
2012
16 Strategic Plan
March, 20th 2012

Luigi Roth - Chairman
Flavio Cattaneo - Chief Executive Officer



Agenda

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Highlights

Balancing Financial Discipline and Flexibility

- **2012-2016 Business Plan confirms previous strategic guidelines but:**
 - Reinforces financial discipline
 - Adds flexibility
- **Financial discipline means stronger balance sheet and enhanced financial ratios:**
 - Confirmed overall Group capex with a different mix
 - Dividend policy consistent with the new environment
- **Gained flexibility through**
 - Opportunities in Non Traditional Activities
 - Potential sale of selected assets into a SPV

Highlights

Reshaping Corporate Structure to Support Strategic Shift

A New Structure ...

- Implemented as announced



Traditional
Activities



Non Traditional
Activities



... For New Trends

- **New Macro Scenario**
 - Regulatory framework
 - Changes in legal and fiscal framework
- **New Sector Trends**
 - Boom in renewable capacity
 - Storage key to balance the Grid

Paved the Way for New Strategic Evolutions

2011 Results

P&L – From Revenues to EBITDA

Total Revenues		€ mn	FY10	FY11	Δ yoy	Δ %yoy
+3%_{yoy}		Total Revenues	1,589	1,636	46	2.9%
Grid Fee +5.7%		<i>Grid Fee</i>	1,306	1,381	75	5.7%
66mn Dispatching Premia		<i>Other Energy Items</i>	170	163	-6	-3.8%
		<i>Non Regulated Revenues</i>	75	67	-8	-10.5%
		<i>Other Revenues</i>	38	24	-14	-35.5%
Total Costs						
-2%_{yoy}		Total Costs	414	406	-8	-2.0%
at 406€mn		<i>Salaries</i>	212	211	-1	-0.6%
Other Costs down by 8%		<i>Services</i>	152	149	-3	-2.1%
		<i>Other</i>	50	46	-4	-8.0%
EBITDA +5%						
Margin 75.2%		EBITDA	1,175	1,230	55	4.7%
		EBITDA Margin	73.9%	75.2%		

2011 Results

P&L – From EBIT to Net Income

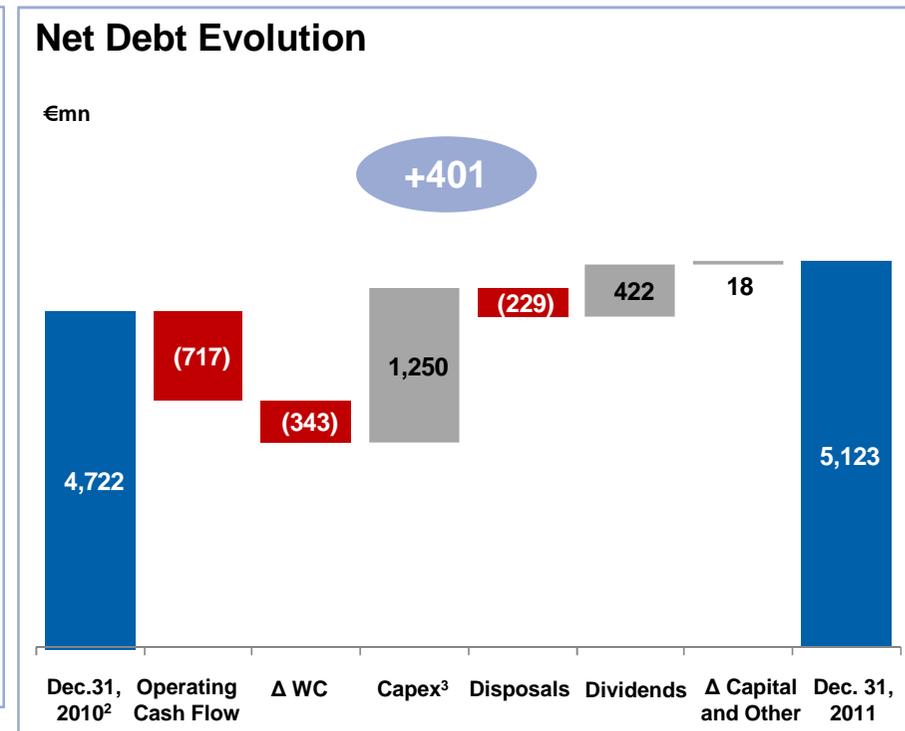
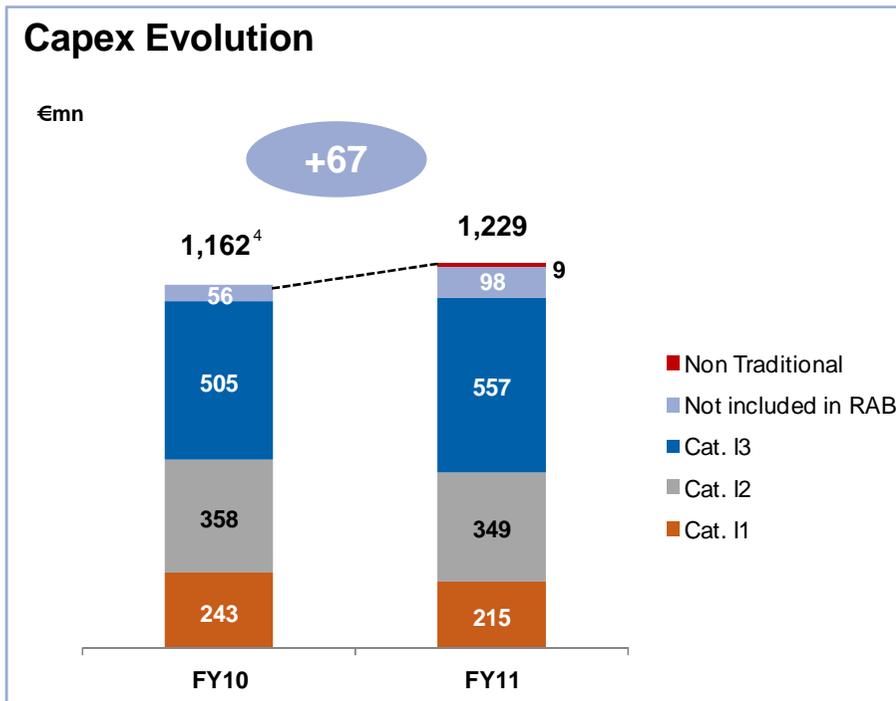
EBIT +3% yoy at 836 _{€mn}		FY10	FY11	Δ	Δ %
	D&A	361	394	34	9.3%
	EBIT	814	836	21	2.6%
PBT Stable yoy at 715 _{€mn}					
	Net Financial Expenses	103	121	19	18.0%
	PBT	712	715	3	0.4%
Net Income Cont. Op. Adjusted Stable yoy at 465 _{€mn}	Taxes	247	387	141	56.9%
	Tax Rate	34.7%	54.2%	+19.5pp	
	Net Income Continuing Operations ^(A)	465	327	-138	-29.6%
2011 Dividend 21 _{€cents²} o/w Final DPS 13 _{€cents} Payment date: June 21	<i>Adjustments⁽¹⁾</i>	-5	138		
	Net Income Cont. Oper. Adj.	460	465	5.2	1.1%
	Net Income Discontinued Operations ^(B)	147	113	-34	-23.3%
	Group Net Income (A+B)	612	440	-172	-28.1%

1) Total impacts of RHT, IRAP increase, net positive impact for redemption of goodwill and one-off items from previous years
2) Subject to AGM approval

2011 Results

Net Debt and Capex Evolution

Net Debt 5,123 €mn	Fix/Floating Ratio 75/25%¹	Avg. Maturity 9 years¹
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1) Post February 2012 bond issue (1.25bn, fixed rate, 5 year maturity)
 2) Effective Net Debt from Continuing Operations
 3) Including Other Fixed Assets Changes
 4) Net of Rete Solare Srl

2012 - 2016 Strategic Plan

Targets

			New Plan 12 - 16	Old Plan 11 - 15
Traditional Activities (TA)	Growth	Capex RAB CAGR Blended Return	€4.1bn (commitment) 6.9% From 7.5% to 9.1%	€5bn 6.6% from 7.5% to 8%
	Operational Efficiency	EBITDA Margin	from 75% to >80%	from 74% to 78%
	Capital Structure	D/RAB Dividends Flexibility	< 60% DPS = $DPS_{TA} + Pay\ out_{NTA}$ Sale of selected assets	< 60% +4% from DPS_{08} + Step-Up
Non Traditional Activities (NTA)	Growth	Capex	Up to €1.9bn (potential)	Up to €1bn
	Value Creation	Maximization of Returns	Terna Plus	Renewables Storage Systems Energy Efficiency

2012 - 2016 Strategic Plan

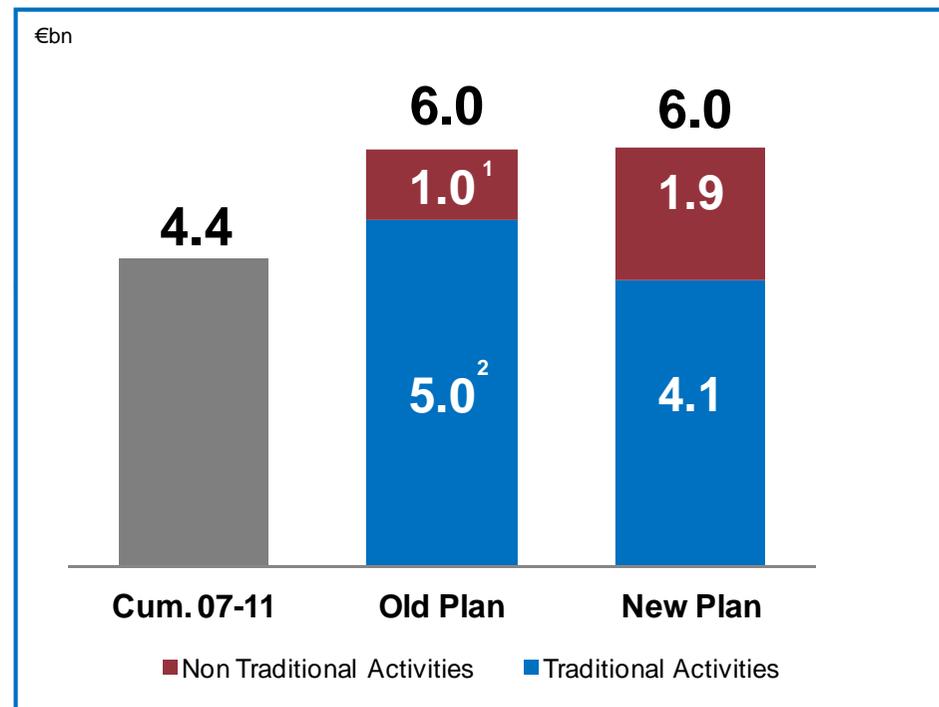
Growth - Group Capex

TA

- Capex Plan almost in line with last 5-year spending

NTA

- Improved visibility
- Mix of opportunities with an enhanced risk/reward profile



