

# 1Q07 Consolidated Results

Flavio Cattaneo – Chief Executive Officer

Fabio Todeschini – Chief Financial Officer

May 9<sup>th</sup>, 2007

# Agenda

## **Highlights & Recent Developments**

1Q07 Results

Closing Remarks

Annexes

# Highlights & Recent Developments

## 1Q at a Glance

### MACRO

- Weak electricity demand (-1.6% vs 1Q06) due to exceptionally mild weather conditions

### RESULTS

- Results improved by:
  - A larger consolidation perimeter (RTM1 and RTM2 fully consolidated)
  - Costs rationalization
- Capex up almost 3x vs 1Q06

# Highlights & Recent Developments

## Acquisition of AEM Trasporto Energia

- On April 20th, Terna SpA, through RTL, acquired from Iride Energia SpA the entire share capital of AEM Trasporto Energia Srl (AEM TE) and the Moncalieri substation
- Total consideration: 49.4 million
  - 38.8mn 100% of AEM TE (inclusive of 2.8mn positive cash)
  - 10.6mn Moncalieri station
- 0.66% of the NTG, third in the ranking of the remaining portion
- Closing subject to Antitrust Authority Approval

**Sound domestic growth: 98.3% of NTG**

# Highlights & Recent Developments

## Update on 2007-2011 Strategic Targets

### Development of the Grid

- 2007-2016 National Development Plan approved by the Ministry of Economic Development
- On track with development capex program

### Cost Efficiency

- Future lower telecom costs through the acquisition of optic fibres from Wind

### Safety and Reliability

- Backbone direct ownership will consolidate system safety
- Action Plan to face the current water shortage issue

# Agenda

Highlights & Recent Developments

**1Q07 Results**

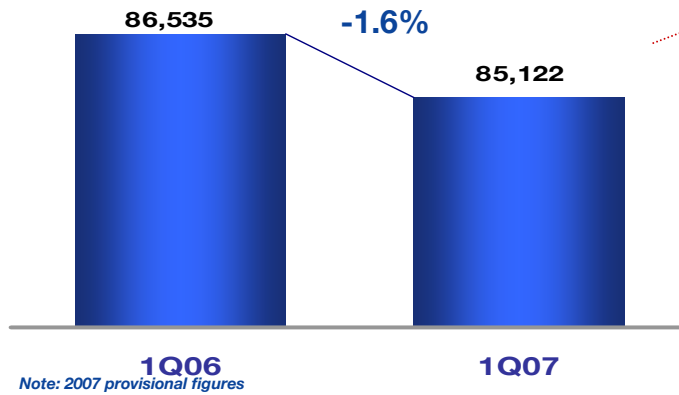
Closing Remarks

Annexes

# 1Q2007 Results

## Energy Items

In GWh

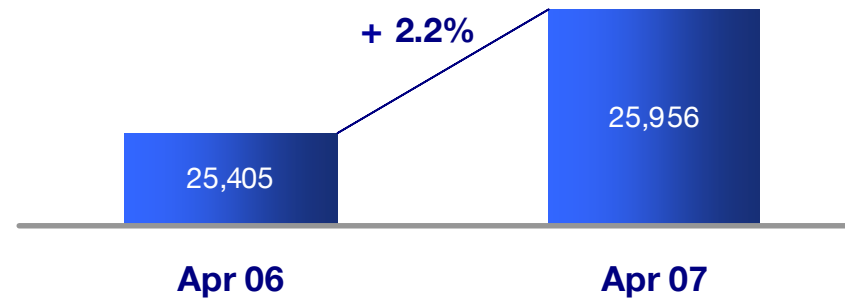


**Total Net Production: 74,015 (-9.0%)**

Pumping: 1,988 (-11.4%)

Net Import: 13,095 (+76.7%)

- April partially reabsorbed the 1Q negative trend



# 1Q2007 Results

## Financial Highlights

In mn Euro

### Key Financial Results

	1Q06	1Q07	Δ%
Operating Revenues	307	333	8.6%
Operating Expenses	89	85	-4.7%
<b>EBITDA</b>	<b>217</b>	<b>248</b>	<b>14.1%</b>
<b><i>EBITDA Margin (%)</i></b>	<b>71%</b>	<b>74%</b>	
<b>Capex</b>	<b>43</b>	<b>120</b>	<b>180.1%</b>

