

1Q06 Consolidated Results

Flavio Cattaneo – Chief Executive Officer

Fabio Todeschini – Chief Financial Officer

May 10th, 2006

Agenda

Highlights & Recent Developments

1Q2006 Results

Closing Remarks

Annexes

Highlights & Recent Developments

First Quarter Results

MACRO

- Continued volume growth: electricity demand up 2.9% vs 1Q05; 3.4% vs 1Q04
- Ongoing appreciation of BRL\$ (average 1Q06 vs average 1Q05 +26%)

RESULTS

- Significant contribution from TSO activities and Brazilian assets
- Revenues, EBITDA and EBIT up >19% vs 1Q05
- Enhanced profitability: Net Income +29% vs 1Q05

Sound results and growing margins

Highlights & Recent Developments

Italian Operations

Investment Plan

- **March 31st**: Development Plan for the National Transmission Grid approved by the Ministry of Productive Activities (MAP)
- SAPEI and Matera-S. Sofia projects kicked-off

M&A

- **April 13th**: Authority published incentive mechanisms for Grid Consolidation (AEEG resolution 73/2006)
 - Ongoing contacts with other Grid owners to complete the acquisitions of their networks

Other

- **March 10th**: TERNA confirmed in the FTSE4Good Europe Index
- **April 27th**: joined Confindustria (Confederation of Italian Industry)

Highlights & Recent Developments

Brazilian IPO

- 31 January
 - Announcement of the intention of listing Brazilian activities
- 31 March
 - Munirah acquisition effective
 - Munirah merged into TSN
- 27 April
 - BoD approval of:
 - Reorganization of Brazilian activities under TERNA Participações S.A.
 - Filing of documentation for the IPO
 - Preliminary offering structure
- 2-3 May
 - Filing with CVM and BOVESPA



Rationalization of structure + roadmap for the IPO

Highlights & Recent Developments

Capital Structure and Funding

Rating

LT Debt

S&P	AA-	<i>affirmed</i>
Moody's	Aa3	<i>affirmed</i>
Fitch	AA	<i>new</i>

Strong credit ratings ...

New Funding Issues

- Approved up to 2bn Euro EMTN Program
- Renegotiated syndicated bank facility
 - From Euro 500 to 750 million
 - Reduction of margins and fees

...and competitive LT financing capacity

make TERNA secure and financially sound

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1Q 2006 Results

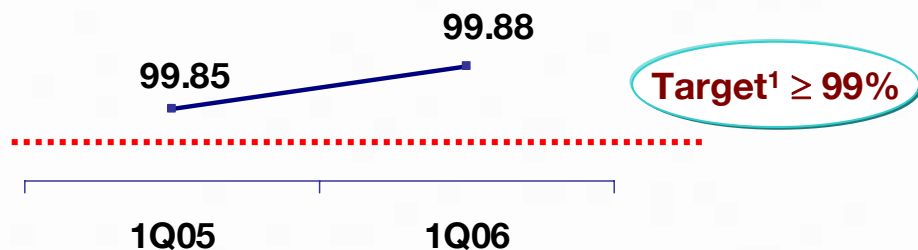
Operational data and Quality of Service

OPERATIONAL

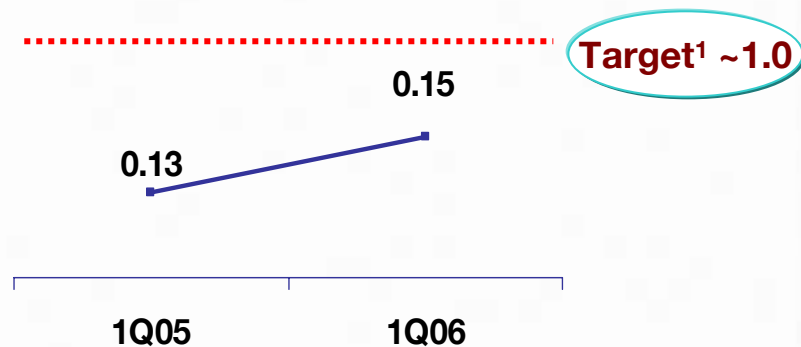
GWh	1Q06	1Q05	%
Total Net Production	78,191	69,274	12.9%
Net Import/(Export)	7,409	13,907	-46.7%
Total Italian Demand	85,600	83,181	2.9%

QUALITY

Availability of the System (%)



Average Interruption Time AIT (Min/year)



