Terna
RETE ELETTRICA NAZIONALE

press release

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*Terna publishes for the first time a consolidated quarterly report following December 2003 acquisition of TSN and Novatrans.*
*In order to provide a more complete information on the activities, some key economic data related to the third quarter and the nine months 2003 have been reclassified on a pro forma basis to reflect the economic impact of Terna's equity reduction and of the acquisition of Brazilian subsidiaries as if they had occurred on January 1st, 2003.*

# TERNA: BOARD APPROVES RESULTS TO 30 SEPTEMBER, 2004

## First nine months 2004 showed strong growth vs. 2003

**Revenues at 786.8 million euro, + 23.3%**
**Ebitda at 538.2 million euro, + 26.2%**
**Ebit at 398 million euro, + 70.8%**
**Net profit at 181.5 million euro, +139.1%**

**Rome, 8 November 2004** – The Board of Terna, chaired by Fulvio Conti, today examined and approved the results for the third quarter and for the first nine months of 2004.

**Key consolidated results for the first nine months 2004** (euro millions)

| | 9M04 | 9M03 Pro-forma | Change |
|---|---|---|---|
| Revenues | 786.8 | 638.2 | +23.3% |
| EBITDA | 538.2 | 426.4 | +26.2% |
| EBIT | 398 | 233 | +70.8% |
| Net income | 181.5 | 75.9 | +139.1% |

The chairman **Fulvio Conti** commented: "With the excellent performance of the first nine months, reporting strong growth versus 2003, Terna demonstrates its ability to deliver outstanding results. We can confirm our positive outlook for the full year and our perspectives in terms of stable and significant value creation".

T.e.r.na. SpA
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Companies Register, Tax I.D. and VAT Code 05779661007 - R.E.A. 922416
Share Capital 440,000,000 Euro, fully paid-in
Management and Coordination by Enel SpA

In the first nine months 2004, consolidated **revenues** increased by 148.6 million euro (102.9 million euro for the Parent Company and 45.7 million euro for the subsidiaries), up by 23.3% compared with the 9M03 proforma. The increase, both for the nine months and for the third quarter, was essentially due to the higher revenues for the transport of electricity on the Italian and Brazilian grids (147.6 million euro in total).
With regards to the utilization fee for the Italian grid, revenues were affected by the seasonality effect introduced by the AEEG decision n. 05/04 which redefined the new tariffs for the regulatory period, operational since April. This factor will be partially offset during the last quarter of the year.

**Operating costs** amount to 248.6 million euro (223.2 million euro for the Parent Company and 25.4 million euro for the subsidiaries); they showed an increase of 17.4% (or 36.8 million euro) vs. the same period in 2003, reflecting the development of the activities during the period. In particular, they include higher costs associated to the IPO (about 10 million euro) and to the full operations of the Brazilian subsidiaries (ca. 12 million euro) and a non-recurring item related to a reversal of regulated revenues for the years 2002 and 2003 (for a total 15 million euro).

**EBITDA** amounted to 538.2 million euro vs. 426.4 million euro in 9M03 proforma, up by 26.2%. The Brazilian subsidiaries contributed 58.7 million euro compared with 24.9 million euro contribution in 9M03 proforma. EBITDA achieved a margin on sales of 68.4%, slightly higher than the one achieved over the same period last year (66.8%).

**EBIT** amounted to 398 million euro vs. 233 million euro in 9M03 proforma, up by 70.8%. EBIT benefits from lower depreciation for approximately 72 million euro, as a consequence of an extension of the useful life of the assets implemented at the end of 2003 (in the first nine months of 2003 the assets were still depreciated using the old depreciation rates).

**Group net income** amounted to 181.5 million euro, up by 139.1% compared with the same period in 2003, after having reported net financial costs of 63 million euro and income taxes of 139 million euro (of which net deferred taxes of 39.2 million euro).

**Investments** for the 9M04 amounted to about 213 million euro, of which 183.1 million euro for the Parent company ( vs. about 160 million euro in 9M03).

**Net invested capital** on 30 September 2004 stood at 3,519.2 million euro, slightly lower than the figure reported at 31 December 2003 (3,571.8 million euro). Total **Shareholders' equity** at the end of the period is 1,769.3 million euro (2,966.4 million euro on 31 December 2003) and **net financial debt** amounts to 1,749.9 million euro (605.4 million euro on 31 December 2003). The **debt-to-equity** ratio at the end of September 2004 stands at 0.99 (0.20 on 31 December 2003).

