

2013  
2017

# STRATEGIC PLAN

FEBRUARY, 6<sup>TH</sup> 2013

LUIGI ROTH  
CHAIRMAN

FLAVIO CATTANEO  
CHIEF EXECUTIVE OFFICER

# Agenda

**Highlights**

**3**

**2013 - 2017 Strategic Plan**

**6**




**Annexes**

**19**

# Highlights

## 2012 Preliminary Figures

- **Another good year for Terna**
  - Double-digit growth in Revenues and EBITDA
  - **EBITDA contribution from Non Traditional Activities exceeded 60€mn**
  - A record year for EBITDA margin, above 76%
- **Capex rallied further**
- Net Debt in line with guidance

	FY 11	FY 12	
<b>Total Revenues</b>	1,636	>1,800	 ≈10%
<b>EBITDA</b>	1,230	>1,380	 >12%
<b>EBITDA Margin</b>	75%	>76%	
<b>Total Group Capex</b>	1,229	≈1,240	 ≈1%
<b>Net Debt</b>	5,123	<5,900	

# Highlights

Looking Ahead by Looking Behind

**Since 2005, delivered ...**

## ... for the Country

### Growth to pick up previous underinvestment

- ✓ 6.5€bn invested (annual Capex spending 2012= 5x 2005)
- ✓ RAB doubled

## ... for the Company

### Focus on margins

- ✓ Revenues CAGR +8%
- ✓ EBITDA CAGR +10%
- ✓ EBITDA margin from 66% to >76%

## ... for the Shareholders

### Rewarding Equity Story

- ✓ 2.5€bn of dividends distributed
- ✓ Risk averse attitude
- ✓ Value creation from M&A

# Highlights

## Update on Regulatory Framework

### Framework

- Regulator's green-light on projects eligible to incentives (resolution 40/2013)
- News flow on remuneration schemes on batteries due soon

### 2013 Grid Fee

#### Transmission

**~1.64** €bn

*Resolution 565/2012*

+

#### Dispatching

**~ 0.11** €bn

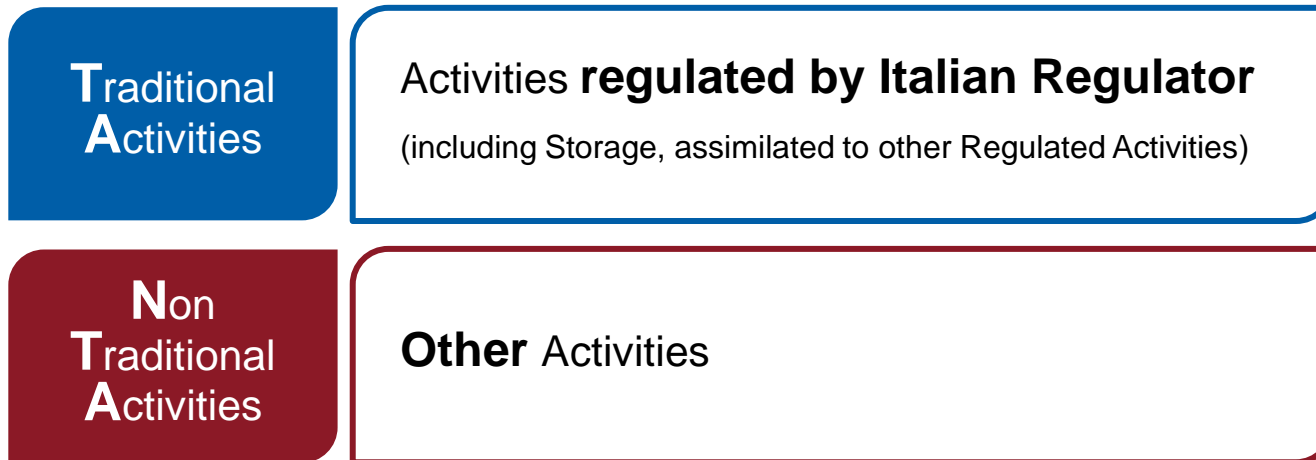
*Resolution 576/2012*

**Grid Fee 2013 1.75** €bn

# 2013-2017 Strategic Plan

## Strategic Overview

- Dual Strategy confirmed and fine-tuned



- Macro assumptions consistent with recent evolutions and trends
- Solidity and profitability in a low risk environment

# 2013-2017 Strategic Plan

## Targets

2012 Strategic Plan  
2016

<b>Growth</b>	<b>CAPEX</b>	4.1€bn o/w	3.8€bn Grid 0.3€bn Batteries	✓	Confirmed 4.1€bn
	<b>Tariff RAB CAGR</b>		7% area	✓	Confirmed 6.9%
	<b>Blended Return</b>		8% area	✓	Average Confirmed (despite WACC assumptions)
<b>Operational Efficiency</b>	<b>EBITDA Margin</b>		from >76% to >80%	↗	Enhanced Profile 75% ⇒ >80%
<b>Capital Structure</b>	<b>D/RAB</b>		< 60%	↗	Enhanced Profile <60%
	<b>Dividends</b>		$DPS = DPS_{TA} + Pay\ out_{NTA}$	✓	Confirmed
+					
<b>NTA</b>	<b>Entrepreneurial approach</b>		0.4€bn Pipeline 0.9€bn Potential 5yr Cumulated	✓	Enhanced visibility

