

FY05 Consolidated Results

Flavio Cattaneo – Chief Executive Officer

Fabio Todeschini – Chief Financial Officer

March 15th, 2006

Agenda

2005: The Year in Review

FY 2005 Results

Dividends and Closing Remarks

Annexes

2005: The Year in Review

Changes

Change of Control

- **Controlling stake (29.9%) from Enel to Cassa Depositi e Prestiti (CdP)**
 - 24 May: signed the agreement
 - 15 September: closing

TSO Activities

- **28 February:** Signed the agreement
- **1 November:** Reunification effective

External Growth

- **Italy – Acea Trasmissione (now RTL)**
 - 8 August: signed the agreement
 - 30 September: closing (consolidation from 1 October)
- **Brazil - Munirah**
 - 16 December: signed the agreement
 - End of March 2006: closing (upon approvals of local Authorities)

12 months facing the challenge of transition

2005: The Year in Review

... and Results

- Higher standards in reliability of the system and quality of service
 - Availability of the Grid: 99.3%
 - Average interruption time: 0.7 min/year
- Enhanced earnings and cash flow
 - Net Income: at 298 million euro, +29%
 - Cash Flow from Operating Activities: 472 million euro (+70million vs FY04)
- Full Year dividends⁽¹⁾: 0.13 euro per share
- Strong contribution from International activities

2005: Another profitable year

Agenda

2005: The Year in Review

FY 2005 Results

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FY 2005 Results

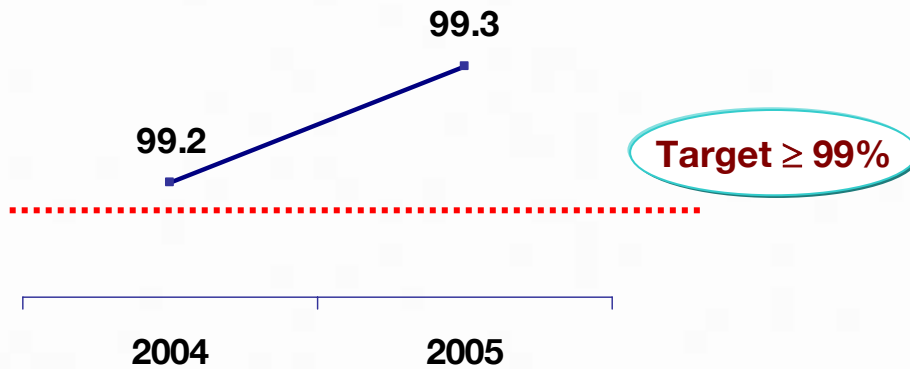
Operational data and quality of service

OPERATIONAL

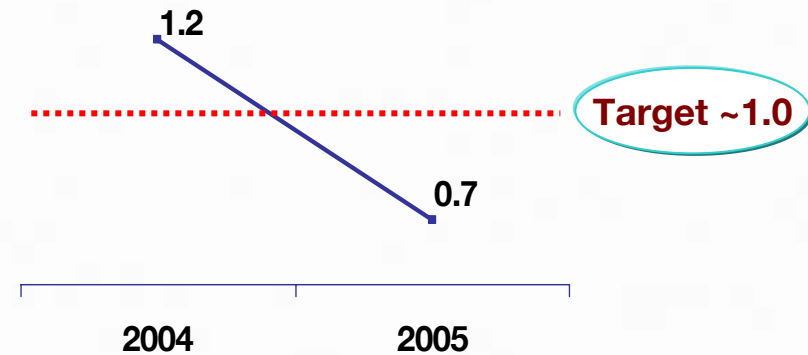
GWh	2005	2004	%
Total Net Production	280,286	279,722	0.2%
Net import/export	49,155	45,635	7.7%
Total Demand	329,441	325,357	1.3%

Availability of the System (%)

QUALITY



Average Interruption Time AIT (Min/year)



