

# 1H06 Consolidated Results

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September 6<sup>th</sup>, 2006

# Agenda

## Highlights

Recent Developments

1H2006 Results

Dividends and Closing Remarks

Annexes

# Highlights

- Strong margins and earnings growth
  - EBITDA +37%; EBIT +42%; Net Income +35%
  - Recovery of 2005 shortfall in regulated revenues (+48mn euro)
- Positive impact from electricity demand (+1.4%) and weather conditions
  - 55,619MW new all-time record in peak demand of electricity consumption
- Interim dividend per share at 0.053 euro

**High quality earnings and growing interim dividend**

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# Recent Developments

## Italian Operations

### **Regulatory**

- Promoted appropriate remuneration of transmission activity
  - AEEG called for an integration of allowed revenues to adjust discrepancy between 2005 expected allowed revenues and actual tariff collection (resolution 162/2006)
  - TERNA booked one-off revenues for 48mn euro

### **Consolidation Of the Grid**

- Short-listed for the acquisitions of Edison Rete and AEM Trasmissione
- First approaches for negotiations with other Grid owners

# Recent Developments

## International Operations

### **Brazil**

- Plan to IPO as soon as market stabilises and fair value recovers
- Participation in green-fields project to be auctioned by ANEEL

### **International Scouting**

- Opportunistic broadening of the geographic focus to spot strategic opportunities

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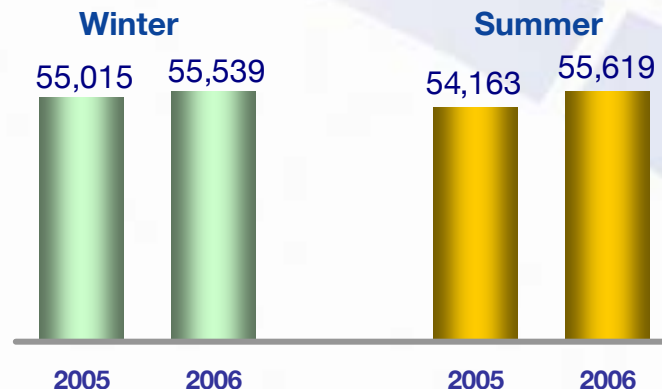
# 1H 2006 Results

## Operational Data and Quality of Service

### Electricity Transmitted

GWh	1H06	1H05	%
Total Net Production	150,610	142,519	5.7%
Pumping consumption	4,401	4,867	-9.6%
Net Import/(Export)	20,567	26,746	-23.1%
<b>Total Italian Demand</b>	<b>166,776</b>	<b>164,398</b>	<b>1.4%</b>

### Peak Demand Growth (MW)



### Quality

	Italy		Brazil	
	1H06	1H05	1H06	1H05
Availability of the system (%)	99.66%	99.61%	Availability of our facilities (%):	
			NOVATRANS	99.89% 99.82%
			TSN	99.98% 99.65%
Average Interruption Time AIT (Min/Year)	0.24	0.29		

