



## *Inaugural Green Bond*

July, 2018

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# Agenda

○ Overall Macro Scenario	4
○ Terna Sustainable Commitments	10
○ Terna Inaugural Green Bond	16
○ Annexes	24

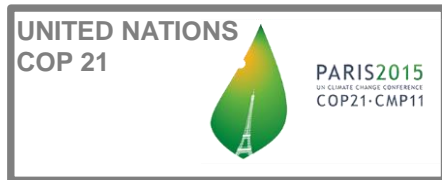
## ○ Overall Macro Scenario

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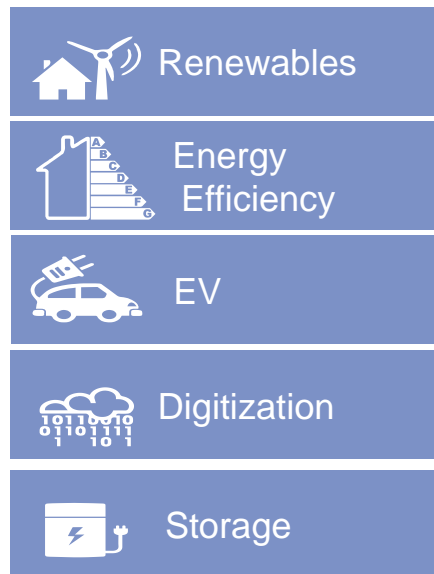
# Overall Macro Scenario

