2015 2019 STRATEGIC PLAN

Cash Flows to drive Shareholder Returns

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CHAIRWOMAN

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Terna

TERNA GROUP

Agenda

Terna Today

Terna is...

- ...the largest independent Transmission System Operator (TSO) in Europe
- ...the owner of the National High Voltage Transmission Grid
- ...responsible for the transmission and dispatching of the electricity all over the Country with ~3,500[1] employees
- ...listed on the Italian Stock Exchange since 2004
- … 3.8 €bn cumulated dividends since IPO[2] and Total Shareholder Return >300%

Our Grid

~ 63,900 Km of three-phase conductors
21 interconnections[3]
491 substations

Electricity Market[4]

309 TWh energy demand
51.5 GW highest peak of demand (12th June 2014)

Focus on safety and technological innovation for sustainable Grid development

1.Excluding Tamini
2. Including 2014 final dividend. BoD proposal, subject to AGM approval.
3. Owned by Terna
4. 2014 provisional figures - Italy

Agenda

Introduction: Terna Today

FY2014 Results

2015-2019 Strategic Plan

Highlights

FY2014 at a Glance

KEY FIGURES

1,996 €mn
Revenues
+5.3%$_{yoy}$

1,491 €mn
EBITDA
+0.2%$_{yoy}$

545 €mn
Net profit
+6.0%$_{yoy}$

CAPEX, FREE CASH FLOW AND NET DEBT

1,096 €mn
Total capex

260 €mn
Free Cash Flow

6,968 €mn
Net Debt

20 €cents 2014 Dividend per share[1]

1. *BoD proposal, subject to EGM approval. Equal to 13€cents as a final dividend to be paid in June (ex date June 22nd 2015, Payment date June 24th 2015)*

Agenda

FY14 Results
Revenues

KEY FIGURES

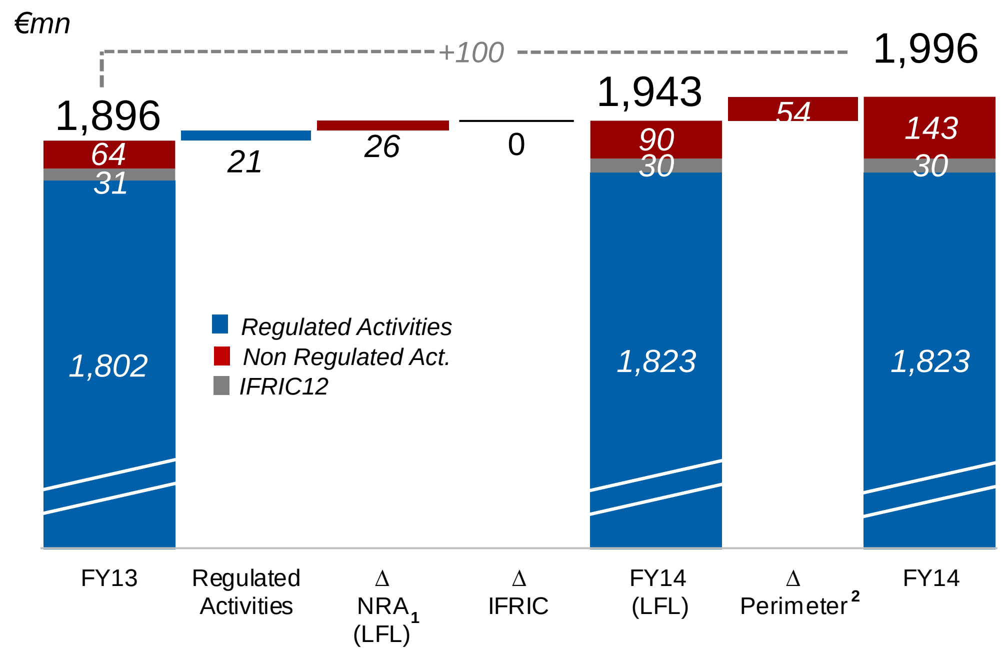
Total Revenues
1,996€mn
+5.3%yoy

Quality of Service
34€mn
+22€mn

Non Regulated
90€mn
+26€mn

Tamini
54€mn

TOTAL REVENUES EVOLUTION



1. Excluding Tamini
2. Tamini

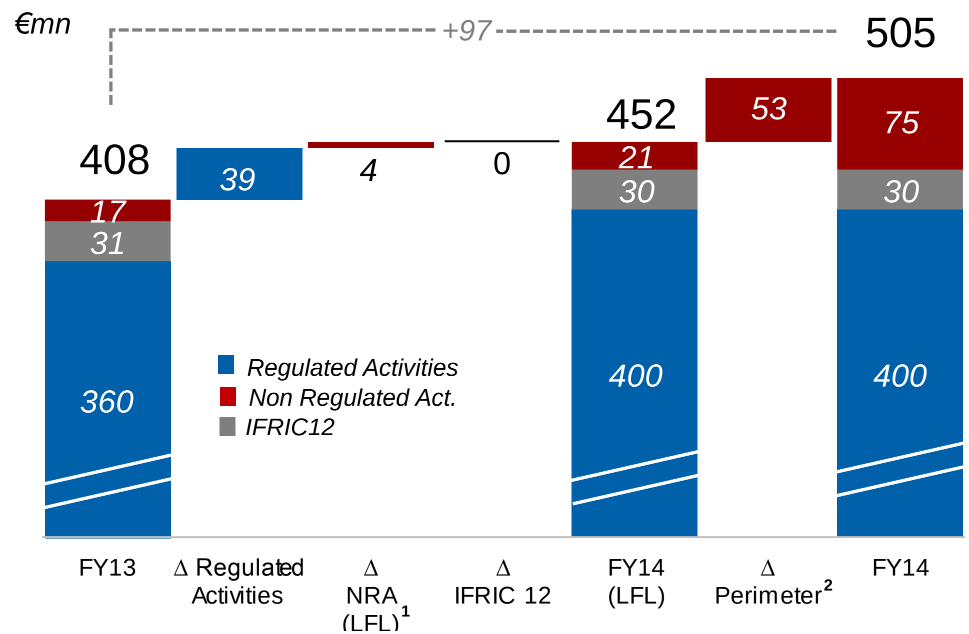
FY14 Results
Costs

KEY FIGURES

Total Costs
505€mn
+23.7%yoy

Provision for Voluntary Turnover Programme
37€mn

TOTAL COSTS EVOLUTION



€ mn	FY13	FY14 LFL	Δmn	Δ%	Tamini
Labour Costs	*199*	*247*	*48*	*24%*	*12*
External Services & Materials	*132*	*137*	*5*	*4%*	*39*
Other	*46*	*38*	*-9*	*-19%*	*1*
IFRIC12	*31*	*30*	*0*	*-1%*	
Total Costs	**408**	**452**	***44***	***11%***	**53**