# 2013-2017 Strategic Plan

## Growth – National Development Plan

2013

### Size

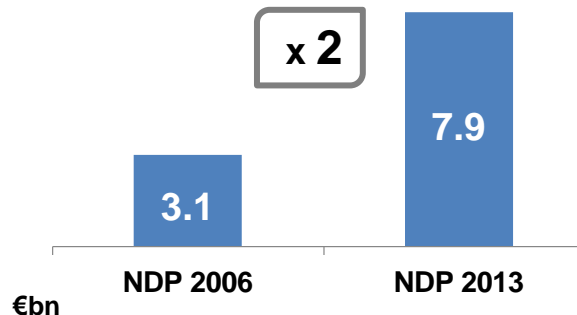
- **Confirmed** overall **capex** needs (7.9€bn)
- Roll-over effect combines **new needs of the system** and an **update of existing projects**

### Priorities

- **Increase Net Transfer Capacity**
- **Remove bottlenecks** between and within zones
- **Reduce congestions** created by renewable generation

2013  
vs  
2006

- **Doubled the efforts**





# 2013-2017 Strategic Plan

## Growth – Regulated Capex Plan

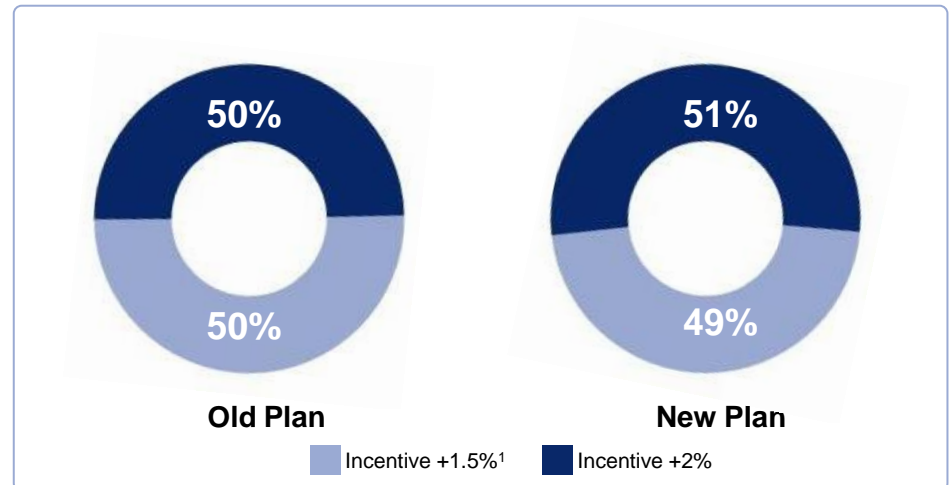
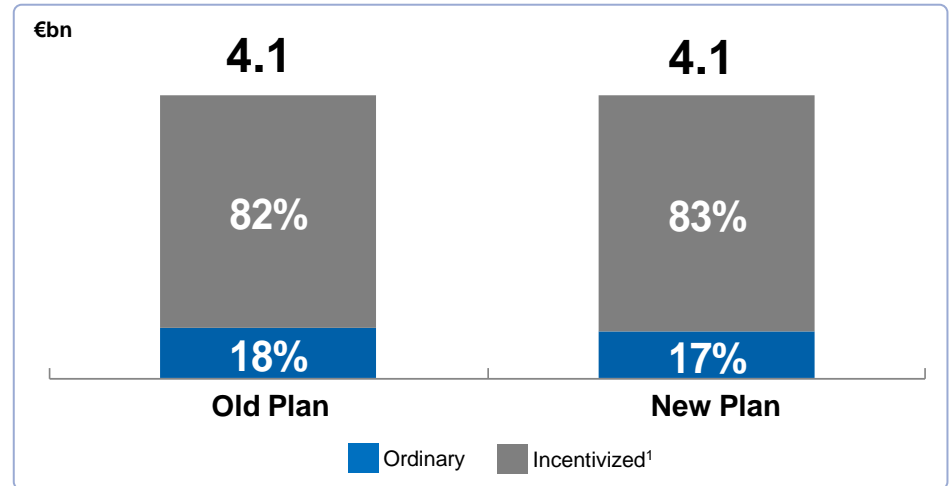
### Total Regulated Capex



- Mind record investments made in 2012
- Front-end loaded capex profile

### Incentivized Capex

- Mix of categories confirmed



# 2013-2017 Strategic Plan

## Batteries

### Regulatory Framework

- General framework in place<sup>1</sup>
- Defined a **specific framework for innovative projects** to evaluate different technical solutions<sup>2</sup>

### Authorizations ("Phase One")

- Approved by the Ministry of Economic Development an **"initial phase"** of technology deployment

### Procurement

*Ongoing*

- **Finalizing procurement** for different solutions

### Deployment

*Ongoing*

- Identified specific areas in **Center/Southern Italy**
- **Next:** Regulator to confirm **incentive scheme**