## Mega trends – System Evolution (1/2)

### POLICIES FRAMEWORK



### TECHNOLOGICAL EVOLUTION



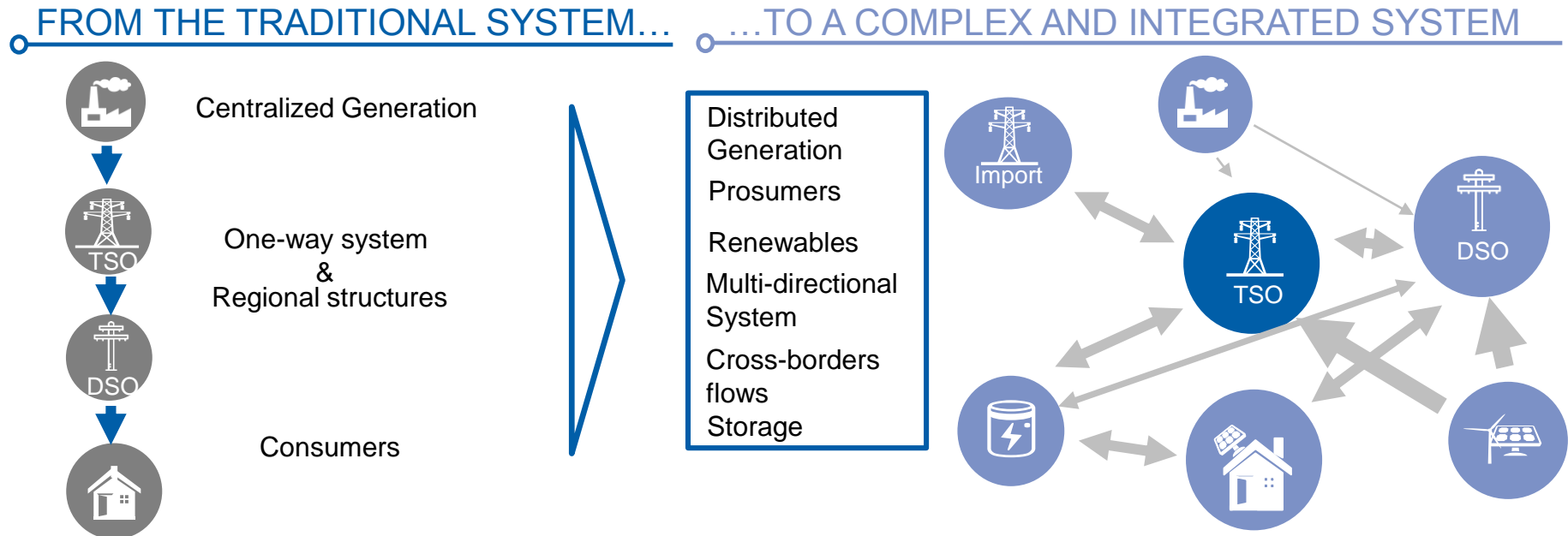
### MAIN IMPACTS ON TSO



Ensuring security of supply for a sustainable and efficient energy system

# Overall Macro Scenario

## Mega trends – System Evolution (2/2)

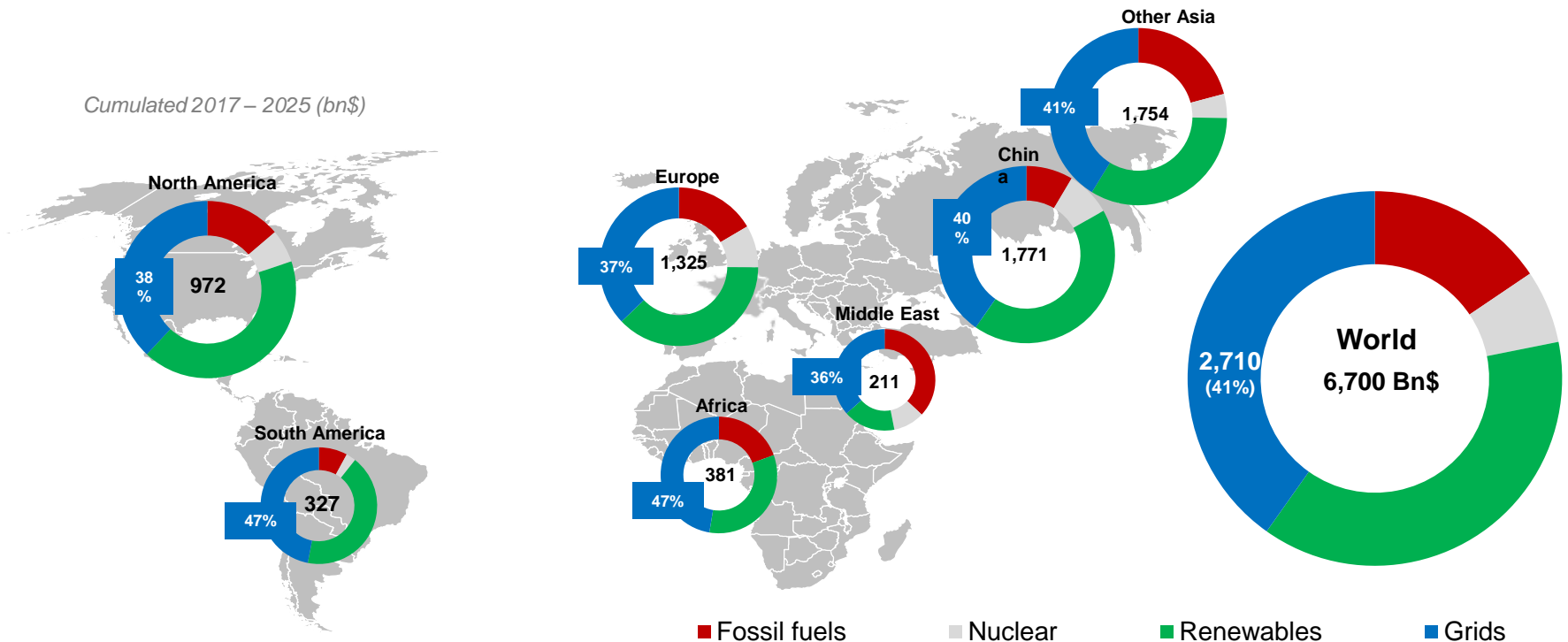


Grids pivotal role confirmed

# Overall Macro Scenario

## Mega trends – Global 2017-2025 Energy Industry Investments

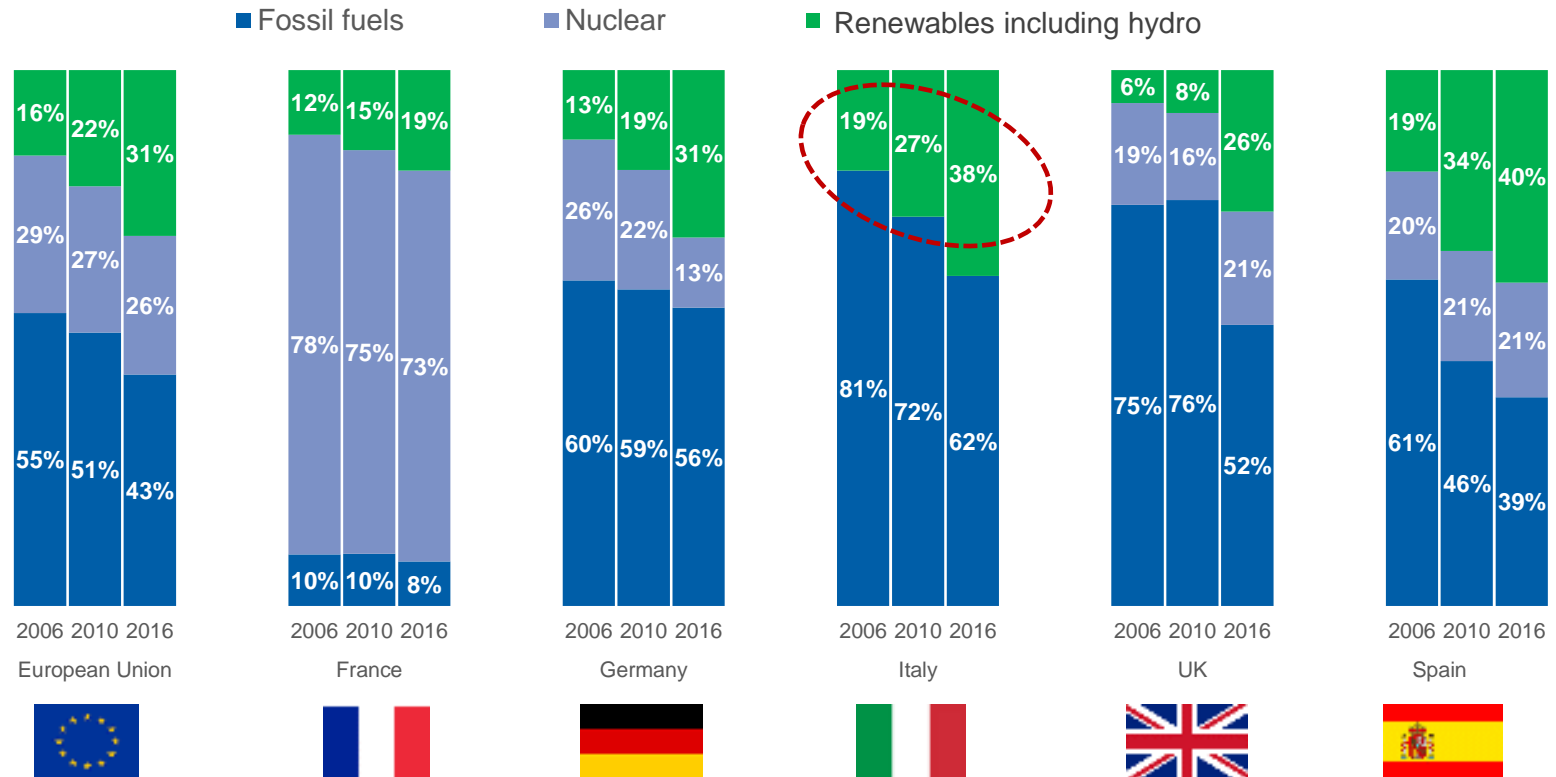
Cumulated 2017 – 2025 (bn\$)



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)



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

## ○ Terna Sustainable Commitments

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# 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

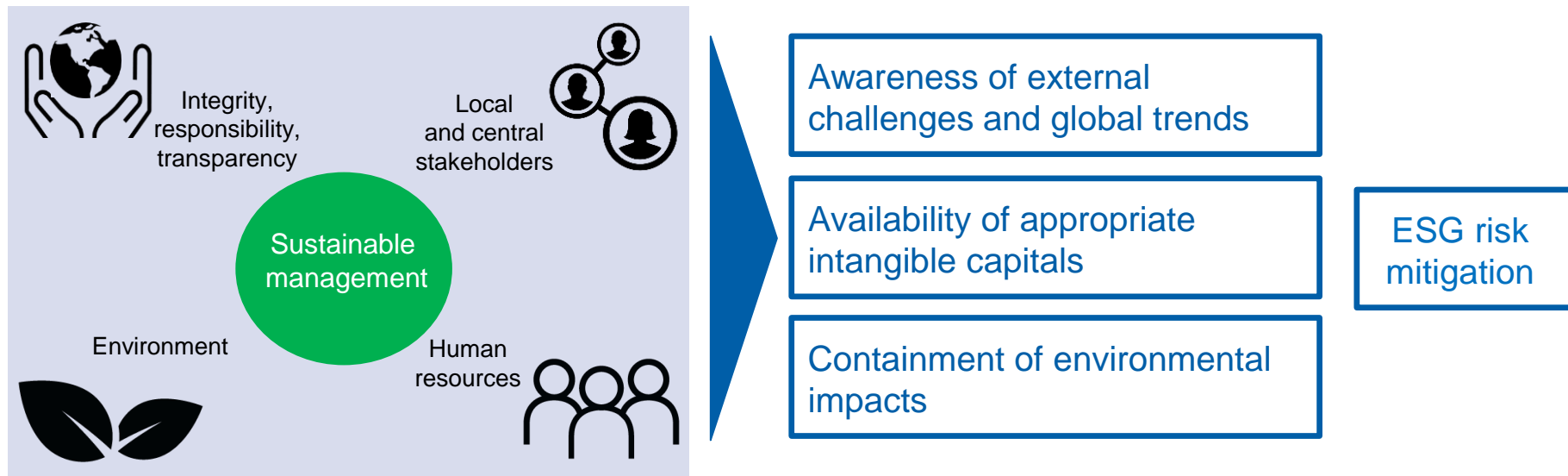
Terna and the Sustainable Development Goals – What we do (2/2)

Commitment	 <b>Affordable and Clean Energy</b>	 <b>Industry, Innovation and Infrastructure</b>	 <b>Climate Action</b>	 <b>Partnership for the goals</b>
Targets	<ul style="list-style-type: none"> <li>• Ensure <b>affordable</b> and <b>reliable</b> energy services</li> <li>• Increase the share of renewable energy</li> </ul>	<ul style="list-style-type: none"> <li>• Develop <b>sustainable</b> and <b>resilient</b> infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen resilience and <b>adaptive capacity</b> to climate-related hazards and natural disasters in all countries</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen <b>public and private partnerships</b> for the implementation of SDGs</li> </ul>

Strong commitment on sustainability

# Sustainability as a Key Value Driver

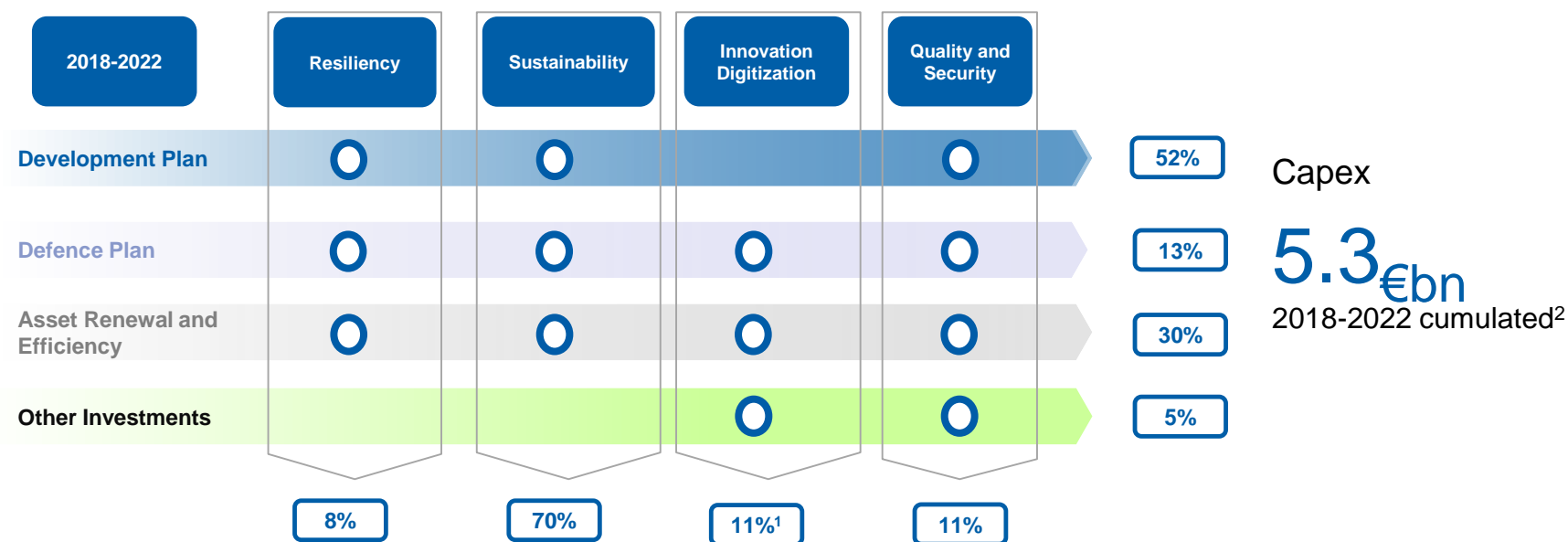
Terna Environmental Social and Governance Approach – How we do



