9M06 Consolidated Results

Flavio Cattaneo – Chief Executive Officer

Fabio Todeschini – Chief Financial Officer

November 8th, 2006

Terna
Rete Elettrica Nazionale

Highlights

9M06 Results

- EBITDA +32%, EBIT +36%, Net Income +28%
- Capex:+41%
- Electricity Demand Jan-Sept06: +2.5% (253 TWh)

Strategic Update

- Steps forward in the consolidation of the Italian Grid
  - Agreed acquisition of Edison Rete and AEM Trasmissione
- TERNA Participações IPO successfully closed

Outlook

- Confirmed positive stance on FY2006
- 2007 transmission tariffs already available

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Strategic Update

Consolidation of the Grid

- On October 16, Terna signed the agreements for the acquisition of:
  - 100% of Edison Rete (4.2% of the National Grid), for a price of 304mn euro
  - 99.99% of AEM Trasmissione(1.5% of the National Grid), for a price of 116mn euro
- Closing subject to Antitrust Authority approval (expected by mid November)
- Economic and financial impacts
  - FY06 Net Debt: +420mn euro
  - Income Statement affected as of December 1, 2006

97.6% of the National Transmission Grid

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Note: for further details on the transactions, refer to the presentation commented by the Management on October 16th, 2006 (available on the website www.terna.it, investor relations section)

Strategic Update

IPO TERNA Participações S.A.

Price

- Price Range: 17-21 Reais/Unit
- Final Price: 21 Reais/Unit

Offering

- Initial Global Offering: 22,104,708 units
- Hot Issue: 20%
- Global Offering post Hot Issue: 26,525,736 units

Structure

- Global Offering: 557mn Reais (206mn euro)
  - Primary: 371mn Reais (137mn euro)
  - Secondary: 186mn Reais (69mn euro)

Greenshoe

- Up for a period of 30 days after listing

Dilution

Pre-greenshoe

- 30.3% on Total Share Capital
- 13% on Ordinary Shares

Post-greenshoe

- 34% on Total Share Capital
- 15% on Ordinary Shares

Note: 1 Unit represents 1 ordinary share and 2 preferred shares

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Operational Data and Quality of Service

Electricity Transmitted

GWh	9M06	9M05	%
Total Net Production	227,782	215,542	5.7%
Pumping consumption	6,473	6,861	-5.7%
Net Import/(Export)	31,200	37,661	-17.2%
Total Italian Demand	**252,509**	**246,342**	**2.5%**

Imports
- In peak hours: 12,661GWh
- In off-peak hours: 19,677GWh

Quality

Italy

	9M06	9M05
Availability of the system (%)	99.45%	99.40%
Average Interruption Time (Min/Year)	0.49	0.4

Brazil

	LTM 06	LTM 05
Availability of our facilities (%)		
TERNA Participações	99.99%	99.76%

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Income Statement

In mn Euro

Consolidated		Change			Consolidated		Change	
3Q06	3Q05	mn	%		9M06	9M05	mn	%
338	**285**	**53**	**18.6%**	**Operating Revenues**	**996**	**784**	**212**	**27.0%**
264	*221*	*43*	*19.6%*	*Grid Fee*	*773*	*613*	*161*	*26.2%*
10	*0*	*10*	*100.0%*	*Other Energy Items*	*31*	*0*	*31*	*100.0%*
48	*45*	*3*	*7.4%*	*Regulated Activities in Brazil*	*140*	*116*	*24*	*20.5%*
16	*20*	*-4*	*-20.0%*	*Other Activities*	*52*	*55*	*-4*	*-6.7%*
84	**80**	**4**	**5.1%**	**Operating Expenses**	**265**	**232**	**34**	**14.5%**
254	***205***	**49**	***23.9%***	**EBITDA**	**731**	**553**	**178**	***32.3%***
212	*168*	*43*	*25.6%*	*Italy*	*613*	*458*	*155*	*33.8%*
42	*36*	*6*	*16.6%*	*Brazil*	*119*	*95*	*24*	*25.2%*
75%	***72%***			***EBITDA Margin (%)***	***73%***	***70%***		
73%	*70%*			*Italy*	*72%*	*69%*		
88%	*81%*			*Brazil*	*84%*	*81%*		

