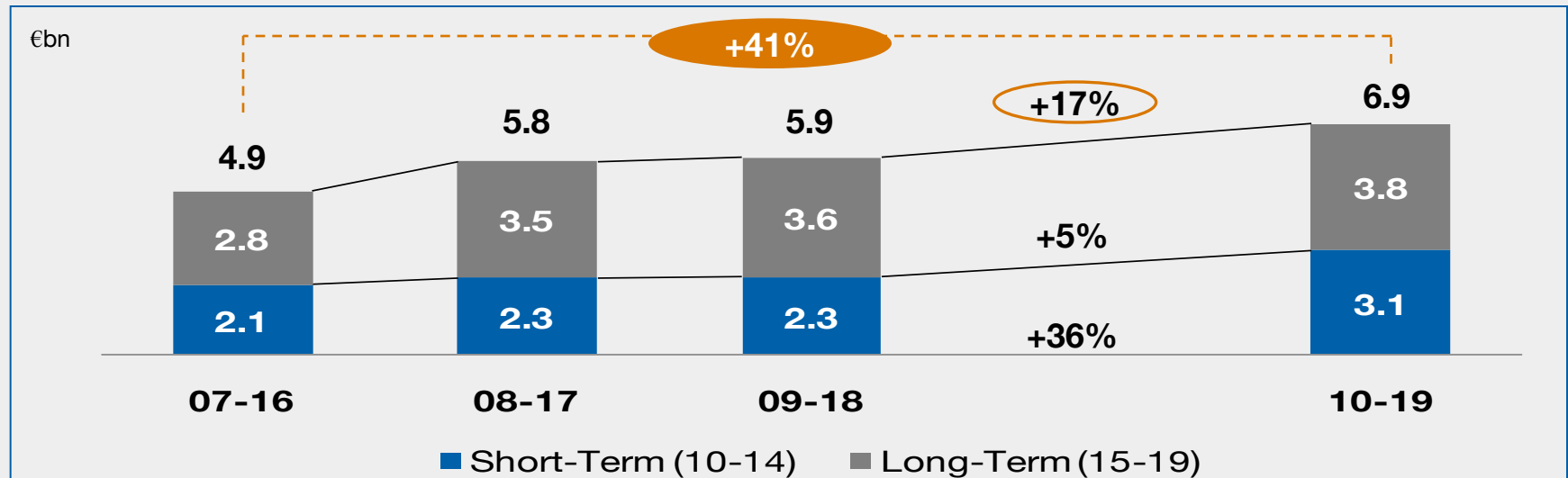
Main drivers are still congestions between electric zones and constraints caused by the increase in renewable generation

Included additional rationalizations (0.2 bn) and capex referred to TELAT (0.4 bn)

- **Macro environment**

Demand pattern does not impact the Country capex needs

No capex relating to Nuclear: an issue for the future



2010-2014 Strategic Targets

Sustainable Growth – Regulated Capex Plan

Regulated Capex Plan

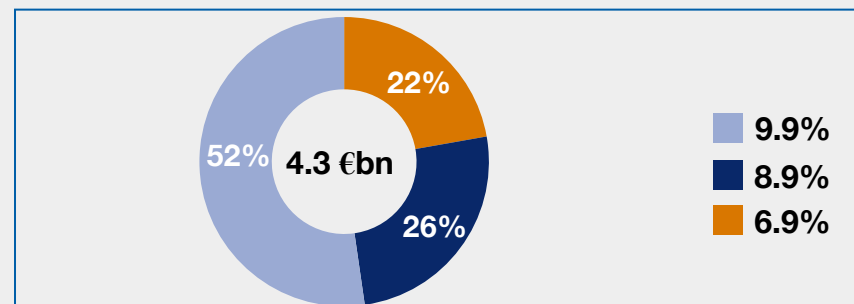
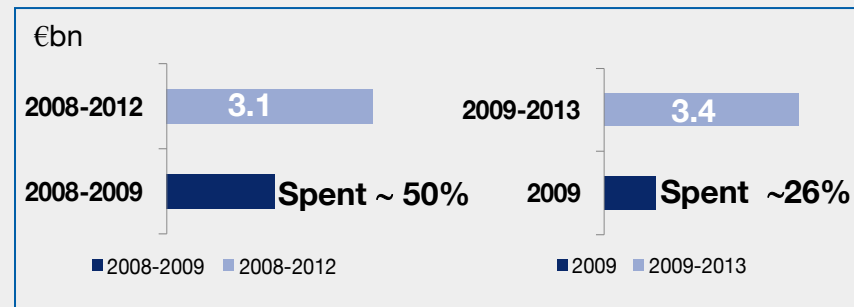
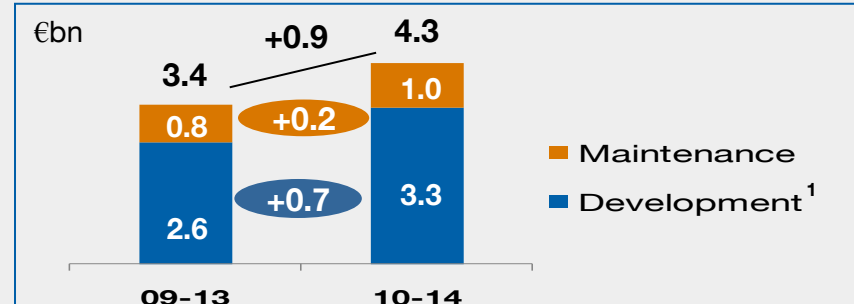
2010 peak year

Impressive acceleration of capex:

- In 2009 anticipated 0.15bn
- Already spent half of 2008-2012 capex plan
- and more than 1/4 of 2009-2013 capex plan