FY 2005 Results

Income Statement

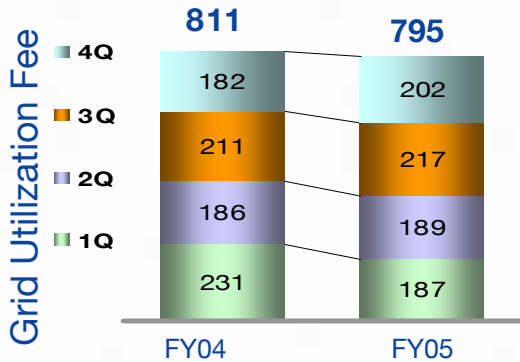
In Euro mn

Consolidated		Change			Consolidated		Change	
4Q05	4Q04	mm	%		FY05	FY04	mm	%
303	249	54	21.8%	Operating Revenues	1,087	1,020	67	6.6%
202	182	19	10.5%	Grid Utilisation Fee	795	811	-16	-1.9%
53	34	19	54.7%	Regulated Activities in Brazil	170	118	51	43.5%
48	32	16	50.5%	Other Activities/Income in Italy	123	91	32	34.9%
133	111	22	19.9%	Operating Expenses	365	369	-4	-1.1%
170	138	32	23.3%	EBITDA	722	651	71	11.0%
136	113	23	20.7%	Italy	594	568	27	4.7%
34	25	8	34.3%	Brazil	128	83	45	53.5%
56%	55%			EBITDA Margin (%)	66%	64%		

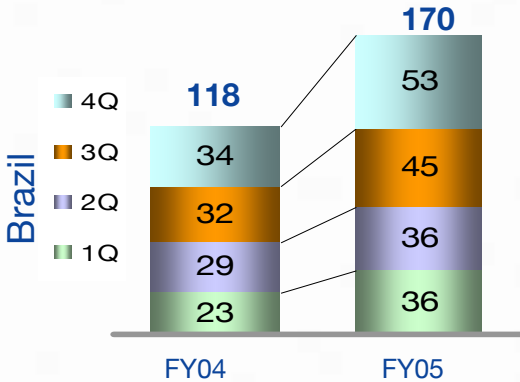
FY 2005 Results

Revenues Breakdown

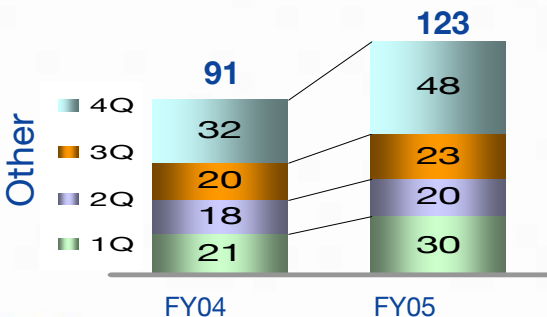
In Euro mn



-1.9%



43.5%



34.9%

Main Drivers

- 1Q: time bands effect (-50mn)
- Volume and tariff effect (+13mn)
- 4Q: change in perimeter (+19mn)

- Business dynamics (+23mn)
- Exchange rate effect (+28mn)

Positive one-off reversals:

- Mainly 1Q: 2004 revenues withheld by GRTN (+20mn)
- 4Q: release of previous provisions (+17mn)

