



2020-2024 STRATEGIC PLAN

GRIDS AND VALUES

March 10th, 2020

Agenda

○ Main Achievements 2017-2019	3
○ Energy Scenario	8
○ Strategy	18
○ Focus on FY 2019	28
○ 2020 – 2024 Group Financial Targets	34
○ Dividend Policy and Closing Remarks	37
○ Annexes	40

○ Main Achievements 2017-2019

Main Achievements 2017-2019

Terna's evolution in the Energy Transition



Circularity and Decarbonization



Open Innovation



Stakeholders and Territories



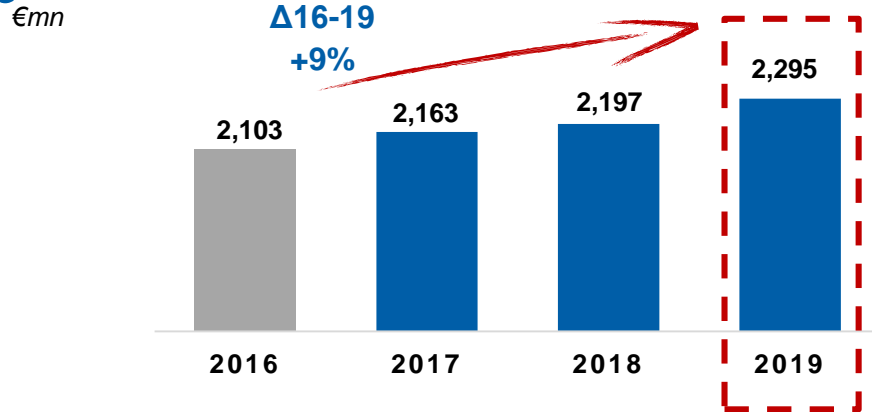
ESG risk mitigation

Increasing central role in the system

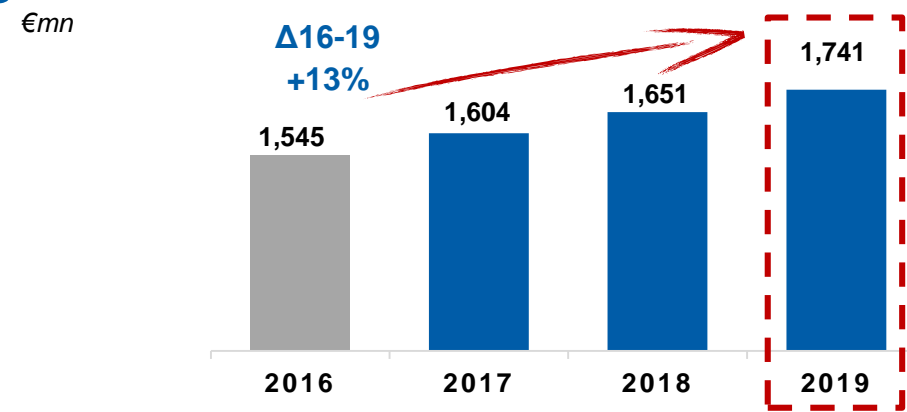
Main Achievements 2017-2019

Focus on Key Figures

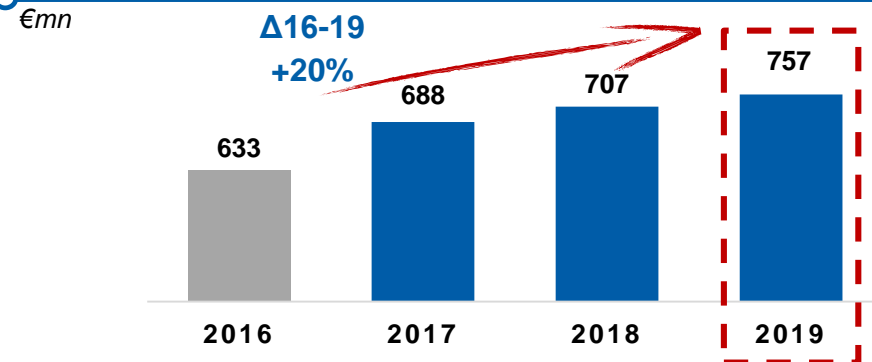
REVENUES



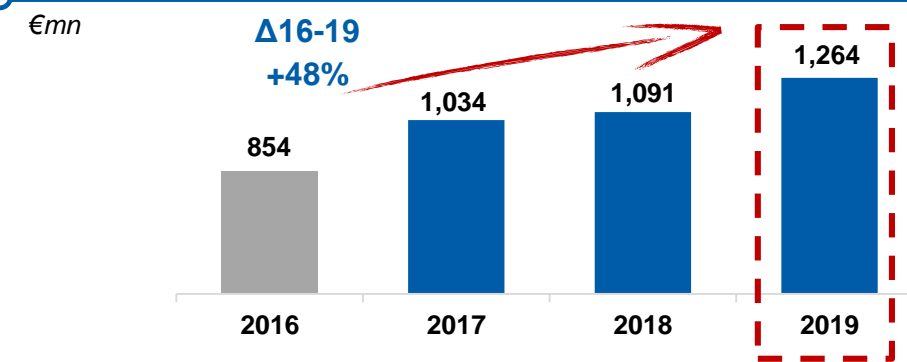
EBITDA