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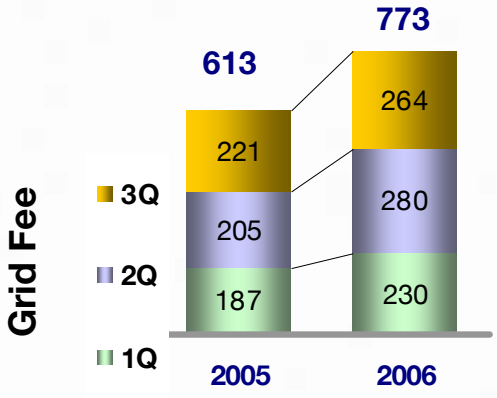
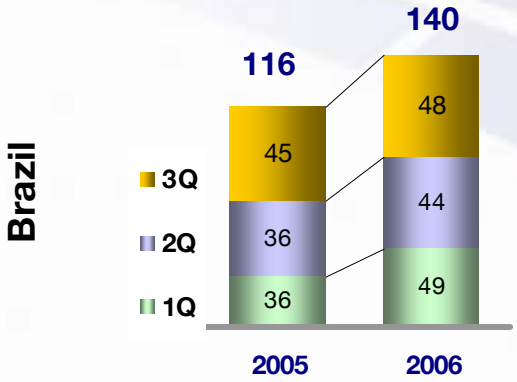
Revenues Breakdown

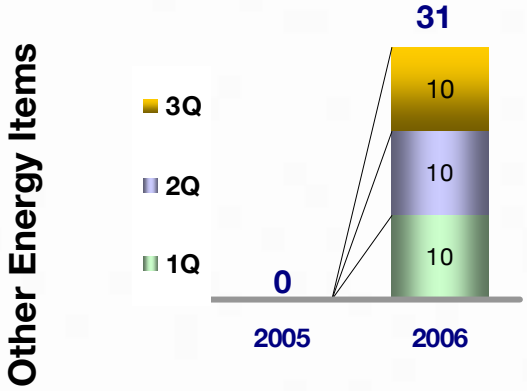
In mn Euro



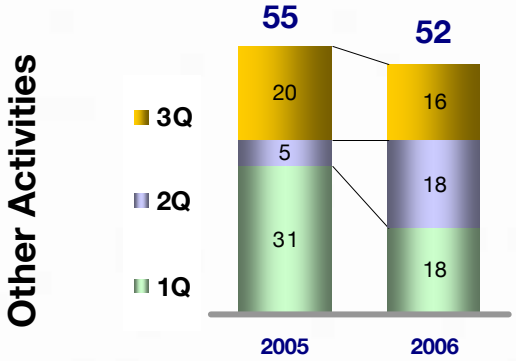
- Volume and tariff effect (+77mn)
- Change in perimeter (+56mn)
- One-offs (net) (+28mn)



- Exchange rate effect (+19mn)
- Tariffs Annual Adjustment (+5mn)



- Dispatching (24mn)
- Measure (7mn)



- MIND: 2005 positive one-off (19mn) reversed from 2Q-3Q05 and reclassified under Grid Fee

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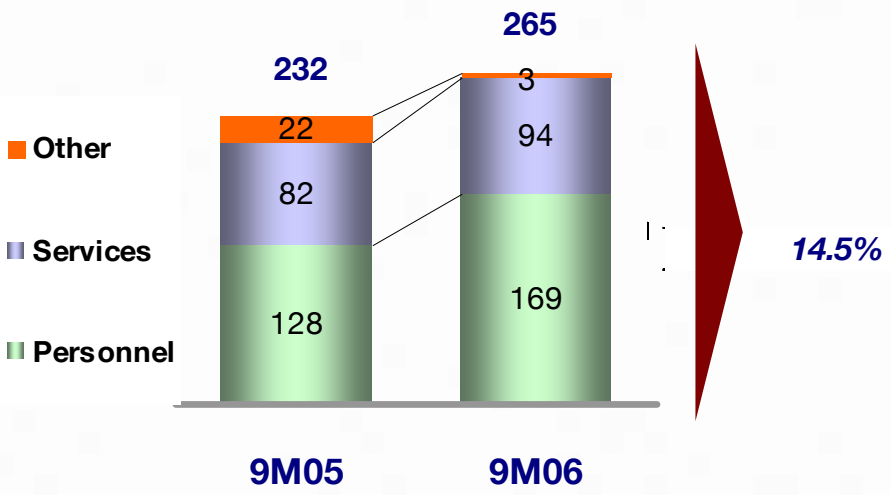
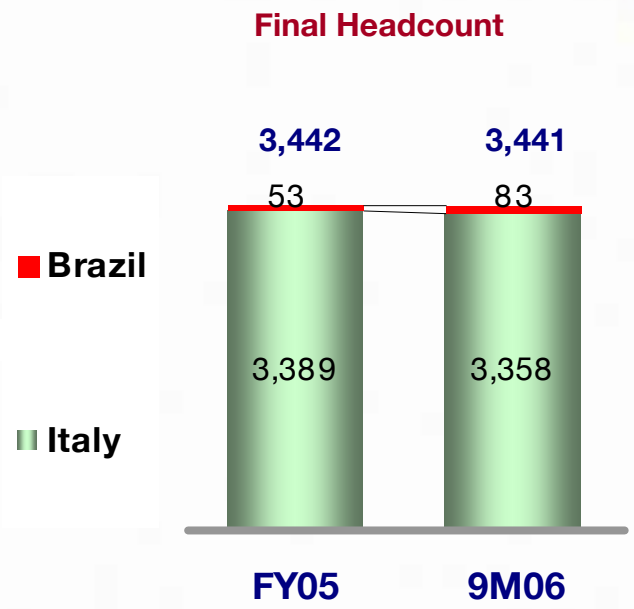
Operating Costs Breakdown

