

# FY04 Consolidated Results

Fulvio Conti - Chairman

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February 15<sup>th</sup>, 2005

# Agenda

- **2004 Results**
- **Update on Business Dynamics**
- **Annexes**

# 2004 Results at a Glance

- Net Income: at 236 euro million, +36% vs Pro-forma 2003
- Full year dividend<sup>(1)</sup>: 0.115 euro per share
- Operating Cash Flow: 395 euro million
  
- ROI: 12.1%
- Terna SpA Cost of Debt as of December 31, 2004: 2.9%

*(1) Including interim dividend of euro 0,045 per share paid on October 21st, 2004*

# 2004 Results

## Income Statement

	Consolidated		Change	
	FY04	FY03 Proforma <sup>(*)</sup>	<i>mn</i>	%
<b>Operating Revenues</b>	<b>1,023</b>	<b>919</b>	<b>+ 104</b>	<b>+ 11.3</b>
<i>Grid Utilisation Fee</i>	811	782	+ 28	+ 3.7
<i>Regulated Activities in Brazil</i>	119	47	+ 72	+ 153
<i>Other Activities/Income in Italy</i>	93	89	+ 4	+ 4.5
<b>Operating Expenses<sup>(**)</sup></b>	<b>340</b>	<b>295</b>	<b>+ 44</b>	<b>+ 15</b>
<b>EBITDA</b>	<b>683</b>	<b>623</b>	<b>+ 60</b>	<b>+ 9.6</b>
<i>Italy</i>	601	590	+11	+ 1.9
<i>Brazil</i>	84	33	+ 51	+ 154
<i>EBITDA Margin (%)</i>	67%	68%		

In Euro mn

(\*) Economic effect of acquisition of TSN and Novatrans and capital reduction as if carried out on January 1, 2003

(\*\*) Net of capitalized costs

# 2004 Results

## Income Statement – con'd

	Consolidated		Change	
	FY04	FY03 Proforma <sup>(*)</sup>	<i>mn</i>	%
<b>EBITDA</b>	<b>683</b>	<b>623</b>	<b>+ 60</b>	<b>+ 9.6</b>
D&A	161	150	+ 11	+ 7.3
Provisions and Write-downs	10	37	- 27	- 72
<b>EBIT</b>	<b>512</b>	<b>436</b>	<b>+ 76</b>	<b>+ 17.4</b>
Net Interest Expense	79	116	- 37	- 32
Net Extraordinary Expense	23	15	+8	+ 51
Taxes	173	132	+ 41	+ 31
<b>Net Income</b>	<b>236</b>	<b>173</b>	<b>+ 63</b>	<b>+ 36</b>

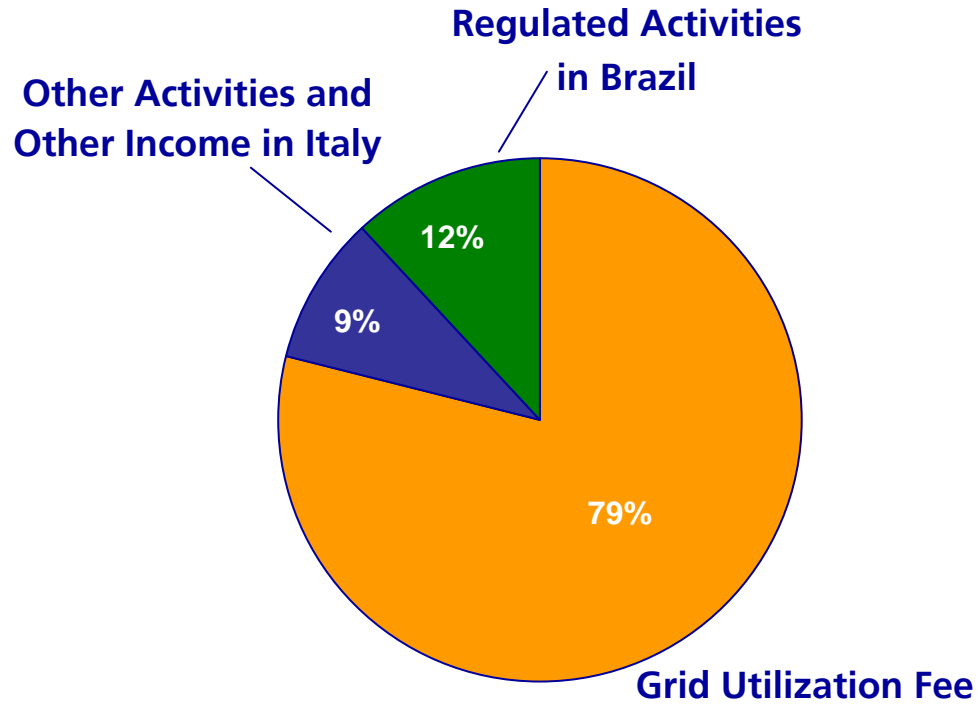
*In Euro mn*

*(\*) Economic effect of acquisition of TSN and Novatrans and capital reduction as if carried out on January 1, 2003*