# 2013-2017 Strategic Plan

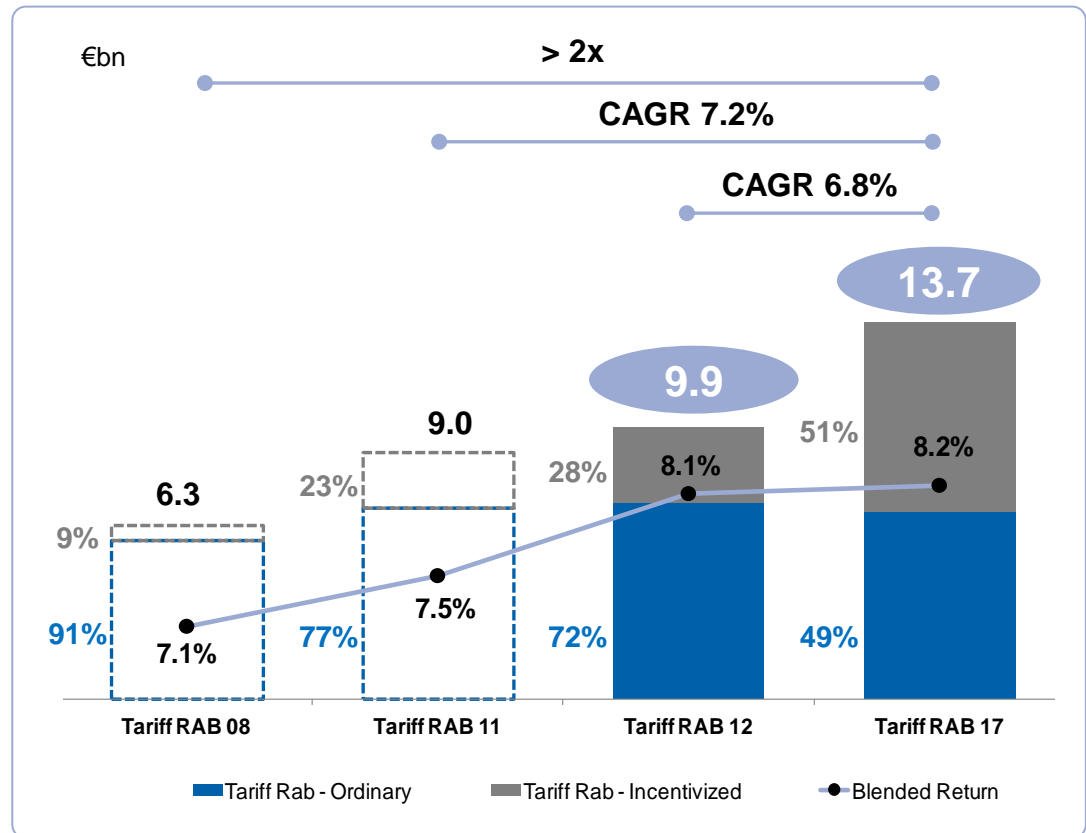
## Growth – RAB Evolution and Blended Returns

### RAB Evolution

- Confirmed RAB CAGR in the **7% area**
- 2017 turnaround year for mix: Incentivized > Ordinary
- In a decade (2008-2017) RAB more than doubled