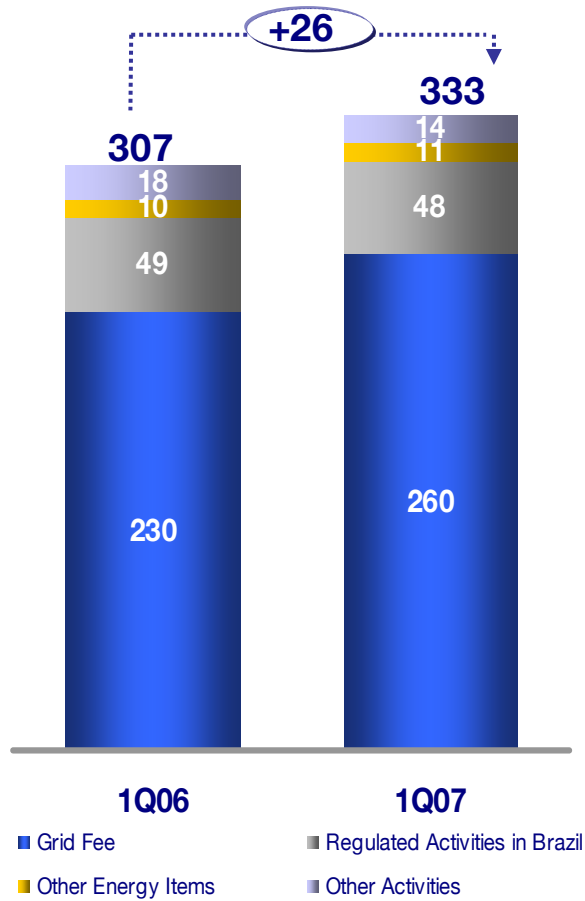


# 1Q2007 Results

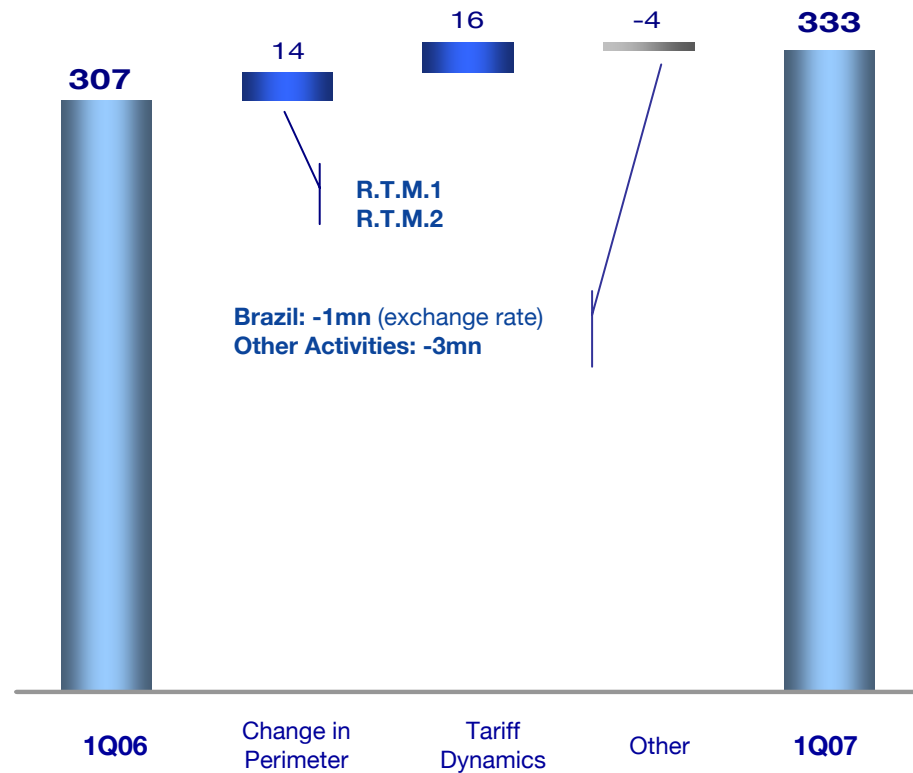
## Consolidated Revenues

In mn Euro

### Revenues by Nature



### Revenues Breakdown

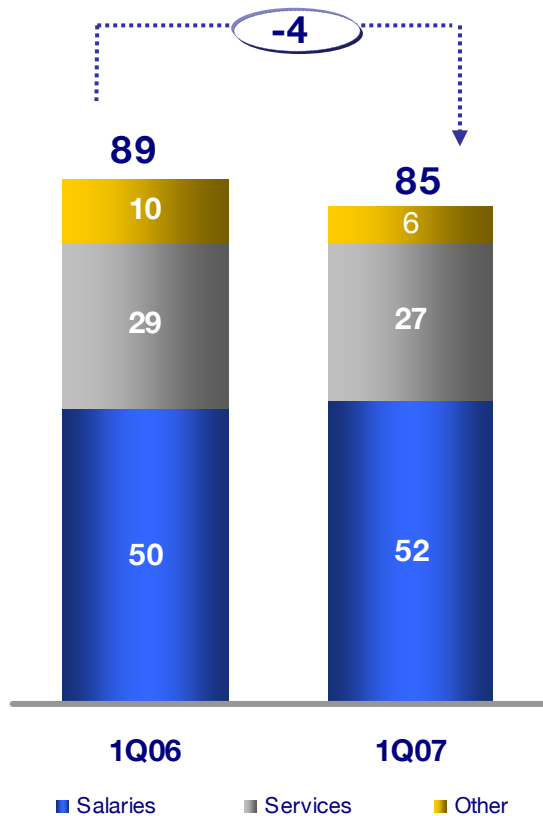


# 1Q2007 Results

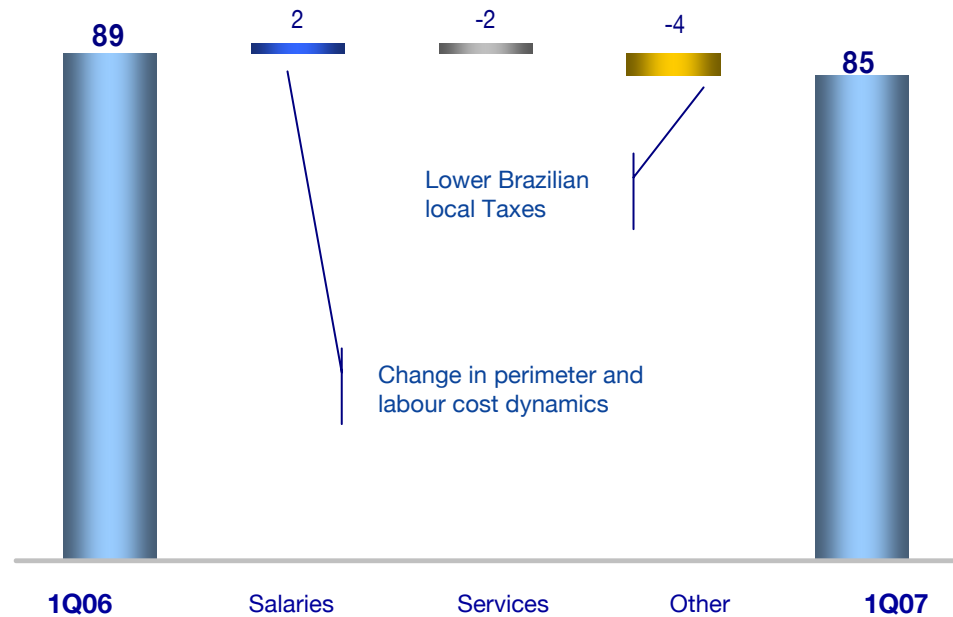
## Consolidated Costs

In mn Euro

**Costs by Nature<sup>(1)</sup>**



**Costs Breakdown**



(1) Net of capitalized costs

# 1Q2007 Results

## From EBITDA to Net Income

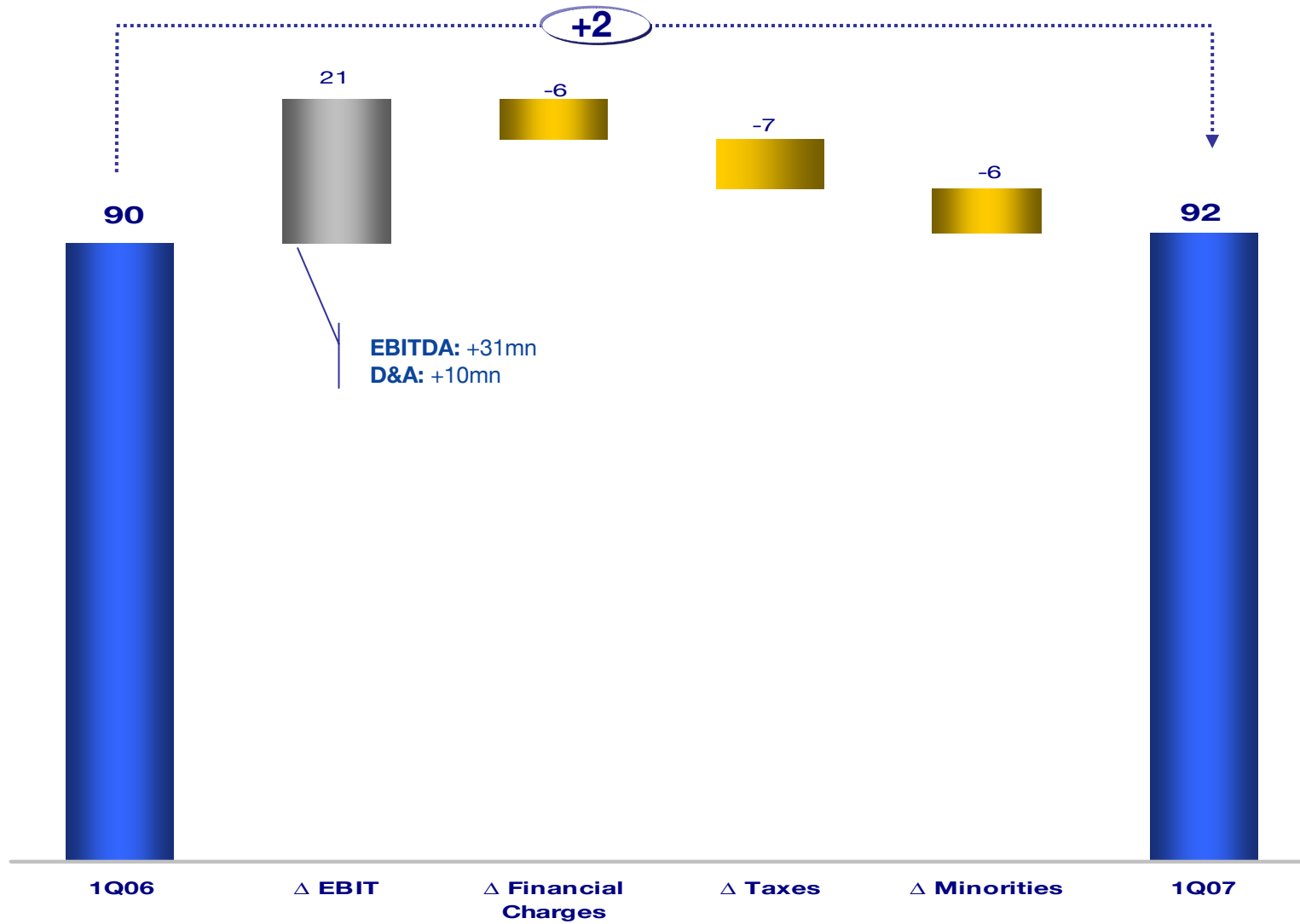
In mn Euro

	Consolidated		Change	
	1Q06	1Q07	mn	Δ%
<b>EBITDA</b>	<b>217</b>	<b>248</b>	<b>31</b>	<b>14.1%</b>
<i>EBITDA Margin (%)</i>	<i>71%</i>	<i>74%</i>		
<i>Italy EBITDA Margin (%)</i>	<i>70%</i>	<i>73%</i>		
<i>Brazil EBITDA Margin (%)</i>	<i>77%</i>	<i>86%</i>		
D&A	49	58	10	19.8%
<b>EBIT</b>	<b>169</b>	<b>190</b>	<b>21</b>	<b>12.4%</b>
Financial (Income) Charge	19	25	6	31.7%
Taxes	60	67	7	12.1%
<i>Tax rate (%)</i>	<i>39.8%</i>	<i>40.5%</i>		
<b>Total Net Income</b>	<b>90</b>	<b>98</b>	<b>8</b>	<b>8.7%</b>
Minority Interest	0	6	6	
<b>Group Net Income</b>	<b>90</b>	<b>92</b>	<b>2</b>	<b>1.7%</b>