NET INCOME



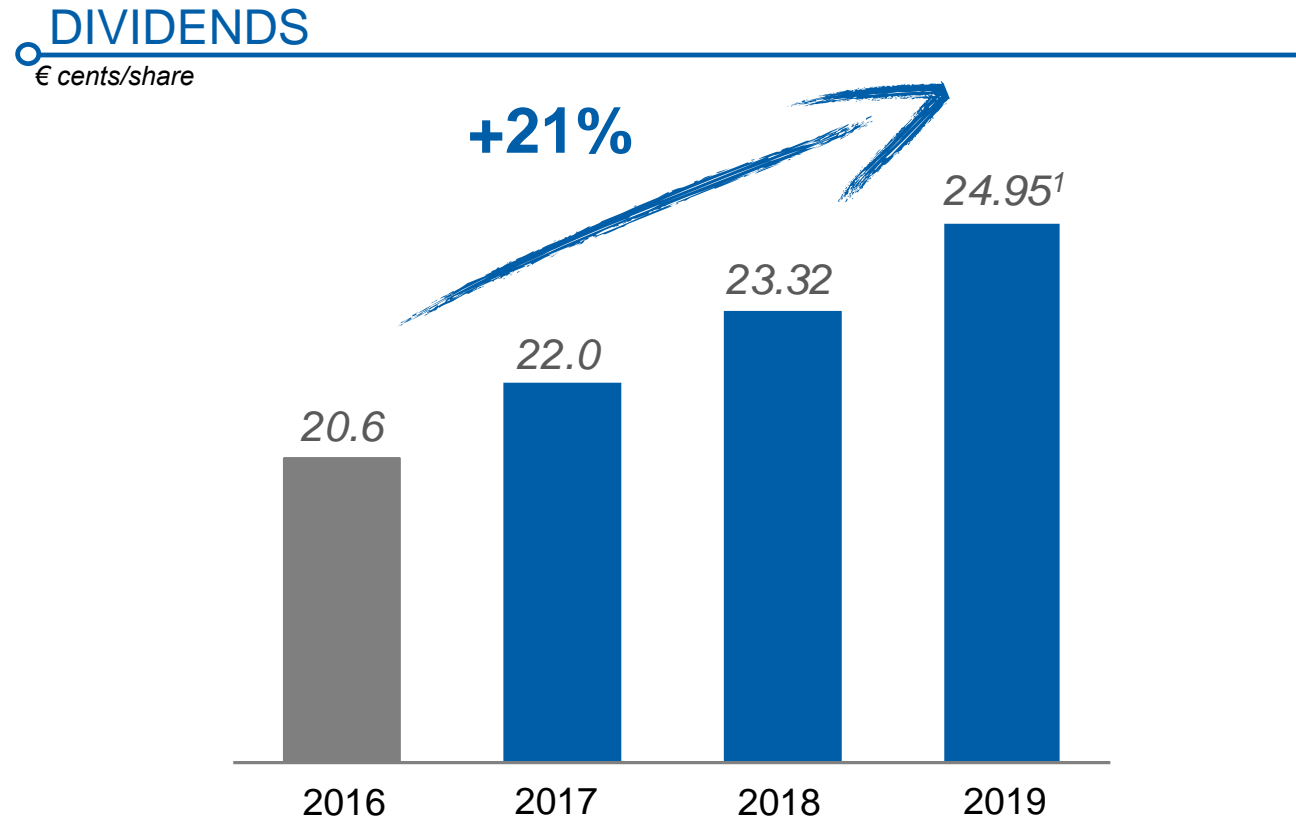
CAPEX



Increasing benefits for the system and shareholders

Main Achievements 2017-2019

Focus on Value Creation

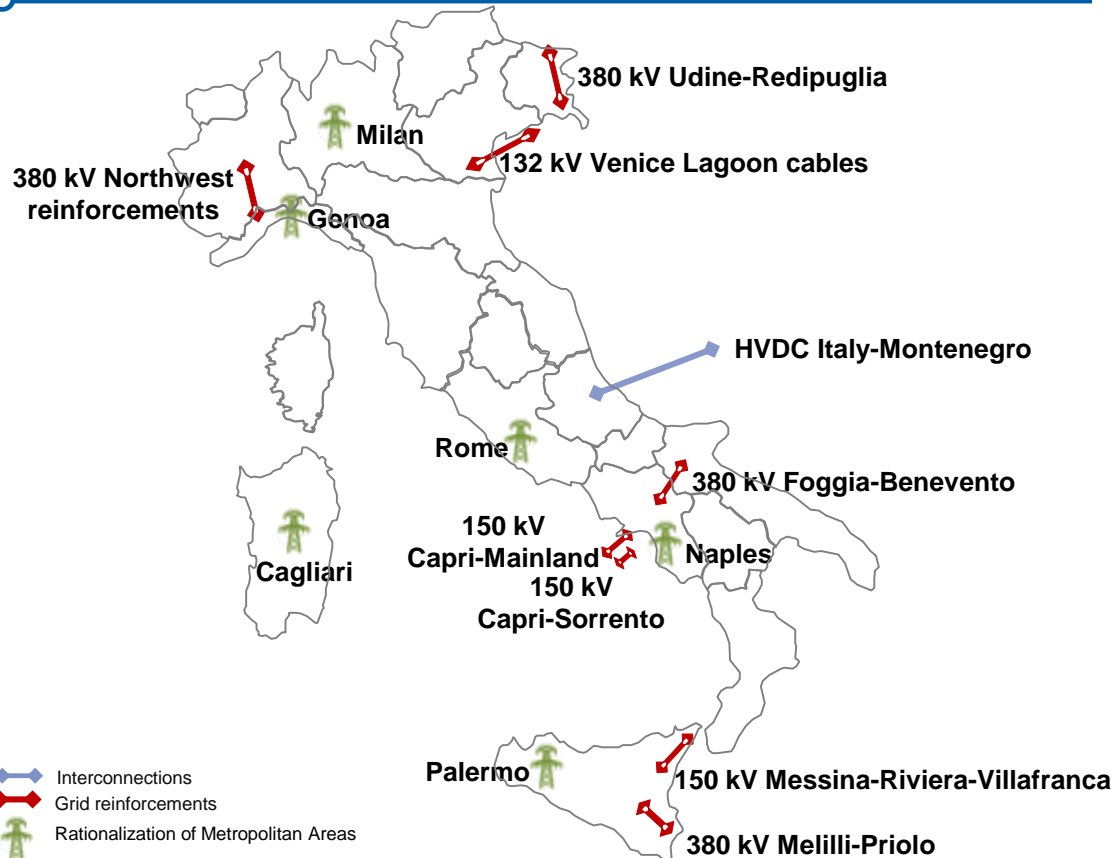


Rewarding shareholders remuneration

Main Achievements 2017-2019

Focus on Realized Infrastructures

MAIN PROJECTS



DIALOGUE WITH LOCAL COMMUNITIES

A participatory Grid planning

- **>1,000 meetings** made in 2017-2019 o/w 316 in 2017, 350 in 2018 and 469 in 2019
- **More than doubled meetings** in 2019 vs 2016
- **Direct dialogue** with local communities
- **Explanation** of the planned projects
- **Sharing of solutions**

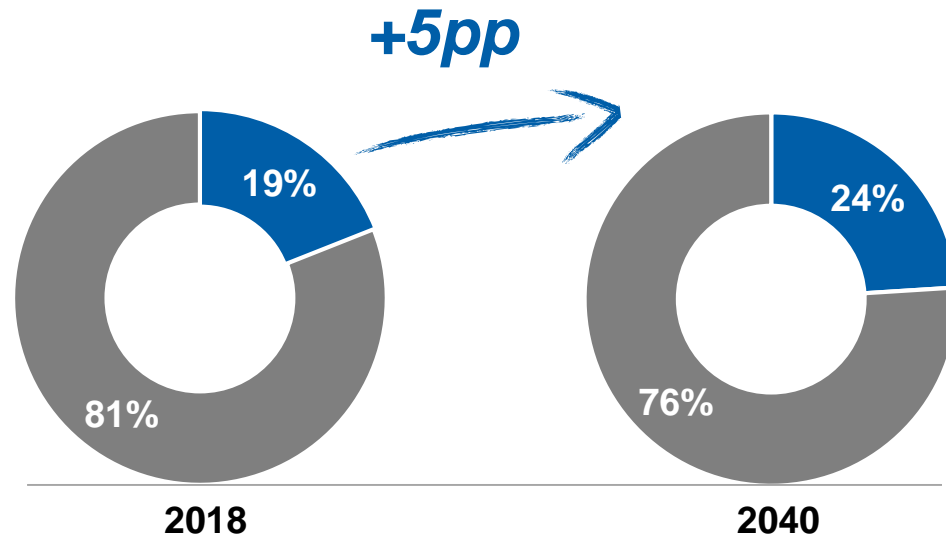
Projects execution based on open dialogue with local communities