Sustainability is driving our business model

# 2018 – 2022 Strategic Overview

Domestic Regulated Operations: focus on Italian Grid reinforcement

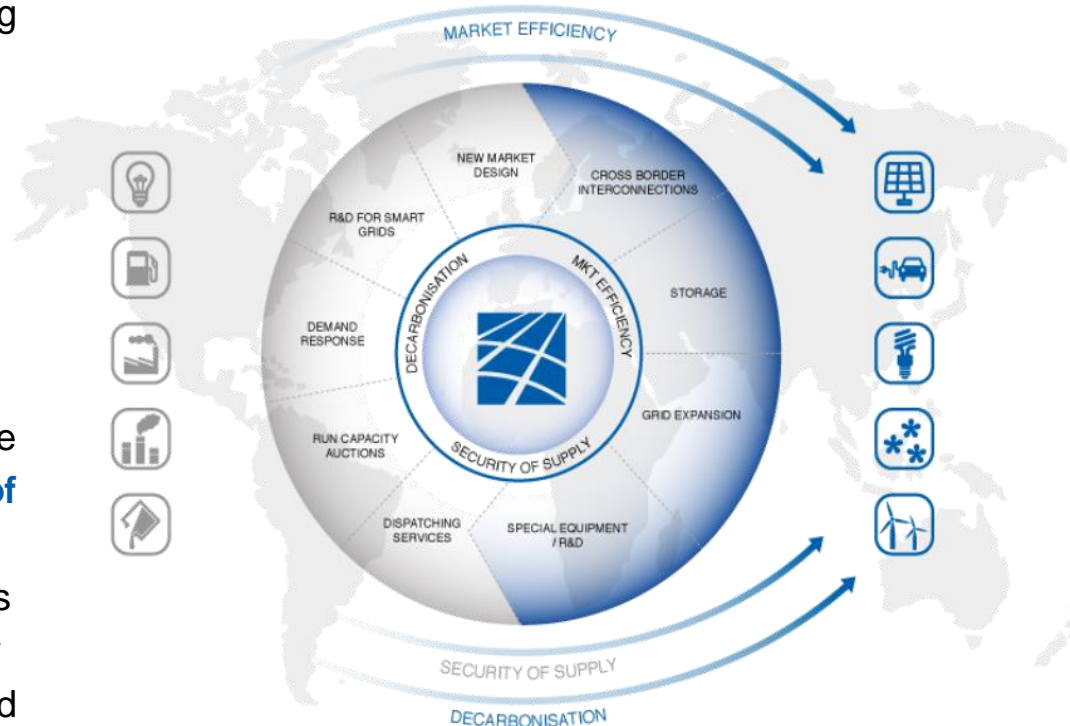


Increasing benefits for the system – reducing overall energy costs

# Enabling Energy Transition

The main challenges are decarbonization, market efficiency and security of supply

- In order to meet the goals set by the **Paris agreement (COP21)** and the **European “Clean Energy Package”**, Terna needs to accelerate investments, building a pan-European energy market, protecting consumers and achieving high safety standards
- The three main challenges characterizing this transition are:
  - **Decarbonization**
  - **Market Efficiency**
  - **Security of Supply**
- To tackle those in a proactive way, we need to take into account **a number of new sector trends**:
  - Growth in non-programmable renewables
  - Reduction in thermal generation capacity
  - Technology evolution that is mainly linked to energy savings and digital grids



## ○ Terna Inaugural Green Bond

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# Inaugural Green Bond

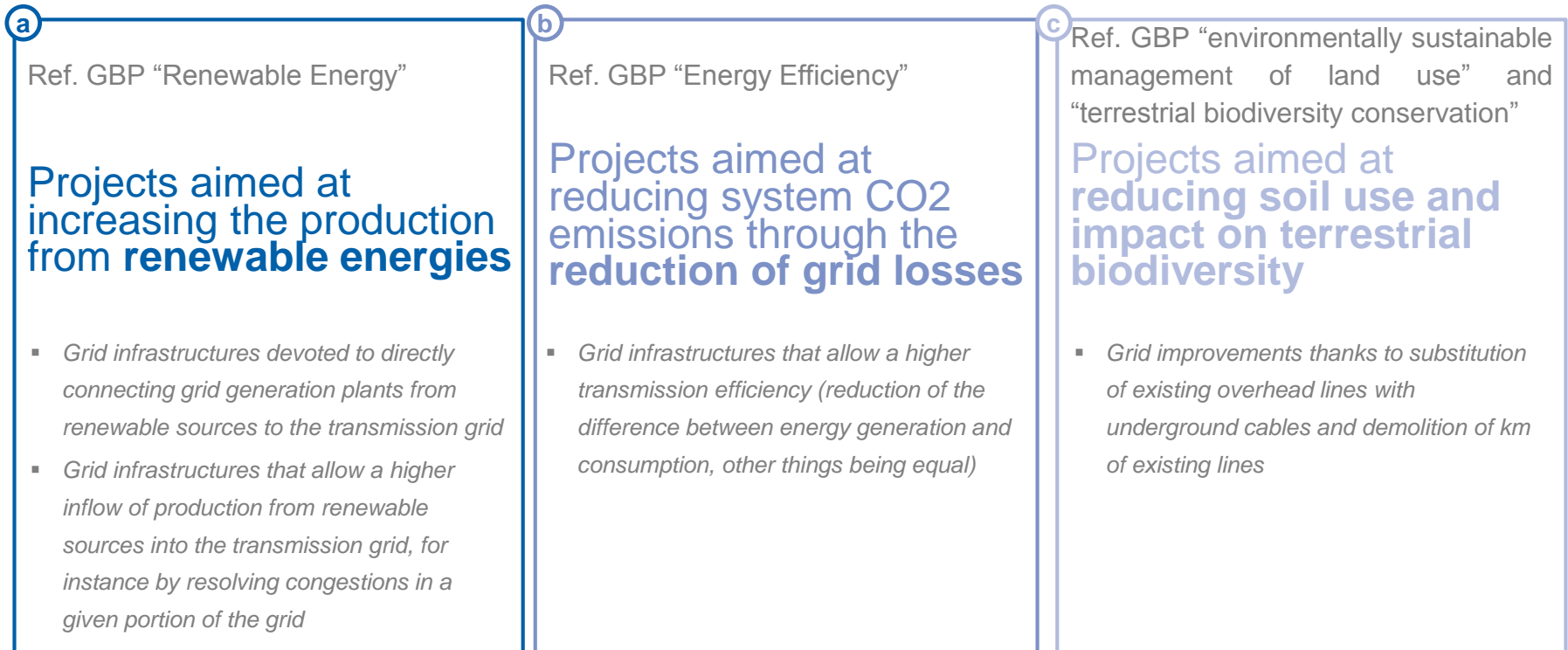
## Overview and Rationale

- Playing a **key role in the energy transition** in Italy
- Establishing Terna's **leadership in the sustainable financing market**
- Taking advantage of **attractive market conditions** and **a growing investor appetite for Green Bonds**
- The structure follows the guidelines of the **ICMA Green Bond Principles 2018**
- Terna's Green Bond Framework has been **reviewed by Vigeo Eiris**
- Both Terna's Green Bond Framework and Vigeo Eiris' Second Party Opinion are available on Terna's website: [www.terna.it](http://www.terna.it)