**Strong focus on safety and system reliability**



# 1H 2006 Results

## Income Statement

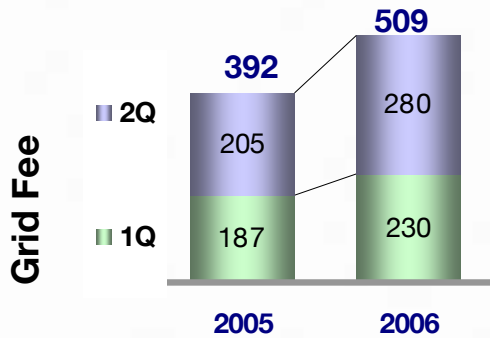
In mn Euro

Consolidated		Change			Consolidated		Change	
2Q06	2Q05	mn	%		1H06	1H05	mn	%
<b>352</b>	<b>246</b>	<b>106</b>	<b>43.1%</b>	<b>Operating Revenues</b>	<b>658</b>	<b>500</b>	<b>159</b>	<b>31.8%</b>
280	205	75	36.5%	Grid Fee	509	392	117	29.9%
10	0	10	100.0%	Other Energy Items	21	0	21	100.0%
44	36	8	22.0%	Regulated Activities in Brazil	92	72	21	28.9%
18	5	13	251.9%	Other Activities	36	36	0	0.6%
<b>92</b>	<b>80</b>	<b>12</b>	<b>15.3%</b>	<b>Operating Expenses</b>	<b>181</b>	<b>152</b>	<b>29</b>	<b>19.4%</b>
<b>260</b>	<b>166</b>	<b>94</b>	<b>56.4%</b>	<b>EBITDA</b>	<b>478</b>	<b>348</b>	<b>129</b>	<b>37.2%</b>
221	136	86	63.1%	Italy	401	290	111	38.5%
39	31	9	27.8%	Brazil	77	59	18	30.9%
<b>74%</b>	<b>68%</b>			<b>EBITDA Margin (%)</b>	<b>73%</b>	<b>70%</b>		
72%	65%			Italy	71%	68%		
89%	85%			Brazil	83%	82%		

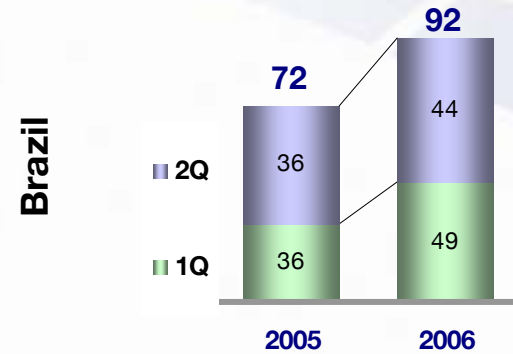
# 1H 2006 Results

## Revenues Breakdown

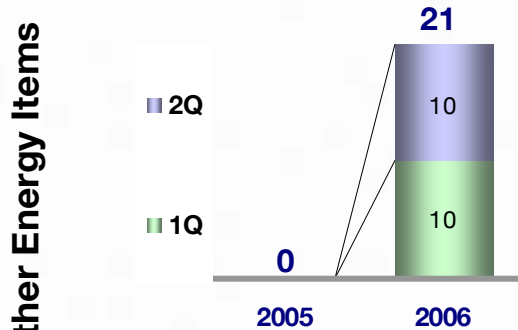
In mn Euro



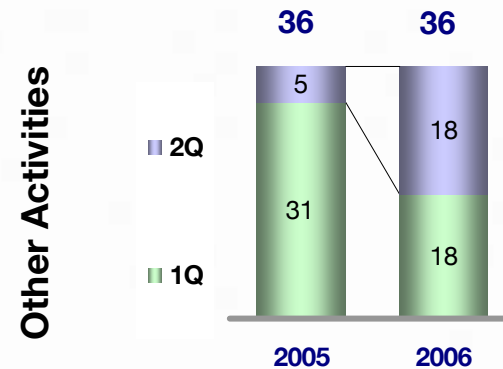
- Volume and tariff effect (+48mn)
- Change in perimeter (+37mn)
- One-offs (net) (+32mn)



- Exchange rate effect (+17mn)



- Dispatching (16mn)
- Measure (5mn)



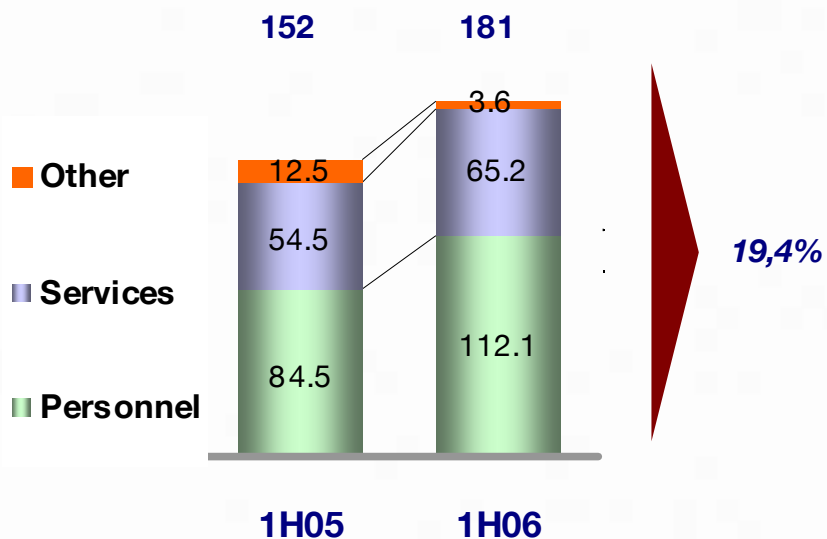
- MIND: 1Q05 positive one-off (15mn) reversed from 2Q05 and reclassified under Grid Fee