# 1Q2007 Results

## Consolidated Net Income Evolution

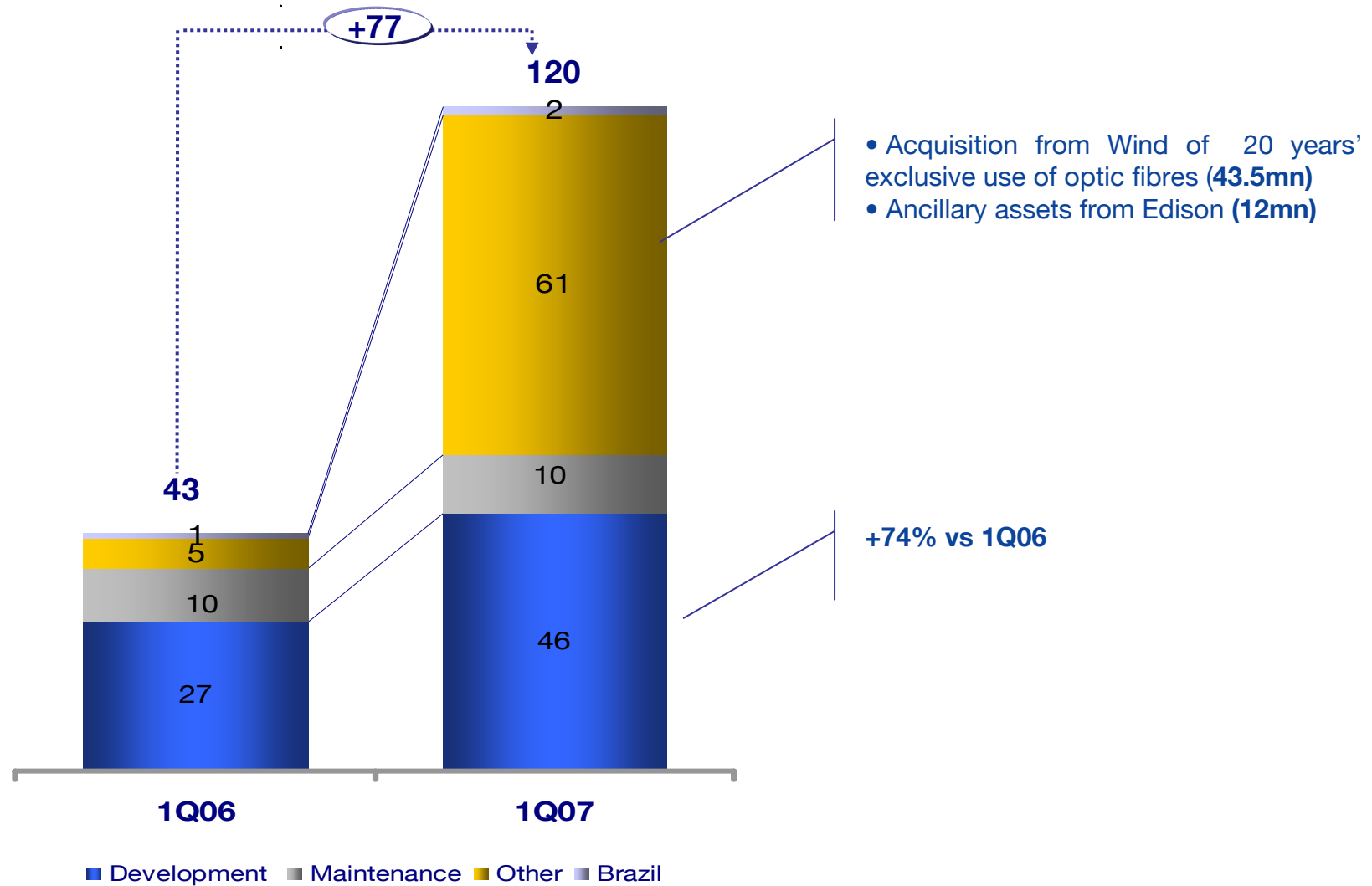
In mn Euro



# 1Q2007 Results

## Capex Breakdown

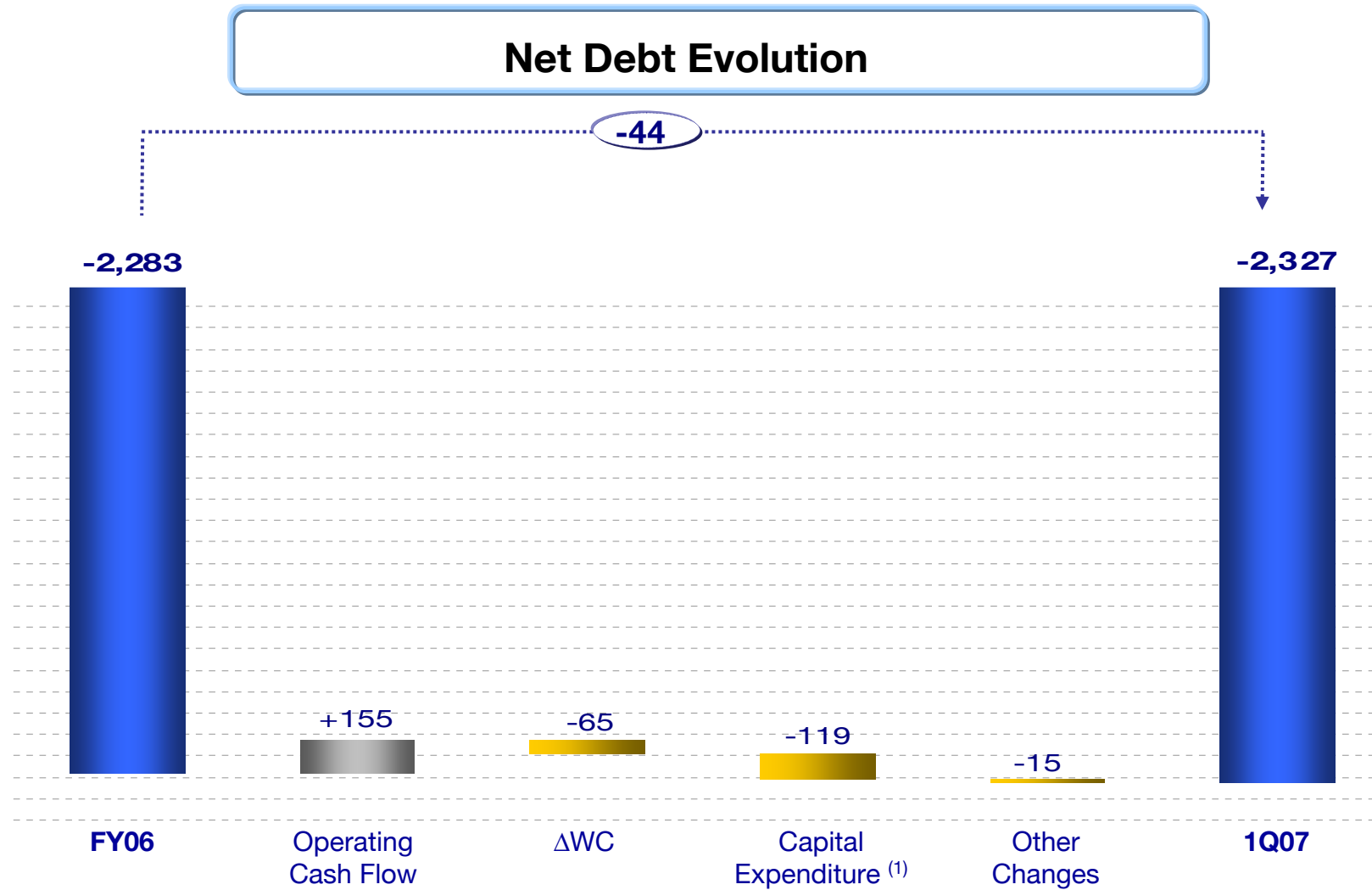
In mn Euro



# 1Q2007 Results

## Consolidated Net Debt

In mn Euro



<sup>(1)</sup> Includes Capex and Other Fixed Asset Change

# Agenda

Highlights & Recent Developments

1Q07 Results

**Closing Remarks**

Annexes

# Closing Remarks

## Our Future Focus

Besides strategic targets, **one clear priority**: tariff review for the 3rd Regulatory Period