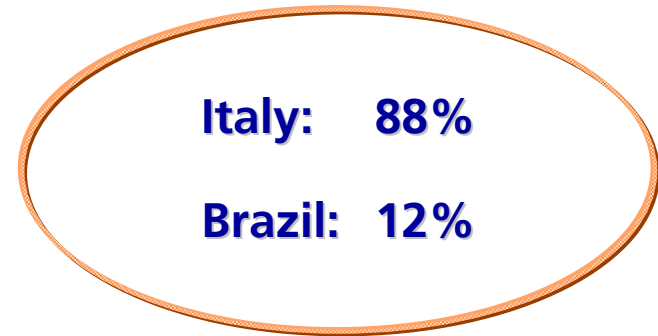
# 2004 Results

## Operating Revenues Breakdown

### FY04 Revenue Composition

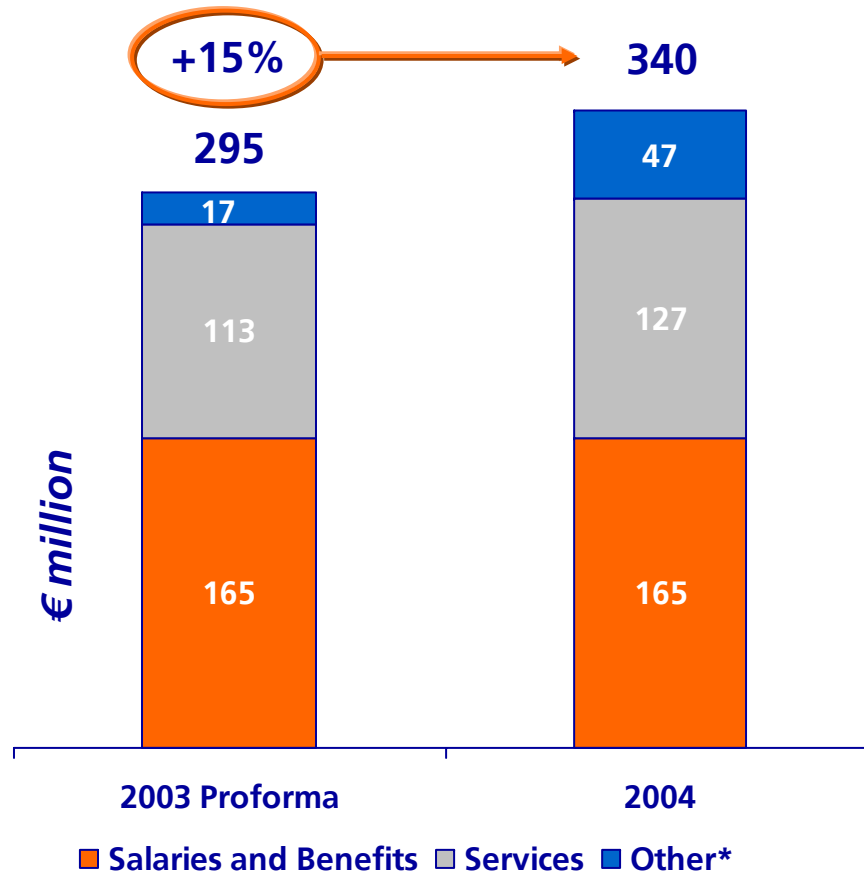


**FY04: € 1,023 mn**  
(FY03 proforma: € 919 mn)



# 2004 Results

## Operating Costs



Mainly impacted by:

- full operations of the Brazilian subsidiaries (ca. 21mn)
- one-offs reversal of grid revenues due to a revision of energy volumes for 2002 and 2003 (ca. 16mn)
- non recurring costs related to IPO (ca. 10mn)

(\* Includes Raw Materials, Rental and Lease Expenses and Miscellaneous, net of Capitalized Costs)

# 2004 Results

## Key Balance Sheet Items

	Consolidated		
	31Dec04	30Sept04	31Dec03
<b>Assets</b>			
PP&E	4,314	4,299	4,196
Intangible assets, net	111	112	115
Financial Investments and Other	9	10	13
<b>Total</b>	<b>4,434</b>	<b>4,422</b>	<b>4,324</b>
Net WC	(198)	(339)	(189)
Funds	(510)	(493)	(504)
Other Liabilities	(41)	(71)	(60)
<b>Net Invested Capital</b>	<b>3,685</b>	<b>3,519</b>	<b>3,572</b>
<i>Financed by:</i>			
Net Debt	1,865	1,750	605
Shareholders' Equity	1,820	1,769	2,966
D/E	1.02	0.99	0.20



