

# FY06 Consolidated Results

Flavio Cattaneo – Chief Executive Officer

Fabio Todeschini – Chief Financial Officer

March 21<sup>st</sup>, 2007

# Agenda

## Highlights

FY06 Results

Dividends and Closing Remarks

Annexes

# Highlights

## 2006 at a Glance

Quality standard well above targets

Solid set of results ⇒ 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

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

**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

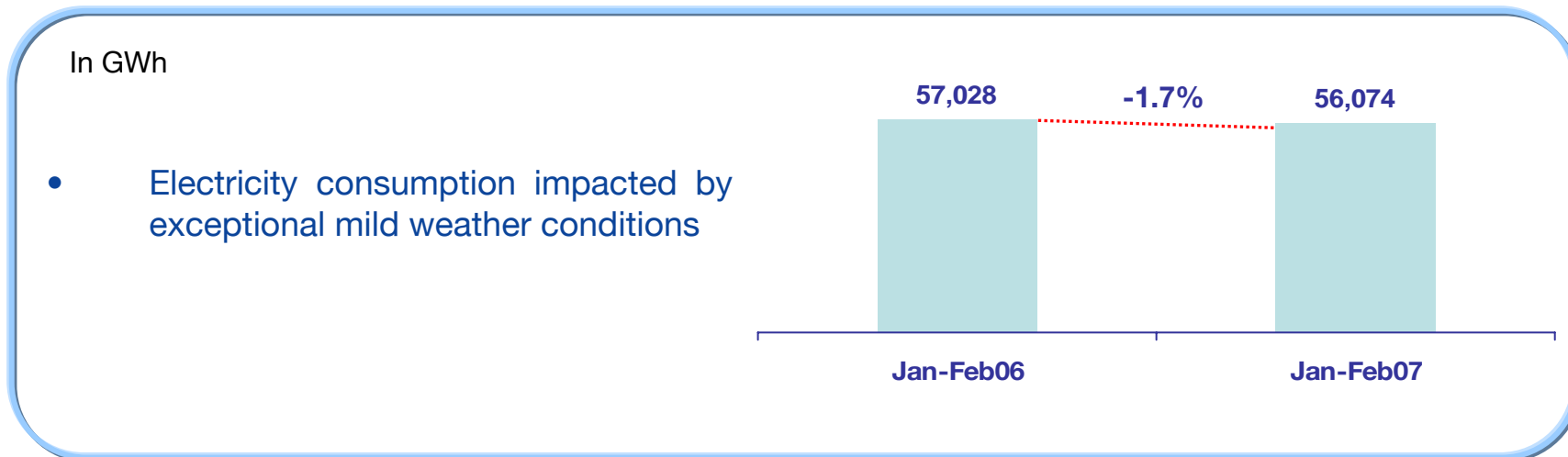
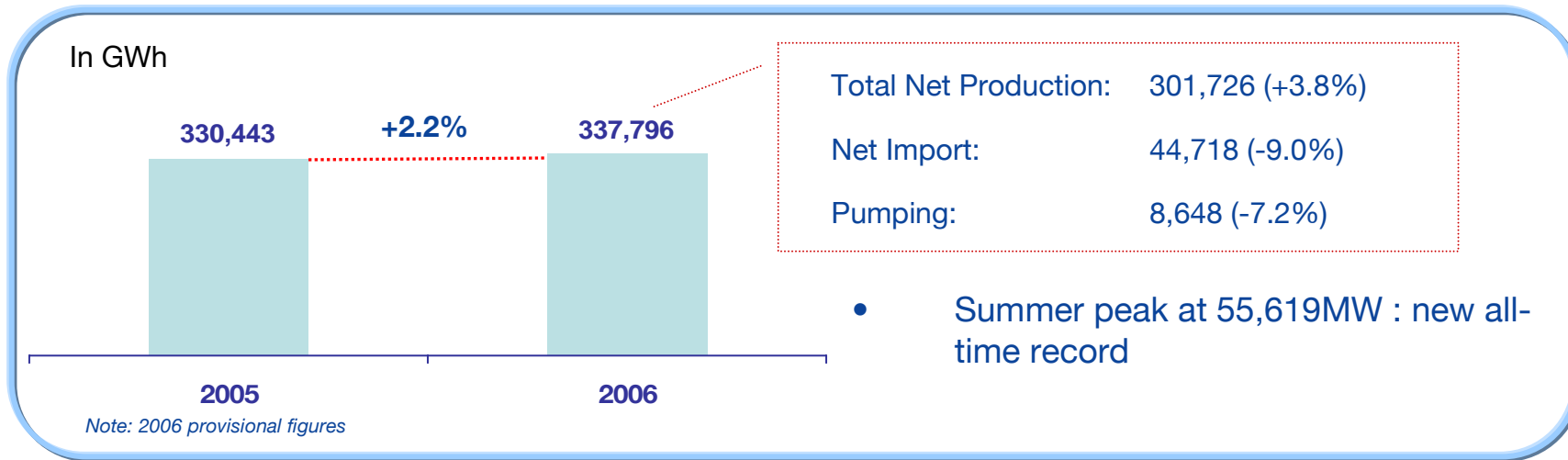
**FY06 Results**