In mn Euro

Operating Costs



Personnel Evolution



- Increased cost efficiency despite the change in perimeter

- Group headcount (-1): 3,441
  - Italy: -31 ⇒ rightsizing programmes
  - Brazil: +30 ⇒ reorganisation + Munirah acquisition

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

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Income Statement

In mn Euro

Consolidated		Change			Consolidated		Change	
3Q06	3Q05	mn	%		9M06	9M05	mn	%
254	**205**	**49**	**23.9%**	**EBITDA**	**731**	**553**	**178**	**32.3%**
49	42	8	18.8%	D&A	148	123	25	20.2%
204	**163**	**41**	**25.3%**	**EBIT**	**583**	**429**	**154**	**35.7%**
27	14	13	89.4%	Net Interest Expenses	74	57	17	28.9%
68	54	14	25.2%	Taxes	210	138	73	52.7%
38.2%	*36.5%*			*Tax rate (%)*	*41.1%*	*36.9%*		
109	**95**	**15**	**15.6%**	**Net Income**	**299**	**235**	**64**	**27.5%**

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Capex Breakdown

In mn Euro

	9M06	9M05	Change	%
8.7% Remuneration- Development	**128**	**89**	***39***	***44%***
6.7% Remuneration	**70**	**51**	***19***	***36%***
- Maintenance	*43*	*40*	***4***	
- Other	*26*	*11*	***15***	
TOTAL ITALY	**197**	**140**	***57***	***41%***
TOTAL BRAZIL	**5**	**4**	***1***	***29%***
TOTAL CAPEX	**203**	**144**	***59***	***41%***

Capex spending in line with approved Development Plan

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9M 2006 Results

Key Balance Sheet Items

In mn Euro

	9M06	FY05	Change
Assets			
PP&E	4,727	4,646	81
Intangible asset, net	307	306	1
Financial Inv. And Other	13	13	-1
Total Fixed Assets	**5,048**	**4,966**	**82**
Net WC	(349)	(179)	-170
Funds	(628)	(616)	-12
Net Invested Capital	**4,071**	**4,171**	**-100**
Financed by:			
Net Debt	2,118 (1)	2,269	-151
Shareholder's Equity	1,953	1,902	51
D/E ratio	1.08	1.19	-0.11

(1) Including 106mn euro debt for the payment of Interim Dividend in November 2006

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9M 2006 Results

Cash Flow

In mn Euro

	9M06	9M05	FY05
Net Income	299	235	298
Depreciation [1]	148	124	177
Net Change in Funds	12	39	19
Operating Cash Flows	**459**	**398**	**493**
Change in WC	170	(3)	(22)
Cash Flow from Operating Activities	**629**	**394**	**472**
Capital expenditures	(203)	(144)	(273)
Other fixed asset changes	(44)	(20)	(244)
Free Cash Flow [2]	**383**	**230**	**(45)**
Dividends	(160)	(140)	(240)
Change in Capital	16	-	-
Change in Financial Position [2]	**239**	**90**	**(285)**