1. *Excluding Tamini*
2. *Tamini*

FY14 Results
From EBITDA to Net Income

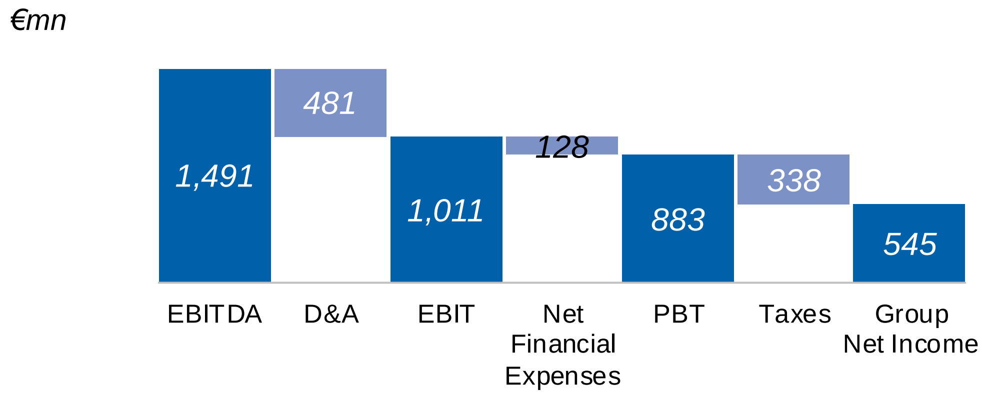
KEY FIGURES

Group EBITDA
1,491€mn
+0.2%yoy

Group EBITDA %
74.7%

Cost of Net Debt
2.5%

Group Net Income
545€mn
+6.0%yoy



€ mn	**FY13**	**FY14**	*Δ*	*Δ %*
EBITDA	**1,488**	**1,491**	*3*	*0.2%*
Ebitda %	*78.5%*	*74.7%*	*-3.8pp*	
D&A	450	481	*30*	*6.7%*
EBIT	**1,038**	**1,011**	*-27*	*-2.6%*
Net Financial Expenses	100	128	28	27.6%
PBT	**938**	**883**	*-55*	*-5.8%*
Tax Rate	45.2%	38.3%	*-6.9pp*	
Taxes	424	338	*-85*	*-20.1%*
Group Net Income	**514**	**545**	*31*	*6.0%*

FY14 Results
Capex Breakdown

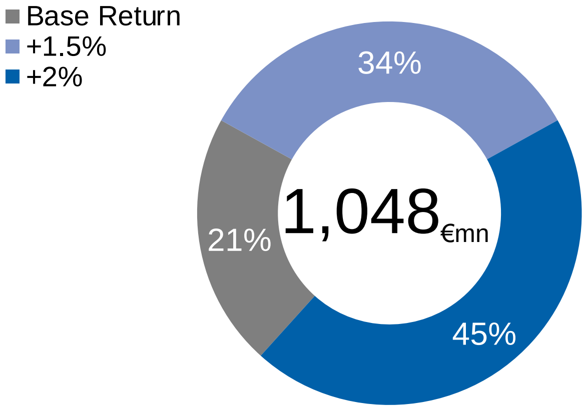
KEY FIGURES

FY14 Total Capex
1,096€mn

Development Capex
732€mn

Storage
92€mn
+48%yoy

REGULATED CAPEX BREAKDOWN[1]



79% Development[1]

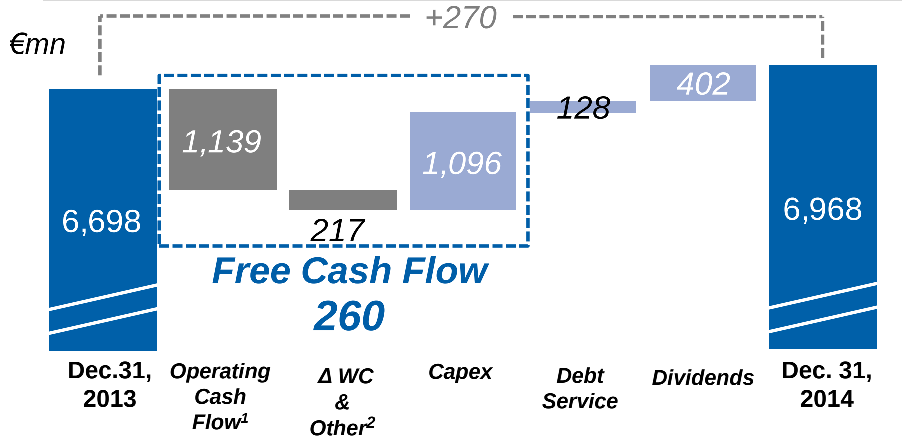
Category (€mn)	FY13	FY14	Δ yoy	Δ % yoy
+2%	459	469	*10*	*2%*
+1.5%	479	355	*-123*	*-26%*
Development Capex	**937**	**824**	*-113*	*-12%*
Maintenance (Base Return)	229	224	*-5*	*-2%*
Regulated Capex	**1,166**	**1,048**	*-118*	*-10%*
Other[2]	46	48	*2*	
Total Group Capex	**1,212**	**1,096**	*-116*	*-10%*

NOTE: Figures in accordance with AEEGSI resolutions
1. *Incentivized based on current regulation*
2. *Capitalized Financial Charges + Non Regulated Capex*

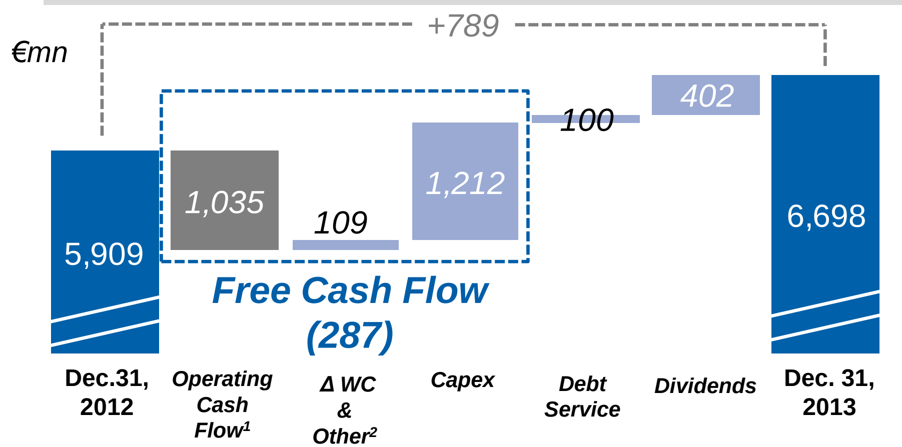
FY14 Results
Net Debt Evolution & Financial Structure

FCF AND NET DEBT EVOLUTION

2014



2013

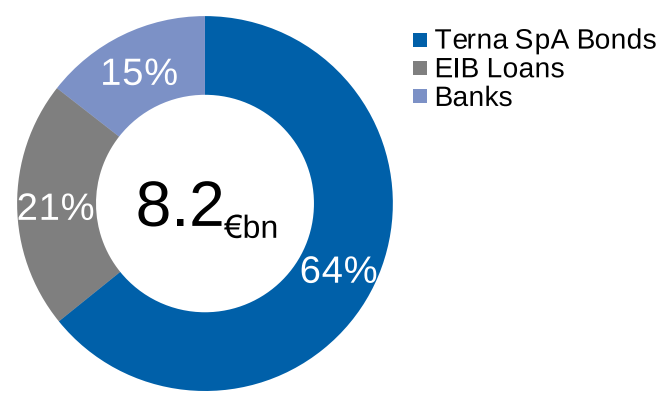


KEY FIGURES

Net Debt
6,968€mn

Fixed/floating ratio[3]
63/37

GROSS DEBT BREAKDOWN



1. Net Income + D&A + Net Financial Charges +/- Net Change in Funds (see Annex "Consolidated Cash Flow" for details)
2. Including Other Fixed Assets Changes, Change in Capital & Other
3. Calculated on Net Debt