Dividends and Closing Remarks

Annexes

# FY 2006 Results

## Electricity Demand



# FY 2006 Results

## Income Statement

In mn Euro

Consolidated		Change			Consolidated		Change	
4Q06	4Q05	mn	%		FY06	FY05	mn	%
<b>312</b>	<b>297</b>	<b>14</b>	<b>4.7%</b>	<b>Operating Revenues</b>	<b>1,308</b>	<b>1,082<sup>(1)</sup></b>	<b>226</b>	<b>20.9%</b>
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%
<b>143</b>	<b>134</b>	<b>9</b>	<b>6.7%</b>	<b>Operating Expenses</b>	<b>408</b>	<b>365</b>	<b>43</b>	<b>11.7%</b>
<b>169</b>	<b>164</b>	<b>5</b>	<b>3.1%</b>	<b>EBITDA</b>	<b>900</b>	<b>717</b>	<b>183</b>	<b>25.6%</b>
135	130	5	4.0%	Italy	748	589	159	27.1%
34	34	0	-0.6%	Brazil	152	128	24	18.9%
<b>54%</b>	<b>55%</b>			<b>EBITDA Margin (%)</b>	<b>69%</b>	<b>66%</b>		
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<sup>(1)</sup>

#### 2006

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

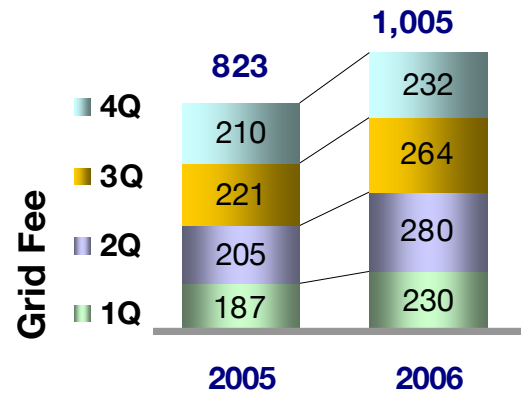
Note: RTL, former Acea Trasmissione; RTM1, former Edison Rete; RTM2: former AEM Trasmissione