# 2004 Results

## Cash Flow

<i>(€ million)</i>	FY04 Consolidated	FY04 Terna SpA*	FY03 Terna SpA
<b>Operating Cash flow</b>	<b>407</b>	<b>407</b>	<b>452</b>
Other Change in Funds and WC	(12)	(16)	(12)
<b>Cash Flow from Operating Activities</b>	<b>395</b>	<b>391</b>	<b>439</b>
<b>Capital Expenditures</b>	<b>(303)</b>	<b>(278)</b>	<b>(241)</b>
Financial Investments and Other	18	(109)	(136)
<b>Free Cash Flow</b>	<b>110</b>	<b>4</b>	<b>62</b>
Dividends	(170)	(170)	(44)
Capital Reduction	(1,200)	(1,200)	
<b>Change in Financial Position</b>	<b>(1,260)</b>	<b>(1,366)</b>	<b>18</b>

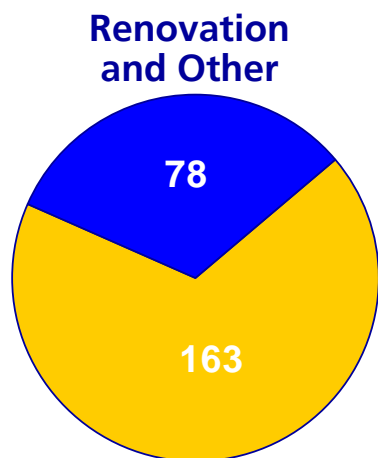
\* Including the effects of the tax and corporate law reform