Agenda

Unchanged Values and Focus

LEGACY ISSUES SOLVED

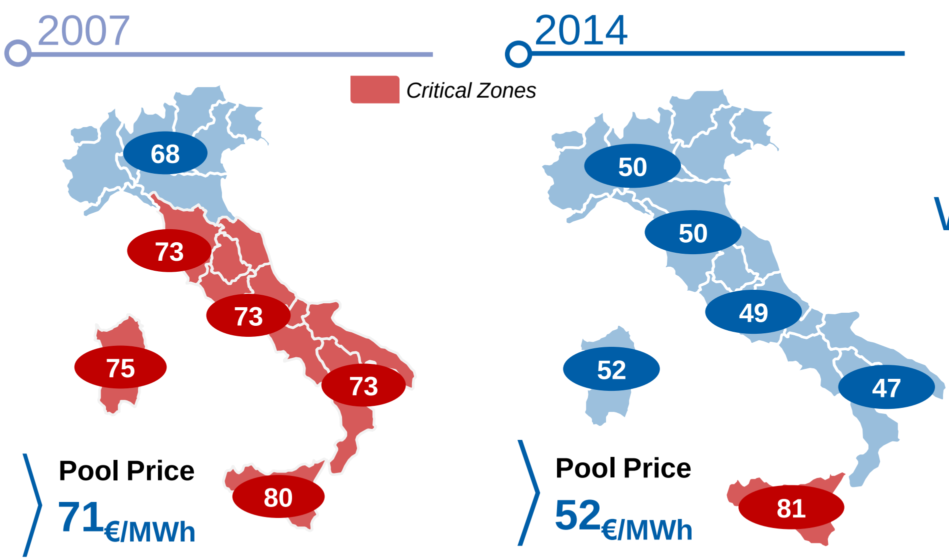
Infrastructural gap filled

Very relevant energy cost savings

Excellent results for shareholders

NEW CHALLENGES

……



$8_{\text{€bn}}$ Capex in 8 years

WITH UNCHANGED VALUES & FOCUS

Very Conservative approach to risk

&

Attractive shareholder returns

Strategic Focus on Free Cash Flow

CHALLENGES

MacroEconomic scenario

Electricity market

Regulation

MANAGEMENT ACTIONS

Capex and Opex Discipline

Selective Grid Expansion

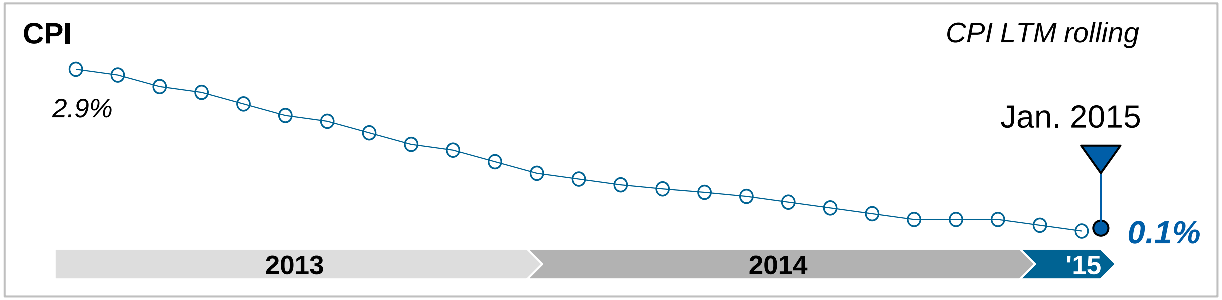
Non Regulated Activities

Free Cash Flow

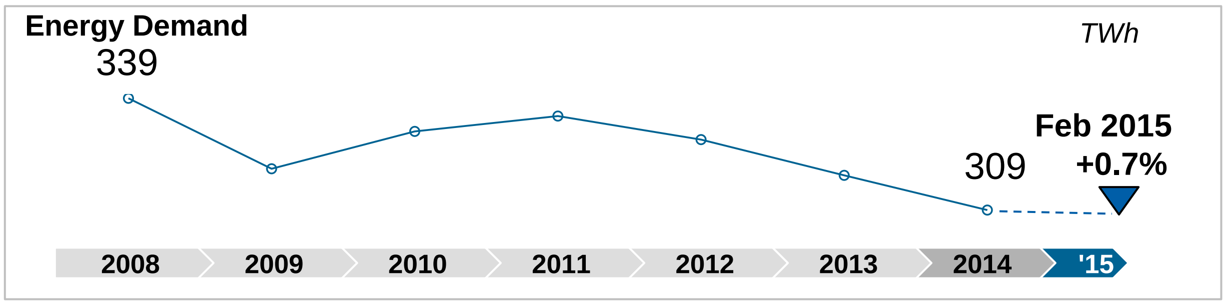
to drive

Sustainable and Attractive Shareholder Returns

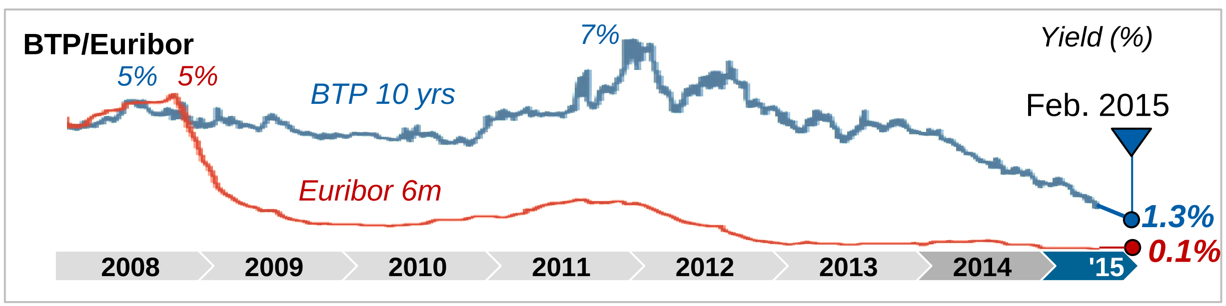
Unprecedented Macro Scenario



Slowing inflation



Weak but stabilizing demand



Decreasing yields

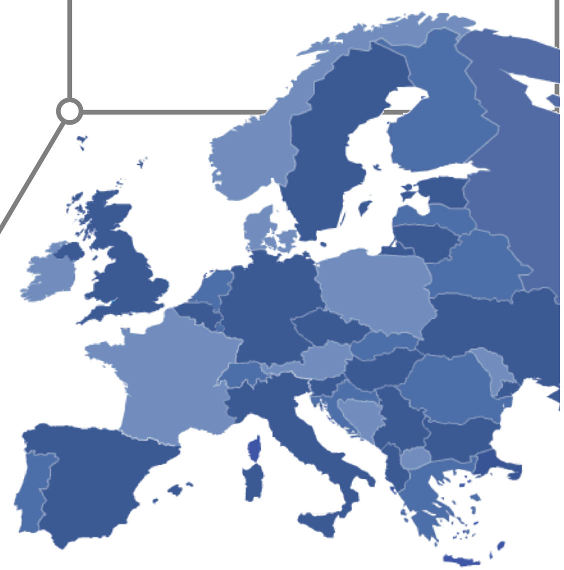
Exceptional liquidity reducing yields in low growth environment

European Electricity Market

THE "ENERGY UNION" IS MOVING FORWARD

- Energy security, solidarity and trust
- A fully integrated energy grid
- Energy efficiency
- Renewables integration
- Research, Innovation, Environment

TSOs fundamental to promote change



LOOKING BEYOND ITALY

A Changing Regulatory Framework

AEEGSI 2015-2018 STRATEGIC GUIDELINES

Secure, efficient and flexible electricity market

Integration with other EU markets

NEW REGULATORY PERIOD

Review kicked off

More selective approach on Capex

Increase public financing attractiveness

Review Timeline - 2015

January *Consultation Document 5/2015/eel*

By Spring *Consultation Docs*

By September *Consultation Docs*

By November *Final Resolutions*

Framework

4 PILLARS

REGULATED

Capex Discipline	Grid Expansion
Optimization	RAB and third party financing *Italian railway HV network*

