

FY06 Consolidated Results

Flavio Cattaneo – Chief Executive Officer

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March 21st, 2007

Agenda

Highlights

FY06 Results

Dividends and Closing Remarks

Annexes

Highlights

2006 at a Glance

Quality standard well above targets

Solid set of results \Rightarrow Group Net Income up by 23%

Boost in capex spending (353mn, +29%)

Sound cash flow generation (584mn vs 493mn)

Attractive returns to shareholders (full year dividend +7.7% yoy)

Highlights

Evolution of Assets

		Growth			Change	
		Organic	External ⁽¹⁾			
	31 Dec. 2005			31 Dec. 2006		
Circuit Lines ⁽²⁾	42,030	249	3,958	46,237	+4,207	+10%
Substations ⁽³⁾	313	13	43	369	+56	+18%
Bays	3,986	99	273	4,358	+372	+9%

Significant increase in assets: 2nd electricity transmission operator in Europe

(1) RTM1, RTM2 and Munirah

(2) 380kV, 220kV, <150kV

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

Agenda

Highlights

FY06 Results

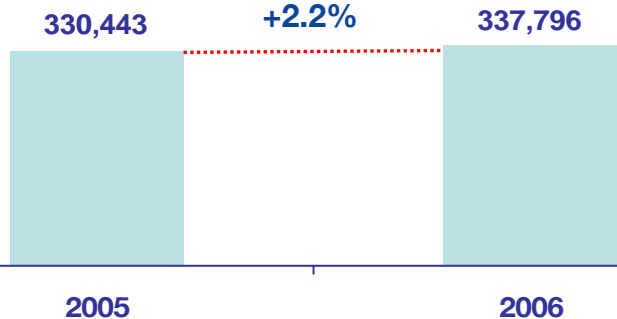
Dividends and Closing Remarks

Annexes

FY 2006 Results

Electricity Demand

In GWh

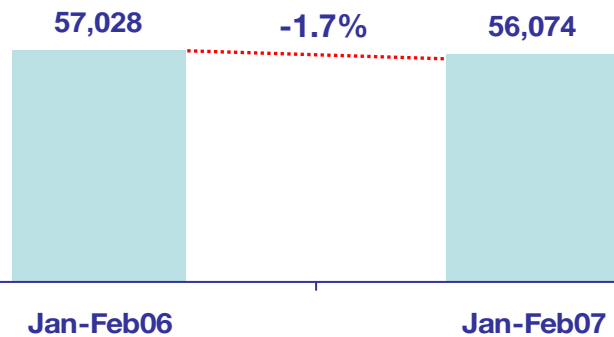


Note: 2006 provisional figures

Total Net Production:	301,726 (+3.8%)
Net Import:	44,718 (-9.0%)
Pumping:	8,648 (-7.2%)

- Summer peak at 55,619MW : new all-time record

In GWh



- Electricity consumption impacted by exceptional mild weather conditions

FY 2006 Results

Income Statement

In mn Euro

Consolidated		Change			Consolidated		Change	
4Q06	4Q05	mn	%		FY06	FY05	mn	%
312	297	14	4.7%	Operating Revenues	1,308	1,082⁽¹⁾	226	20.9%
232	210	22	10.3%	Grid Fee	1,005	823	182	22.2%
11	7	4	53.6%	Other Energy Items	42	7	35	502.9%
46	53	-7	-13.5%	Regulated Activities in Brazil	186	170	17	9.9%
23	27	-4	-15.4%	Other Activities	74	82	-8	-9.5%
143	134	9	6.7%	Operating Expenses	408	365	43	11.7%
169	164	5	3.1%	EBITDA	900	717	183	25.6%
135	130	5	4.0%	Italy	748	589	159	27.1%
34	34	0	-0.6%	Brazil	152	128	24	18.9%
54%	55%			EBITDA Margin (%)	69%	66%		
51%	53%			Italy	67%	64%		
74%	64%			Brazil	81%	75%		

Note: 4Q figures are unaudited

(1) 5.6mn of past years excess taxes reclassified from Other Revenues to Taxes, thus lowering Total Revenues from 1,087 to 1,082mn

