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STRATEGIC PLAN

2016/2019

Delivery and Growth

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Agenda

○ OVERVIEW

○ 2016-2019 STRATEGIC PLAN

○ FINAL REMARKS

The environment ahead of us

Key Trends

Efficient use of
resources

Circular economy

CO2 reduction

Transport sector
electrification

Economy
decarbonization

2030

A global
deadline

COP21

United Nations
Sustainable
Development Goals

 **Terna** Towards high standards for a reduced environmental impact

What Terna has done so far

Main Achievements

> **Replacement** of old lines

- > higher integration of **renewables**
- > reduction in **soil consumption**
- > **600km** of old lines removed in the last 6 years

> Reduced **Emissions**

- > A reduction¹ of **15 mn tons of CO₂ emissions** expected yearly thanks to investments included in the National Development Plan

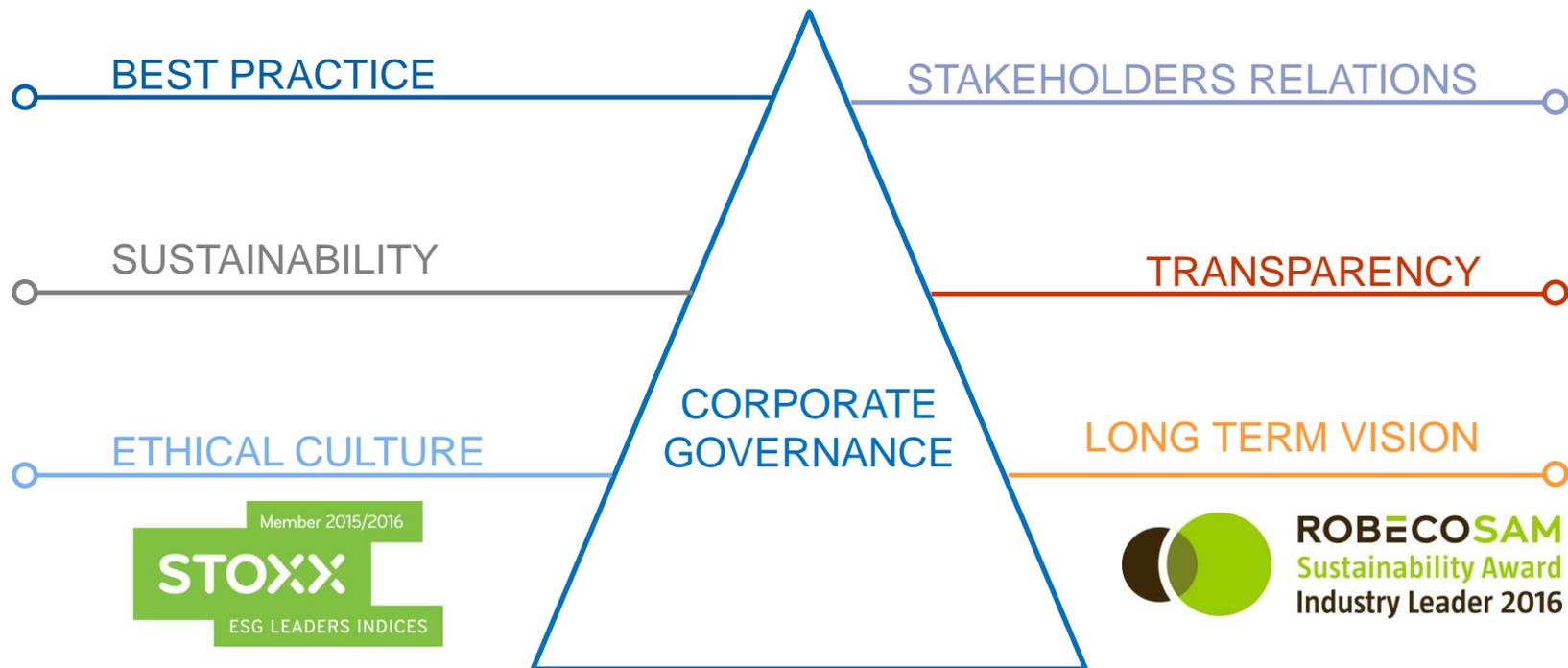
> Maximize **energy efficiency**

- > **Recycle materials** used for investments and maintenance of the Grid
- > Dispatching **optimization**
- > **Reduction** of service costs

> R&D as a **catalyst for innovation**, contributing to value creation

- > **Open approach** to innovation leveraging also on external resources and partnerships

