

1H 2005 Consolidated Results

Fulvio Conti - Chairman

Fabio Todeschini - Chief Financial Officer

September 7th, 2005

Agenda

Highlights

1H 2005 Results

Update on Business Dynamics

Summary

Annexes

Highlights

Operational Data

- 1H05 Electricity demand: +1.6% (162TWh)
- Availability of the Italian grid: 99.61%

Key Results

- Good progress in margins
 - EBITDA and EBIT up by >5.5%
- Net income at 140mn Euro, +22.5%

2005 Interim Dividend

- BoD approved an interim dividend of Euro 100mn (Euro 0.05 per share)
- Coupon date: 21 November 2005
- Payment date: 24 November 2005

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Income Statement

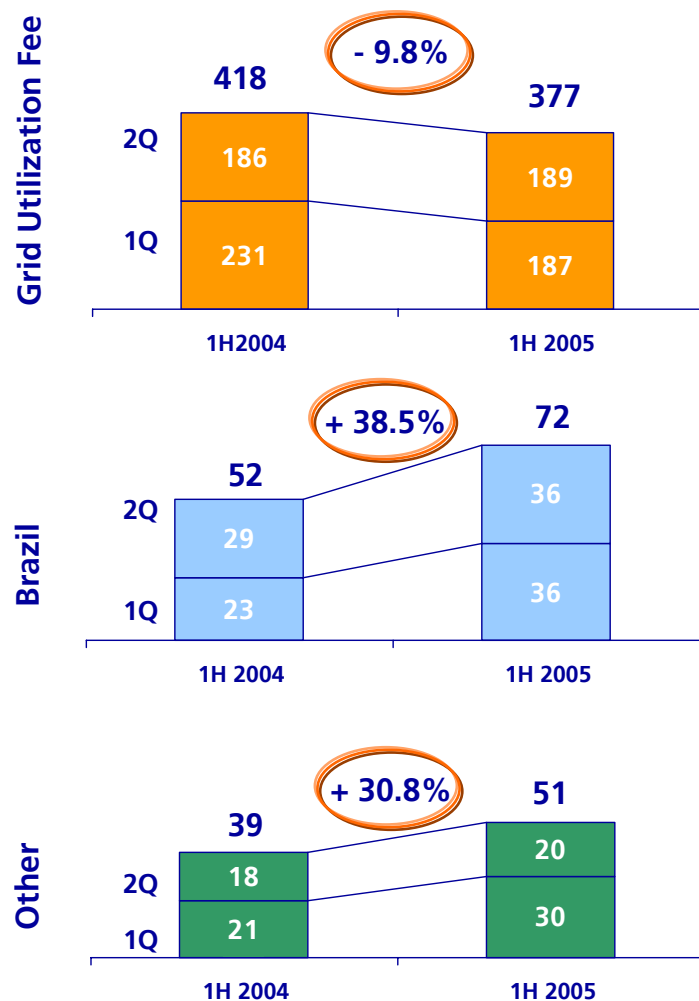
<u>Consolidated</u>		<u>Change</u>			<u>Consolidated</u>		<u>Change</u>	
2Q05	2Q04				1H05	1H04		
		<i>mn</i>	<i>%</i>				<i>mn</i>	<i>%</i>
246	234	+12	+ 5.2	Operating Revenues	500	509	- 9	- 1.8
189	186	+3	+ 1.6	<i>Grid Utilisation Fee</i>	377	418	- 41	- 9.8
36	29	+ 7	+ 24.1	<i>Regulated Activities in Brazil</i>	72	52	+ 20	+ 38.5
20	18	+ 2	+ 11.1	<i>Other Activities/Income in Italy</i>	51	39	+ 12	+ 30.8
80	107	- 28	- 25.8	Operating Expenses^(*)	151	179	- 28	- 15.3
166	126	+ 40	+ 31.7	EBITDA	348	330	+ 18	+ 5.5
136	105	+ 31	+ 29.5	<i>Italy</i>	290	293	- 3	- 1.0
30	21	+ 9	+ 42.9	<i>Brazil</i>	58	37	+ 21	+ 56.8
67%	54%			<i>EBITDA Margin (%)</i>	70%	65%		