### Blended Return

- Blended returns consistent with WACC assumptions



# 2013-2017 Strategic Plan

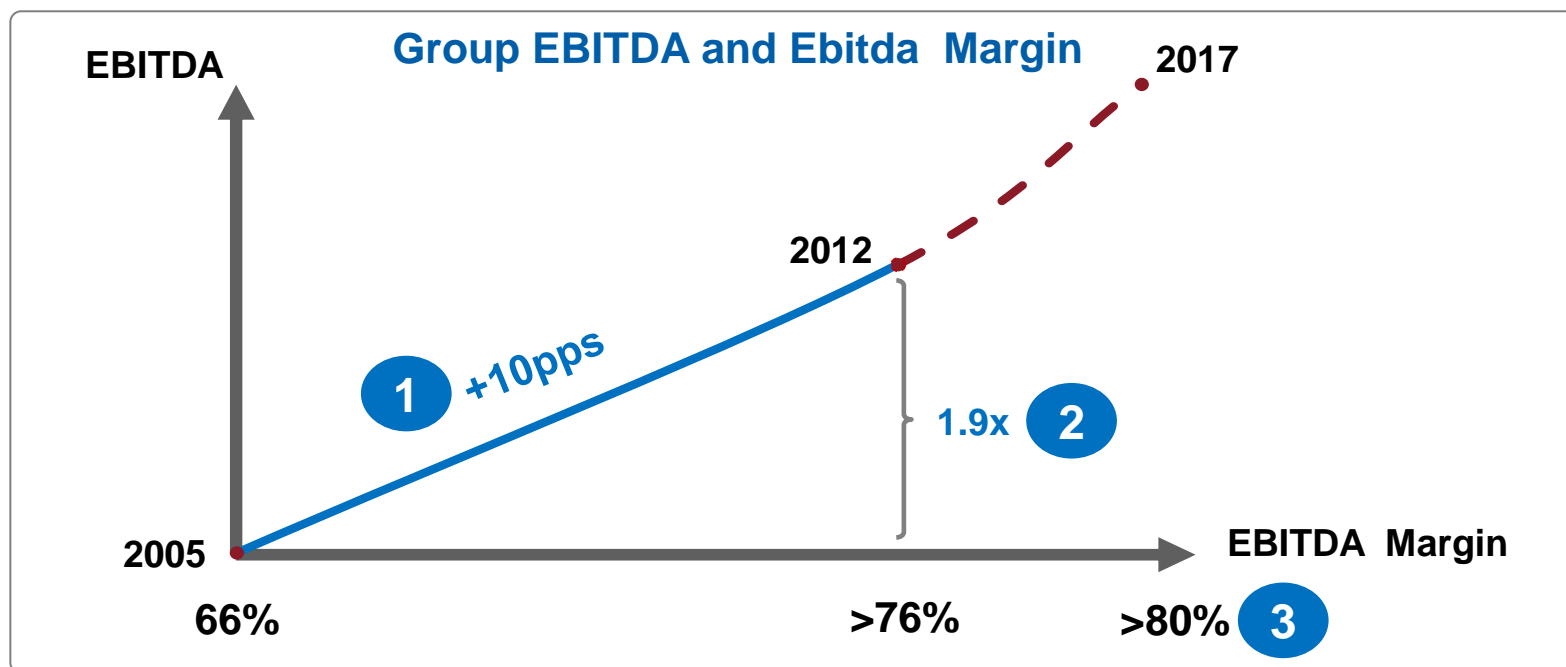
## Non Traditional Activities

**All activities not regulated by the Italian Regulator** (batteries not included)

		<b>Value</b> (5yr cumulated)
<b>Pipeline</b> (Included in the BP)	<b>Service-based activities</b> <ul style="list-style-type: none"><li>▪ Engineering</li><li>▪ O&amp;M</li><li>▪ Housing of optical fibre</li></ul>	<b>400€mn</b>
<b>Potential</b> (Not included in the BP)	<b>Developer-style activities</b> <ul style="list-style-type: none"><li>▪ Contracts for Third Parties (engineering services)</li><li>▪ <u>No capital intensive</u> and <u>rolling</u></li><li>▪ <i>Deal-by-deal</i> focus during the Plan period</li></ul>	<b>900€mn</b>

# 2013-2017 Strategic Plan

## Operational Efficiency



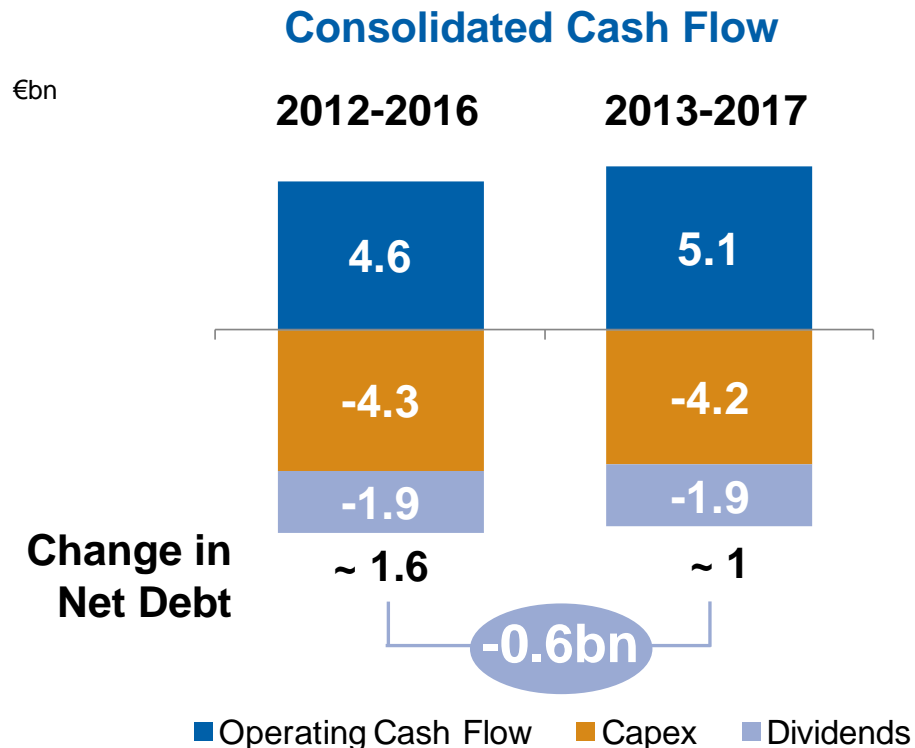
- 1 Since 2005 profitability increased by 10pps and 2 EBITDA almost doubled,
- 3 targeting profitability above 80%