What's next in Corporate Governance



PUBLIC ROLE IN THE HOME MARKET



Agenda

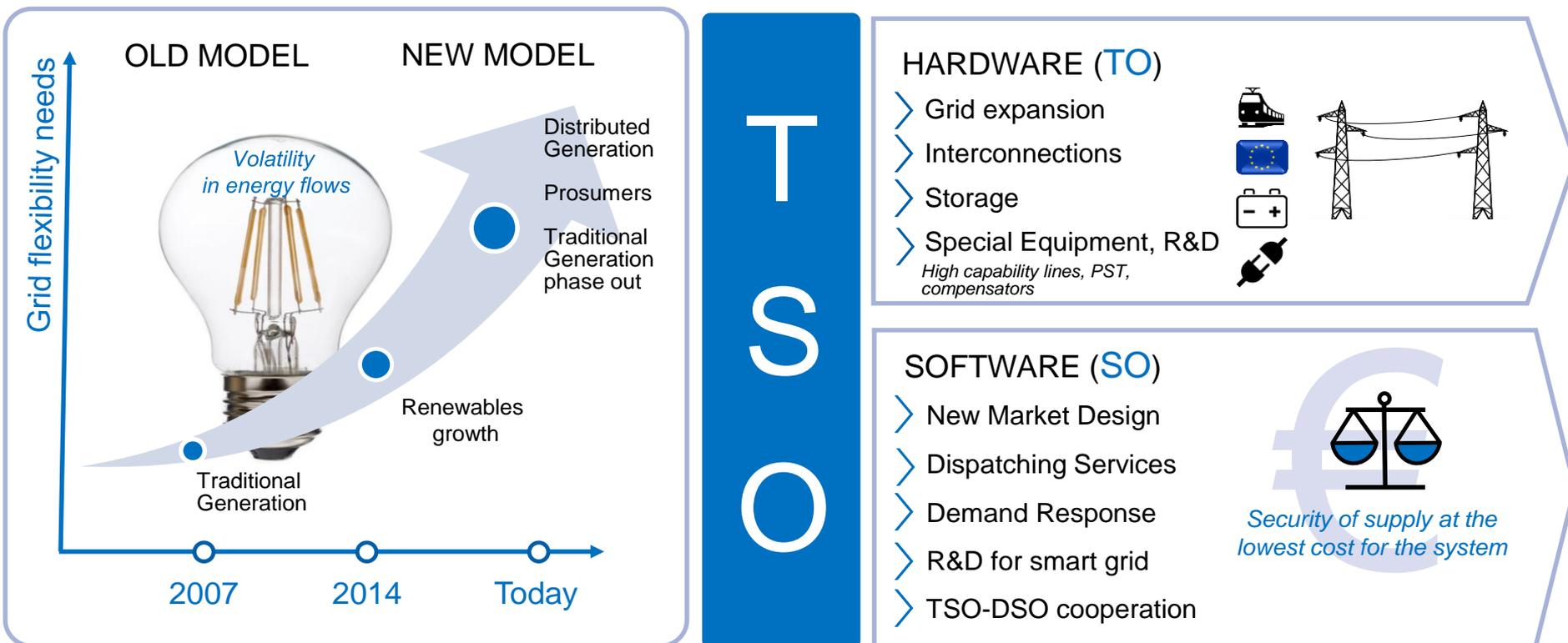
○ OVERVIEW

○ 2016-2019 STRATEGIC PLAN

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European electricity market trends

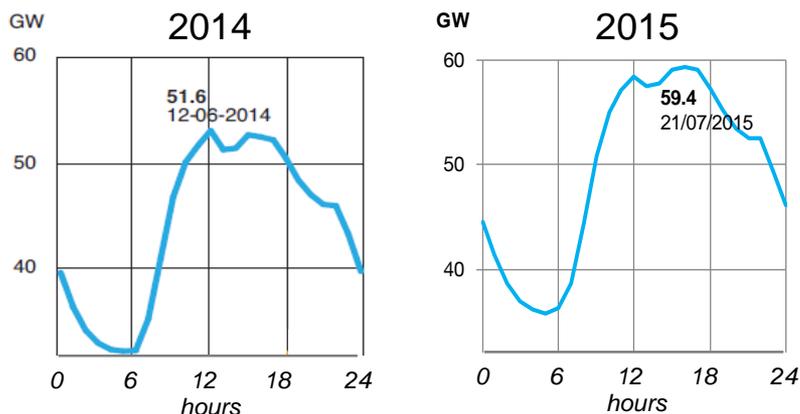
A New Role for the Transmission System Operator



A technology frontrunner through innovation

Italian electricity market trends

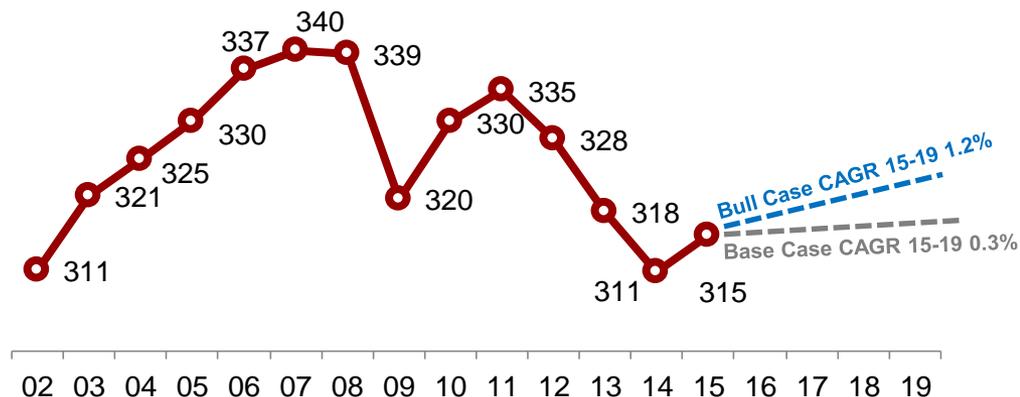
PEAK OF DEMAND



- > **59.4_{GW}** highest peak of demand (July 2015)
- > **Relevant** dispatching market savings in 2015

A **safe** and **efficient** management of
July demand peak

DEMAND FORECAST (TWh)

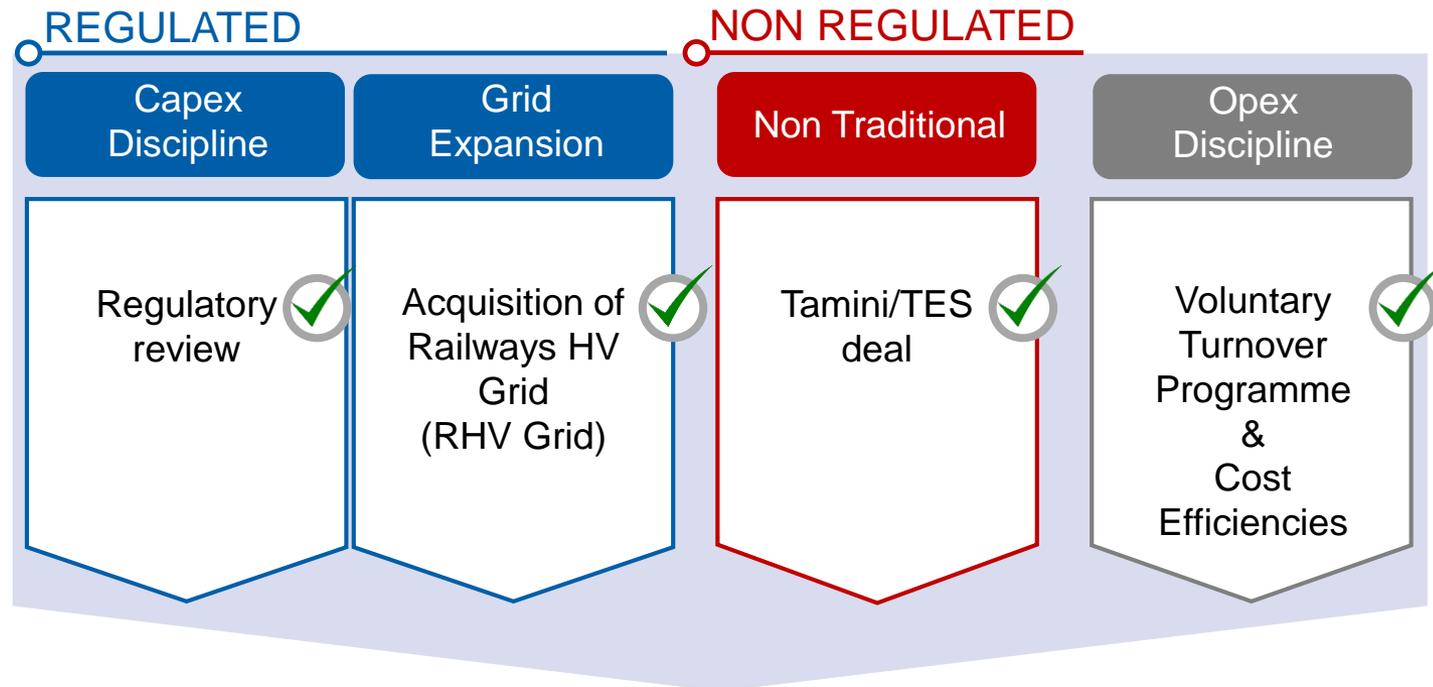


- > **315_{TWh}** 2015 energy demand (+1.5% yoy)¹

Stabilizing demand after economic downturn
Prudent assumptions on future growth

Execution Excellence

> Strong delivery in 2015



A solid base for the future

Delivery and Growth

THE NEW ENVIRONMENT

- > 4 years regulatory visibility → 4 years Plan period
- > Change in perimeter due to RHV Grid acquisition