FY 2006 Results

Mind the Changes

Significant evolution in the perimeter of assets:

2005

- 3 months contribution of RTL
- 2 months contribution of TSO

2006

- 1 month contribution of RTM1 and RTM2
- 9 months contribution of Munirah

- Brazil: new corporate structure under the holding Company Terna Participações (now owned at 66%)

Impact of one-off items:

2005

- Revenues:
 - Reversal of 2004 revenues and provisions on energy items (+35mn)
 - -5mn reclassification for IAS purposes⁽¹⁾

2006

- Revenues:
 - Integration of 2005 revenues (+48mn)
- Financial items
 - Net capital gain on IPO (31.4mn)

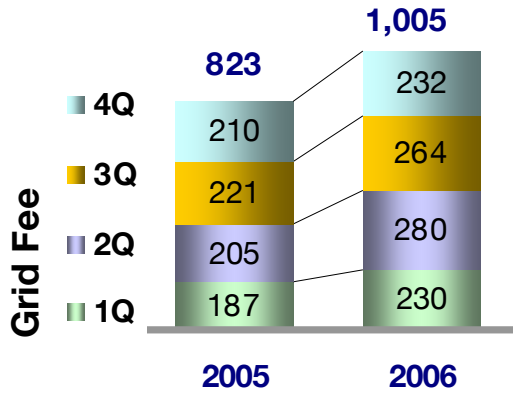
Note: RTL, former Acea Trasmissione; RTM1, former Edison Rete; RTM2: former AEM Trasmissione

(1) Reclassification made ex post in 2006

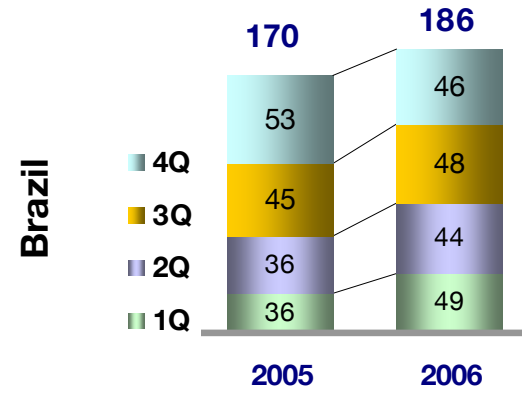
FY 2006 Results

Revenues Breakdown

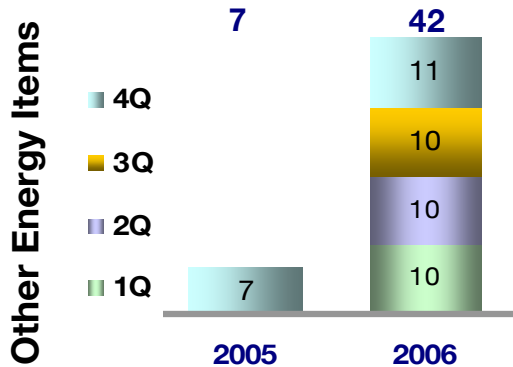
In mn Euro



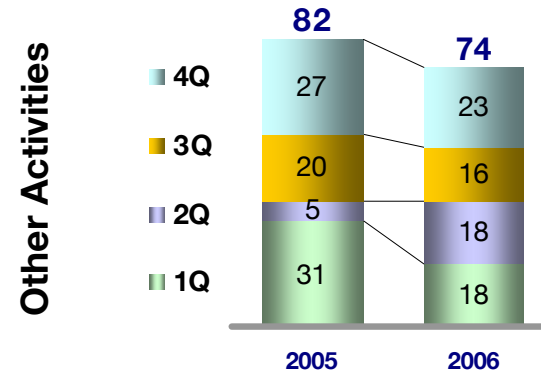
- Volume and tariff effect (+101mn)
- Change in perimeter (+68mn)
- One-offs (net) (+13mn)



- Exchange rate effect (+18mn)



- Dispatching (+27mn)
- Measure (+8mn)