○ Energy Scenario

Energy Scenario

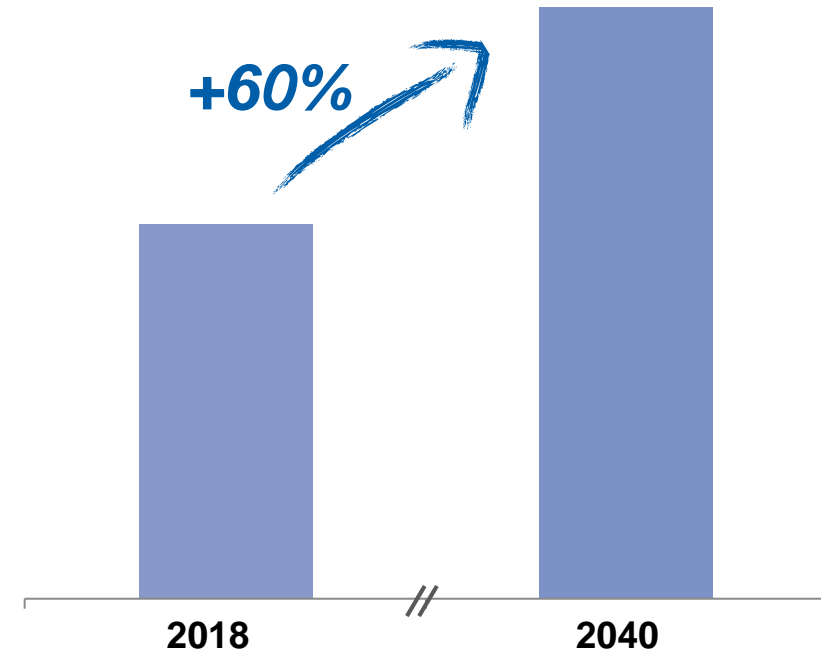
Global Electricity Demand trend

ELECTRICITY SHARE ON FINAL ENERGY CONSUMPTION



■ Electricity
■ Other energy sources

GLOBAL ELECTRICITY DEMAND

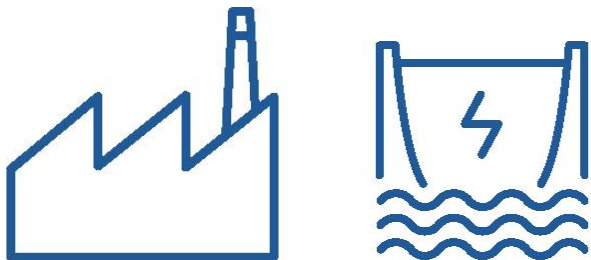


Increasing central role of electricity vector

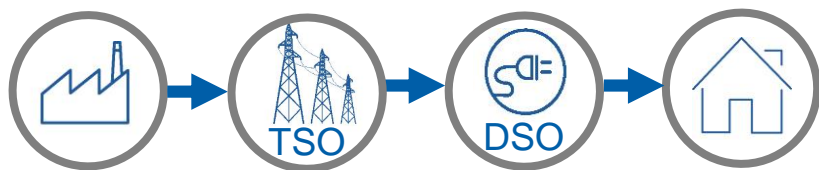
Energy Scenario

Electricity System evolution

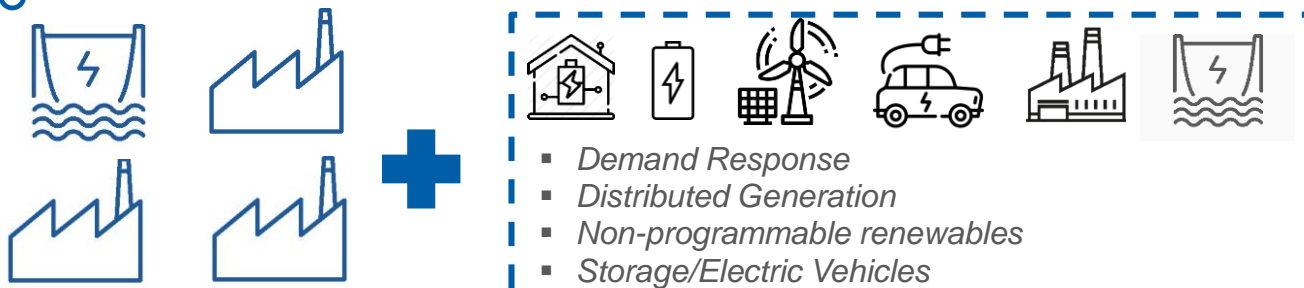
FROM TRADITIONAL ENERGY FLOWS....



Large generation plants

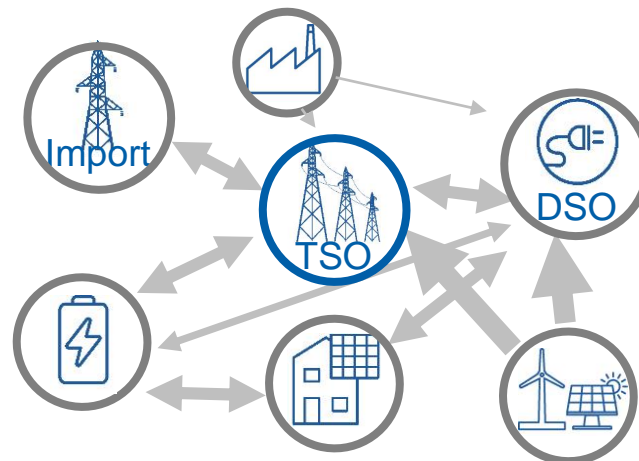


...TO A MORE COMPLEX SYSTEM



Large/medium generation plants

>800k production plants



Higher complexity is shifting the approach from watt to byte

Energy Scenario

Electricity System's Management (1/5) – 4 Main challenges

CHALLENGES

RES intermittency



RES geographical distribution



RES technical characteristics



Extreme weather events



IMPACTS

- *Reduction of adequacy margins*
- *Increasing periods of over-generation*
- *Increasing steepness of residual load evening ramp*

- *Increasing grid congestions*
- *Growing system operation challenges due to growing Distributed Generation*

- *Reduction of system inertia*
- *Reduction of resources providing frequency and voltage regulation*

- *Increasing risk of local disruptions*

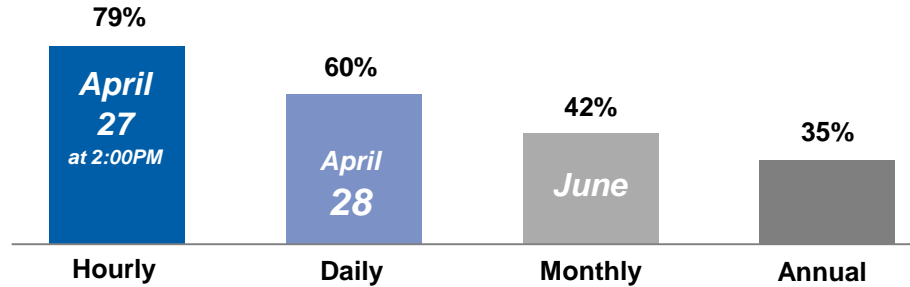
Increasing TSO pivotal role

Energy Scenario

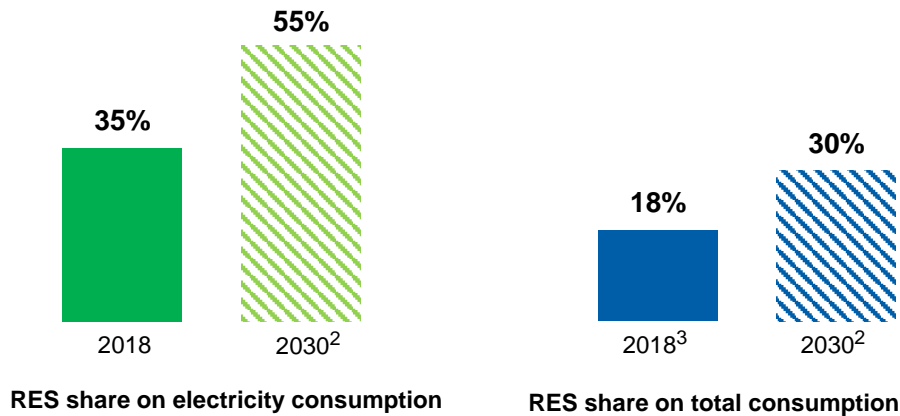
Electricity System's Management (2/5) – RES Intermittency

