



2018 - 2022 STRATEGIC PLAN

GRIDS AND VALUES

POWERING A SUSTAINABLE GROWTH

Milan, March 22nd 2018

Agenda

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○ Sustainability as a key value driver

Sustainability as a key value driver





Terna and the Sustainable Development Goals – What we do (1/2)



Returning value through SDGs

Sustainability as a key value driver

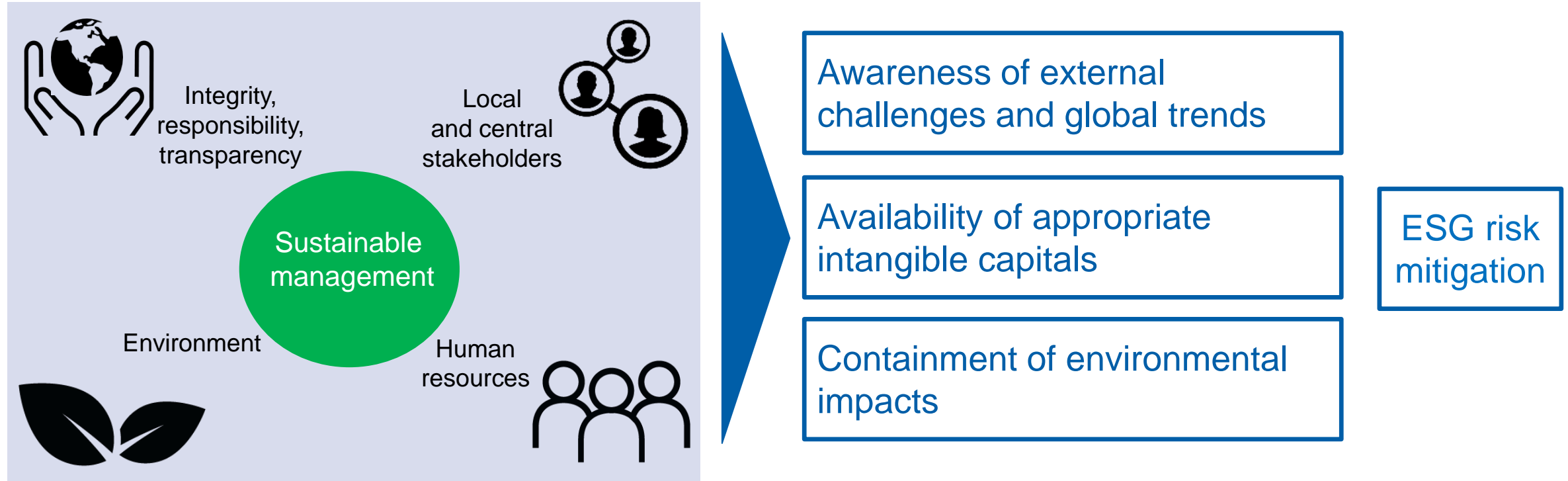
Terna and the Sustainable Development Goals – What we do (2/2)

Commitment	 <p>7 AFFORDABLE AND CLEAN ENERGY Affordable and Clean Energy</p>	 <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE Industry, Innovation and Infrastructure</p>	 <p>13 CLIMATE ACTION Climate Action</p>	 <p>17 PARTNERSHIPS FOR THE GOALS Partnership for the goals</p>
Targets	<ul style="list-style-type: none"> • Ensure affordable and reliable energy services • Increase the share of renewable energy 	<ul style="list-style-type: none"> • Develop sustainable and resilient infrastructure 	<ul style="list-style-type: none"> • Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries 	<ul style="list-style-type: none"> • Strengthen public and private partnerships for the implementation of SDGs

Strong commitment on sustainability

Sustainability as a key value driver

Terna Environmental Social and Governance Approach – How we do



Sustainability is driving our business model


○ Overall Macro Scenario

Overall Macro Scenario

Mega trends – System Evolution (1/2)


POLICIES FRAMEWORK

UNITED NATIONS
COP 21



PARIS2015
UN CLIMATE CHANGE CONFERENCE
COP21-CMP11

EUROPEAN GUIDELINES
Clean Energy Package



NATIONAL
ENERGY
STRATEGY




TECHNOLOGICAL EVOLUTION



Renewables



Energy
Efficiency



EV



Digitization



Storage



MAIN IMPACTS ON TSO

SECURITY OF SUPPLY

RENEWABLES
INTEGRATION

INNOVATION
AND DIGITIZATION

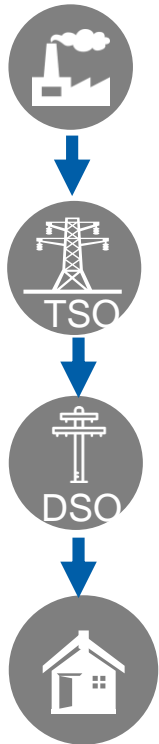
Ensuring security of supply for a sustainable and efficient energy system

Overall Macro Scenario

Mega trends – System Evolution (2/2)

FROM THE TRADITIONAL SYSTEM...

...TO A COMPLEX AND INTEGRATED SYSTEM



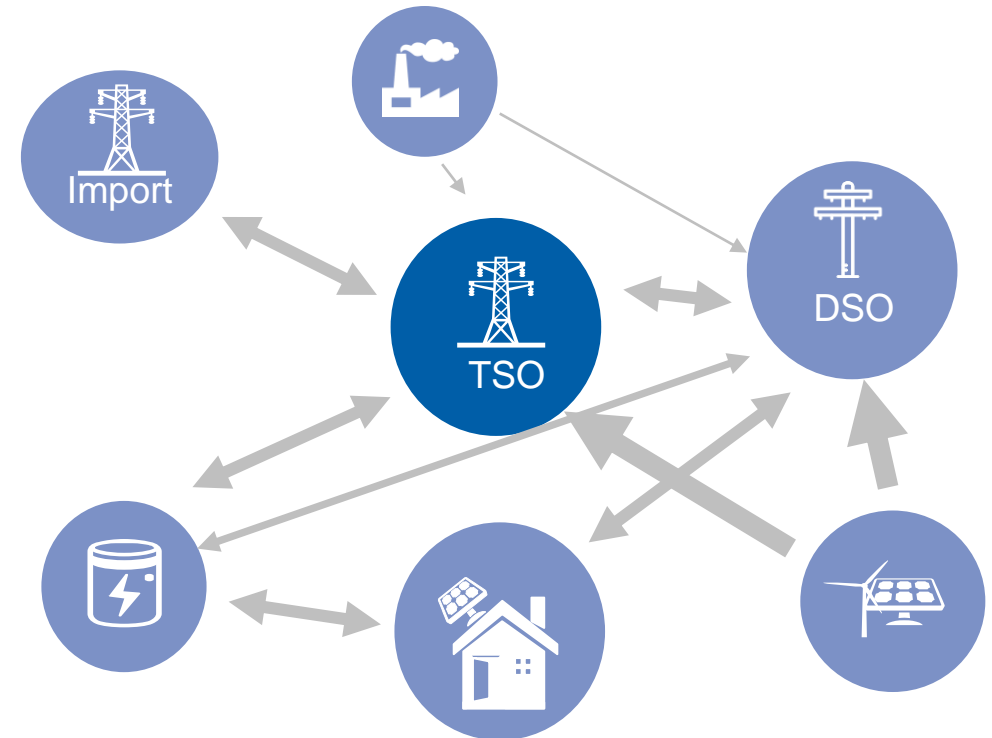
Centralized Generation

One-way system
&
Regional structures

Consumers



- Distributed Generation
- Prosumers
- Renewables
- Multi-directional System
- Cross-borders flows
- Storage

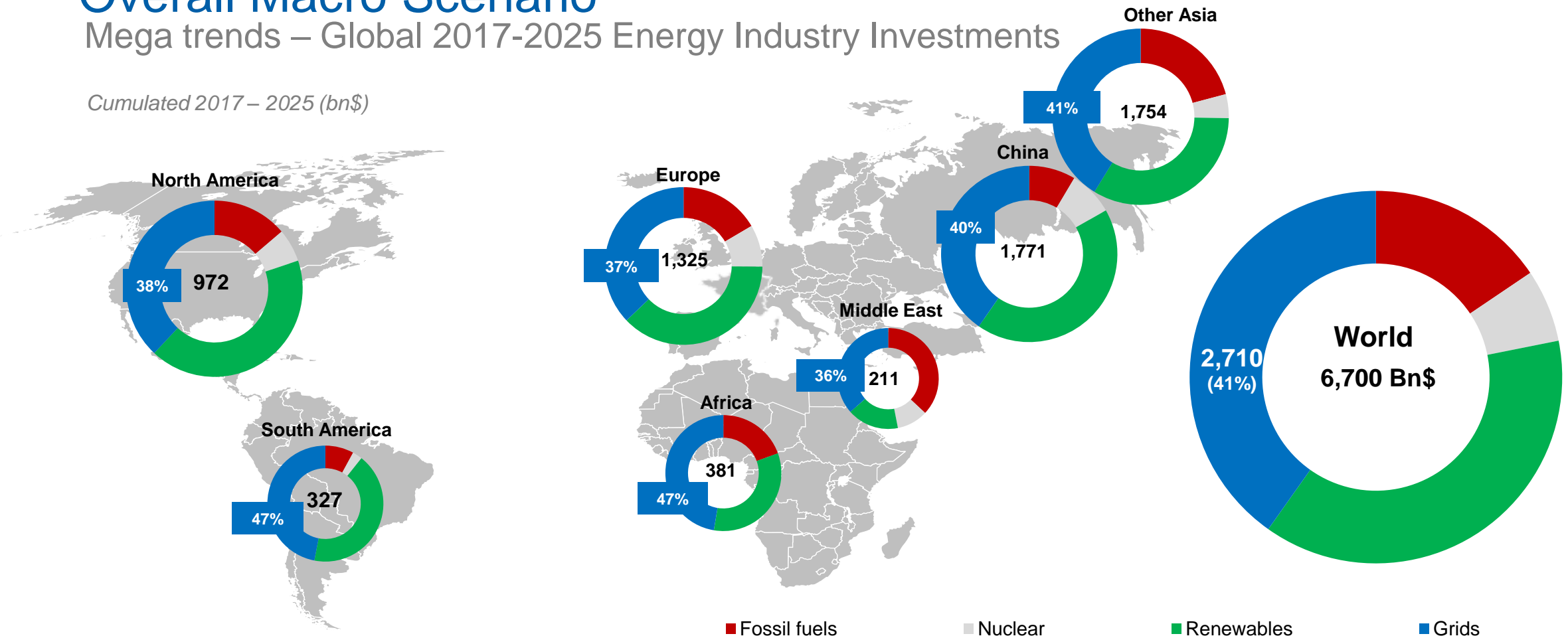


Grids pivotal role confirmed

Overall Macro Scenario

Mega trends – Global 2017-2025 Energy Industry Investments

Cumulated 2017 – 2025 (bn\$)