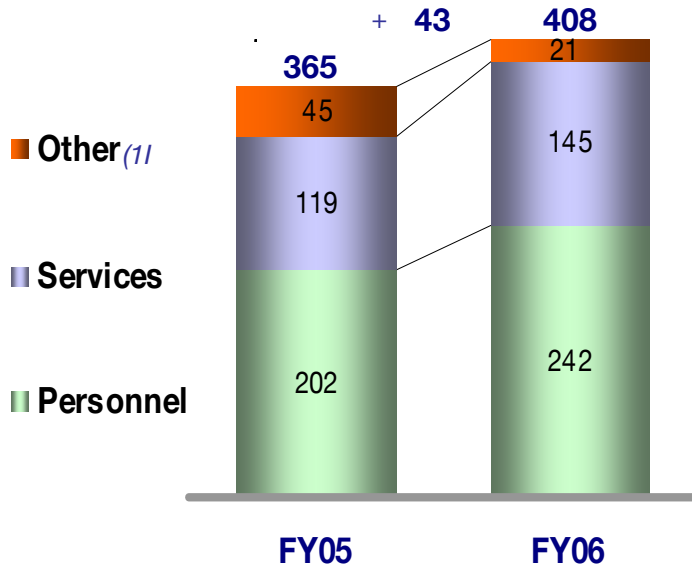
- MIND: 2005 positive one-off (35mn) reversed from 2Q-3Q-4Q05 and reclassified under Grid Fee

FY 2006 Results

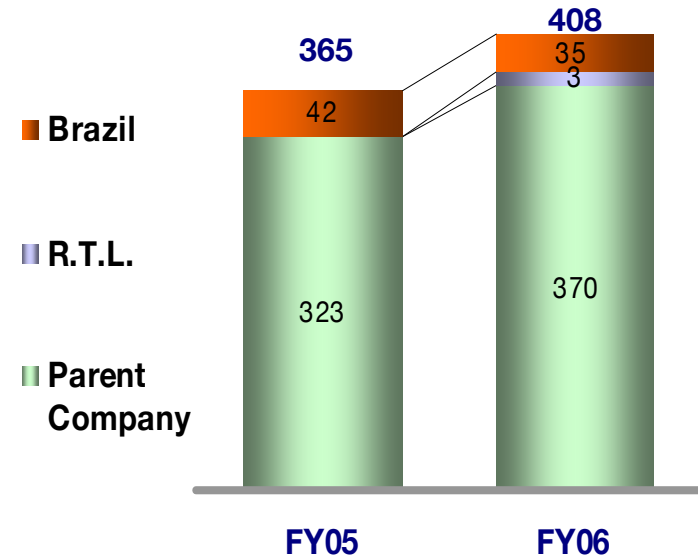
Operating Costs Breakdown

In mn Euro

By Nature



By Entity

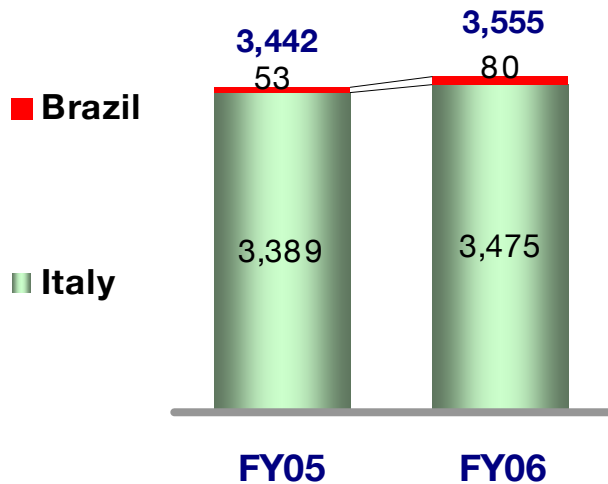


(1) Includes Raw Materials, Rental and Lease Expenses and Miscellaneous, net of Capitalized Costs