# Green Bond Framework

## Use of Proceeds

- The net proceeds will be allocated to the **financing and/or refinancing of Eligible Green Projects<sup>1</sup>**
- Projects must be included in one of Terna's yearly **Network Development Plans (NDP)**
- Eligible Green Projects would fall into the following categories:



# Green Bond Framework

## Evaluation and Selection of Assets

- Evaluation through Terna's **Cost Benefit Analysis (CBA)**
- The values of specific underlying KPIs determine the association between projects and categories of the Green Bond Framework

Indicator	
<b>B5</b>	Greater production integration from renewable sources, calculated by market simulations (system over generation)
<b>I8</b>	Variation of CO2 emission calculated by market simulations of the energy market
<b>I22</b>	Variation in terms of km occupied by High Voltage lines



Associated Category	
<b>a</b>	Projects aimed at increasing the production from renewable energies
<b>b</b>	Projects aimed at reducing system CO2 emissions through the reduction of grid losses
<b>c</b>	Projects aimed at reducing soil use and impact on terrestrial biodiversity

- Projects with a **significant environmental impact** will be selected by Terna's **Green Bond Committee**

The Green Bonds Committee comprises:

- the Head of Finance department
- the Head of Sustainability
- the Head of Planning and Control department
- the Head of grid planning and interconnections

# Green Bond Framework

## Management of Proceeds

- Upon receipt, the net proceeds will be **invested in cash and cash equivalents until allocation to Eligible Green Projects**
- **Terna** will review the **allocation** of the net proceeds to projects to ensure that they are **in compliance** with the criteria set forth in the Green Bond Framework
- The **allocation of the net proceeds** to Eligible Green Projects will be **monitored throughout the period** that the capital expenditure and operating costs will be incurred
- **Until full allocation**, Terna will disclose the amount equal to the **net proceeds unallocated to Eligible Green Projects** which will be held temporarily in **cash and cash equivalents**

# Green Bond Framework

## Reporting

### ALLOCATION REPORTING

- **Annually until full allocation**, and as necessary thereafter in the event of material developments, Terna will report on:
  - **Allocated amounts** by Eligible Green Project
  - **Main technical data** when available
  - Division of the allocation between **refinancing and new projects**
  - The **outstanding amount of net proceeds** yet to be allocated to projects at the end of the reporting period
- The report will be integrated in Terna annual Sustainability Report or Annual Report
- The report will be made publically available on Terna's website
- An independent auditor appointed by Terna will review that the allocation of the Green Bonds is done in accordance with Terna's Green Bond Framework and will provide an annual assurance report

### IMPACT REPORTING

- Terna will attend to report (where feasible) project impacts and environmental benefits by Eligible Green Project or aggregated by the three categories, **on an annual basis**
- The **environmental KPIs** (in most cases) linked to the single project will be those calculated in the cost-benefit analyses (CBA), i.e. **expected impacts**

# Green Bond Framework

## Environmental Impact Indicators

			Environmental benefits				
			Connection of RES production plants (MW)	Increase in production from RES (MWh and/or tCO <sub>2</sub> )	Reduction of grid losses (MWh and/or tCO <sub>2</sub> )	Construction of underground cables (Km)	Demolition of lines (Km)
			planned / effective	expected (estimate *)	expected (estimate *)	planned / effective	planned / effective
Project categories	Renewable energy	Renewable energy - Connection of production plants from renewable sources					
		Renewable energy - Integration of production from renewable sources					
	Energy Efficiency	CO2 Emissions - reduction of grid losses					
	Environmentally sustainable land use & terrestrial and aquatic biodiversity	Soil use & biodiversity - new underground cables					
		Soil use & biodiversity - demolition of existing lines in protected areas					
		Soil use & biodiversity - demolition of existing lines (all sorts of territory)					

■ Main environmental benefit: KPI will be presented in reporting

▤ Other possible environmental benefit: KPIs may be presented in reporting

(\*) Estimates of the expected impacts may vary in time, when a project is subject to a new evaluation under a different scenario. Changes will be reported when significant.

# Second Party Opinion Highlights

## Vigeo Eiris' Conclusions



### Terna's ESG Performance Level: Advanced

- **Advanced performance** for its Environmental, Social and Governance pillars
- **#1** in the "Electric & Gas utilities" Vigeo Eiris sector over 48 European companies
- ESG risk factors **adequately managed**

#### VIGEO EIRIS ASSESSMENT SCALES

##### Performance Evaluation:

<b>Advanced</b>	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.
<b>Good</b>	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.
<b>Limited</b>	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.
<b>Weak</b>	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.

### Terna's Green Bond: Reasonable Level of Assurance

- Terna's Green Bond is **coherent** with Terna's main strategic priorities
- Terna's Green Bond Framework is aligned with **the Green Bond Principles 2018**
- The Eligible Green Projects align with **four United Nations Sustainable Development Goals (UN-SDGs)**

#### VIGEO EIRIS ASSESSMENT SCALES

##### Level of Assurance:

<b>Reasonable</b>	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
<b>Moderate</b>	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
<b>Weak</b>	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework

## ○ Annexes

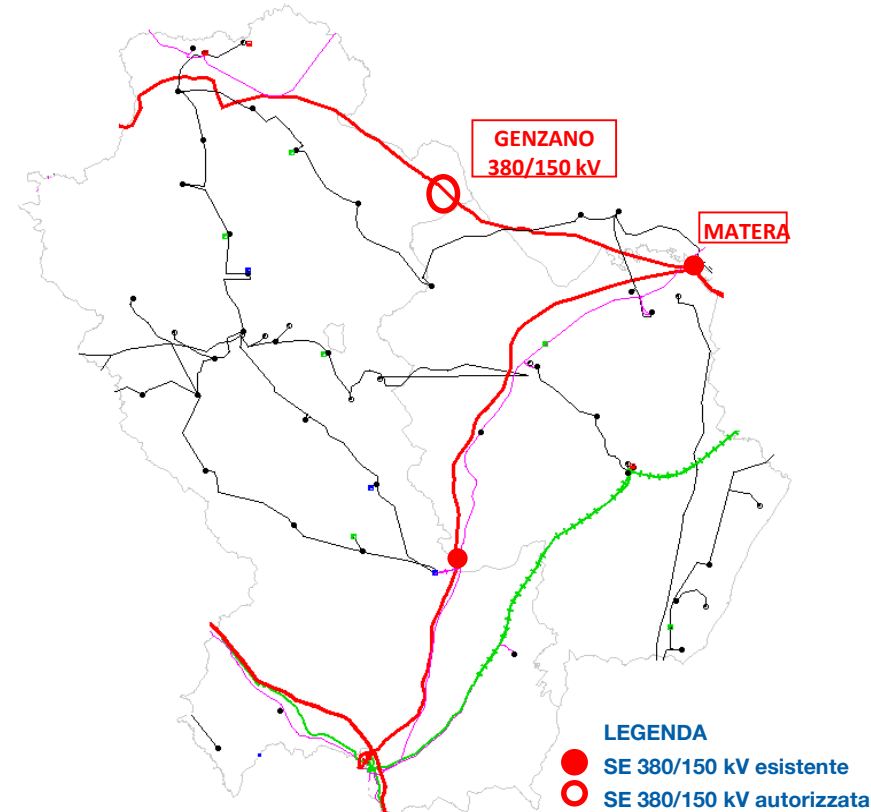
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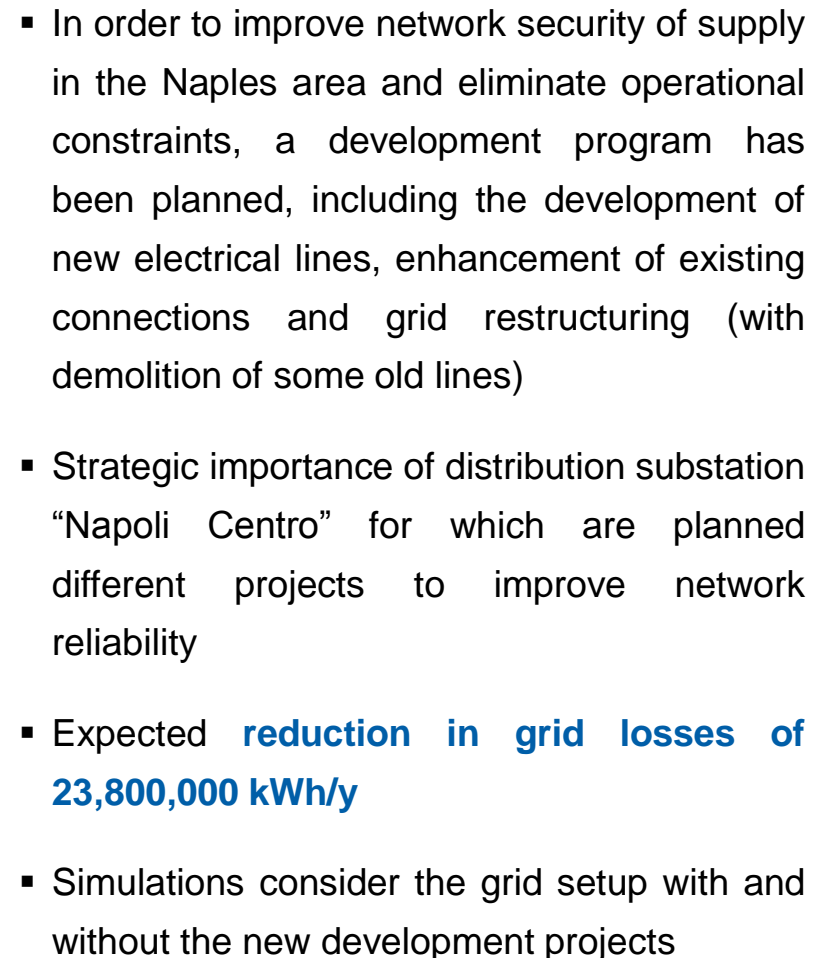
# Examples of Eligible Projects (1/3)

