

## **TERNA: PRESENTATION OF THE 2015-2019 STRATEGIC PLAN**

### **THE FOUR PILLARS OF THE NEW PLAN**

- **NETWORK GROWTH IN ITALY AND INTEGRATION OF EUROPEAN ELECTRICITY MARKET**
- **SELECTIVE INVESTMENTS WITH LOWER IMPACTS ON ENERGY TARIFF AND DEBT**
- **DEVELOPMENT OF NON REGULATED ACTIVITIES**
- **INCREASED OPERATIONAL EFFICIENCY**

### **GUARANTEE OF SOLIDITY AND SHAREHOLDER RETURNS**

- **Improvement in free cash flow:** flexibility and support to the return for shareholders confirmed by a cumulative free cash flow of more than **2 billion euro** during the Plan period.
- **Dividend policy:** a **dividend of 20 eurocents** also for 2015, a solid basis for the future.
- Increased commitment for the **development of electricity grid to 3.9 billion euro**, (compared to €3.6 billion provided in the previous Plan), with even less impact on tariff and on Group's net debt, thanks to the contribution of private capital and EU funding.
- Targetting **1.4 billion euro of cumulative revenues** from **Non Regulated Activities**, a further boost to growth in EBITDA for the Terna Group.
- The value of regulated assets (**RAB**) expands to **13.4 billion euro in 2019**, with a CAGR of 3% during the Plan period.
- **Increased operational efficiency**, with profits which in 2019 will reach about 30 million euro a year, due to process optimization and rationalization of costs.

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**London, March 26, 2015** - Today, CEO Matteo Del Fante is presenting Terna Group's Strategic Plan for the period 2015-2019, which has been approved by the Board of Directors of Terna S.p.A., chaired by Catia Bastioli.

*“Today we have set out a roadmap to delivering strong, sustainable returns for our shareholders.” commented Matteo Del Fante, CEO of Terna “Our new strategic plan is focused on driving efficiency across our business and is based around clear and disciplined management actions to enhance cash flow generation. We will be more disciplined in our regulated business and increase our focus on our non regulated activities, while maintaining both a low risk profile and solid financial structure.”*

### **2015-2019 STRATEGIC PLAN**

Over the past 10 years, the Group has invested around €9 billion, to upgrade the national grid to reduce network congestions and the differential between zonal energy prices. Terna will continue to play its institutional role, with the aim of ensuring greater integration and promoting useful mechanisms for the balancing of energy in Italy and Europe.

The new strategic plan aims to address the new challenges presented by the evolving market context, while generating strong cash flows to ensure a healthy and balanced financial structure and support the distribution of dividends.

The strategic initiatives include:

- The establishment of efficient investment and operating cost programmes;
- The consolidation of investments in transmission;
- The construction of new cross-border interconnections;
- The development of Non Regulated Activities.

Such initiatives will be put into effect throughout greater efficiencies in processes and the creation of a performance improvement program which:

- in **Regulated Activities**, will ensure greater selectivity of investments and network development;
- in **Non Regulated Activities** will be focused on the implementation and completion of existing businesses (services for third parties), in the consolidation and development of Tamini Group activities as well as the implementation of interconnections under Law 99/2009.

## REGULATED ACTIVITIES

### *INVESTMENT FRAMEWORK*

In the **next 5 years**, Terna Group expects to commit about **3.9 billion euro** to the **development of the electricity grid**, an increase from the previous Strategic Plan (3.6 billion euro), but with a lower impact on electricity users and on the net debt of the Company.

Of this, **3.2 billion euro** relates to investment on the national electricity grid, 80% of which is committed to the development of new infrastructures and technology. These are joined by investments from third parties (so-called “energy-intensive” companies) of more than **400 million euro** for the implementation of interconnections pursuant to Law 99/2009, in addition to EU funding for a total of **300 million euro**, neither of which will have an impact on electricity tariff or debt of the Company.

### *NEW INVESTMENTS AND GREATER ENERGY INDEPENDENCE FOR EUROPE*

The EU Commission is increasingly directed towards progressive growth and - like the Italian regulator - even greater **selectivity of investments** aimed at making the energy infrastructure more technological, smart and environmentally friendly, but above all the new electrical interconnections between neighboring countries.

These are opportunities and challenges which need to result in the development of new infrastructure to ensure the security of supply and **greater energy independence**.

Also along these lines, work will continue on the **interconnections** with foreign countries such as “Piossasco-Grand’Ile\*”, between **Italy and France**, and “Villanova-Tivat”, between **Italy and Montenegro**.

The doubling of the electrical connection between **Sicily and Calabria** (“Sorgente-Rizziconi”\*) and the extra high voltage power lines “**Udine-Redipuglia**”, in Friuli Venezia Giulia, and “**Villanova-Gissi**”, in Abruzzo. Development will also continue on storage systems and so-called “smart” systems, located mainly on the larger islands and in Southern Italy, a sector in which Terna is a pioneer. Particularly in the field of **smart grids**, Terna can now boast a pilot plant, called Storage Lab, which is among the **top multi-technological systems in the world**. It is a project that the whole energy sector is watching closely, which will allow us to test the efficiency and power of the different existing technologies for the optimal use of batteries for electrical storage in the service of increased security and lower costs on the grid.