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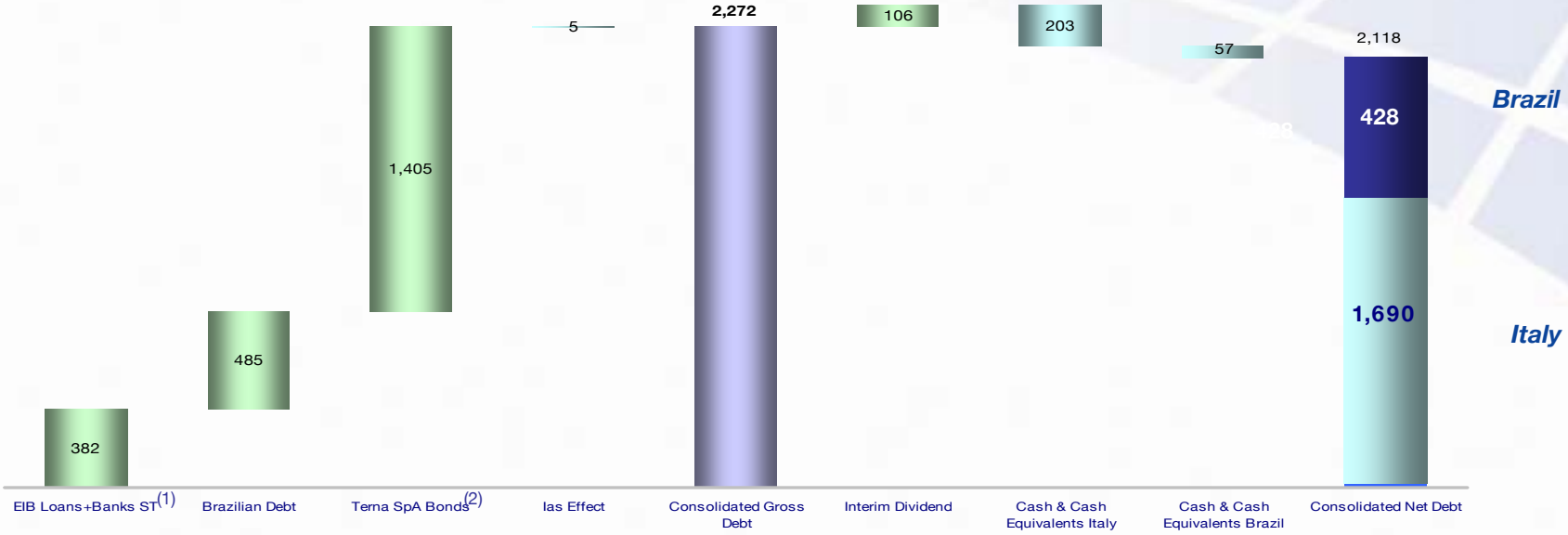
(1) Net of assets disposals
(2) Not including Δ €/$R exchange rates and Δ fair value on Bonds

9M 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	(16)
Change in Financial Position	(239)
Δ Exchange Rates	(2)
Net Debt 30/09/06	***2,012***
Interim Dividend Payment	***106***
Net Debt 30/09/06	***2,118***
Change in Net Debt	***-151***

LT Debt Ratings

S&P's: AA-

Moody's: Aa3

Fitch: AA

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(1) EIB (European Investment Bank) Loans