- RES intermittency
- RES geographical distribution
- RES technical characteristics
- Extreme weather events

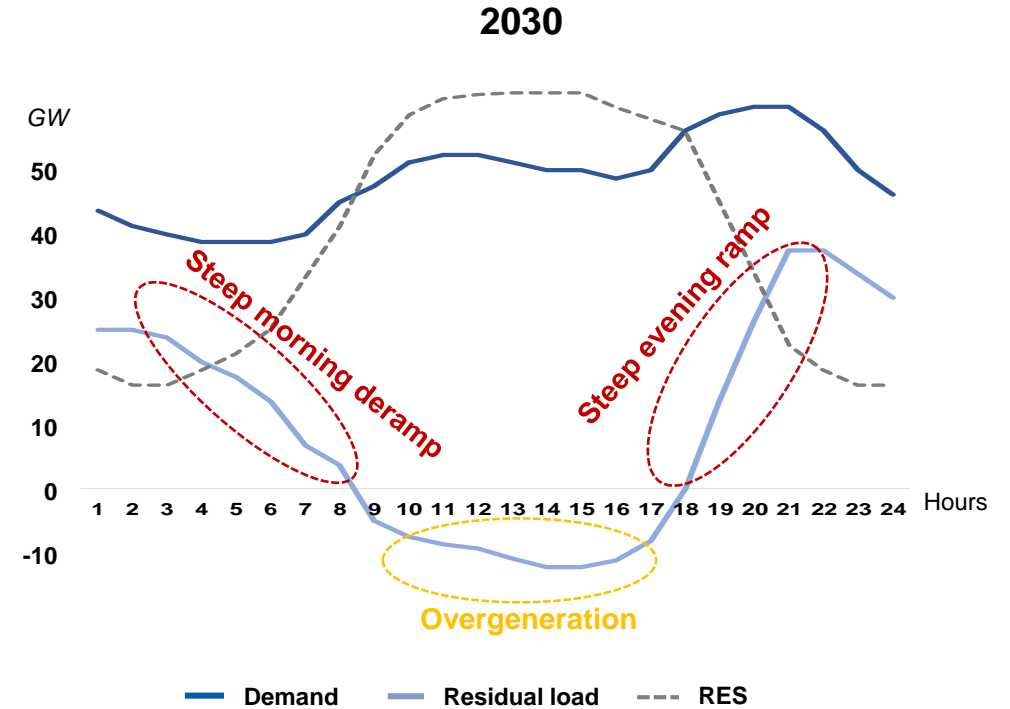
DEMAND COVERED BY RES¹



NATIONAL INTEGRATED ENERGY & CLIMATE PLAN TARGETS



CONSUMPTION CURVES AND RESIDUAL LOAD⁴



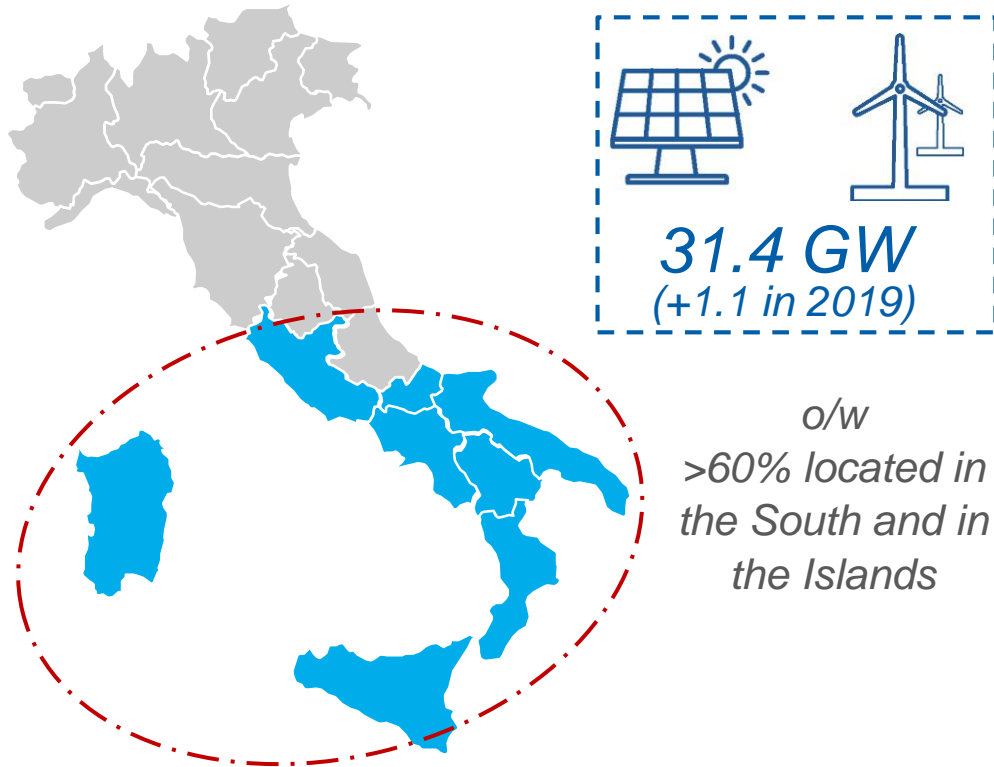
Increasing need of storage capacity

Energy Scenario

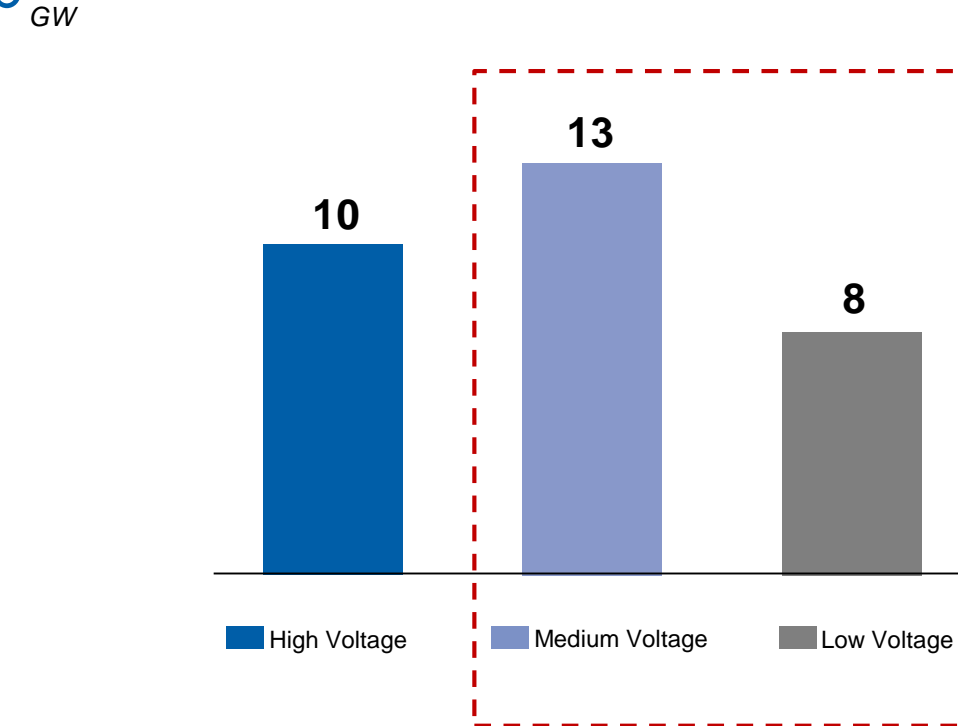
Electricity System's Management (3/5) – RES geographical distribution