A NEW FOCUS ON CORE BUSINESS

A stronger asset base to start from

- > Shorter Time-lag
- > RHV Grid

+1.6€bn RAB
effect

A new wave of growth

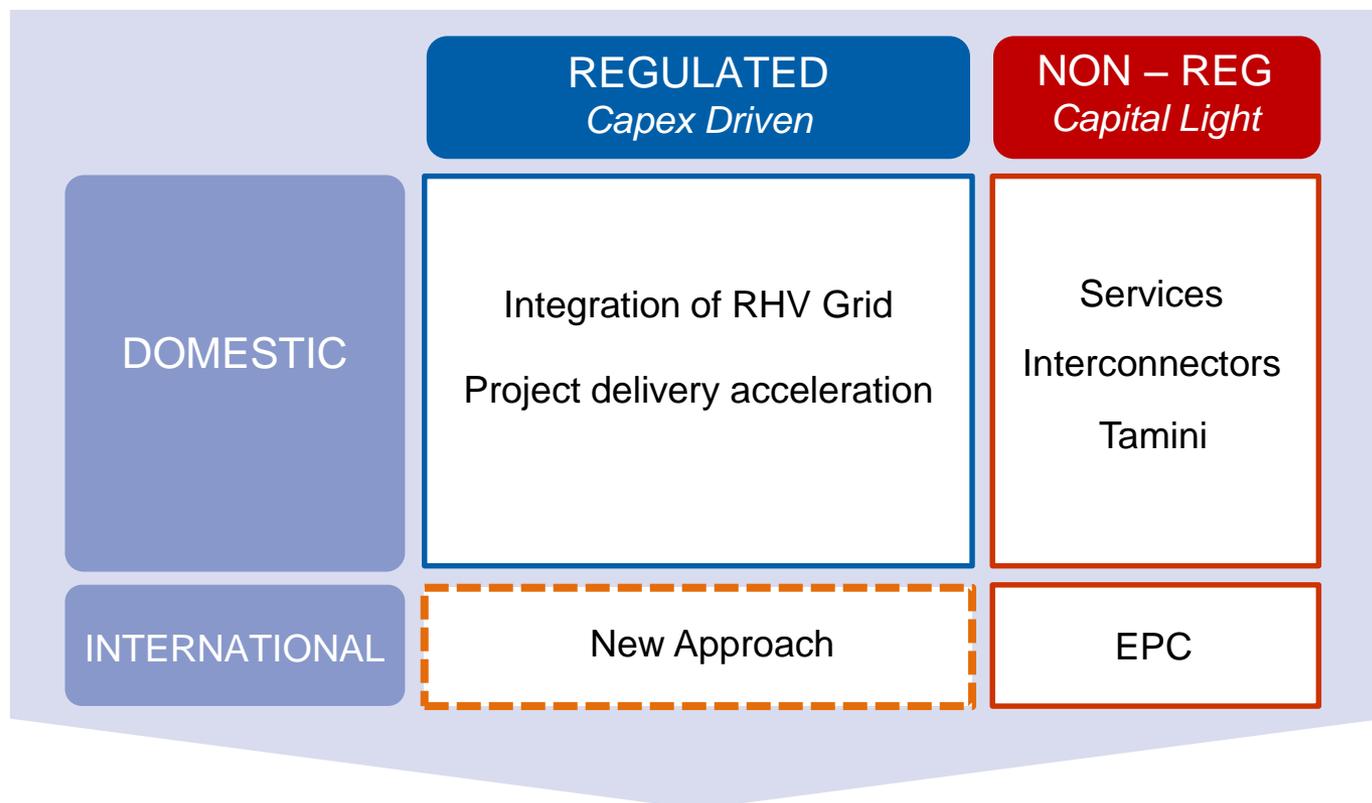
- > RHV Grid capex integration
- > Capex acceleration in domestic regulated