In Euro mn

(*) Net of capitalized costs

1H 2005 Results

Operating Revenues Breakdown



5 In Euro mn

Main drivers

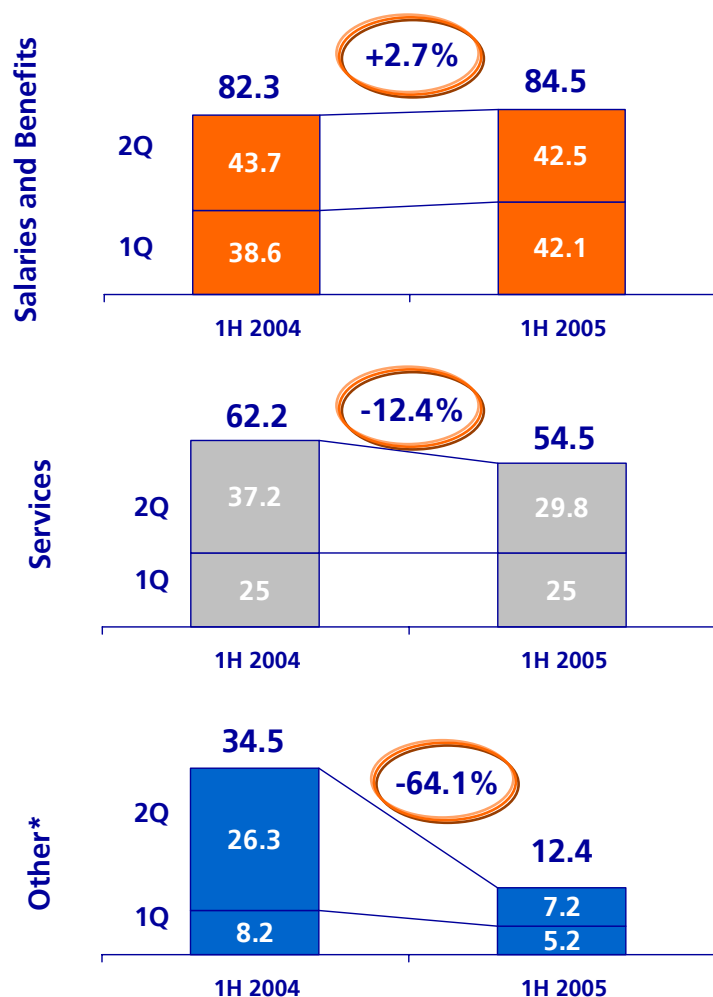
Application of the time bands determined by the AEEG resolution 05/2004 starting from April 1, 2004

- Business dynamics (+13.4mn euro)
- Exchange rate effect (+6.6mn euro)

One-off reversal of 2004 revenues withheld by GRTN (+15mn euro)

1H 2005 Results

Operating Costs



In Euro mn

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

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Main drivers

Labour cost dynamics (ca. + 2mn euro)

- Terna Spa average headcount:

- 2,877 vs 2,871 in 1H04, but 2,894 in 2H04

- Terna Group final headcount:

- 2.908 vs 2.929 as of 31/12/04

Non recurring costs related to IPO (ca.- 8mn euro)

- One-off reversal of grid revenues
(ca. - 17mn euro)

- Tax amnesty referred to 2002 (ca. -2mn euro)

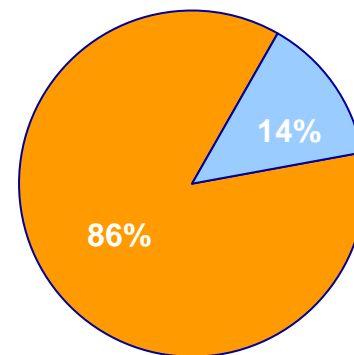
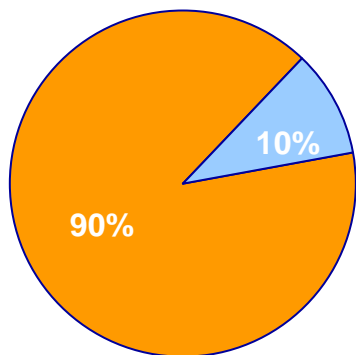
1H 2005 Results