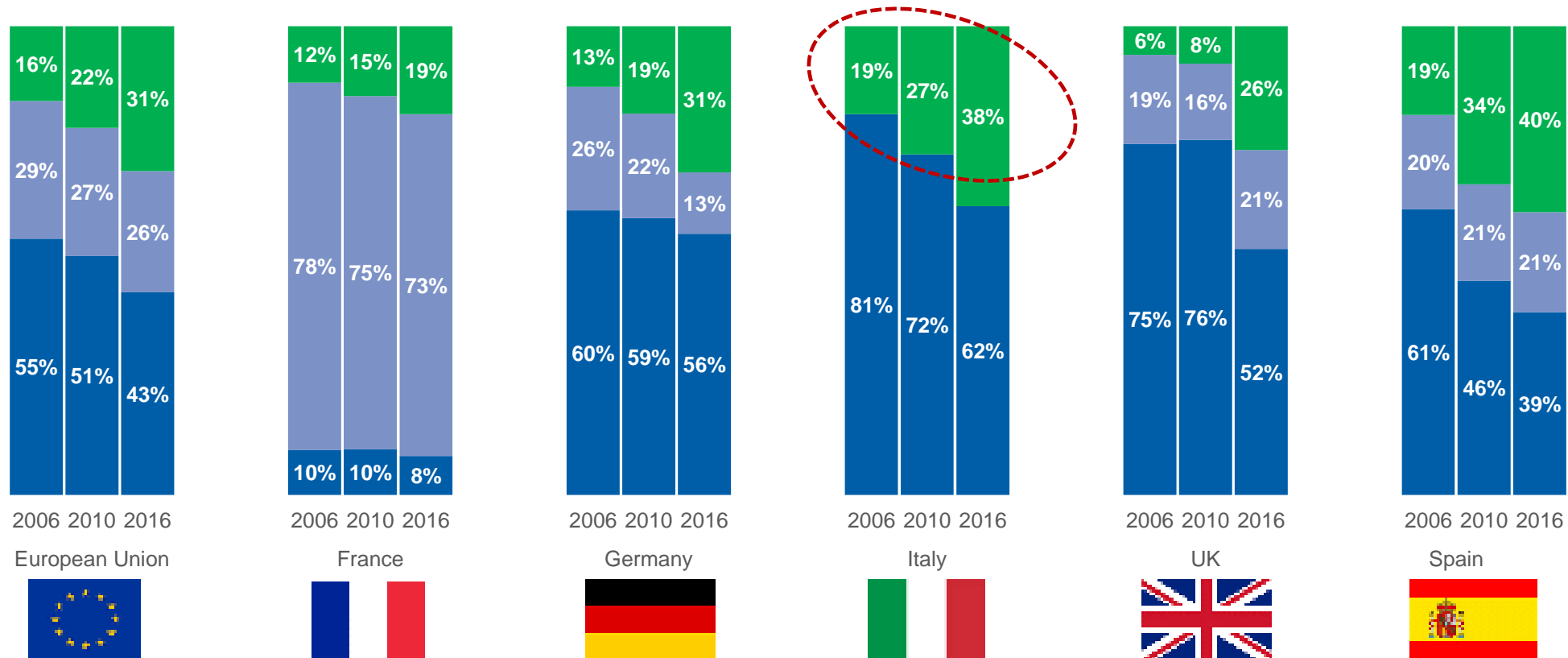


Acceleration on grid investments is the enabling factor for the energy transition

Overall Macro Scenario

Mega trends – Gross Electricity Generation Mix, 2006 – 2016 (% of GWh)

■ Fossil fuels ■ Nuclear ■ Renewables including hydro



Italy has one of the highest renewables share in Europe

Overall Macro Scenario

Mega trends – National Energy Strategy

AREAS



Energy Efficiency



Renewables Development



Decarbonization speed up



Security of Supply

CORE TARGETS

Reducing final energy consumption by a total of 10 Mtoe by 2030

Reaching 55%* share of renewables in electricity consumption by 2030

Phasing out the use of coal in electricity generation by 2025

Strengthening **security of supply** and narrowing the **energy price gap**

Furthering sustainable public **mobility** and eco-friendly fuels

Transmission grid as one of the key enablers of the forthcoming energy system

○ 2018 – 2022 Strategic overview

2018 – 2022 Strategic overview

Mission

Play a leading role for a sustainable energy transition, leveraging innovation, skills and distinctive technologies with the goal of generating value for all stakeholders



GRIDS AND VALUES

POWERING A SUSTAINABLE GROWTH

2018 – 2022 Strategic Overview

Guidelines & Enabling Factors

STRATEGIC GUIDELINES



Domestic Regulated Operations: focus on Italian Grid reinforcement



Non Regulated Operations: value added solutions for the integrated TSO



International Operations: exploit core capabilities

ENABLING FACTORS



Innovation & Digitization: be the front-runner



People: strengthening core competences

2018 – 2022 Strategic Overview

Domestic Regulated Operations: focus on Italian Grid reinforcement (1/4)



STRATEGY

ACTIONS

Grid reinforcement

Capex acceleration driven by system needs

Support the framework evolution

*Play a proactive role in system design and roll-out
(e.g. Capacity Market)*

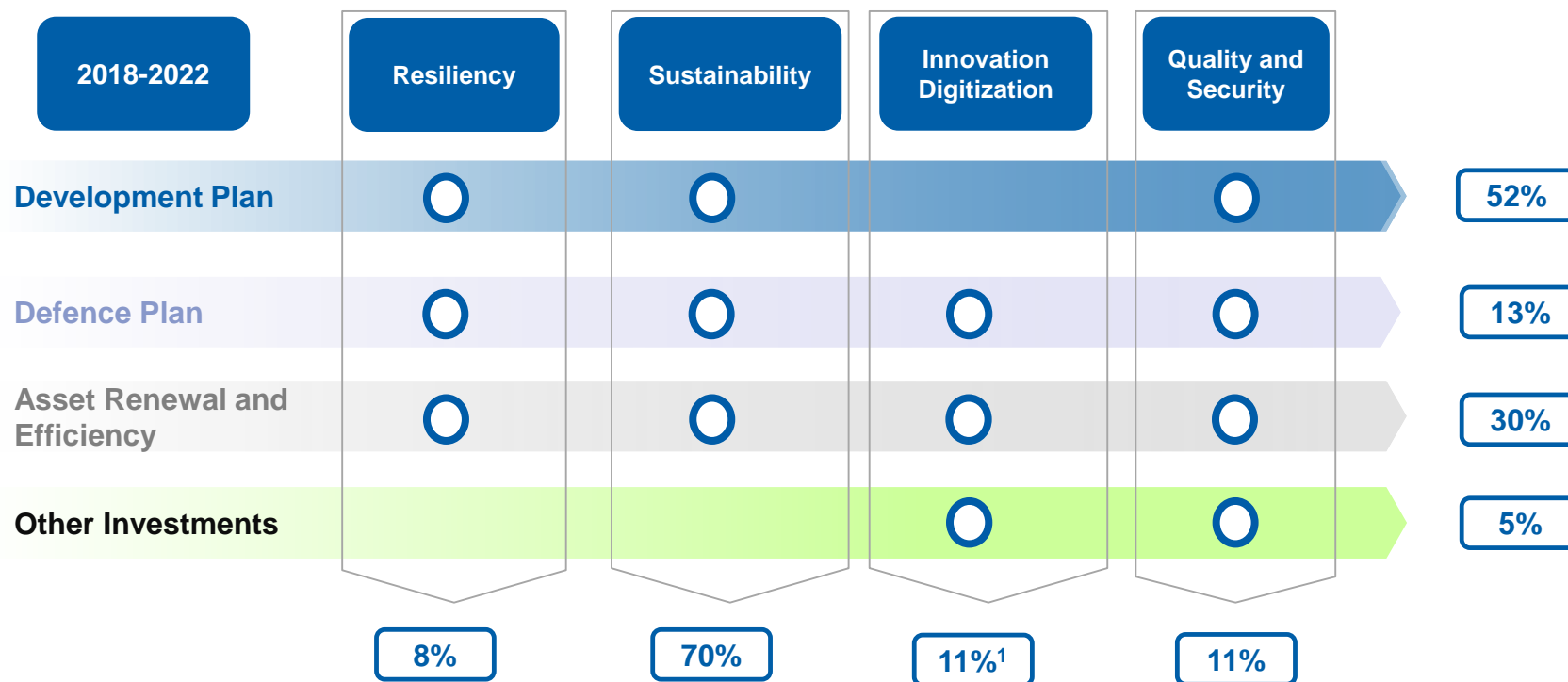
Enhance core competences

Leveraging technological skills and innovation

System is calling for a new investment wave

2018 – 2022 Strategic Overview

Domestic Regulated Operations: focus on Italian Grid reinforcement (2/4)



Capex
5.3 €bn
 2018-2022 cumulated²

Increasing benefits for the system – reducing overall energy costs

2018 – 2022 Strategic Overview

Domestic Regulated Operations: focus on Italian Grid reinforcement (3/4)