# Agenda

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1Q07 Results

Closing Remarks

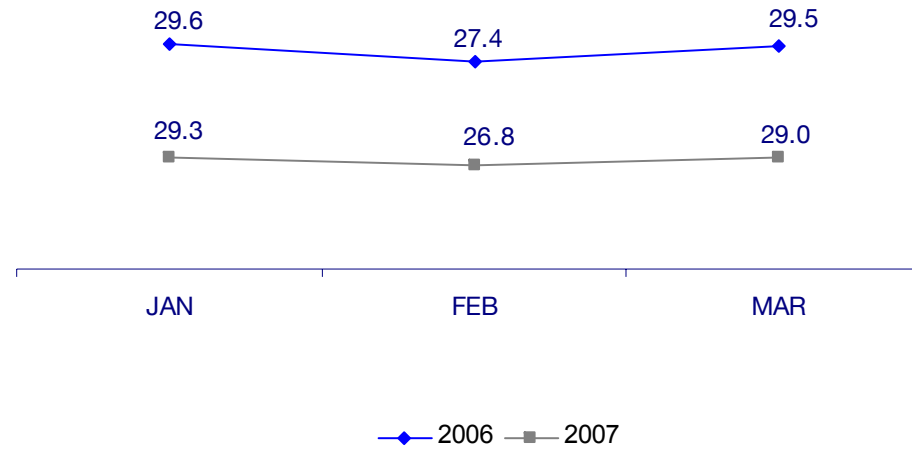
**Annexes**

# Italian Electricity Market Evolution

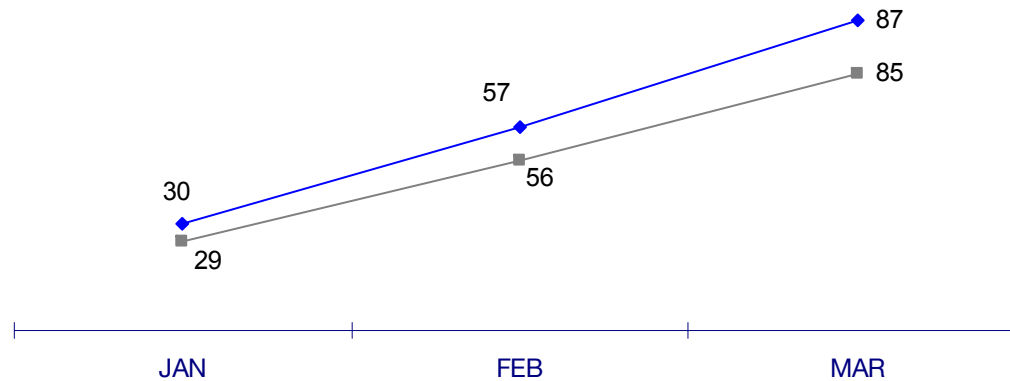
## Energy Demand

TWh

### Monthly Trend



### Cumulated Trend



Source: 2006, 2007 TERNA monthly reports

# 1Q2007 Results

## Consolidated - Income Statement

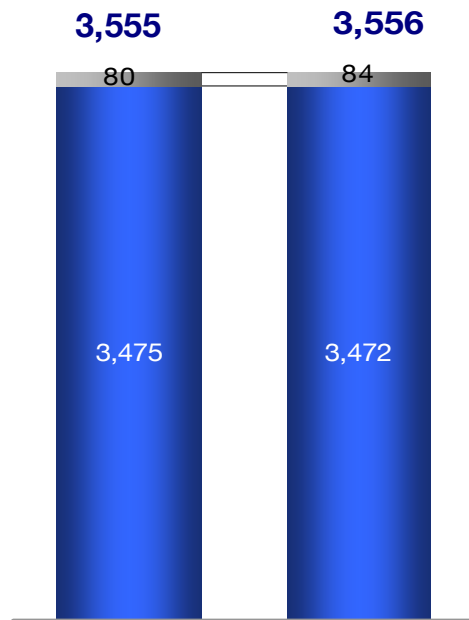
In mn Euro

	1Q06	1Q07	Δ%
<b>Operating Revenues</b>	<b>307</b>	<b>333</b>	<b>8.6%</b>
<i>Grid Fee</i>	230	260	13.2%
<i>Other Energy Items</i>	10	11	2.9%
<i>Regulated Activities in Brazil</i>	49	48	-2.1%
<i>Other Activities</i>	18	14	-18.6%
<b>Operating Expenses</b>	<b>89</b>	<b>85</b>	<b>-4.7%</b>
<i>Salaries</i>	50	52	3.0%
<i>Services</i>	29	27	-5.6%
<i>Other</i>	10	6	-39.4%
<b>EBITDA</b>	<b>217</b>	<b>248</b>	<b>14.1%</b>
<i>Italy</i>	180	207	15.2%
<i>Brazil</i>	37	41	8.8%
<i>D&amp;A</i>	49	58	19.8%
<b>EBIT</b>	<b>169</b>	<b>190</b>	<b>12.4%</b>
<i>Financial (Income) Charge</i>	19	25	31.7%
<i>Taxes</i>	60	67	12.1%
<i>Tax rate (%)</i>	39.8%	40.5%	
<b>Total Net Income</b>	<b>90</b>	<b>98</b>	<b>8.7%</b>
<i>Minority Interest</i>	0	6	
<b>Group Net Income</b>	<b>90</b>	<b>92</b>	<b>1.7%</b>

# 1Q2007 Results

## Headcount Evolution

### Final Headcount

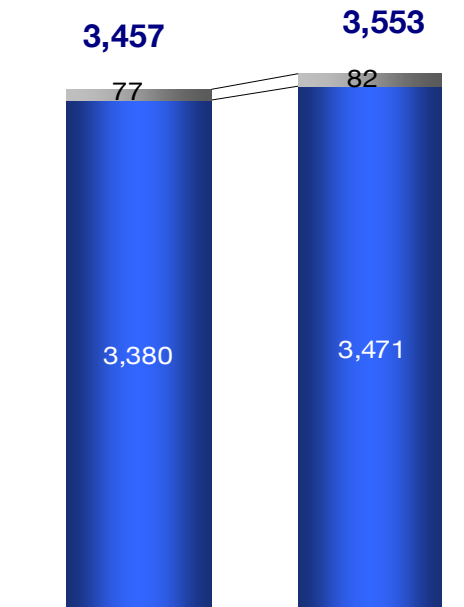


**FY06**

**1Q07**

- Italy: -3
- Brazil: +4

### Average Headcount



**FY06**

**1Q07**

- Italy: +91
- Brazil: +5

■ Italy

■ Brazil

# 1Q2007 Results

## Consolidated – Balance Sheet

In mn Euro

	<b>FY06</b>	<b>1Q07</b>	<b>Δ%</b>
<b>Assets</b>			
PP&E	5,159	5,243	1.6%
Intangible Asset, net	299	302	1.0%
Financial Inv. and Other	13	12	-3.1%
<b>Total Fixed Assets</b>	<b>5,471</b>	<b>5,557</b>	<b>1.6%</b>
Net WC	-412	-347	-15.8%
<i>of which related to energy items</i>	<i>-140</i>	<i>-98</i>	<i>-30.0%</i>
Funds	-618	-617	-0.2%
<b>Net Invested Capital</b>	<b>4,442</b>	<b>4,594</b>	<b>3.4%</b>
Financed by:			
Net Debt	2,283	2,327	1.9%
<b>Total Shareholder's Equity</b>	<b>2,159</b>	<b>2,267</b>	<b>5.0%</b>
<i>Terna Group</i>	<i>2,009</i>	<i>2,116</i>	<i>5.3%</i>
<i>Minorities</i>	<i>150</i>	<i>150</i>	<i>0.3%</i>
D/E ratio	1.06	1.03	<b>-2.9%</b>