FY 2006 Results

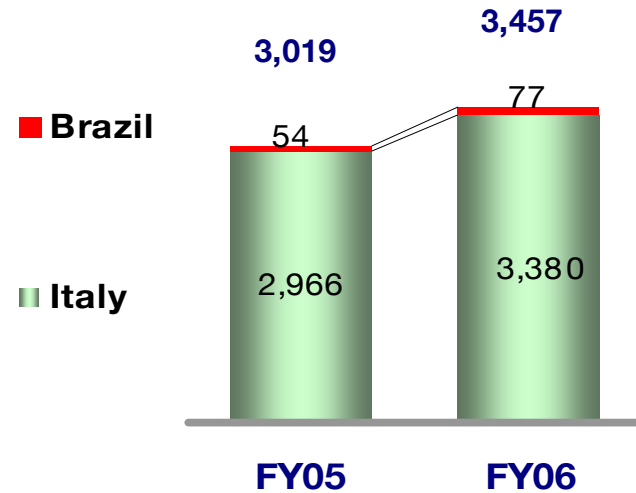
Operating Costs Breakdown

Final Headcount



- Italy: +86 \Rightarrow change in perimeter (+107); right-sizing (-21)
- Brazil: +27 \Rightarrow reorganisation + Munirah acquisition

Average Headcount



- Italy: +414 \Rightarrow change in perimeter
- Brazil: +23 \Rightarrow change in perimeter

FY 2006 Results

In mn Euro

Income Statement

Consolidated ⁽¹⁾		Change			Consolidated		Change	
4Q06	4Q05	mn	%		FY06	FY05	mn	%
169	164	5	3.1%	EBITDA	900	717	183	25.6%
64	52	13	24.1%	D&A	212	175	37	21.3%
105	112	-7	-6.6%	EBIT	688	542	146	27.0%
-5	23	-28	-120.8%	Financial (Income) Charge	69	80	-12	-14.5%
39	26	13	51.0%	Taxes	249	163	86	52.4%
35.7%	29.1%			Tax rate (%)	40.2%	35.4%		
70	63	7	11.6%	Total Net Income	370	298	72	24.1%
4	0	4	100.0%	Minority Interest	4	0	4	100.0%
67	63	4	6.0%	Group Net Income	366	298	68	23.0%

(1) Numbers for the 4Q are not audited

FY 2006 Results

Net Interest Expenses

In mn Euro

	FY06	FY05	Change
Financial Income	22	20	2
Exchange Rate Difference	5	17	-12
Total Income	28	37	-10
Interest due on M/L Term Loans	118	110	9
Other	9	8	1
Total Charges	128	117	10
Net Interest Expenses before Extraordinary Items	100	80	20
Net Effect From Brazilian IPO	31	0	31
Net Interest Expenses	69	80	-12

FY 2006 Results

Capex Breakdown

In mn Euro

	FY06	FY05	Change	%
8.7% Remuneration- Development	197	173	24	14%
6.7% Remuneration	148	90⁽¹⁾	58	64%
- Maintenance	65	62	3	
- Other	83	28	55	
TOTAL ITALY	346	263	82	31%
TOTAL BRAZIL	7	9	-2	-25%
TOTAL CAPEX	353	273⁽¹⁾	80	29%

Main projects either executed or in progress

(1) Including 1.6mn related to intangible fixed assets

FY 2006 Results

Key Balance Sheet Items

In mn Euro

	FY06	FY05	Change
Assets			
PP&E	5,159	4,646	513
Intangible asset, net	299	306	-7
Financial Inv. And Other	13	13	-1
Total Fixed Assets	5,471	4,966	505
Net WC	-412	-179	-233
<i>of which related to energy items</i>	<i>-140</i>	<i>6</i>	<i>-146</i>
Funds	-618	-616	-2
Net Invested Capital	4,442	4,171	271
Financed by:			
Net Debt	2,283	2,269	14
Total Shareholder's Equity	2,159	1,902	257
<i>Terna Group</i>	<i>2,009</i>	<i>1,902</i>	<i>107</i>
<i>Minorities</i>	<i>150</i>	<i>0</i>	<i>150</i>
D/E ratio	1.06	1.19	-0.14

FY 2006 Results

Cash Flow

In mn Euro

	FY06	FY05
Net Income	370	298
Depreciation ⁽¹⁾	212	177
Net Change in Funds	2	19
Operating Cash Flows	584	493
Change in WC	233	-22
<i>of which related to energy items</i>	146	-6
Cash Flow from Operating Activities	817	472
Capital Expenditures	-353	-273
Other Fixed Asset Changes	-389	-244
Free Cash Flow ⁽²⁾	75	-45
Dividends	-266	-240
Change in Capital	145	0
Change in Financial Position ⁽²⁾	-45	-285