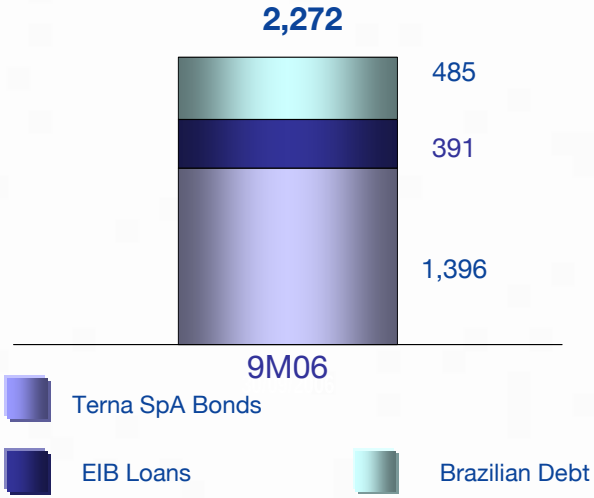
(2) No recourse project finance debt

9M 2006 Results

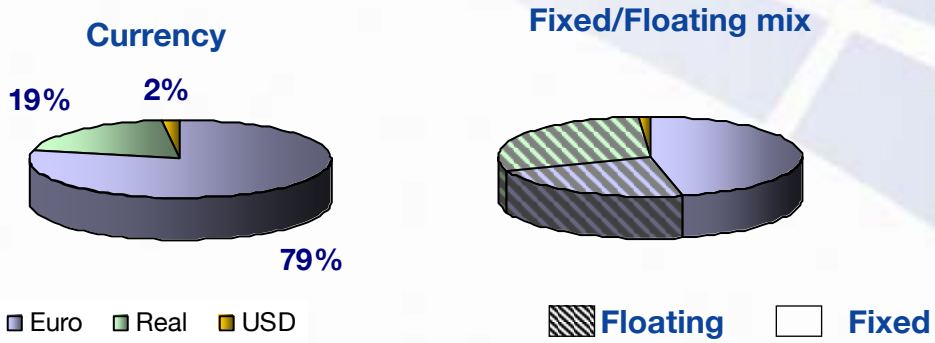
Gross Debt Structure- IAS

In mn Euro

Debt by Instruments (€ mn)

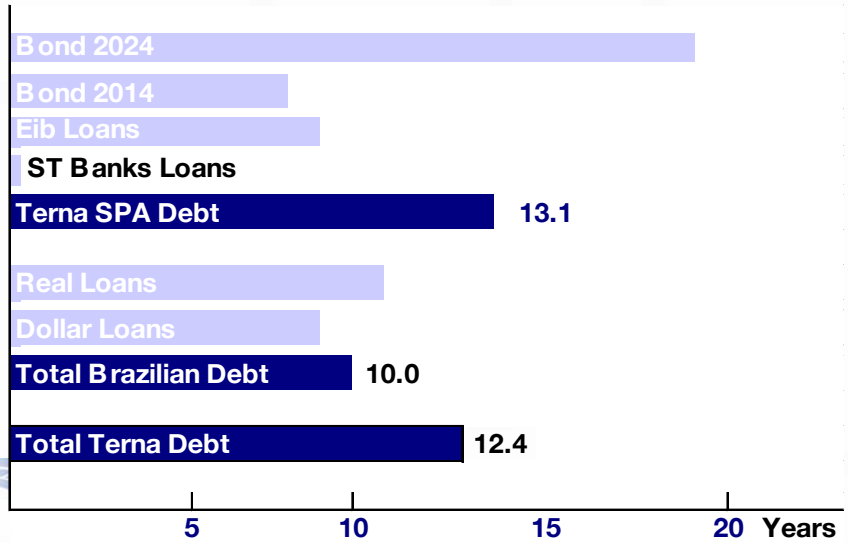


Debt Breakdown



	Floating	Fixed
Italian Debt	41%	59%
Cons. Debt	52%	48%

Average Maturity



Average Cost of Debt

Italy	3.6%
Brazil	11.7%
Terna Group	**5.2%**

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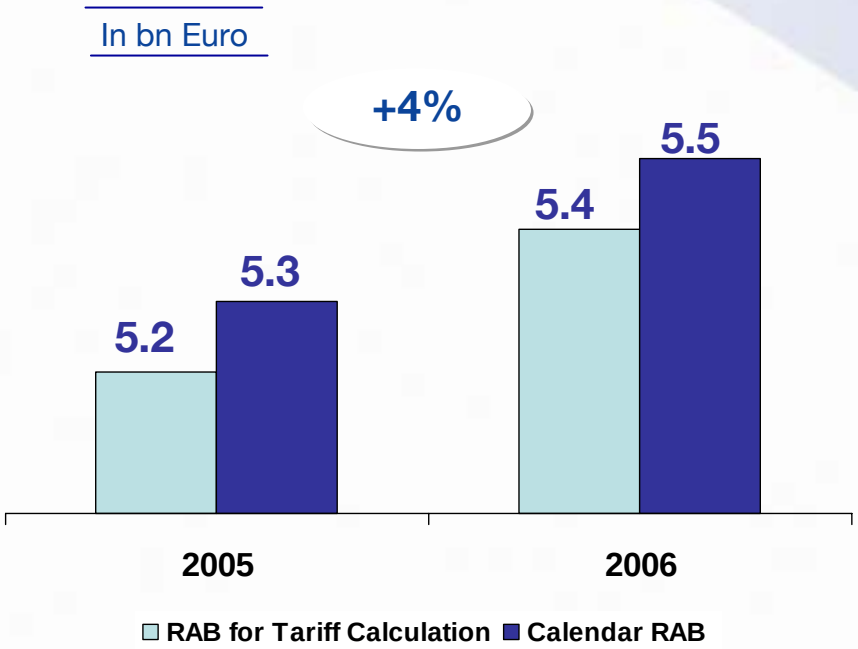
Outlook for 2007