# 1H 2006 Results

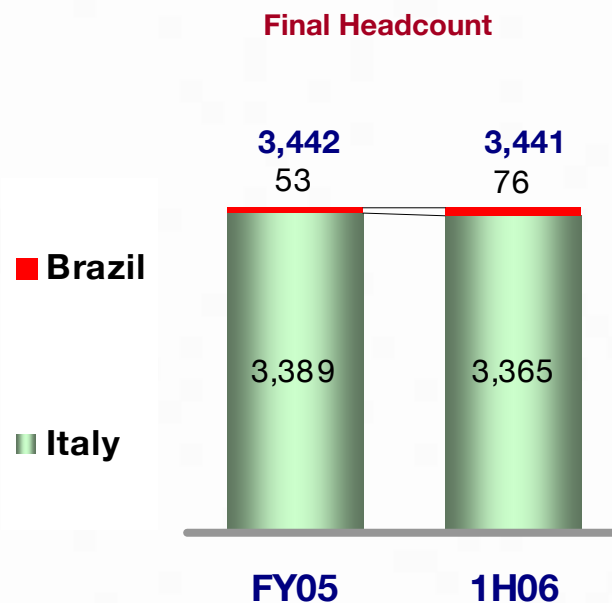
## Operating Costs Breakdown

In mn Euro

### Operating Costs



### Personnel Evolution



- Increase entirely due to change in perimeter

- Group headcount (-1): 3,441

- Italy: -24 ⇒ rightsizing programmes
- Brazil: +23 ⇒ reorganisation + Munirah acquisition

# 1H 2006 Results

## Income Statement

In mn Euro

Consolidated		Change			Consolidated		Change	
2Q06	2Q05	mn	%		1H06	1H05	mn	%
260	166	94	56.4%	<b>EBITDA</b>	478	348	129	37.2%
50	41	9	21.5%	D&A	99	82	17	20.9%
210	125	85	68.0%	<b>EBIT</b>	379	266	112	42.2%
28	18	10	57.0%	Net Interest Expense	47	43	4	9.1%
82	37	45	123.0%	Taxes	142	83	59	70.5%
45.2%	34.5%			Tax rate (%)	42.7%	37.3%		
99	70	29	41.8%	<b>Net Income</b>	190	140	50	35.4%

# 1H 2006 Results

## Capex Breakdown

In mn Euro

	1H06	1H05	Change	%
<b>8.7% Remuneration- Development</b>	<b>81</b>	<b>51</b>	<b>31</b>	<b>60%</b>
<b>6.7% Remuneration</b>	<b>48</b>	<b>31</b>	<b>17</b>	<b>53%</b>
- Maintenance	27	24	2	
- Other	22	7	14	
<b>TOTAL ITALY</b>	<b>129</b>	<b>82</b>	<b>47</b>	<b>57%</b>
<b>TOTAL BRAZIL</b>	<b>4</b>	<b>2</b>	<b>3</b>	<b>169%</b>
<b>TOTAL CAPEX</b>	<b>134</b>	<b>84</b>	<b>50</b>	<b>60%</b>

**Organic growth progressing effectively**

# 1H 2006 Results

## Development Capex

In mn Euro

### Completed:

- Turbigo-Rho
- SARCO
- Laino-Feroleto-Rizziconi

### In progress:

- SAPEI
  - secured supply via contracts with ABB and Prysmian Cables & Systems
- Matera-Santa Sofia