FY 2005 Results

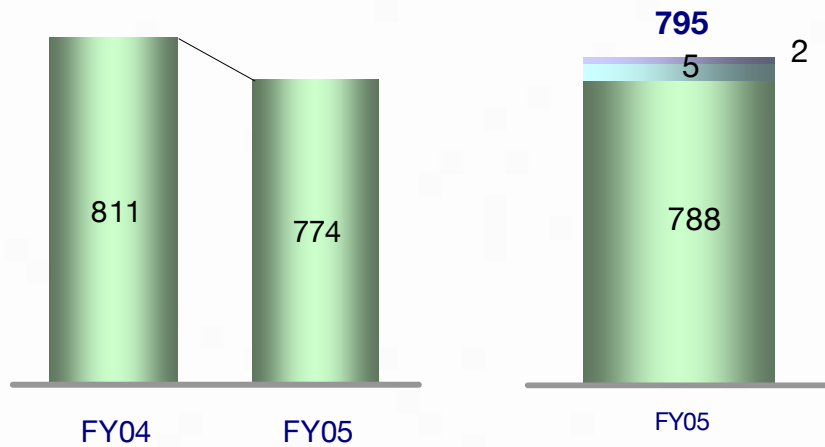
Revenues Breakdown - Details

In Euro mn

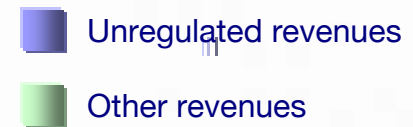
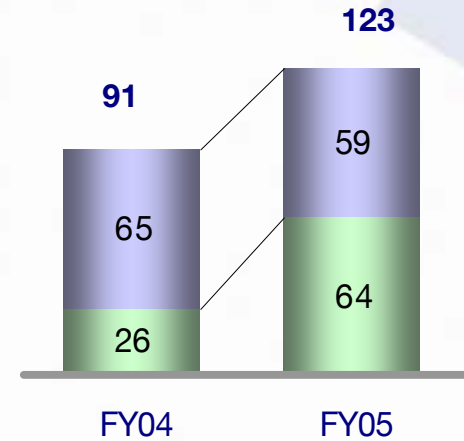
Grid Utilization Fee

Terna Stand Alone

Terna+TSO+RTL



Other revenues



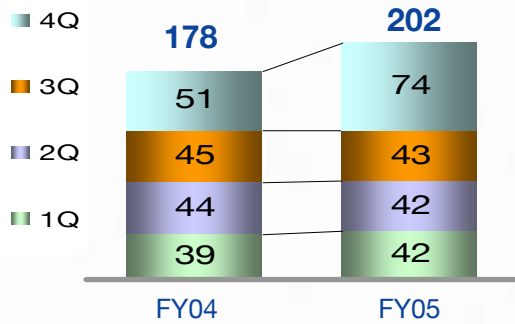
(1) Includes RTL and TSO

FY 2005 Results

In Euro mn

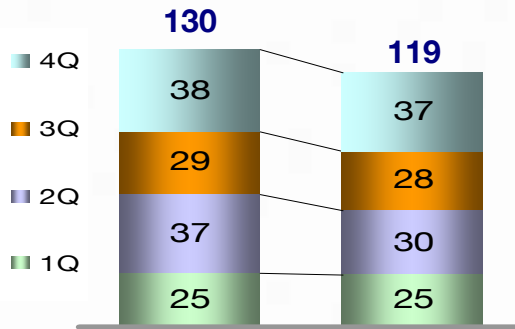
Operating Costs Breakdown

Salaries and Benefits



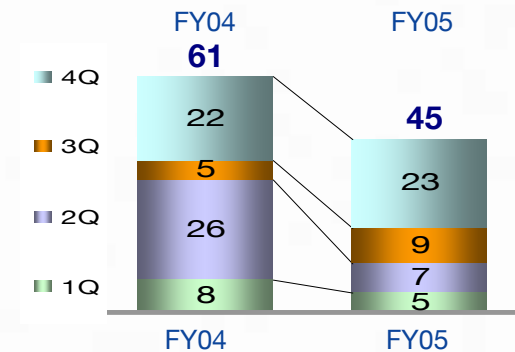
13.2%

Services



-8.5%

Other⁽¹⁾



-27.2%

Main Drivers

- Change in perimeter: + 8mn euro
- Early retirement costs: +5mn euro
- Management incentive plans: +4mn euro
- Final headcount: 3,442
- Non recurring costs related to IPO (ca. -10mn euro)
- One-off reversal of grid revenues in 2004 (ca. -15mn euro)

FY 2005 Results

Income Statement

In Euro mn

Consolidated		Change			Consolidated		Change	
4Q05	4Q04	mm	%		FY05	FY04	mm	%
170	138	32	23.3%	EBITDA	722	651	71	11.0%
52	40	11	28.7%	D&A	175	156	19	12.1%
118	97	21	21.0%	EBIT	547	495	53	10.6%
23	23	0	1.7%	Net Interest Expense	80	100	-20	-19.5%
31	28	3	10.6%	Taxes	169	164	6	3.4%
33.2%	38.3%			<i>Tax rate (%)</i>	36.2%	41.4%		
63	46	17	37.7%	Net Income	298	231	67	28.9%