Capex remuneration

Enhanced mix: shift from 2% to 3% incentive



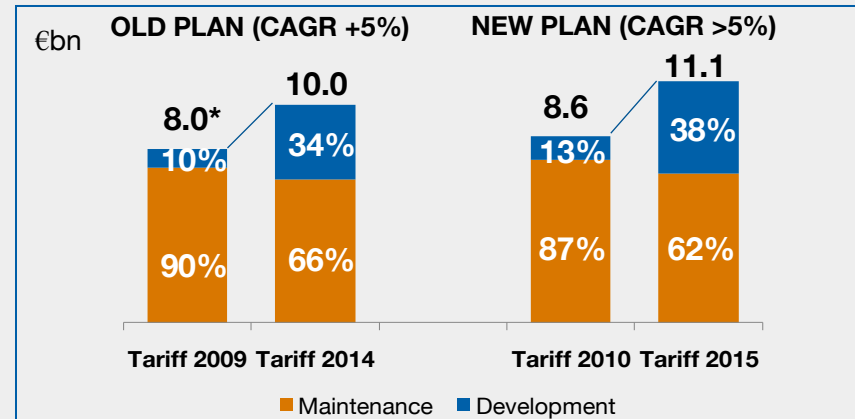
1) Including Defence Plan

2010-2014 Strategic Targets

Sustainable Growth – RAB Evolution

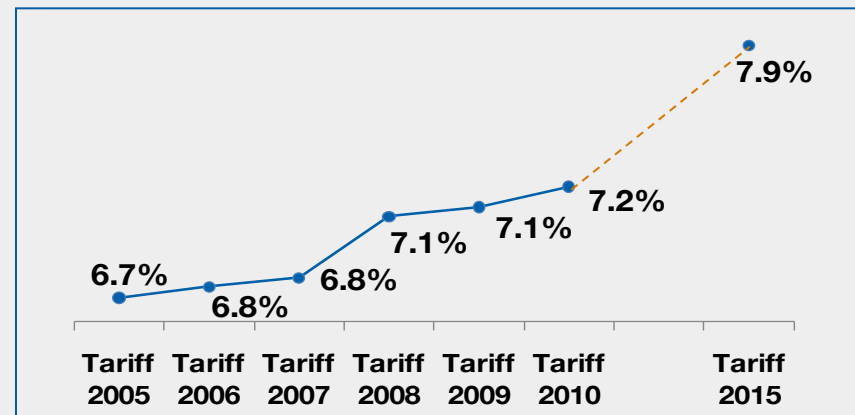
▪ RAB Evolution

Higher RAB CAGR, notwithstanding more prudent assumptions on deflator



▪ Blended Return

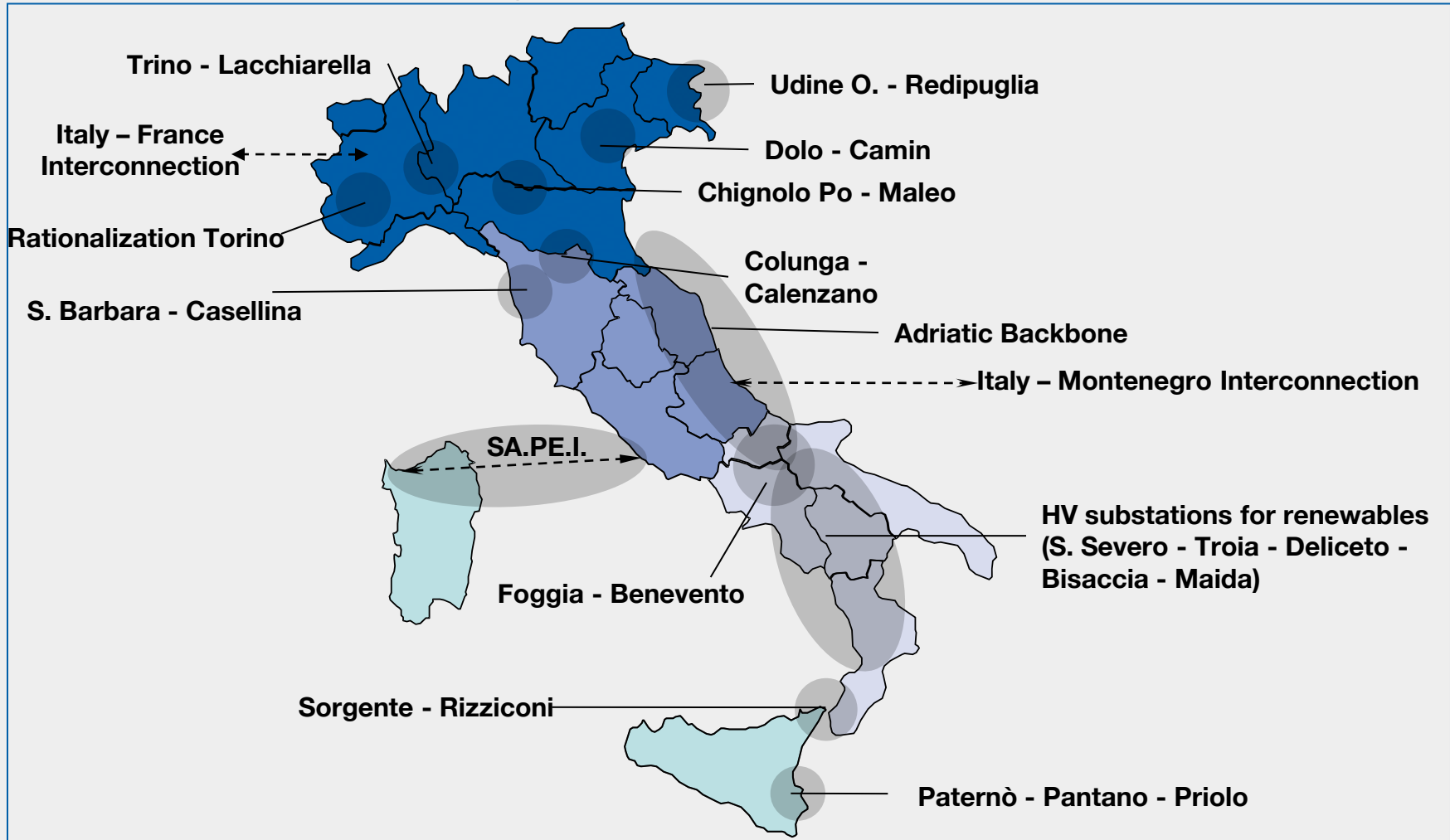
RAB mix drives returns



(*) Including 100% of TELAT

2010-2014 Strategic Targets

Sustainable Growth – Key Development Projects



2010-2014 Strategic Targets

Sustainable Growth – Italy-Montenegro Interconnection

▪ Intergovernmental Agreement between Italy and Montenegro

Signed on February 6th 2010

Terna will be involved in:

- the interconnection via submarine cable
- a strategic partnership with Prensos, local TSO

▪ Interconnection

HVDC cables (2X500MW) + 2 Substations (DC/AC)
450Km (of which 375 km via submarine cable)

Public project (included in the RAB)

Total Capex: 760mn (of which ~590mn by 2014)



2010-2014 Strategic Targets

Photovoltaic

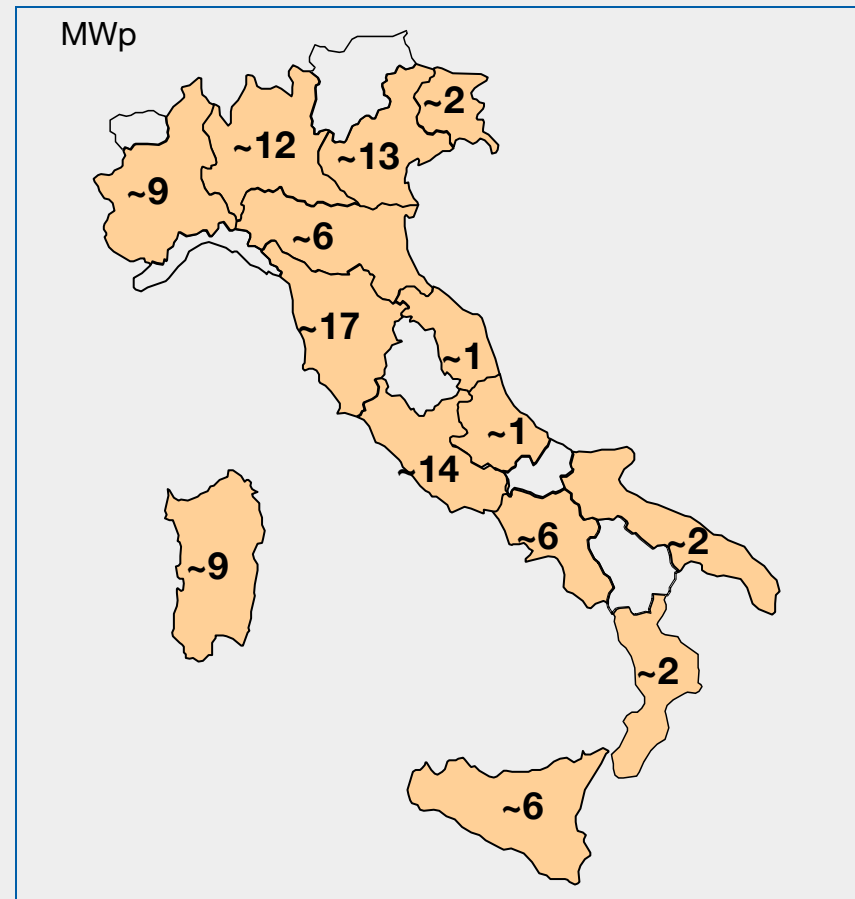
Targets

- 100MWp operational by December 2010
- Capex >€300mn
- EBITDA margin at regime >80%