(1) Net of assets disposals

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

FY 2006 Results

Financial Structure

Financial Ratios

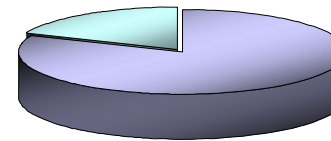
	2006	2005
Net Debt (€mn)	2,283	2,269
Avg. Maturity (yrs) ⁽¹⁾	12.1	12.8

LT Debt Ratings

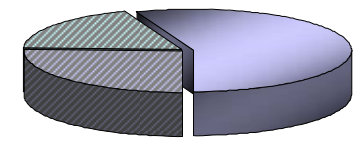
S&P's	AA-	AA-
Moody's	Aa3	Aa3
Fitch	AA	<i>not rated</i>

Debt Breakdown

Currency

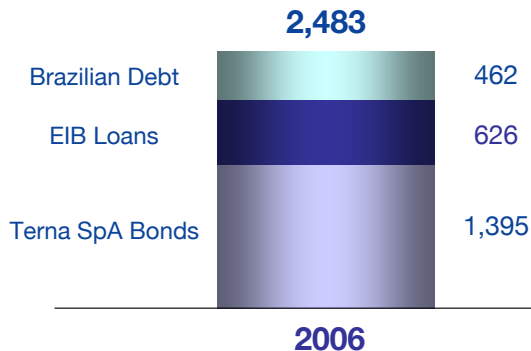


Fixed/Floating mix



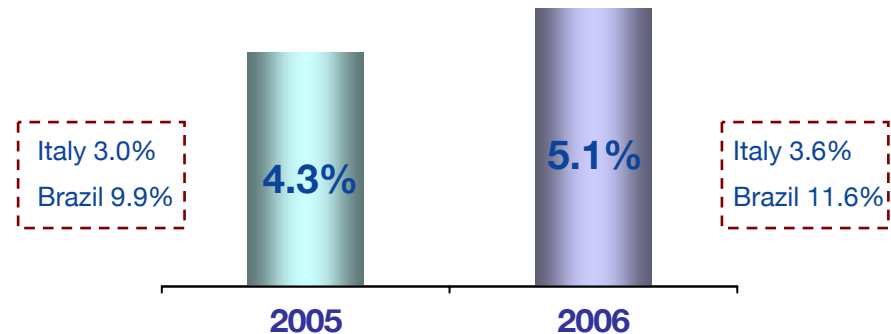
	Floating	Fixed
Italian	31%	69%
Group	44%	56%

Gross Debt by Instrument (€mn)