1) Of which 200mn spent in 2011 on PV

2) Of which 1.2bn spent in 2011

2012 - 2016 Strategic Plan

Growth - National Development Plan

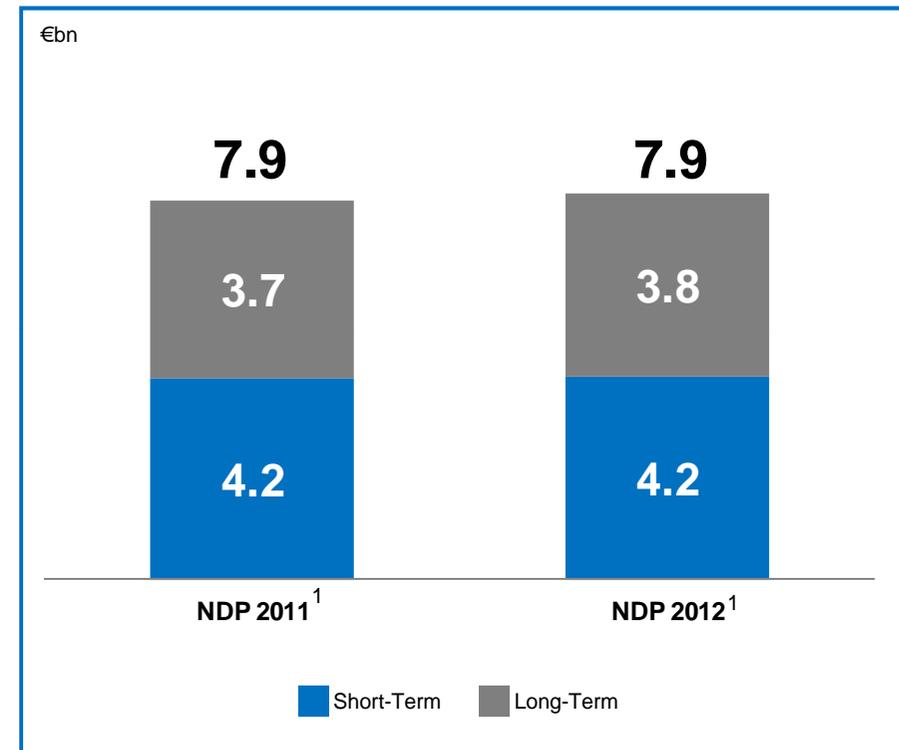
2012 NDP

Priority grid needs:

- Remove bottlenecks
- Interconnections for import capacity
- Exploitation of renewable generation

Legislative Framework

Leaner approval procedure, with Strategic Environmental Assessment valid for 3 years



Confirmed Overall Amount

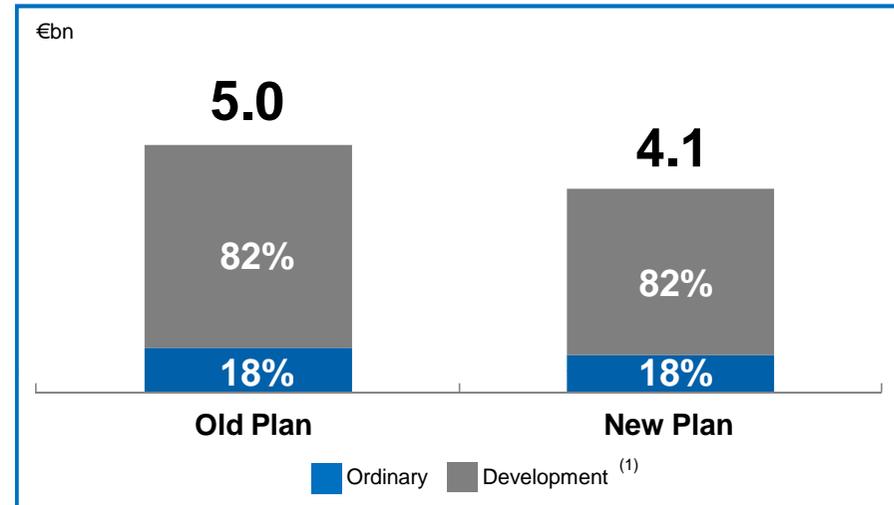
1) Including Storage Systems

2012 - 2016 Strategic Plan

Growth - Traditional Regulated Capex Plan

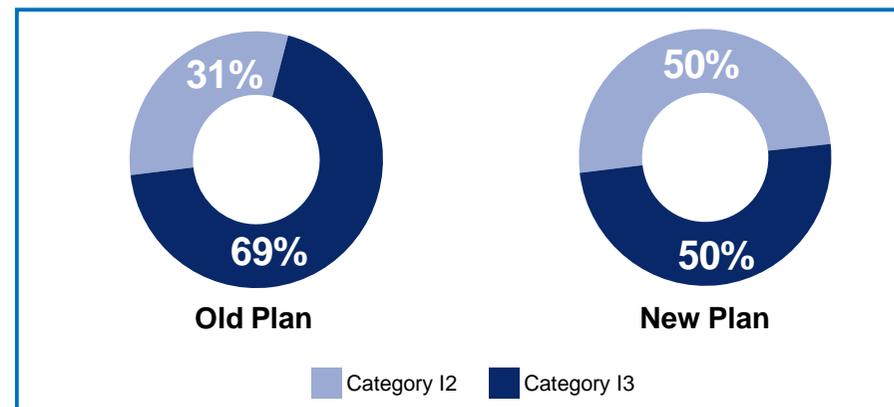
New Plan

- Mind the 2011 record spending (1.2bn)
- 2012 and 2013 capex in line with average last 3-year annual spending



Development Capex

- Mix of categories reflects new regulatory framework



Note: Capex net of Capitalized Financial Charges
 1) Including Defence Plan

2012 - 2016 Strategic Plan

Growth - RAB Remuneration Scheme

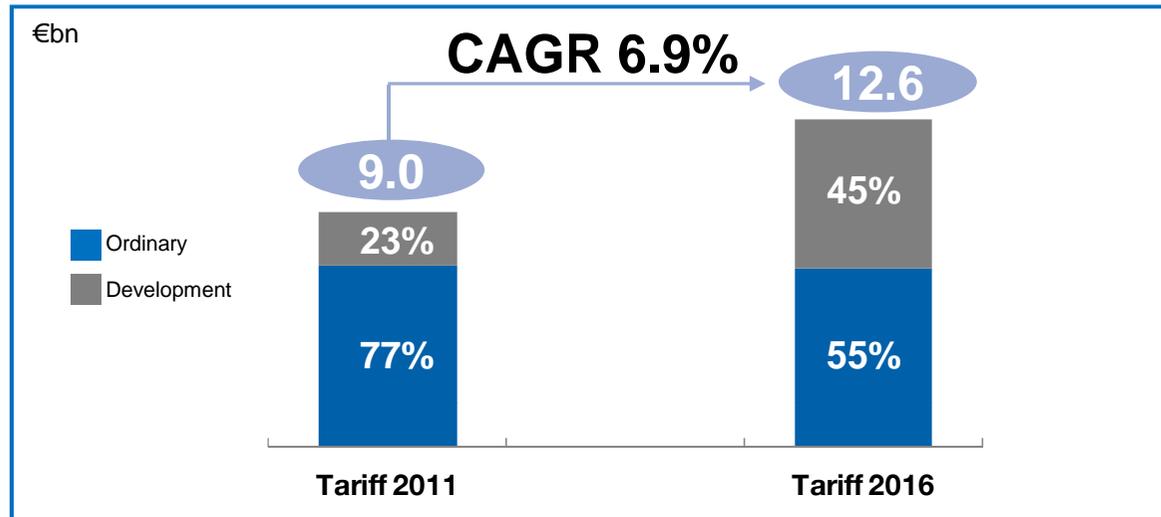
		Capex spent					
		Before 2012		2012-2013		From 2014	
RAB Remuneration	Base	7.4%		7.4%		Revision of Risk-free Rate	
	+						
	Regulatory Lag	0%		1%		+1%	
	+						
	Incentives	I2 +2%	I3 +3%	I2 +1.5%	I3 +2%	I2 +1.5%	I3 +2%
	+						
Total RAB Remuneration	9.4% 10.4%		9.9% 10.4%		...		

2012 - 2016 Strategic Plan

Growth - RAB Evolution and Blended Returns

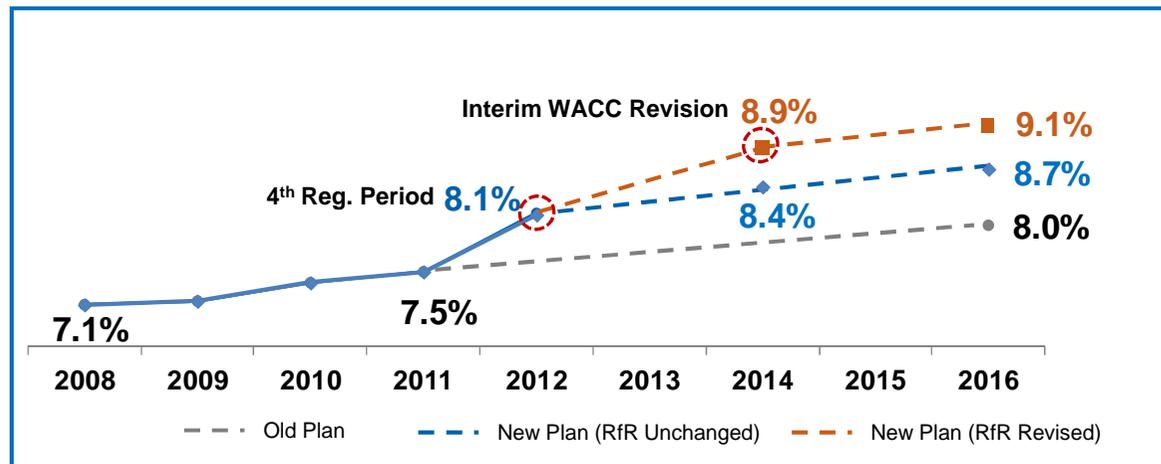
RAB Evolution

- Sound ~7% RAB CAGR
- Development RAB doubling



Blended Returns

- Significant step up in 2012 (>8%)
- Interim WACC revision drives further improvements



2012 - 2016 Strategic Plan

Non Traditional Activities - 

Important underlying principle: activities to be disposed and/or funded through project financing

AREAS OF INTEREST	TARGET	CAPEX
<ul style="list-style-type: none">▪ Connections for third parties<ul style="list-style-type: none">▪ Engineering services (BOO/EPC)¹▪ International▪ Energy savings programs▪ Storage	<ul style="list-style-type: none">▪ Minimum hurdle rate, depending on specific project or country risks ▪ Batteries for up to 240MW	<p>Up to 0.9bn</p> <p>Up to 1bn</p>

1) BOO: **B**uild, **O**wn, **O**perate; EPC: **E**ngineering, **P**rocurement, **C**onstruction

2012 - 2016 Strategic Plan

Non Traditional Activities – Batteries

WHY

- Improve the management of dispatching activities of non-programmable renewable sources

MACRO

- Assessment of Country's needs ⇒ 2012 NDP reflects recent trends and requirements
- Regulatory Framework ⇒ In place (Resolution 199/11)