Current Status

- ~ 85MWp already allocated to EPC
- Authorization procedures concentrated in 1H10
 - all connections obtained
 - all authorisation processes ongoing
- Construction phase concentrated in 2H10

Planned Capacity by Region

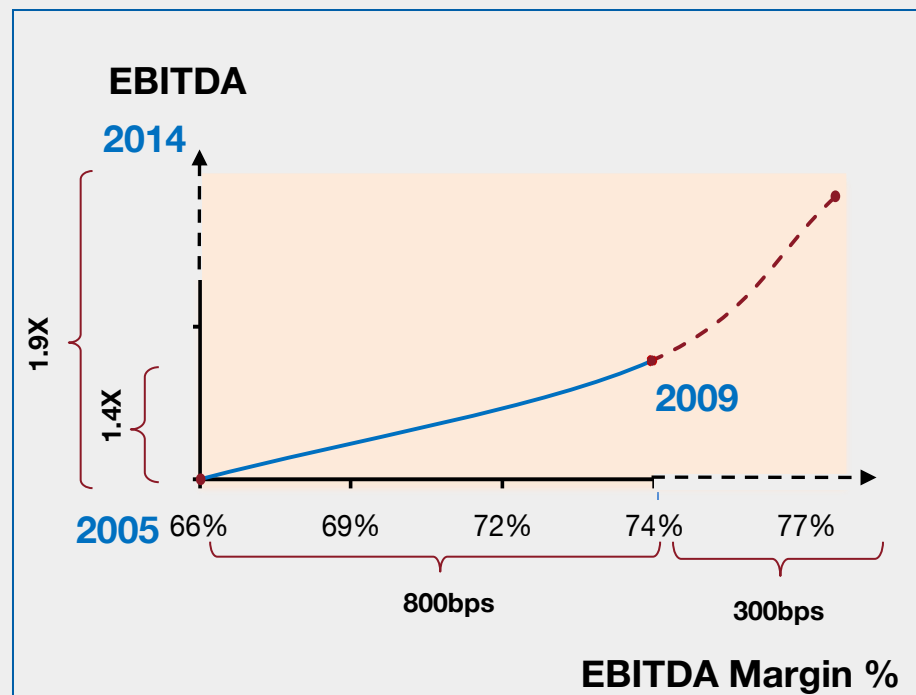


2010-2014 Strategic Targets

Margin Enhancement - Group

- **Group EBITDA Margin from 74% to 77%**
 Other Businesses EBITDA margin ~50%

- **Efficiency**
 Lead by revenue growth and stability in regulated costs
 - Total Revenues CAGR₀₉₋₁₄ ~6%
 - Total Costs CAGR₀₉₋₁₄ ~3%



2010-2014 Strategic Targets

Margin Enhancement – Regulated Activities

Revenues

Driven by:

- Capex + Allowed D&A
- Full consolidation of acquisitions
- Maximisation of incentives

Opex

Flat over the period

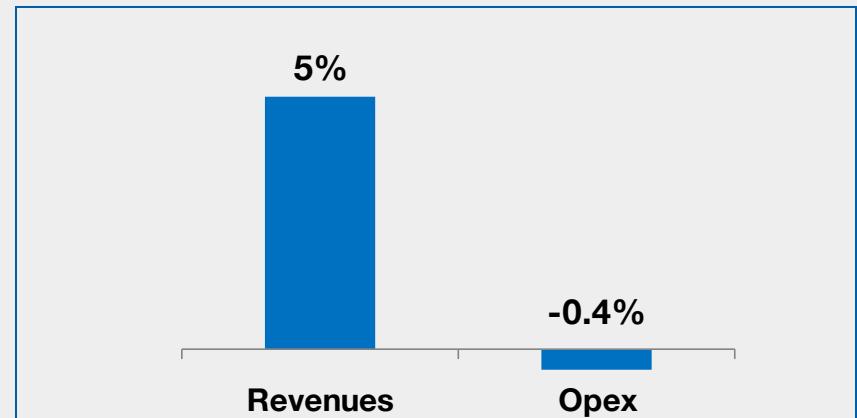
Insourcing of personnel dedicated to capex

Rationalisation of regional offices

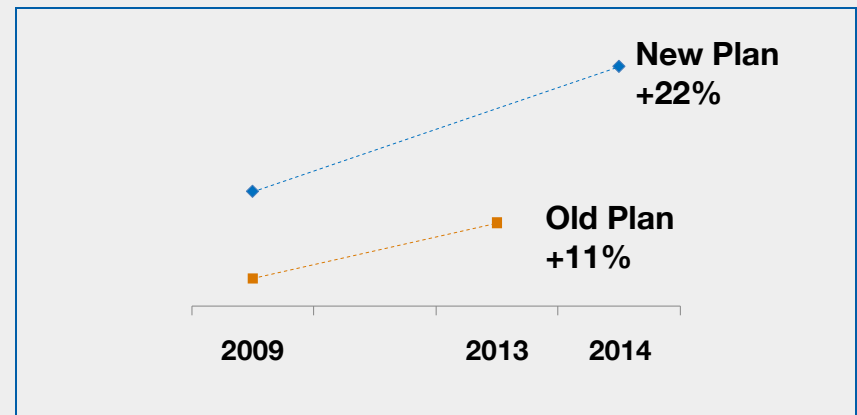
Efficiency

Capex acceleration driving
 enhancements in workforce productivity

CAGR 2009-2014 (Regulated)



Development Capex / Headcount



2010-2014 Strategic Targets

Quality of Service

2009 Incentive schemes

- Based on reduction of dispatching volumes (CAP at 40mn)
- Based on Terna's ability to predict Daily Energy Consumption and Wind Power Plant Production
- **Gained 45mn**, cumulated

Incentive schemes for the 2010-12 period

- Based on reduction of dispatching volumes (NO CAP)
- Based on Terna's ability to predict Daily Energy Consumption and Wind Power Plant Production
- **Internal target: 90mn**, cumulated in the period

2010-2014 Strategic Targets

Dividend Policy

- **Confirmed attractive and sustainable dividend policy**
 - +4% annual growth, starting from DPS08
 - Step up: €150mn distributed in 4 years
 - Semi-annual payments (June, November)

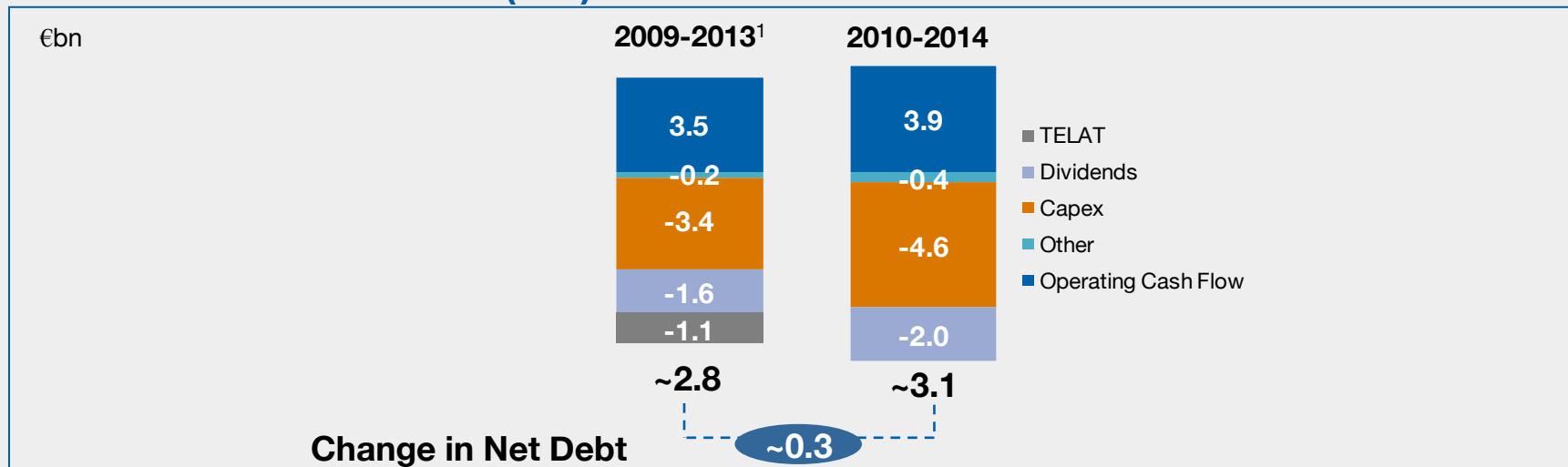
- **Dividend cover guaranteed in the ST by the step up and in the LT by organic growth**