(1) Calculated on the average price of December

Average Cost of Debt



Agenda

Highlights

FY06 Results

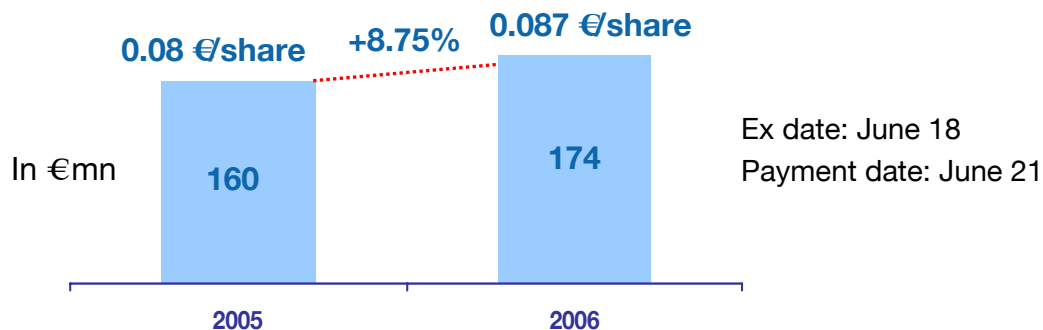
Dividends and Closing Remarks

Annexes

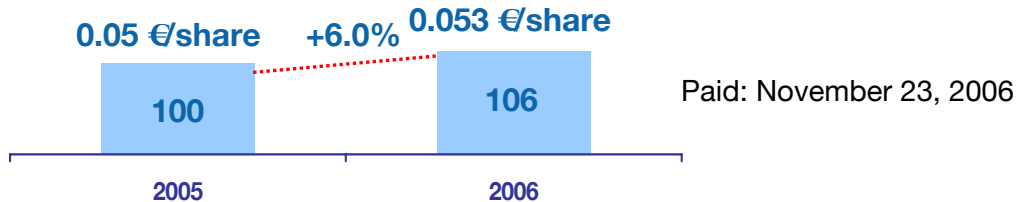
Closing Remarks

Dividends

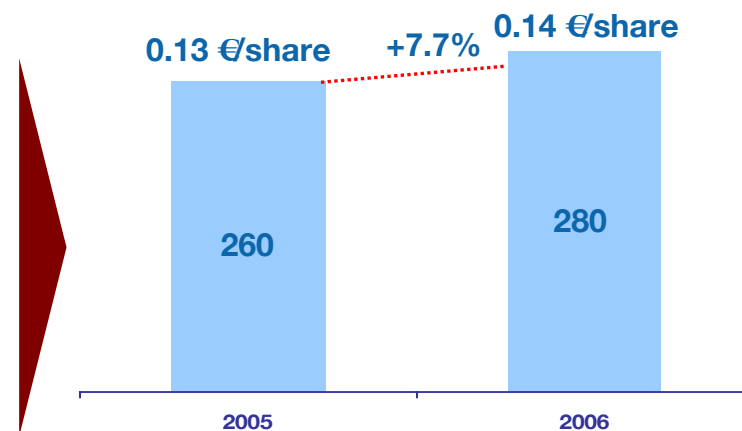
Final



Interim



Total



DPS06: growth >2x the minimum guaranteed

Closing Remarks

Looking Ahead ...

ITALY

- Regulatory review is our main priority
- Progress towards the unification of the Grid