2007 Transmission Tariffs

- The Authority has already published the tariffs for 2007 (AEEG resolution n° 203/06)
- Parameters adopted:
  - Inflation:
    - CPI: 1.9%
    - RAB deflator: 2.6%
  - Expected volume growth: 2.0%
- **New**: abolition of the so called "time bands"
  - Starting from 2007 one single tariff is applied all the time

RAB(1)



Good prospects for 2007 transmission tariffs

(1I Includes Terna SpA, RTL, TSO (Edison Rete and AEM Trasmissione not included)

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Closing Remarks

Promises Achieved

I 1Q06 we said :

Closing Remarks

Looking ahead, we are focused on:

- Successful completion of Brazilian IPO
- Unification of the Italian Grid
- Investments and development of the Grid
- Exploiting operational synergies

On track with our targets

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18

✓

✓

5.7% of the Grid out of 8%

+41% capex vs 9M05

Increased cost efficiency despite the change in perimeter

Remarkable Execution

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Next …

Mid November:	Payment of 2006 interim dividend (20 coupon date, 23 payment date)
End November:	Closing of Edison Rete/AEM Trasmissione acquisitions
Mid December:	Approval of the new National Development Plan for the 2007-2016 period - subject to further approval by the Ministry of Economic Development
Early 2007:	Announcement of 2007-2011 Business Plan
Ongoing:	- M&A in Italy - Growth opportunities in Brazil - International scouting - Proactive dialogue with the Regulator

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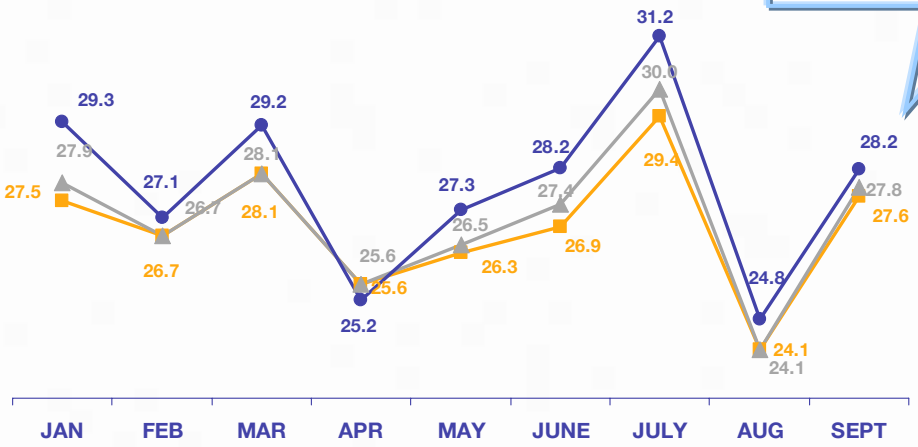
Italian Electricity Market Evolution