2010-2014 Strategic Targets

Financial Efficiency – Net Debt Evolution

- Over the Plan period Net Debt to increase by 3.1bn
- Limited increase of leverage vs previous plan

Consolidated Cash Flow (€bn)



1) Old Plan pro-forma ex Brazil

2010-2014 Strategic Targets

Financial Efficiency – Funding and Cost of Debt

- **No funding risks**

2bn already available in cash/credit lines
 Average maturity on existing debt: 10 years

- **Low cost of debt**

Average spread about 50bps
 Managing exposure to interest rates
 - Fixed rate Debt >40% of the Total Debt

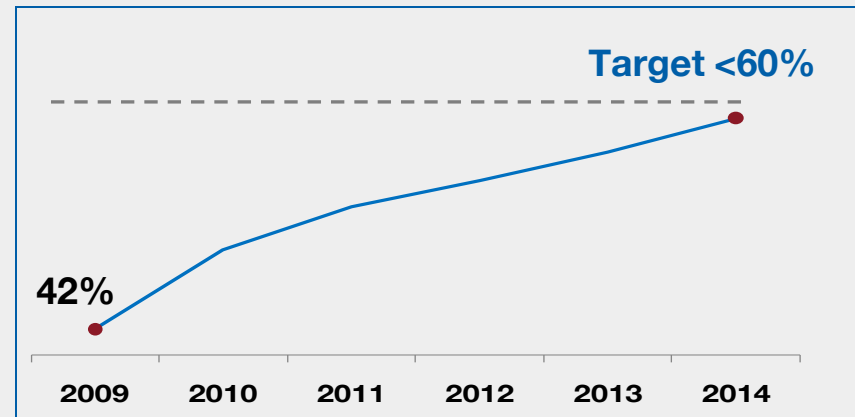
- **Leverage**

Confirming leverage targets: D/RAB <60%
 Strong Rating: single A area

- **Cost of Debt**

2010-2014 average
~3.5%

- **Net Debt/RAB***



(*) Net Debt ex SunTergrid / Calendar RAB

Closing Remarks

Terna's Style: A Twofold Value Creation

- **Value for the Italian electricity system**

 - Safety and reliability of the system

 - Environment and sustainability

- **Value for Terna's shareholders**

 - Total Shareholders' Return as a key driver of corporate strategy

ANNEXES

The Group

Primary owner of the National Transmission Grid (NTG)

First independent operator in Europe and the seventh in the world in terms of kilometers of lines managed



62,503 Km of circuit lines

383 Substations

620 Transformers

1 National Control Center

3 Remote Operation Centres

8 Operational Centres



Note: The figures of the assets are as of 31/12/2009

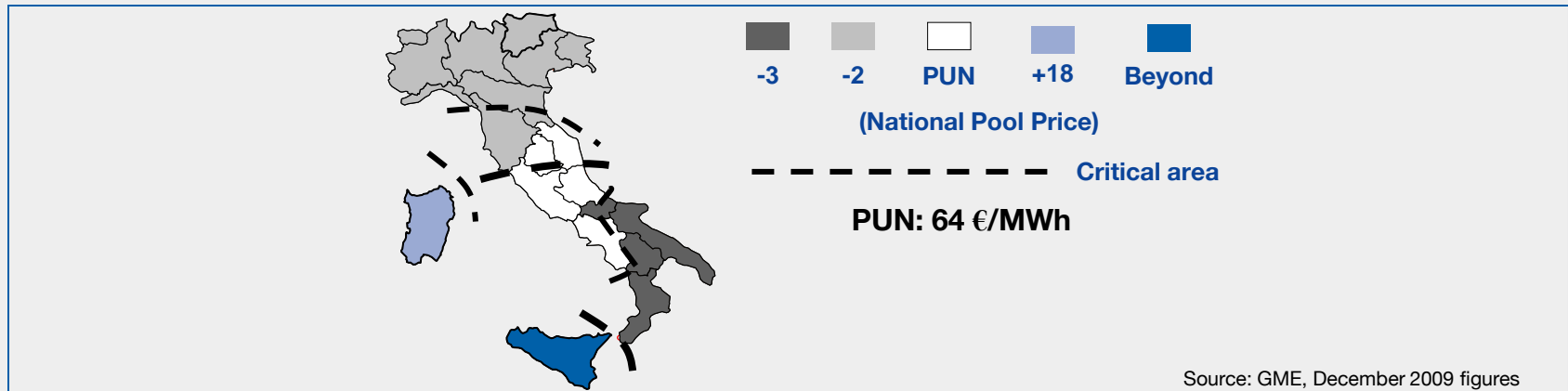
* Closing subject to Antitrust Authority approval, and the inclusion of the assets into the National Transmission Grid by the appropriate Authorities. Consolidation starting from 2H 2010

** SunTergrid owns 100% of Rete Rinnovabile Srl, incorporated in December 2009

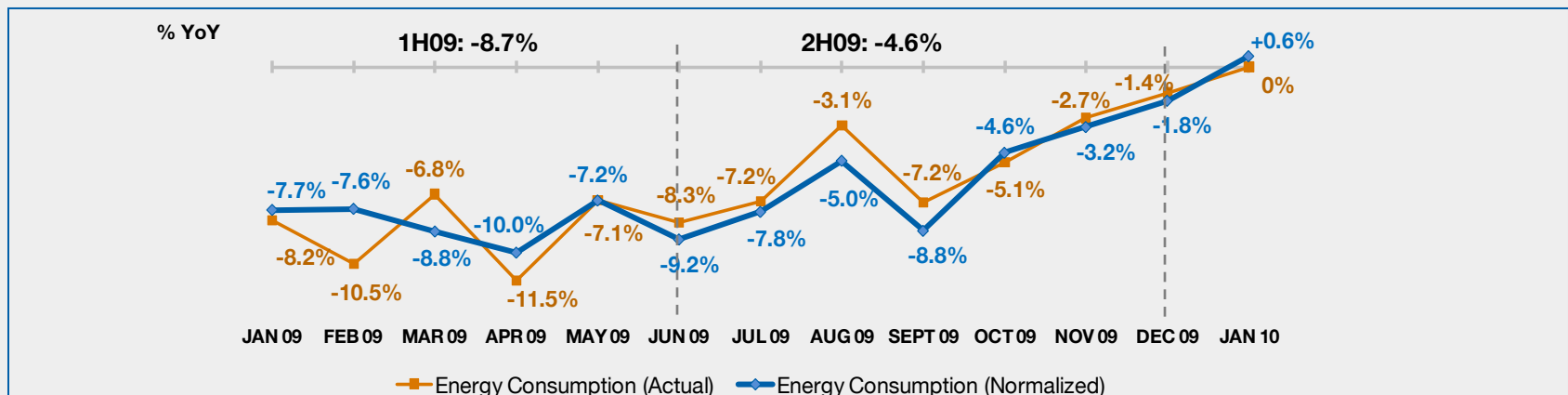
*** Companies measured via Equity Method