### Main Projects



# 1H 2006 Results

## Key Balance Sheet Items

In mn Euro

	1H06	FY05	Change
<b>Assets</b>			
PP&E	4,705	4,646	58
Intangible asset, net	308	306	2
Financial Inv. And Other	13	13	0
<b>Total Fixed Assets</b>	<b>5,025</b>	<b>4,966</b>	<b>60</b>
Net WC	(229)	(179)	(50)
Funds	(629)	(616)	(13)
<b>Net Invested Capital</b>	<b>4,167</b>	<b>4,171</b>	<b>(4)</b>
Financed by:			
Net Debt	2,222	2,269	(47)
Shareholder's Equity	1,946	1,902	43
D/E ratio	1.14	1.19	(0.1)

# 1H 2006 Results

In mn Euro

## Cash Flow

	1H06	1H05	FY05
Net Income	190	140	298
Depreciation <sup>(1)</sup>	99	83	177
Net Change in Funds	13	22	19
<b>Operating Cash Flows</b>	<b>302</b>	<b>246</b>	<b>493</b>
Change in WC	50	(84)	(22)
<b>Cash Flow from Operating Activities</b>	<b>352</b>	<b>162</b>	<b>472</b>
Capital expenditures	(134)	(84)	(273)
Other fixed asset changes	(39)	0	(244)
<b>Free Cash Flow</b> <sup>(2)</sup>	<b>179</b>	<b>79</b>	<b>(45)</b>
Dividends	(160)	(140)	(240)
Change in Capital	7	-	-
<b>Change in Financial Position</b> <sup>(2)</sup>	<b>26</b>	<b>(61)</b>	<b>(285)</b>