**Headcount** at the end of September 2004 stands at 2,958, an increase of 121 employees from 31 December 2003 (+4.2%); the figure reflects both the changes of the organizational structure required by the listing process and the new staff hired in the Brazilian subsidiaries to face their full operations.

## Third quarter 2004

**Key consolidated figures for the third quarter 2004** (euro millions)

| | Q3 2004 | Q3 2003 Pro-forma | Change |
|---|---|---|---|
| Revenues | 267.9 | 186.3 | +43.8% |
| EBITDA | 190.7 | 118.3 | +61.2% |
| EBIT | 144.8 | 55.7 | +160.0% |
| Net income | 79.3 | 16.6 | +377.7% |

**Revenues for the third quarter 2004** increased by 43.8%, from 186.3 million euro in 3Q03 pro-forma to 267.9 million euro in 3Q04.
The increase was essentially due to the utilization fee for the grid (81.1 million euro), mainly due to higher revenues for the transport of electricity on the Italian grid (66.6 million euro) and on the Brazilian grid (14.5 million euro), with Novatrans line fully operational.

**Operating costs for the period** amounted to 77.2 million euro (66.7 million euro for the Parent company and 10.5 million euro for the subsidiaries), up by 9.2 million euro or 13.5% vs. 3Q03 proforma, mainly reflecting the full start up of the Brazilian operations (+6.3 million euro).

**EBITDA**, rose by 61.2%, from 118.3 million euro pro-forma in the third quarter 2003 to 190.7 million euro in the first quarter 2004, an increase of approximately 72 million euro. In particular, the Ebitda of the Brazilian subsidiaries amounted to 21.7 million euro compared with 13.6 million euro in 3Q03 proforma.

**EBIT** amounted to 144.8 million euro vs. 55.7 million euro in 3Q03 proforma, an increase of 160% (approximately 89.1 million euro). EBIT benefits from lower depreciation for approximately 22 million euro, as a consequence of an extension of the useful life of the assets implemented at the end of 2003.

**Group net income** is at 79.3 million euro vs. 16.6 million euro registered in 3Q03 proforma, after having reported net financial costs of 14.1 million euro and income taxes of 50.6 million euro (of which net deferred taxes of 13.4 million euro).

**Investments** for the quarter totaled approximately 76 million euro, of which approximately 74 million euro related to the Parent company.

*At 6.00 pm (Italian time) a conference call will be held to illustrate the third quarter and the first nine months of 2004 results to financial analysts and institutional investors. Journalists will be able to listen into the call.*

*Support material for the conference call will be simultaneously available via Terna's website, www.terna.it, in the Investor Relations section.*