## Genzano New Electrical Station – category: “Renewable energy”

- New 380 kV substation to be build for the connection of Renewable Energy Plants in the Basilicata Region to the 380 kV High Voltage Line “Matera – S.Sofia”
- Renewable Energy Plants connection to RTN requests for a total of **1.6 GW** (14 RES plants)
- Expected **increase in production integration from renewable energy sources** of 89,600,00 kWh/y



## City of Naples 220kV Grid Reorganisation – category: “Energy efficiency”



# Examples of Eligible Projects (3/3)

Piedmont and Lombardy 220/132 kV High Voltage Grid Rationalization – category: “Environmentally sustainable management of land use”

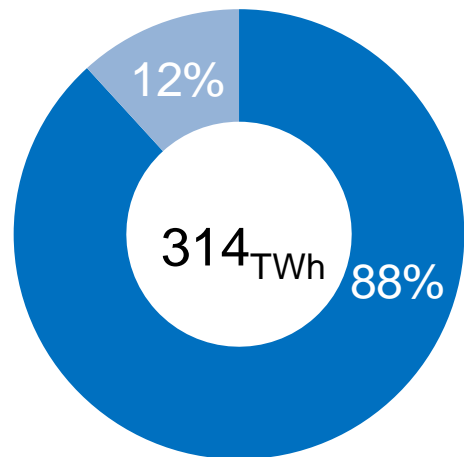
- Following the entry into service of the 380 kV High Voltage Line “Trino-Lacchiarella” in January 2014, a series of rationalization measures are planned, aimed also at minimizing the presence of infrastructure in the territory
- Thanks to the “Trino-Lacchiarella” line, the flexibility and network security have been improved, reducing the risk of network congestion
- 80 km of **overhead lines planned to be demolished**