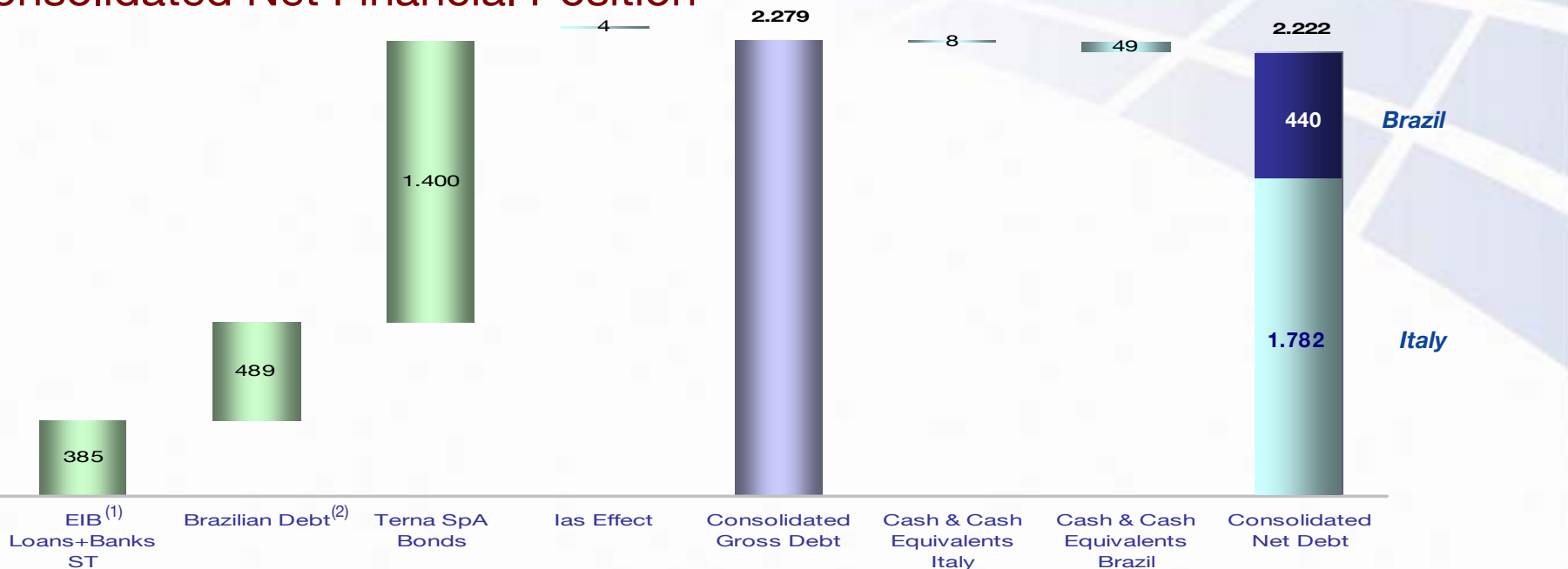
(1) Net of assets disposals

(2) Not including  $\Delta$  €/R exchange rates and  $\Delta$  fair value on Bonds



# 1H 2006 Results

## Consolidated Net Financial Position



### Change in Net Financial Position

<b>Net Debt 31/12/05</b>	<b>2,269</b>
Δ Fair value on Bonds and Derivatives	(17)
Change in Financial Position	(26)
Δ Exchange Rates	(4)
<b>Net Debt 30/06/06</b>	<b>2,222</b>
<b>Change in Net Debt</b>	<b>-47</b>

### LT Debt Ratings

S&P's: AA-

Moody's: Aa3

Fitch: AA

# 1H 2006 Results

## Gross Debt Structure- IAS

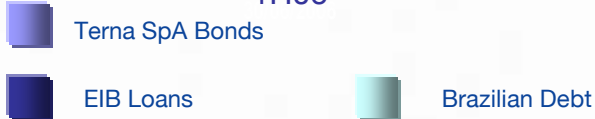
In mn Euro

### Debt by Instruments (€ mn)

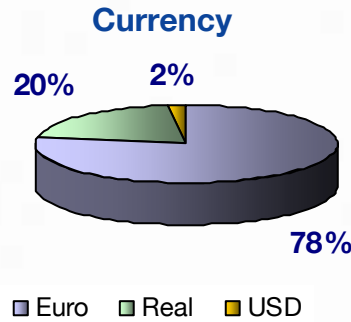
2,279



1H06



### Debt Breakdown



### Fixed/Floating mix

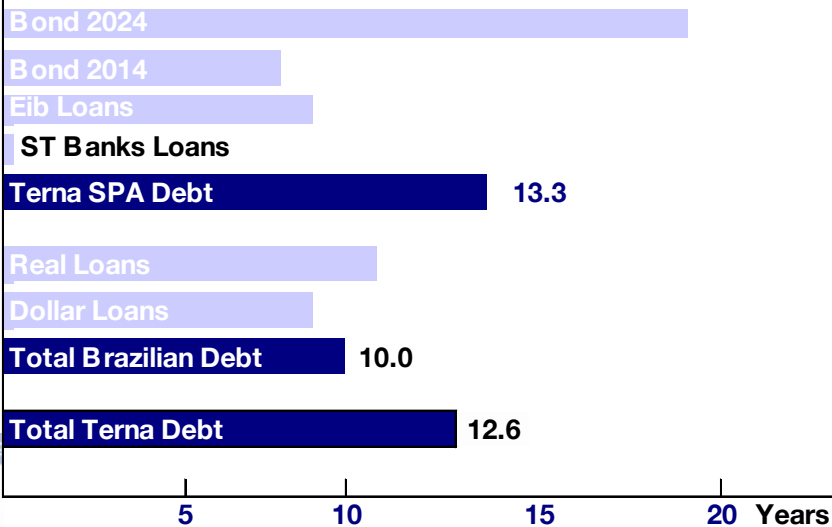


Legend: Euro (light blue), Real (green), USD (yellow)

Legend: Floating (hatched), Fixed (white)

