

2014
2018

**STRATEGIC
PLAN**

MARCH, 25TH 2014





LUIGI ROTH
CHAIRMAN

FLAVIO CATTANEO
CHIEF EXECUTIVE OFFICER

 **Terna**
T E R N A G R O U P

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FLAVIO CATTANEO
CHIEF EXECUTIVE OFFICER

Highlights

FY13 at a Glance

➤ In line with our **continuous efforts** to enhance results, we reported...

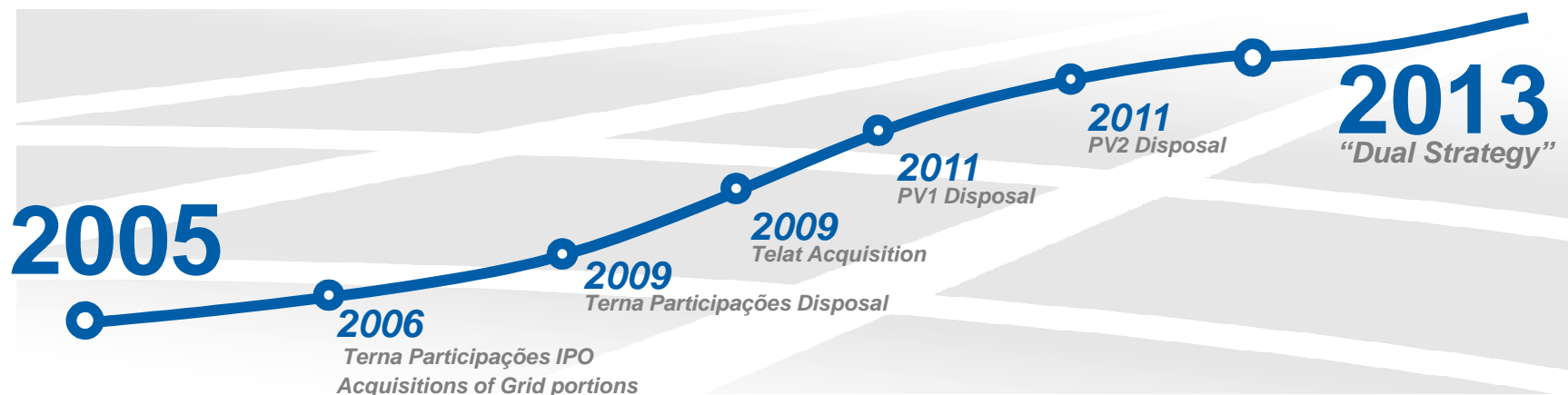
...this 9th year of **growth**

- **improved** EBITDA margin
- **high-quality** Capex
- **solid** Balance Sheet

€mn	FY 12	FY 13	
Total Revenues	1,806	1,896	+5%
EBITDA	1,390	1,481	+6.5%
EBITDA Margin	77.0%	78.1%	+1.1pp
Group Net Income	464	514	+10.8%
Net Debt	5,855	6,625	
Total Group Capex	1,235	1,212	

Highlights

A Long Growth Path since 2005



for the **Country**



Addressed previous underinvestment

- **~8€bn** Capex in **9** years
- Meaningful **benefits** for the System
- **Pioneers** in Storage

for the **Company**



Asset growth and profitability

- RAB **>2x**
- EBITDA margin¹ **+12pp**
- **Financial** efficiency

for the **Shareholders**



Rewarding Equity Story

- **4.2€bn** of cumulated Net Profit
- **3.2€bn** of dividends²
- TSR over **200%**

Highlights

Update on Regulatory Framework

WACC interim revision¹ **6.3%** 2014-2015
A **mathematical** adjustment of the RfR

2014 Total Grid Fee almost stable

	2014	2013
Transmission	~1.64 €bn <i>Resolution 607/2013</i>	~1.64 €bn <i>Resolution 565/2012</i>
+		
Dispatching	~ 0.12 ² €bn <i>Resolution 636/2013</i>	~ 0.11 €bn <i>Resolution 576/2012</i>
=		
	1.76 €bn	1.75 €bn

2014-2018 Strategic Plan

Confirming the Dual Strategy

The Group



Value Drivers



NTAs Encouraging potential

TAs Solid floor

2014-2018 Strategic Plan

Group Key Targets



Traditional Activities (TAs)



Cumulated Capex at **3.6**€bn
RAB CAGR in the **5% area**
2018 Blended Return at **7.7%**

Non Traditional Activities (NTAs)



Turning Opportunities into **Concrete** deals
Included in the BP | ~ **400**€mn
Not Included in the BP | Over **400**€mn on going deals
900€mn potential

Group Targets



EBITDA Margin **>79%** in 2018
Net Debt/RAB **< 60%** during the Plan period

2014-2018 Strategic Plan

National Development Plan (NDP)



National Development Plan

Confirmed **Size** of the NDP (8.1bn vs previous 7.9bn) **but**

- Project selectivity shifted spending needs over a longer time frame
- Ca. 30% beyond 2023



Grid Development **Needs**

- **5.6**€bn in the next 10yrs
- Additional **2.5**€bn beyond 2023

Priorities of the NDP

- **Reduce** bottlenecks
- **Integrate** renewables
- **Enhance** safety and quality of service

2014-2018 Strategic Plan

Regulated Capex Plan

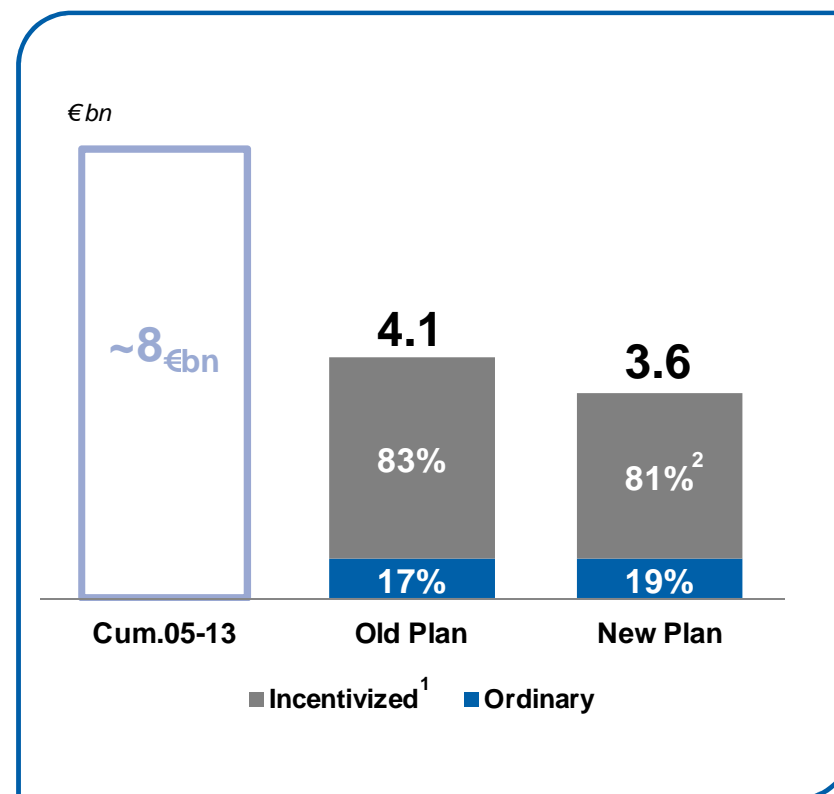


3.6 €bn, of which:

- **~200** €mn in Storage
- **81%** Incentivized

Front-end loaded capex profile

- Over **50%** by 2015, with **peak** spending in 2014
- **Normalization** of capex in the LT



2014-2018 Strategic Plan

Storage



- Total Capacity: **75_{MW}**
- **2** different **Project Lines** serving different scope

Power Intensive Line

- **Scope:** Safe management of the grid
- **Total Capacity:** **40_{MW}¹**
- **Technology:** Lithium, Zebra, Others
- **Number of Projects:** **2**
- **Localization:** **Main Islands**

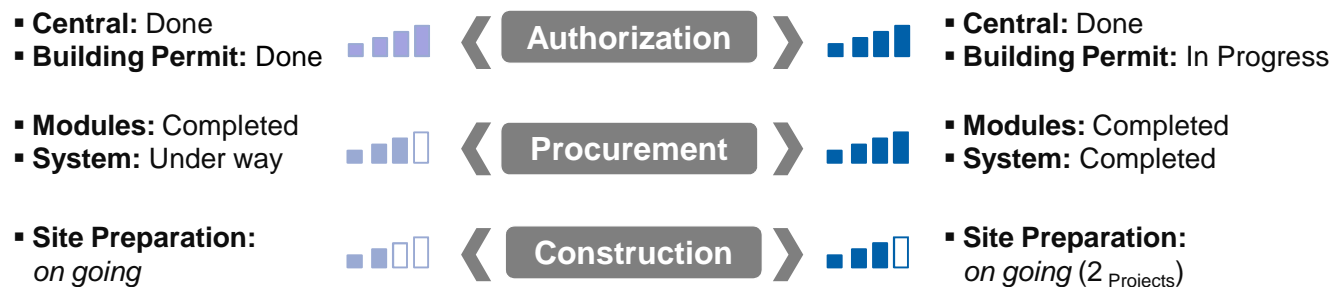


Energy Intensive Line

- **Scope:** Solve Grid congestion / bottlenecks
- **Total Capacity:** **35_{MW}**
- **Technology:** NaS *Sodium Sulfur*
- **Number of Projects:** **3**
- **Localization:** **Southern Italy**

Phase 1: "Storage Lab"

Project Evolution



2014-2018 Strategic Plan

RAB Evolution and Blended Returns

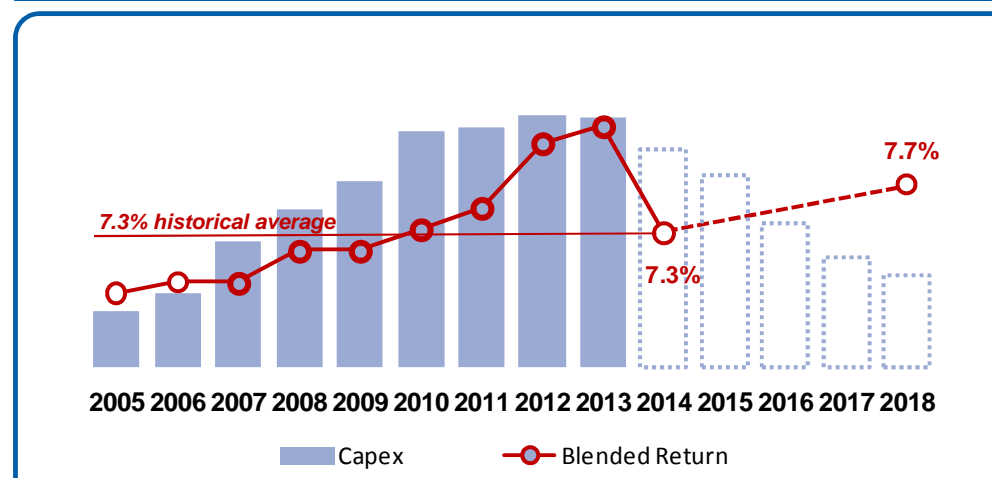
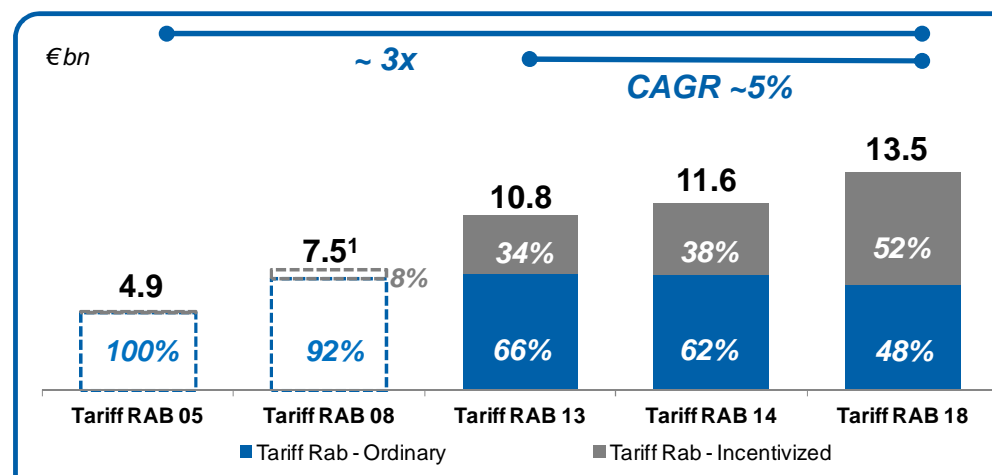


RAB growth

- Higher starting RAB
- Tariff RAB CAGR in the 5% area

Asset quality

- Timing of capex execution
 - **secured** RAB Mix
 - **enhanced** Blended Return



2014-2018 Strategic Plan

Non Traditional Activities



Not included in the Plan

Included in the Plan

Scouting
opportunities

900€mn Potential

Delivering
through deals

Over **400**€mn in Progress¹

Contributing
already supporting P&L

~400€mn²

Developer-style activities

- *Contracts for Third Parties (engineering services)*
- No capital intensive and rolling
- *Deal-by-deal* focus during the Plan period

Service-based activities

- *Engineering*
- *O&M*
- *Housing of optical fibre*

Hidden Value

Opportunities from enhancement of companies/grids

2014-2018 Strategic Plan

Deals in Progress



➤ **Tamini Group** Acquisition

strong **value potential** from a leader Italian manufacturer closing expected during the year¹

➤ **Interconnection** Italy-France

cross-border interconnection overall construction value at over **400 €mn²**
Leveraging on our **core** competences