Electricity Market Trends

Electricity Prices

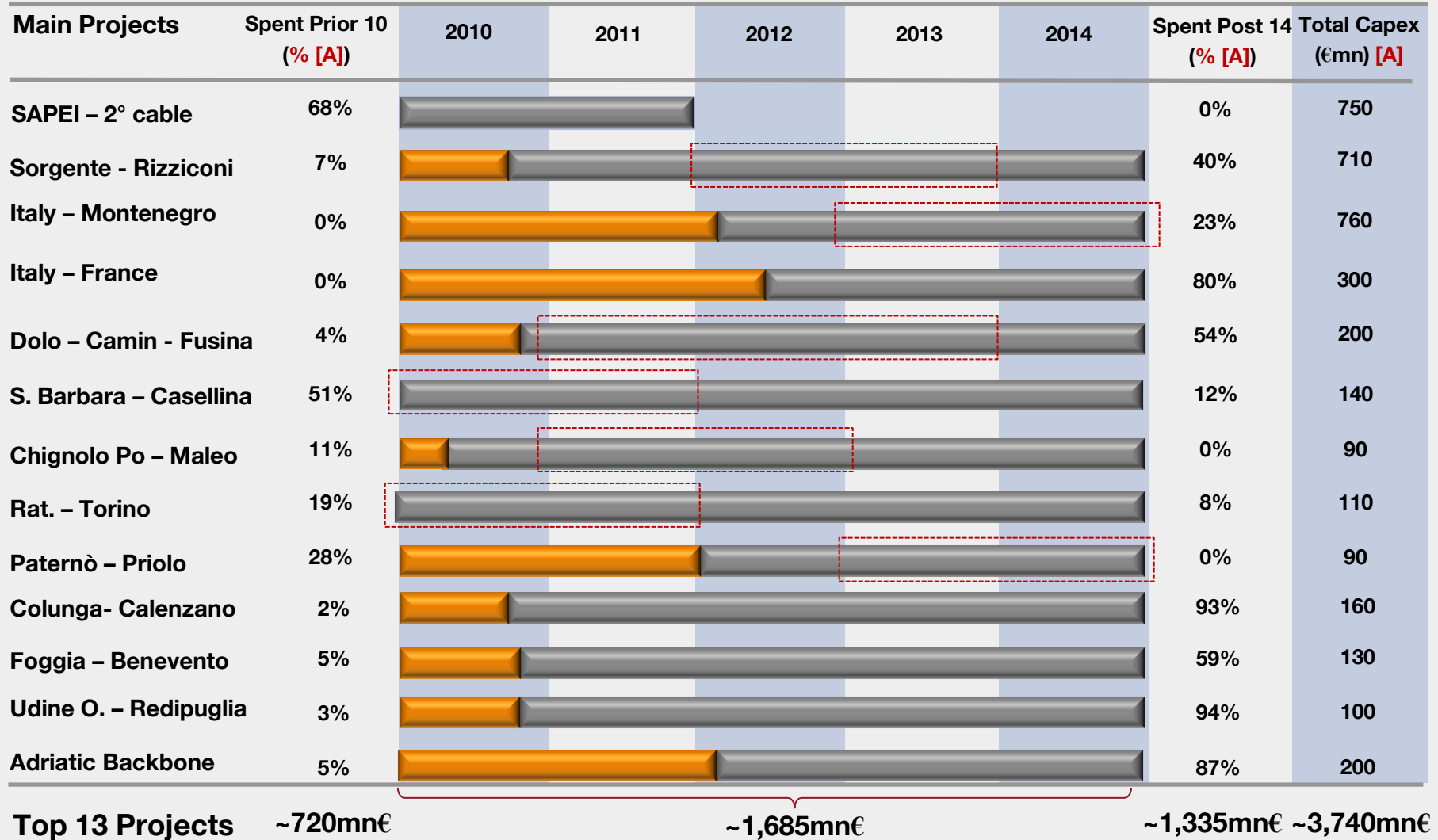


Demand



Pipeline of Key Development Projects

 Peak spending
 Start-up capex
 Main capex (construction and commissioning)



Sustainable Growth

Two Milestone Projects

SAPEI

Sardinia-Mainland connection

Total capex 750mn (already spent 68%)

1000MW, cc

First cable operational since 2009

Second cable placed by 2010

Full completion in 2011



Sorgente-Rizziconi

Sicily-Mainland connection

Total capex 710mn

2000MW, ac

Capex to pick in 2012-2013



Sustainable Growth

Interconnection with France

▪ Interconnection

Project 50%-50% Italy - France

Capacity 2X500MW, HVDC

Length 190 km (13km under the new safety gallery to be built aside Frejus motorway tunnel)

Total estimated project CAPEX: ~1,000mn€

▪ Italian Side

95 km

Capex: ~300mn€ for TERNA as a regulated cable (i.e. included in the RAB)

▪ Existing agreements

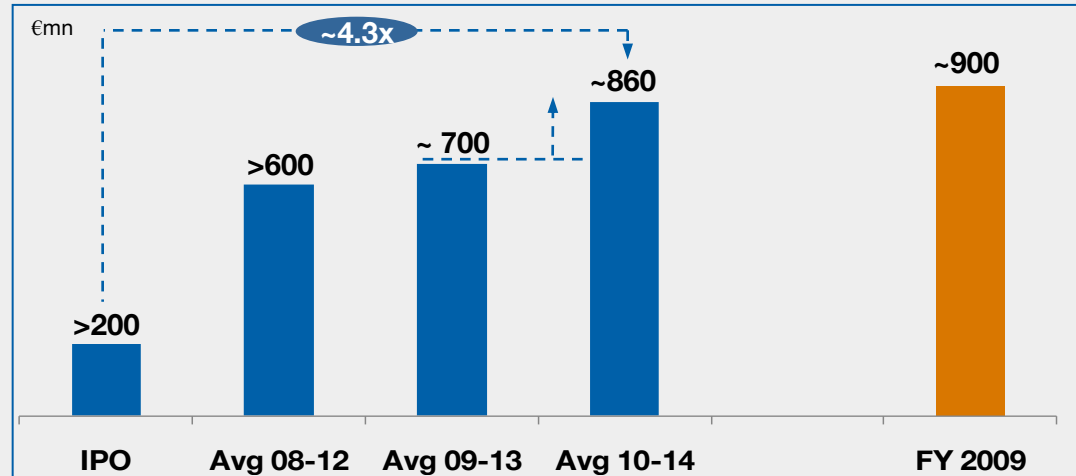
Partnership between TERNA and private parties for cable laying along motorway path and construction of the portion of the interconnection on the Italian territory.