- RES intermittency
- RES geographical distribution**
- RES technical characteristics
- Extreme weather events

PV AND WIND INSTALLED CAPACITY BY ZONE¹



PV AND WIND INSTALLED CAPACITY BY VOLTAGE¹

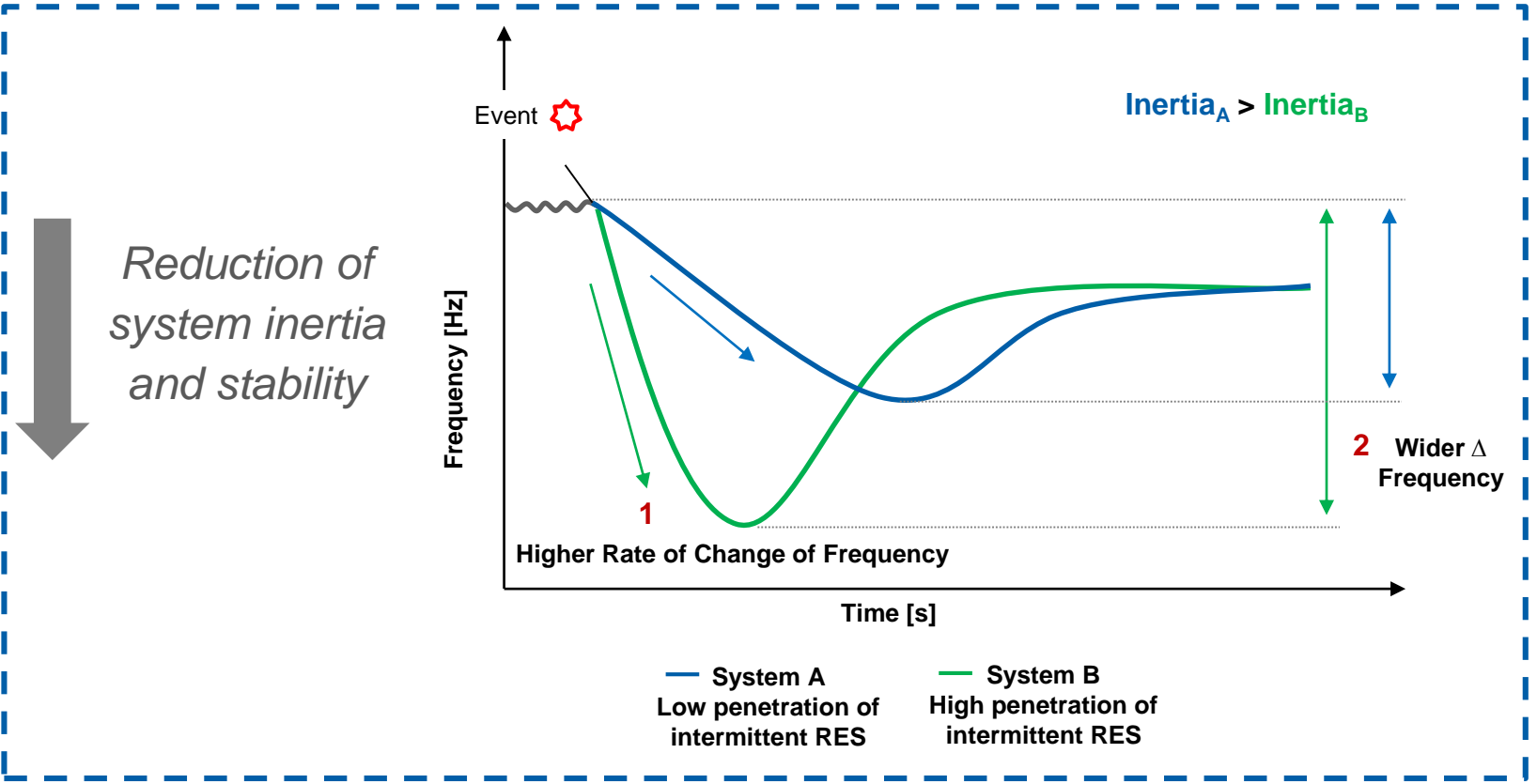
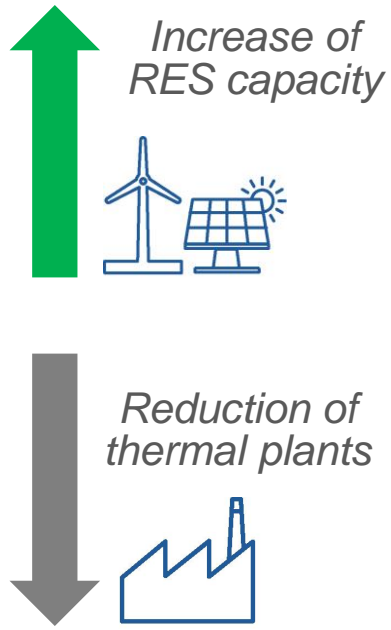


Increasing need of grid meshing

Energy Scenario

Electricity System's Management (4/5) – RES technical characteristics

- RES intermittency
- RES geographical distribution
- RES technical characteristics**
- Extreme weather events