NON REGULATED

Non Traditional	Opex Discipline
Services Tamini Interconnectors *EPC, BOOT* *Energy efficiency* *Interconnectors*	Excellence

Potential Upside not included in the Plan (dashed box)

Enhancing **Cash Flows**

2015-2019 Targets

REGULATED

NON REGULATED

Capex Discipline[1]	Grid Expansion	Non Traditional[2]	Opex Discipline
Capex 3.2 €bn *Old Plan 3.6 €bn*	Tariff RAB CAGR 3% up to 13.4 €bn *Old Plan CAGR 5% area*	Services ~400 €mn Tamini ~600 €mn Interconnectors ~400 €mn	~30 €mn annual savings by 2019

Free Cash Flow >2.0 €bn cumulated

20 €cents DIVIDEND for 2015, a solid basis for future dividends

Net Debt reduction starting from 2017/2018

1. *2015-2019 cumulated Capex*
2. *2015-2019 cumulated Revenues*

Capex Discipline

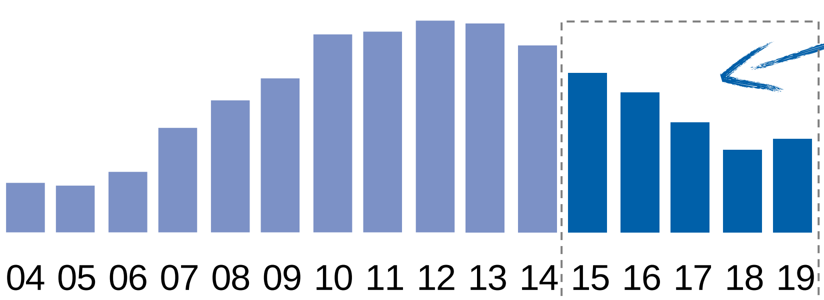
Reduction vs Old Plan driven by

- Roll-over effect
- More selective approach

NATIONAL DEVELOPMENT PLAN (NDP)

6.7€bn
- *5.1€bn Ten Years NDP*
- *1.6€bn beyond*

2015-2019 CAPEX



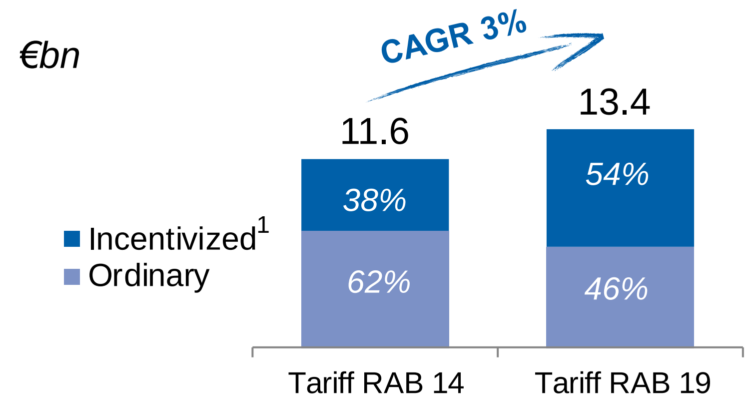
3.2€bn **2015-2019 Capex [1]**

1. *Including Capitalized Financial Charges and Non Regulated Activities (~0.2€bn). 80% of regulated Capex considered as incentivized, based on current regulation.*

Grid Expansion

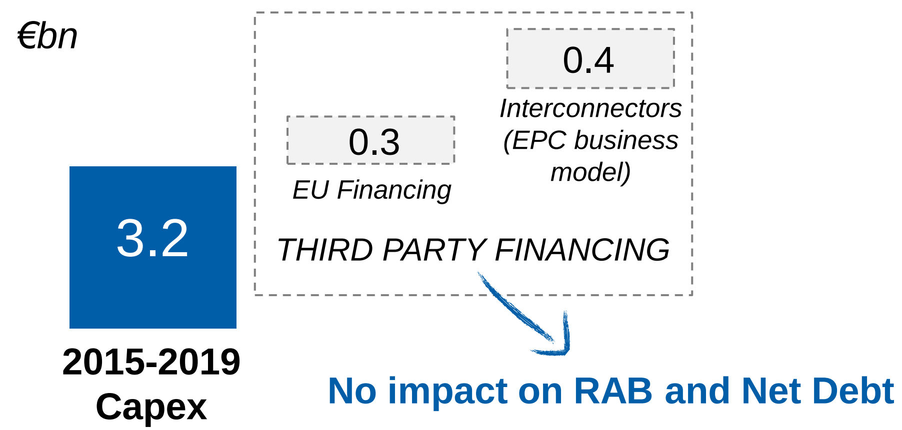
TARIFF RAB EVOLUTION

Continue to develop the Grid



3.9BN TOTAL EFFORT FOR THE GRID

Terna and third party financing



1. *Based on current regulation*

Main Projects included in the Plan

Regulated

- Interconnections
- Development
- Reinforcements

Non Regulated *(merchant lines)*

- Interconnectors ongoing

  EPC for energy-intensive third-parties

  ~ 400mn cumulated revenues

  ~ 10% EBITDA Margin

Strategic for Country's Economic Growth

Note: Italy–France and Sorgente – Rizziconi are projects Co-financed by the European Union European Energy Programme for Recovery

1. *The possibility to switch part of the capacity on interconnector regime (law 99/09) is under evaluation*

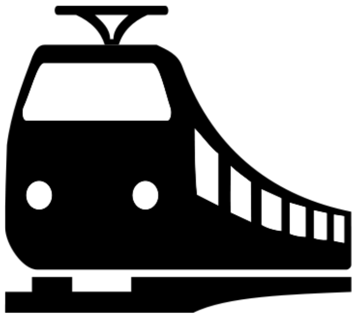
Potential Acquisition of Italian Railway HV Network

Not Included in the Plan

STRATEGIC RATIONALE

Rationalization of the Grid

- European best practice
- No headcount transfer



ASSETS EARMARKED

~ 9,300km Lines of high voltage grid

~ 420# primary stations

TRANSACTION PROCESS

Signed Non-Binding MoU on Dec.30, 2014

- All assets to be included in the NTG
- Authority to publish regulatory parameters
- Negotiations subject to due diligence

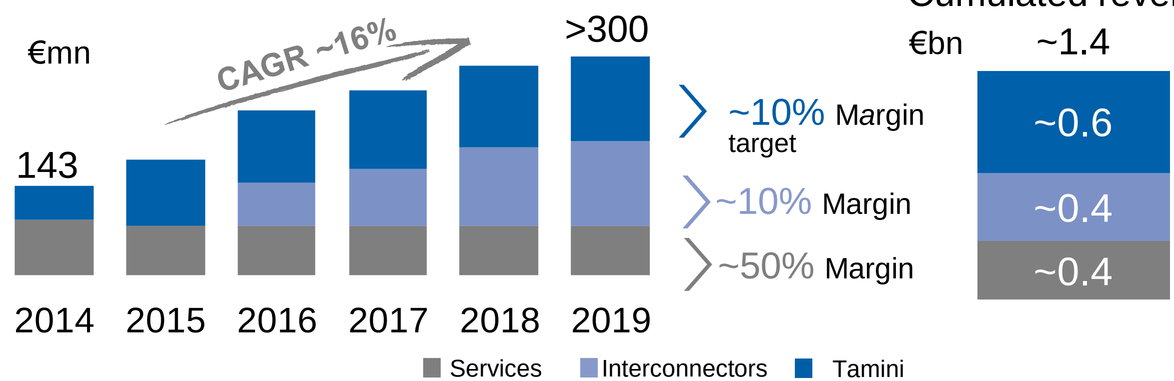
Non Regulated - Capital Light to Sustain Growth