# 1Q2007 Results

## Consolidated – Cash Flows

In mn Euro

	1Q06	FY06	1Q07
Net Income	90	370	98
Depreciation <sup>(1)</sup>	49	212	58
Net Change in Funds	12	2	-1
<b>Operating Cash Flows</b>	<b>151</b>	<b>584</b>	<b>155</b>
Change in WC	8	233	-65
<i>of which related to energy items</i>	<i>-45</i>	<i>146</i>	<i>41</i>
<b>Cash Flow from Operating Activities</b>	<b>158</b>	<b>817</b>	<b>90</b>
Capital Expenditures	-43	-353	-120
Other Fixed Asset Changes	-38	-389	0
<b>Free Cash Flow<sup>(2)</sup></b>	<b>78</b>	<b>75</b>	<b>-29</b>
Dividends	-	-266	-12
Change in Capital	-	145	4
<b>Change in Financial Position<sup>(2)</sup></b>	<b>78</b>	<b>-45</b>	<b>-37</b>

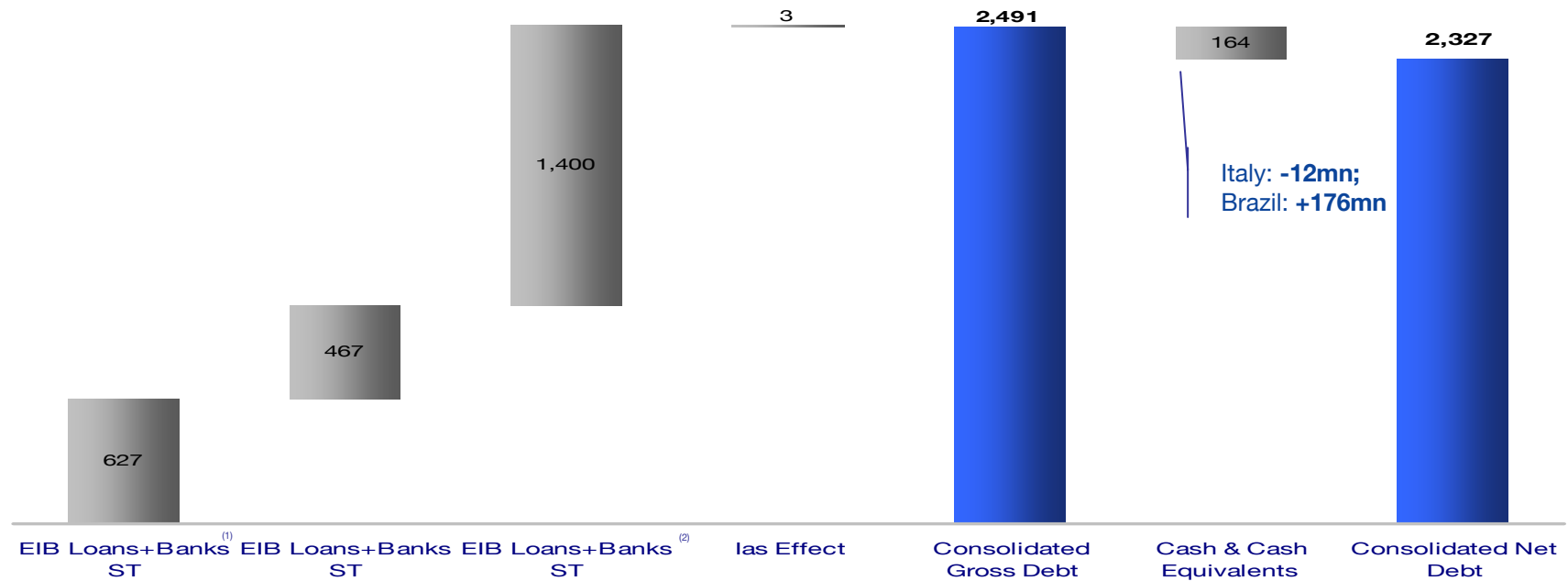
(1) Net of assets disposals

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

# 1Q2007 Results

## Consolidated Net Financial Position

In mn Euro



### Change in Net Financial Position

<b>Net Debt 31/12/06</b>	<b>2,283</b>
Δ Fair value on Bonds and Derivatives	(4)
Change in Financial Position	37
Δ Exchange Rates	11
<b>Net Debt 31/03/07</b>	<b>2,327</b>
<b>Change in Net Debt</b>	<b>+44</b>

(1) EIB (European Investment Bank) Loans

(2) No recourse project finance debt

# 1Q2007 Results

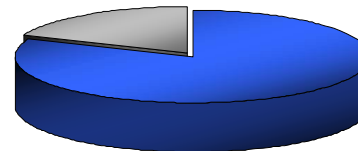
## Financial Structure

### Financial Ratios

	FY06	1Q07
<b>Net Debt (€mn)</b>	<b>2,283</b>	<b>2,327</b>
Avg. Maturity (yrs)	12.1	11.9
<b>LT Debt Ratings</b>		
S&P's	AA-	AA-
Moody's	Aa3	Aa3
Fitch	AA	AA