(1) Reclassification made ex post in 2006

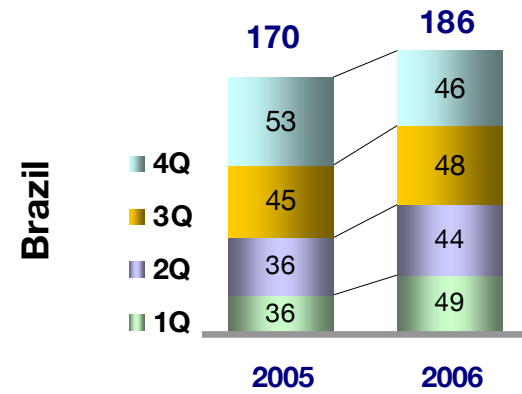
# FY 2006 Results

## Revenues Breakdown

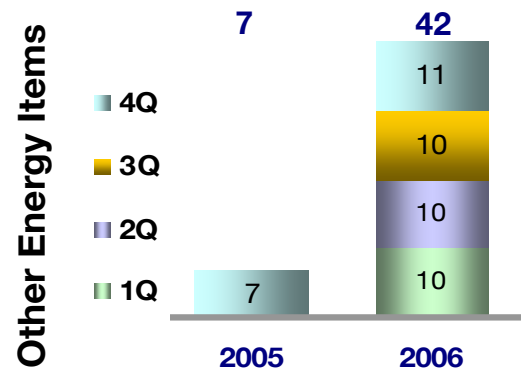
In mn Euro



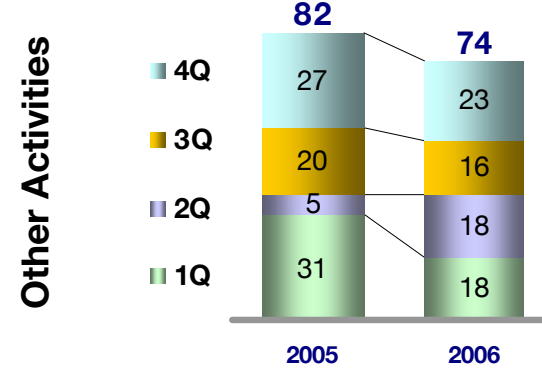
- Volume and tariff effect (+101mn)
- Change in perimeter (+68mn)
- One-offs (net) (+13mn)



- Exchange rate effect (+18mn)



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



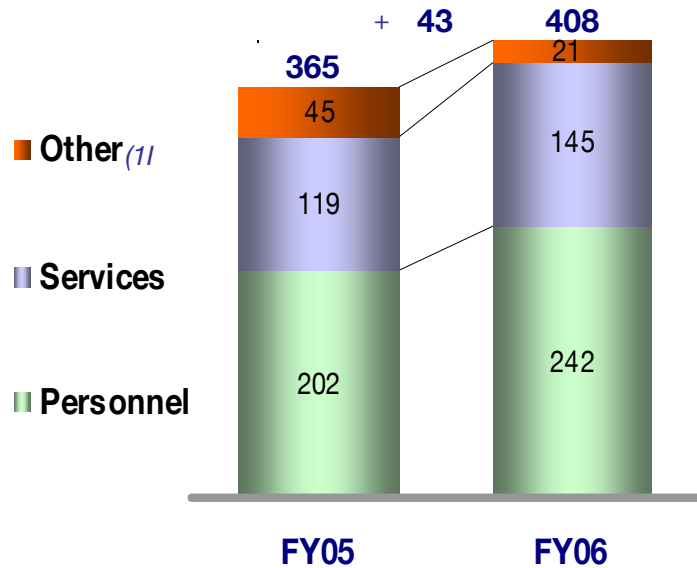
- MIND: 2005 positive one-off (35mn) reversed from 2Q-3Q-4Q05 and reclassified under Grid Fee