DIVERSIFIED PORTFOLIO ALREADY CONTRACTED

- Services
- Tamini
- Interconnectors

Revenues breakdown and EBITDA Margins

2015-2019 Cumulated revenues



UPSIDE POTENTIAL

Identified opportunities
In Italy and abroad

EPC	BOOT	Energy Efficiency

Rigorous discipline for capital allocation across different projects

Update on Services

LEVERAGE ON CORE TECHNOLOGY AND SKILLS

TLC	Housing of optical fiber
EPC	Design and development of electricity infrastructures
O&M	O&M of HV and PV assets

Consistency with Group risk profile

Limited capital absorption

Cumulated revenues[1] ~ 400 €mn

EBITDA margin ~ 50 %

1. 2015-2019

Update on Tamini

WELL POSITIONED FOR TURNAROUND IN GROWING GLOBAL MARKETS

TAMINI
ENERGY TRANSFORMERS

- Appointment of new experienced CEO
- Power transformers for generation plants and networks
- Specialized products for major Industrial energy users
- > 8,300 transformers sold in over 90 countries
- > 60% of revenues abroad

2015-2019 BUSINESS TARGETS

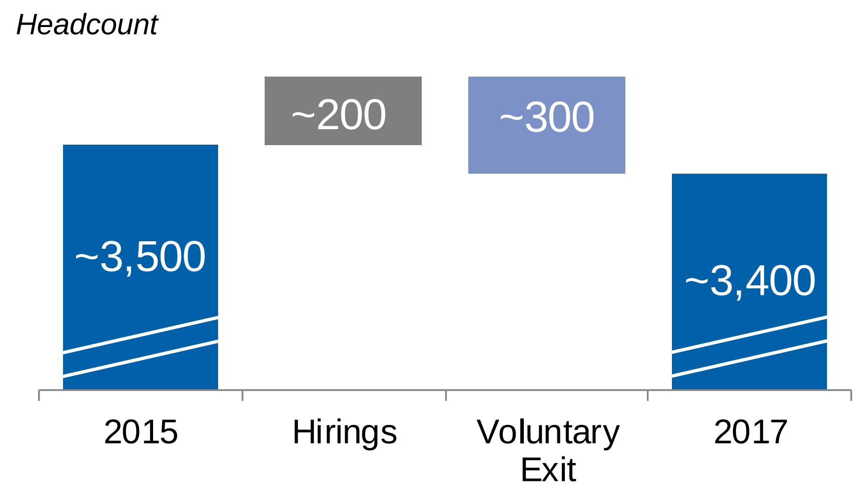
~ 600 €mn Cum. Revenues	Growth driven by emerging markets and investments in new technology
~ 10% EBITDA Margin *Target*	Margin enhancement through industrial and operating synergies

Unlocking Potential from Terna's People

NEW ORGANIZATION

- **Clear role** for companies in the Group
  - *Centralized services*
- **Restructuring** of staff and middle mgmt
- Operational activities **optimization**
  - *Insourcing*

VOLUNTARY TURNOVER PROGRAMME



37 €mn accrued reserve already booked in 2014 to address voluntary exits

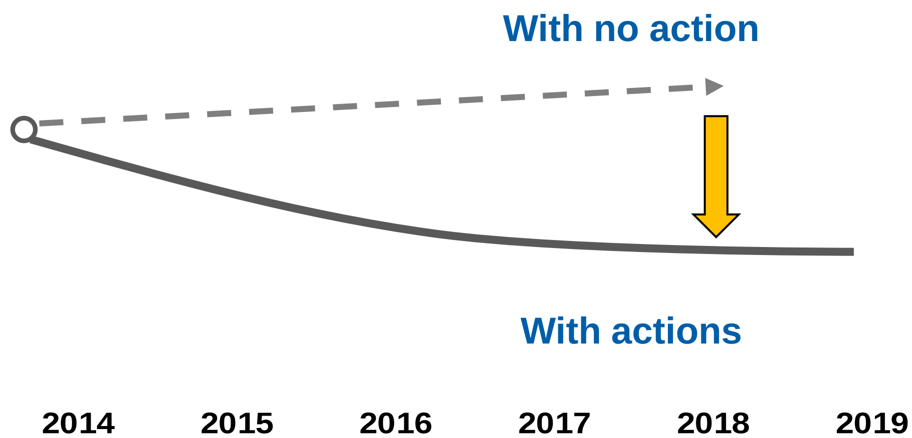
6 €mn savings already achieved in 2014 from Governance and Top Management

~ 20 €mn additional annual savings by 2019

External Costs Savings

DISCIPLINE ON EXTERNAL COSTS

- Facilities services revised
- Fleet management optimized
- Information Technology simplified
- Contracts renegotiated



Up to 10€mn annual savings by 2019

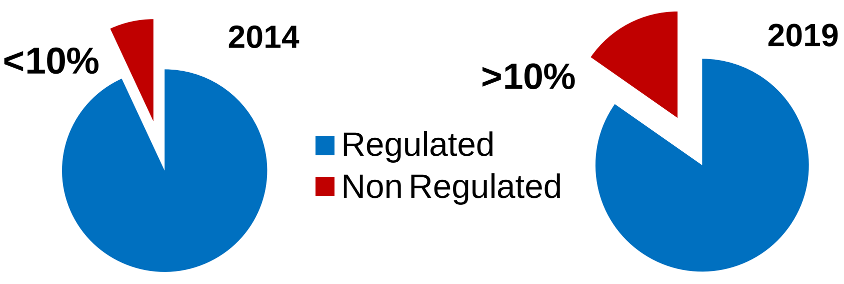
Summary Targets

Group Revenues and Opex

REVENUES

Change in mix

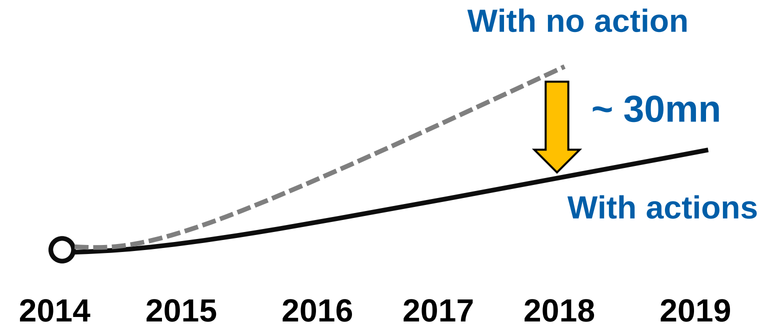
- Non Regulated >2X 2019 vs 2014



OPEX

Opex[1] in control

- Broadly stable in real terms



EBITDA supported by Non Regulated Activities and cost savings

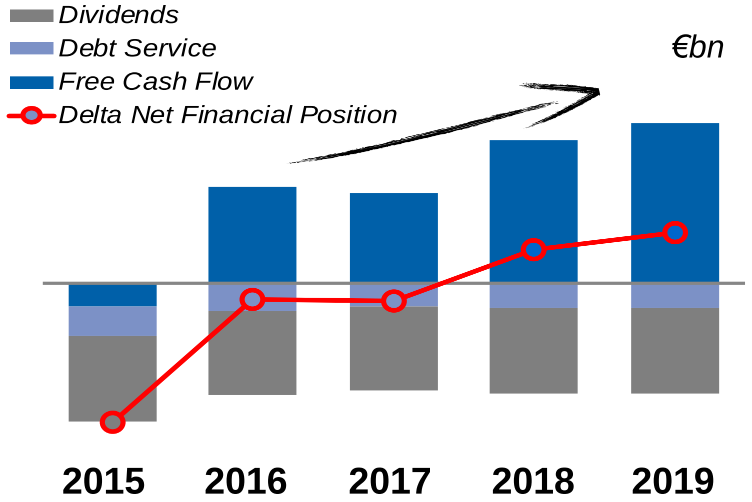
1. *Total Opex excluding Tamini, Interconnectors , IFRIC 12 and provision for voluntary turnover*