# 2013-2017 Strategic Plan

## Capital Structure – Net Debt Evolution

### Consolidated Cash Flow

- Further contained Debt Growth
- Rolling Cash Flow enhanced

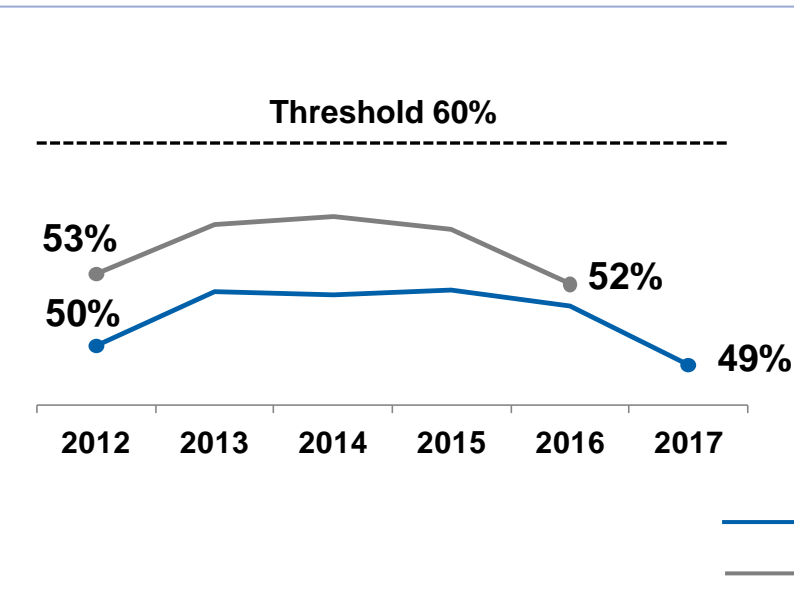


# 2013-2017 Strategic Plan

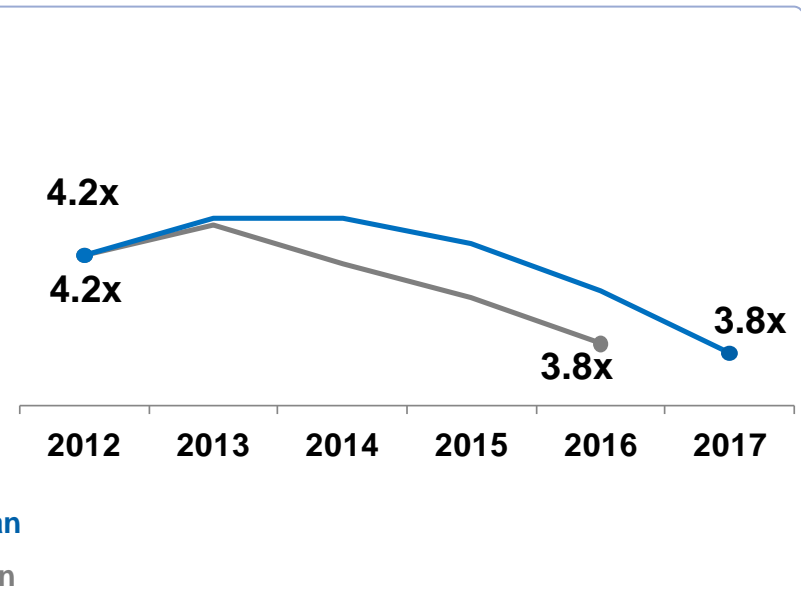
## Capital Structure – Leverage and Ratios

- Positive trend in financial ratios
- Net Debt / RAB well below the 60% threshold

### Net Debt/RAB



### Net Debt/EBITDA



# 2013-2017 Strategic Plan

## Dividend Policy

### Confirmed dividend policy

- **Safe and sound 19€cents** from Traditional Activities
- **Potential extra yield** from Non Traditional Activities: 60% payout on results

### An attractive Total Return Play ➡ TSR ~ 10%

- **Sustainable dividend yield**
- Sound **Equity RAB growth**
- **No downside** to 19€cents but upside flexibility from NTA



# 2013-2017 Strategic Plan

## Key Takeaway

### Dual Strategy Confirmed ...

- **Combining good value (TA) and catalyst (NTA)**
- **Turning vision into action**
  - Batteries on the go
  - Always thinking ahead

### ... for Value Creation

- **Solid earnings profile and improved cashflow generation**
- **An attractive Total Return Play**