Opex efficiency

Higher **visibility**
with
low risk profile

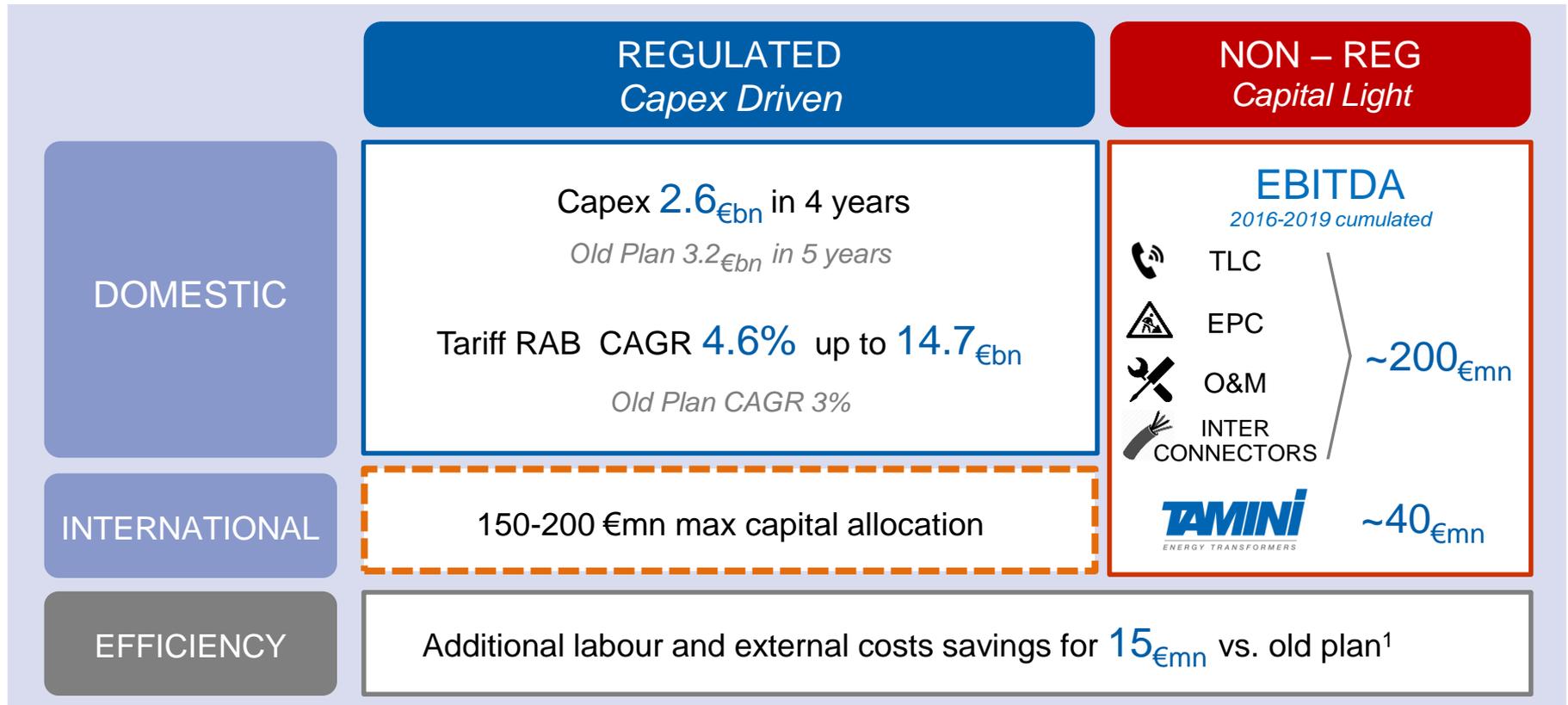
The New Framework

STRATEGIC MATRIX



Sustainable growth focused on value creation

2016-2019 Key Targets – Capital Allocation and Results

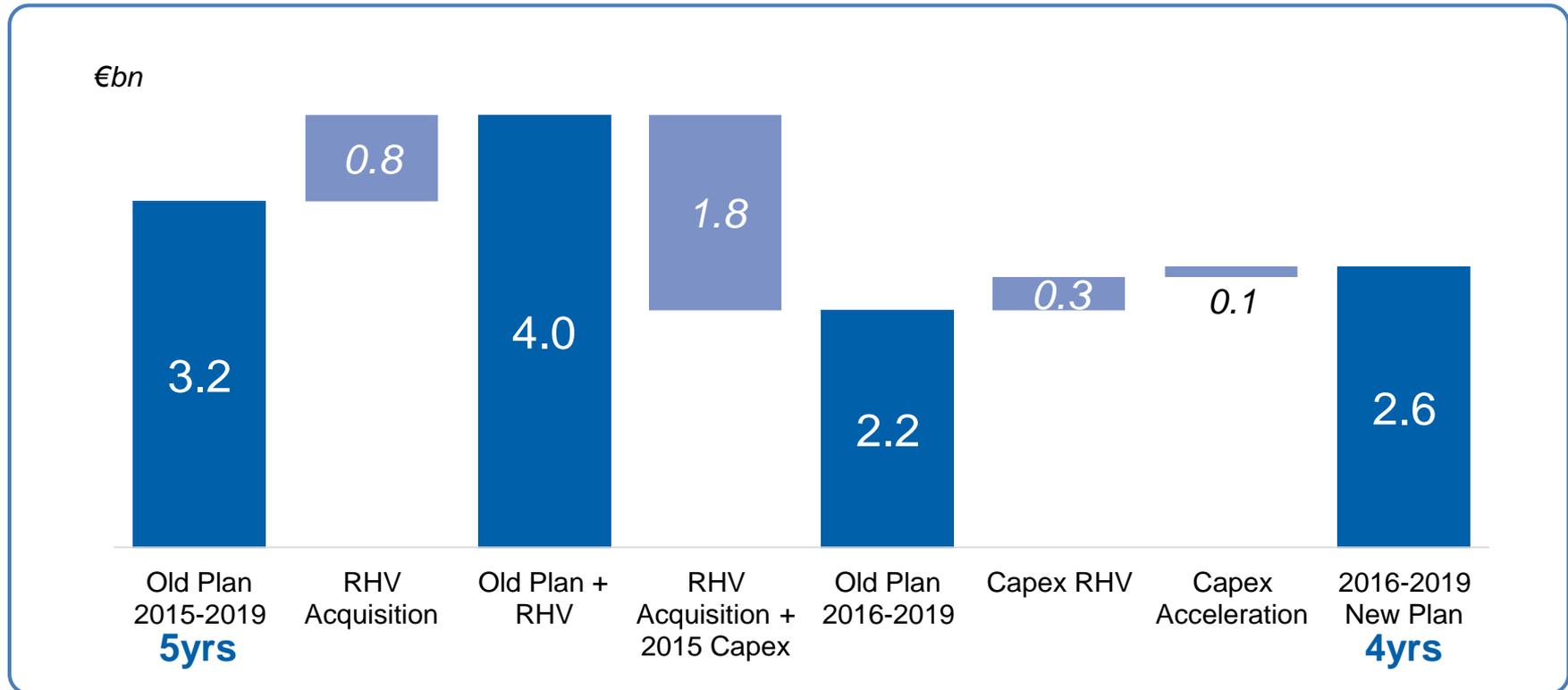


EPS CAGR 2016-2019 ~3%

Free Cash Flow 2€bn cumulated

Net Debt reduction starting from 2018/2019

Regulated Capex Plan 2016-2019



> Capex plan **build-up** due to:

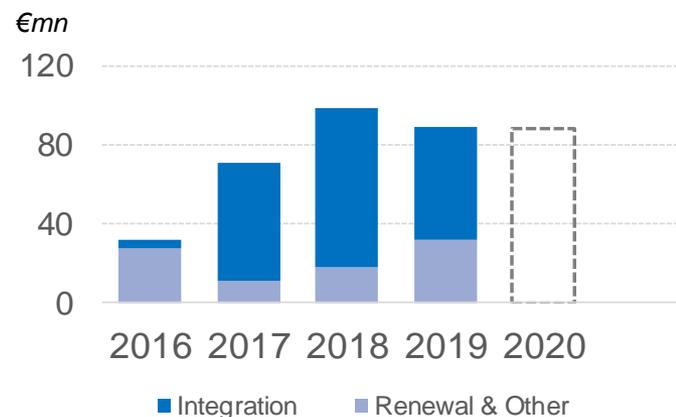
- ✓ **RHV Grid** Acquisition, requiring investments for overall network connection
- ✓ **Acceleration** program in accordance with the new regulatory schedule