# 2004 Results

## Capex by Nature

### FY03 Capex

#### Terna SpA

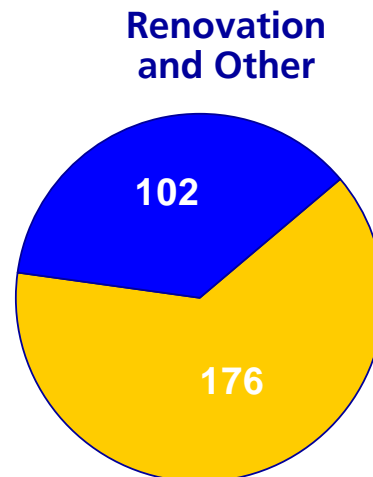


Development

Total: € 241mn

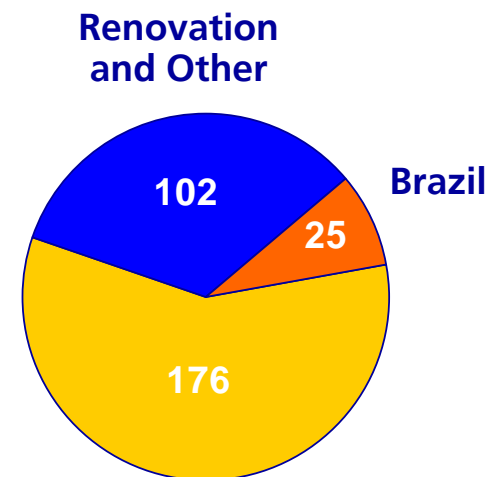
### FY04 Capex

#### Terna SpA



Development

#### Consolidated

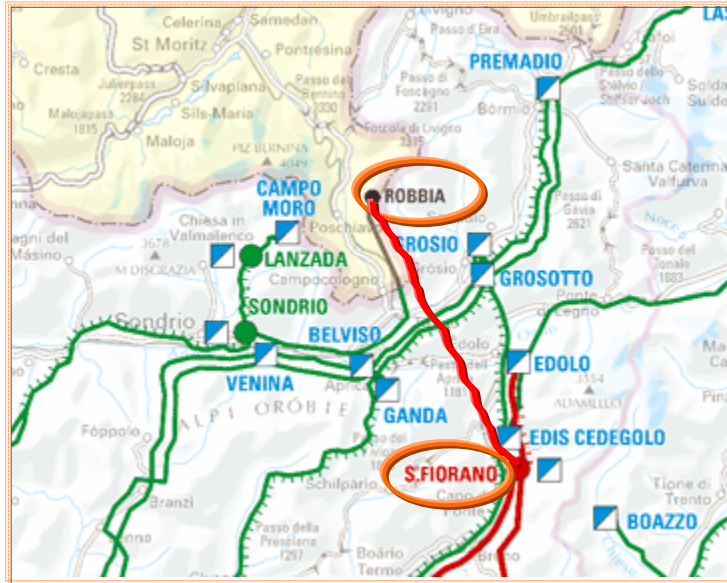


Development

Total: € 303mn

# 2004 Results

## Italy: Main Development Investments

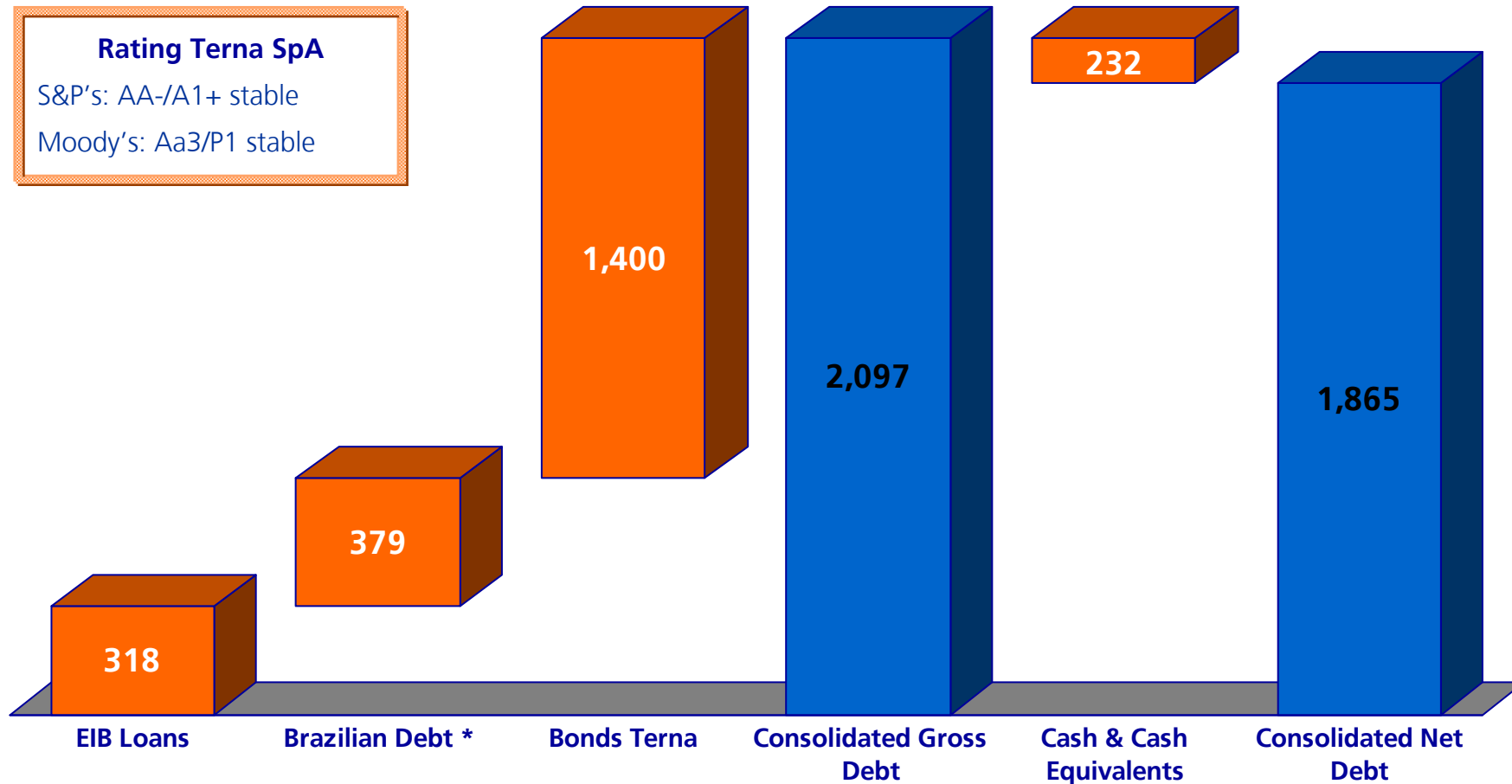


- 380kV S. Fiorano-Robbia line: operational in 2005
- 380kV Laino-Feroletto-Rizziconi line: under construction
- Altomonte Substation: operational in 2004
- 380kV Candela-Foggia line: operational in 2004

**Capex spent on main development investments: Euro 108mn**

# 2004 Results

## Consolidated Net Financial Position



Note: EIB= European Investment Bank  
\* No recourse project finance debt

# IFRS

## Timing

- European regulation (nr. 1606/2002)
  - application of IFRS on consolidated accounts starting from FY 2005
- Italian regulation (Dlgs 26/11/2004)
  - Application of IFRS on consolidated accounts starting from FY 2005
  - Application of IFRS on statutory accounts starting from FY 2006 (voluntary starting from 2005)