CATEGORY	CUMULATED CAPEX	MAIN PROJECTS
Development	~2.8 €bn	<ul style="list-style-type: none"> ▪ Rationalization of major metropolitan areas ▪ Decongestion investments in Sicily ▪ Italy-France interconnection ▪ Italy-Montenegro interconnection ▪ SA.CO.I 3
Defence	~0.7 €bn	<ul style="list-style-type: none"> ▪ Grid stabilization devices ▪ Connectivity (optical fiber)
Asset Renewal and Efficiency	~1.9 €bn	<ul style="list-style-type: none"> ▪ Service quality improvement, efficiency and environment ▪ RHV Grid integration

Strong focus on security of supply

2018 – 2022 Strategic Overview

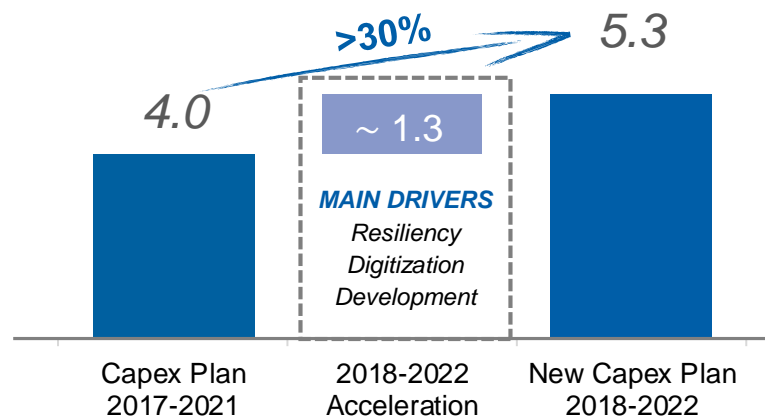
Domestic Regulated Operations: focus on Italian Grid reinforcement (4/4)



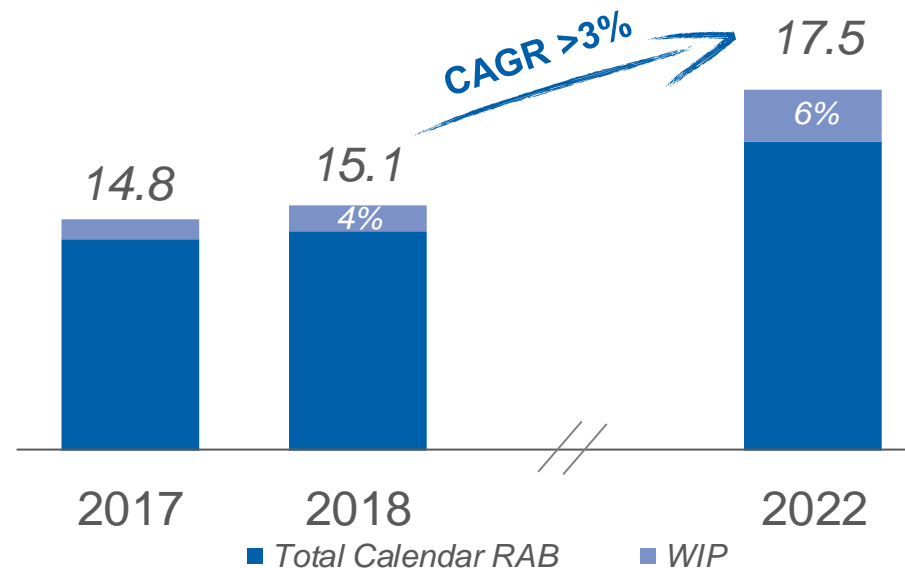
CAPEX €bn

5.3 €bn

2018-2022 cumulated*



RAB EVOLUTION €bn



Capex acceleration drives a robust RAB growth

2018 – 2022 Strategic Overview

Non Regulated Operations: value added solutions for the integrated TSO (1/2)



STRATEGY

ACTIONS

Energy Solutions Provider

Develop high value-added services

TLC

Pursue new business opportunity based on TLC assets

O&M Services

Catch new business opportunities

Tamini

Turnaround expected on-track

Non Regulated Activities to serve energy transition

2018 – 2022 Strategic Overview

Non Regulated Operations: value added solutions for the integrated TSO (2/2)



TLC



Private Interconnectors



Tamini



Energy Solutions Provider



Grid Infrastructure



Energy Efficiency

AVVENIA
THE ENERGY INNOVATOR



New Solution



Services

EBITDA **~350**€mn
cumulated in 5 years
+50mn vs old plan restated¹

Robust contribution to P&L

2018 – 2022 Strategic Overview

International Operations: exploit core capabilities (1/2)



STRATEGY

ACTIONS

Europe

*Playing an active role in TSO governance
Executing on system connectivity*

LatAm

Delivering existing projects

Exploring front-end technology solutions

Focus on high skill and capital light activities




Limited capital absorption and low risk profile

2018 – 2022 Strategic Overview

International Operations: exploit core capabilities (2/2)



PROJECTS IN EXECUTION

	<p>Brazil</p>	<ul style="list-style-type: none"> ▪ 2 BOOT concessions for >500km ▪ Capex¹ at ~160€mn ▪ P&L contribution starting from 2019
	<p>Uruguay</p>	<ul style="list-style-type: none"> ▪ BOT concession for >200km ▪ Capex¹ at ~70€mn ▪ P&L full contribution starting from 2020 (on PBT)
	<p>Perù</p>	<ul style="list-style-type: none"> ▪ BOOT concession for > 130km ▪ Capex¹ at ~15€mn ▪ P&L full contribution starting from 2021

TOTAL MAXIMUM CAPEX LEVEL

2018-2022 Cumulated Capex

Lower than 300€mn

o/w ~160 related to projects in execution

EBITDA ~150€mn²

cumulated in 5 years

+ ~70mn vs old plan

Ongoing execution

2018 – 2022 Strategic Overview

Enabling Factors (1/2)



STRATEGY

ACTIONS

INNOVATION AND DIGITIZATION

Transmission Operator Activities

Predictive assets maintenance through centralized data management

System Operator Activities

*Advanced Analytics
(i.e. flexibility management and DER* dispatching)*

Enhance open innovation approach

Innovation sharing process to turn ideas into new strategic initiatives

Overall Group processes

Workforce, processes and IT management

PEOPLE

Partnerships with academic institutions

Strengthening technological skills and high level competences

Enhancement of existing competences

Empowering project planning, execution, and control activities

New skills development

Digital and Innovation

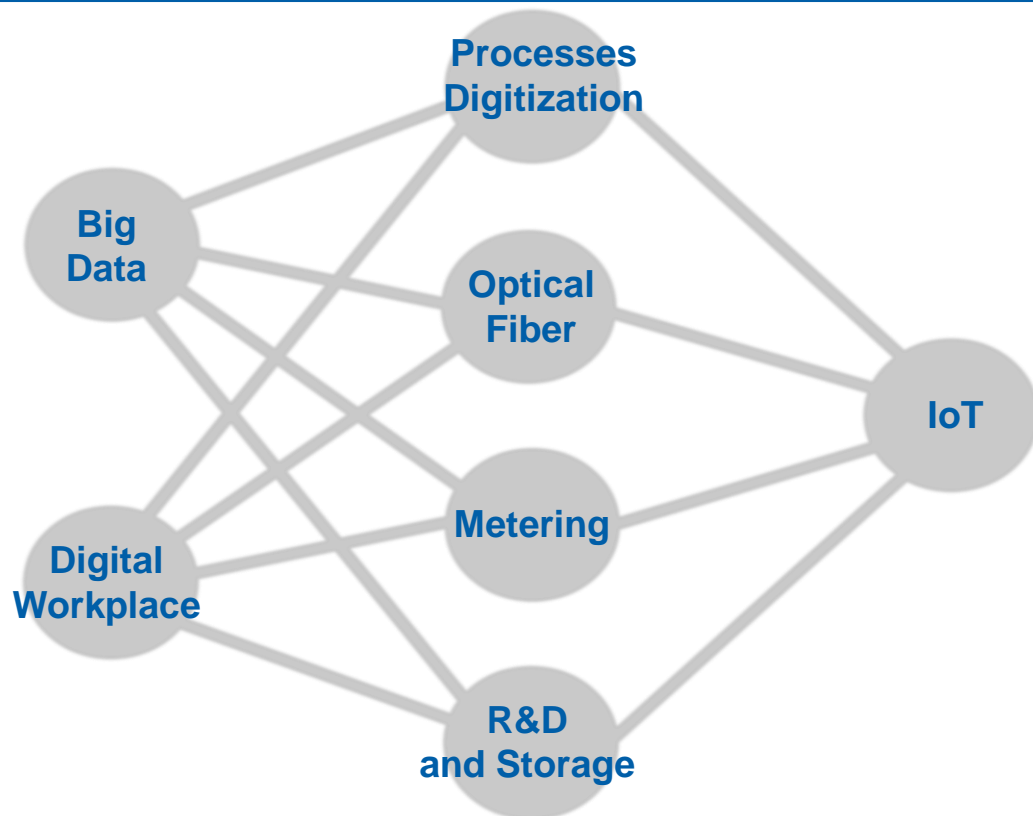
Leveraging digitization and people to manage increasing system complexity

2018 – 2022 Strategic Overview

Enabling Factors (2/2)