*The reclassified consolidated income statement and balance sheet follow*

## RECLASSIFIED CONSOLIDATED INCOME STATEMENT

| 3rd Quarter | | | | In millions of euro | First nine months | | | |
|---|---|---|---|---|---|---|---|---|
| 2004 | 2003 Proforma | Changes | | | 2004 | 2003 Proforma | Changes | |
| | | | % | | | | | % |
| | | | | Revenues: | | | | |
| 249.0 | 167.9 | 81.1 | 48.3 | Network usage fees | 729.2 | 581.6 | 147.6 | 25.4 |
| 15.0 | 15.5 | (0.5) | (3.2) | Other sales and services | 44.5 | 40.8 | 3.7 | 9.1 |
| 1.5 | 0.9 | 0.6 | 66.7 | Change in contract work in progress | 0.5 | 3.4 | (2.9) | (85.3) |
| 2.4 | 2.0 | 0.4 | 20.0 | Other income and revenues | 12.6 | 12.4 | 0.2 | 1.6 |
| **267.9** | **186.3** | **81.6** | **43.8** | **Total revenues** | **786.8** | **638.2** | **148.6** | **23.3** |
| | | | | Operating costs: | | | | |
| 42.4 | 40.4 | 2.0 | 5.0 | - Personnel costs | 122.3 | 122.9 | (0.6) | (0.5) |
| 28.8 | 24.7 | 4.1 | 16.6 | - Services and use of third party assets | 91.1 | 80.1 | 11.0 | 13.7 |
| 5.2 | 2.7 | 2.5 | 92.6 | - Materials | 12.3 | 9.8 | 2.5 | 25.5 |
| 6.8 | 3.9 | 2.9 | 74.4 | - Other costs | 38.0 | 12.1 | 25.9 | 214.0 |
| (6.0) | (3.7) | (2.3) | 62.2 | - Capitalized costs | (15.1) | (13.1) | (2.0) | 15.3 |
| **77.2** | **68.0** | **9.2** | **13.5** | **Total Operating Costs** | **248.6** | **211.8** | **36.8** | **17.4** |
| **190.7** | **118.3** | **72.4** | **61.2** | **GROSS OPERATING INCOME** | **538.2** | **426.4** | **111.8** | **26.2** |
| 40.4 | 62.0 | (21.6) | (34.8) | - Amortization and depreciation | 119.4 | 190.9 | (71.5) | (37.5) |
| 5.5 | 0.6 | 4.9 | 816.7 | - Accruals and write-downs | 20.8 | 2.5 | 18.3 | 732.0 |
| **45.9** | **62.6** | **(16.7)** | **(26.7)** | **Total Amortization, depreciation and write-downs** | **140.2** | **193.4** | **(53.2)** | **(27.5)** |
| **144.8** | **55.7** | **89.1** | **160.0** | **OPERATING INCOME** | **398.0** | **233.0** | **165.0** | **70.8** |
| (14.1) | (23.7) | 9.6 | (40.5) | - Net financial expenses | (63.0) | (80.2) | 17.2 | (21.4) |
| **130.7** | **32.0** | **98.7** | **308.4** | **INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES** | **335.0** | **152.8** | **182.2** | **119.2** |
| (0.8) | (0.9) | 0.1 | (11.1) | - Extraordinary items | (14.5) | (2.1) | (12.4) | 590.5 |
| **129.9** | **31.1** | **98.8** | **317.7** | **INCOME BEFORE TAXES** | **320.5** | **150.7** | **169.8** | **112.7** |
| 50.6 | 14.5 | 36.1 | 249.0 | - Income taxes | 139.0 | 74.8 | 64.2 | 85.8 |
| **79.3** | **16.6** | **62.7** | **377.7** | **NET INCOME** | **181.5** | **75.9** | **105.6** | **139.1** |

## RECLASSIFIED CONSOLIDATED BALANCE SHEET

In millions of euro

| | at Sept. 30, 2004 | At June 30, 2004 | Change | At Dec. 31, 2003 |
|---|---|---|---|---|
| **Net fixed assets** | | | | |
| - Tangible and intangible | 4,411.6 | 4,348.6 | 63.0 | 4,311.3 |
| - LT financial assets | 10.1 | 11.1 | (1.0) | 12.8 |
| **Total** | **4,421.7** | **4,359.7** | **62.0** | **4,324.1** |
| **Net current assets** | | | | |
| - Trade receivables | 159.4 | 184.2 | (24.8) | 226.7 |
| - Inventories | 37.1 | 33.5 | 3.6 | 34.9 |
| - Other assets | 32.0 | 31.4 | 0.6 | 19.7 |
| - Taxes payables, net | (73.3) | (39.7) | (33.6) | (40.1) |
| - Trade payables | (163.9) | (153.5) | (10.4) | (232.5) |
| - Other liabilities | (329.8) | (236.8) | (93.0) | (197.4) |
| **Total** | **(338.5)** | **(180.9)** | **(157.6)** | **(188.7)** |
| **GROSS CAPITAL EMPLOYED** | 4,083.2 | 4,178.8 | (95.6) | 4,135.4 |
| Provisions | | | | |
| - Employees termination indemnities | (64.2) | (63.6) | (0.6) | (70.7) |
| - Retirement benefits | (1.0) | (0.9) | (0.1) | (38.3) |
| - Net deferred taxes | (427.6) | (414.2) | (13.4) | (394.9) |
| - Other provisions | (71.2) | (68.8) | (2.4) | (59.7) |
| **Total** | **(564.0)** | **(547.5)** | **(16.5)** | **(563.6)** |
| **NET CAPITAL EMPLOYED** | 3,519.2 | 3,631.3 | (112.1) | 3,571.8 |
| Shareholders' equity - Group | 1,769.1 | 1.768,8 | 0,3 | 2.966,2 |
| Shareholders' equity - minorities interests | 0.2 | 0.2 | 0.0 | 0.2 |
| **Total Shareholders' equity** | **1,769.3** | **1,769.0** | **0.3** | **2,966.4** |
| **Total indebtedness** | **1,749.9** | **1,862.3** | **(112.4)** | **605.4** |