# Annex

## Demand and National Production - 2017 vs 2016

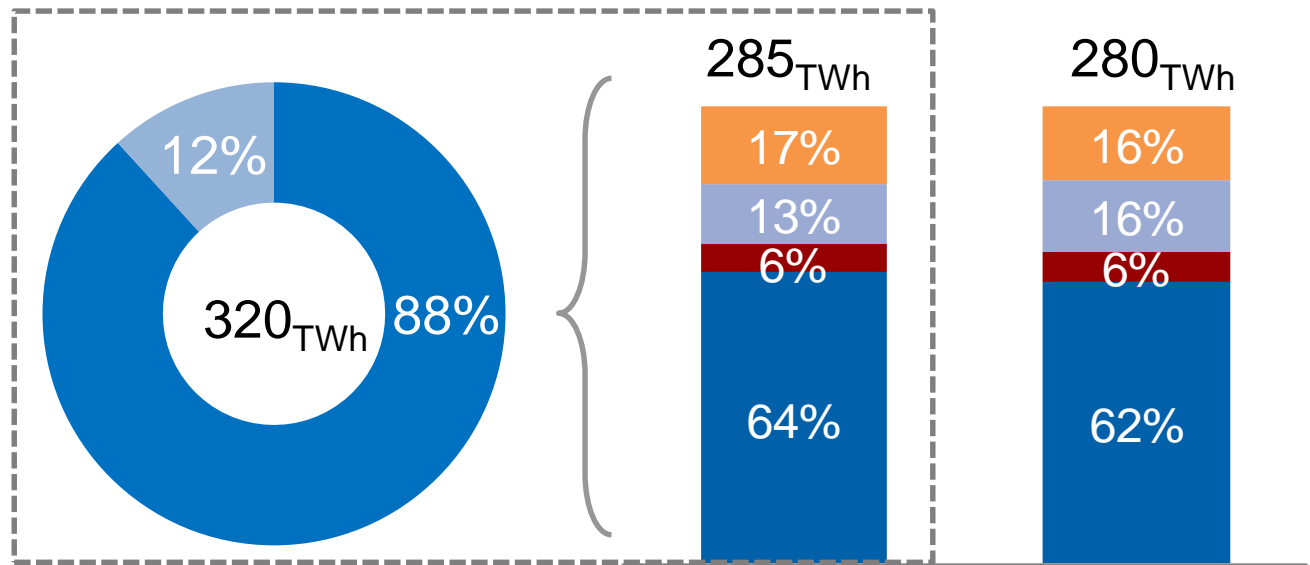
### DEMAND AS REPORTED



2016

- National Generation
- Net Import

### NATIONAL PRODUCTION



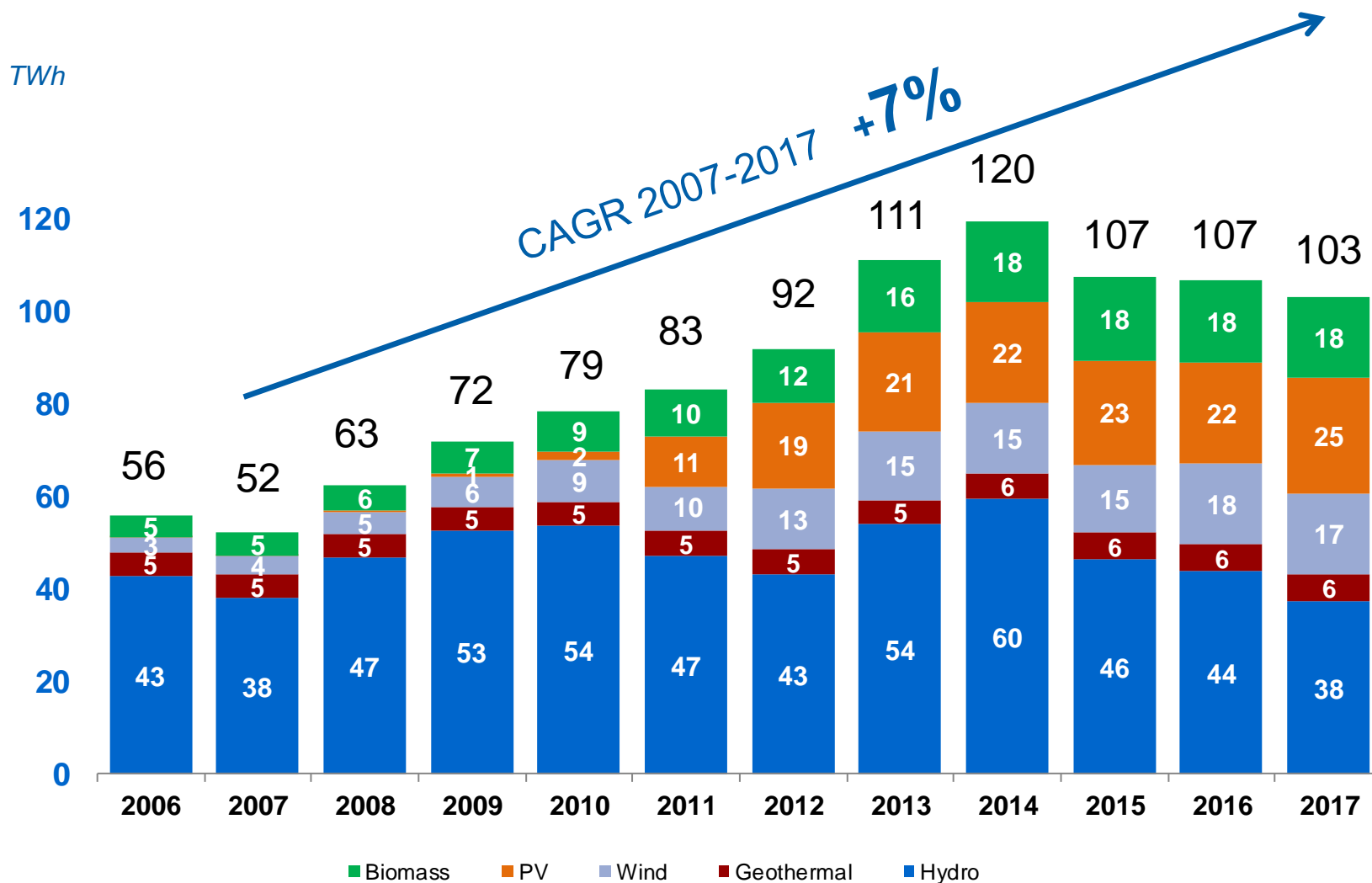
2017

2016

- Thermal generation
- Biomass
- Hydro generation<sup>1</sup>
- Wind, Geo and PV

# Annex

## Renewables Generation



# Annex

## Consolidated Results

### FULL YEAR RESULTS

### 1Q18 RESULTS

€mn

FY17

FY16

Δ %

1Q18

1Q17

Δ %

Revenues

2,248

2,103

+7%

538

524

+3%

EBITDA

1,604

1,545

+4%

409

403

+2%

Group Net  
Income

688

633

+9%

183

179

+2%

Capex

1,034