TARGET

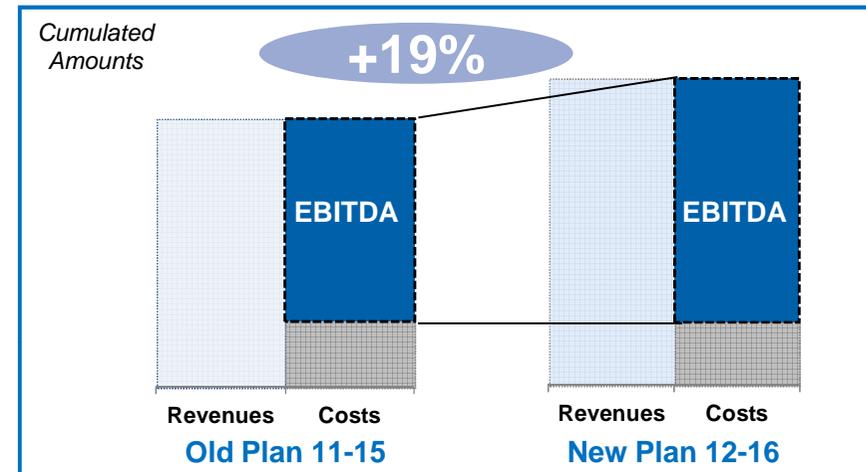
- Up to **240MW** ⇒ Up to **1bn capex**
- “Storage Lab” ⇒ Specific project to be approved by the Regulator to test different technologies and foster innovation in the sector

2012 - 2016 Strategic Plan

Operational Efficiency

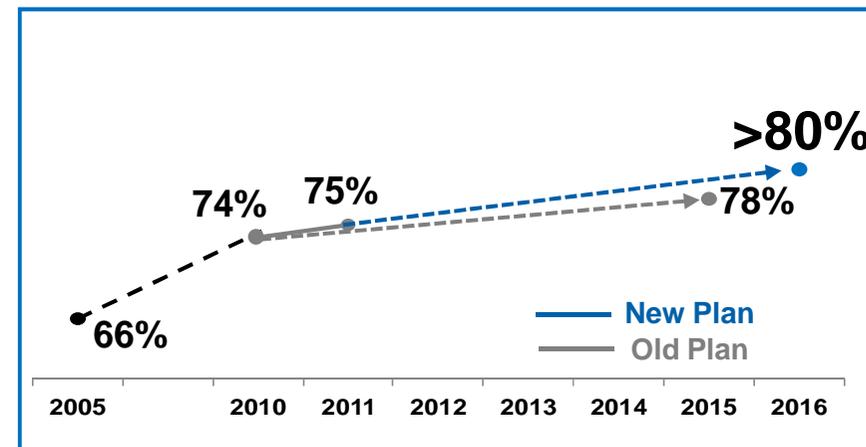
Group EBITDA Evolution

- Cumulated EBITDA up by 19%
 - Grid Fee rising
 - Costs flattish
- EBITDA CAGR¹ 7.5%



Group EBITDA Margin

- Record EBITDA Margin > 80%
 - >14pps increase from 2005
 - Better than Old Plan



1) 2011-2016

2012 - 2016 Strategic Plan

Flexibility through Sale of Selected Assets

Legislative Framework

- To foster additional investments, the *Liberalization Decree*¹ allows Concessionaires to ask the Authority for the remuneration of specific portions of assets

Strategic Value for Terna

- Reallocation of capital: exploiting growth opportunities, enhancing RAB mix and blended returns
- Higher Financial Flexibility: no recourse to incremental debt ⇒ no impact on rating

Transaction Structuring

- Sale of selected assets to a SPV, in which Terna may retain a stake
- SPV is operated through O&M/service contract with Terna
- At the end of its regulatory life, the assets will be transferred back to Terna

Identified potential portfolio of assets

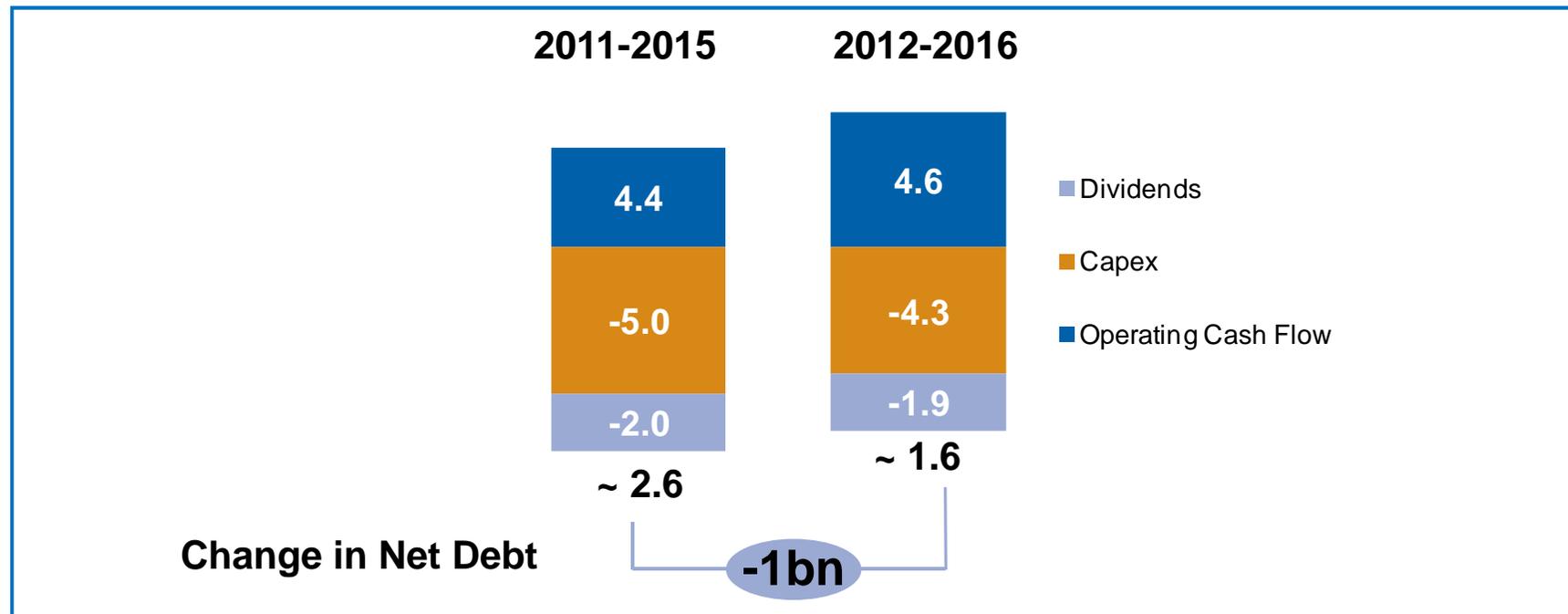
1) Legislative Decree 1/2012 ("Disposizioni urgenti per la concorrenza, lo sviluppo delle infrastrutture e la competitività"), Art. 21, paragraph 6

2012 - 2016 Strategic Plan

Capital Structure – Net Debt Evolution

Cash flow generation and financial discipline ensure strong Balance Sheet and a significant reduction in incremental Debt vs Old Plan

Consolidated Cash Flow



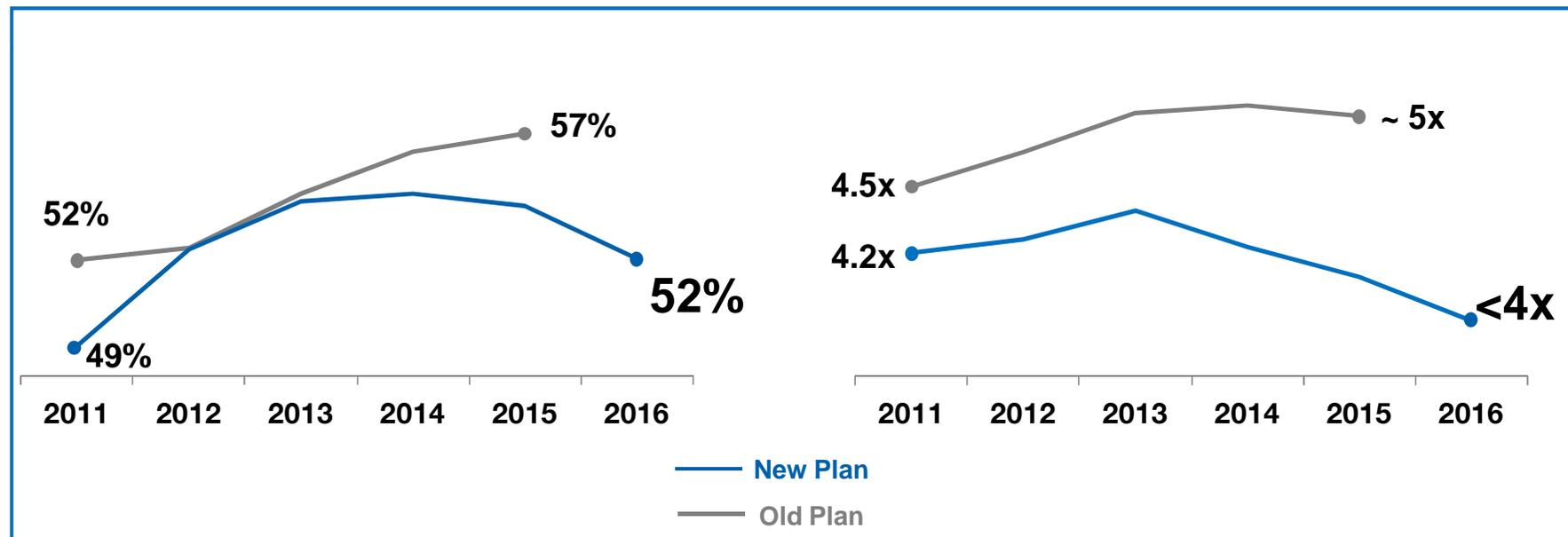
2012 - 2016 Strategic Plan

Capital Structure – Leverage and Ratios

- Relatively low gearing compared to previous Plan
- Improved financial ratios
- Option to dispose selected assets brings additional flexibility

Net Debt/RAB

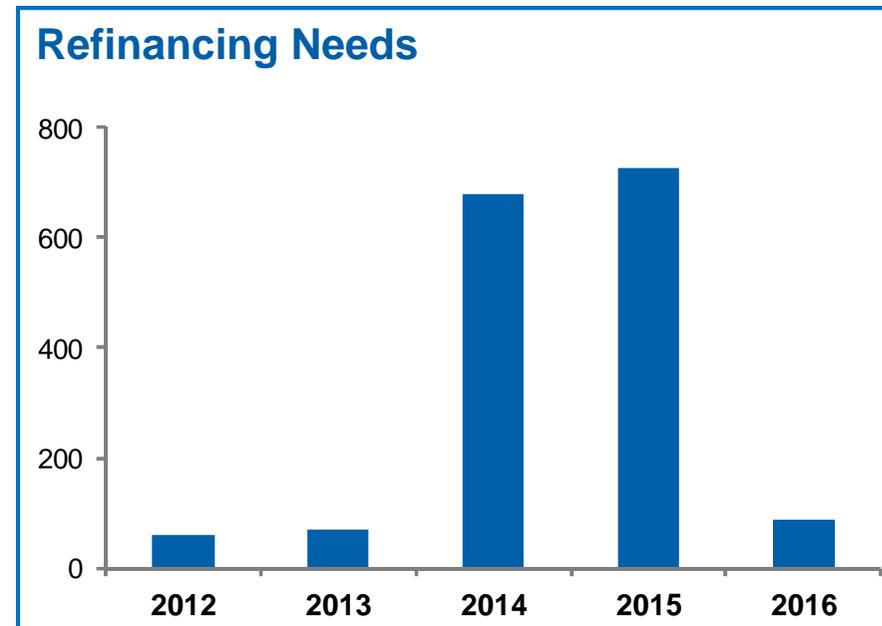
Net Debt/EBITDA



2012 - 2016 Strategic Plan

Capital Structure – Funding, Refinancing and Rating

- Funding available at an average Spread of ~ 100bps
- Debt Maturity: **9 yrs**
- Financing needs covered until 2015
- Rating in a Single A area
- Stand Alone Credit Rating better than Sovereign¹



Long Debt Maturity, Limited Refinancing Needs, Large Liquidity Available

1) Ratings of the Republic of Italy: S&P's BBB+, Negative Outlook; Moody's A3, Negative Outlook; Fitch A- Negative Outlook.