➤ **Latam**

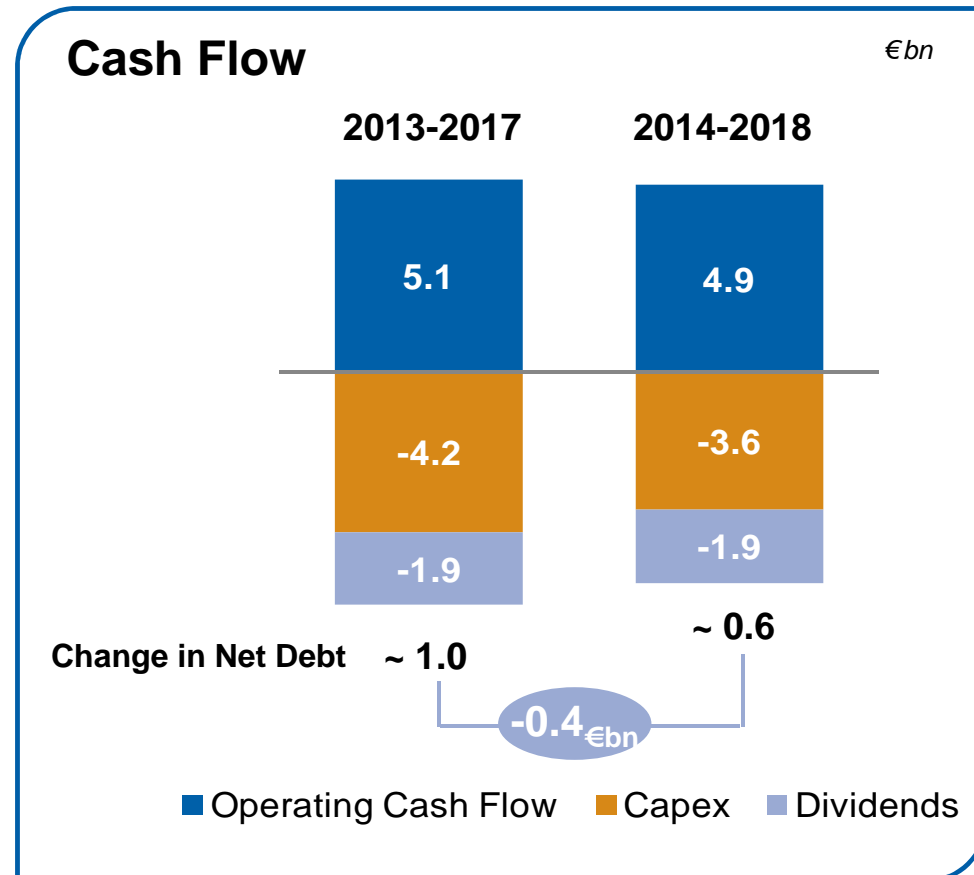
an **interesting region** to look at
Potential **opportunities** in Renewables & Infrastructures