Favourable demand evolution combined with good quality standards

1Q 2006 Results

Income Statement

In mn Euro

	Consolidated		Change	
	1Q06	1Q05	mm	%
Operating Revenues	307	254	53	20.8%
<i>Grid Utilization Fee</i>	230	187	43	22.7%
<i>Other Energy Items</i>	10	0	10	0.0%
<i>Regulated Activities in Brazil</i>	49	36	13	35.8%
<i>Other Activities</i>	18	31	-13	-42.2%
Operating Expenses	89	72	17	24.0%
EBITDA	217	182	35	19.5%
<i>Italy</i>	180	154	26	16.7%
<i>Brazil</i>	37	28	10	34.1%
<i>EBITDA Margin (%)</i>	71%	72%		

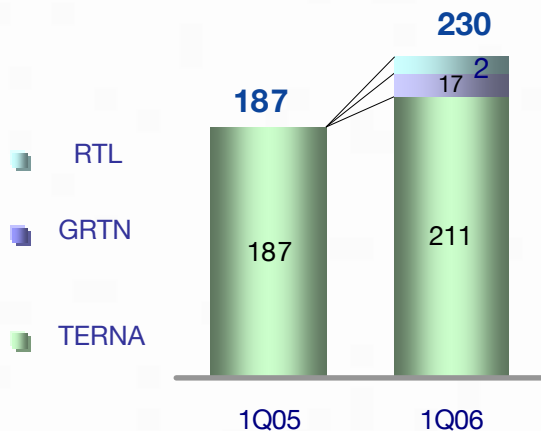
1Q 2006 Results

Revenues Breakdown

In mn Euro

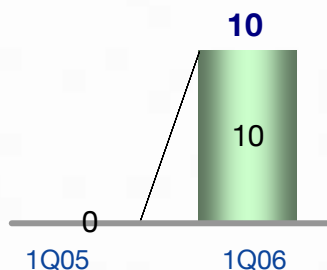
Regulated Revenues

Grid Utilization Fee



- Volume and tariff effect (+24mn)
- Change in perimeter (+19mn)

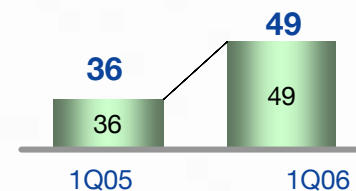
Other Energy Items



- Dispatching (8mn)
- Measure (2mn)

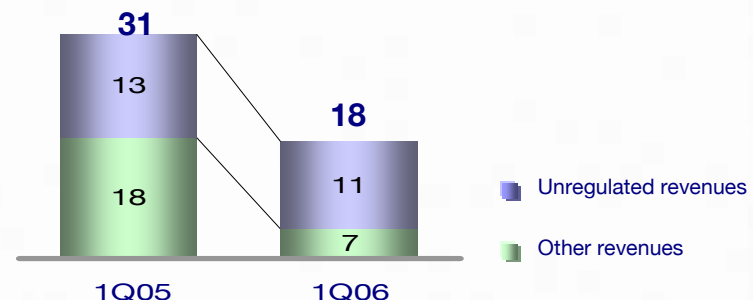
Other Revenues

Brazil



- Exchange rate effect (+13mn)

Other Activities



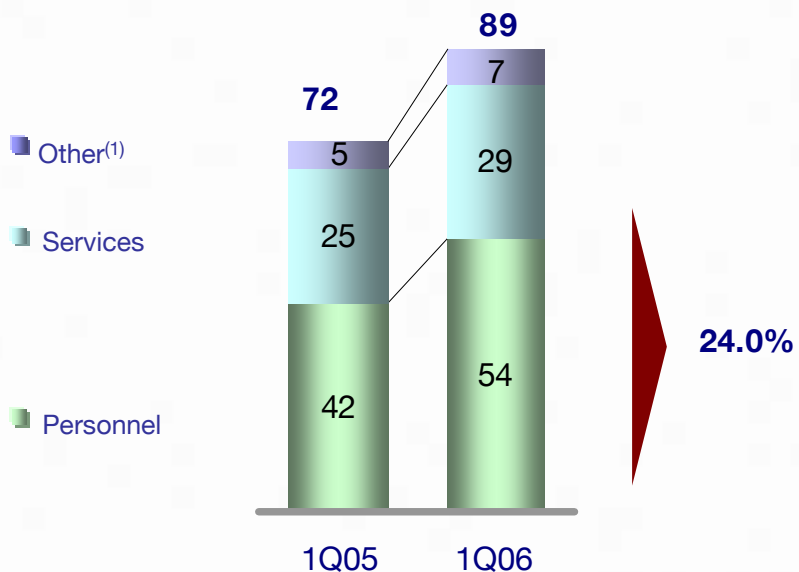
- One off reversal of Grid Revenues in 1Q05 (-16 m.ni €)