MAIN PROJECTS

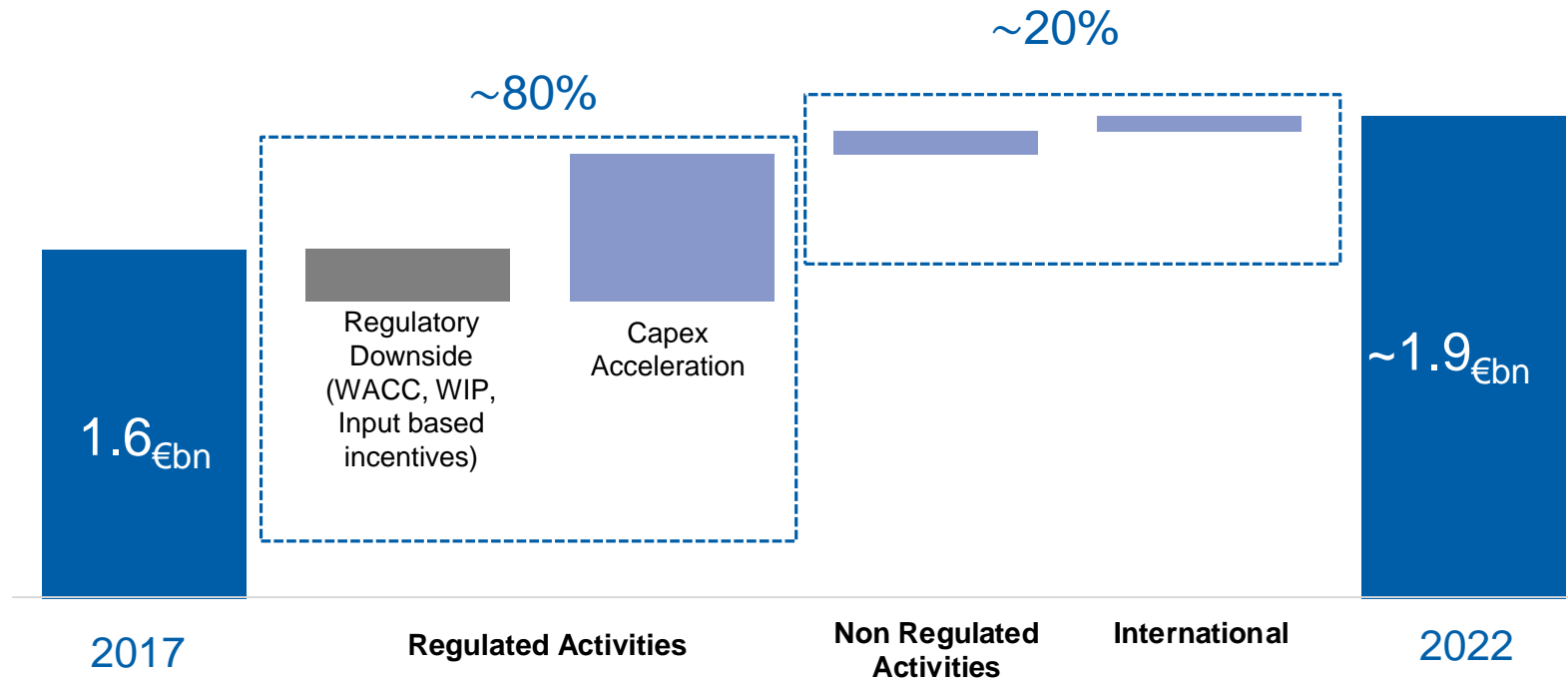


Capex
~600€mn*
2018-2022 cumulated

Innovation & Digitization are key tools for SO activities

2018 – 2022 Strategic Overview

EBITDA Evolution



Revenues growth supported by strong capex acceleration.
Focus on project execution

2018 – 2022 Strategic Overview

Guidance 2018 and 2022

€bn	FY 2017	FY 2018	FY 2022	2022 vs 2017
	Actual	Guidance	Guidance	Δ%
<i>Revenues</i> ¹	~ 2.16	~ 2.20	~ 2.55	+ 18%
<i>EBITDA</i>	~ 1.60	~ 1.61	~ 1.90	+ 18%
<i>Capex</i> ²	~ 1.0	~ 1.1	~ 5.7 Cumulated 2018-2022	
<i>EPS</i> €cents	~ 34	~ 34	~ 38	+ 12%

Ensuring a sustainable growth during the plan period

○ FY 2017 results

FY 2017 results

Key Numbers

€mn	FY 2017	FY 2016	Δ vs FY 16
Revenues	2,248 ¹	2,103	+7%
EBITDA	1,604	1,545	+4%
Group Net Income ²	688	633	+9%
Total Group Capex	1,034	854	+21%