2014-2018 Strategic Plan

Net Debt Evolution



- **minimized** WACC review impact
- further **contained** debt growth



2014-2018 Strategic Plan

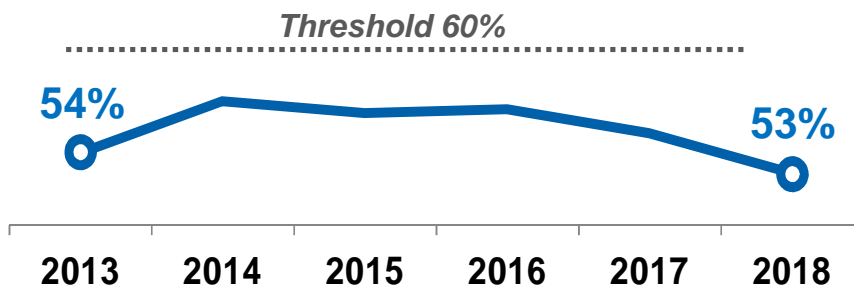
Capital Structure



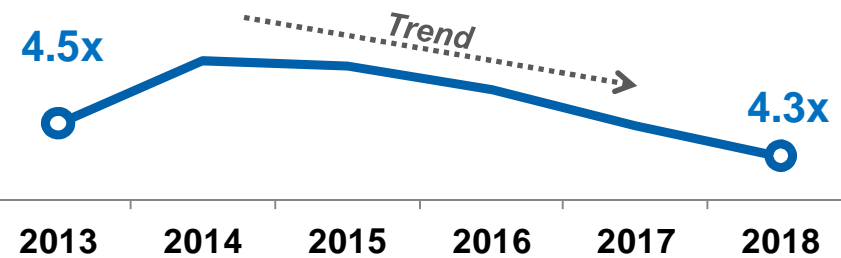
➤ **Solid** Credit Metrics

➤ No financial needs till **2015**, Debt Maturity **7yrs**

Net Debt/RAB



Net Debt/EBITDA



2014-2018 Strategic Plan

Dividend Policy & 2013 Dividend



➤ **Confirming** Dividend Policy and Interim Dividend Practice



RAB Growth + DPS = Attractive TSR

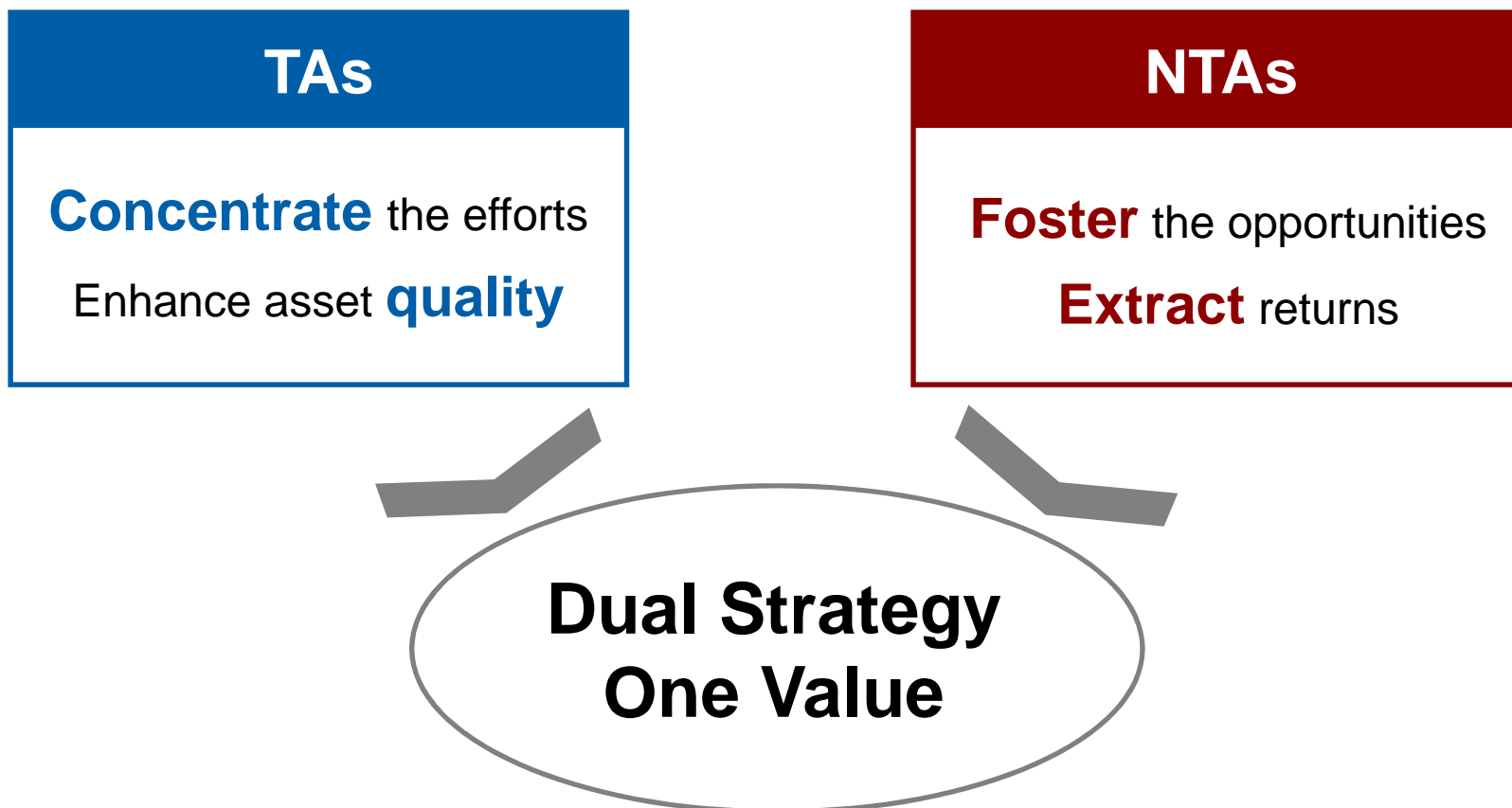
2013 Total Dividend ➤

20€cents
o/w Final DPS 13€cents¹

Ex Dividend Date: June 23rd 2014
Payment Date²: June 26th 2014

2014-2018 Strategic Plan

Key Takeaway





FY13 Results

ANDREA CRENNNA

HEAD OF ADMINISTRATION, FINANCE AND CONTROL

FY13 Results

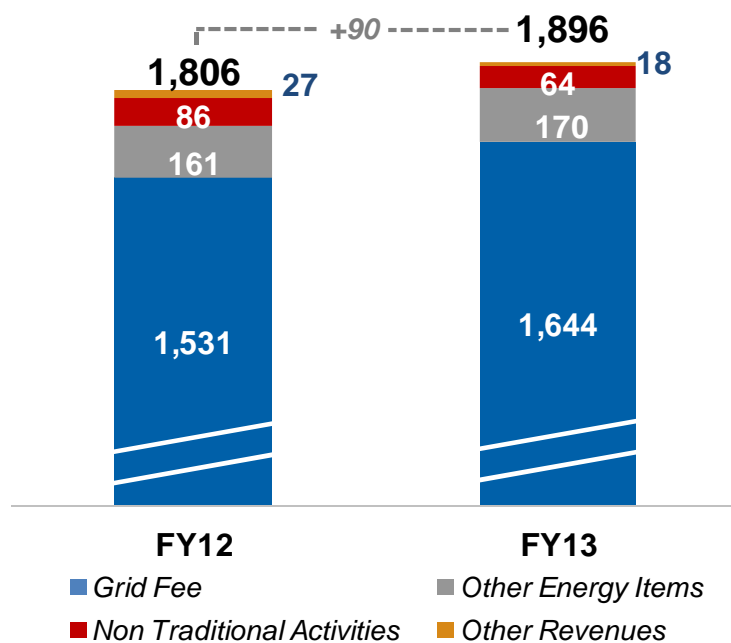
Consolidated Revenues

Total Revenues
+5.0% yoy
at **1,896** €mn

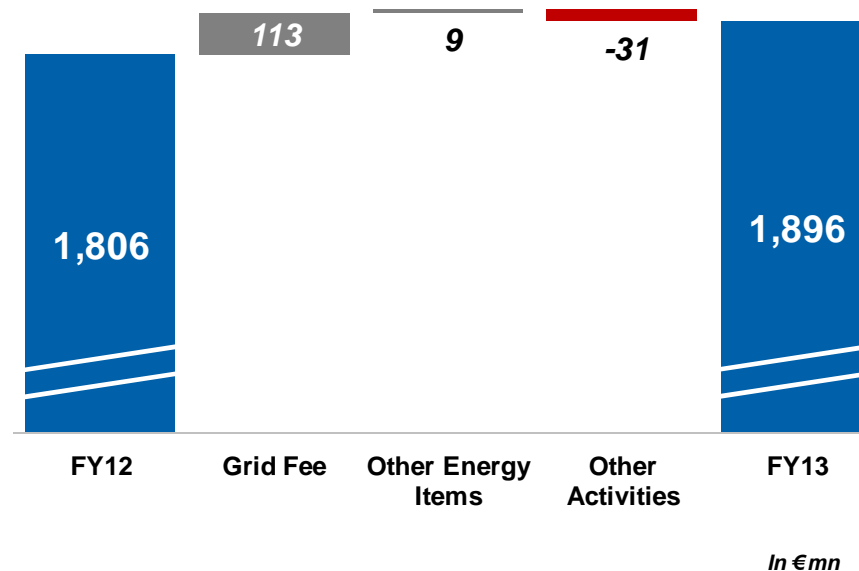
Grid Fee
+7.4% yoy
at **1,644** €mn

Other Activities
at **82** €mn

Revenues Breakdown






Revenues Evolution



FY13 Results

From EBITDA to Net Income

	€ mn	FY12	FY13	Δ	Δ %
 EBITDA +6.5% yoy at 1,481 €mn	Operating Expenses	416	415	0	-0.1%
	EBITDA	1,390	1,481	91	6.5%
	<i>Ebitda %</i>	77.0%	78.1%	+1.1pp	
	D&A	421	443	23	5.4%
	EBIT	969	1,038	68	7.0%
 Profit Before Taxes +7% yoy at 938 €mn	Net Financial Expenses	93	100	7	7.5%
	PBT	876	938	61	7.0%
	Tax Rate	47.1%	45.2%		
 Group Net Income +10.8% at 514 €mn	Taxes	413	424	11	2.7%
	Group Net Income	464	514	50	10.8%