Geographical Breakdown

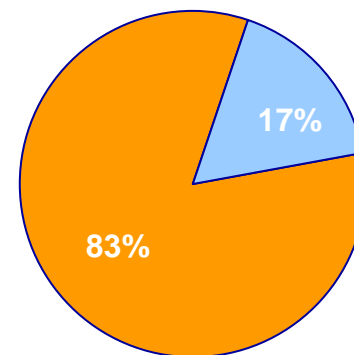
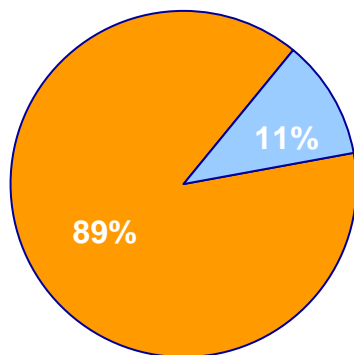
1H2004

1H2005

Revenues



EBITDA



Italy

Brazil

1H 2005 Results

Income Statement

Consolidated		Change			Consolidated		Change	
2Q05	2Q04				1H05	1H04		
		<i>mn</i>	%				<i>mn</i>	%
166	126	+40	+31.5	EBITDA	348	330	+18	+5.5
41	39	+3	+7.0	D&A	82	77	+5	+6.6
125	88	+37	+42.3	EBIT	266	253	+13	+5.1
18	20	-2	-10.9	Net Interest Expense	43	51	-8	-16.8
37	30	+7	-21.8	Taxes	83	87	-4	-4.7
34.6%	44.8%			Tax rate	37.3%	43.3%		
70	37	+33	+87.2	Net Income	140	115	+25	+22.5

Lower taxable base due to non deductible provisions in 2004

1H 2005 Results

Key Balance Sheet Items

	Consolidated		
	June 30 th 2005	December 31 st 2004	Change
Assets			
PP&E	4,447	4,323	124
Intangible assets, net	149	117	32
Financial Inv. and Other	75	17	58
Total Fixed Assets	4,671	4,457	+ 214
Net WC	(118)	(202)	+ 84
Funds	(619)	(596)	- 22
Net Invested Capital	3,934	3,659	+ 275
<i>Financed by:</i>			
Net Debt	2,107	1,900	+ 207
Shareholders' Equity	1,827	1,759	+ 67
D/E ratio	1.15	1.08	+ 0.07

1H 2005 Results

Cash Flow

(€ million)	As of 30/06/2005	As of 30/06/2004	As of 31/12/2004
Net income	140	115	231
Depreciation*	83	77	158
Net change in Funds	22	21	29
Operating Cash flow	246	212	419
Change in WC	(84)	(44)	(17)
Cash Flow from Operating Activities	162	168	402
Capital Expenditures	(84)	(137)	(303)
Other fixed asset changes**	-	(5)	(2)
Free Cash Flow	79	26	97
Dividends	(140)	(80)	(170)
Capital Reduction	-	(1,200)	(1,200)
Change in Financial Position***	(61)	(1,254)	(1,274)