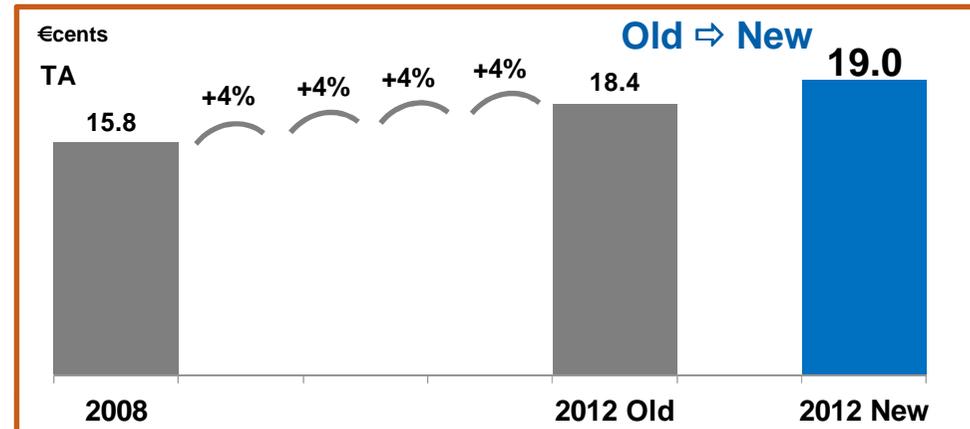
2012 - 2016 Strategic Plan

From Dividend to Total Return Policy

Dividend Policy

Consistent with the new strategic focus:

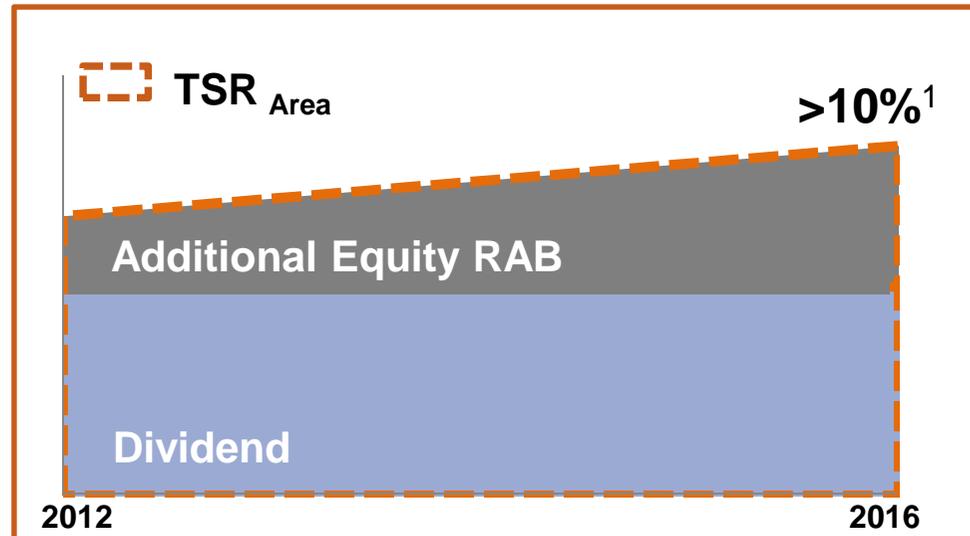
- $DPS = (TA + NTA)$
 $19_{\text{€/cent}} + 60\%$ payout on EPS/gains from NTA
- DPS12 on TA higher than Old Policy



Appealing Total Shareholder Return

Double-digit TSR

- High dividend yield with high visibility
- Sound Equity RAB growth



Note: **TA**: Traditional Activities; **NTA**: Non Traditional Activities
 1) Yield on market cap as of March 19, 2012

Key Takeaway

1 Strategic Pillars

Solidity  Enhanced Financial Structure
+
Value Creation  TSR Maximization

2 Capex Plan 2012-2016

6€bn cumulated capex
o/w up to **5€bn** in the Italian Grid¹

3 Outlook 2012

8th consecutive record-breaking year

1) Traditional + Batteries Capex

THANK YOU.
QUESTIONS?

Analyst Presentation
March 20th, 2012

Annexes

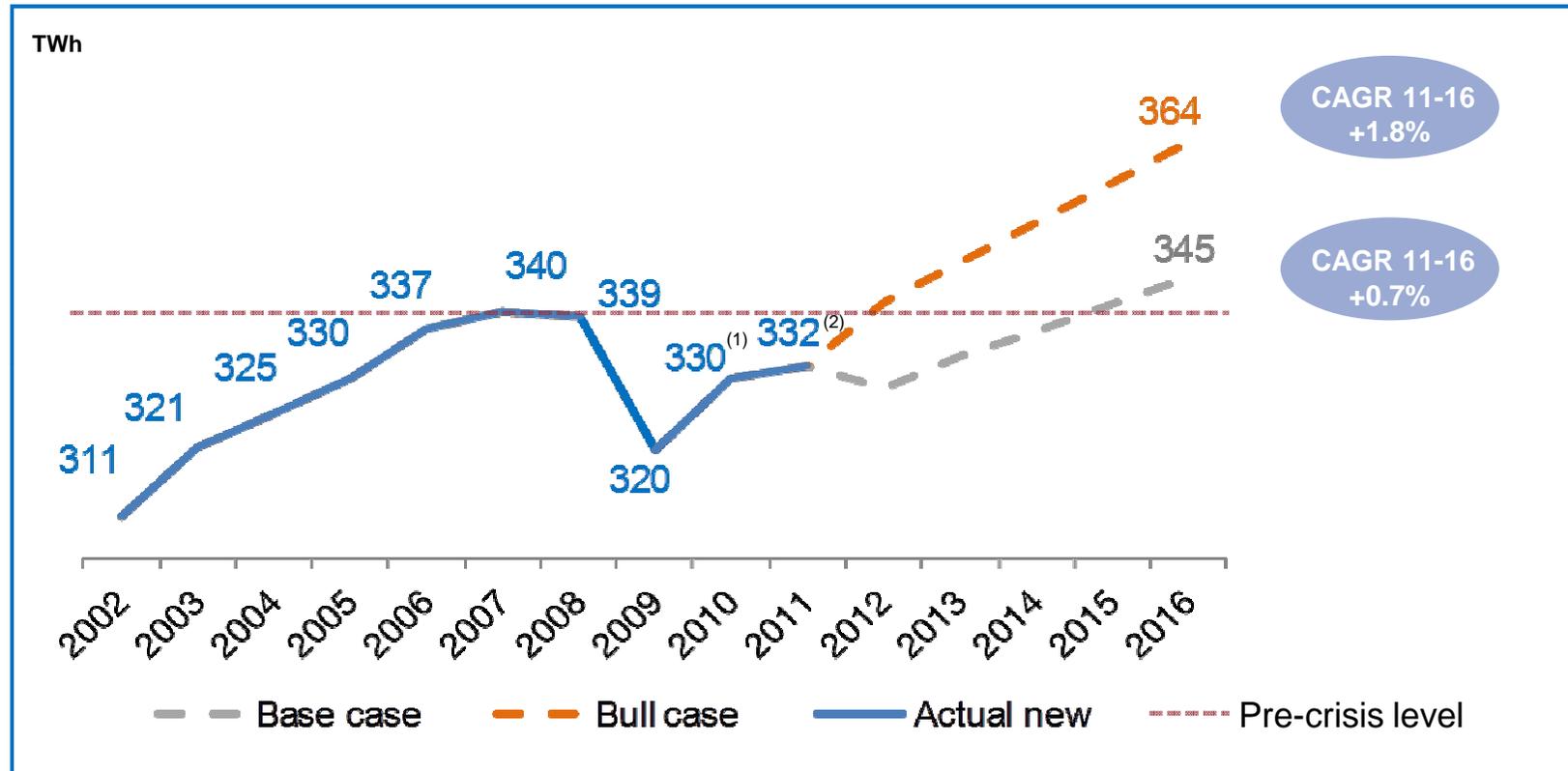
Main Assumptions

	Demand Growth	<ul style="list-style-type: none">▪ 2011: +0.6%▪ 2011-2016 CAGR: revised downward (<i>see slide n.26</i>)
	Macro Scenario	<ul style="list-style-type: none">▪ CPI/Deflator forecasts assumed constant at 2%
	Regulatory Framework	<ul style="list-style-type: none">▪ Assumptions consistent with the new regulatory period<ul style="list-style-type: none">▪ WACC assumed at 7.9% starting from 2014¹▪ 2016 in continuity with 4th regulatory period
	Fiscal Framework	<ul style="list-style-type: none">▪ RHT:<ul style="list-style-type: none">▪ 2012-2013 10.5%▪ 2014 6.5%

1) RfR revision

Main Assumptions

Demand Evolution



1) 2010 actual figure. Source: "Dati Statistici sull'Energia Elettrica in Italia 2010"