## Impacts on Terna's Accounts

- Major impacts vs. current accounting system:
  - Goodwill
  - Severance fund
  - Financial instruments

**No significant impact is foreseen in our P/L for the adoption of IFRS**

# 2004 Results

## Dividends

### Dividend Policy

- Best-in-class dividend policy vis-à-vis comparable Italian and European regulated utilities

### 2004 Dividend

- BoD approved a dividend of Euro 230mn equal to Euro 0,115 per share
  - Interim dividend: Euro 0.045 per share (paid on October 21st, 2004)
  - Final dividend: Euro 0,070 per share
    - Coupon date: May 23<sup>rd</sup>, 2005
    - Payment date: May 26<sup>th</sup>, 2005

**Dividend policy: distribution of 100% of Consolidated Net Income**

# Update on Business Dynamics

## Corporate Governance - Recent Events

- **January 31** – Extraordinary Shareholders' Meeting
  - Approved amendments to corporate By-Laws required by Presidential Decree (“DPCM”)
  - Most significant amendments:
    - Company's name, changed to «TERNA – Rete Elettrica Nazionale Società per Azioni»
    - corporate scope of activities, to ensure consistency between ownership and management of the Grid by Terna and powers and duties of TSO;
    - introduction for all electricity operators of a threshold equal to five per cent of the share capital with regard to the exercise of voting rights in the election of the Directors of the resulting entity;
    - introduction of special requisites for the office of Board Director.
  - Effective date for new By-Laws: date of transfer to Terna of the TSO activities currently owned by GRTN
- **February 15**
  - Board of Directors called an ordinary meeting for April 1 (first call) or April 2 (second call):
    - to resolve on the renewal of the Board of Statutory Auditors
    - to delegate the Board of Directors the power to increase Terna's share capital, up to 2.2 euro million, in connection with future stock option plans to be assigned to executives of the Company

# Update on Business Dynamics

## Integration with GRTN

- **Allowed Costs**
  - *Resolution n. 15/05*, issued on January 31: Authority for Electricity (“AEEG”) determined the tariff component pertaining to activities of GRTN other than TSO activities (0.0095 c€/kWh)
  - Ongoing clarification of main assets, costs and revenue items concerning the TSO activities
- **Grid Code:**
  - early November 2004: GRTN submitted to consultation first draft of Grid Code
  - 28 December 2004: intervening directives by AEEG on Grid Code
  - Early February: GRTN submitted the amended version to Ministry of Industry (“MAP”) and AEEG for final approval (including by acquiescence after 90 days)
- **Concession**
  - Ministry of Industry to issue a new concession to the Integrated Entity
  - Draft text under review, expected by February-March 2005



# Update on Business Dynamics

## 2005 Tariffs

### Tariff Parameters

Resolution 135/04 (July 2004)