Summary Targets

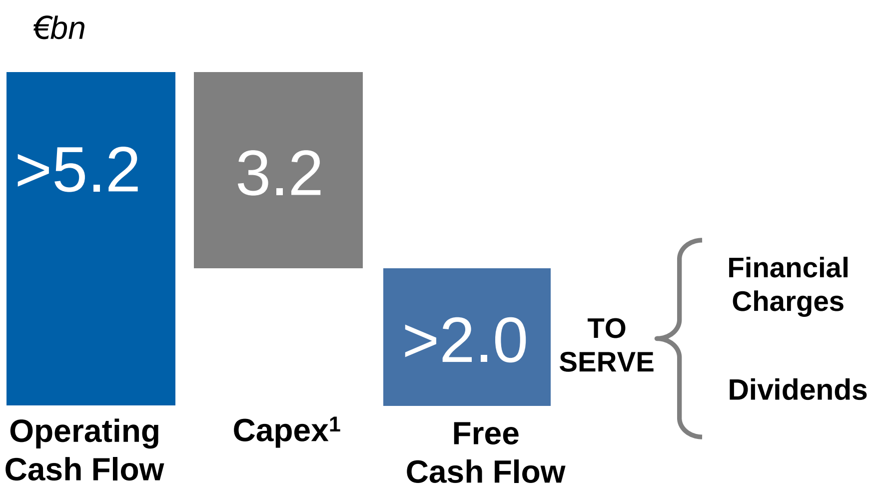
Free Cash Flow

- Improving FCF generation
- Net Debt reduction from 2017/2018

EVOLUTION



CUMULATED 2015-2019



Healthy Cash Flow to sustain dividends

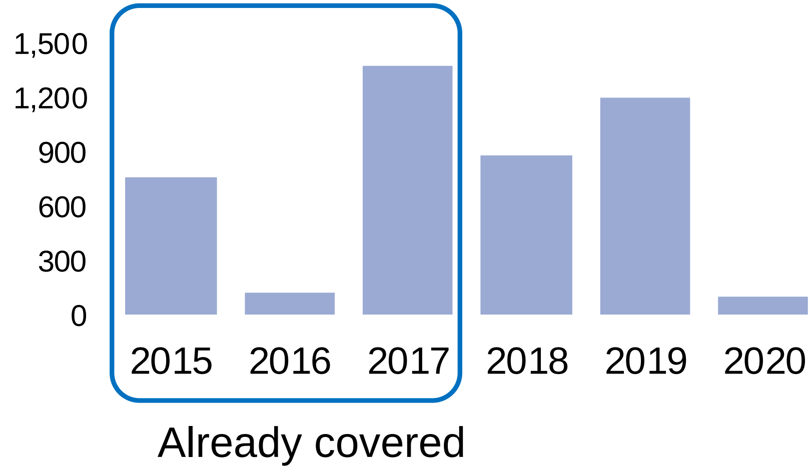
1. Including Capitalized Financial Charges and Non Regulated Activities, net of EU financing

Summary Targets

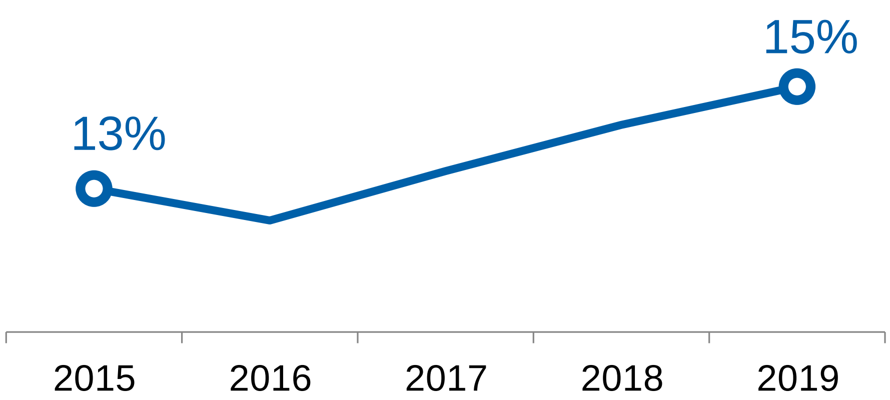
Financial KPIs

- Maintain a solid financial structure
- Average kd in the period at 2% area

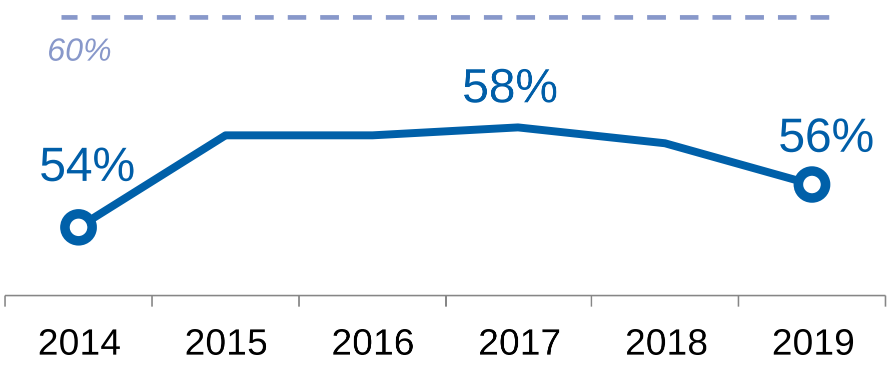
DEBT MATURITIES (€mn)



FFO/NET DEBT



NET DEBT/CALENDAR RAB



Guidance 2015

REVENUES	~ 2.05 €bn
EBITDA	~ 1.52 €bn
CAPEX	~ 1.0 €bn
Tariff RAB	~ 12.3 €bn
DIVIDEND per SHARE	20 €cents

Closing Remarks

- Terna has significantly **modernized** the Italian electricity Grid and has become a **leading** European TSO
- New business plan, based on clear management actions, will drive **Free Cash Flows**
- Further **upside** from growth of Non Regulated Business and potential new opportunities

Attractive and **sustainable** shareholder returns

THANK YOU.
QUESTIONS?