2) 2011 provisional figures

Main Assumptions

Electricity Market Trends

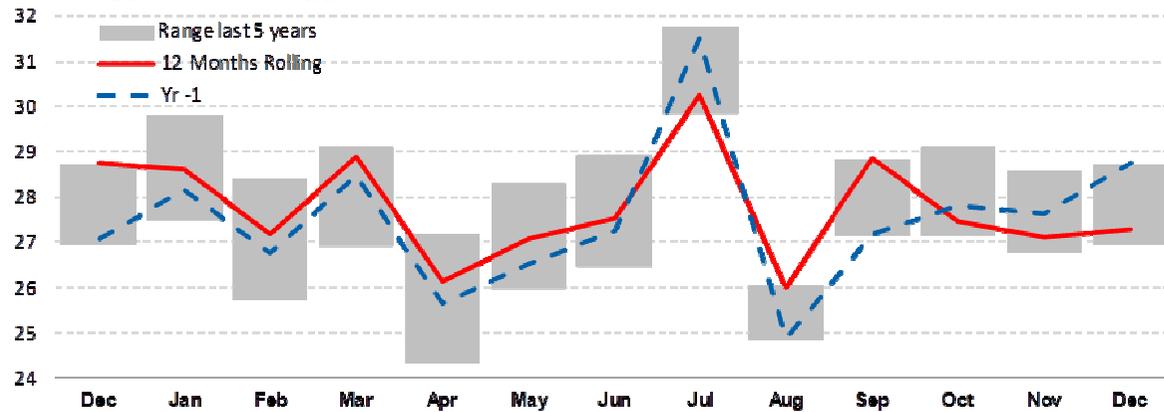
FY11 Energy Demand

+0.6% yoy

	FY10	FY11	Δ %
Demand _{TWh}	330.5	332.3	0.6%

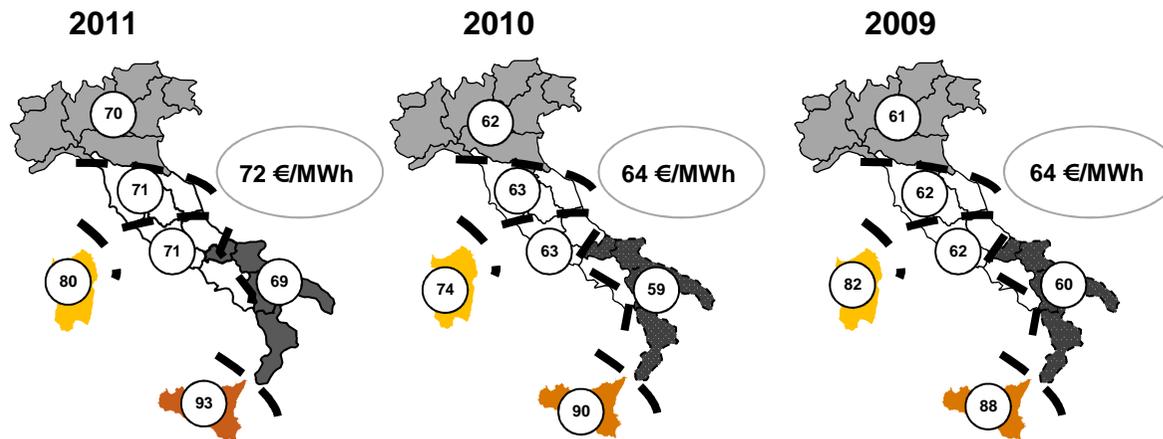
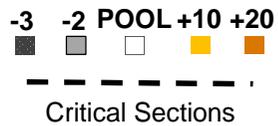
2010 final figures; 2011 provisional figures

Energy Demand _{TWh}



Electricity Prices (PUN)

72 €/MWh



Source: GME

Main Assumptions

Regulatory Framework

	3 rd Regulatory Period 2008-2011	4 th Regulatory Period 2012-2015
Wacc Real pre-tax	6.9% for 4 years	7.4% on capex spent before 2012 8.4% on capex spent from 2012 Revision of Risk-free Rate for 2014 and 2015
Regulatory Lag	2 years	2 years, 1% remuneration on top of base WACC (on capex spent from 2012)
Incentives	Capex I2: extra return of 2% for 12 years Capex I3: extra return of 3% for 12 years	From 2012: Capex I2: +1.5% for 12 years ⁽¹⁾ Capex I3: +2% for 12 years Capex I4: +2% for 12 years
Work-in-progress	Extra return of 3% on WIP I3 (optional)	Extra return of 2% on WIP I3 (compulsory) ⁽²⁾
Profit Sharing	50% of extra efficiencies on opex achieved in the 2nd Regulatory Period and recovery in 8 years	50% of extra efficiencies on opex achieved in the 3rd Regulatory Period and recovery in 8 years
X factor	Transmission 2.3% (only on opex) Dispatching 1.1% (only on opex)	Transmission 3% (only on opex) Dispatching 0.6% (only on opex)

Growth

National Development Plan – New needs

Scenario

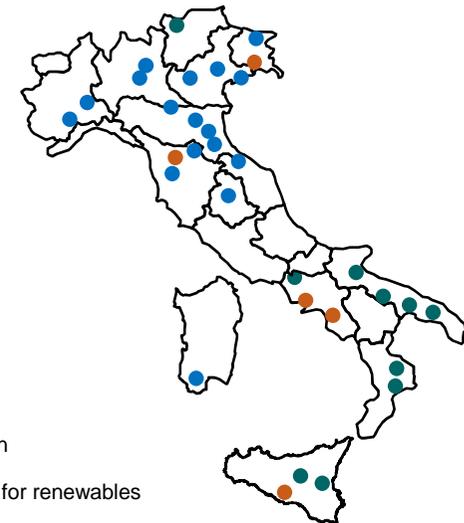
- **Generation**
 - Confirmed growth trend in renewable capacity
 - Higher risks of grid congestions in South Italy and Islands

Objectives

- **Support renewables capacity growth through**
 - Connections to the grid and removal of bottlenecks
 - Voltage regulation and security of the Grid
- **Development of Storage Systems**
 - Batteries (flexible)
 - Needs of Pumping storage ⁽¹⁾

DRIVERS

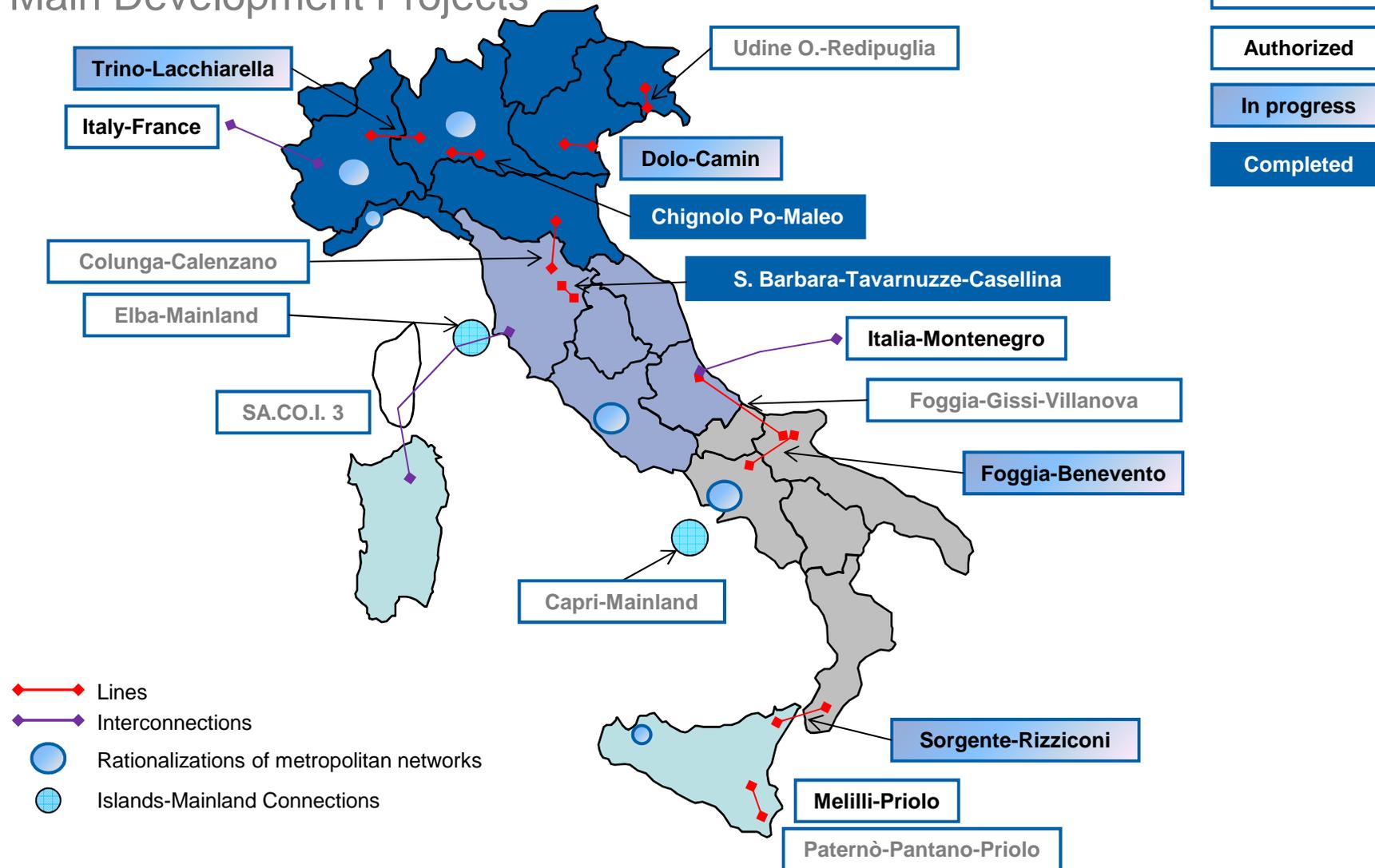
- Local Security
- Grid Regulation
- Debottlenecks for renewables



1) Law Decree 93/2011 establishes realization of future pumping storage plants included in the Network Development Plan will be assigned by public tender

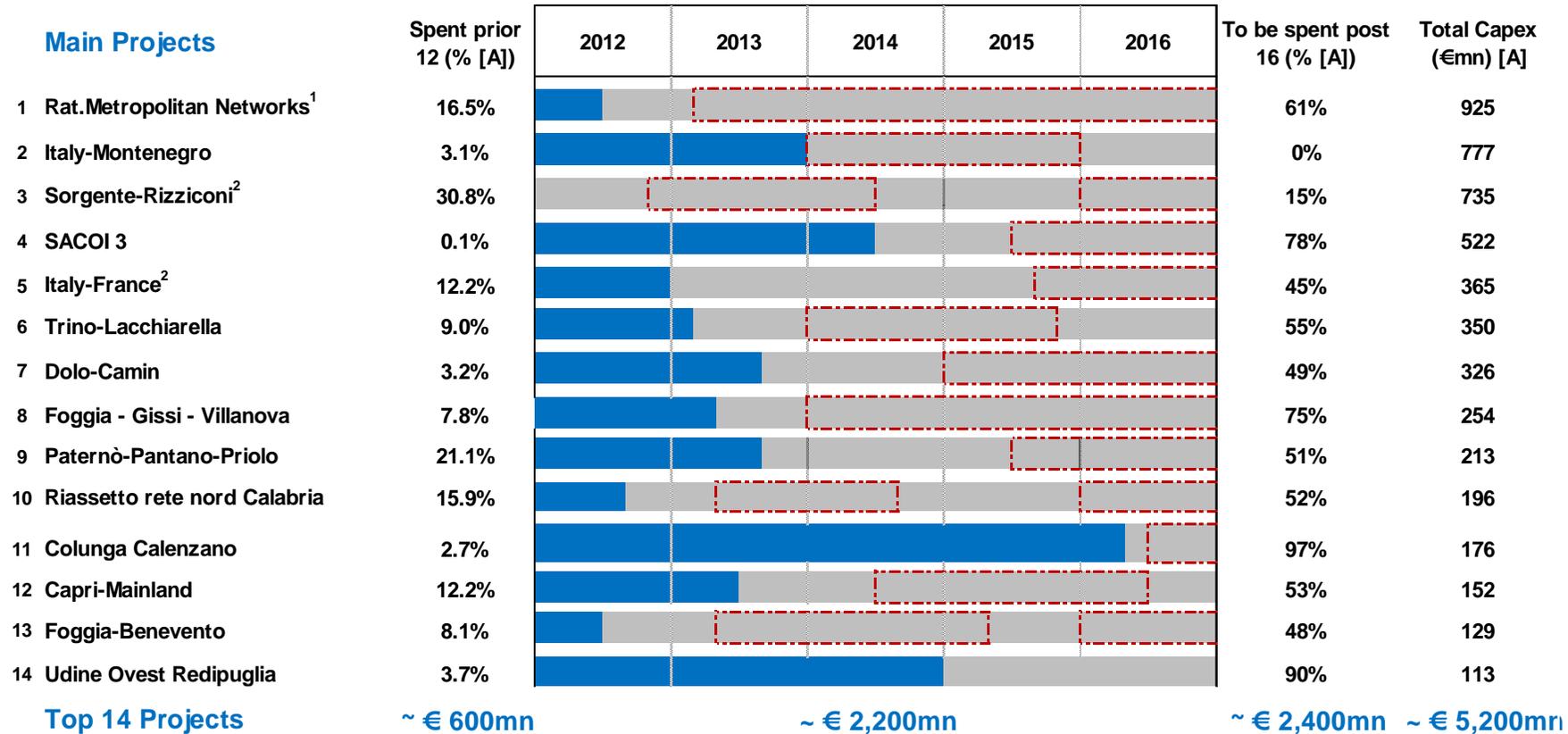
Growth

Main Development Projects



Growth

Pipeline of Key Development Projects



1) Milano, Napoli, Roma, Genova, Palermo, Torino, Firenze

2) Co-financed by the European Union
European Energy Programme for Recovery

3) Net of Batteries

65% of NDP³

Growth

Italy-Montenegro Interconnection

Italy-Montenegro Interconnection Cable

- Total Capex: €777mn
- Capacity: 2x500MW HVDC cables
- Length: 415km (of which 390 km undersea cable)
- Cables and AC/DC procurement process under way