# FY 2006 Results

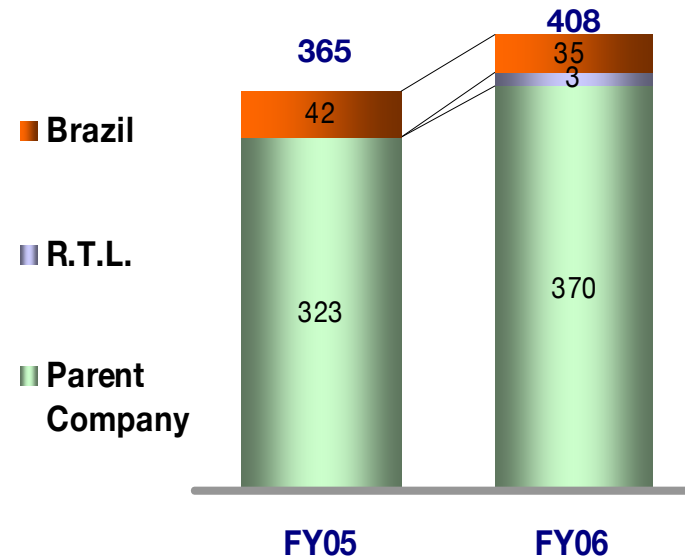
## Operating Costs Breakdown

In mn Euro

### By Nature



### By Entity

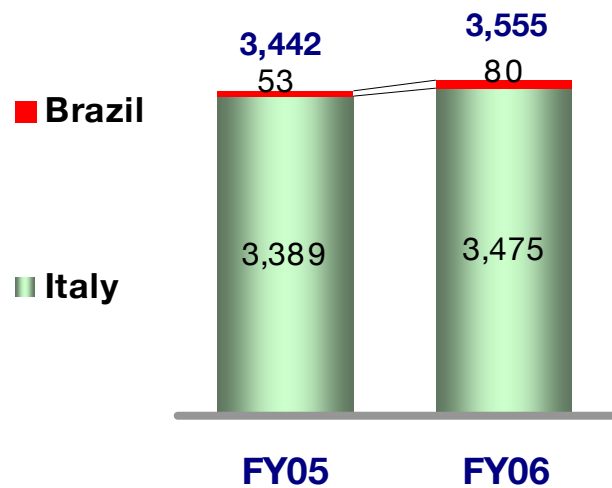


(1) Includes Raw Materials, Rental and Lease Expenses and Miscellaneous, net of Capitalized Costs

# FY 2006 Results

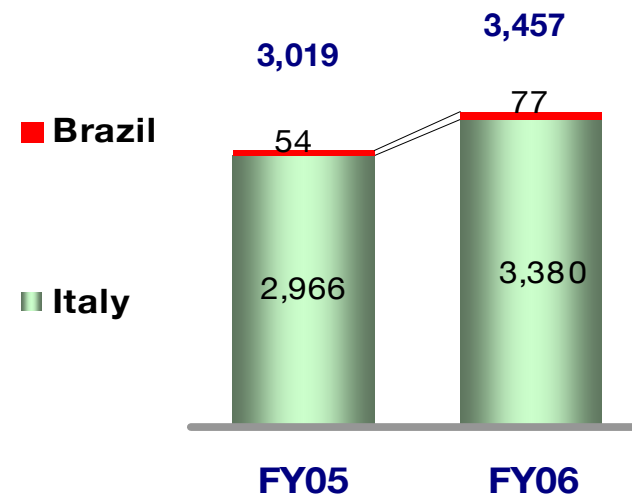
## Operating Costs Breakdown

### 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

## Income Statement

In mn Euro

Consolidated <sup>(1)</sup>		Change			Consolidated		Change	
4Q06	4Q05	mn	%		FY06	FY05	mn	%
169	164	5	3.1%	<b>EBITDA</b>	900	717	183	25.6%
64	52	13	24.1%	D&A	212	175	37	21.3%
105	112	-7	-6.6%	<b>EBIT</b>	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%	<b>Total Net Income</b>	370	298	72	24.1%
4	0	4	100.0%	Minority Interest	4	0	4	100.0%
67	63	4	6.0%	<b>Group Net Income</b>	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
<b>Total Income</b>	<b>28</b>	<b>37</b>	<b>-10</b>
Interest due on M/L Term Loans	118	110	9
Other	9	8	1
<b>Total Charges</b>	<b>128</b>	<b>117</b>	<b>10</b>
<b>Net Interest Expenses before Extraordinary Items</b>	<b>100</b>	<b>80</b>	<b>20</b>
Net Effect From Brazilian IPO	31	0	31
<b>Net Interest Expenses</b>	<b>69</b>	<b>80</b>	<b>-12</b>