FY 2005 Results

Fiscal Issues

In Euro mn

	FY05	FY04	Change
EBT	467	395	72
Taxes	169	164	5
<i>of which current taxes</i>	<i>176</i>	<i>113</i>	<i>63</i>
<i>of which deferred taxes</i>	<i>(7)</i>	<i>51</i>	<i>-58</i>
Net Income	298	231	67
Tax rate			
<i>Effective</i>	<i>36.2%</i>	<i>41.5%</i>	
<i>Cash</i>	<i>37.7%</i>	<i>28.6%</i>	

New tax legislation called for elimination of deferred tax benefits

FY 2005 Results

Capex Breakdown

In Euro mn

	FY05	FY04	Change
8.7% Remuneration- Development	173	183	-10
6.7% Remuneration	89	95	-6
- <i>Maintenance</i>	62	66	-4
- <i>Other</i>	27	29	-2
TOTAL ITALY	262	278	-16
TOTAL BRAZIL	9	25	-16
TOTAL CAPEX	271	303	-32

Main projects delivered on time

Significant step-up from new Development Plan

FY 2005 Results

Key Balance Sheet Items

In Euro mn

	FY05	9M05	Change	FY04	Change
Assets					
PP&E	4,646	4,503	143	4,323	323
Intangible asset, net	306	159	148	117	189
Financial Inv. And Other	13	126	(112)	9	4
Total Fixed Assets	4,966	4,787	178	4,450	516
Net WC	(179)	(199)	20	(201)	22
Funds	(616)	(635)	19	(598)	(18)
Net Invested Capital	4,171	3,954	217	3,652	519
Financed by:					
Net Debt	2,269	2,005	263	1,893	376
Shareholder's Equity	1,902	1,949	(46)	1,759	143
D/E ratio	1.19	1.03	0.16	1.08	0.12

FY 2005 Results

In Euro mn

Cash Flow

Consolidated	FY05	FY04
Net Income	298	231
Depreciation ⁽¹⁾	177	158
Net Change in Funds	19	29
Operating Cash Flows	493	419
Change in WC	(22)	(17)
Cash Flow from Operating Activities	472	402
Capital expenditures	(273)	(303)
Acquisitions	(242)	
Other fixed asset changes	(2)	(2)
Free Cash Flow ⁽²⁾	(45)	97
Dividends	(240)	(170)
Capital Reduction	-	(1,200)
Change in Financial Position ⁽²⁾	(285)	(1,274)