# THANK YOU. QUESTIONS?

**Luigi Roth** Chairman

**Flavio Cattaneo** Chief Executive Officer

**Giuseppe Saponaro** Chief Financial Officer

2013-2017 Strategic Plan

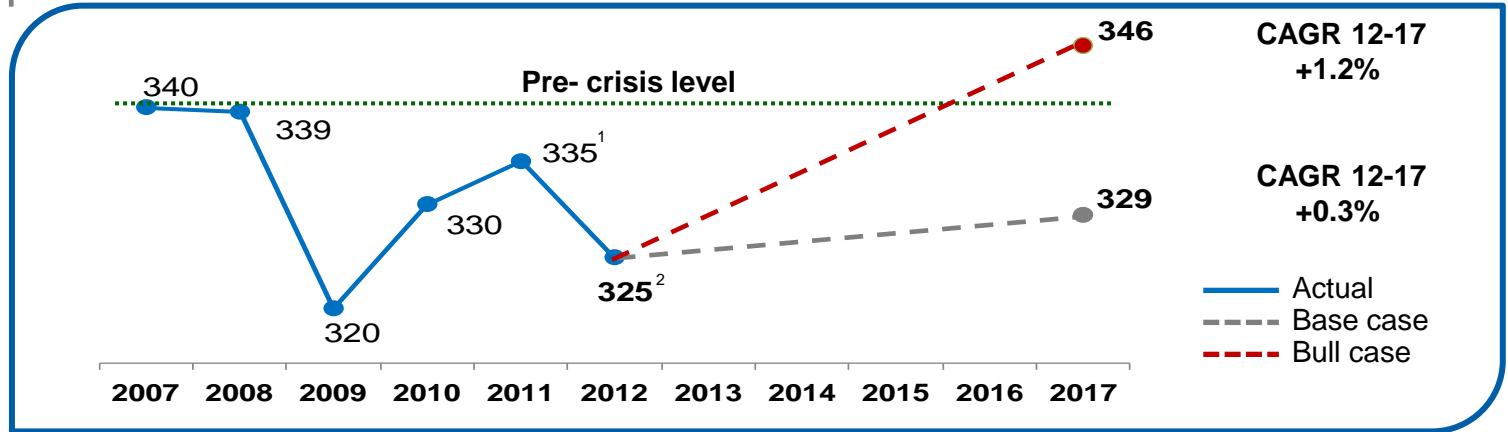
FEBRUARY 6<sup>th</sup>, 2013

# ANNEXES

# Annex

## Main Assumptions

### Energy Demand



### Macro Scenario

#### CPI/Deflator

- Assumed within the range 2-3% during plan period

### Regulatory Framework

#### 2013 WACC interim review

- WACC assumed at 6.9% starting from 2014<sup>3</sup>

### Fiscal Framework

#### Robin Hood Tax

- 2013 : 10.5%
- 2014: 6.5%

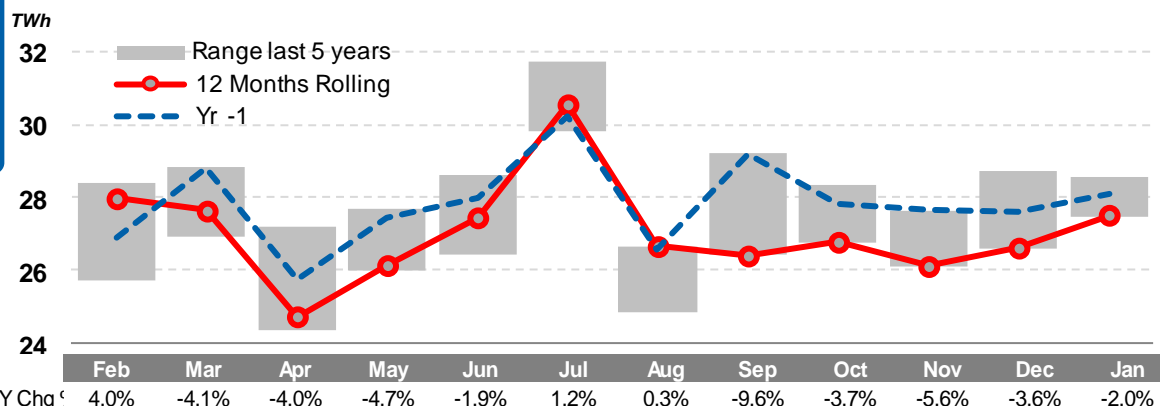
# Annex

## Electricity Market Trends

### January 2013 Energy Demand

**-2.0%** yoy

at 27.5 TWh (vs 28.1 TWh)

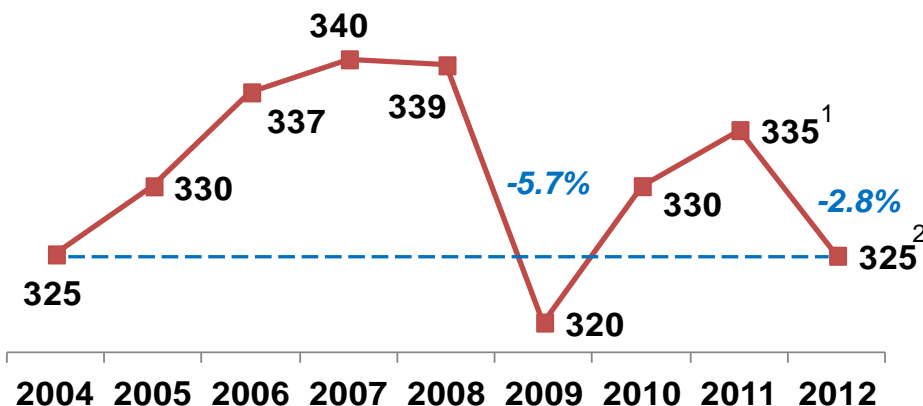


2011 actual figures, 2012-2013 provisional figures (as of January 2013)