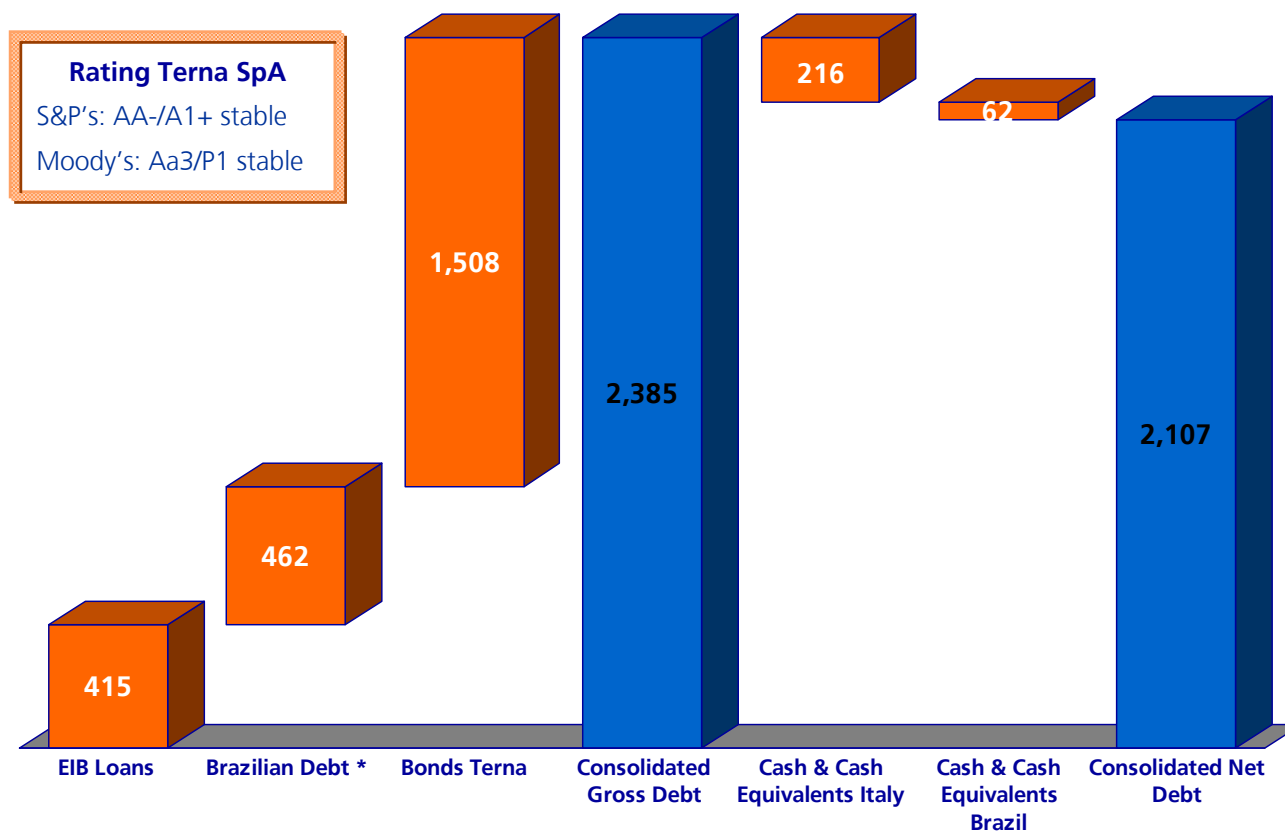
* Net of asset disposals

** Not including Δ €/R exchange rates and Δ fair value on Bonds

*** Not including Δ €/R exchange rates

1H 2005 Results

Consolidated Net Financial Position



In Euro mn

Note: EIB= European Investment Bank

11 * No recourse project finance debt

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Update on Business Dynamics

Acea Trasmissione

Valuation Considerations

- Total consideration: 32.9mn euro
 - EV: 27mn euro
 - Adjusted Net Financial Position: 6mn euro
- RAB value: 30.9mn euro
- Attractive acquisitions multiples

2004 Financials (Euro mn)

Revenues	7.1
EBITDA	3.3
EBIT	0.5
Net Income	0.2
Shareholders' Equity	32.3
Net Financial Position	10.0
Net Fixed Assets	28.0
Employees (no.)	35

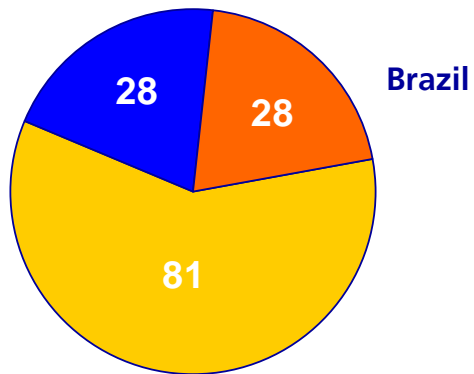
First step towards the unification of the Grid