### *ADDITIONAL DEVELOPMENT OPPORTUNITIES*

To these projects, as noted, **other opportunities for development** of the grid have been added that are not included in the Strategic Plan.

Analysis are in fact underway for the **potential acquisition** of the **high voltage grid owned by FS**: about 9.300 kilometers of track and 420 stations. Due diligence is currently underway and the AEEGSI will soon be publishing the regulatory parameters to which this network will be subject. The completion of this deal would allow the rationalization of networks and could develop synergies on investment, improvement in the quality of service and efficiency in line with the best European practices.

### **NON REGULATED ACTIVITIES**

#### *INCREASED VISIBILITY AND GROWTH*

The Plan also provides **greater visibility** on the outlook for the Group's **Non Regulated Activities** which are an integral part of Terna's business. Leveraging the skills developed through the core business, these activities are expected to **broadly contribute** to the revenues of the Group.

The **Non Regulated Activities** of the Group are primarily constituted of:

- ✓ Services for third parties
- ✓ Tamini Group
- ✓ Interconnector.

**Revenues** from Non Regulated Activities are expected to **grow** by an average of **16%** year-on-year, to reach more than **300 million euro** in 2019 and total approximately **1.4 billion euro** during the Plan period, while maintaining a limited use of capital and an adequate risk profile.

### *ADDITIONAL DEVELOPMENT OPPORTUNITIES*

To these we can add new revenue streams, during the Plan period, resulting from the development of new interconnections pursuant to Law 99/2009, of electricity infrastructure to third parties in Italy and abroad and new activities in energy efficiency.

## **OPERATIONAL EFFICIENCY**

### *MANAGEMENT FRAMEWORK: THE NEW ORGANIZATION*

The growth strategy requires an organizational structure that delineates the competence areas of the Group companies, in the light of the new arrangement of activities. The goal of the new organization is to strengthen the role of government, direction and control of the parent company, as well as centralize key processes through the development of unique centers of expertise and service for the entire Group.

The efficiency program will produce benefits of about **30 million euro of lower operating costs**, including a generational change programme which envisages the recruitment of up to **200 new young professionals** over the next two years.

## **IMPROVEMENT OF FREE CASH FLOW**

### *A SPECIFIC BOOST FOR EBITDA AND CASH GENERATION*

The evolution of the composition of Terna's revenues arising from Regulated and Non Regulated Activities, combined with initiatives to further increase operational efficiency, will **produce significant benefits to the EBITDA of the Group** and will contribute strongly to the **generation of over 2 billion euro of free cash flow** during the Plan period.

These actions, together with investment discipline, will contribute to a gradual reduction in net debt from 2018 and to ensuring the flexibility needed to support an **attractive dividend policy**.

The implementation of this strategy will also involve the further optimization of the **cost of debt**, which is expected to average **around 2%** during the period of the Plan.

The financial structure of Terna, therefore, will remain solid and the **Net Debt/RAB** ratio will remain well **below 60%**.

## **OUTLOOK 2015**

**Revenues** are expected to grow to over **2 billion euro in 2015**, mainly as a result of the higher contribution from Non Regulated Activities.

**EBITDA** is expected to increase to **over 1.5 billion euro**, con a stable and solid **EBITDA margin**.

The investments in the tariff will decrease by about 10% compared to 2014, albeit with greater selectivity of opportunities to reduce the impact on the electricity bill.

**DIVIDEND POLICY**

The policy confirms a **dividend of 0.20** euro (payout ratio around 70%) for 2015, a solid basis also for the future.

*Today, a meeting is scheduled with the financial community and the media at the Intercontinental London Park Lane in London at 02:00 pm (GMT) to present corporate strategy and 2014 results to financial analysts and institutional investors. The support material for the conference call will be made available on the Company's website ([www.terna.it](http://www.terna.it)), in the Investor Relations/Presentations section, coinciding with the beginning of the conference call. In the same section it will be possible to follow the presentation through web-streaming. The Presentations will also be made available via the SDIR-NIS system, on the website of Borsa Italiana S.p.A. ([www.borsaitaliana.it](http://www.borsaitaliana.it)) through the authorized storage service "1Info" ([www.1info.it](http://www.1info.it)).*

In this press release, some "alternative performance indicators" (EBITDA, EBITDA Margin and Net financial debt) were used, whose meaning and contents are explained here below pursuant to CESR/05-178b recommendation published on November 3, 2005:

- EBITDA (gross operating margin): represents an indicator of operating performance; calculated by adding operating profit (EBIT) to depreciation and amortization;
- EBITDA margin: represents an indicator of operating performance; it is derived from the ratio between the Gross Operating Margin (EBITDA) and revenues;
- Net financial debt: represents an indicator of the company's own financial structure; it is calculated as the result of the short-term and long-term financial debt and related derivatives, net of cash and cash equivalents and financial assets.