Grid Expansion – Integration of RHV Grid

CAPEX

Capex 2016-2019: ~300€mn

> o/w 70% for integration within Terna's grid



EFFICIENCY TARGETS

Operational Activities Optimization

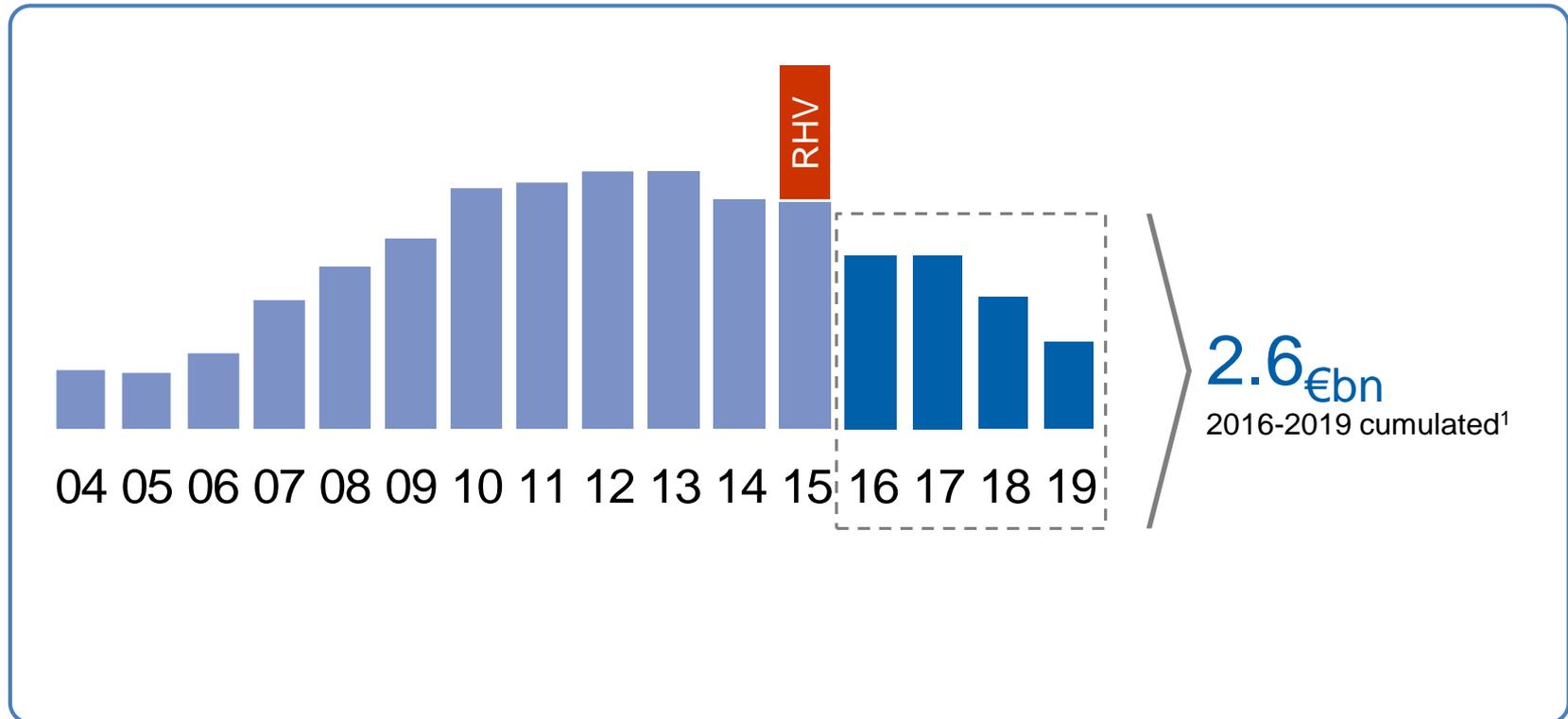
> Insourcing & synergies on top of allowed opex

> Headcount for O&M:

- rationalization from current ~400* to less than 200 incremental headcount

EPS accretion starting from 2017

Regulated Capex Plan 2016-2019

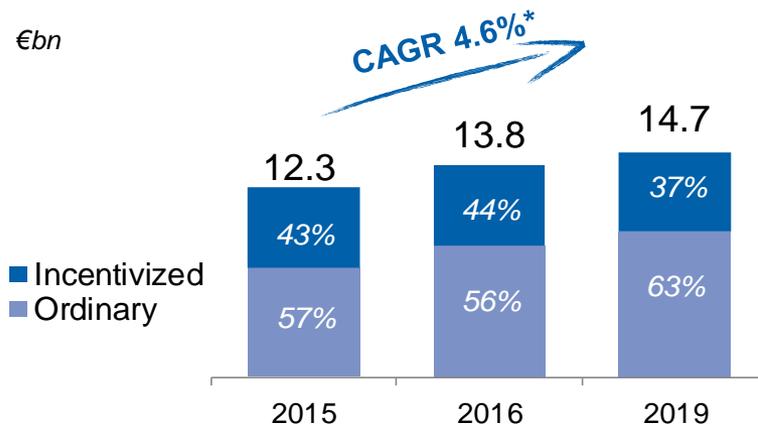


> **WIP** 2016-2019 mostly **below** the regulatory Cap
(equal to stock WIP at 2015YE net of Sorgente-Rizziconi: ~1.4€bn)