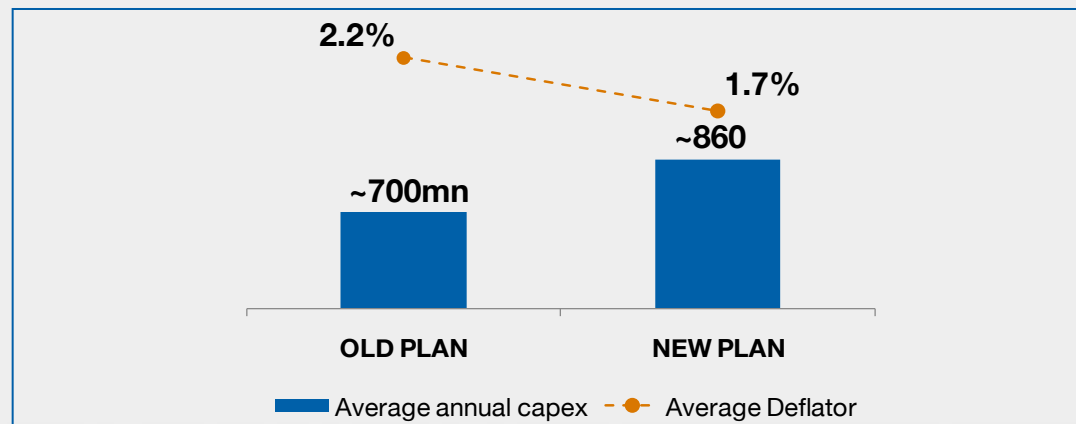
Sustainable Growth

Average Annual Spending

Average Annual Spending



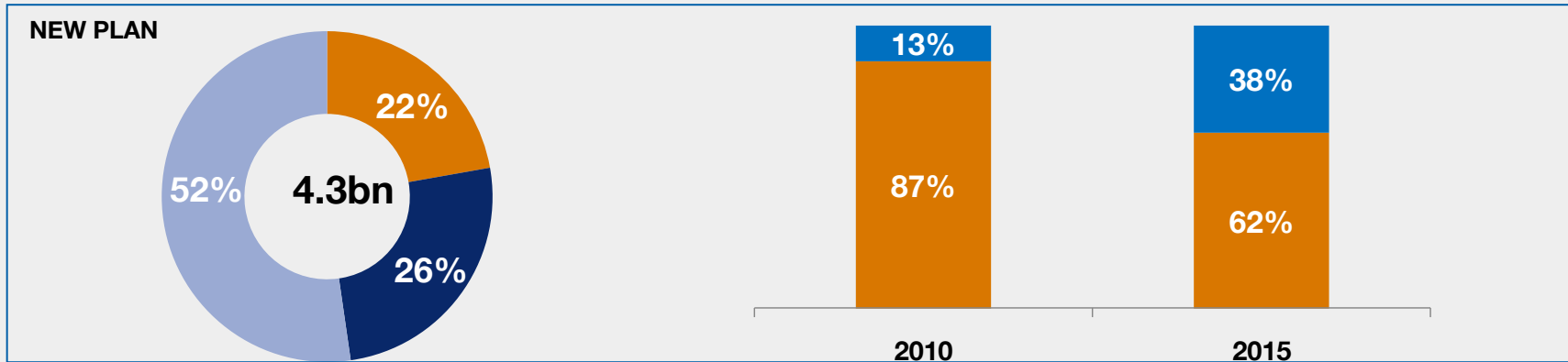
Mix Annual Spending/Deflator



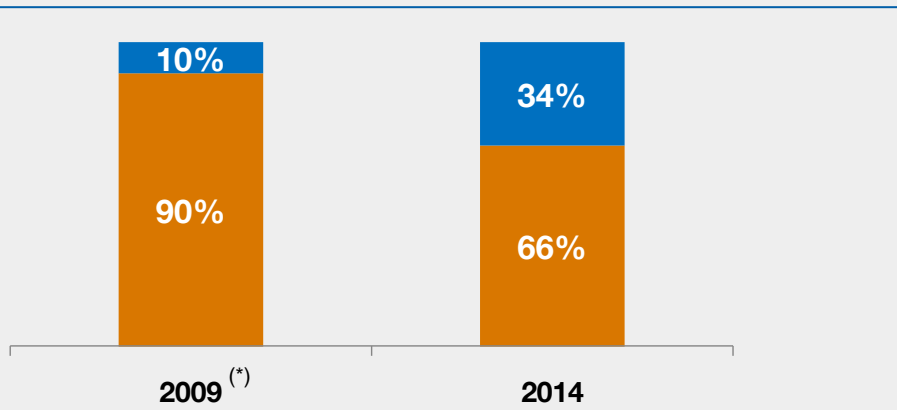
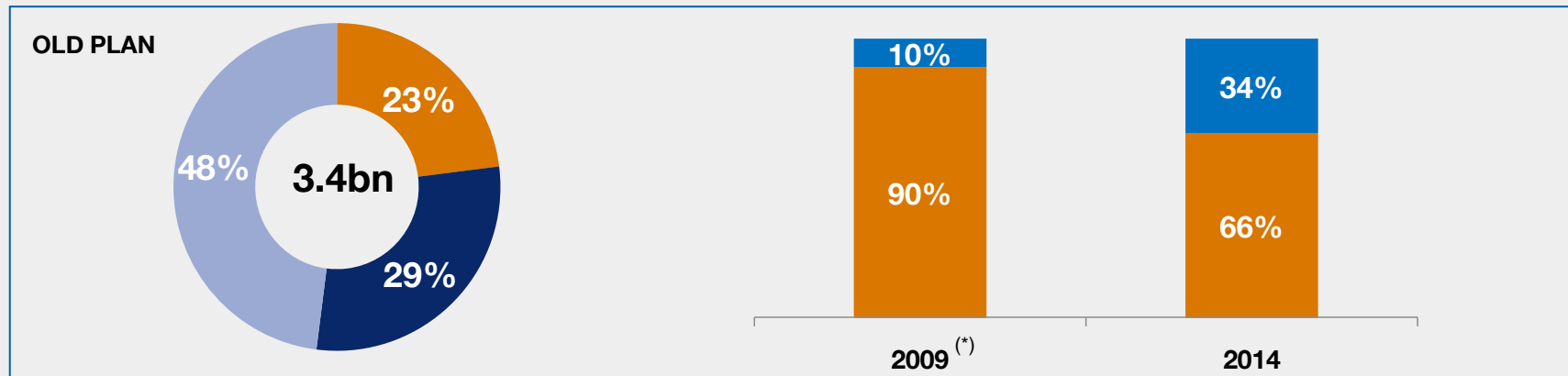
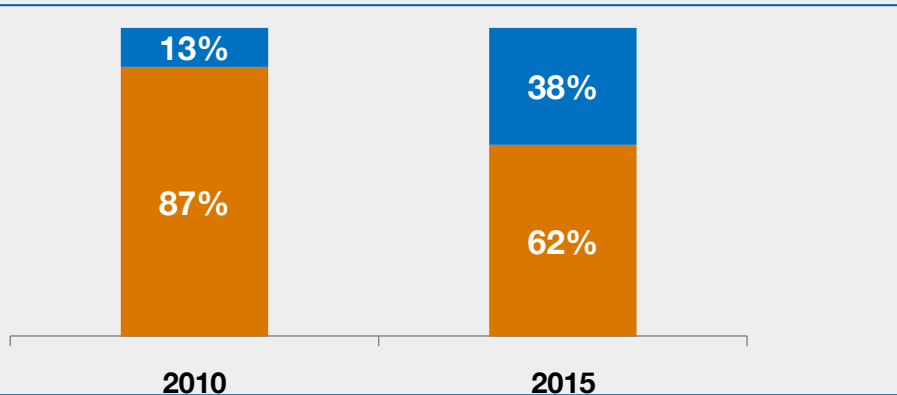
Sustainable Growth