Italian Side

- Portion of capex in waters/land
- Authorization process completed

Montenegrin Side

- Portion of capex in waters/land
- Authorization process ongoing:
 - Detailed Spatial Plan approved by the Government of Montenegro
 - Expropriation process ongoing
 - Public land (including maritime property) rights acquisition process ongoing
- Engineering and design activities with local standard



International

Long-Term Opportunities



Future Opportunities in the Balkans

- Building and managing infrastructures for connecting new plants to the local grid
- New private interconnection lines between Montenegro and its neighboring countries



Desertec Industrial Initiative¹ is a private industry consortium. The industry initiative Dii focuses on power generation from sun and wind in the deserts of the Middle East and North Africa and transmission to local demand and partly to the European interconnected grid.

1) Terna joined on September 30th, 2010



Medgrid is a consortium of industry leaders in electricity generation, transmission and distribution as well as in infrastructure financing and climate change services. The vision is to create new highways for sustainable electricity – through feasibility studies of a transmission network between the north and south rims of the Mediterranean, and of interconnections across the entire Mediterranean region.

Capital Structure

Funding Available

Credit Lines	Drawn	Available
Bond 2014	600	
Bond 2024	800	
Bond IL 2023	547	
Bond 2021	1,250	
Bond 2017 (13 Feb. 2012)	1,250	
Revolving Credit Facility 2013		500
Term Loan 2015	650	
EIB	1,345	
CdP	500	
Private Placement 2019	600	
Cash (post bond 2017)		2,515
TOTAL	7,542	3,015

Corporate Social Responsibility

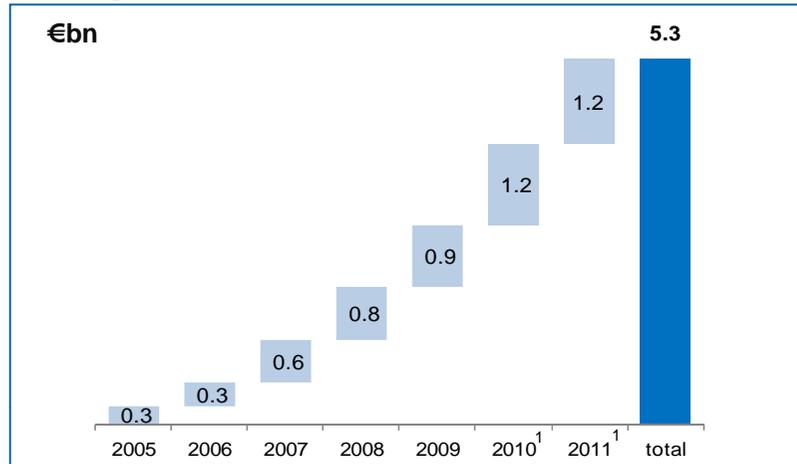
- Our commitment to Sustainability has been widely recognized over the last years through the inclusion in the main Sustainability Indexes Worldwide
- Terna aims at maintaining such an excellent recognition by carrying out improvement programs coherent with the targets of the Plan

CSR Targets

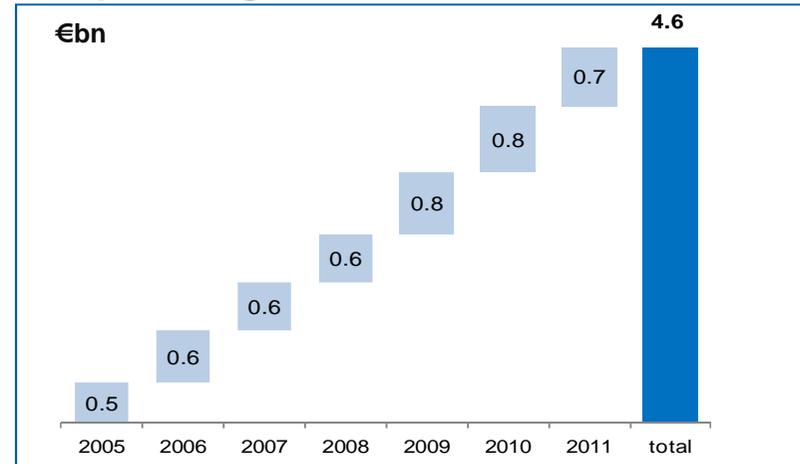
- Extend environmental, social and governance standards of the Holding company to all operating Companies
- Build and implement partnerships with the most relevant environmentalist associations for a sustainable development of the Grid
- Improve the consideration of ESG aspects in our supply chain management
- Develop a more integrated reporting by participating to the IIRC pilot program
- Increase our contacts with SRI investors

Track Record (1/3)

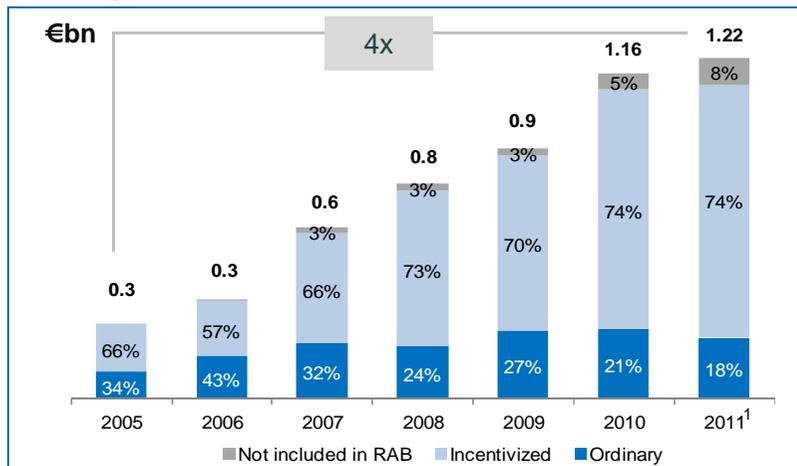
Capex



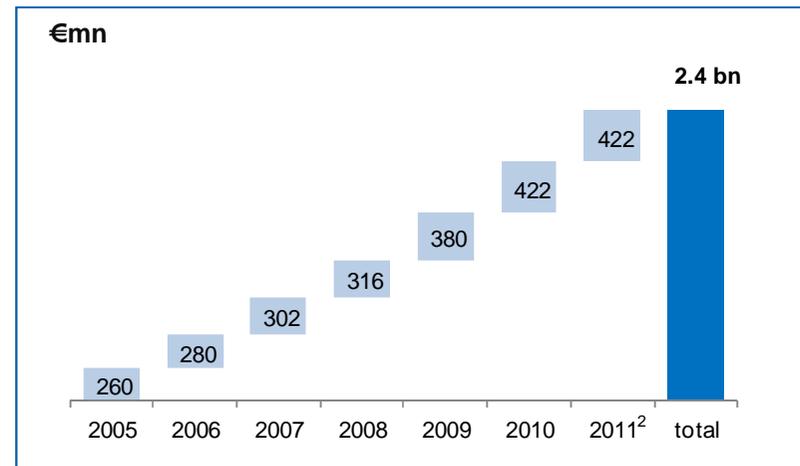
Operating Cash Flow*



Capex Breakdown



Total Dividends

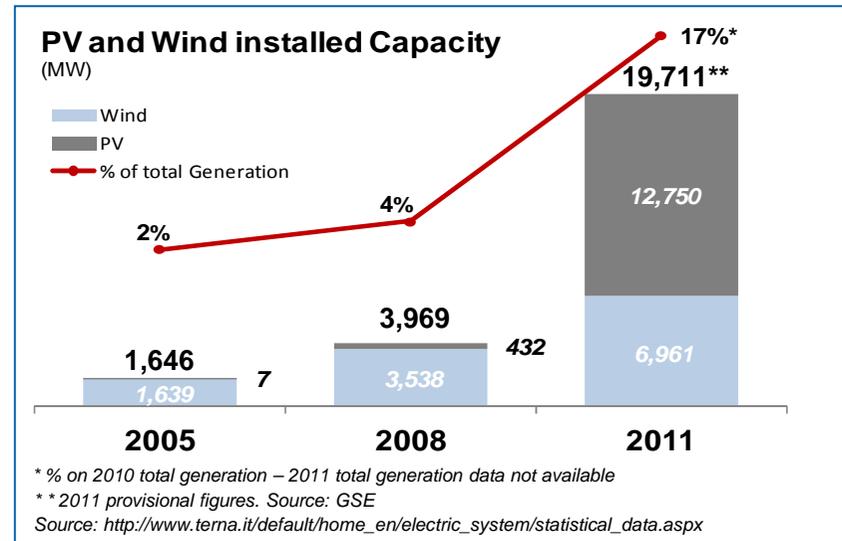
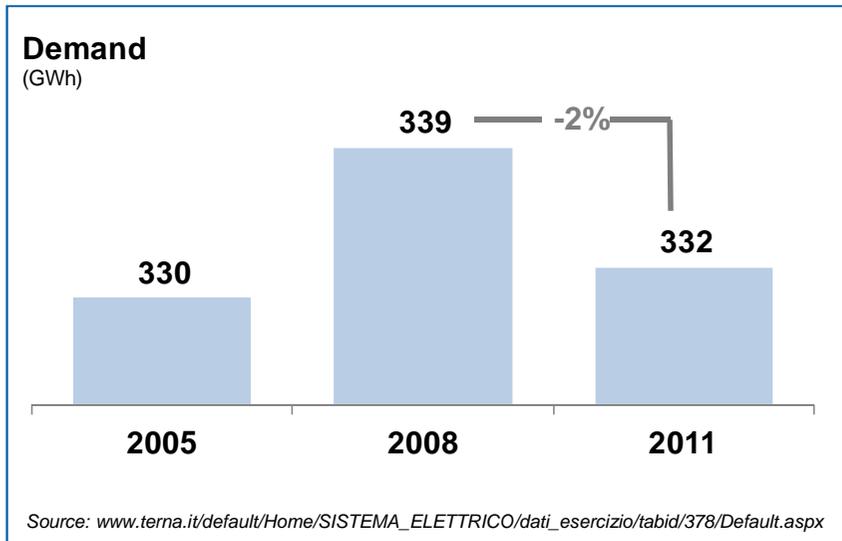
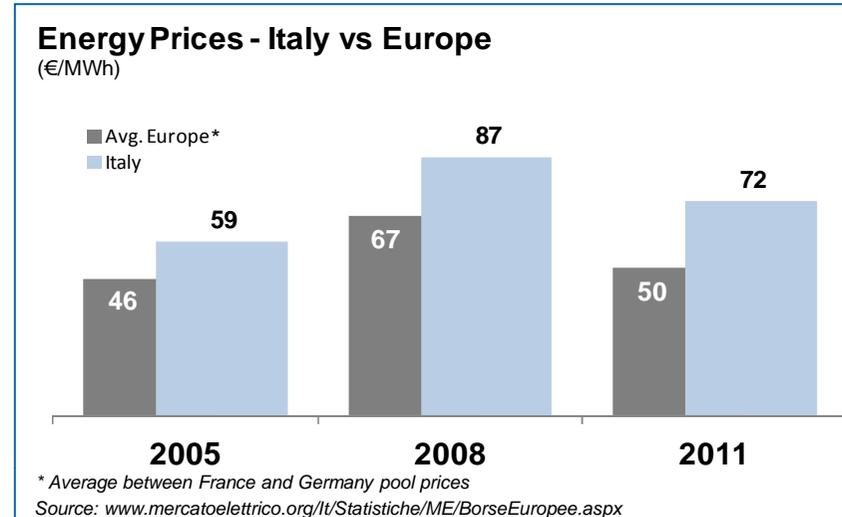
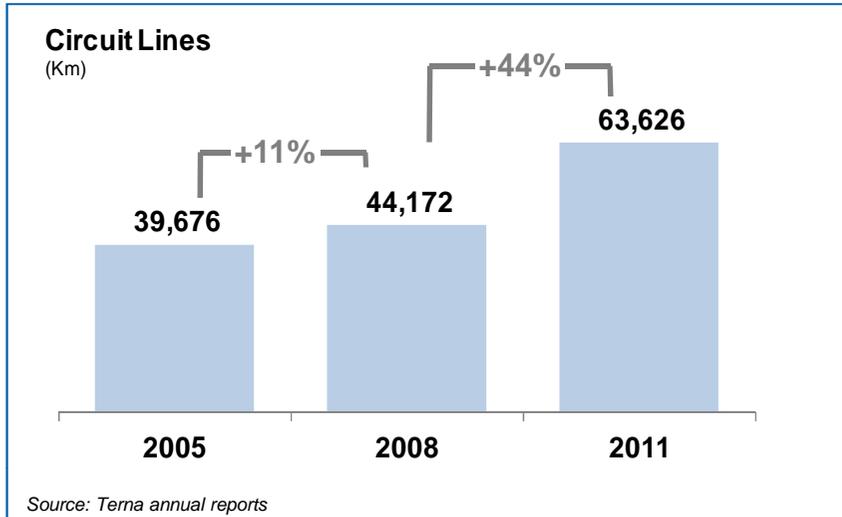