Matteo Del Fante *Chief Executive Officer*

Pierpaolo Cristofori *Chief Financial Officer*

Annexes

Annex

2015 Tariff

2015 Total Grid Fee

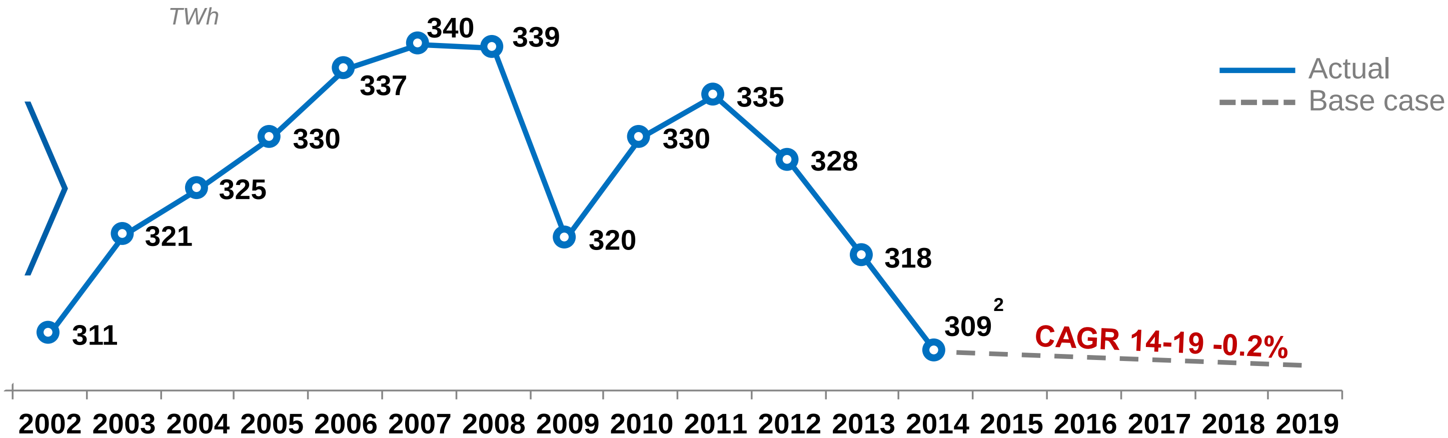
	2015	2014
Transmission	~1.7 €bn *Resolution 653/2014*	~1.64 €bn *Resolution 607/2013*
+	+	+
Dispatching	~ 0.12[1] €bn *Resolution 658/2014*	~ 0.12[1] €bn *Resolution 636/2013*
=	1.82 €bn	1.76 €bn

1. Including other allowed costs and premia not directly attributable to dispatching activities

Annex

Assumptions

Energy Demand[1]



Macro Scenario

CPI/Deflator[3]

- 2015: tariff deflator at 0.1%; inflation at 0.7%
- 2016-2019: average deflator at 0.7%, inflation at 0.8%, back-end loaded

Fiscal Scenario

No Robin Hood Tax from 2015

1. *Energy Demand "bull case" scenario CARG14-19 at +1.2%*
2. *2014 provisional figures*
3. *2014: as per Resolution 653/2014; 2015-18 assumptions based on main statistical data providers*

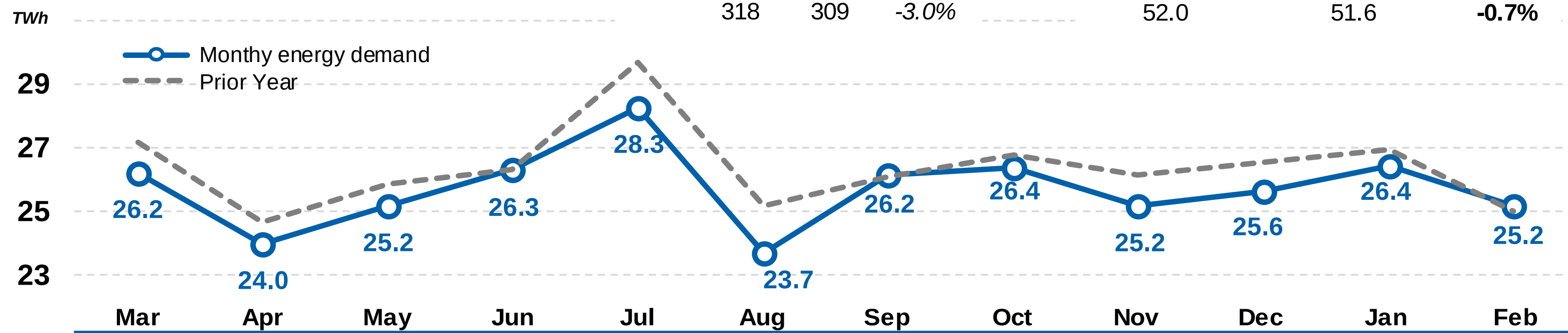
Annex

Electricity Market Trends – Last 12 Months

DEMAND AS REPORTED (TWh)

FY13	FY14	Δ %
318	309	*-3.0%*

YtD	Jan-Feb 2014	Jan-Feb 2015	Δ %
	52.0	51.6	**-0.7%**

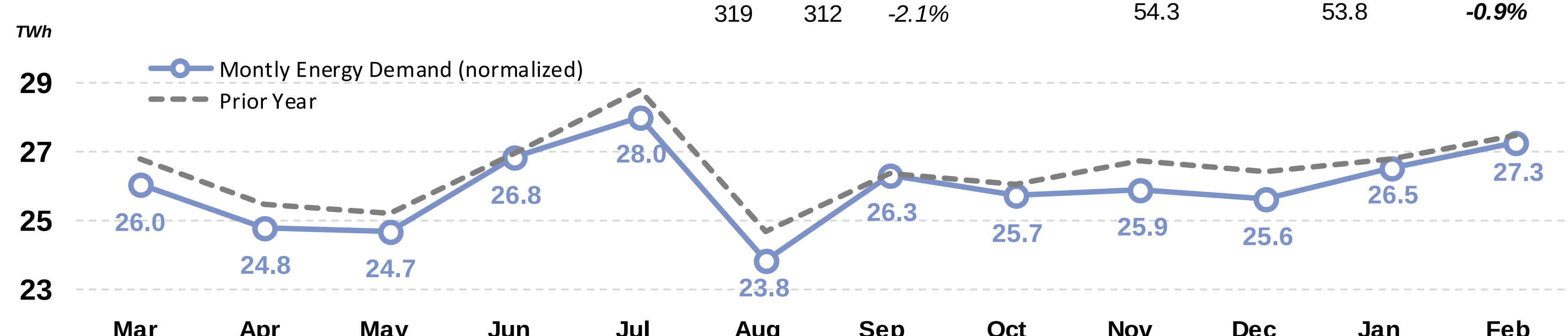


	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
YoY Chg%	-3.6%	-2.7%	-2.6%	-0.1%	-4.8%	-5.9%	0.4%	-1.4%	-3.7%	-3.4%	-2.0%	0.7%

DEMAND ADJUSTED[1] (TWh)

FY13	FY14	Δ %
319	312	*-2.1%*

YtD	Jan-Feb 2014	Jan-Feb 2015	Δ %
	54.3	53.8	***-0.9%***



	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
YoY Chg%	-2.7%	-2.6%	-2.0%	-0.6%	-2.7%	-3.5%	-0.2%	-1.4%	-3.0%	-2.9%	-1.1%	-0.7%

NOTE: 2013 final figures, 2014 provisional figures (as of February 2015)
1. for temperature and number of days

Annex
Storage

Power Intensive

Scope: Safe management of the grid

Total Capacity: **40 MW**

Number of Sites: (Phase I) : **2**

Phase I: 16 MW Storage Lab

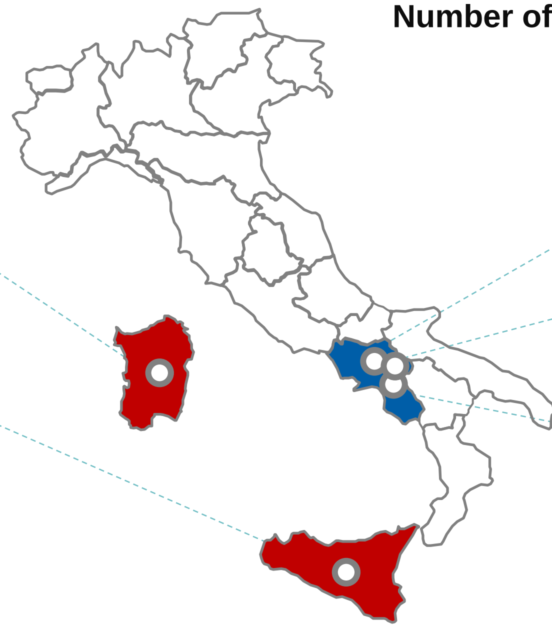
Codrongianos
Installed Power: ≈ 8 MW
Status: 5.4 MW completed