- Inflation:
  - CPI: 2.2%
  - RAB deflator: 1.8%
- Expected volume growth: 1.5%

### Time Bands ("Fasce Orarie")

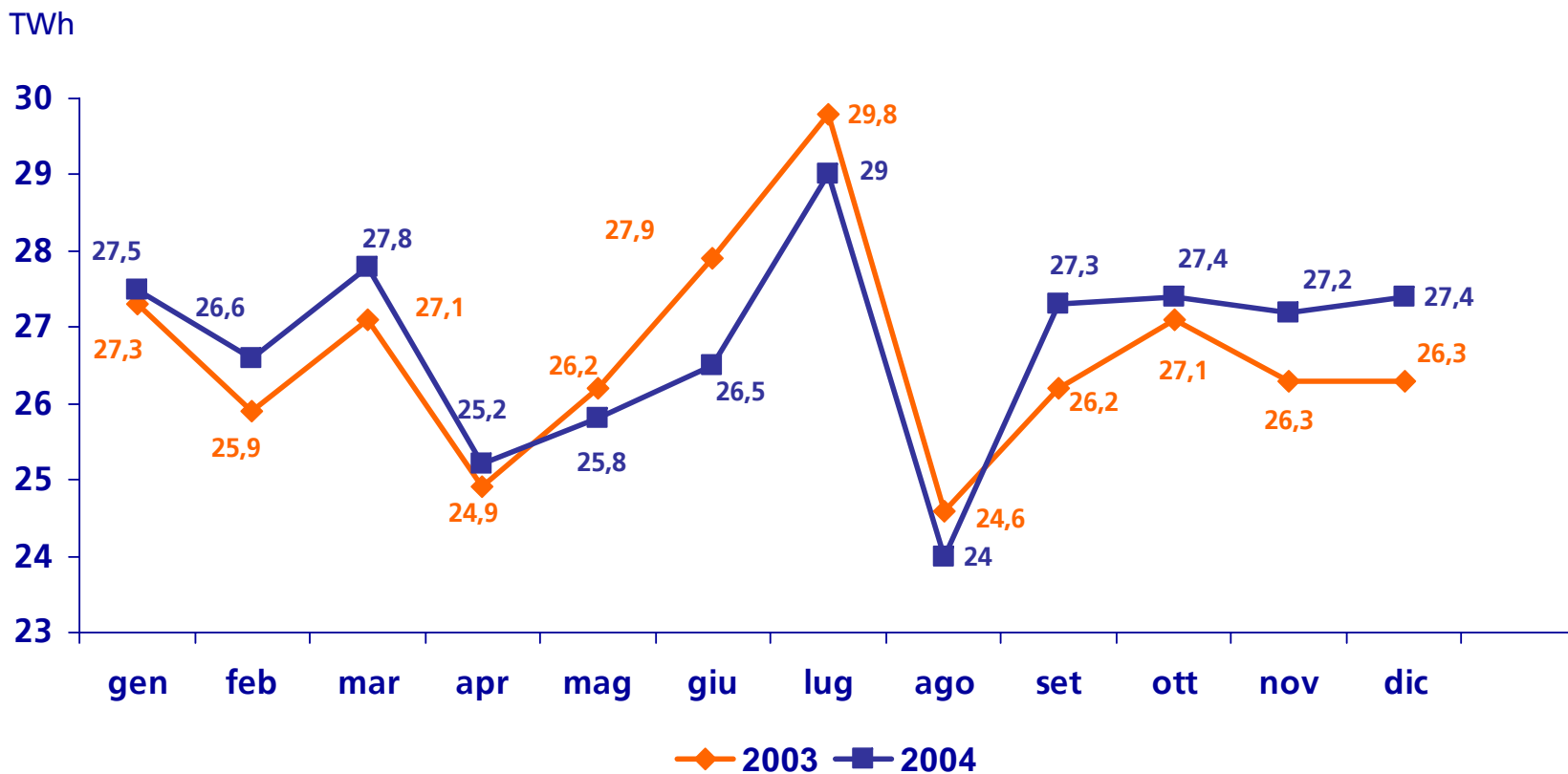
Resolution 235/04 (December 2004)