* Net Income+D&A+Net Change in Funds

1) Total Traditional Capex

2) Of which 161mn paid on November 24, and 261mn to be paid on June 21. subject to AGM approval

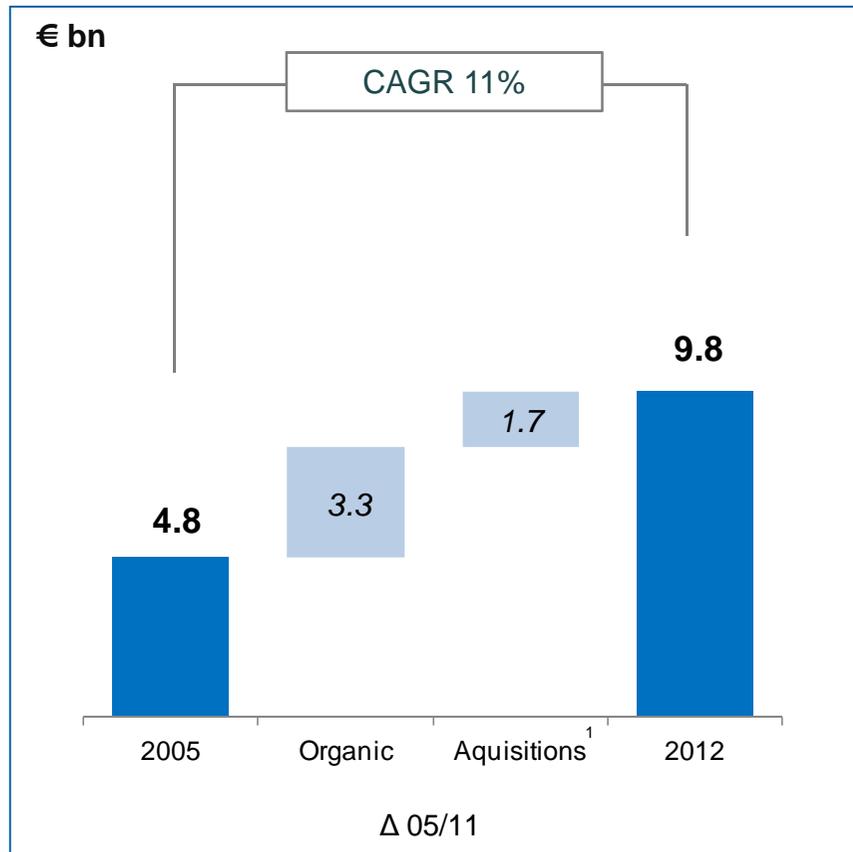
Track Record (2/3)



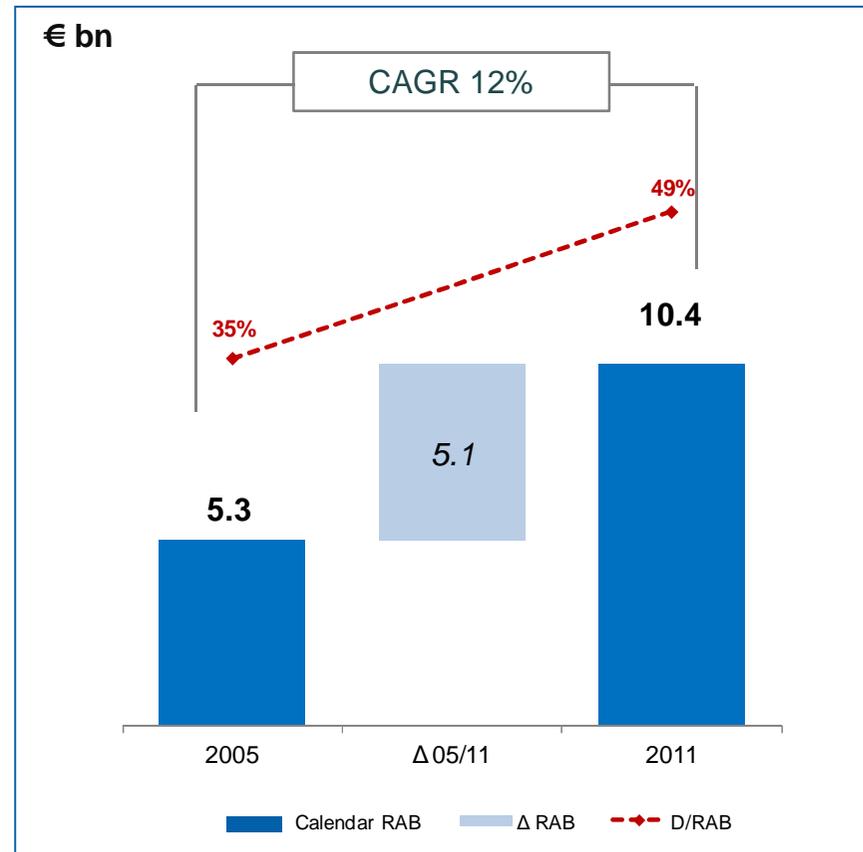
Track Record (3/3)

RAB Evolution

▪ RAB for Tariffs



▪ Calendar RAB



1) Main acquisitions: TELAT, Edison-AEM, AEM Torino, Retrasm

FY2011 Results

2011 Results

2011 at a Glance

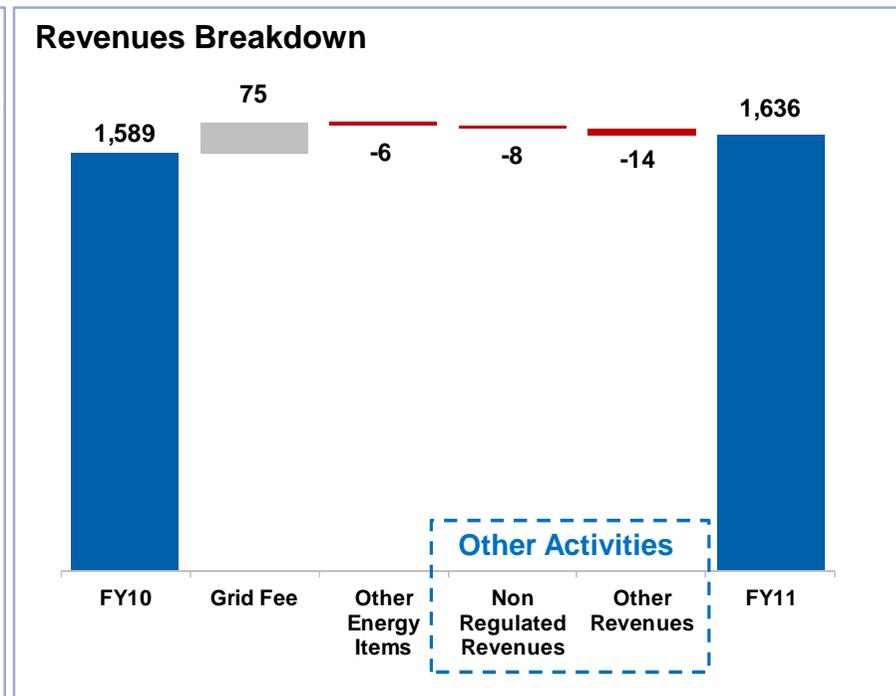
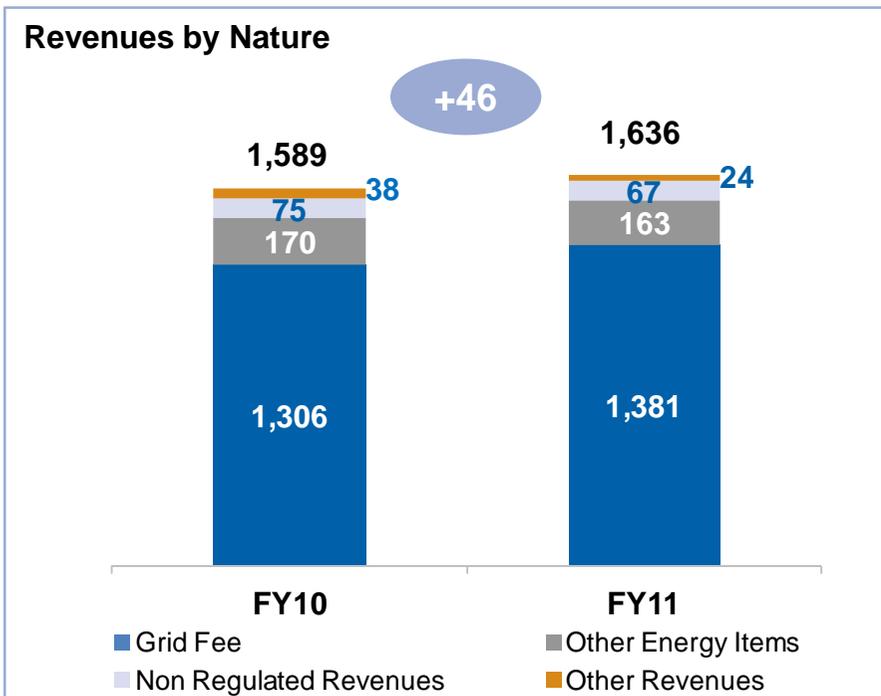
P&L RESULTS		BALANCE SHEET	2011 DIVIDEND
Total Revenues +3% <small>yoy</small> at 1,636 €mn 		Total Group Capex Record at 1,229 €mn 	21 €cents ⁽¹⁾ o/w Final dividend 13 €cents Payment date: June 21
EBITDA +5% <small>yoy</small> at 1,230 €mn 		Net Debt <small>Continuing Operations</small> 5,123 €mn +401 €mn vs. FY10 	
PBT Stable <small>yoy</small> at 715 €mn	Adjustments ⁽²⁾ 138mn Disc. Oper. 113mn		