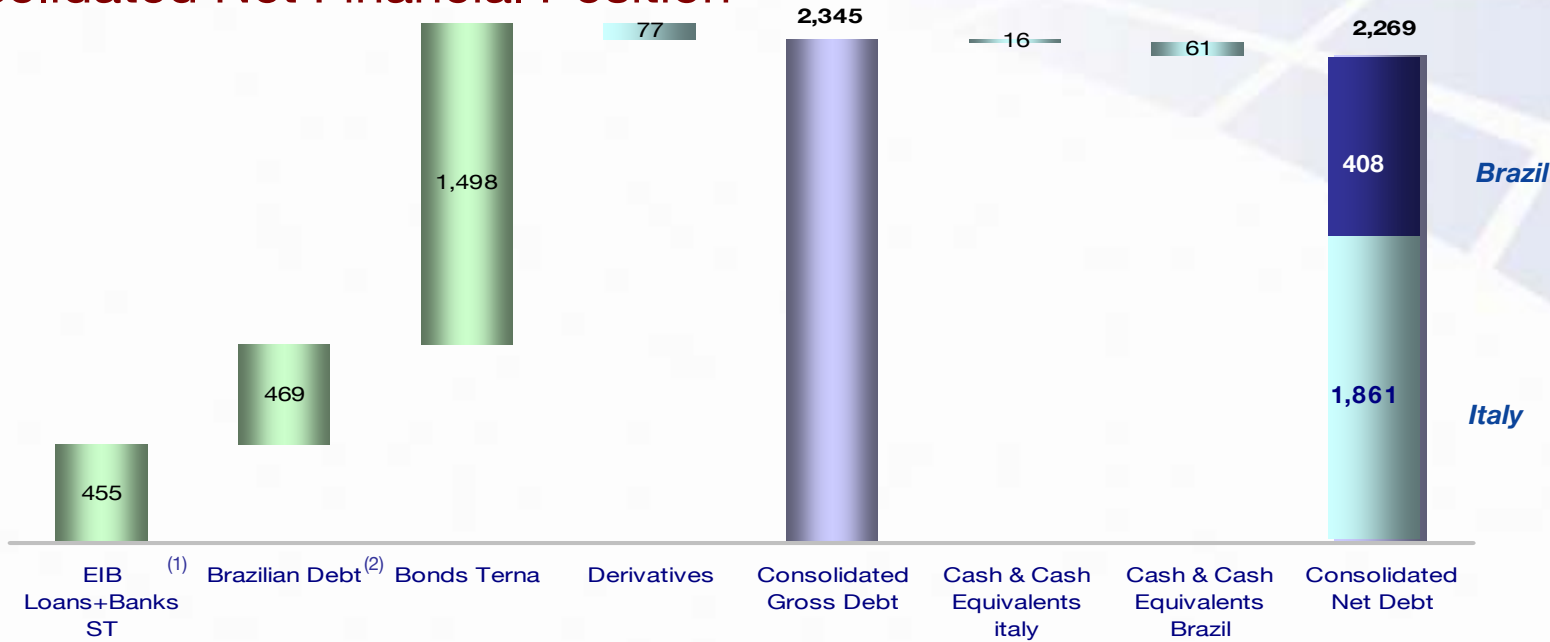
(1) Net of assets disposals

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

FY 2005 Results

Consolidated Net Financial Position

In Euro mn



Change in Net Financial Position

Net Debt 31/12/04

1,893

Δ Fair value on Bonds and Derivates

(6)

Change in Financial Position

285

Δ Exchange Rates

97

Net Debt 31/12/05

2,269

Rating Terna SpA

S&P's: AA-/A1+ stable

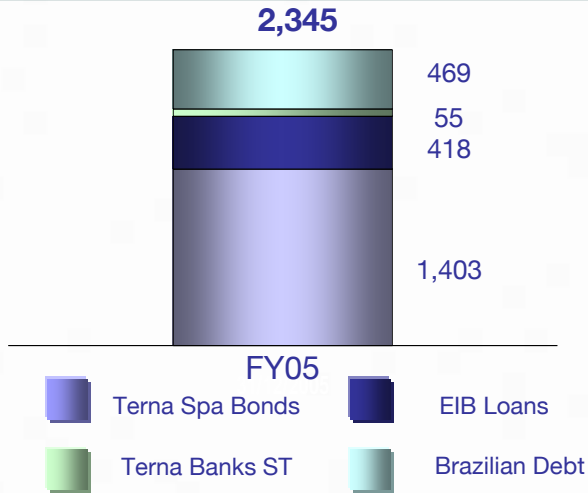
Moody's: Aa3/P1 stable⁽³⁾

FY 2005 Results

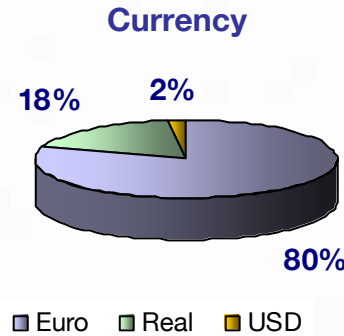
In Euro mn

Gross Debt Structure- IAS

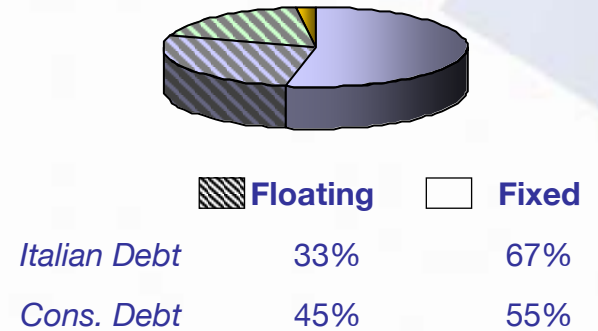
Debt by Instruments (€ mn)