- 2005 bands take into account calendar differences between 2004 and 2005

# Annexes

# Italian Electricity Market Evolution

## Energy Demand: Monthly Trend

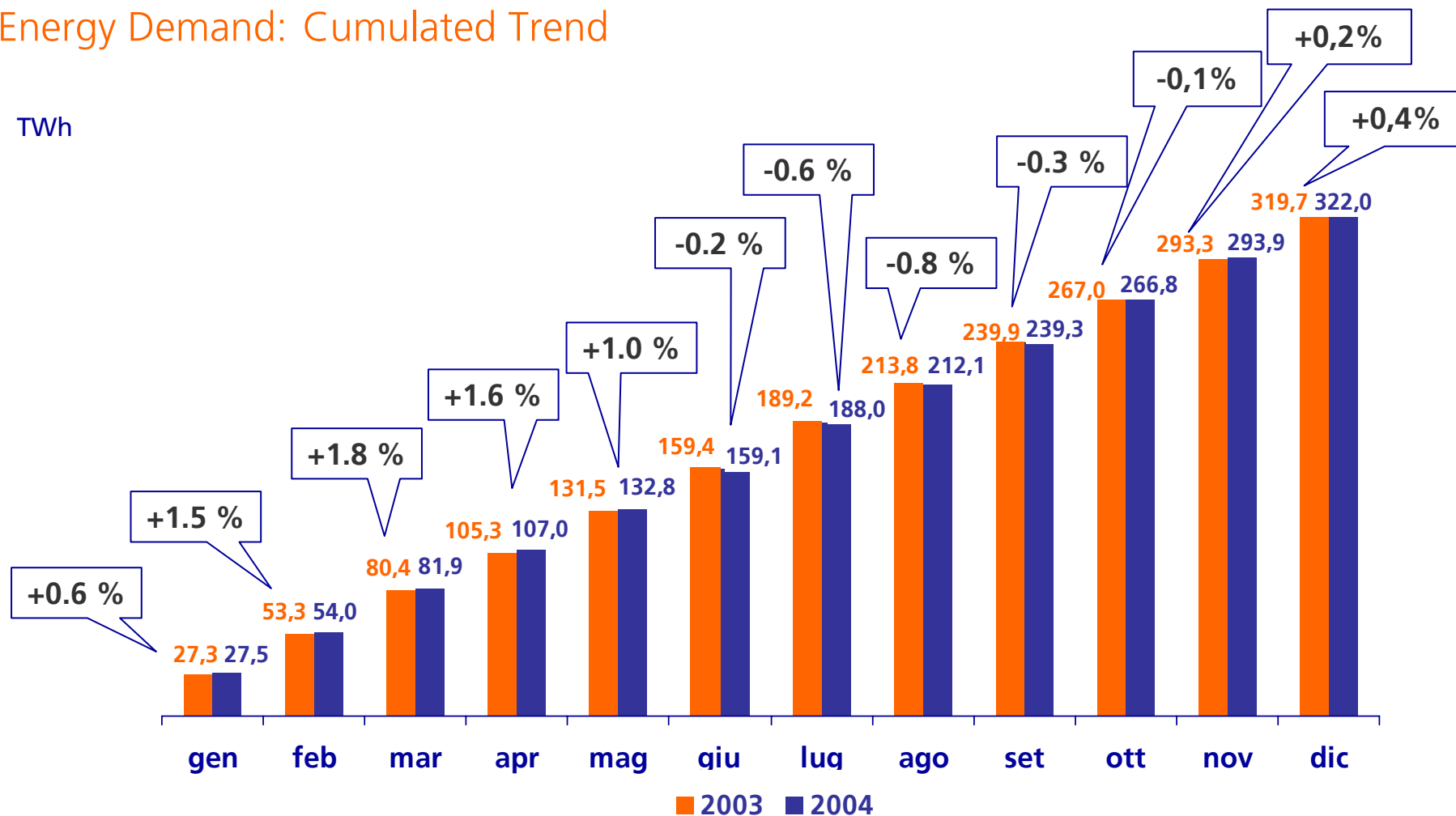


Source: GRTN – monthly reports

# Italian Electricity Market Evolution

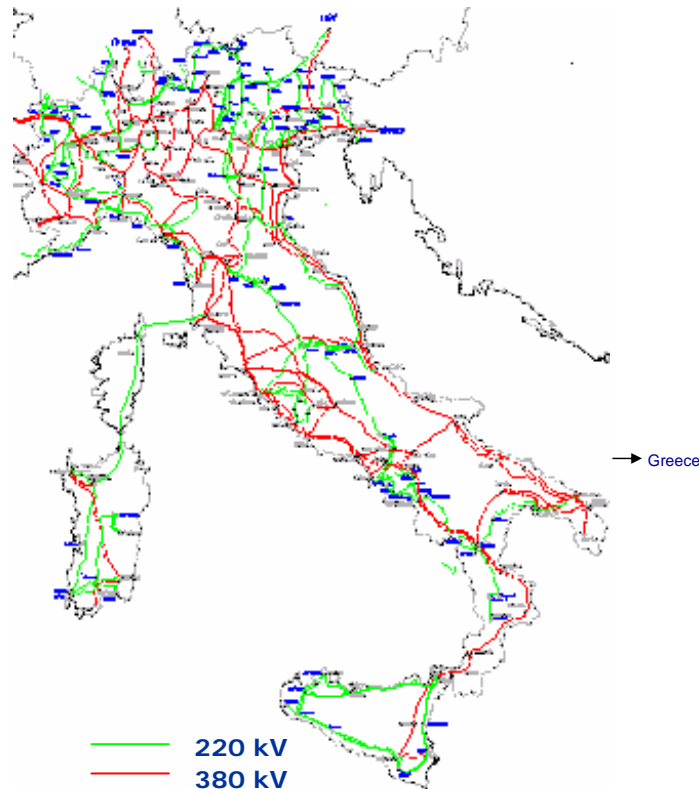
## Energy Demand: Cumulated Trend

TWh



Source: GRTN – monthly reports

# Italian Asset Overview



- **Substations<sup>(a)</sup>**

Transformers (n.)	569
Primary transformer/ switching substations (n.)	300
Transforming capacity (MVA)	108,749
Bays (n.)	3,902

- **Transmission Lines<sup>(a)</sup>**

380 kV lines <sup>(b)</sup>	10,172
220 kV lines <sup>(c)</sup>	9,982
150 kV (or less) lines	18,542

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**Total** **38,696**

- **Remote Grid Management Centres**

Bari, Rondissone, Dolo	3 centres
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(a) As of December 31, 2004.

(b) Includes the 400 kV Italy–Greece DC connection.

20 (c) Includes the 200 kV Sardinia-Corsica-Italian mainland DC connection.