1) Subject to AGM approval

2) Includes total impacts of the Robin Hood Tax, IRAP increase, net positive impact for redemption of goodwill and one-off items from previous years

2011 Results

P&L – Consolidated Revenues Breakdown

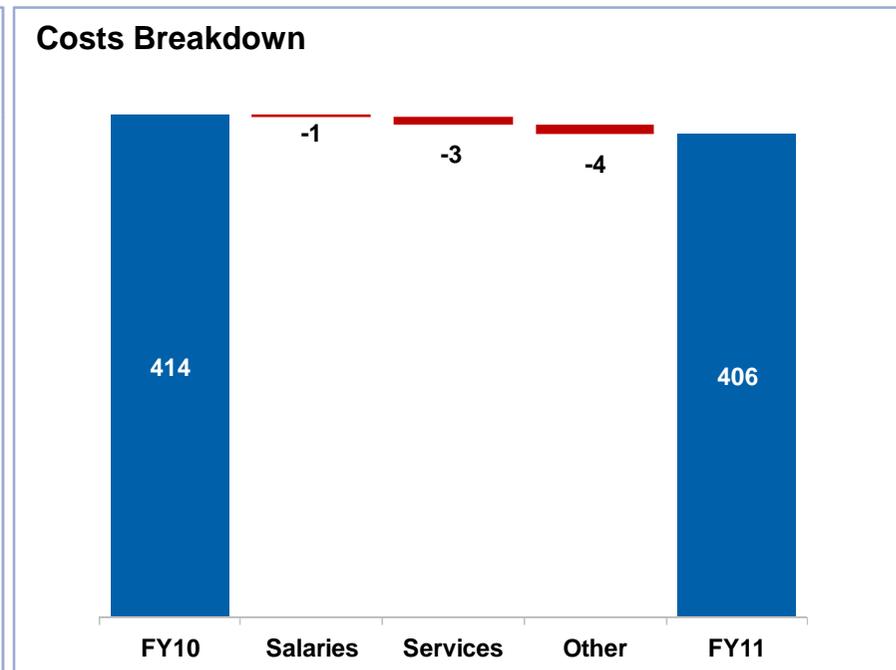
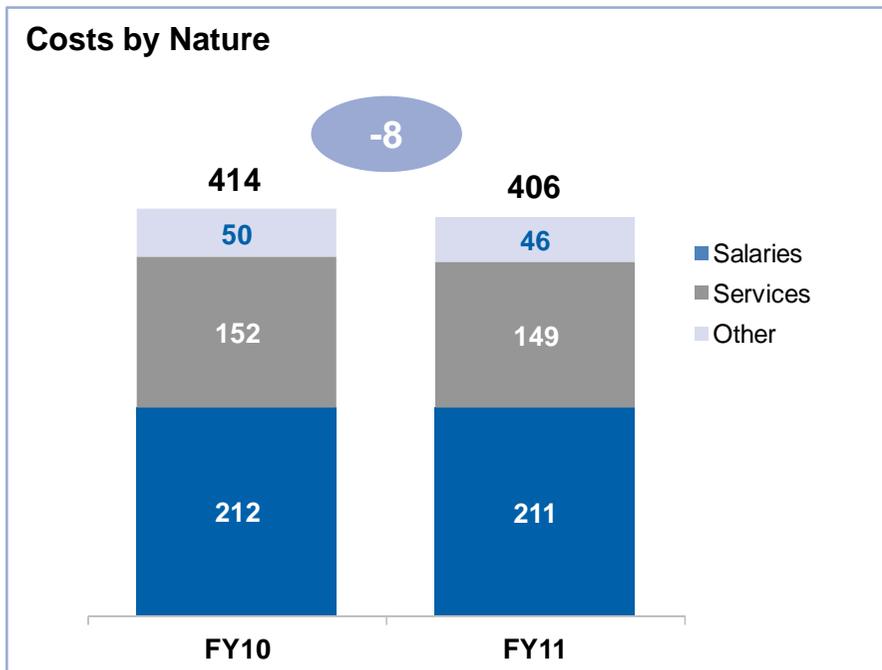


In € mn

2011 Results

P&L – Consolidated Costs Breakdown & EBITDA

Total Operating Costs -2% yoy at 406 €mn 	EBITDA +5% yoy at 1,230 €mn 	EBITDA Margin 75.2% +1.3pp yoy 
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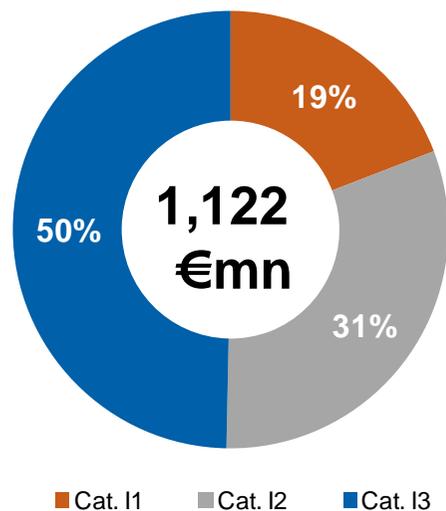
In € mn

2011 Results

Capex Breakdown

Incentivized Capex 81% of Regulated Capex at 906 €mn	Development Capex I3 +10% yoy at 557 €mn	Authorized Capex in 2011 2.3 €bn O/W 0.8 €bn Completed
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Capex Regulated Activities



€ mn	FY10 ¹	FY11	Δ yoy	Δ % yoy
Category I3	505	557	52	10%
Category I2	358	349	-9	-3%
Category I1	243	215	-28	-11%
Capex Regulated Act.	1,106	1,122	15	1%
Not Included in RAB	56	98	43	
Total Traditional Capex	1,162	1,220	58	5%
Non Traditional Capex	-	9		
Total Group Capex	1,162	1,229	67	6%

1) Net of Rete Solare Srl

2011 Results

Consolidated Income Statement

€ mn	FY10	FY11	Δmn	Δ%
Operating Revenues	1589	1636	46	2.9%
<i>of which</i>				
<i>Grid Fee</i>	1306	1381	75	5.7%
<i>Other Energy Items</i>	170	163	-6	-3.8%
<i>Other Activities</i>	113	91	-22	-19.3%
Operating Expenses	414	406	-8	-2.0%
<i>of which</i>				
<i>Salaries</i>	212	211	-1	-0.6%
<i>Services</i>	152	149	-3	-2.1%
<i>Other</i>	50	46	-4	-8.0%
EBITDA	1175	1230	55	4.7%
D&A	361	394	34	9.3%
EBIT	814	836	21	2.6%
Financial Charges	103	121	19	18.0%
Pre Tax Profit	712	715	3	0.4%
Taxes	247	387	141	56.9%
Tax Rate (%)	34.7%	54.2%		
Net Income Continuing Operations	465	327	-138	-29.6%
Net Income Discontinued Operations	147	113		
Total Net Income	612	440	-172	-28.1%

Note: 2010 figures restated according to IFRS 5

2011 Results

Quarterly Analysis

€ mn	1Q10	1Q11	Δ	2Q10	2Q11	Δ	3Q10	3Q11	Δ	4Q10	4Q11	Δ
Operating Revenues	365	385	20	397	412	14	407	421	13	419	421	2
<i>of which</i>												
Grid Fee	331	352	21	317	337	20	332	352	20	327	341	14
Other Energy Items	12	13	1	51	56	6	37	50	13	32	26	-5
Other Activities	16	14	-2	19	19	0	32	19	-14	46	42	-4
IFRIC 12	6	6	0	12	0	-12	6	0	-6	15	12	-3
Operating Expenses	91	90	-1	102	98	-4	87	88	0	134	131	-3
EBITDA	274	295	21	295	314	19	320	333	13	285	290	5
D&A	84	95	11	89	98	9	87	96	9	101	105	4
EBIT	190	200	10	207	216	10	233	237	4	185	185	1
Financial Income & Equity Inv.	4	11	7	4	8	5	4	13	9	2	13	10
Financial Charges	28	36	8	27	41	14	27	42	15	34	46	12
Pre Tax Profit	166	174	8	183	183	0	209	207	-2	153	152	-1
Taxes	59	60	1	57	61	5	70	221	151	60	43	-17
Net Income Continuing Operations	107	114	7	127	122	-5	139	-14		93	109	16
Net Income Discontinued Operations	0.1	59	59	0	34	34	-0.3	-0.1	0	148	18	-130
Total Net Income	107	174	67	127	156	29	139	-14		241	127	-114
Minority Interest	0	0	0	0	0	0	0	0	0	0	0	0
Group Net Income	107	174	67	127	156	29	139	-14		241	127	-114

Note: 2010 figures restated according to IFRS 5

2011 Results

Consolidated Balance Sheet

€ mn	FY10	FY11	Δmn
Assets			
<i>PP&E</i>	7,803	8,618	816
<i>Intangible Asset, net</i>	471	471	0
<i>Financial Inv. And Other</i>	30	74	44
Total Fixed Assets	8,304	9,163	860
<i>Net WC</i>	-381	-724	-343
<i>Funds</i>	-599	-565	34
<i>Net Assets of Disc. Operations</i>	399	0	-399
Total Net Invested Capital	7,722	7,874	152
<i>Financed by</i>			
Consolidated Net Debt	4,949	5,123	174
<i>of which Effective Net Debt from Continuing Operations</i>	<i>4,722</i>	<i>5,123</i>	<i>401</i>
Total Shareholder's Equity	2,773	2,751	-22
D/E Ratio Continuing Operations	1.7	1.9	
Number of Shares ('000)	2,004	2,010	

2011 Results

Consolidated Cash Flows

€ mn	FY10 ¹	FY11
<i>Net Income</i>	465	327
<i>Depreciation²</i>	358	391
<i>Net Change in Funds</i>	-11	-0.4
Operating Cash Flow	812	717
<i>Change in Working Capital</i>	-204	343
Cash Flow from Operating Activities	608	1,060
Capital Expenditures	-1,163	-1,229
Other Fixed Asset Changes	-30	-21
Free Cash Flow	-585	-190
Dividends	-401	-422
Change in Capital and Other	21	-18
Disposals	0	229
Change in Net Cash (Debt)	-964	-401

1) 2010 figures restated for redemption of goodwill

2) Net of assets' disposal

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