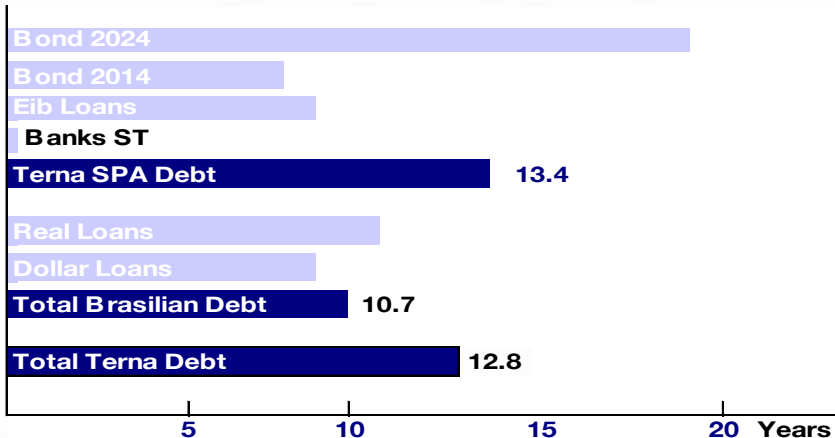
Debt Breakdown



Fixed/Floating mix



Average Maturity



Average Cost of Debt

Italy	3.0%
Brazil	9.9%
Terna Group	4.3%

Agenda

2005: The Year in Review

FY 2005 Results

Dividends and Closing Remarks

Annexes

Dividends and Closing Remarks

Dividends

Dividend Policy

- Minimum 3% annual growth in DPS (DPS05E floor)
- Interim dividend practice confirmed

2005 Dividend

- BoD proposed a dividend of Euro 260mn, equal to Euro 0.13 per share
 - Interim dividend: Euro 0.05 per share (paid on Nov. 24th, 2005)
 - Final dividend: Euro 0.08 per share
 - Ex date: June 19, 2006
 - Payment date: June 22, 2006

05DPS: double digit growth and floor for future evolution

Dividends and Closing Remarks

Next Steps

Transition is over ...

Now, focus on implementation of the new strategy

Agenda

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Italian Electricity Market Evolution