YoY Chg<sup>1</sup>

### Historical Energy Demand

TWh



- Back again to 2004 level
- In 2012 another significant drop

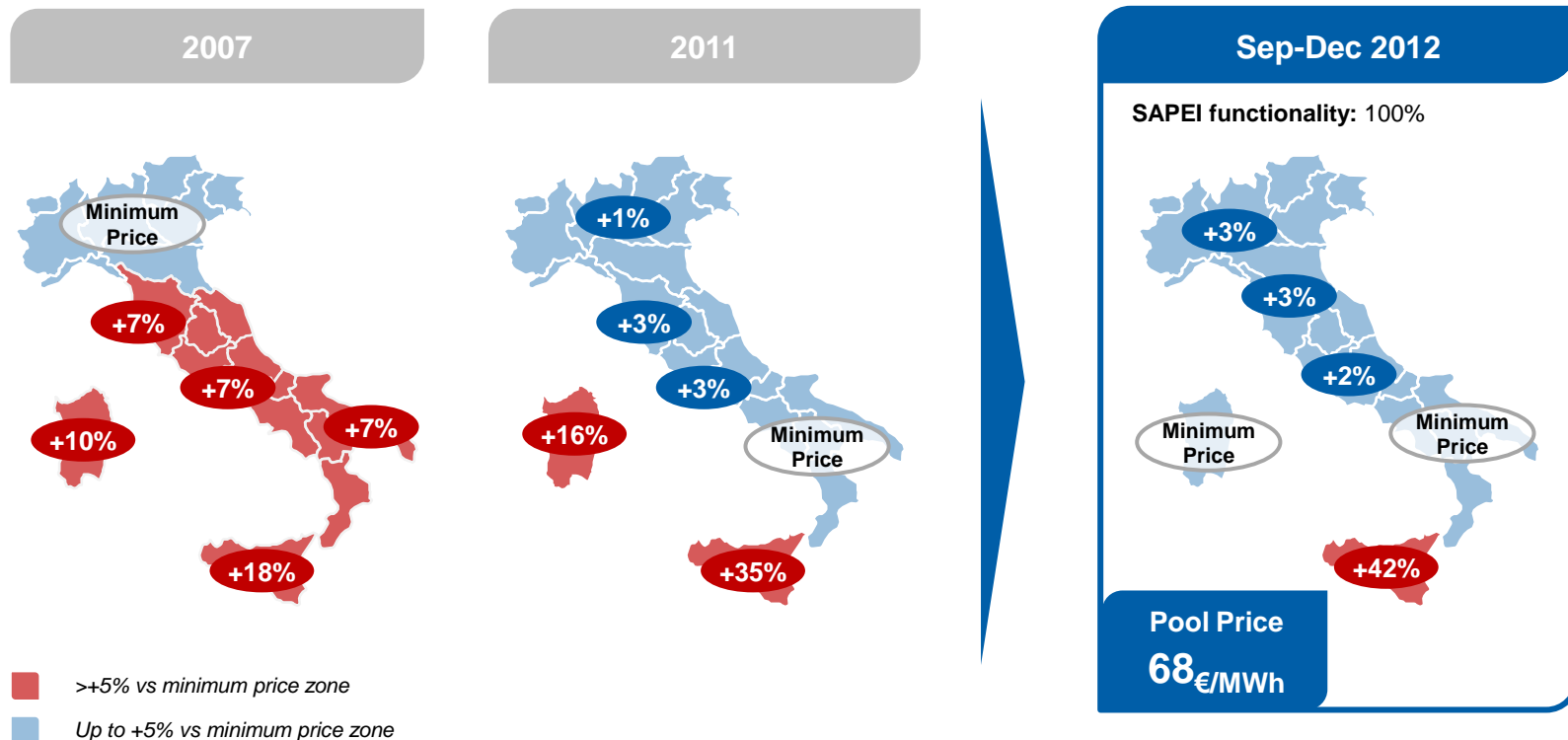
1) 2011 actual figures. Source: "Dati Statistici sull'Energia Elettrica in Italia 2011"

2) 2012 provisional figures

# Annex

## Electricity Market Trends

- **Capex** on the Grid allowed to **increase the competitiveness of the market**, by reducing the critical zones



# Annex

## The Main 6 Development Projects



# Annex

## Interconnections

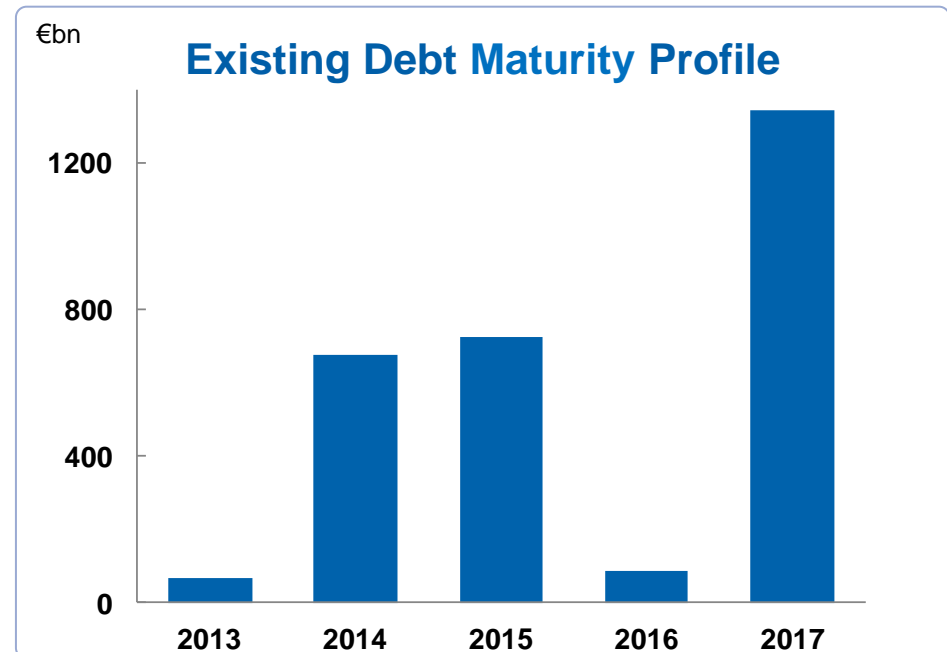




# Annex

## Funding and Refinancing

- Funding available at an average Spread slightly above 100bps
- Debt Maturity: 8 yrs
- No financial needs until the end of 2015
- Stand Alone strong Credit Rating, better than Sovereign<sup>1</sup>



1) Ratings of the Republic of Italy: S&P's BBB+, Negative Outlook; Moody's Baa2, Negative Outlook; Fitch A- Negative Outlook.