Update on Business Dynamics

Capex Breakdown

1H04 Capex

Renovation
and Other



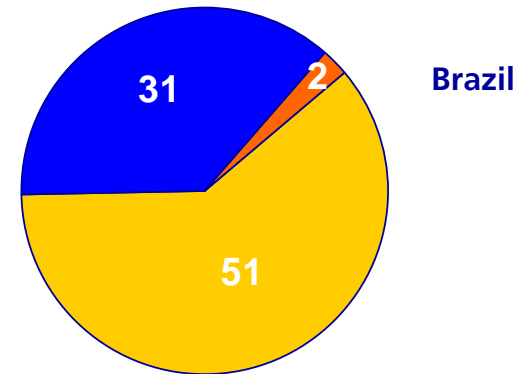
Development

Total: € 137mn

- Development: Laino Rizziconi line (14mn euro)
- Brazil: completion of Novatrans lines (26mn euro)

1H05 Capex

Renovation
and Other



Development

Total: € 84mn

- Development: delays in Turbigo-Rho line and other projects in pipeline

Full year Italian capex expected to be almost in line with 2004 level

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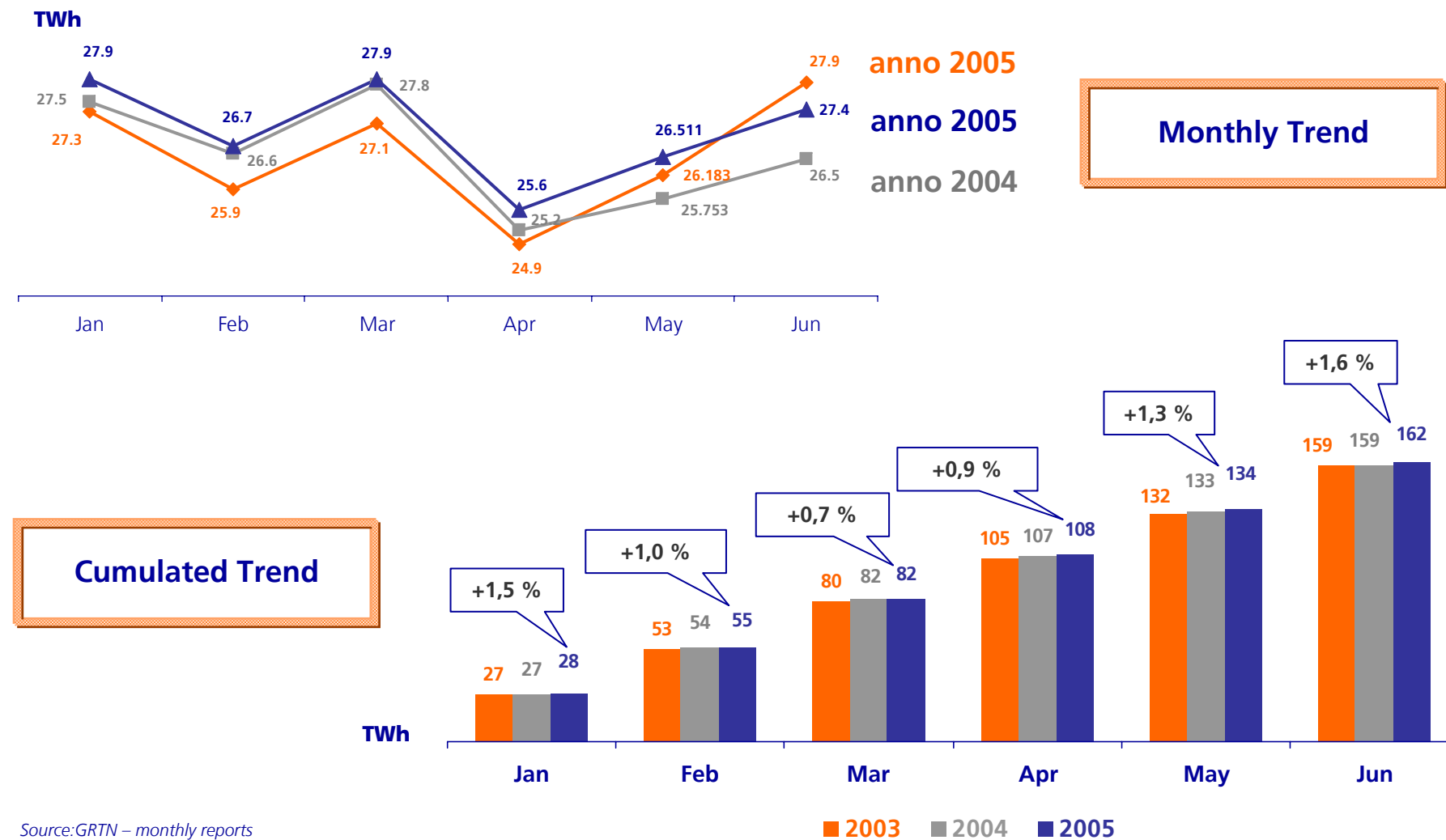
Summary