# FY 2006 Results

## Capex Breakdown

In mn Euro

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

**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
<b>Assets</b>			
PP&E	5,159	4,646	513
Intangible asset, net	299	306	-7
Financial Inv. And Other	13	13	-1
<b>Total Fixed Assets</b>	<b>5,471</b>	<b>4,966</b>	<b>505</b>
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
<b>Net Invested Capital</b>	<b>4,442</b>	<b>4,171</b>	<b>271</b>
Financed by:			
Net Debt	2,283	2,269	14
<b>Total Shareholder's Equity</b>	<b>2,159</b>	<b>1,902</b>	<b>257</b>
<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 <sup>(1)</sup>	212	177
Net Change in Funds	2	19
<b>Operating Cash Flows</b>	<b>584</b>	<b>493</b>
Change in WC	233	-22
<i>of which related to energy items</i>	146	-6
<b>Cash Flow from Operating Activities</b>	<b>817</b>	<b>472</b>
Capital Expenditures	-353	-273
Other Fixed Asset Changes	-389	-244
<b>Free Cash Flow</b> <sup>(2)</sup>	<b>75</b>	<b>-45</b>
Dividends	-266	-240
Change in Capital	145	0
<b>Change in Financial Position</b> <sup>(2)</sup>	<b>-45</b>	<b>-285</b>

(1) Net of assets disposals

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

# FY 2006 Results

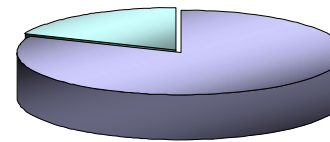
## Financial Structure

### Financial Ratios

	2006	2005
<b>Net Debt (€mn)</b>	<b>2,283</b>	<b>2,269</b>
Avg. Maturity (yrs) <sup>(1)</sup>	12.1	12.8
<b>LT Debt Ratings</b>		
S&P's	AA-	AA-
Moody's	Aa3	Aa3
Fitch	AA	<i>not rated</i>

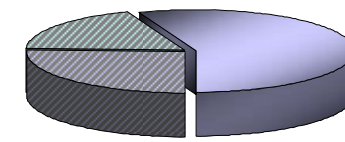
### Debt Breakdown

#### Currency



■ Euro ■ Real

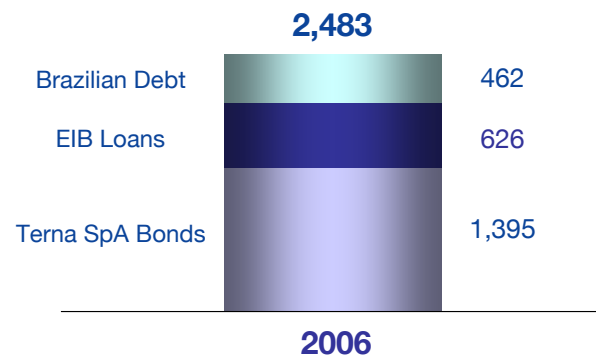
#### Fixed/Floating mix



▨ Floating □ Fixed

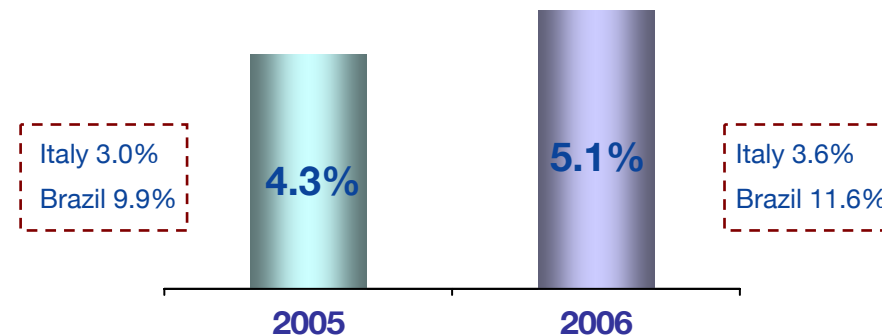
	31%	69%
<i>Italian</i>		
<i>Group</i>	44%	56%