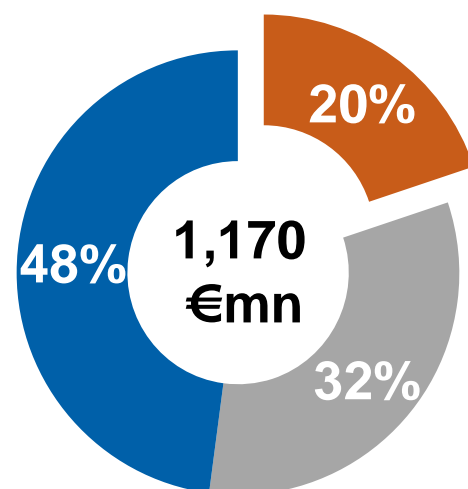
FY13 Results

Capex Breakdown

Regulated Capex
Stable yoy
at 1,170 €mn

Storage Business
62 €mn

Total Regulated Capex



■ Base Return ■ +1.5% ■ +2%

Capex Breakdown €mn

Category	FY12	FY13	Δ _{yoy}	Δ % _{yoy}
+2%	597	561	-37	-6%
+1.5%	372	377	5	1%
Incentivized Capex	970	938	-32	-3%
Base Return	211	232	22	10%
Total Regulated Capex	1,180	1,170	-10	-1%
Other ¹	55	42	-13	
Total Group Capex	1,235	1,212	-23	-2%

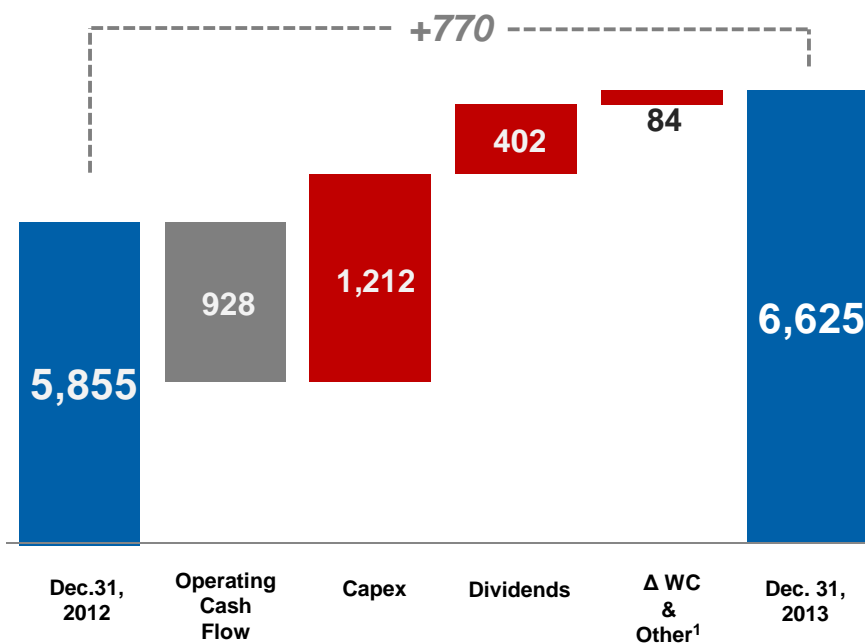
FY13 Results

Net Debt Evolution & Financial Structure

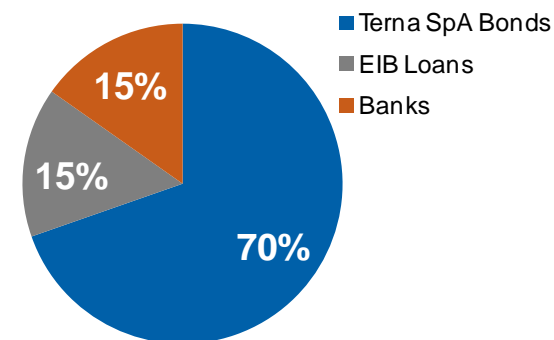
Net Debt
6,625 €mn

Fixed/Floating Ratio
68/32

Net Debt Evolution €mn



Financial Indebtedness



Rating	M/L Term		Delta	Outlook	
	Terna ²	Sovereign		Terna ²	Sovereign
S&P	BBB+	BBB	+1 notch	Negative	Negative
Moody's	Baa1	Baa2	+1 notch	Stable	Stable
Fitch	BBB+	BBB+		Stable	Negative

as of March, 25 2014

THANK YOU. QUESTIONS?

Luigi Roth Chairman

Flavio Cattaneo Chief Executive Officer

Andrea Crenna Head of Administration, Finance and Control

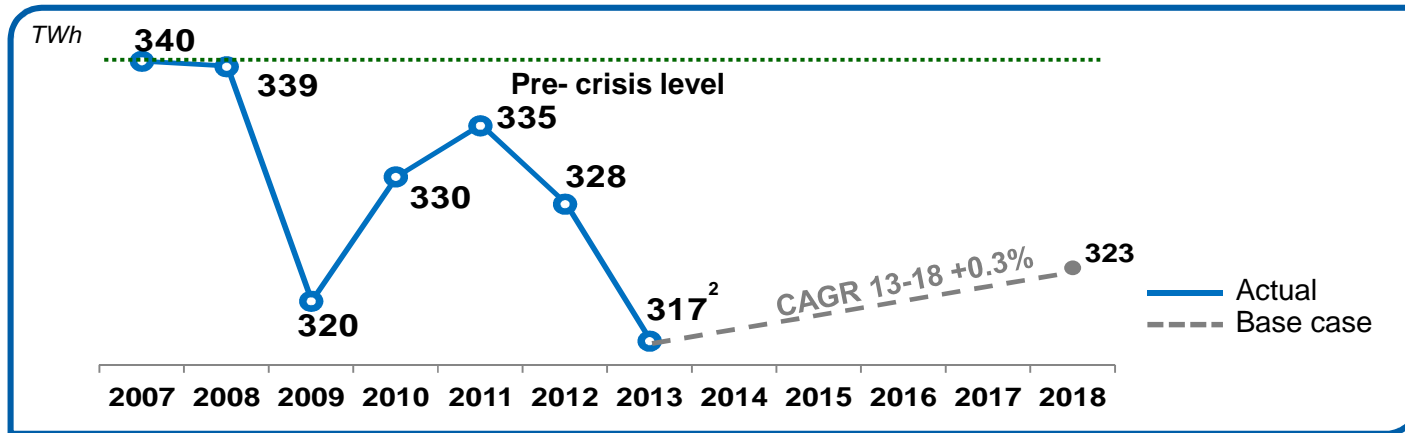


Annexes

Annex

Main Assumptions

Energy Demand¹



Macro Scenario

CPI/Deflator³

- 2014: tariff deflator at 1.4%; inflation at 2.3%
- 2015-2018: average 1.4%, back-end loaded