Category	Floating (%)	Fixed (%)
Italian Debt	38%	62%
Cons. Debt	49%	51%

### Average Maturity



### Average Cost of Debt

Italy	3.3%
Brazil	11.5%
<b>Terna Group</b>	<b>4.9%</b>

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1H2006 Results

**Dividends and Closing Remarks**

Annexes

# Dividends and Closing Remarks

- Strong operational and financial performance
- Important achievements to push strategy forward
- Safety and service reliability highest priorities
- Commitment to CSR
- High returns for shareholders
  - Interim dividend of Euro 106mn, equal to Euro 0.053 per share
  - Ex date: November 20, 2006
  - Payment date: November 23, 2006

**Attractive returns to shareholders: + 6% interim dividend growth**

# Dividends and Closing Remarks

## Outlook for 2006

### Economics

- EBITDA margin: ↑ vs FY2005 but ↓ vs 1H06
  - No additional one-offs in the top line
  - ↑ 2H06 costs (seasonality; acquisitions)
- ↑ Capex
- ↑ Net Debt (interim dividends, capex and acquisitions)

### Strategy

- Deliver on organic growth
- Focus on reunification of the Italian grid
- Careful monitoring of growth opportunities outside of Italy

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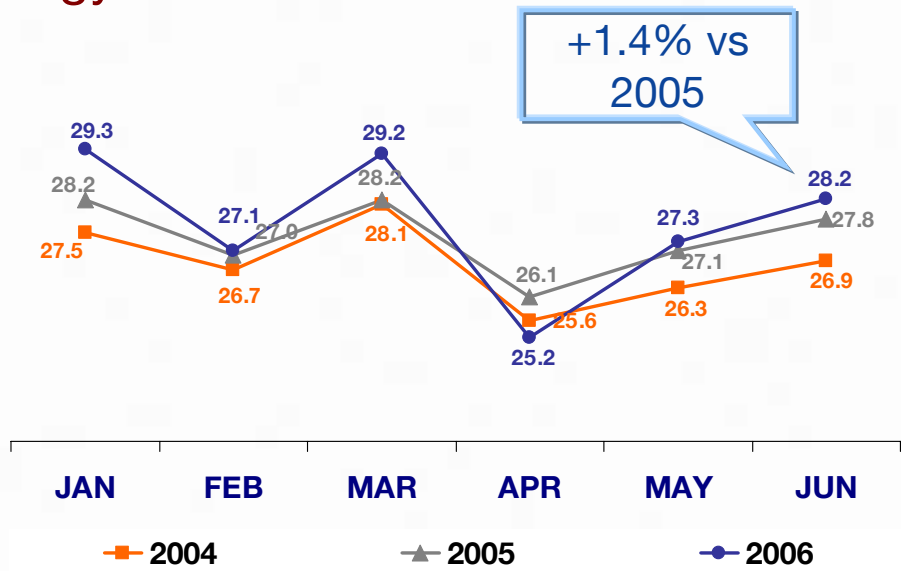
Dividends and Closing Remarks