### Gross Debt by Instrument (€mn)



(1) Calculated on the average price of December

### Average Cost of Debt



# Agenda

Highlights

FY06 Results

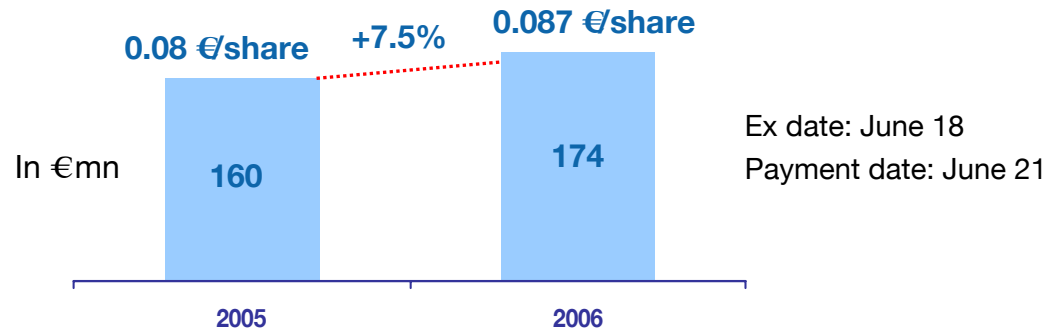
**Dividends and Closing Remarks**

Annexes

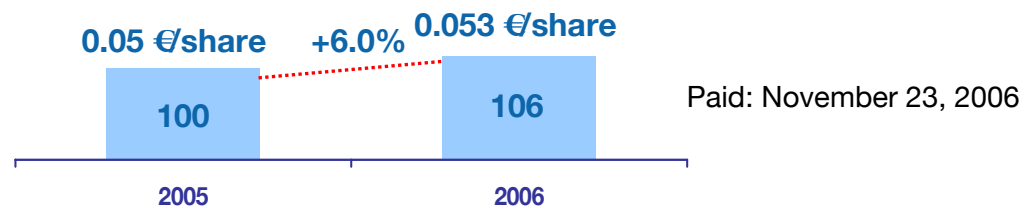
# Closing Remarks

## Dividends

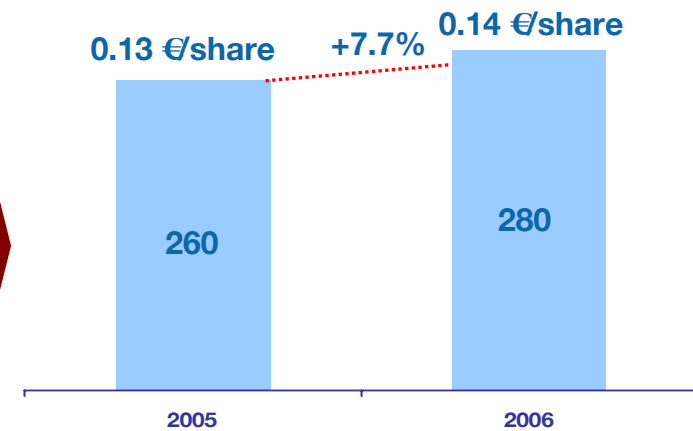
### Final



### 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

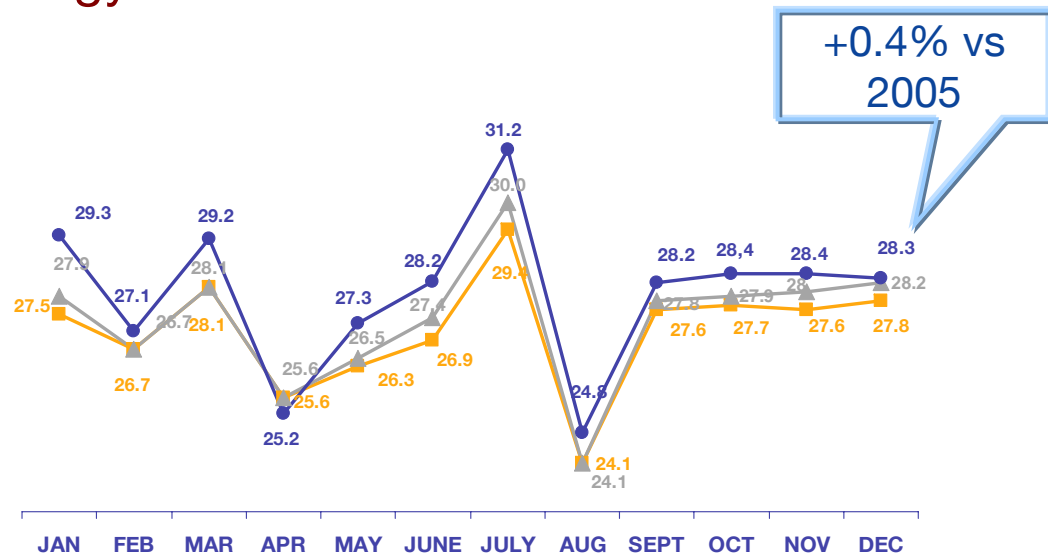
Dividends and Closing Remarks

**Annexes**

# Italian Electricity Market Evolution

## Energy Demand

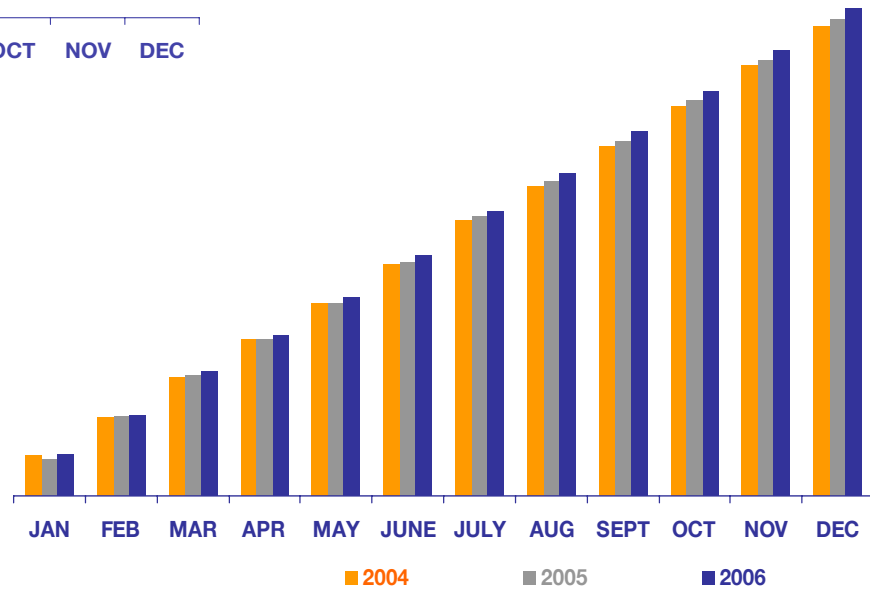
TWh



**Monthly Trend**

+2.2% vs 2005

**Cumulated Trend**



# FY 2006 Results

In mn Euro

## Consolidated – Quarterly Analysis (IAS)<sup>(1)</sup>

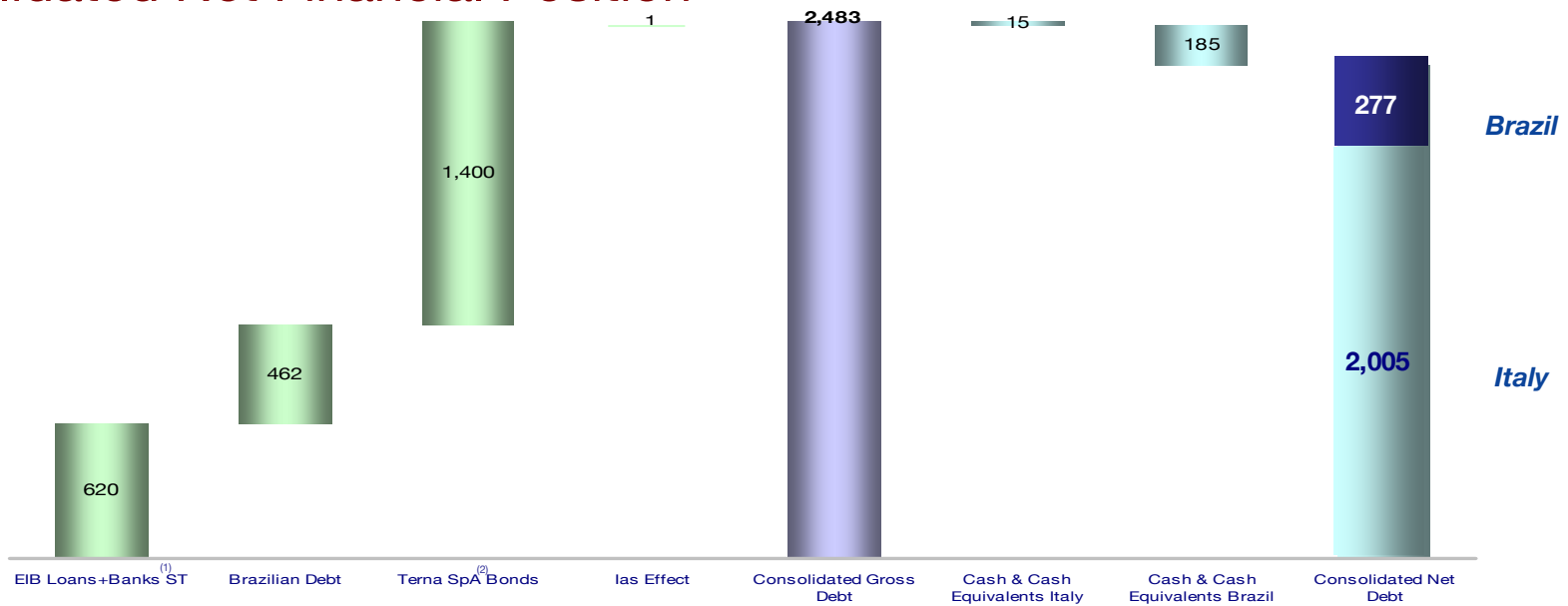
	1Q06	1Q05	Change	2Q06	2Q05	Change	3Q06	3Q05	Change	4Q06	4Q05	Change