Ciminna
Installed Power: ≈ 8 MW
Status: 3.2 MW completed

Technology evaluation

Phase II: 24 MW

Casuzze and Codrongianos: to be started



Energy Intensive

Scope: Solve Grid congestion / bottlenecks

Total Capacity: **35 MW**

Number of Sites: **3**

Ginestra
Installed Power: ≈ 12 MW
Status: completed

Flumeri
Installed Power: ≈ 12 MW
Status: 6.0 MW completed

Scampitella
Installed Power: ≈ 12 MW
Status: building in progress

Ginestra and Flumeri among the biggest installations in Europe
Excellence in technological Know-how

Annex

FY14 - Consolidated Income Statement[1]

€ mn	FY13	FY14	Δmn	Δ%
Transmission	*1,644*	*1,651*	*6*	*0.4%*
Dispatching	*114*	*117*	*3*	*2.5%*
Other [2]	*43*	*55*	*12*	*27.9%*
Regulated Activities	1,802	1,823	*21*	*1.2%*
Non Regulated Act.	64	143	*79*	*124%*
IFRIC12	31	30	*0*	*-1.3%*
Total Revenues	**1,896**	**1,996**	***100***	***5.3%***
Labour Costs	*191*	*236*	*45*	*23.8%*
Services	*128*	*129*	*1*	*0.7%*
Other	*41*	*35*	*-7*	*-16.3%*
Regulated Activities	360	400	*39*	*11.0%*
Non Regulated Act.	17	75	*58*	*338%*
IFRIC12	31	30	*0*	*-1.3%*
Total Costs	**408**	**505**	***97***	***23.7%***
EBITDA	**1,488**	**1,491**	***3***	***0.2%***
D&A	*450*	*481*	*30*	*6.7%*
EBIT	**1,038**	**1,011**	***-27***	***-2.6%***
Net Financial Charges	*100*	*128*	*28*	*27.6%*
Pre Tax Profit	**938**	**883**	***-55***	***-5.8%***
Taxes	*424*	*338*	*-85*	*-20.1%*
Tax Rate (%)	*45.2%*	*38.3%*		
Group Net Income	**514**	**545**	***31***	***6.0%***

NOTE: 2014 figures include Tamini
1. *Managerial Accounting*
2. *Quality of Service + Other Revenues*

Annex

FY14 - Group Costs Breakdown

€ mn	**FY13**	**FY14**	**Δmn**	**Δ%**
Labour Costs	*199*	*259*	*60*	*30.2%*
Services	*121*	*140*	*19*	*15.5%*
Materials	*11*	*37*	*26*	*225%*
Other	*46*	*39*	*-7*	*-15.9%*
IFRIC12	31	30	*0*	*-1.3%*
Total Costs	**408**	**505**	***97***	***23.7%***

NOTE: 2014 figures include Tamini

Annex

FY14 – P&L Quarterly Analysis

€ mn	1Q13	1Q14	Δ	2Q13	2Q14	Δ	3Q13	3Q14	Δ	4Q13	4Q14	Δ
Regulated Activities	*456*	*457*	*1*	*431*	*430*	*-1*	*454*	*456*	*2*	*461*	*481*	*19*
Non Regulated Act.	*9*	*17*	*8*	*11*	*34*	*23*	*24*	*37*	*13*	*20*	*55*	*36*
IFRIC 12	*5*	*4*	*0*	*7*	*8*	*1*	*5*	*6*	*0*	*14*	*13*	*-1*
Operating Revenues	**470**	**478**	***8***	**449**	**472**	***23***	**482**	**498**	***15***	**495**	**549**	***54***
Regulated Activities	*81*	*81*	*0*	*87*	*81*	*-5*	*71*	*80*	*9*	*122*	*157*	*35*
Non Regulated Act.	*4*	*3*	*-1*	*4*	*20*	*16*	*5*	*29*	*24*	*4*	*22*	*18*
IFRIC 12	*5*	*4*	*0*	*7*	*8*	*1*	*5*	*6*	*0*	*14*	*13*	*-1*
Operating Expenses	**89**	**88**	***-1***	**98**	**110**	***12***	**82**	**115**	***34***	**140**	**192**	***52***
EBITDA	**381**	**390**	***9***	**352**	**363**	***11***	**401**	**382**	***-18***	**355**	**357**	***2***
D&A	*106*	*113*	*7*	*108*	*122*	*14*	*109*	*108*	*0*	*128*	*137*	*9*
EBIT	**275**	**277**	***3***	**244**	**241**	***-3***	**292**	**274**	***-18***	**227**	**219**	***-8***
Net Financial Charges	*18*	*31*	*14*	*25*	*33*	*8*	*28*	*36*	*7*	*29*	*28*	*-1*
Pre Tax Profit	**257**	**246**	***-11***	**219**	**208**	***-11***	**264**	**239**	***-25***	**198**	**191**	***-6***
Taxes	116	101	*-15*	96	78	*-18*	116	95	*-21*	96	65	*-31*
Group Net Income	**142**	**145**	***4***	**122**	**129**	***7***	**148**	**144**	***-4***	**102**	**127**	***25***

NOTE: 2014 figures include Tamini

Annex

FY14 - Consolidated Balance Sheet

€ mn	**Dec. 31,2013**	**Dec. 31,2014**	**Δmn**
PP&E	*10,120*	*10,779*	*659*
Intangible Asset	*462*	*453*	*-9*
Financial Inv. and Other	*83*	*91*	*8*
Total Fixed Assets	10,665	11,322	658
Net WC	-573	-821	-247
Funds	-453	-441	12
Total Net Invested Capital	**9,638**	**10,061**	**422**
Financed by			
Consolidated Net Debt	6,698	6,968	270
Total Shareholder's Equity	2,941	3,093	152
Total	**9,638**	**10,061**	**422**
D/E Ratio	**2.3**	**2.3**	
D/D+E Ratio	**0.69**	**0.69**	
Number of Shares ('000)	**2,010**	**2,010**	

NOTE: 2014 figures include Tamini

Annex

FY14 - Consolidated Cash Flow

€ mn	FY13	FY14	Δmn
Net Income	*514*	*545*	*31*
D&A [1]	*450*	*481*	*30*
Net Financial Charges	*100*	*128*	*28*
Net Change in Funds	*-29*	*-14*	*16*
Operating Cash Flow	**1,035**	**1,139**	**104**
Δ Working Capital & Other [2]	*-109*	*217*	**326**
Cash Flow from Operating Activities	**926**	**1,356**	**430**
Capital Expenditures	*-1,212*	*-1,096*	**116**
Free Cash Flow	**-287**	**260**	**547**
Dividends	*-402*	*-402*	*0*
Debt Service	*-100*	*-128*	*-28*
Change in Net Cash (Debt)	**-789**	**-270**	

NOTE: 2014 figures include Tamini

1. *Net of assets' disposal*
2. *Including Other Fixed Assets Changes, Change in Capital & Other*

Notes

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