Regulatory Framework

WACC

- at 6.3%, consistent with the current regulatory framework

Fiscal Framework

Robin Hood Tax

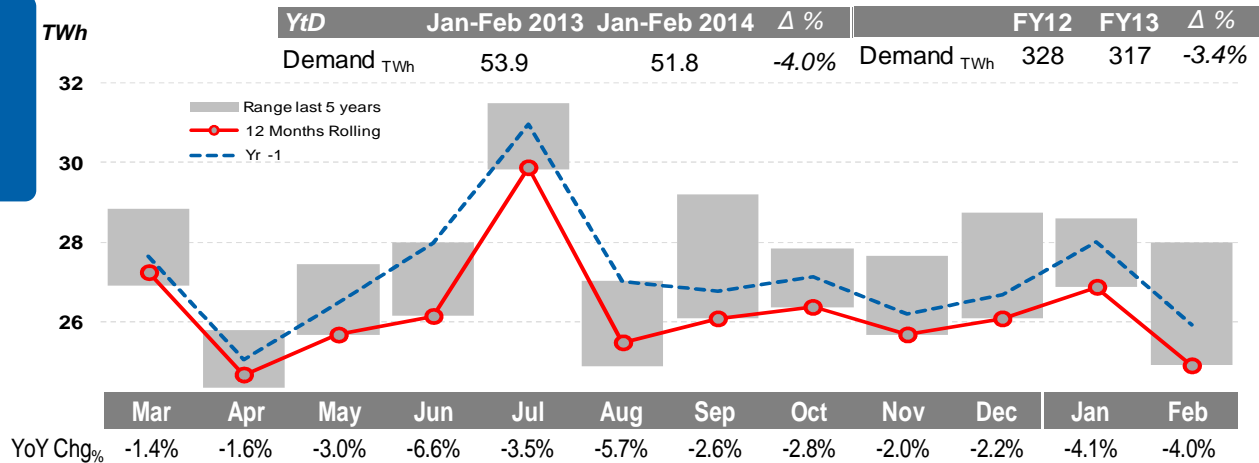
- at 6.5%, consistent with the current law

Annex

Electricity Market Trends

FY13 Energy Demand

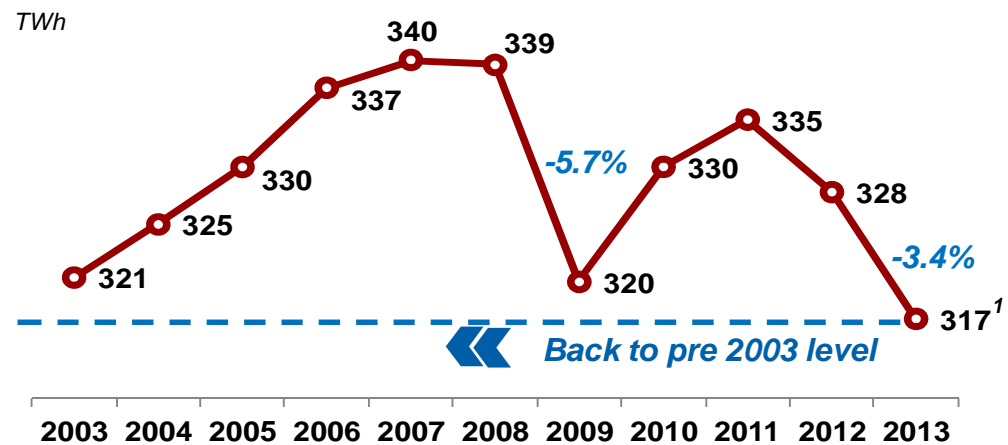
-3.4% yoy



2013 provisional figures (as of February 2014)

Historical Energy Demand

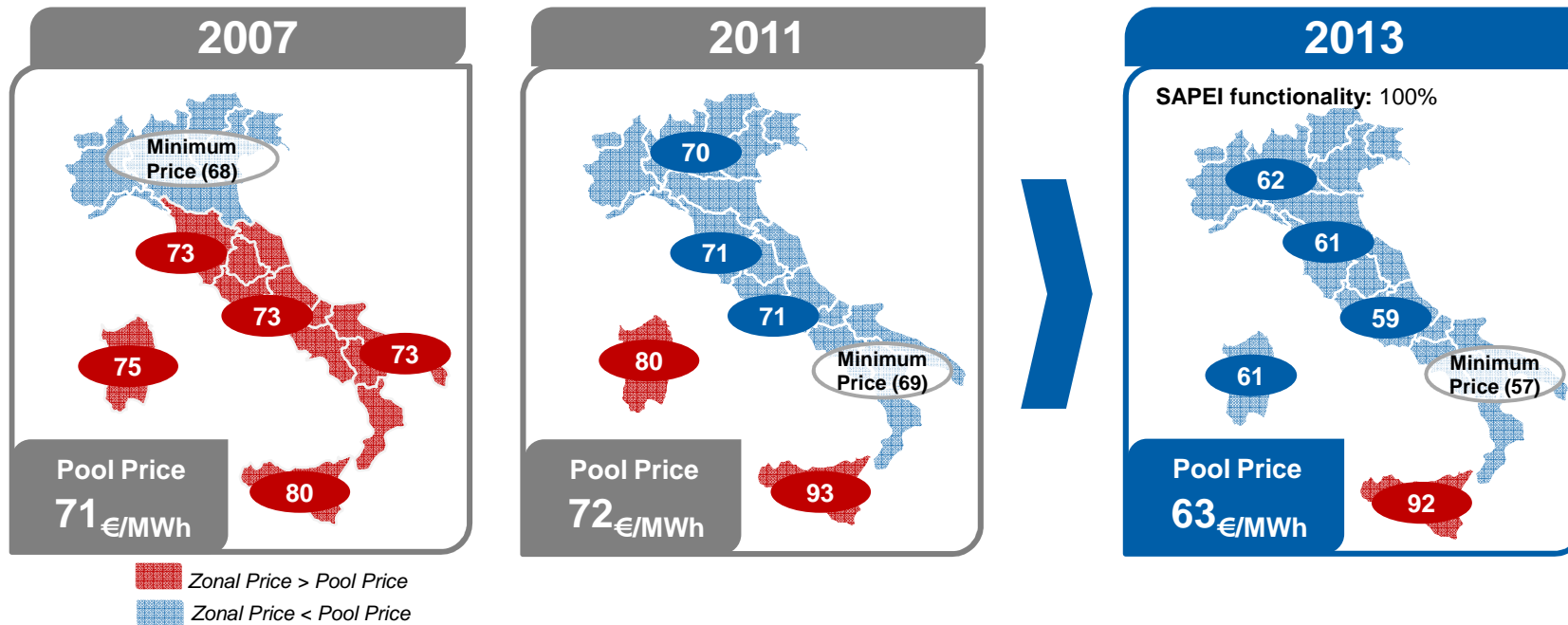
- In 2013 another significant drop
- Back to 10yrs ago



1. 2013 provisional figures

Annex

Price Differential Evolution



➤
Congestions have been gradually reduced, whilst **price differential** among zones has been significantly reduced