Grid Expansion

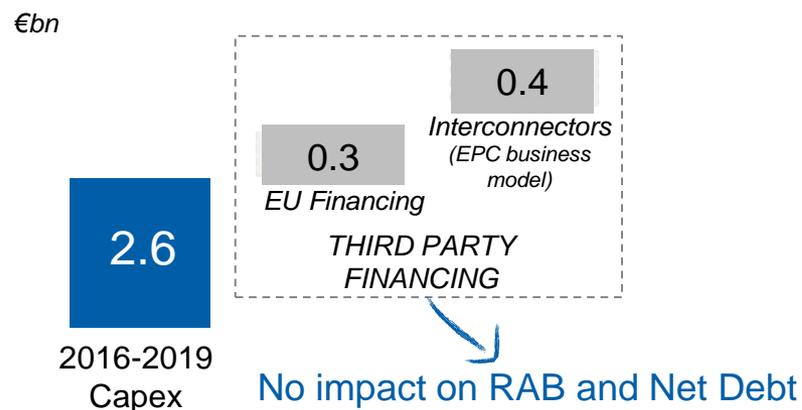
TARIFF RAB EVOLUTION

Solid RAB growth



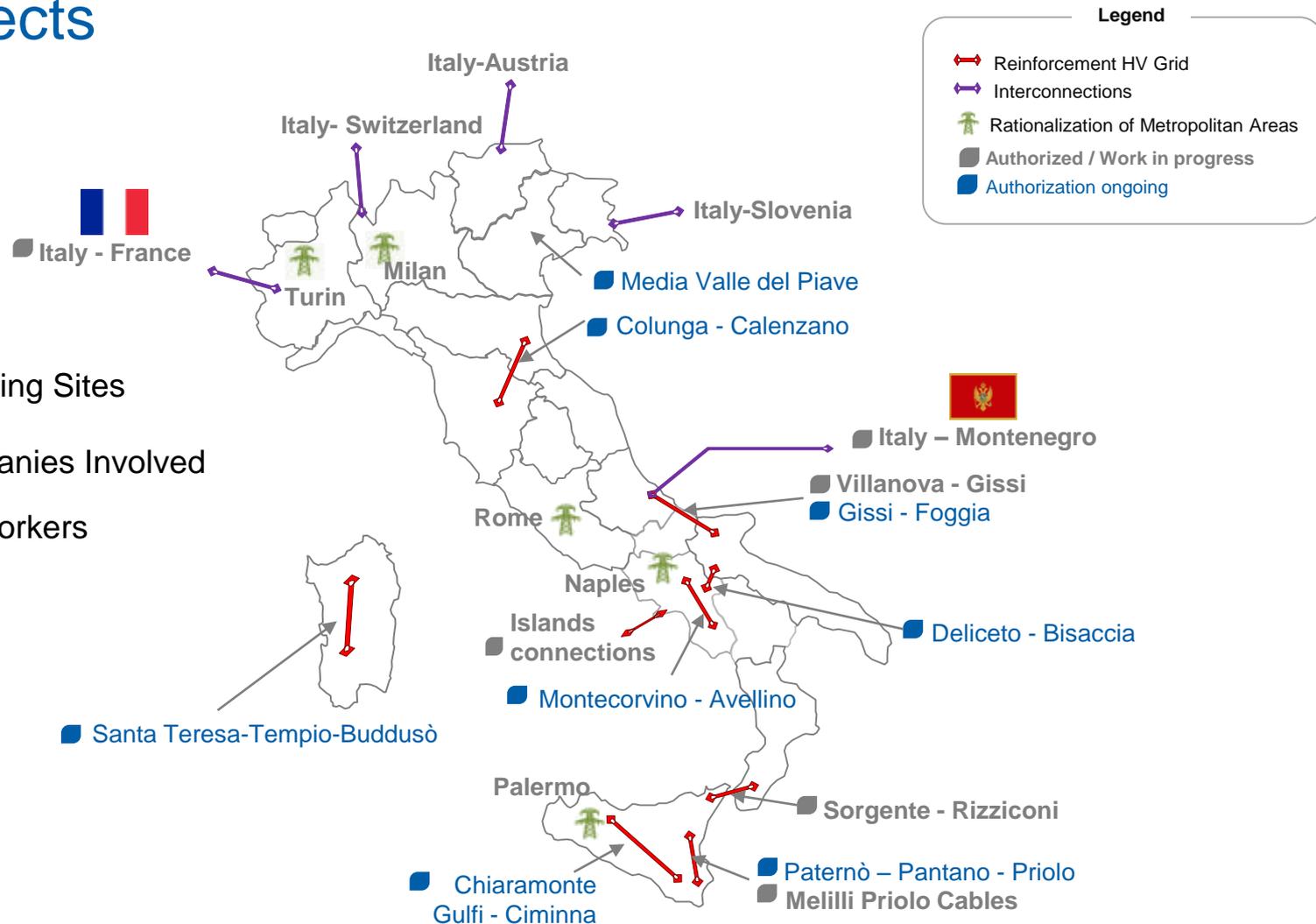
3.3BN TOTAL EFFORT FOR THE GRID

Terna and third party financing

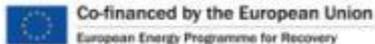


Main Projects

- > ~250 Building Sites
- > 750 Companies Involved
- > ~4,000 Workers



Note: Sorgente – Rizziconi is



Non Regulated - Capital Light

DIVERSIFIED PORTFOLIO ALREADY CONTRACTED

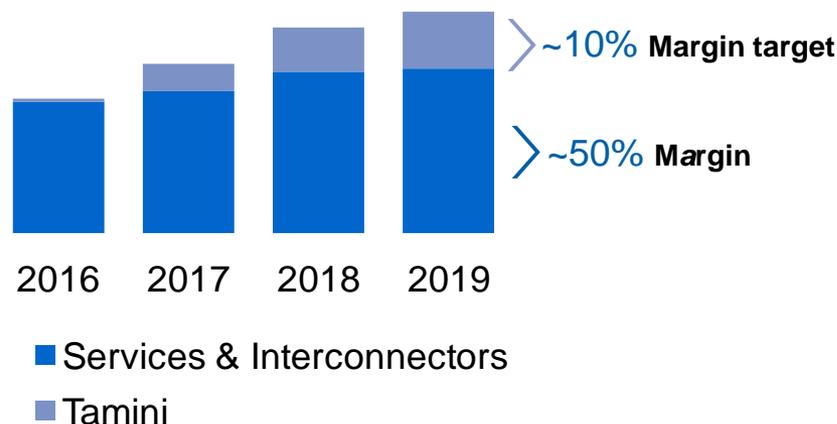
> Services

- TLC including RHV Grid
- EPC
- O&M

Interconnectors

> Tamini including TES merger

EBITDA breakdown and EBITDA Margins



€mn

~240



2016-2019
Cumulated EBITDA

Based on our **Core Capabilities**

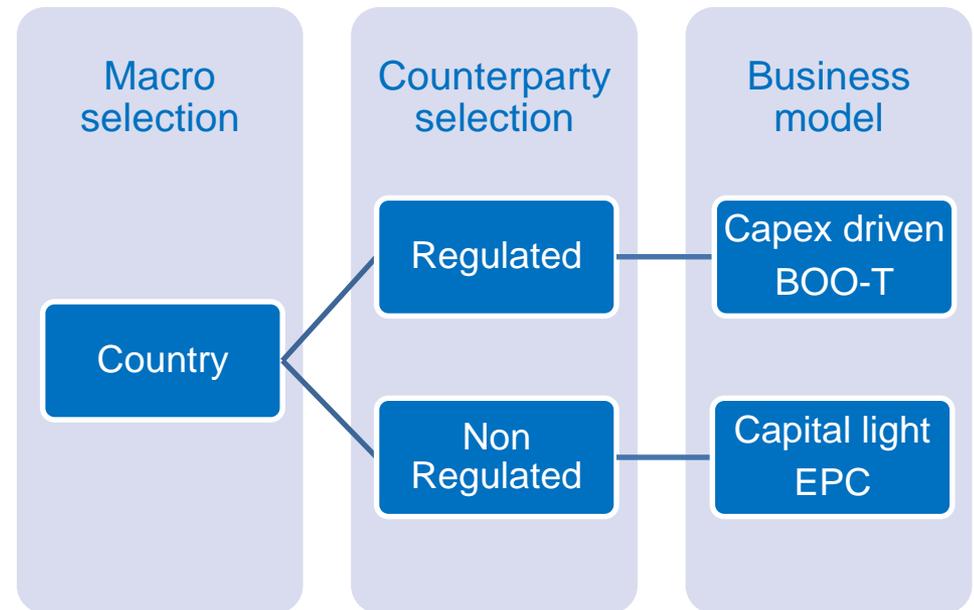
International Growth

Our Approach

ENGAGEMENT RULES

- > Focus on our **core business**
- > Exporting **technical skills**
- > Preference for **greenfield**
- > Hedging **risks**
- > **Partnerships**
- > Limited **Capital** absorption max 150-200_{€mn}
- > Rigorous **Risk Adjusted Return**