854

142

100

EPS

34.2€cents

31.5€cents

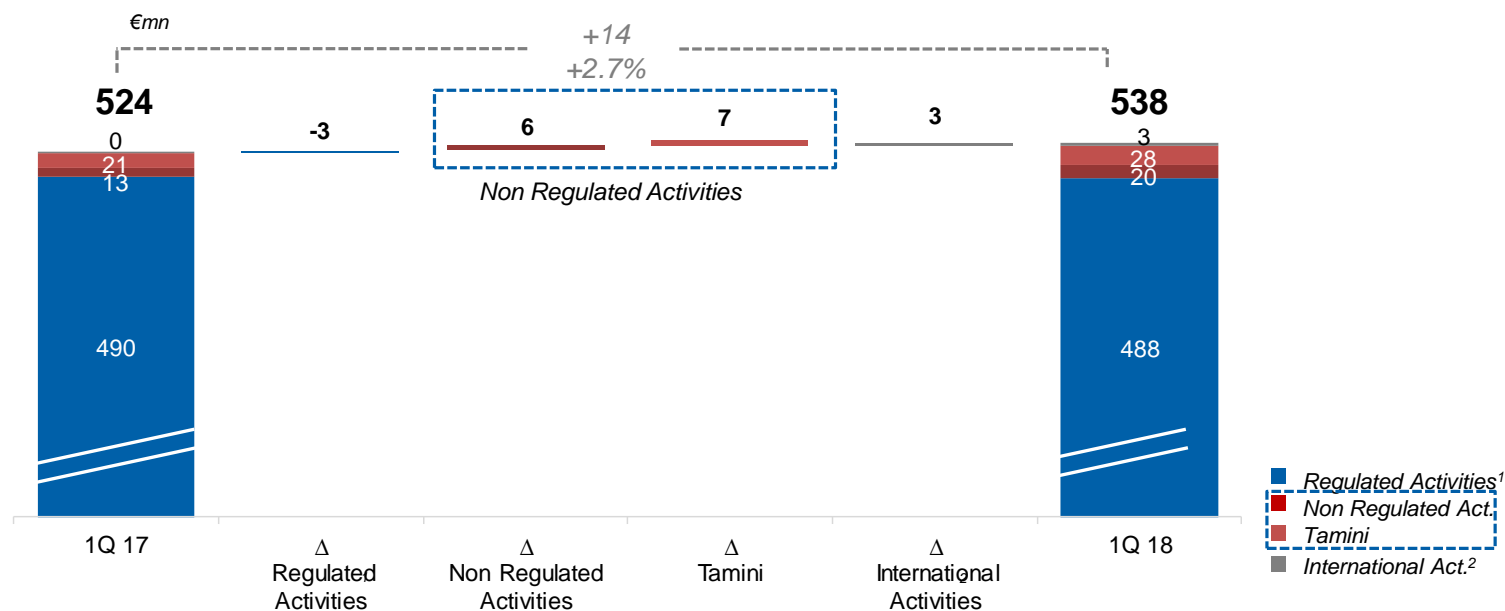
DPS

22€cents

20.6€cents

# Annex

## 1Q18 Results - Revenues

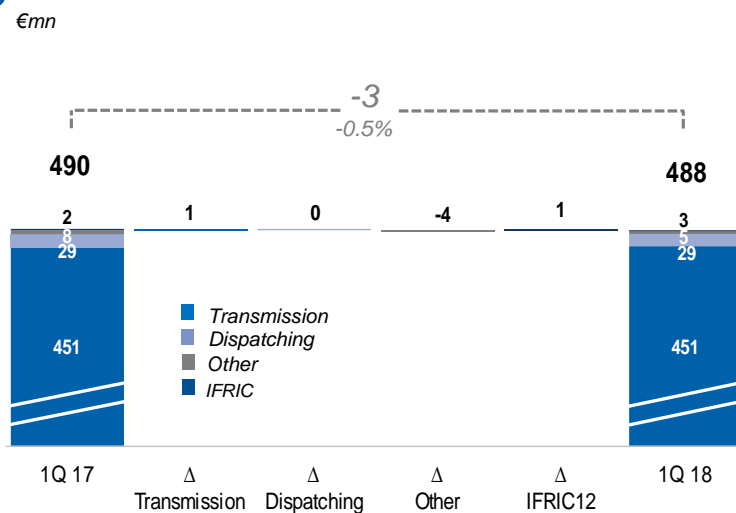


Revenues increase driven by Non Regulated Activities

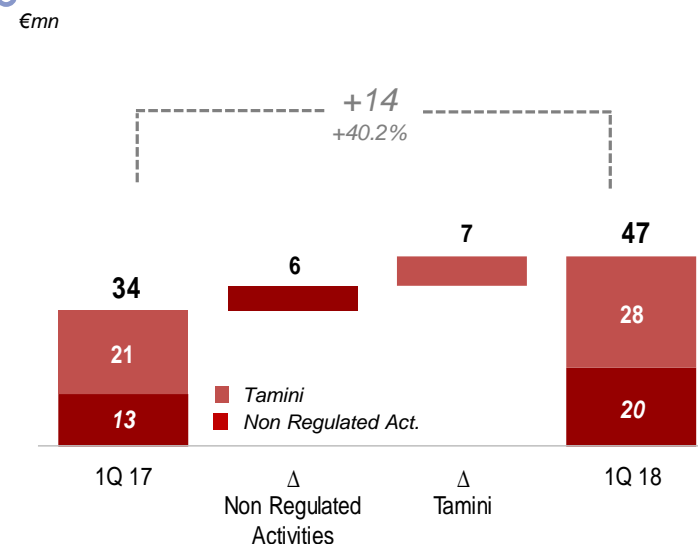
# Annex

## 1Q18 Results – Revenues Analysis

### REGULATED ACTIVITIES



### NON REGULATED ACTIVITIES

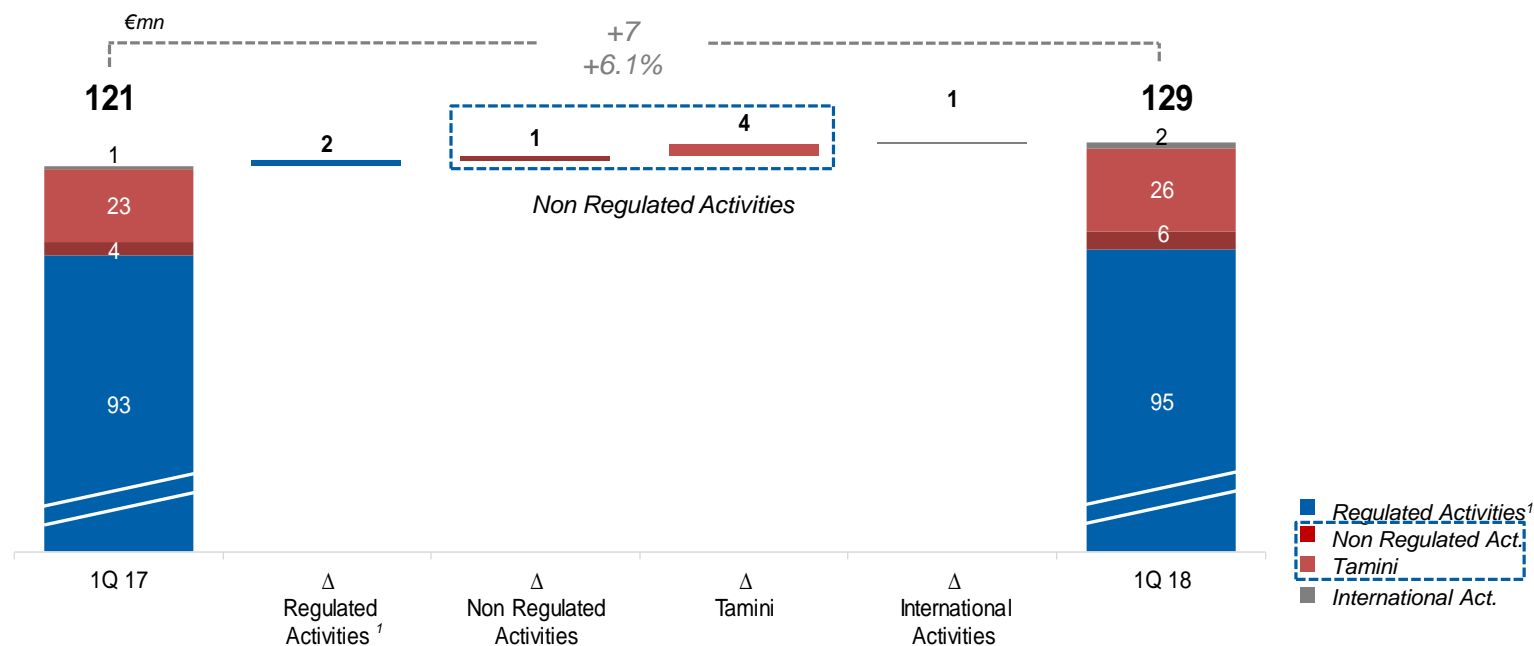


Positive contribution from Tamini's higher turnover



# Annex

## 1Q18 Results – Opex



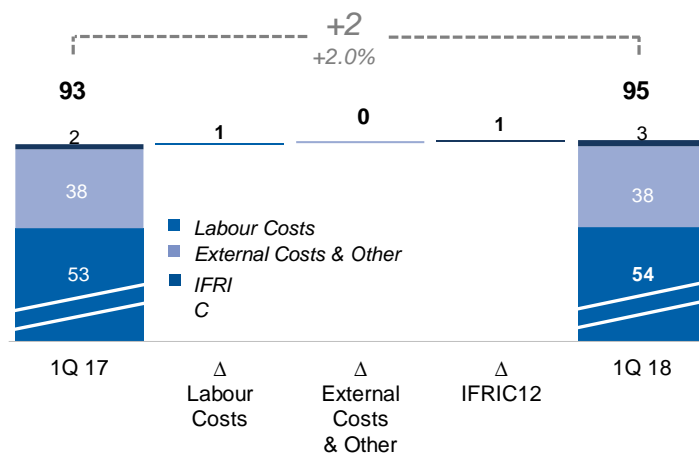
Opex evolution driven by higher volumes in Non Regulated Activities