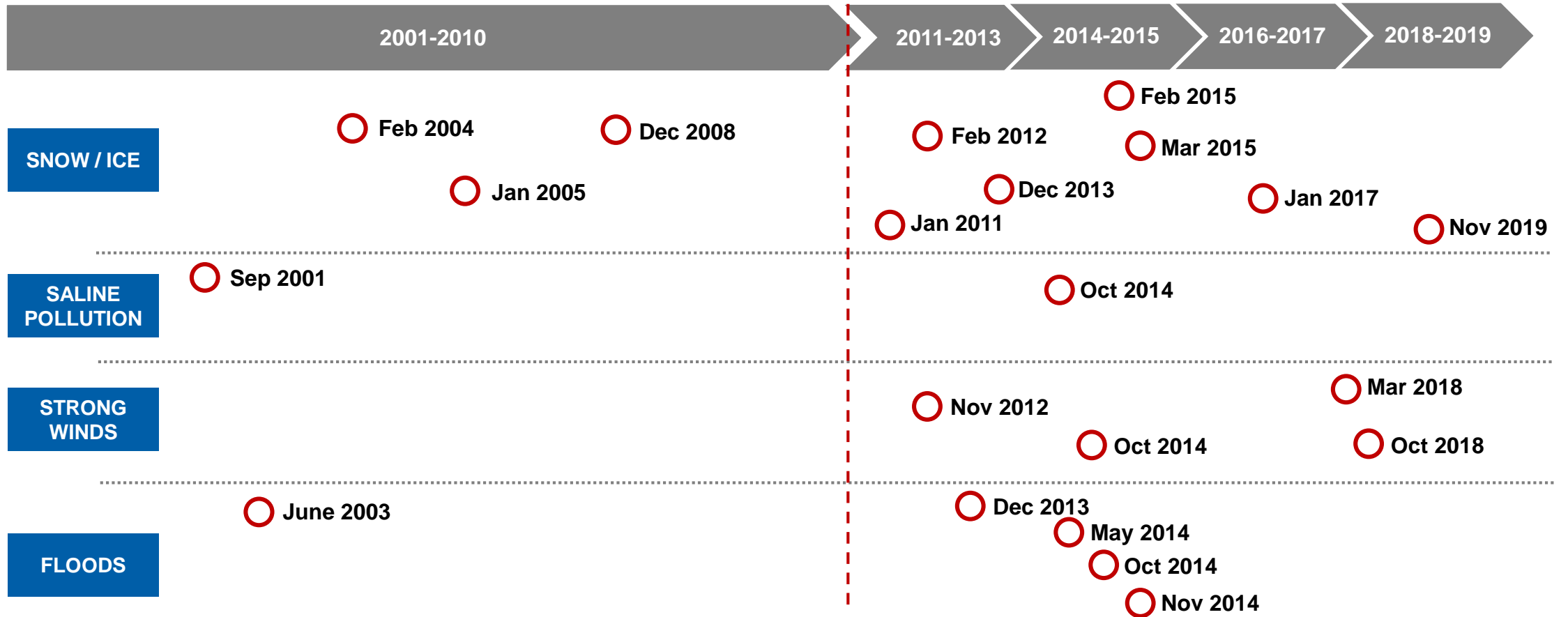
Reduction of system inertia and stability

Increasing investments to enhance grid stability

Energy Scenario

Electricity System's Management (5/5) – Extreme weather events

- RES intermittency
- RES geographical distribution
- RES technical characteristics
- Extreme weather events**



Increasing investments in grid resiliency


Energy Scenario

Key enablers of the Energy Transition

1 Transmission grid development

- *Strengthening of North-South backbone*
- *Grid reinforcements in the South of Italy and in the Islands*
- *Developing foreign interconnections*
- *Investing in voltage regulation and to increase system inertia*

2 Long-term price signals

- *Capacity Market*
- *Power Purchase Agreements and auctions for RES*
- *Long-term contracts through competitive procurement of storage* 

3 Market evolution

- *Participation of new flexible resources in ancillary services market*
- *Evolution of the structure of the ancillary services market*

4 Innovation and digitization

- *Digitization of the grid and data management*
- *Industrial IoT, Energy Systems and Advanced Materials*
- *Sector Coupling*