CAPITAL ALLOCATION CRITERIA

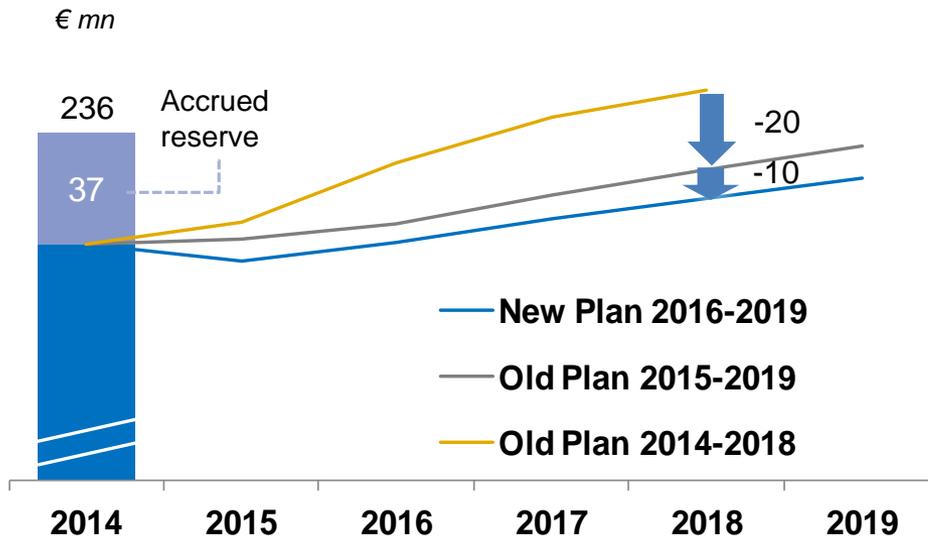


No change in Group's risk profile

Savings on Regulated Opex (excl. RHV Grid)

LABOUR COSTS

EXTERNAL COSTS



- > Downward trend starting from 2015
- > Further savings mainly concentrated on Operations and Information Technology
- > Additional ~5_{€mn} further average annual savings vs Old Plan

Total headcount ~3,400 in 2019 (~3,600 incl. RHV Grid)

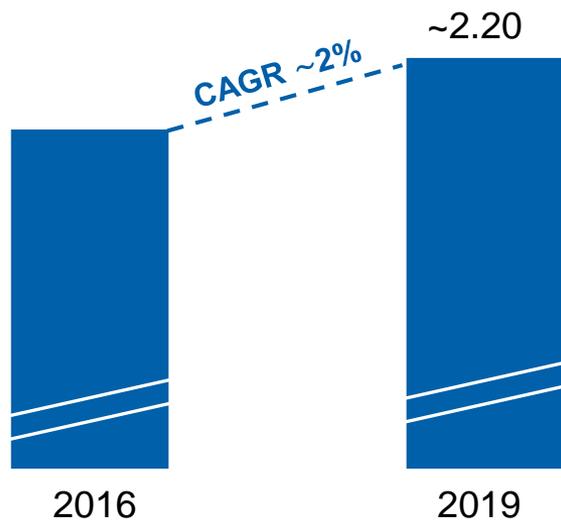
Further effort on Cost Saving vs Old Plans