	FY 2017	FY 2016
Net Debt ³	7,796	7,976

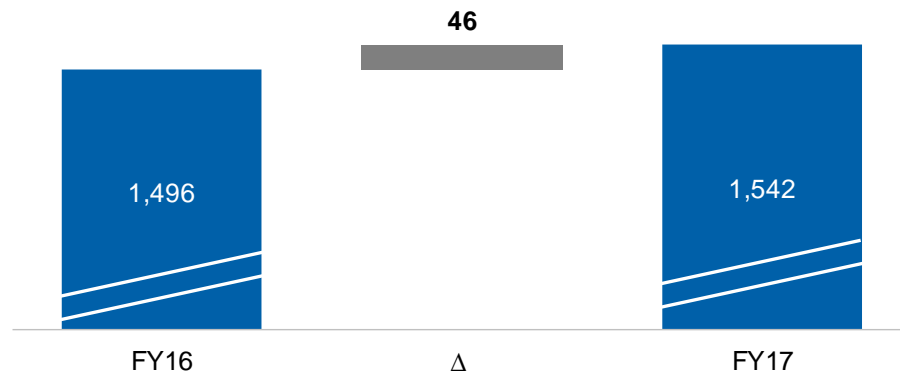
Growth in all P&L lines

FY 2017 results

EBITDA

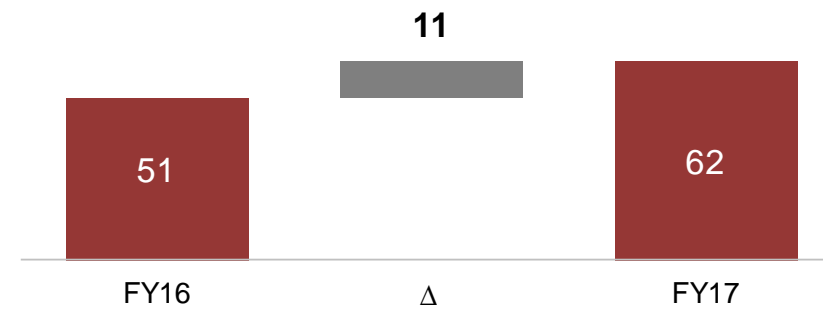
REGULATED ACTIVITIES

€mn



NON REGULATED ACTIVITIES

€mn

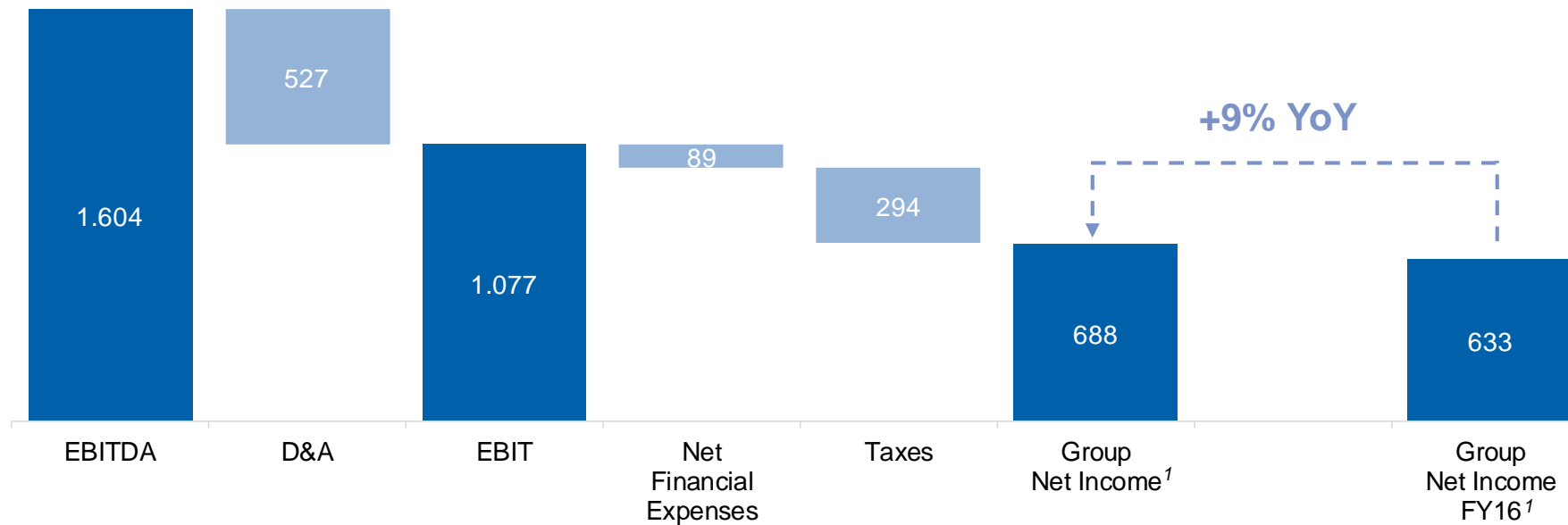


Solid EBITDA driven by domestic regulated activities

FY 2017 results

From EBITDA to Net Income

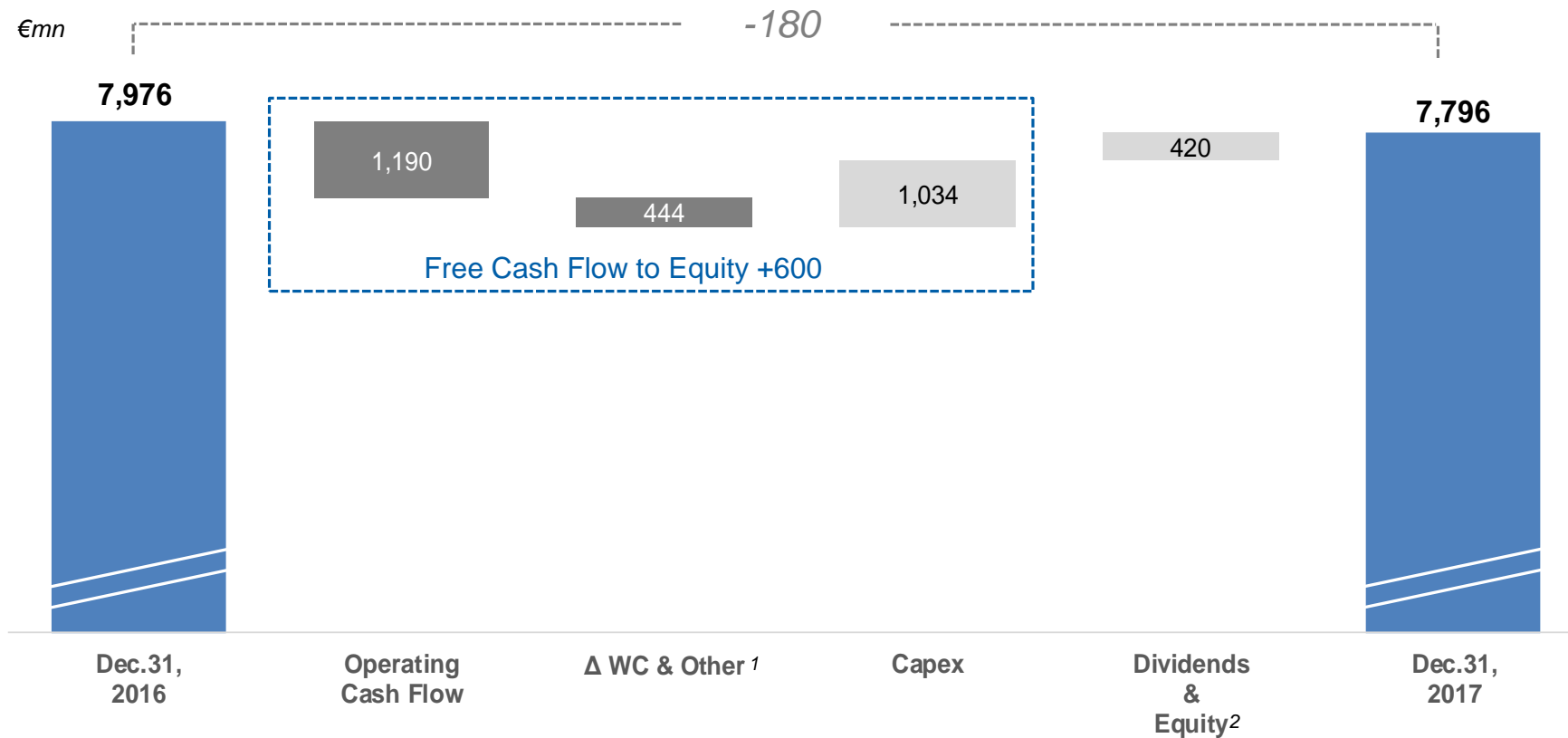
€mn



+9% growth YoY at net income level

FY 2017 results

Cash Flow & Net Debt Evolution



Positive cash flow generation covers dividend and capex

○ 2018-2022 Group targets

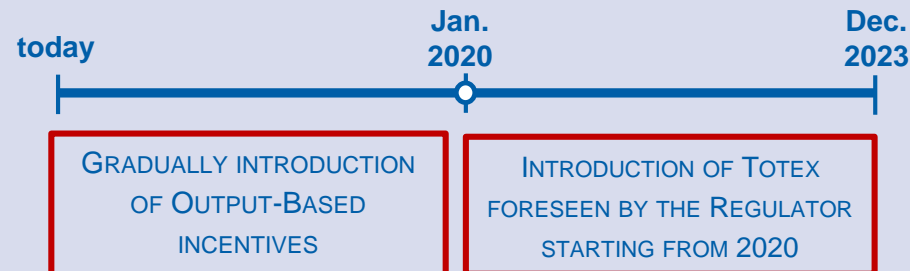
2018-2022 Group targets

Assumptions: Regulation

Regulated

- 2018 Total Grid Fee* @ 1.92€bn
- WACC at 5.1% starting from 2019
- Output based principles and guidelines factored in
- RAB inflation at 0.9% on average during plan period

Totex Framework



2018-2022 Group targets

Assumptions: Accounting and Finance

Accounting

- Figures not affected by international projects IFRIC effects
- Interconnector EBITDA contribution spread over exemption period

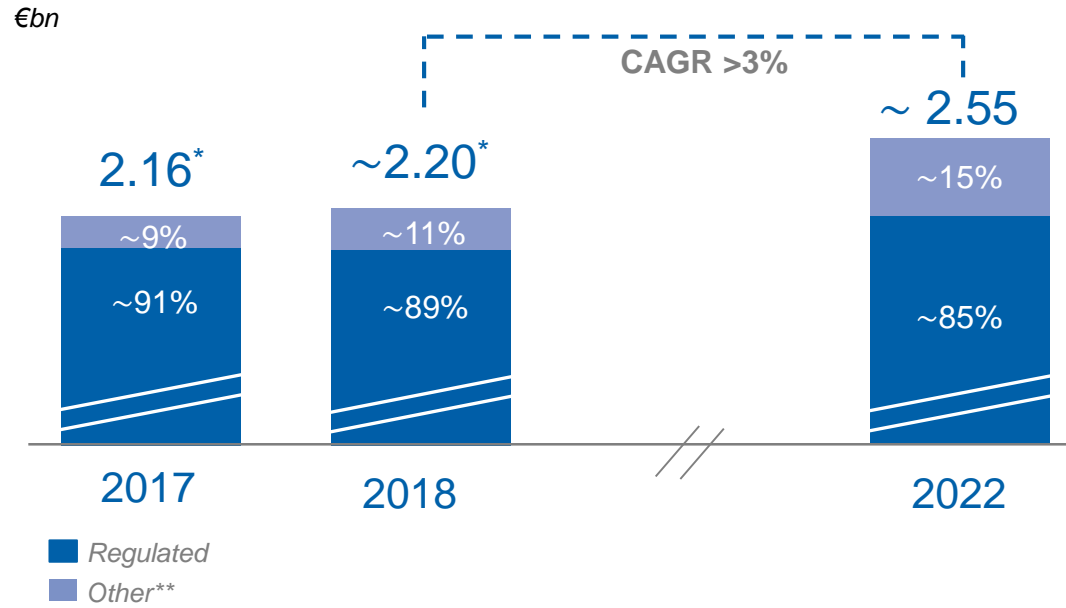
Debt management

10 years average interest rate swap @ **1.6%**

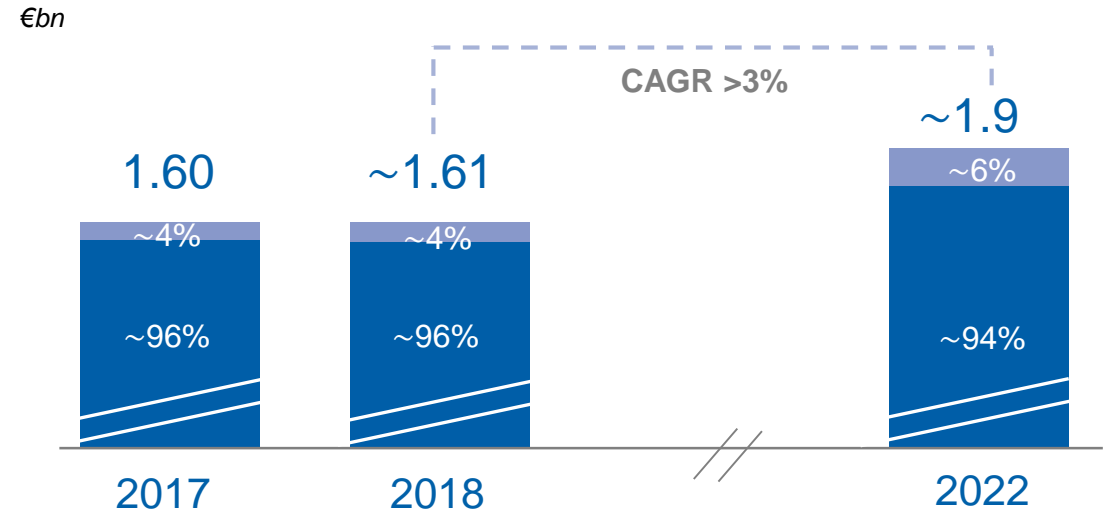
2018-2022 Group targets

P&L

REVENUES



EBITDA

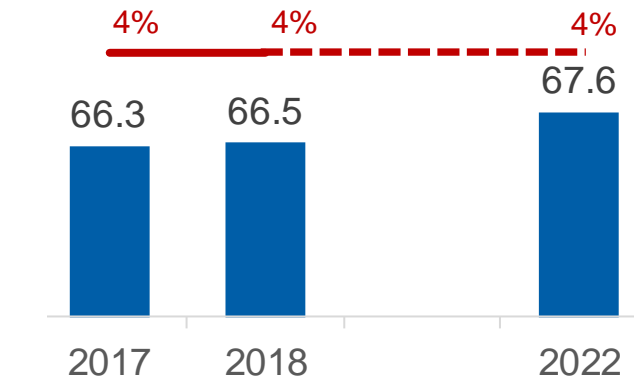


EPS CAGR 2018-2022 ~3%

2018-2022 Group targets

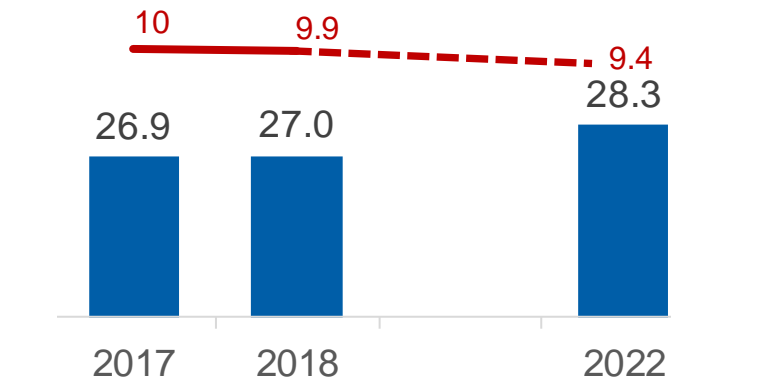
Efficiency

HEADCOUNT / ASSETS



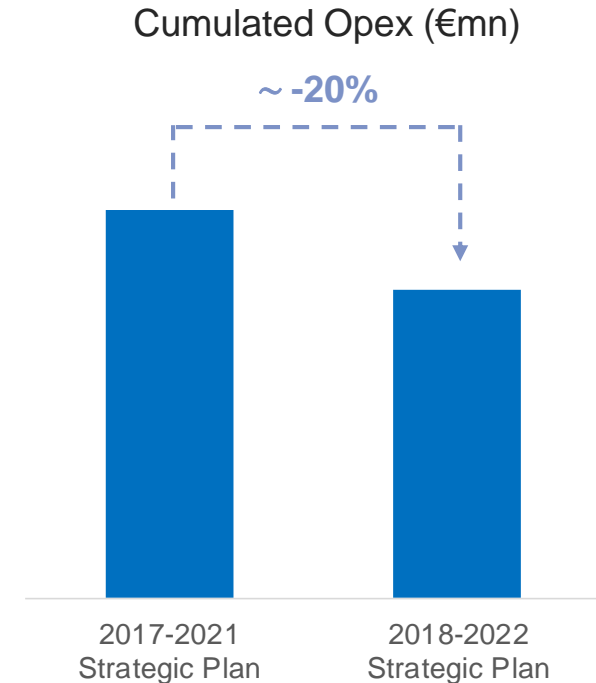
Headcount/Km lines (red dashed line) '000 Km of Lines (blue bars)