A set of coordinated, coherent and simultaneous actions will be mandatory

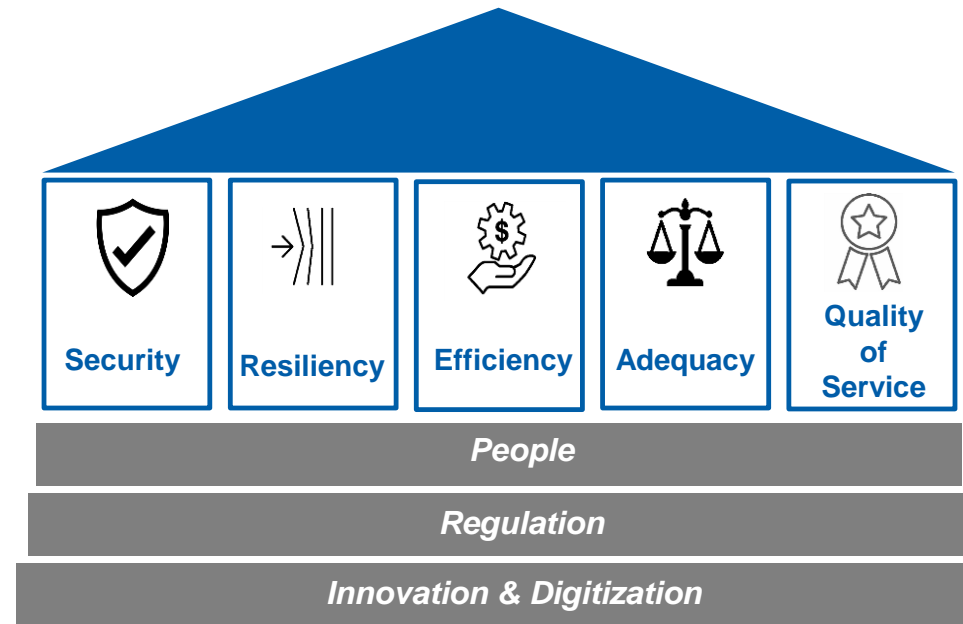
Energy Scenario

Terna's role in the system

Our Mission



TSO's Key Pillars



Terna's leading role for a sustainable energy transition

○ Strategy

Strategy

Overview

Strategic Guidelines



Domestic Regulated

Reinforcing domestic core activities leveraging technologies



Non Regulated

Developing new services to support energy transition



International

Leveraging core competences

Enabling Factors



Innovation & Digitization

Developing innovation leadership

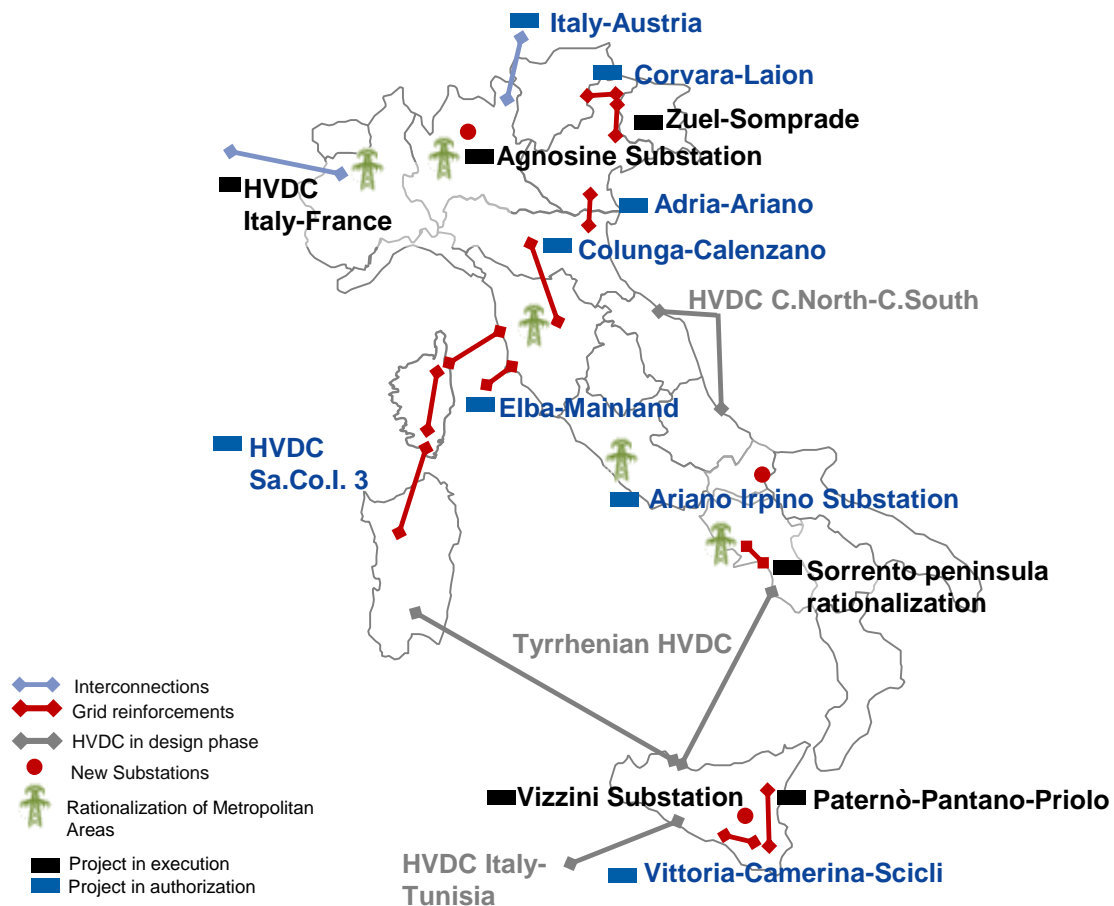


People

Enhance competences to build an agile and innovative workplace

Strategy

Domestic Regulated (1/3): focus on 2020 National Development Plan



- *Cost Benefit Analysis fully compliant*
- *Ensuring long-term growth*

Main focus:

- *Islands and internal back-bone reinforcements*
- *Resiliency and quality of service increase*
- *Interconnection development*

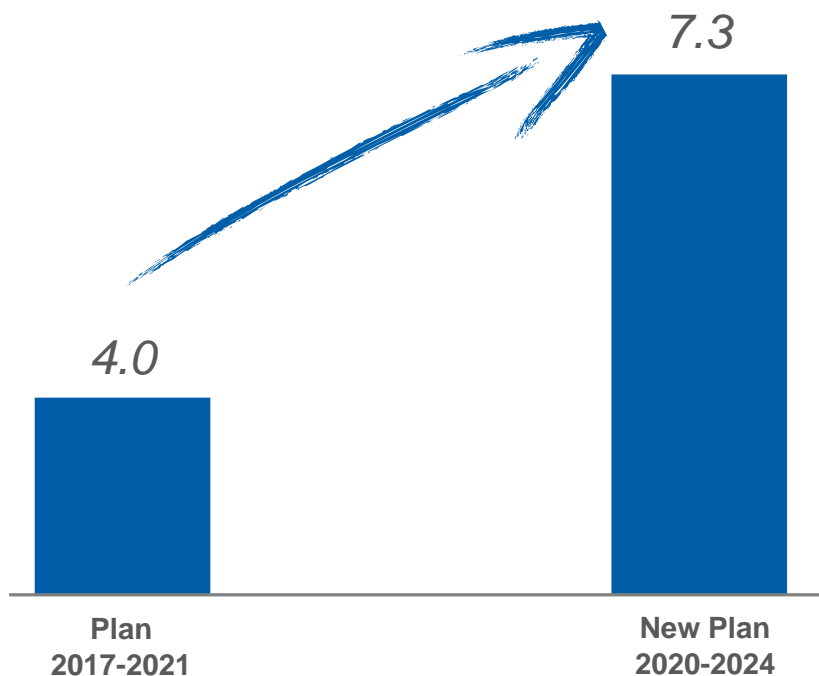
Increasing long-term investment plan driven by growing system needs

Strategy

Domestic Regulated (2/3): reinforcing domestic core activities

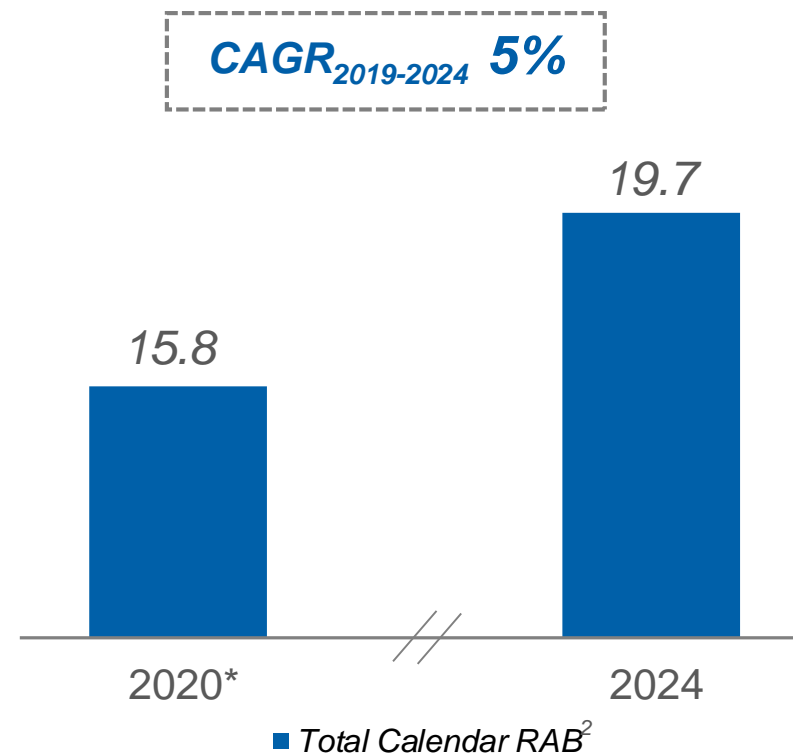
DOMESTIC REGULATED CAPEX¹

€bn



RAB EVOLUTION

€bn



Wide range of projects to lock-in capex program

Strategy

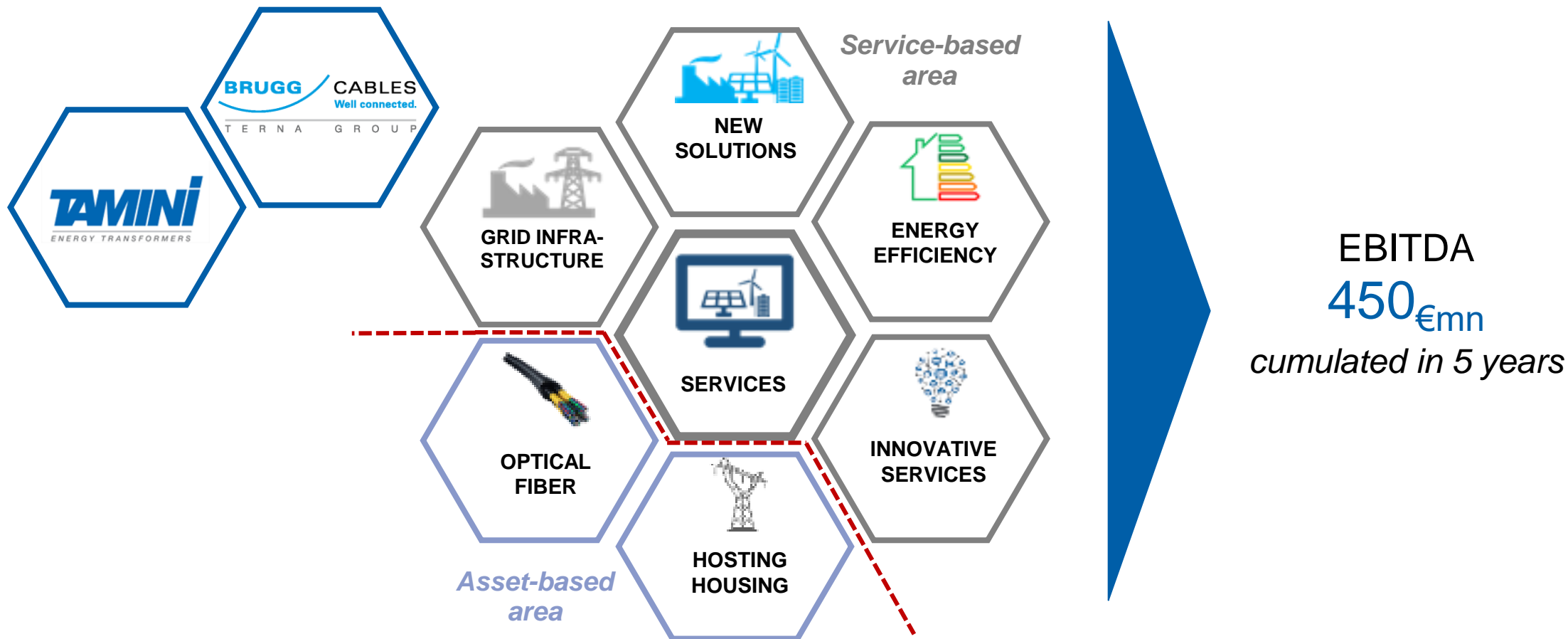
Domestic Regulated (3/3): reinforcing domestic core activities