Energy Demand

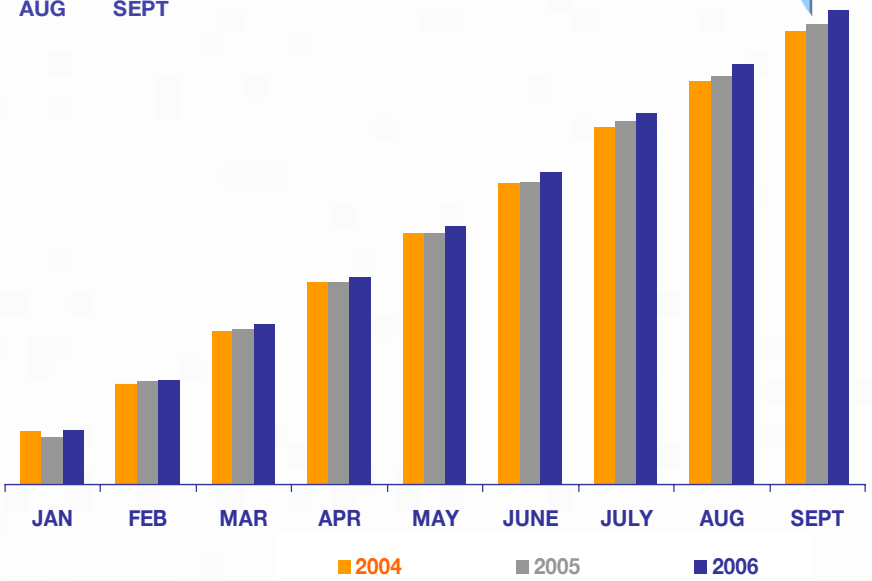
TWh

+1.4% vs 2005



Monthly Trend

+2.5% vs 2005



Cumulated Trend

Source: 2004 GRTN Annual Report; 2005, 2006 GRTN-TERNA monthly reports

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9M 2006 Results

Consolidated – Quarterly Analysis (IAS)

In mn Euro

	1Q06	1Q05	Change	2Q06	2Q05	Change	3Q06	3Q05	Change
Operating Revenues	**307**	**254**	**53**	**352**	**246**	**106**	**338**	**285**	**53**
Grid Fee	*230*	*187*	*43*	*280*	*205*	*75*	*264*	*221*	*43*
Other Energy Items	*10*	*-*	*10*	*10*	*-*	*10*	*10*	*-*	*10*
Regulated Activities in Brazil	*49*	*36*	*13*	*44*	*36*	*8*	*48*	*45*	*3*
Other Activities	*18*	*31*	*(13)*	*18*	*5*	*13*	*16*	*20*	*- 4*
Operating Expenses	**89**	**72**	**17**	**92**	**80**	**12**	**84**	**80**	**4**
EBITDA	**217**	**182**	**35**	**260**	**166**	**94**	**254**	**205**	**49**
Italy	*180*	*154*	*26*	*221*	*136*	*86*	*212*	*168*	*43*
Brazil	*37*	*28*	*10*	*39*	*31*	*9*	*42*	*36*	*6*
D&A	49	40	8	50	41	9	49	42	8
EBIT	**169**	**141**	**27**	**210**	**125**	**85**	**204**	**163**	**41**
Net Interest Expense	19	25	(6)	28	18	10	27	14	13
Taxes	60	46	13	82	37	45	68	54	14
Net Income	**90**	**70**	**20**	**99**	**70**	**29**	**109**	**95**	**15**

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9M 2006 Results

TERNA Participações (IAS)

In mn Euro

	9M06	9M05	9M06	9M05	Total 9M06	Total 9M05	Change
Revenues	**69**	**56**	**72**	**62**	**141**	**117**	**24**
Operating Expenses[1]	12	10	11	13	22	23	-1
EBITDA	**57**	**46**	**62**	**49**	**119**	**95**	**23**
EBIT	**51**	**41**	**54**	**41**	**105**	**82**	**23**
Net Interest Expenses[2]	15	15	15	22	31	37	-6
Taxes	13	11	14	5	28	16	12
Net Income	**22**	**14**	**25**	**15**	**46**	**29**	**18**
Net Invested Capital[3]	**396**	**266**	**306**	**346**	**703**	**611**	**92**
Financed by:							
Net Debt	233	197	194	211	428	408	20
Shareholders' Equity	78	69	154	135	221[4]	203	18

(1) Net of capitalized costs
(2) Of which Interest on Equity for 20mn euro in 9M 2005 for TSN and Novatrans
(3) 2005 Balance Sheet figures are as of December 31 2005
(4) Net of 10.3mn euro as Interim Dividend paid by in October and of 0.4 as net losses reported by Terna Participações

9M 2006 Results

Exchange Rates

	9M06	FY05	9M05
Closing Rate Euro/BRL$	2.74	2.74	2.67
Average Rate for the Period	2.72	3.03	3.15
IGPM	2.27%	1.20%	0.21%

Impacts on: (€mn)	9M06
9M06 vs 9M05	
EBIT	**14**
Net Financial Interests	**4**
Net Income	**6**

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Contact Us

Investor Relations Team:

Elisabetta Colacchia: +39 06 8313 8145

Antonio Russi: +39 06 8313 8328

Federica Perugini +39 06 8313 8127

Catherine Clara +39 06 8313 8106

investor.relations@terna.it

Visit our website at:

www.terna.it (Investor Relations)

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