BRAZIL

- Government Plan for new infrastructure projects reinforced

INTERNATIONAL

- Constant monitoring of areas with high potential

Agenda

Highlights

FY06 Results

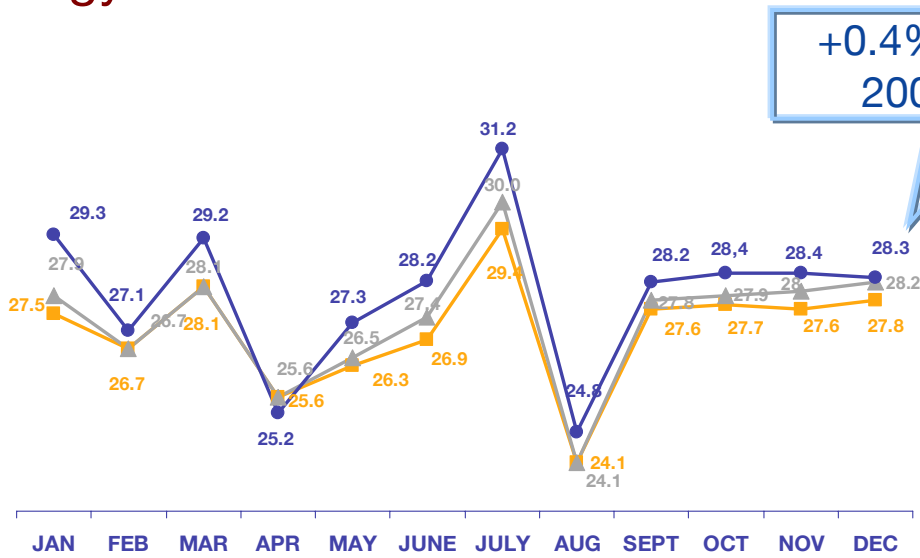
Dividends and Closing Remarks

Annexes

Italian Electricity Market Evolution

TWh

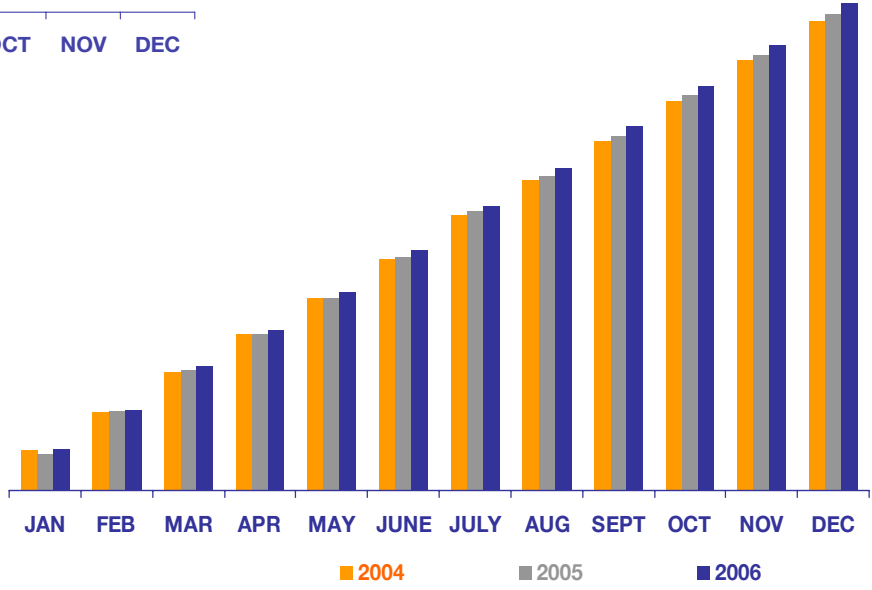
Energy Demand



Monthly Trend

+2.2% vs 2005

Cumulated Trend



FY 2006 Results

Consolidated – Quarterly Analysis (IAS) ⁽¹⁾

In mn Euro

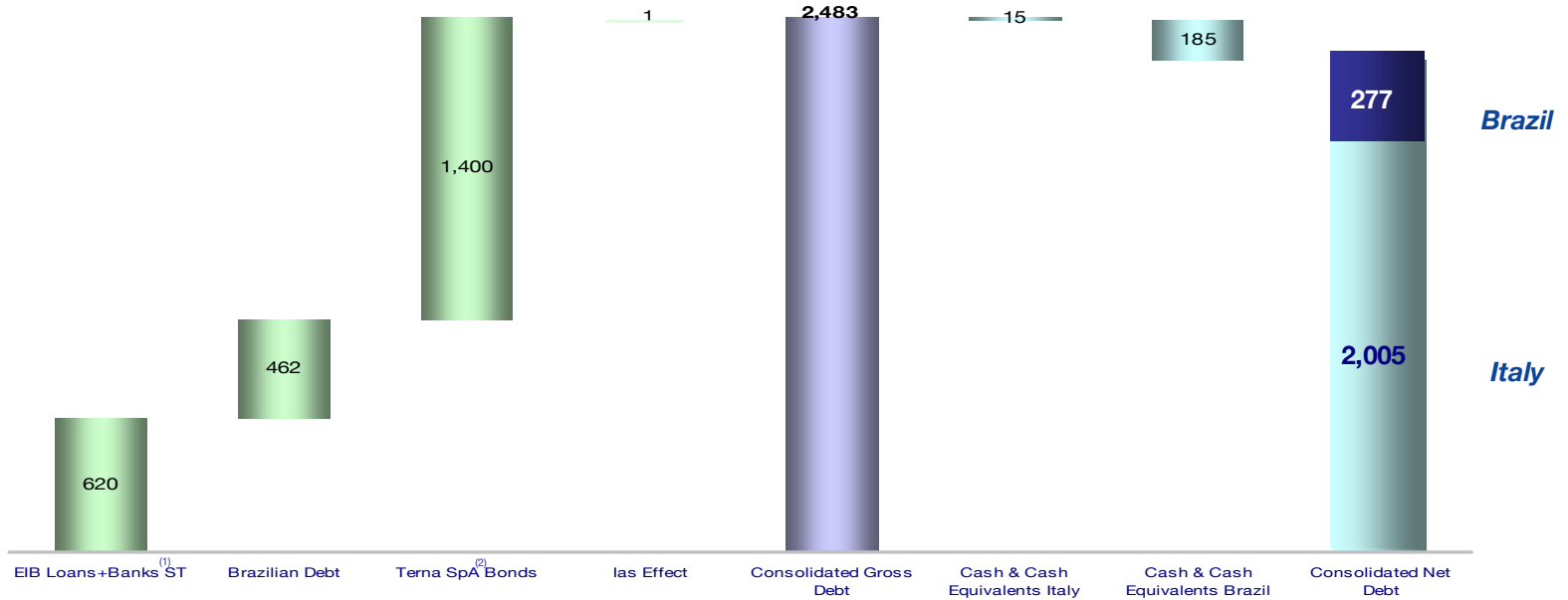
	1Q06	1Q05	Change	2Q06	2Q05	Change	3Q06	3Q05	Change	4Q06	4Q05	Change
Operating Revenues	307	254	53	352	246	106	338	285	53	312	297	14
<i>Grid Fee</i>	230	187	43	280	205	75	264	221	43	232	210	22
<i>Other Energy Items</i>	10	-	10	10	-	10	10	-	10	11	7	4
<i>Regulated Activities in Brazil</i>	49	36	13	44	36	8	48	45	3	46	53	-7
<i>Other Activities</i>	18	31	-13	18	5	13	16	20	-4	23	27	-4
Operating Expenses	89	72	17	92	80	12	84	80	4	143	134	9
EBITDA	217	182	35	260	166	94	254	205	49	169	164	5
<i>Italy</i>	180	154	26	221	136	86	212	168	43	135	130	5
<i>Brazil</i>	37	28	10	39	31	9	42	36	6	33	34	-0
D&A	49	40	8	50	41	9	49	42	8	64	52	13
EBIT	169	141	27	210	125	85	204	163	41	105	112	-7
Financial (Income) Charge	19	25	-6	28	18	10	27	14	13	-5	23	-28
Taxes	60	46	13	82	37	45	68	54	14	39	26	13
Net Income (Group and minority interests)	90	70	20	99	70	29	109	95	15	70	63	8
Minority Interest										4	-	4
Group Net Income										67	63	4