Annex

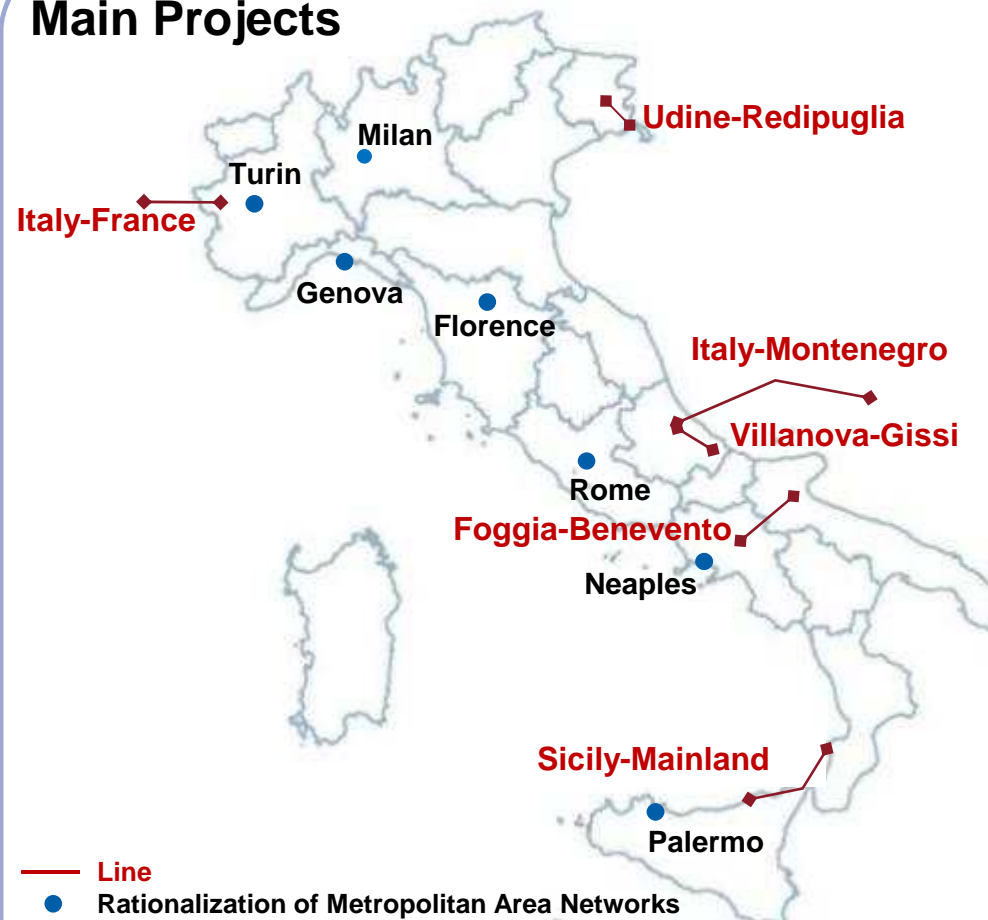
Work In Progress

2.7 €bn Work in Progress
Over 200 Building Sites

2,500 km New Lines
89 New Substations

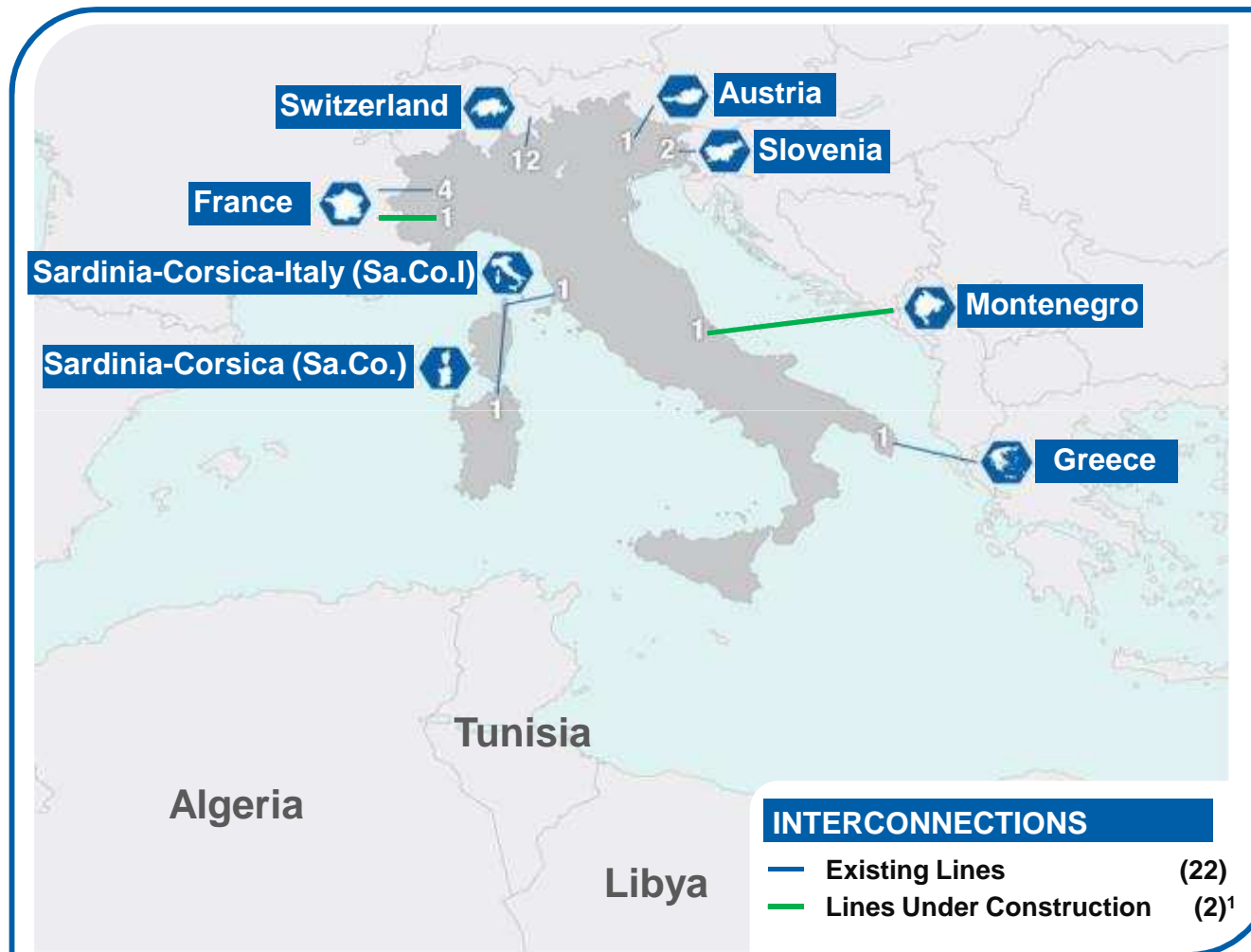
750 Companies Involved
~ 4,000 Workers

Main Projects



Annex

Interconnections



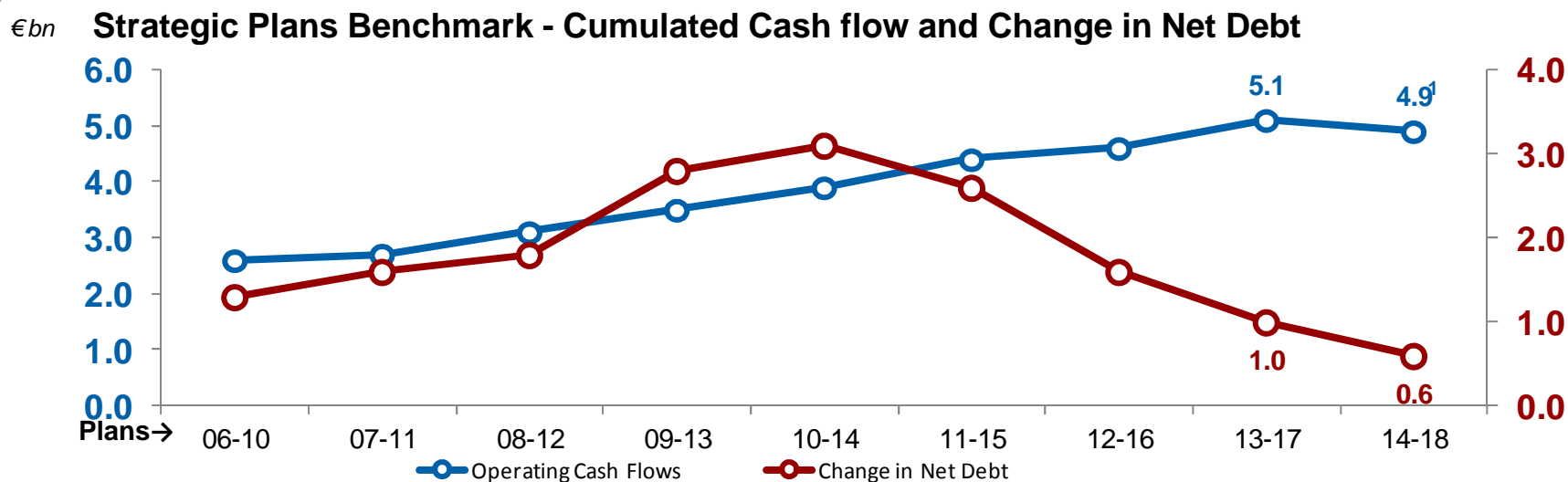
Annex

Operating Efficiency & Cash Flow

Since 2005

- EBITDA more than **Doubled**
- EBITDA margin **+12pp**

Opex almost **Flat**
RAB more than **Doubled**



Annex

Consolidated Income Statement

€ mn	FY12	FY13	Δmn	Δ%
Operating Revenues	1,806	1,896	90	5.0%
<i>of which</i>				
Grid Fee	1,531	1,644	113	7.4%
Other Energy Items	161	170	9	5.3%
Other Activities ¹	113	82	-31	-27.4%
Operating Expenses	416	415	0	-0.1%
<i>of which</i>				
Salaries	197	206	10	4.9%
Services	140	141	1	1.0%
Other	80	68	-12	-14.4%
EBITDA	1,390	1,481	91	6.5%
D&A	421	443	23	5.4%
EBIT	969	1,038	68	7.0%
Net Financial Charges	93	100	7	7.5%
Pre Tax Profit	876	938	61	7.0%
Taxes	413	424	11	2.7%
Tax Rate (%)	47.1%	45.2%		
Group Net Income	464	514	50	10.8%

Annex

Consolidated Balance Sheet

€ mn	Dec. 31,2012	Dec. 31,2013	Δmn
Assets			
PP&E	9,342	10,120	778
Intangible Asset, net	470	462	-9
Financial Inv. And Other	81	83	1
Total Fixed Assets	9,894	10,665	771
Net WC	-770	-646	124
Funds	-480	-453	27
Total Net Invested Capital	8,643	9,566	922
<i>Financed by</i>			
Consolidated Net Debt	5,855	6,625	770
Total Shareholder's Equity	2,788	2,941	152
D/E Ratio Continuing Operations	2.1	2.3	
D/D+E Ratio Continuing Operations	0.68	0.69	
Number of Shares ('000)	2,010	2,010	

Annex

Consolidated Cash Flow

€ mn	FY12	FY13
<i>Net Income</i>	464	514
<i>Depreciation¹</i>	421	443
<i>Net Change in Funds</i>	-81	-29
Operating Cash Flow	803	928
<i>Change in Working Capital</i>	46	-124
Cash Flow from Operating Activities	849	804
<i>Capital Expenditures</i>	-1,235	-1,212
<i>Other Fixed Asset Changes</i>	90	0
Free Cash Flow	-296	-409
<i>Dividends</i>	-402	-402
<i>Change in Capital and Other</i>	-34	41