Group Targets

P&L

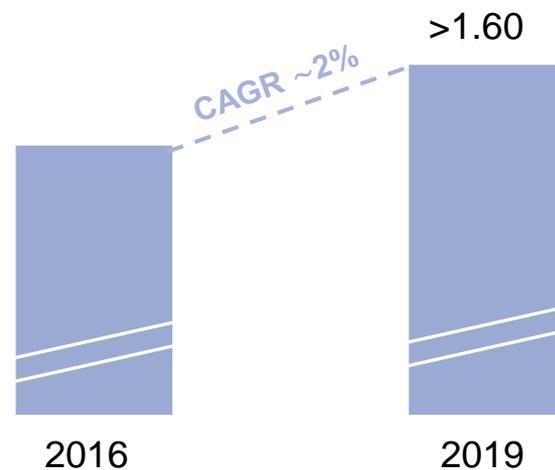
Revenues

€ bn



EBITDA

€ bn



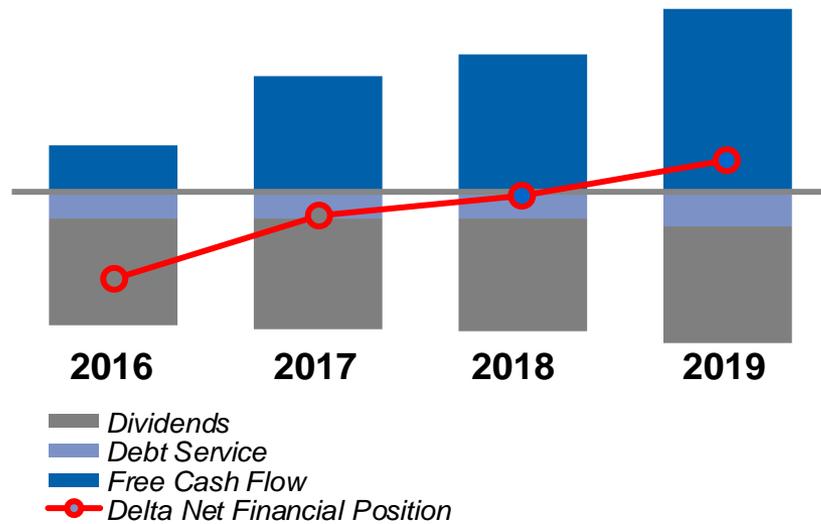
BOTTOM LINE

> EPS CAGR 2016-2019 ~3%

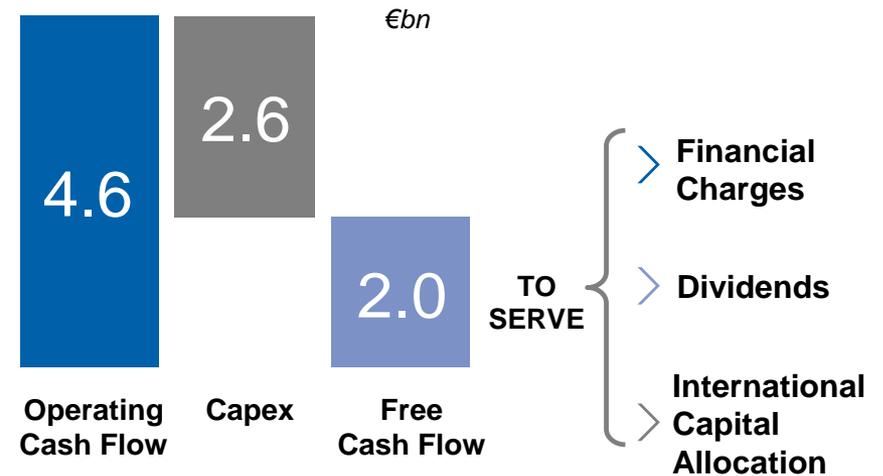
Summary Targets

Free Cash Flow

NET DEBT AND CASH FLOW



CUMULATED 2016-2019



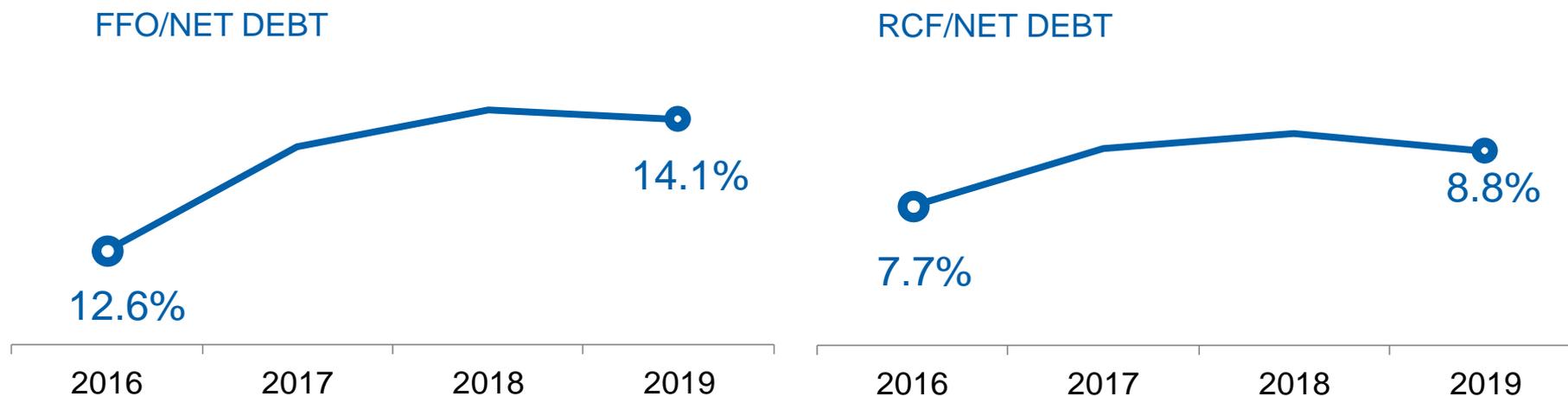
Net Debt reduction from 2018/2019

Summary Targets

Financial KPIs

- > Maintain a solid financial structure
- > Average kd in the period ~2%
- > Average Net Debt/RAB at 58%

MAIN FINANCIAL RATIO UNDER THE RADAR OF RATING AGENCIES



Preliminary 2015 and Guidance 2016

FY2015

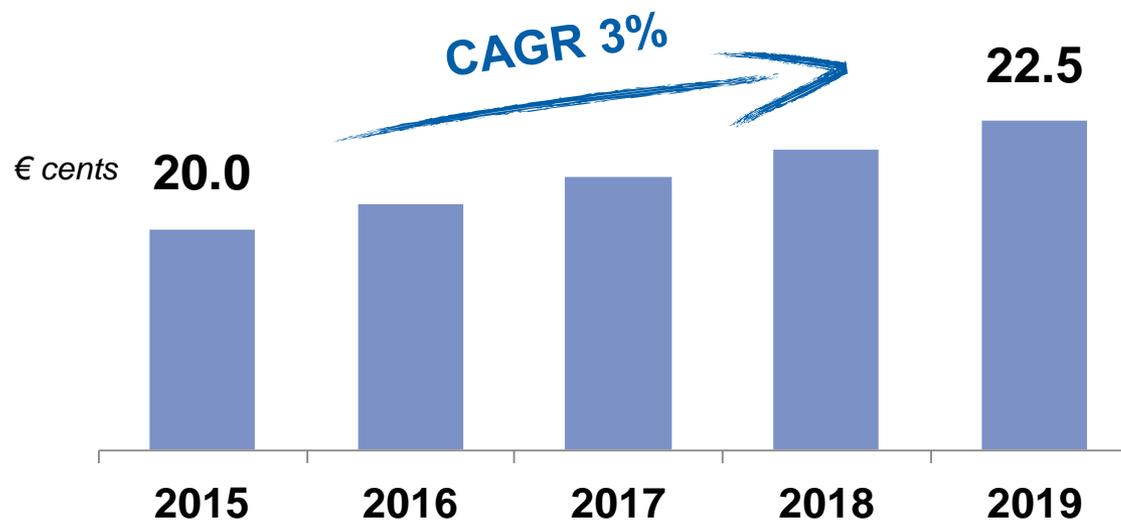
FY2016

	<i>Guidance</i>	Preliminary¹	Guidance
REVENUES	~ 2.05 _{€bn}	> 2.07 _{€bn}	~ 2.09 _{€bn} ²
EBITDA	~ 1.52 _{€bn}	> 1.53 _{€bn}	~ 1.52 _{€bn}
CAPEX	~ 1.0 _{€bn}	~ 1.1 _{€bn}	~ 0.9 _{€bn}
EPS			~ 28 _{€cents}
Net Debt		~ 8.0 _{€bn}	

Dividend Policy

Consistent and Sustainable

> CAGR 2015-2019 **+3%** starting from DPS 2015



> **Consistent** with EPS and RAB evolution

> **Sustainable** implied payout ratio: <75% at the end of the Plan period

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Final Remarks

Low Risk Profile and Solid Cash flow

REGULATORY FRAMEWORK

- > 2016-2019 Full visibility
- > Stable and clear

STRENGTHEN LOW RISK PROFILE

- > Assets growth on **regulated** business
- > **Limited** capital absorption on other activities

OPERATIONAL EFFICIENCY

- > Synergies from **RHV** Grid
- > Further **discipline** on external costs

SOLID BALANCE SHEET

- > **Sustainable** financial structure
- > **Improving** ratios

Solid Cash flow to serve yield and growth

> THANK YOU. QUESTIONS?

Matteo Del Fante *Chief Executive Officer*

Pierpaolo Cristofori *Chief Financial Officer*

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AWARDS²³¹
Etica e Ambiente 2015