1Q 2006 Results

Operating Costs Breakdown

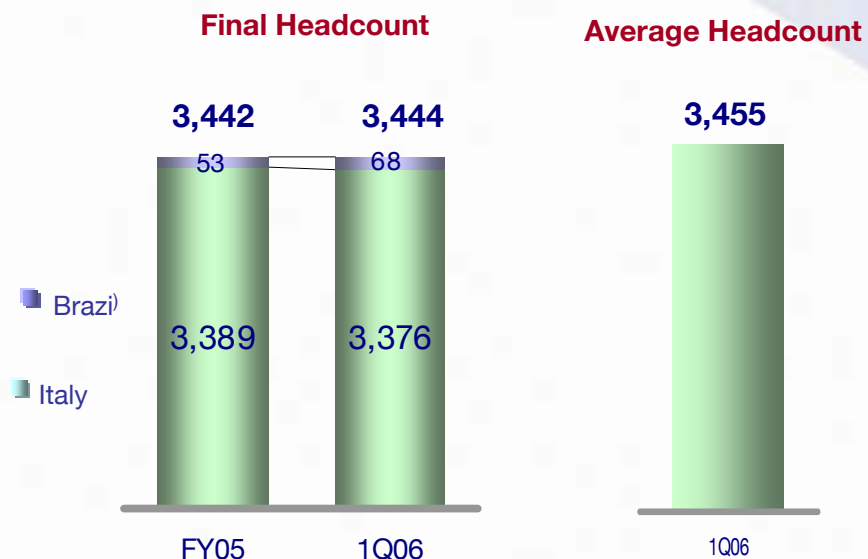
In mn Euro

Operating Costs



- Change in perimeter: + 12mn euro

Personnel Evolution



- Stable headcount (+2): 3,442
 - Italy: -13 ⇒ rightsizing programmes
 - Brazil: +15 ⇒ reorganization

1Q 2006 Results

Income Statement

In mn Euro

	Consolidated		Change	
	1Q06	1Q05	mm	%
EBITDA	217	182	35	19.5%
D&A	49	40	8	20.3%
EBIT	169	141	27	19.3%
Net Interest Expense	19	25	-6	-24.7%
Taxes	60	46	13	28.7%
<i>Tax rate (%)</i>	39.8%	39.8%		
Net Income	90	70	20	28.6%

1Q 2006 Results

Capex Breakdown

In mn Euro

	1Q06	1Q05
8.7% Remuneration- Development	27	16
6.7% Remuneration	15	11
- Maintenance	10	10
- Other	5	2
TOTAL ITALY	42	27
TOTAL BRAZIL	1	1
TOTAL CAPEX	43	28

Main Projects



1Q 2006 Results

Key Balance Sheet Items

In mn Euro

	1Q06	FY05	Change
Assets			
PP&E	4,697	4,646	51
Intangible asset, net	312	306	6
Financial Inv. And Other	13	13	0
Total Fixed Assets	5,023	4,966	57
Net WC	(187)	(179)	(8)
Funds	(628)	(616)	(12)
Net Invested Capital	4,208	4,171	37
Financed by:			
Net Debt	2,194	2,269	-74
Shareholder's Equity	2,014	1,902	112
D/E ratio	1.09	1.19	-0.10

1Q 2006 Results

Cash Flow

In mn Euro

Consolidated	1Q06	1Q05
Net Income	90	70
Depreciation ⁽¹⁾	49	40
Net Change in Funds	12	13
Operating Cash Flows	151	124
Change in WC	8	(35)
Cash Flow from Operating Activities	158	89
Capital expenditures	(43)	(28)
Other fixed asset changes	(38)	(19)
Free Cash Flow⁽²⁾	78	42
Dividends	-	-
Change in Capital	-	-
Change in Financial Position⁽²⁾	78	42

(1) Net of assets disposals

(2) Not including Δ €/R exchange rates and Δ fair value on Bonds

1Q 2006 Results

Consolidated Net Financial Position

In mn Euro



Change in Net Financial Position

Net Debt 31/12/05	2,269
Δ Fair value on Bonds and Derivatives	(12)
Change in Financial Position	(78)
Δ Exchange Rates	15
Net Debt 31/03/06	2,194
Change in Net Debt	+74