Change in Net Cash (Debt)	-732	-770

1. Net of assets' disposal

Annex

Quarterly Analysis

€ mn	1Q12	1Q13	Δ	2Q12	2Q13	Δ	3Q12	3Q13	Δ	4Q12	4Q13	Δ
Operating Revenues	432	470	38	425	449	24	442	482	40	507	495	-12
of which												
Grid Fee	384	423	39	362	397	35	389	422	33	397	403	6
Other Energy Items ¹	27	29	2	40	26	-14	28	30	2	29	54	25
Other Activities ²	15	13	-2	15	19	5	18	26	8	66	25	-42
IFRIC 12	5	5	-1	9	7	-2	7	5	-2	16	14	-2
Operating Expenses	92	89	-3	96	98	2	82	82	0	146	147	1
EBITDA	340	381	41	329	351	22	360	401	41	361	348	-12
D&A	101	106	5	103	107	4	106	109	2	110	121	12
EBIT	239	275	36	226	244	18	254	292	39	251	227	-24
Net Financial Charges	31	18	-13	31	25	-6	10	28	18	21	29	8
Pre Tax Profit	208	257	49	195	219	24	244	264	20	230	198	-32
Taxes	94	115	21	87	97	10	110	116	6	121	96	-26
Group Net Income	114	142	28	108	122	14	134	148	14	109	102	-7
Total Group Capex	246	206	-40	305	298	-7	227	254	27	457	454	-3
Net Debt (end of period)	5,273	5,924		5,887	6,575		5,576	6,340		5,855	6,625	

Annex

Corporate Social Responsibility



- Our **commitment** to Sustainability has been widely recognized over the last years through top rating by sustainability agencies and the inclusion in the main Sustainability Indexes
- Terna aims at maintaining this excellent **recognition** by improvement programs in line with the targets of the Plan

CSR Targets



- Improve stakeholder **relations** management capacity through more structured stakeholder engagement practices
- Increase effectiveness of our investment in the **communities** by selecting projects in relevant fields and accurately measuring outputs
- Further **integrate** the consideration of ESG aspects in our supply chain management and in non traditional activities
- Keep on **cooperating** with the most relevant environmental associations for a sustainable development of the Grid
- Increase **transparency** towards investors through adoption and improvement of **integrated reporting**

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