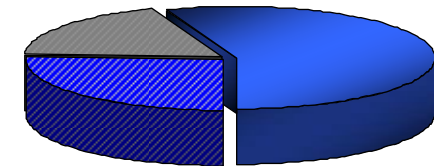
### Debt Breakdown

#### Currency



■ Euro ■ Real

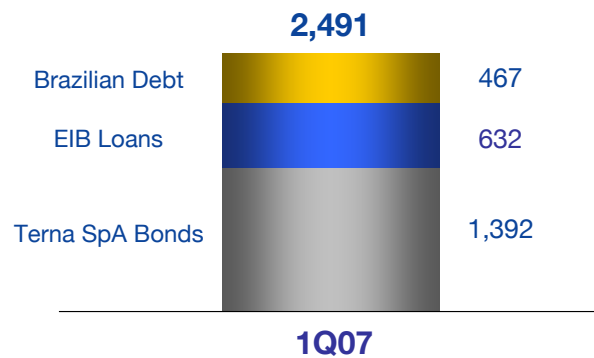
#### Fixed/Floating mix



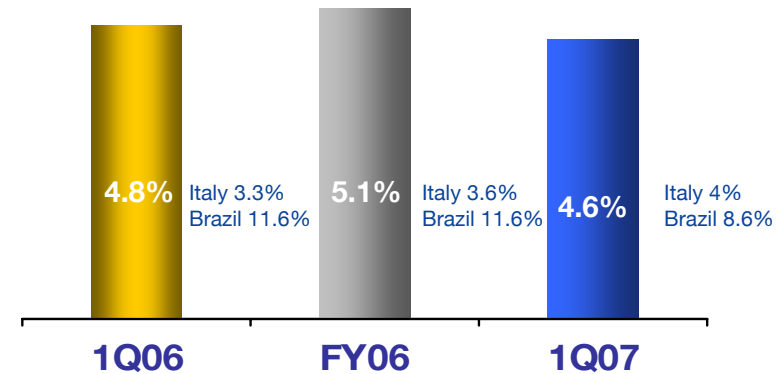
▨ Floating □ Fixed

<i>Italian</i>	31%	69%
<i>Group</i>	44%	56%

### Gross Debt by Instrument (€mn)



### Average Cost of Debt





# 1Q2007 Results

## TERNA Participações (IAS)

In mn Euro

	1Q06	1Q07	Δ%
<b>Operating Revenues</b>	<b>49</b>	<b>48</b>	<b>-1.9%</b>
Operating Expenses <sup>(1)</sup>	11	7	-37.5%
<b>EBITDA</b>	<b>37</b>	<b>41</b>	<b>9.0%</b>
D&A	5	5	1.6%
<b>EBIT</b>	<b>33</b>	<b>36</b>	<b>10.0%</b>
Net Interest Expenses	13	9	-36.2%
Taxes	7	9	16.8%
<b>Net Income</b>	<b>12</b>	<b>19</b>	<b>58.6%</b>
<b>Net Invested Capital</b>	<b>628</b>	<b>658</b>	<b>4.7%</b>
Financed by			
<b>Net Debt</b>	<b>432</b>	<b>291</b>	<b>-32.6%</b>
<b>Shareholders' Equity</b>	<b>196</b>	<b>367</b>	<b>86.9%</b>

(1) Net of capitalized costs

# 1Q2007 Results

TERNA Participações (BRL\$)

In mn BRL\$

	IAS			Brazilian GAP		
	1Q06	1Q07	Δ%	1Q06	1Q07	Δ%
<b>Operating Revenues</b>	<b>127</b>	<b>132</b>	<b>4.1%</b>	<b>112</b>	<b>131</b>	<b>16.9%</b>
Operating Expenses <sup>(1)</sup>	30	20	-33.6%	15	17	16.6%
<b>EBITDA</b>	<b>97</b>	<b>113</b>	<b>15.7%</b>	<b>98</b>	<b>114</b>	<b>16.9%</b>
D&A	12	13	7.9%	15	17	12.3%
<b>EBIT</b>	<b>85</b>	<b>99</b>	<b>16.8%</b>	<b>82</b>	<b>97</b>	<b>17.8%</b>
Net Interest Expenses	35	24	-32.3%	16	25	60.0%
Taxes	19	24	24.0%	24	24	0.2%
<b>Net Income</b>	<b>31</b>	<b>52</b>	<b>68.4%</b>	<b>43</b>	<b>48</b> <sup>(2)</sup>	<b>12.0%</b>
<b>Net Debt</b>	<b>1,142</b>	<b>791</b>	<b>-30.7%</b>	<b>1,151</b>	<b>797</b>	<b>-30.8%</b>

(1) Net of capitalized costs

(2) Net Income 1Q07 net of Interest on Equity 9.8mnBRL\$

# 1Q2007 Results

## Exchange Rates

	1Q06	1Q07	FY06
Closing Rate Euro/BRL\$	2.6	2.7	2.8
Average Rate for the Period	2.6	2.8	2.7
IGPM	0.70%	1.11%	3.85%

### Impacts on: (€mn)

1Q07

EBIT	-2.2
Net Financial Interests	-0.6
Net Income	-1.2

# Acquisition of Italian Grid Portions

Aem Trasporto Energia Srl

**Financial 31/12/2006**

**Assets**

In mn Euro

<b>Operating Revenues</b>	<b>7.6</b>
<b>Operating Expenses</b>	<b>3.3</b>
<b>EBITDA</b>	<b>4.3</b>
<i>EBITDA Margin (%)</i>	<i>56.5%</i>
<b>Net Income</b>	<b>1.7</b>
Total Fixed Assets	27.1
Cash	2.8
Shareholder's Equity	28.6

	<b>Terna<sup>(3)</sup></b>	<b>AEM Torino</b>	<b>Terna</b>
Circuit Lines Km <sup>(1)</sup>	<b>46,237</b>	+ 220	<b>46,457</b>
Substations n. <sup>(2)</sup>	<b>369</b>	+ 5	<b>374</b>
Bays n.	<b>4,358</b>	+ 40	<b>4,398</b>
% of Grid	<b>97.6</b>	+0.7	<b>98.3</b>

(1) 380kV, 220kV, <150kV

(2) Including 5 substations not owned but managed by Novatrans

(3) As 31 December 2006

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