- 1H 2005
 - strong operational performance
 - strong contribution from Brazilian subsidiaries
- Outlook for 2005
 - enhanced margins compared to 2004
 - full year Italian capex almost in line with 2004 level
- Dividend policy confirmed “best in class”
- Focus on integration with GRTN and unification of the Italian Grid

Annexes

Italian Electricity Market Evolution

Energy Demand



Source: GRTN – monthly reports

1H 2005 Results

Consolidated - Quarterly Analysis (IFRS)

	1Q05	1Q04	Change	2Q05	2Q04	Change
Operating Revenues	254	275	- 21	246	234	+ 12
<i>Grid Utilisation Fee</i>	187	231	-44	189	186	+ 3
<i>Regulated Activities in Brazil</i>	36	23	+ 13	36	29	+ 7
<i>Other Activities/Income in Italy</i>	30	21	+ 9	20	18	+ 2
Operating Expenses(*)	72	72	0	80	107	- 28
EBITDA	182	203	- 22	166	126	+ 40
<i>Italy</i>	154	187	- 33	136	105	+ 31
<i>Brazil</i>	28	16	+ 11	30	21	+ 10
D&A	40	38	+ 2	41	39	+ 3
EBIT	141	166	- 24	125	87	+ 37
Net Interest Expense	25	31	- 7	18	20	- 2
Taxes	46	57	- 11	37	30	+ 7
Net Income	70	77	- 7	70	37	+ 33

In Euro mn

() Net of capitalized costs*

1H 2005 Results

Consolidated – Italian GAAP

	1H 2005	1H 2004	Change
Operating Revenues	496	519	- 23
<i>Grid Utilisation Fee</i>	377	429	- 52
<i>Regulated Activities in Brazil</i>	72	52	+ 20
<i>Other Activities/Income in Italy</i>	47	39	+ 9
Operating Expenses(*)	149	171	- 23
EBITDA	347	347	-
<i>Italy</i>	289	310	- 21
<i>Brazil</i>	58	37	+ 21
D&A	88	94	- 6
EBIT	259	253	+ 6
Net Interest Expense	31	49	- 18
Taxes	86	88	- 2
Net Income	143	102	+ 41

20 * Net of Capitalized costs

1H 2005 Results

Consolidated Net Financial Position - drivers

ITA Gaap		IAS	
Net Debt 31/12/04	1,865	Net Debt 31/12/04	1,900
		Δ Fair value on Bonds	73
Change in Financial Position	61	Change in Financial Position	61
Δ Exchange Rates	73	Δ Exchange Rates	73
Net Debt 30/06/05	1,999	Net Debt 30/06/05	2,107
	+134		+207

1H 2005 Results

Debt Structure

Long Term Rating

- S&P's rating and outlook unchanged following the revision of its outlook on the Republic of Italy

Hedging

- Terna Spa: funding strategy decoupled from risk/cost of financing
 - Hedging to minimize cost of debt during the regulatory period
 - Target hedging structure: >60% (Fixed+hedged)/Total Net Debt
- Brazil: *natural hedge* and cost of debt in real
 - exchange rates: no hedge because of the natural hedge with local inflation
 - interest rates: no hedge because cost of debt is subsidized

Average Debt Maturity



- Terna Spa: 14 years
- Brazil: 11 years

Average Cost of Debt (YTD)