Capex Plan and RAB

Capex Breakdown



RAB for Tariffs



6.9% 8.9% 9.9%

Maintenance Development

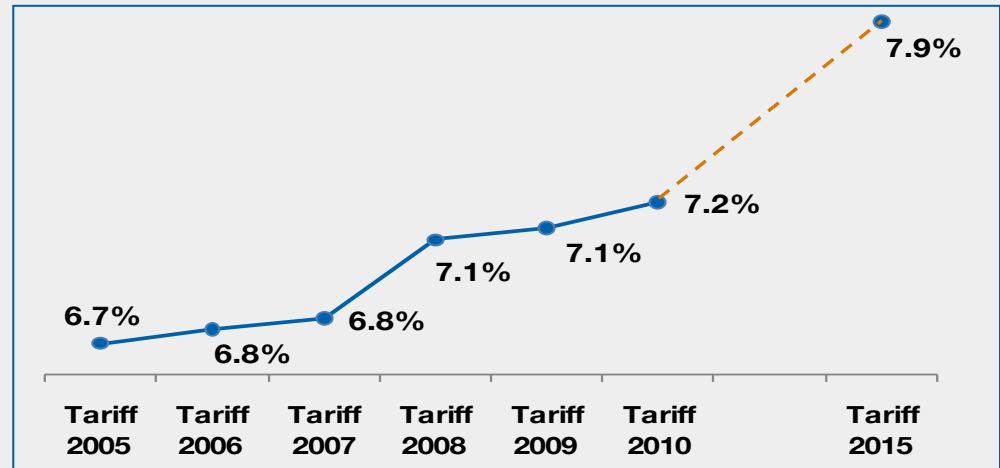
(*) Including 100% of TELAT

Sustainable Growth

Blended Returns

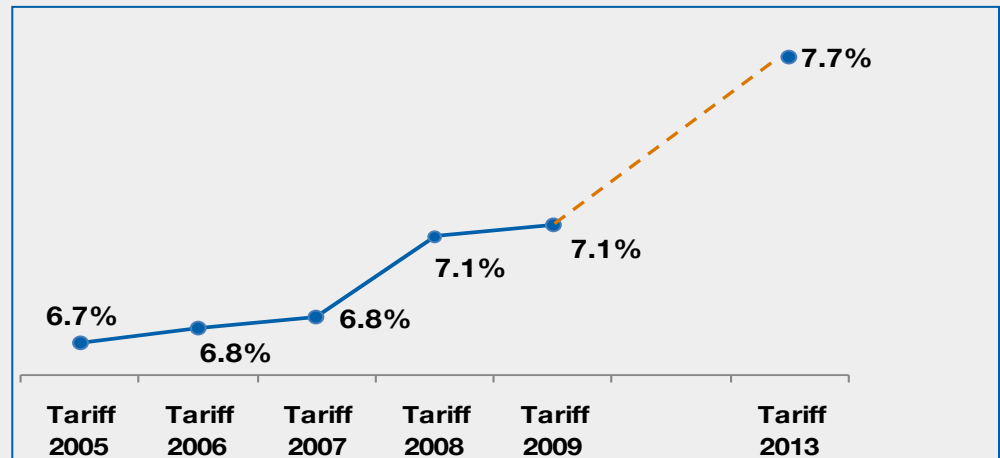
▪ New Plan

Blended Return to improve by 70bps



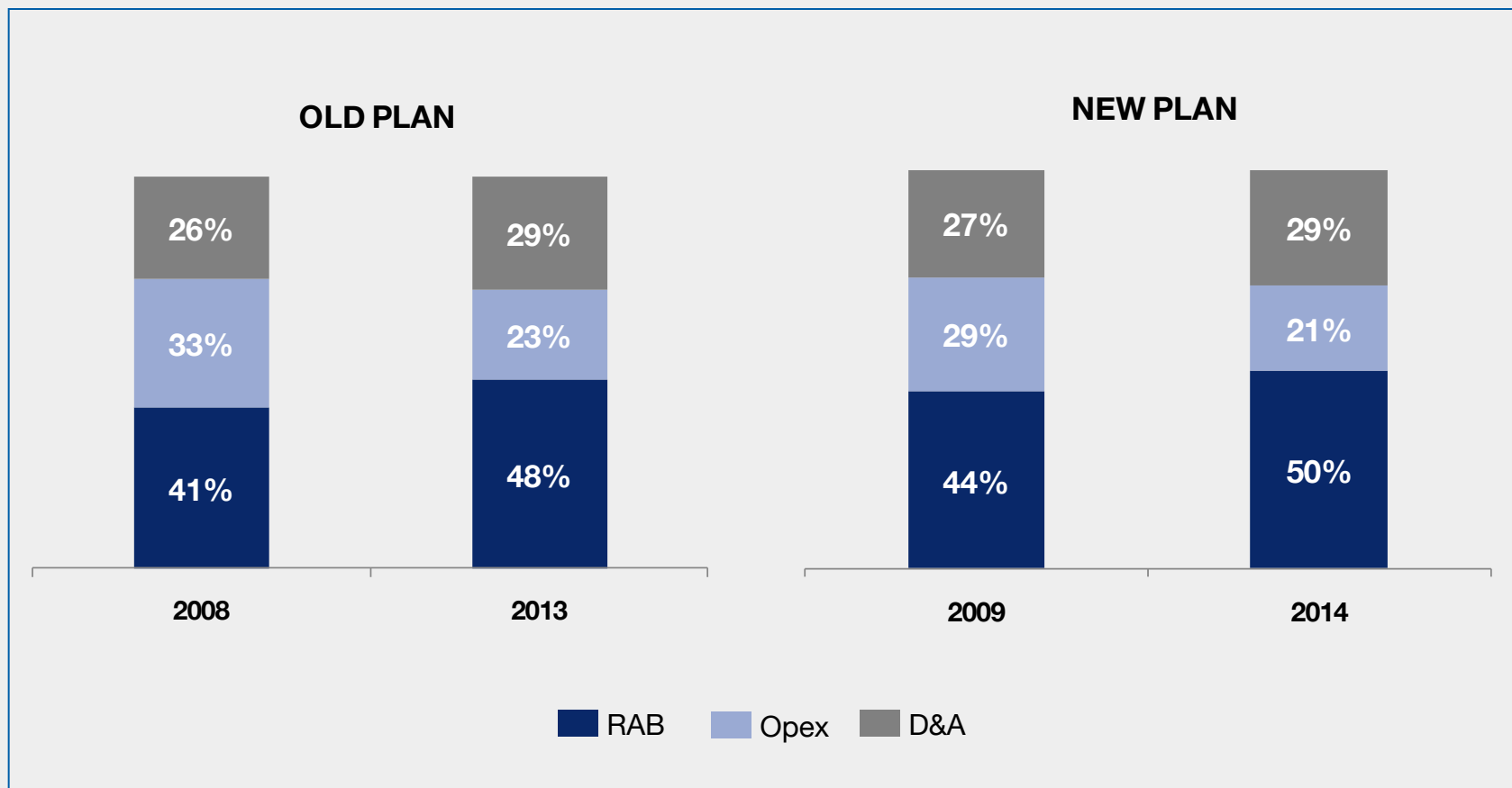
▪ Old Plan

Blended Return to improve by 60bps



Margin Enhancement

Breakdown of Regulated Revenues



Note: Terna's estimates

Quality of Service

▪ Dispatching

Incentives on dispatching activities

Incentive Scheme for 2009 (Resolution 206/08)

- Based on reduction of dispatched volumes
- Amount of the incentive capped at 40mn ⇒ ✓ gained 40mn in 2009

Incentive Scheme for 2010-12 (Resolution 213/09)

- Based on reduction of dispatching volumes, rolling year by year
- No cap ⇒ **Internal target: 80mn**, cumulated in the period

Incentives on demand and wind production (Resolution 351/07)

- Based on Terna's ability to predict Daily Energy Consumption and Wind Power Plant Production
- Amount of the incentives capped at 8mn ⇒ ✓ gained 5mn in 2009
- ⇒ **Internal target: 10mn**, cumulated in the period

▪ Quality of Service

Incentives based on the availability of the Grid, using technical KPIs¹ (Resolution 341/07)

- Internal target: best practice quality targets

1) Energy not Supplied and Numbers of Disruptions for Grid Users

Financial Efficiency

Funding

▪ Funding Available

(€mn)	Amount	Still
Bond 2014	600	
Bond 2024	800	
Bond IL 2023	500	
Revolving Credit Facility 2013	200	550
Revolving Credit Facility 2013		500
Term Loan 2015	650	
EIB	767	
CdP		500
Private Placement 2019	600	
Cash FY09 (forecast)		> 500
Total	4,117	> 2,050