LT Debt Ratings

S&P's: AA-

Moody's: Aa3

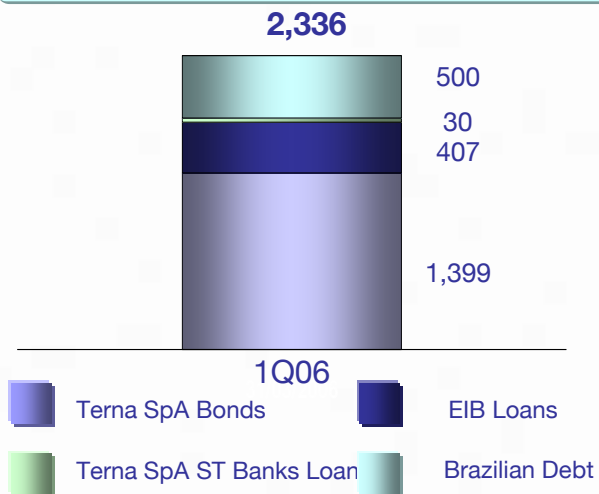
Fitch: AA

1Q 2006 Results

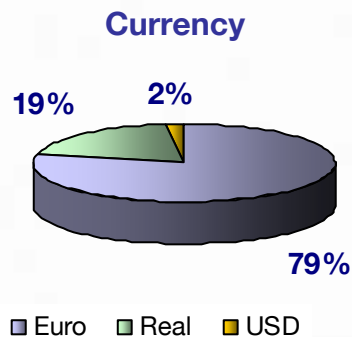
Gross Debt Structure- IAS

In mn Euro

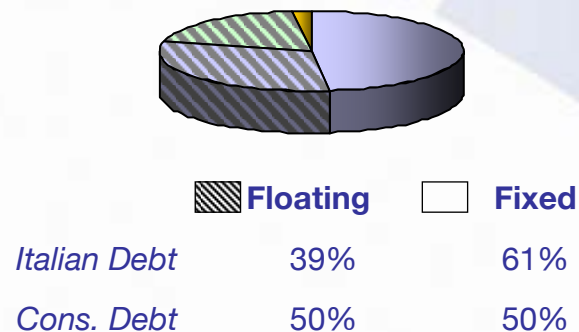
Debt by Instruments (€ mn)



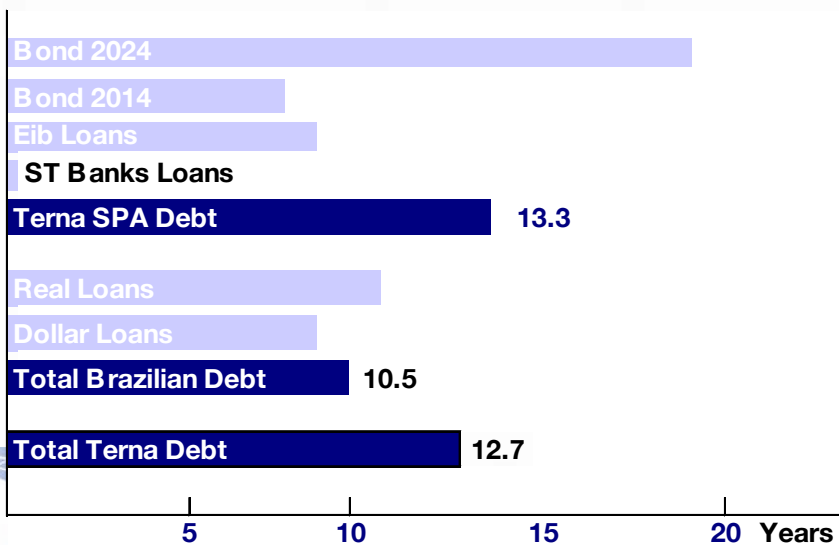
Debt Breakdown



Fixed/Floating mix



Average Maturity



Average Cost of Debt

Italy	3.3%
Brazil	11.6%
Terna Group	4.8%

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Closing Remarks

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Closing Remarks

Looking ahead, we are focused on:

- Successful completion of Brazilian IPO
- Unification of the Italian Grid
- Investments and development of the Grid
- Exploiting operational synergies