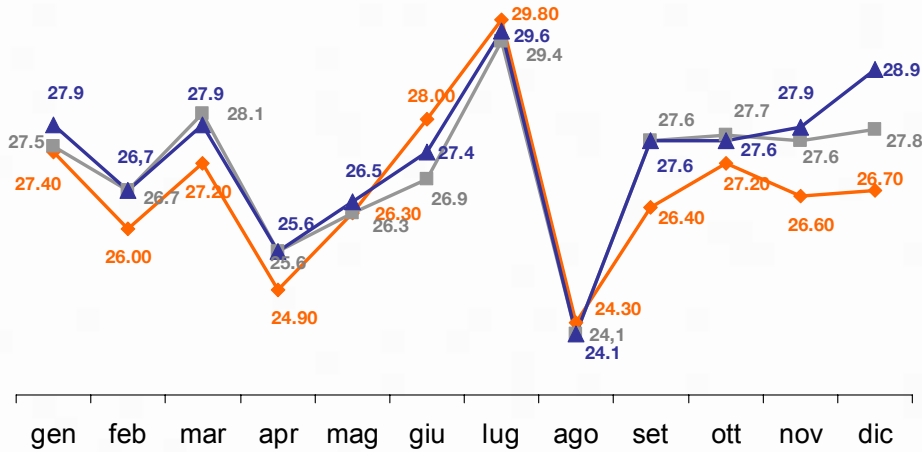
Energy Demand

TWh

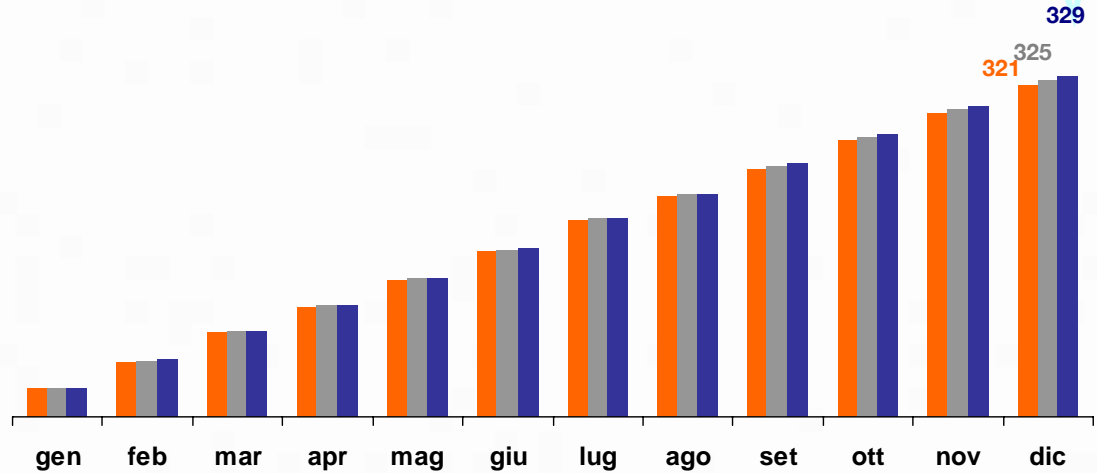
anno 2003
anno 2004
anno 2005

Monthly Trend

2005 vs. 2004 + 1.3%
2005 vs. 2003 + 2.5%



Cumulated Trend



Source: GRTN – monthly reports



FY 2005 Results

Consolidated – Quarterly Analysis (IAS)

In Euro mn

	1Q05	1Q04	2Q05	2Q04	3Q05	3Q04	4Q05	4Q04
Operating Revenues	254	275	246	234	285	263	303	249
<i>Grid Utilisation Fee</i>	187	231	189	186	217	211	202	182
<i>Regulated Activities in Brazil</i>	36	23	36	29	45	32	53	34
<i>Other Activities/Income in Italy</i>	30	21	20	18	23	20	48	32
Operating Expenses	72	72	80	107	80	79	133	111
EBITDA	182	203	166	127	205	184	170	138
<i>Italy</i>	154	187	136	105	169	163	136	113
<i>Brazil</i>	28	16	30	21	36	21	33	25
D&A	40	38	41	39	42	39	52	40
EBIT	141	166	125	87	163	144	118	97
Net Interest Expense	25	31	18	20	14	26	23	23
Taxes	46	57	37	30	54	48	31	28
Net Income	70	77	70	37	95	71	63	46

(1) Net of capitalized costs

FY 2005 Results

Brazilian Subsidiaries (ITA Gaap)

In Euro mn



	FY2005	FY2004	Change	FY2005	FY2004	Change	Total FY 2005
Revenues	81	61	+20	90	58	+ 32	170
Operating Expenses ⁽¹⁾	20	14	+7	23	23	-	42
EBITDA	61	47	+ 14	67	35	+ 32	128
EBIT	54	41	+ 13	57	28	+ 29	110
Net Interest Expense ⁽²⁾	25	23	+2	35	39	-4	61
Taxes	8	5	+3	1	3	-2	9
Net Income	20	12	+8	21	-14	+ 35	41
Net Invested Capital	266	197	+ 68	346	270	+ 76	611
Financed by ⁽³⁾ :							
Net Debt	197	110	+ 87	211	187	+ 24	408
Shareholders' Equity	69	87	- 19	135	83	+ 51	203

(1) Net of capitalized costs

(2) Of which Interest on Equity 29 euro mn

(3) 2004 figures as of December 21, 2004

Exchange rate: Balance Sheet 2.74 \$R/€, Income Statement 3.03 \$R/€

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