- Terna Spa: 3.2%
- Brazil: 11.1%

Brazilian Subsidiaries



1H 2005 Main Results

							Total 1H 2005
	1H 2005	1H 2004	Change	1H 2005	1H 2004	Change	
Revenues	34	29	+5	38	23	+ 15	72
Operating Expenses	6	6	-	8	9	- 1	14*
EBITDA	28	22	+ 6	30	15	+ 15	58
EBIT	25	19	+ 6	25	12	+ 13	50
Net Interest Expense	8	10	- 2	14	30	- 16	22**
Taxes	8	3	+ 5	3	1	+ 2	11
Net Income	9	6	+ 3	8	(19)	+ 27	17
Net Invested Capital	234	197	+ 37	338	264	+ 74	572
<i>Financed by:</i>							
Net Debt	179	121	+ 58	221	222	- 1	400
Shareholders' Equity	55	76	- 21	117	42	+ 75	172

23 * Net of Capitalized costs
 ** Of which Interest On Equity 13.9 euro million

Brazilian Subsidiaries

Project Finance Debt as of June 2005

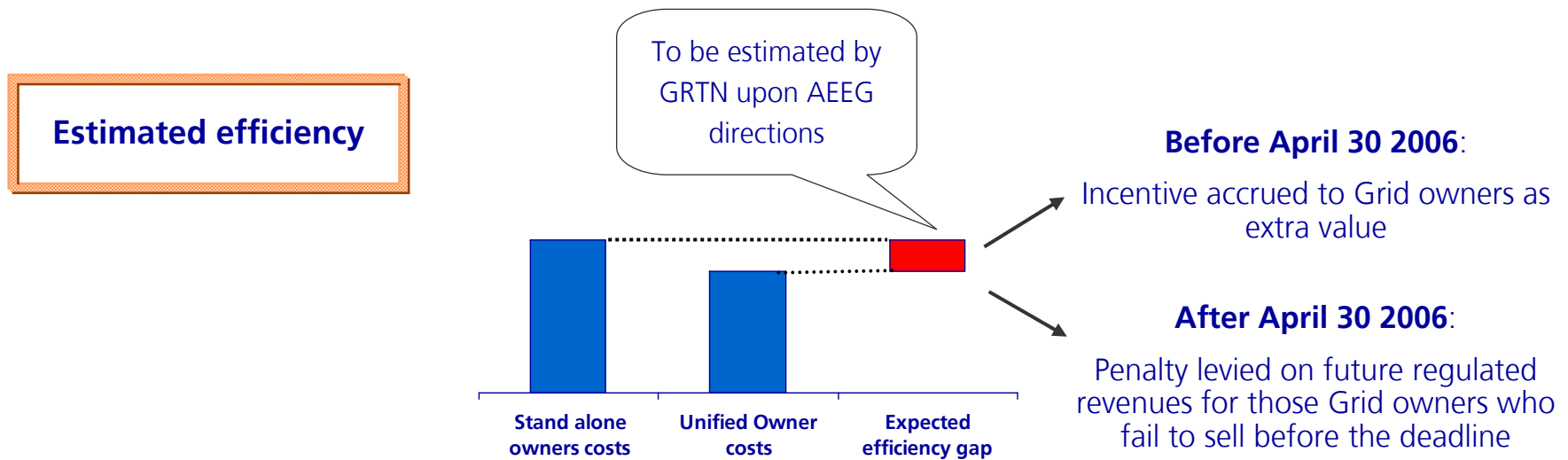
	Outstanding amount	Maturity	Rates
 Euro 218mn			
BNDES – Local Currency	R\$ 493mn	2016	TJLP+3.5%
BNDES – Currency Basket	R\$ 128mn	2016	Currency Basket Cost+3.5%
 Euro 243mn			
BNDES – Local Currency	R\$ 549mn	2016	TJLP+4.5%
IDB loan - A	US\$ 28.3mn	2016	4.54% + spread step up (from 212.5bps to 537.5bps)
IDB loan - B	US\$ 33.5mn	2015	4.59% + spread step up (from 200bps to 525bps)

Update on Business Dynamics

Unification of Italian Grid Ownership

In accordance with the provisions of the Presidential Decree 11 May 04, AEEG published a consultation document outlining measures aimed at the unification of transmission grid ownership.

Two incentive mechanisms are envisaged:



Extra RAB remuneration

- + 1-2% extra RAB remuneration for 3-5 years
- benefits extension of 2-3 years if the selling Grid owner joins Terna shareholders

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