On track with our targets

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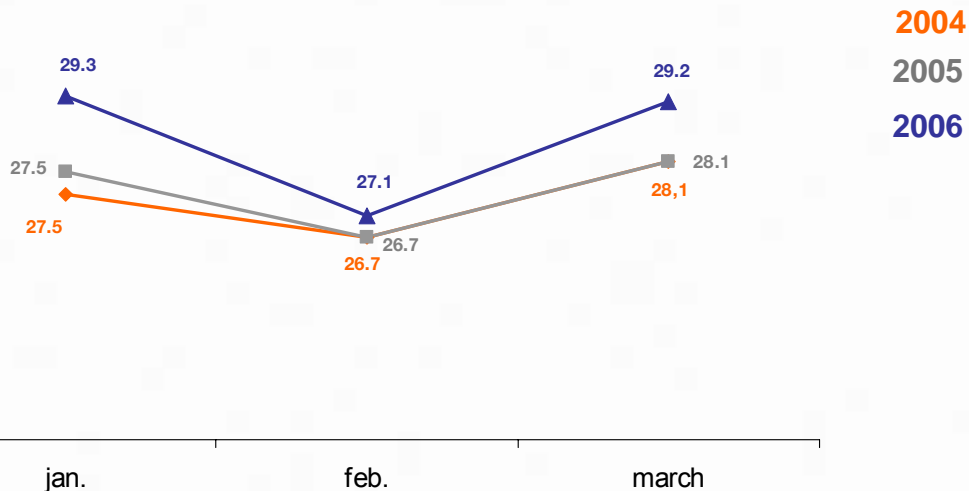
Closing Remarks

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Italian Electricity Market Evolution

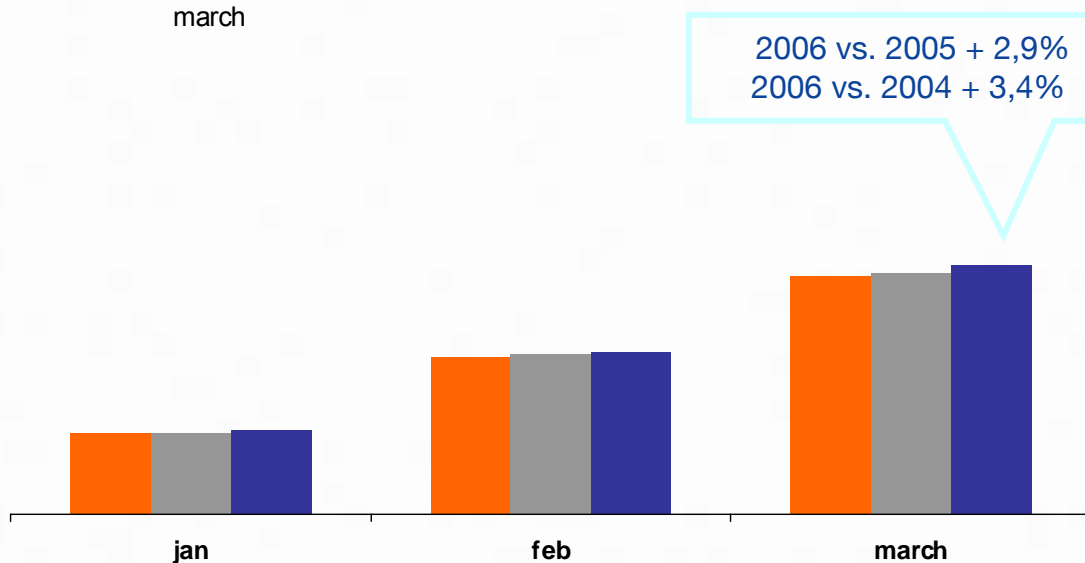
Energy Demand

TWh



Monthly Trend

Cumulated Trend



Source: Terna- monthly reports

1Q 2006 Results

Brazilian Subsidiaries (ITA Gaap)

In mn Euro



	1Q2006	1Q2005	Change	1Q2006	1Q2005	Change	Total 1Q 2006
Revenues	23	17	+6	26	19	+ 7	49
Operating Expenses ⁽¹⁾	5	4	+1	6	5	+1	11
EBITDA	17	14	+ 3	20	14	+ 6	37
EBIT	15	12	+ 3	17	12	+ 5	32
Net Interest Expense ⁽²⁾	6	7	-1	7	9	-2	13
Taxes	3	3	-	4	1	+3	7
Net Income	6	2	+4	6	2	+ 4	12
Net Invested Capital	288	266	+ 22	340	346	-6	628
Financed by:							
Net Debt	228	197	+ 31	204	211	-7	432
Shareholders' Equity	60	69	-9	136	135	+ 1	196

(1) Net of capitalized costs

(2) Of which Interest on Equity Euro 8 mn

Note: 2005 Balance Sheet figures are as of December 31 2005

1Q 2006 Results

Exchange Rates

	1Q06	1Q05	FY05
Closing Rate Euro/BRL\$	2.64	3.47	2.74
Average Rate for the Period	2.60	3.50	3.03
IGPM	0.70%	1.54%	1.21%

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