OPEX / EQUIVALENT ASSETS*



OPEX / '000 Equivalent Assets (red dashed line) '000 Equivalent Assets (blue bars)

RHV GRID ASSETS

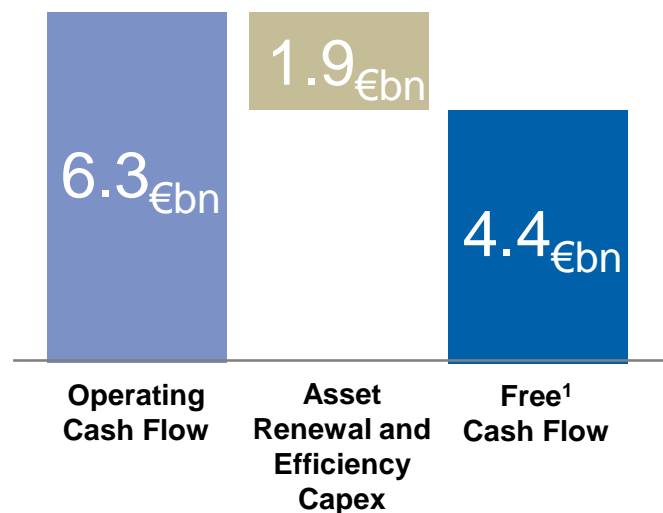


Maintaining high efficiency level in grid management

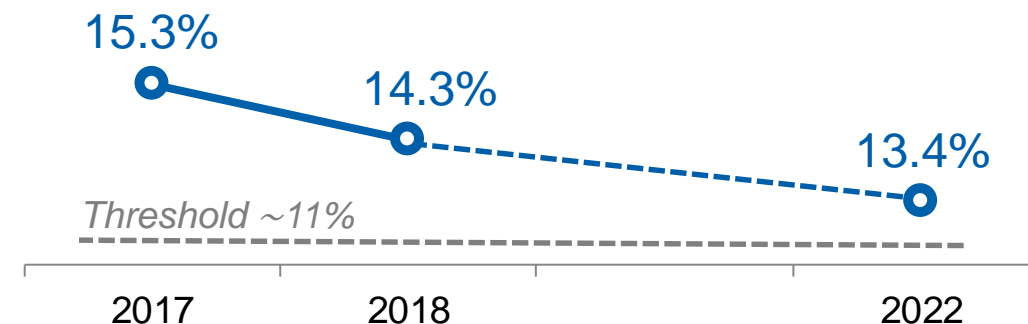
2018-2022 Group targets

Cash Flow & Net Debt

CUMULATED 2018-2022



FFO/NET DEBT



- Net Debt / RAB **<60%** over the Plan²
- Average Cost of Net Debt 2018-2022 @ **1.6%** back end loaded
- Gross Debt as of YE 2017 @ **100% Fix rate**

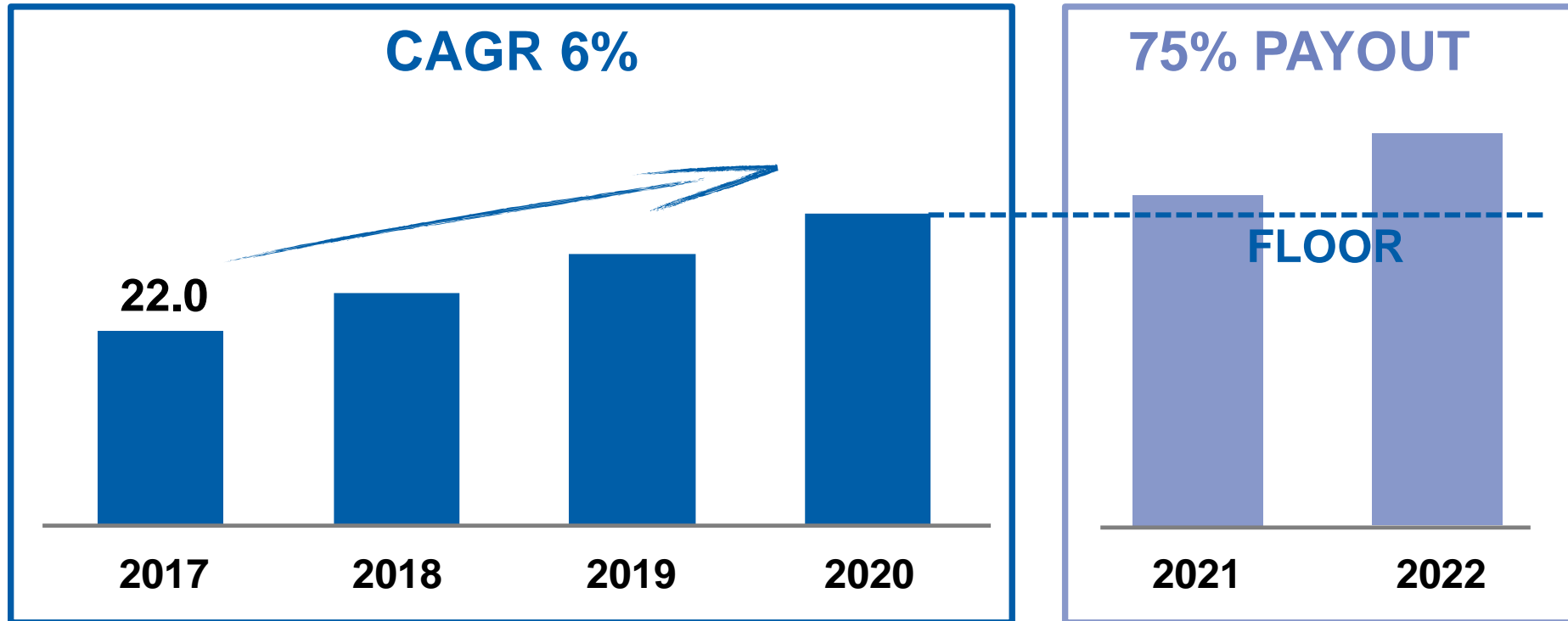
Rock-solid financial structure notwithstanding capex acceleration and enhanced shareholders remuneration

○ Dividend Policy and Closing Remarks

Dividend Policy and Closing Remarks

Dividend Policy

€ cents



Dividend Policy and Closing Remarks

Closing Remarks – our five pillars

Domestic Regulated Operations

Focus on Italian grid reinforcement

Non Regulated Operations

Supporting the energy transition

International Operations

Exploit core capabilities with limited capital absorption and low risk profile

Financial structure

Rock-solid structure with strong ratios

Dividends

Predictable and accretive policy

Ensuring yield and growth with a low risk investment profile

○ Glossary and Annexes

Glossary (1/2)

BOOT: Build Own Operate Transfer

BOT: Build Operate Transfer

CAGR: Compound Annual Growth Rate

Capacity Market: mechanism introduced by the Government to ensure that electricity supply continues to meet demand as more volatile and unpredictable renewable generation plants come on stream; The objective of the Capacity Market is to achieve long-term security of supply

Capex: Capital Expenditure

Capital Allocation: A process of how businesses allocate their financial resources to different processes, people, projects and division

CBA: Cost Benefit Analysis

COP 21: XXI Conference of the Parties, referring United Nations Framework Convention on Climate Change

D&A: Depreciation & Amortization

DER: Distributed Energy Resources

DSO: Distribution System Operator

E&C: Engineering & Construction

EBIT: Earning Before Interest and Tax

EBITDA: Earning Before Interest, Tax, Depreciation and Amortization

EPS: Earnings Per Share

Equity share: A share that gives the person who owns it the right to receive part of a company's profits and to vote at shareholder meetings

Equivalent assets: Number of equivalent bays at Electric Stations + Length in equivalent km of Lines / 5.8

Glossary (2/2)

EU: European Union

Fixed rate: Interest rate that remains at a set level for a specified period of time

Floating rate: Interest rate that is reset at specified periods of time based on a pre-determined parameter

FY: Full Year

Headcount: Total number of people employed in a specific organization

ICT: Information and communication Technology

IFRIC: International Financial Reporting Interpretations Committee

IRS: Interest rate swap - a financial derivative instrument in which two parties agree to exchange interest rate cash flows, based on a specified notional amount from a fixed rate to a floating rate (or vice versa) or from one floating rate to another

ISTAT: The National Institute for Statistics (Istat) is the main supplier of official statistical information in Italy

Net Debt: cash and cash equivalents minus short term and long term financial liabilities

Payout ratio: Dividends paid to shareholders relative to net income

RAB: Regulated Asset Base

RHV Grid: Railways High Voltage Grid

SEN: National Energy Strategy (Strategia Energetica Nazionale)

Synchronous Compensator: electrical device used in power transmission systems for voltage control within rated values, used to increase system voltage control and security of supply