(1) Numbers for the 4Q are not audited

FY 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	(21)
Change in Financial Position	45
Δ Exchange Rates	(11)
Net Debt 31/12/06	2,283
Change in Net Debt	+14

(1) EIB (European Investment Bank) Loans

(2) No recourse project finance debt

FY 2006 Results

TERNA Partecipações (IAS)

In mn Euro

€mn	FY06	FY05	Change
Operating Revenues	188	170	17
Operating Expenses ⁽¹⁾	35	42	-7
EBITDA	152	128	24
D&A	19	18	1
EBIT	133	111	23
Net Interest Expenses ⁽²⁾	38	61	-23
Taxes	36	9	27
Net Income	59	41	18
Net Invested Capital	642	611	31
Financed by			
Net Debt	277	408	-131
Shareholders' Equity	365	203	162

(1) Net of capitalized costs

(2) Of which Interest on Equity for 29mn euro in FY 2005

FY 2006 Results

TERNA Participações (BRL\$)

	IAS			Brazilian GAP		
	FY06	FY05	Change	FY06	FY05	Change
Operating Revenues	513	517	-5	500	460	40
Operating Expenses	97	128	-31	64	66	-1
EBITDA	416	389	27	436	395	42
D&A	52	54	-2	66	71	-5
EBIT	364	335	29	371	324	46
Net Interest Expenses	105	185	-80	126	189	-64
Taxes	99	27	72	99	27	73
Net Income	160	123	37	146	108⁽¹⁾	38
Net Debt	780	1,120	-339	786	1,126	-340

(1) Net income FY05 net of Interest on Equity

FY 2006 Results

Exchange Rates

	FY06	FY05
Closing Rate Euro/BRL\$	2.81	2.74
Average Rate for the Period	2.73	3.03
IGPM	3.85%	1.21%

Impacts on: (€mn)

FY06

FY06 vs FY05

EBIT	14
Net Financial Interests	4
Net Income	3

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