# Annex

## Corporate Social Responsibility

- Our commitment to Sustainability has been widely recognized over the last years through the inclusion in the main Sustainability Indexes Worldwide. The main sustainability agencies rate Terna at the top of the electricity sector worldwide.
- Terna aims at maintaining this excellent recognition by carrying out improvement programs in line with the targets of the Plan

### CSR Targets

In line with medium term priorities and objectives, we will further progress in the following fields:

- Build and implement partnerships with the most relevant environmental associations for a sustainable development of the Grid
- Improve the consideration of ESG aspects in our supply chain management
- Develop a more integrated reporting by participating to the IIRC pilot program
- Increase the effectiveness of our investment in the communities
- Increase our contacts with SRI investors

# Disclaimer

THIS DOCUMENT HAS BEEN PREPARED BY TERNA S.P.A. (THE "COMPANY") FOR THE SOLE PURPOSE DESCRIBED HEREIN. IN NO CASE MAY IT BE INTERPRETED AS AN OFFER OR INVITATION TO SELL OR PURCHASE ANY SECURITY ISSUED BY THE COMPANY OR ITS SUBSIDIARIES.

THE CONTENT OF THIS DOCUMENT HAS A MERELY INFORMATIVE AND PROVISIONAL NATURE AND THE STATEMENTS CONTAINED HEREIN HAVE NOT BEEN INDEPENDENTLY VERIFIED. NEITHER THE COMPANY NOR ANY OF ITS REPRESENTATIVES SHALL ACCEPT ANY LIABILITY WHATSOEVER (WHETHER IN NEGLIGENCE OR OTHERWISE) ARISING IN ANY WAY FROM THE USE OF THIS DOCUMENT OR ITS CONTENTS OR OTHERWISE ARISING IN CONNECTION WITH THIS DOCUMENT OR ANY MATERIAL DISCUSSED DURING THE PRESENTATION.

THIS DOCUMENT MAY NOT BE REPRODUCED OR REDISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON. THE INFORMATION CONTAINED HEREIN AND OTHER MATERIAL DISCUSSED AT THE CONFERENCE CALL MAY INCLUDE FORWARD-LOOKING STATEMENTS THAT ARE NOT HISTORICAL FACTS, INCLUDING STATEMENTS ABOUT THE COMPANY'S BELIEFS AND EXPECTATIONS. THESE STATEMENTS ARE BASED ON CURRENT PLANS, ESTIMATES, PROJECTIONS AND PROJECTS, AND CANNOT BE INTERPRETED AS A PROMISE OR GUARANTEE OF WHATSOEVER NATURE.

HOWEVER, FORWARD-LOOKING STATEMENTS INVOLVE INHERENT RISKS AND UNCERTAINTIES AND ARE CURRENT ONLY AT THE DATE THEY ARE MADE. WE CAUTION YOU THAT A NUMBER OF FACTORS COULD CAUSE THE COMPANY'S ACTUAL RESULTS AND PROVISIONS TO DIFFER MATERIALLY FROM THOSE CONTAINED IN ANY FORWARD-LOOKING STATEMENT. SUCH FACTORS INCLUDE, BUT ARE NOT LIMITED TO: TRENDS IN COMPANY'S BUSINESS, ITS ABILITY TO IMPLEMENT COST-CUTTING PLANS, CHANGES IN THE REGULATORY ENVIRONMENT, DIFFERENT INTERPRETATION OF THE LAW AND REGULATION, ITS ABILITY TO SUCCESSFULLY DIVERSIFY AND THE EXPECTED LEVEL OF FUTURE CAPITAL EXPENDITURES. THEREFORE, YOU SHOULD NOT PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS. TERNA DOES NOT UNDERTAKE ANY OBLIGATION TO UPDATE FORWARD-LOOKING STATEMENTS TO REFLECT ANY CHANGES IN TERNA'S EXPECTATIONS WITH REGARD THERETO OR ANY CHANGES IN EVENTS.

EXECUTIVE IN CHARGE OF THE PREPARATION OF ACCOUNTING DOCUMENTS "LUCIANO DI BACCO" DECLARES, PURSUANT TO PARAGRAPH 2 OF ARTICLE 154-BIS OF THE CONSOLIDATED LAW ON FINANCE, THAT THE ACCOUNTING INFORMATION CONTAINED IN THIS PRESENTATION, FOR WHAT CONCERNS THE ACTUAL FIGURES, CORRESPONDS TO THE DOCUMENT RESULTS, BOOKS AND ACCOUNTING RECORDS.

THE SORGENTE-RIZZICONI PROJECT AND THE ITALY-FRANCE INTERCONNECTION ARE CO-FINANCED BY THE EUROPEAN UNION'S EUROPEAN ENERGY PROGRAMME FOR RECOVERY PROGRAMME. THE SOLE RESPONSIBILITY OF THIS PUBLICATION LIES WITH THE AUTHOR. THE EUROPEAN UNION IS NO RESPONSIBLE FOR ANY USE THAT MAY BE MADE OF THE INFORMATION CONTAINED THEREIN



# Notes

---

---

---

---

---

---

---

---

---

---

---

---

# Notes

---

---

---

---

---

---

---

---

---

---

---

---

# Notes

---

---

---

---

---

---

---

---

---

---

---

---

investor.relations@terna.it | + 39 06 8313 8106 | www.terna.it