SO: System Operator

TLC: Telecommunication

TSO: Transmission System Operator

UN SDG: United Nations Sustainable Development Goals

WACC: Weighted Average Cost of Capital

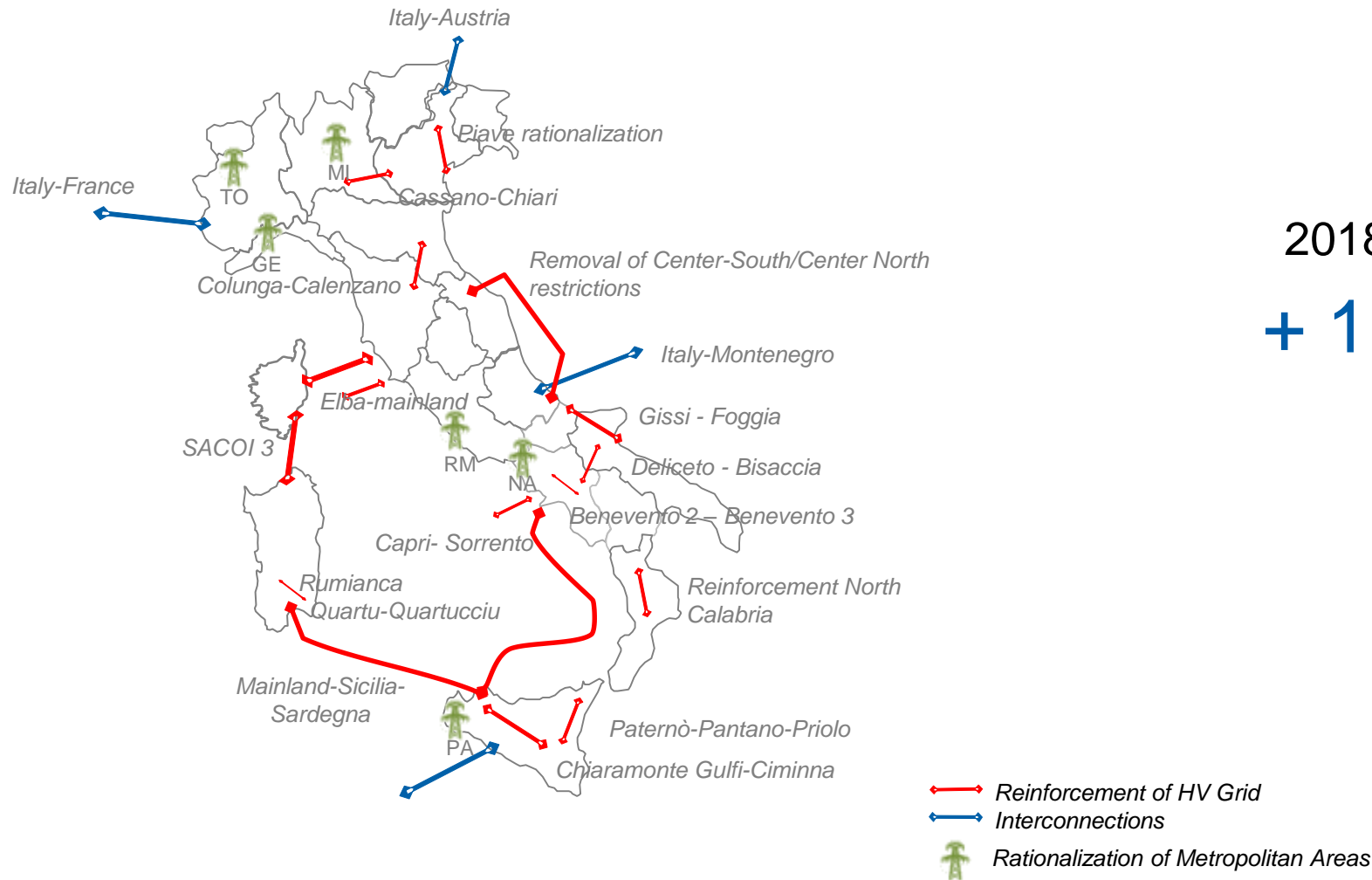
WC: Working Capital

WIP: Work in Progress

YoY: Year on year

Strategic Annexes

Main Projects



2018-2022 Grid evolution
+ 1,250km of Lines

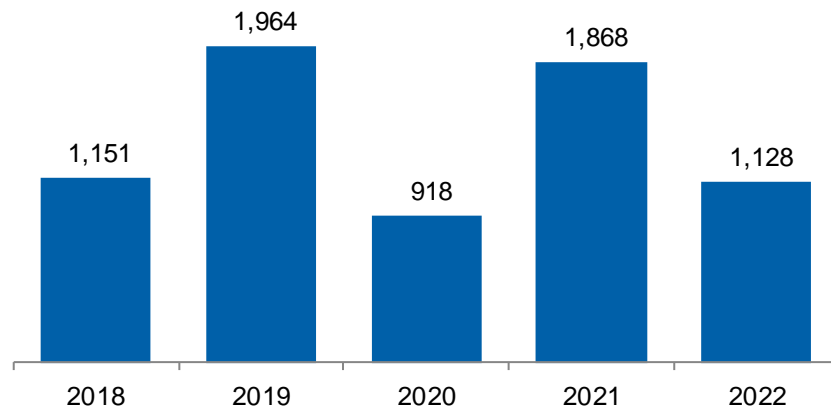
Strategic Annexes

Financial KPIs

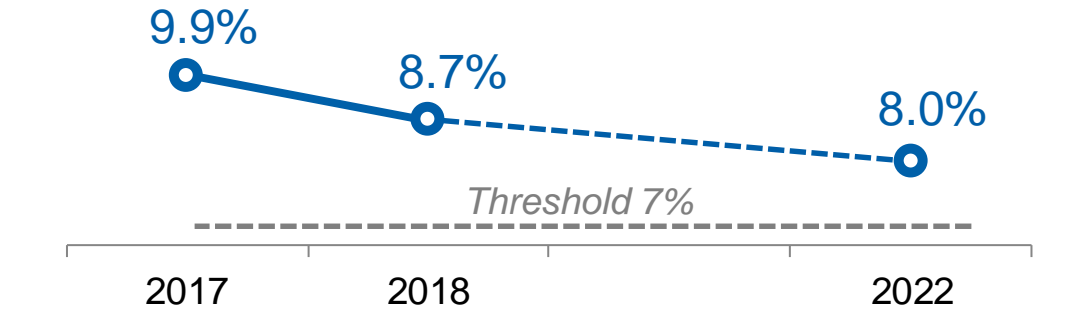
- Financial structure will remain solid within the plan
- Main Financial KPIs on a sustainable level, well below the main rating agency thresholds

MATURITIES

€mn



RCF/NET DEBT

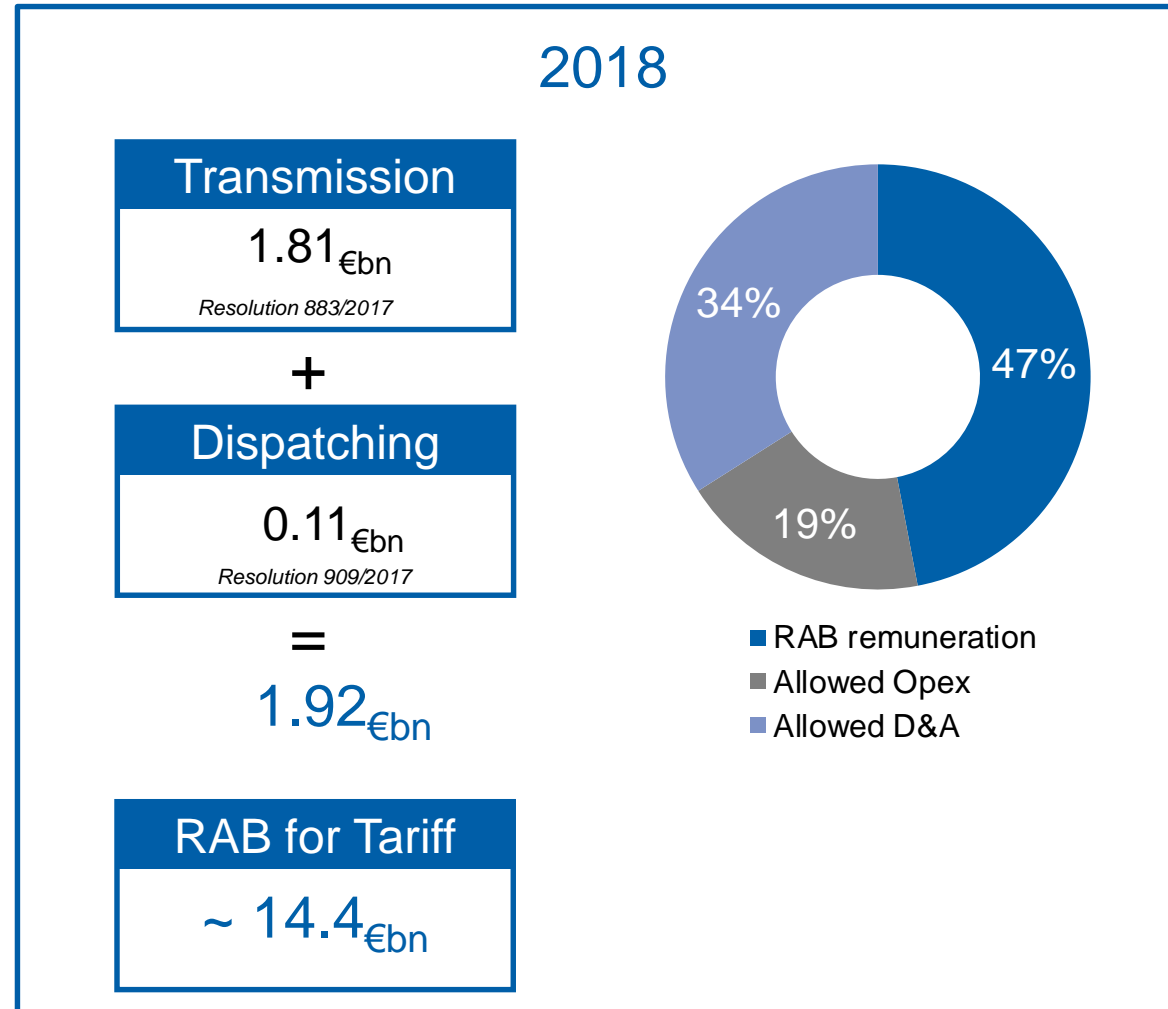
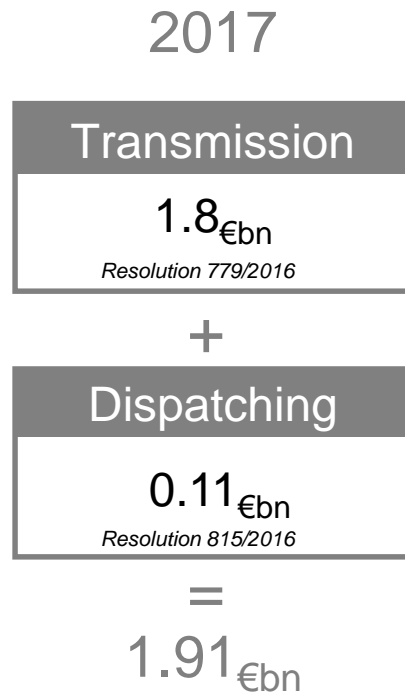