**Annexes**

# Italian Electricity Market Evolution

TWh

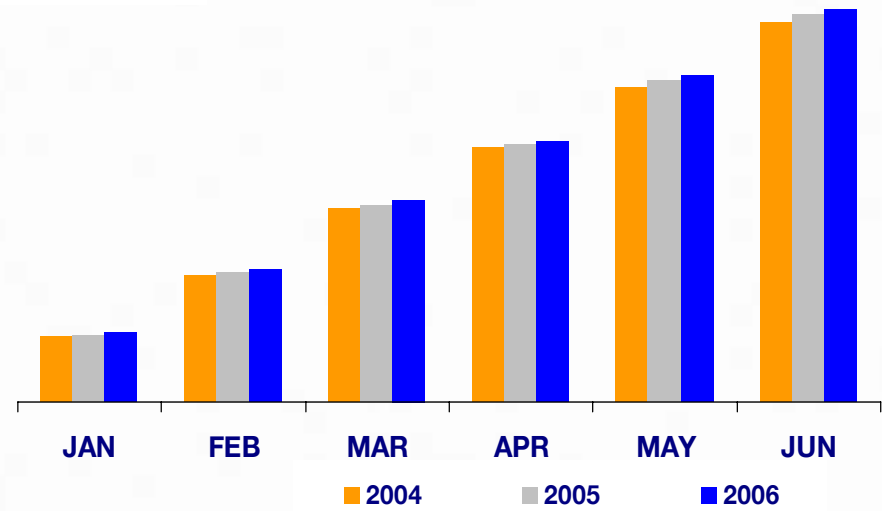
## Energy Demand



### Monthly Trend

+1.4% vs 2005

### Cumulated Trend



Source: 2004 GRTN Annual Report; 2005, 2006 GRTN-TERNA monthly reports



# 1H 2006 Results

## Consolidated – Quarterly Analysis (IAS)

In mn Euro

	1Q06	1Q05	Change	2Q06	2Q05	Change
<b>Operating Revenues</b>	<b>307</b>	<b>254</b>	<b>53</b>	<b>352</b>	<b>246</b>	<b>106</b>
<i>Grid Fee</i>	230	187	43	280	205	75
<i>Other Energy Items</i>	10	-	10	10	-	10
<i>Regulated Activities in Brazil</i>	49	36	13	44	36	8
<i>Other Activities</i>	18	31	(13)	18	5	13
<b>Operating Expenses</b>	<b>89</b>	<b>72</b>	<b>17</b>	<b>92</b>	<b>80</b>	<b>12</b>
<b>EBITDA</b>	<b>217</b>	<b>182</b>	<b>35</b>	<b>260</b>	<b>166</b>	<b>94</b>
<i>Italy</i>	180	154	26	221	136	86
<i>Brazil</i>	37	28	10	39	31	9
D&A	49	40	8	50	41	9
<b>EBIT</b>	<b>169</b>	<b>141</b>	<b>27</b>	<b>210</b>	<b>125</b>	<b>85</b>
Net Interest Expense	19	25	(6)	28	18	10
Taxes	60	46	13	82	37	45
<b>Net Income</b>	<b>90</b>	<b>70</b>	<b>20</b>	<b>99</b>	<b>70</b>	<b>29</b>



# 1H 2006 Results

## TERNA Participações (IAS)

In mn Euro



	1H06	1H05	1H06	1H05	Total 1H06	Total 1H05	Change
<b>Revenues</b>	<b>45</b>	<b>35</b>	<b>48</b>	<b>38</b>	<b>93</b>	<b>72</b>	<b>20</b>
Operating Expenses <sup>(1)</sup>	9	6	7	8	16	14	2
<b>EBITDA</b>	<b>36</b>	<b>29</b>	<b>41</b>	<b>30</b>	<b>77</b>	<b>58</b>	<b>18</b>
<b>EBIT</b>	<b>32</b>	<b>25</b>	<b>35</b>	<b>25</b>	<b>67</b>	<b>50</b>	<b>17</b>
Net Interest Expense <sup>(2)</sup>	10	9	9	14	19	23	-4
Taxes	9	8	10	3	20	11	9
<b>Net Income</b>	<b>13</b>	<b>9</b>	<b>16</b>	<b>8</b>	<b>29</b>	<b>17</b>	<b>12</b>
<b>Net Invested Capital<sup>(3)</sup></b>	<b>300</b>	<b>266</b>	<b>349</b>	<b>346</b>	<b>649</b>	<b>611</b>	<b>37</b>
Financed by:							
Net Debt	234	197	206	211	440	408	32
Shareholders' Equity	66	69	143	135	209	203	6

(1) Net of capitalized costs

(2) Of which Interest on Equity for 14mn euro in 1H 2005 for TSN and Novatrans

(3) 2005 Balance Sheet figures are as of December 31 2005

# 1H 2006 Results

## Exchange Rates

	1H06	FY05	1H05
Closing Rate Euro/BRL\$	2.76	2.74	2.85
Average Rate for the Period	2.70	3.03	3.31
IGPM	1.41%	1.21%	1.74%

## Impacts on: (€mn) 1H06

1Q06 vs 1Q05

EBIT	12
Net Financial Interests	4
Net Income	5

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