# Brazilian Subsidiaries

## Main Results

			Total
<b>Revenues</b>	<b>61</b>	<b>58</b>	<b>119</b>
Operating Expenses	14	23	37
<b>EBITDA</b>	<b>47</b>	<b>35</b>	<b>82*</b>
<b>EBIT</b>	<b>41</b>	<b>28</b>	<b>69</b>
Net Interest Expense	23**	39	62
Taxes	5	3	8
<b>Net Income</b>	<b>12</b>	<b>(14)</b>	<b>(2)</b>
<b>Net Invested Capital</b>	<b>197</b>	<b>270</b>	<b>467</b>
<i>Financed by:</i>			
Net Debt	110	187	297
Shareholders' Equity	87	83	170



Note: €/R\$ exchange rate as of 31 December 2004 = 3.61433; 2004 average €/R\$ exchange rate = 3.6359

\* Gross of consolidation elisions

\*\* of which Interest on Equity 14 euro million

# Brazilian Subsidiaries

Project Finance Debt as of December 2004

	Outstanding amount	Maturity	Rates
 <b>Euro179mn</b>			
<b>BNDES – Local Currency</b>	<b>R\$ 497mn</b>	<b>12 years</b>	<b>TJLP+3.5%</b>
<b>BNDES – Currency Basket</b>	<b>R\$ 150mn</b>	<b>12 years</b>	<b>Currency Basket Cost+3.5%</b>
 <b>Euro 200mn</b>			
<b>BNDES – Local Currency</b>	<b>R\$ 552mn</b>	<b>12 years</b>	<b>TJLP+4.5%</b>
<b>IDB loan - A</b>	<b>US\$ 29.3mn</b>	<b>12 years</b>	<b>4.54% + spread step up (from 212.5bps to 537.5bps)</b>
<b>IDB loan - B</b>	<b>US\$ 35.1mn</b>	<b>12 years</b>	<b>4.59% +spread step up (from 200bps to 525bps)</b>

# 2004 Results

## Consolidated - Quarterly Analysis

	1Q04	2Q04	3Q04	4Q04
<b>Operating Revenues</b>	<b>280</b>	<b>238</b>	<b>268</b>	<b>236</b>
<i>Grid Utilisation Fee</i>	237	192	217	165
<i>Regulated Activities in Brazil</i>	23	29	32	35
<i>Other Activities/Income in Italy</i>	21	17	19	36
<b>Operating Expenses<sup>(*)</sup></b>	<b>70</b>	<b>101</b>	<b>77</b>	<b>91</b>
<b>EBITDA</b>	<b>210</b>	<b>137</b>	<b>191</b>	<b>144</b>
<i>Italy</i>	194	116	169	120
<i>Brazil</i>	16	21	22	24
D&A	39	40	40	42
Provisions and Write-downs	6	10	6	(10)
<b>EBIT</b>	<b>165</b>	<b>88</b>	<b>145</b>	<b>113</b>
Net Interest Expense	24	25	14	16
Net Extraordinary Expense	3	11	1	8
Taxes	57	31	51	34
<b>Net Income</b>	<b>82</b>	<b>20</b>	<b>79</b>	<b>54</b>

23 (\*) Net of capitalized costs



# 2004 Results

Terna SpA

	FY 2004 (A)	FY 2004* (B)	FY 2003 (C)	Change (B-C)
<b>Operating Revenues</b>	<b>906</b>	<b>906</b>	<b>877</b>	<b>28</b>
<i>Grid Utilisation Fee</i>	811	811	782	28
<i>Other Activities/Income in Italy</i>	95	95	95	(0)
<b>Operating Expenses**</b>	<b>305</b>	<b>305</b>	<b>282</b>	<b>23</b>
<i>Services</i>	127	127	119	9
<i>Other</i>	27	27	10	17
<i>Salaries and Benefits</i>	151	151	153	(3)
<b>EBITDA</b>	<b>601</b>	<b>601</b>	<b>596</b>	<b>5</b>
<i>D&amp;A</i>	143	143	140	4
<i>Provisions and Write-downs</i>	10	10	37	(27)
<b>EBIT</b>	<b>447</b>	<b>447</b>	<b>419</b>	<b>28</b>
<i>Net Interest Expense</i>	17	17	35	(18)
<i>Net Extraordinary Expense</i>	(410)	12	15	(3)
<i>Additional Depreciation</i>	-	-	151	(151)
<b>EBT</b>	<b>839</b>	<b>418</b>	<b>217</b>	<b>201</b>
<i>Taxes</i>	165	165	94	71
<b>Net Income</b>	<b>674</b>	<b>253</b>	<b>124</b>	<b>129</b>

\* Including the effects of the tax and corporate law reform

24 \*\* Net of Capitalized costs

# Contact Us

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