RATING

Rating	M/L Term		Outlook	
	Terna	Sovereign	Terna	Sovereign
S&P	BBB+	BBB	<i>Stable</i>	<i>Stable</i>
Moody's	Baa1	Baa2	<i>Negative</i>	<i>Negative</i>
Fitch	BBB+	BBB	<i>Stable</i>	<i>Stable</i>

Strategic Annexes

2018 Total Grid Fee update*



Financial Annexes (1/6)

FY 2017 results - Consolidated Income Statement¹

€ mn	FY17	FY16	Δmn	Δ%
Total Revenue	2.248	2.103	145	6,9%
<i>Regulated Activities</i>	1.967	1.917	51	2,6%
<i>Transmission</i>	1.804	1.735	69	4,0%
<i>Dispatching</i>	112	111	1	0,5%
<i>Other²</i>	31	49	-19	-37,7%
<i>IFRIC12</i>	21	21	0	-0,5%
<i>Non Regulated Activities</i>	189	182	7	3,7%
<i>International Activities³</i>	92	4	88	100,0%
Total Costs	644	559	86	15,3%
<i>Regulated Activities</i>	426	421	4	1,0%
<i>Labour Costs</i>	218	227	-9	-3,8%
<i>External Costs</i>	155	154	1	0,7%
<i>Other²</i>	32	20	12	61,9%
<i>IFRIC12</i>	21	21	0	-0,5%
<i>Non Regulated Activities</i>	127	131	-5	-3,5%
<i>International Activities³</i>	92	6	86	100,0%
EBITDA	1.604	1.545	59	3,8%
<i>D&A</i>	527	509	18	3,5%
EBIT	1.077	1.036	41	4,0%
<i>Net Financial Charges</i>	89	103	-14	-13,6%
Pre Tax Profit	989	933	55	5,9%
<i>Taxes</i>	294	305	-11	-3,6%
<i>Tax Rate (%)</i>	29,8%	32,7%	-2,9%	
Total Net Income	694	628	66	10,6%
<i>Minority Interest</i>	6	-5	11	-213,5%
Group Net Income	688	633	55	8,7%

Financial Annexes (2/6)

FY 2017 results - P&L Quarterly Analysis

€ mn	1Q16	1Q17	Δ	2Q16	2Q17	Δ	3Q16	3Q17	Δ	4Q16	4Q17	Δ
Total Revenue	517	524	7	523	523	0	512	581	70	552	620	68
Regulated Activities	474	490	16	475	477	2	474	490	16	493	510	16
Transmission	431	451	20	440	444	4	435	453	18	429	457	28
Dispatching	28	29	1	27	27	0	29	29	0	28	27	0
Other ¹	12	8	-4	4	4	-1	7	4	-3	25	15	-11
IFRIC12	3	2	0	4	3	-1	3	4	1	11	11	0
Non Regulated Act.	41	34	-7	47	44	-3	37	35	-3	57	77	19
International Activities	2	0	-2	0	1	1	0	56	56	2	34	32
Total Costs	123	122	-1	142	133	-9	109	165	56	184	224	40
Regulated Activities	86	93	7	102	97	-5	87	82	-4	146	154	8
Labour Costs	45	53	8	49	54	4	44	46	3	88	65	-23
External Costs	35	31	-4	37	35	-2	34	30	-4	47	59	12
Other ¹	3	7	4	12	5	-6	5	1	-4	-1	19	19
IFRIC12	3	2	0	4	3	-1	3	4	1	11	11	0
Non Regulated Act.	34	28	-6	38	33	-6	25	30	5	34	35	1
International Activities	2	1	-2	1	2	1	1	57	57	2	32	29
EBITDA	394	402	7	380	390	10	402	415	13	368	397	28
D&A	131	130	-1	136	131	-5	136	129	-7	106	136	31
EBIT	263	271	8	244	259	15	266	286	20	263	261	-2
Net Financial Charges	19	21	1	17	19	2	24	29	5	42	21	-22
Pre Tax Profit	244	251	7	227	240	13	242	257	16	221	240	20
Taxes	83	74	-10	67	70	3	78	78	0	77	73	-4
Tax Rate (%)	34,2%	29,3%	-4,8%	29,7%	29,2%	-0,4%	32,1%	30,2%	-1,9%	35,0%	30,3%	-4,6%
Total Net Income	161	177	17	160	170	10	164	180	15	143	167	24
Minority Interest	-1	-1	0	-1	0	1	0	-1	-1	-3	8	11
Group Net Income	162	179	17	163	172	9	162	178	15	146	160	13
Total Group Capex	158	100	-58	189	226	37	183	219	36	324	489	165
Net Debt (end of period)	7.687	7.445		8.172	7.942		7.801	7.363		7.976	7.796	

Financial Annexes (3/6)

FY 2017 results - Consolidated Balance Sheet

€ mn	Dec. 31,2016 ¹	Dec. 31,2017	Δmn
PP&E	12,369	12,753	384
<i>Intangible Asset</i>	516	506	-10
<i>Financial Inv. and Other</i>	107	208	101
Total Fixed Assets	12,991	13,466	475
Net WC	-1,075	-1,485	-410
Funds	-385	-356	29
Net Capital Invested	11,532	11,625	94
<i>Financed by:</i>			
Consolidated Net Debt	7,976	7,796	-180
Total Shareholder's Equity	3,555	3,829	274
Total	11,532	11,625	94
D/E Ratio	2.2	2.0	
D/D+E Ratio	0.7	0.7	
Number of Shares ('000)	2,010	2,010	

Financial Annexes (4/6)

FY 2017 results - Consolidated Cash Flow

€ mn	FY16 ⁴	FY17	Δ mn
<i>Total Net Income</i>	628	694	66
<i>D&A¹</i>	499	524	25
<i>Net Change in Funds</i>	11	-29	-40
Operating Cash Flow	1,138	1,190	52
<i>Δ Working Capital & Other²</i>	161	444	283
Cash Flow from Operating Activities	1,299	1,634	335
<i>Capital Expenditures</i>	-854	-1,034	-180
Free Cash Flow to Equity	445	600	155
<i>Dividends & Equity³</i>	-419	-420	-2
Change in Net Cash (Debt)	26	180	154

Financial Annexes (5/6)

FY 2017 results - Capex

€mn

Category (€mn)	FY16	FY17	Δ 17 vs 16	Δ %
Incentivized Investments ¹	73	120	47	65%
Other Regulated ²	726	838	112	15%
Regulated Capex	798	958	159	20%
Other ²	56	76 ³	20	36%
Total Group Capex	854	1,034	180	21%

Financial Annexes (6/6)

Demand Evolution

DEMAND AS REPORTED (TWh)

FY17	FY16	Δ %
320.4	314.3	2.0%

TWh

33

31

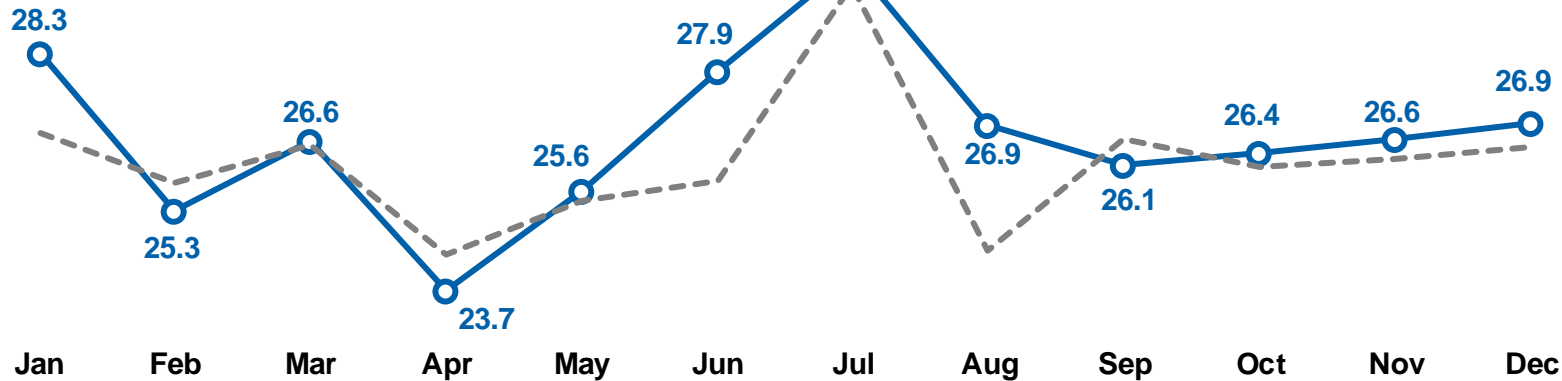
29

27

25

23

—○— Monthly energy demand
 - - - Previous Year



Demand
320 TWh
 FY 17

YoY Change	5.8%	-2.0%	0.3%	-2.8%	0.7%	8.1%	1.5%	9.8%	-1.9%	1.1%	1.5%	1.7%
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