# Annex

## 1Q18 Results – Opex Analysis

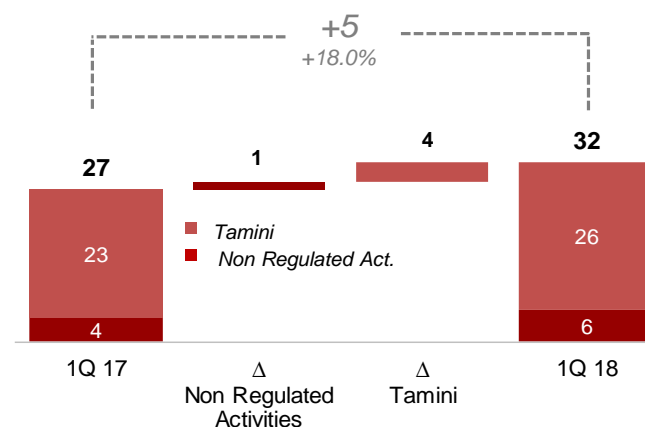
### REGULATED ACTIVITIES

€mn



### NON REGULATED ACTIVITIES

€mn



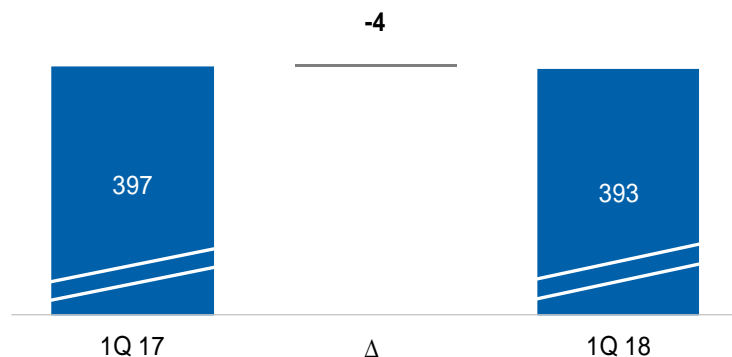
Regulated Activities cost control

# Annex

## 1Q18 Results – EBITDA

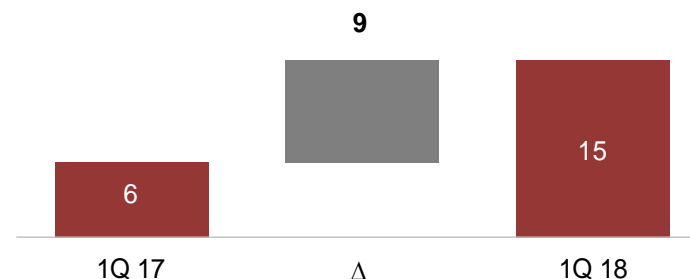
### REGULATED ACTIVITIES

€mn



### NON REGULATED ACTIVITIES

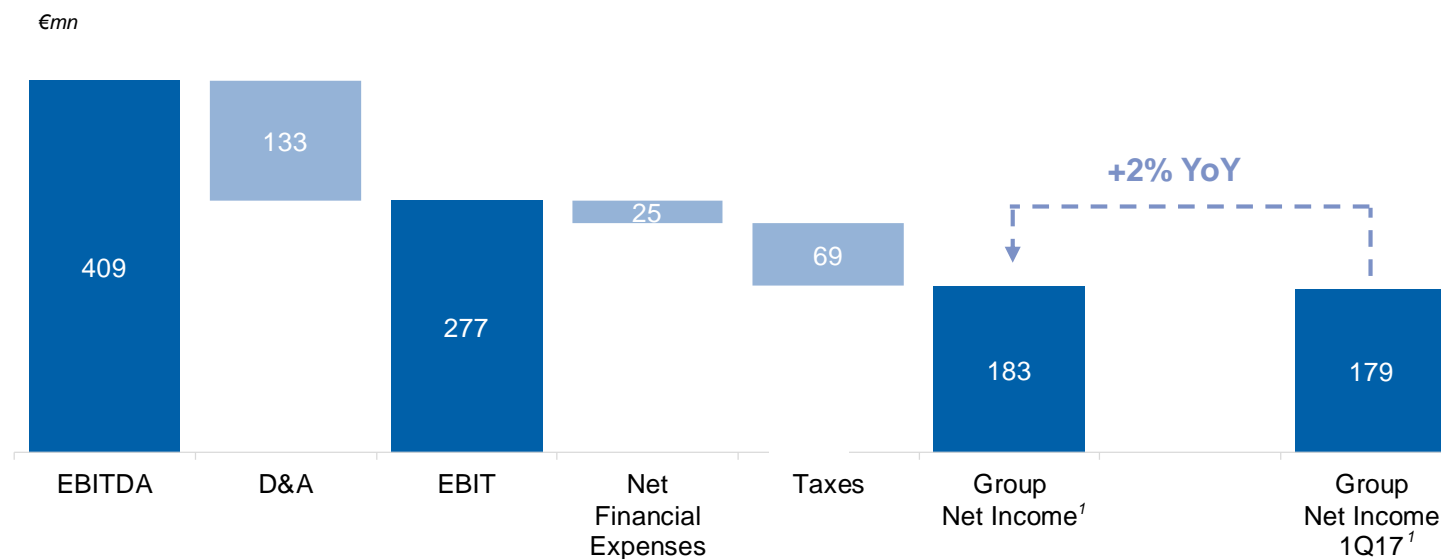
€mn



Positive EBITDA contribution from Tamini and other Non Regulated Activities

# Annex

## 1Q18 Results – From EBITDA to Net Income



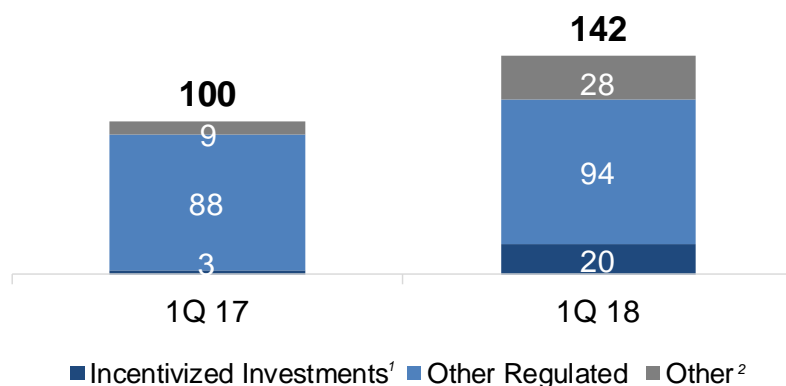
2% growth YoY at net income level

# Annex

## 1Q18 Results – Capex

### TOTAL CAPEX

€mn



### REGULATED CAPEX

114€mn



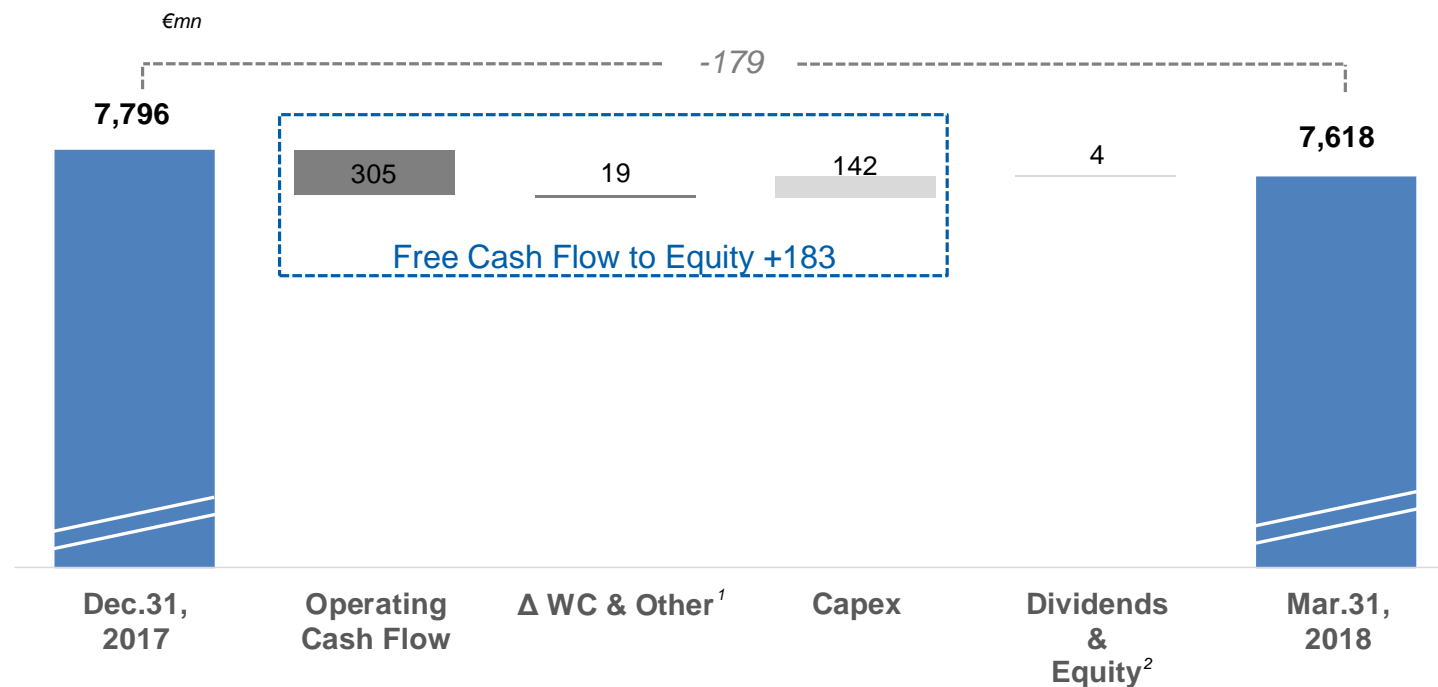
Main Projects:

- Italy-Montenegro interconnection
- Capri-Sorrento connection
- Italy-France interconnection

## 2018 Capex well on track

# Annex

## 1Q18 Results – Cash Flow and Net Debt Evolution



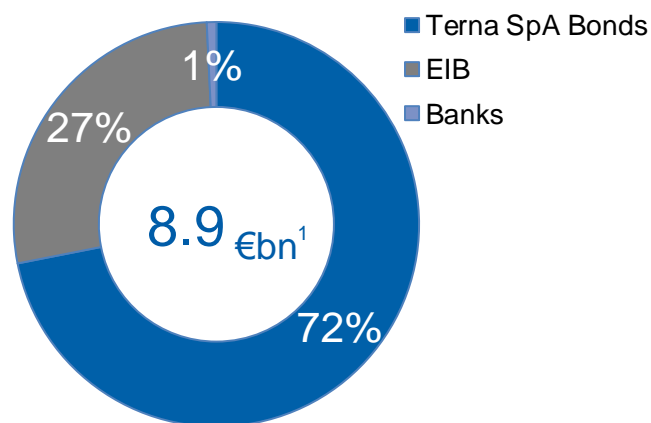
Positive operating cash flow generation

# Annex

## 1Q18 Results –Net Debt Evolution and Financial Structure

### GROSS DEBT BREAKDOWN<sup>2</sup>

€mn



### KEY RATIOS<sup>2</sup>

€mn

Fixed/Floating Ratio  
**~100% Fixed**  
*Calculated on Gross Debt*

Maturity  
**5.9 years**

Rock-solid financial structure



FTSE4Good



2017 Constituent  
MSCI Global  
Sustainability Indexes

MEMBER OF  
**Dow Jones  
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