▪ EMTN and New Bond Issues

Renewed EMTN programme (upgraded from €2bn to €4bn)

New Bond Issues, up to €1.5bn, by March 31, 2011

Initiatives for Sustainability

▪ Achievements

Environment -13% CO₂ emission from car fleet

Social Recall on ethics ⇒ re-distribution of Code of Ethics
New Corporate Giving Policy
New Performance Management System

▪ Sustainability Rating

Increased CSR reporting transparency ⇒ 3rd in the Italian AccountAbility Rating

Entered various sustainability indexes:

- Dow Jones Sustainability World (September 2009)
- ASPI Eurozone (September 2009)
- Ethibel Sustainability Index Excellence (September 2009)
- FTSE KLD Global Sustainability and Europe Sustainability
- ECPI
- Axia Ethical Index
- Axia CSR Index

Disclaimer

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

* * *

THIS DOCUMENT HAS BEEN PREPARED BY TERNA S.P.A. (THE “COMPANY”) FOR THE SOLE PURPOSE DESCRIBED HEREIN. IN NO CASE MAY IT BE INTERPRETED AS AN OFFER OR INVITATION TO SELL OR PURCHASE ANY SECURITY ISSUED BY THE COMPANY OR ITS SUBSIDIARIES.

THE CONTENT OF THIS DOCUMENT HAS A MERELY INFORMATIVE AND PROVISIONAL NATURE AND THE STATEMENTS CONTAINED HEREIN HAVE NOT BEEN INDEPENDENTLY VERIFIED. NEITHER THE COMPANY NOR ANY OF ITS REPRESENTATIVES SHALL ACCEPT ANY LIABILITY WHATSOEVER (WHETHER IN NEGLIGENCE OR OTHERWISE) ARISING IN ANY WAY FROM THE USE OF THIS DOCUMENT OR ITS CONTENTS OR OTHERWISE ARISING IN CONNECTION WITH THIS DOCUMENT OR ANY MATERIAL DISCUSSED DURING THE PRESENTATION.

THIS DOCUMENT MAY NOT BE REPRODUCED OR REDISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON. THE INFORMATION CONTAINED HEREIN AND OTHER MATERIAL DISCUSSED AT THE INVESTORS’ MEETING MAY INCLUDE FORWARD-LOOKING STATEMENTS THAT ARE NOT HISTORICAL FACTS, INCLUDING STATEMENTS ABOUT THE COMPANY’S BELIEFS AND EXPECTATIONS. THESE STATEMENTS ARE BASED ON CURRENT PLANS, ESTIMATES, PROJECTIONS AND PROJECTS, AND CANNOT BE INTERPRETED AS A PROMISE OR GUARANTEE OF WHATSOEVER NATURE.

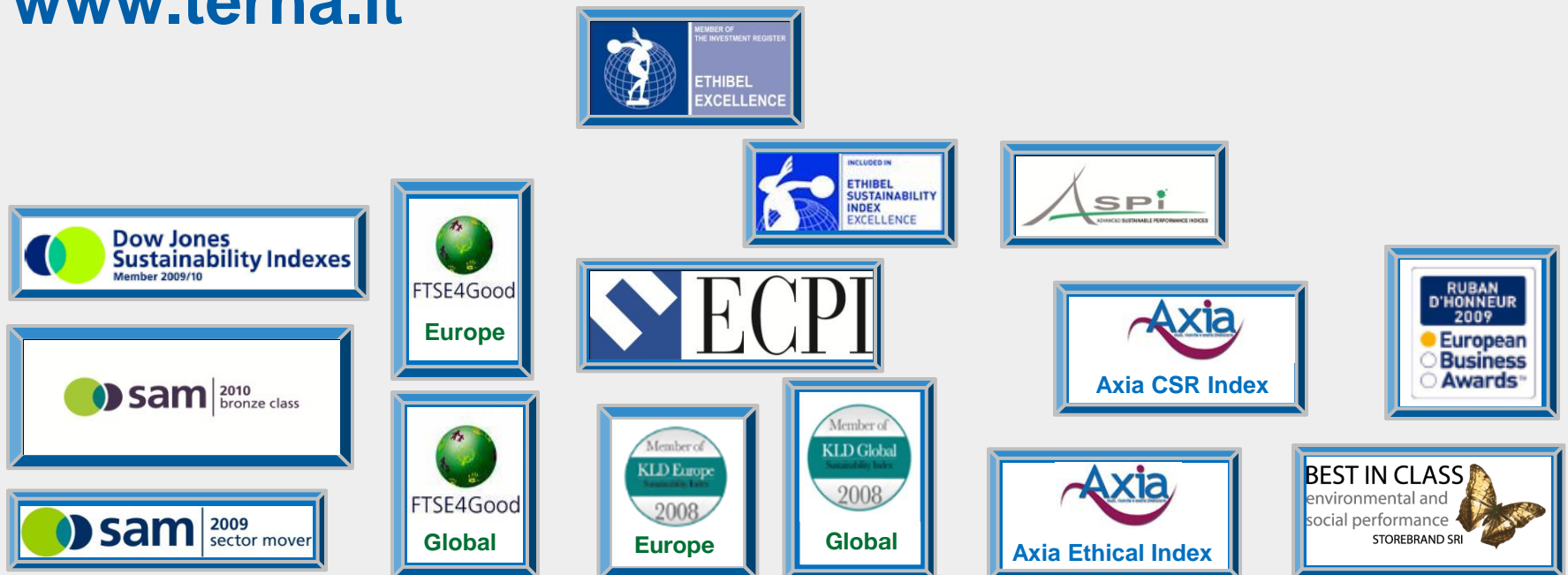
HOWEVER, FORWARD-LOOKING STATEMENTS INVOLVE INHERENT RISKS AND UNCERTAINTIES AND ARE CURRENT ONLY AT THE DATE THEY ARE MADE. WE CAUTION YOU THAT A NUMBER OF FACTORS COULD CAUSE THE COMPANY’S ACTUAL RESULTS AND PROVISIONS TO DIFFER MATERIALLY FROM THOSE CONTAINED IN ANY FORWARD-LOOKING STATEMENT. SUCH FACTORS INCLUDE, BUT ARE NOT LIMITED TO: TRENDS IN COMPANY’S BUSINESS, ITS ABILITY TO IMPLEMENT COST-CUTTING PLANS, CHANGES IN THE REGULATORY ENVIRONMENT, DIFFERENT INTERPRETATION OF THE LAW AND REGULATION, ITS ABILITY TO SUCCESSFULLY DIVERSIFY AND THE EXPECTED LEVEL OF FUTURE CAPITAL EXPENDITURES. THEREFORE, YOU SHOULD NOT PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS. TERNA DOES NOT UNDERTAKE ANY OBLIGATION TO UPDATE FORWARD-LOOKING STATEMENTS TO REFLECT ANY CHANGES IN TERNA’S EXPECTATIONS WITH REGARD THERETO OR ANY CHANGES IN EVENTS CONDITIONS, INTERPRETATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

EXECUTIVE IN CHARGE OF THE PREPARATION OF ACCOUNTING DOCUMENTS “LUCIANO DI BACCO” DECLARES, PURSUANT TO PARAGRAPH 2 OF ARTICLE 154-BIS OF THE CONSOLIDATED LAW ON FINANCE, THAT THE ACCOUNTING INFORMATION CONTAINED IN THIS PRESENTATION CORRESPONDS TO THE DOCUMENT RESULTS, BOOKS AND ACCOUNTING RECORDS.

investor.relations@terna.it

+39 06 8313 8106

www.terna.it





Mixed Sources
Product group from well-managed
forests and other controlled sources

cert no. QMI-COC-001028
www.fsc.org
© 1996 Forest Stewardship Council