<b>Operating Revenues</b>	<b>307</b>	<b>254</b>	<b>53</b>	<b>352</b>	<b>246</b>	<b>106</b>	<b>338</b>	<b>285</b>	<b>53</b>	<b>312</b>	<b>297</b>	<b>14</b>
<i>Grid Fee</i>	230	187	43	280	205	75	264	221	43	232	210	22
<i>Other Energy Items</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
<b>Operating Expenses</b>	<b>89</b>	<b>72</b>	<b>17</b>	<b>92</b>	<b>80</b>	<b>12</b>	<b>84</b>	<b>80</b>	<b>4</b>	<b>143</b>	<b>134</b>	<b>9</b>
<b>EBITDA</b>	<b>217</b>	<b>182</b>	<b>35</b>	<b>260</b>	<b>166</b>	<b>94</b>	<b>254</b>	<b>205</b>	<b>49</b>	<b>169</b>	<b>164</b>	<b>5</b>
<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
<b>EBIT</b>	<b>169</b>	<b>141</b>	<b>27</b>	<b>210</b>	<b>125</b>	<b>85</b>	<b>204</b>	<b>163</b>	<b>41</b>	<b>105</b>	<b>112</b>	<b>-7</b>
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
<b>Net Income (Group and minority interests)</b>	<b>90</b>	<b>70</b>	<b>20</b>	<b>99</b>	<b>70</b>	<b>29</b>	<b>109</b>	<b>95</b>	<b>15</b>	<b>70</b>	<b>63</b>	<b>8</b>
Minority Interest										4	-	4
<b>Group Net Income</b>										<b>67</b>	<b>63</b>	<b>4</b>

(1) Numbers for the 4Q are not audited

# FY 2006 Results

## Consolidated Net Financial Position

In mn Euro



### Change in Net Financial Position

<b>Net Debt 31/12/05</b>	<b>2,269</b>
Δ Fair value on Bonds and Derivatives	(21)
Change in Financial Position	45
Δ Exchange Rates	(11)
<b>Net Debt 31/12/06</b>	<b>2,283</b>
<b>Change in Net Debt</b>	<b>+14</b>

(1) EIB (European Investment Bank) Loans

(2) No recourse project finance debt

# FY 2006 Results

## TERNA Participações (IAS)

In mn Euro

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

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

(1) Net income FY05 net of Interest on Equity

# FY 2006 Results

## Exchange Rates

	<b>FY06</b>	<b>FY05</b>
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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