CATEGORY	CUMULATED CAPEX	MAIN PROJECTS
Development	4.2€bn	<ul style="list-style-type: none"> Tyrrhenian Link SA.CO.I. Debottlenecking of critical zones and increasing transport capacity
Asset Renewal and Efficiency	2.3€bn	<ul style="list-style-type: none"> Quality of Service increase Digitization of the grid Development of sustainable solutions
Defence	0.9€bn	<ul style="list-style-type: none"> Synchronous compensators Grid resiliency increase System adequacy enhancement

Strong focus on resiliency, digitization and sustainability

Strategy

Non Regulated: developing new services to support energy transition



Double-digit increase in EBITDA contribution vs old Plan

Strategy

International (1/2): leveraging core competences

PROJECTS IN OPERATION

Brazil: Santa Maria



- 230 kV, 158 km
- Commissioned in October 2018
- 30-year concession



Brazil: Santa Lucia



- 500 kV, 355 km
- Commissioned in April 2019
- 30-year concession



Uruguay: Melo-Tacuarembó



- 500 kV, 214 km
- Commissioned in October 2019
- 30-year concession



Relevant projects delivered

Strategy

International (2/2): leveraging core competences

EXECUTION WELL ON TRACK

Peru: Aguaytia-Pucallpa



- 138 kV, 132 km
- Commissioning expected in 4Q 2020
- 30-year concession

Brazil: Quebec¹



- 500 kV, 350 km
- Commissioning expected by 1Q 2023
- 2 30-year concessions

STRATEGY

Europe

Playing a leading role as energy hub for the Mediterranean area

LatAm

Leveraging core skills and technologies to consolidate Terna's presence

Other Geographies

Energy Solutions services, innovation and capital light activities

POTENTIAL NEW PROJECTS

























2020-2024 Cumulated Capex
Lower than 150 €mn

EBITDA cumulated in 5 years² ~200 €mn - Double-digit growth vs old Plan

Strategy


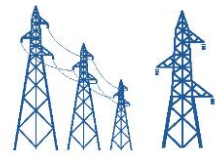

Innovation & Digitization

INNOVATION

 Full Internet of Things	 Sensors	 Drones & Satellites	 Robotics	
 Advanced Materials	 Additive manufacturing	 Nanotech Materials	 Anti-icing coatings	
 Energy Tech	 E- Mobility	 Energy Storage	 Smart Grid & Demand Response	 Power-system protection
 Digital & Computing	 Augmented & Virtual Reality	 Distributed Computing	 Quantum Computing	
 Cybertech	 Cybersecurity			
 Analytics	 Advanced Forecasting	 Big Data & Analytics	 Grid Security Analysis	 Artificial Intelligence

TERNA INNOVATION HUB

DIGITIZATION

Infrastructures		<ul style="list-style-type: none"> Optical Fiber, Wireless connectivity Industrial IoT, Datacenters reshaping Distributed & Federated Computing
System control and operation		<ul style="list-style-type: none"> Lines and substations digitization Predictive Maintenance platforms TO and SO's Digitization projects
People & Processes		<ul style="list-style-type: none"> Smart Offices and digitalized processes

Capex ~900€mn

2020-2024 cumulated* + ~29% vs old Plan

Shifting from watt to byte

Strategy

Guidance 2020 and 2024

	FY 2019	FY 2020*	FY 2024*	2024 vs 2019
	Actual €mn	Guidance €bn	Guidance €bn	Δ%
Revenues	2,295	2.49	2.94	28%
EBITDA	1,741	1.79	2.17	25%
Capex ¹	1,264	1.3	7.8 Cumulated 2020-2024	
EPS _{€cents}	37.7	38	48	

Solid growth during the Plan period

○ Focus on FY 2019

Focus on FY 2019

Key Numbers

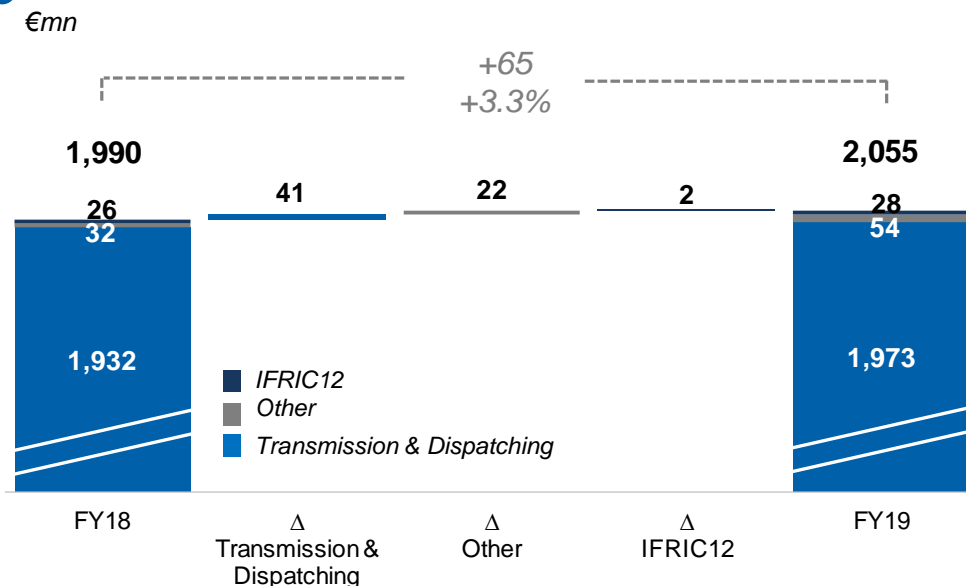
	FY 2019		FY 2018	Δ vs FY 2018
	Actual €mn	Guidance €bn	Actual €mn	
Revenues	2,295	2.3 ✓	2,197	+4%
EBITDA	1,741	1.72 ✓	1,651	+5%
Group Net Income ¹	757		707	+7%
EPS ² €cents	37.7	36 ✓	35.2	
Capex	1,264	1.2 ✓	1,091	+16%
Net Debt	8,259		7,899	

Growth of all P&L lines and capex acceleration delivered

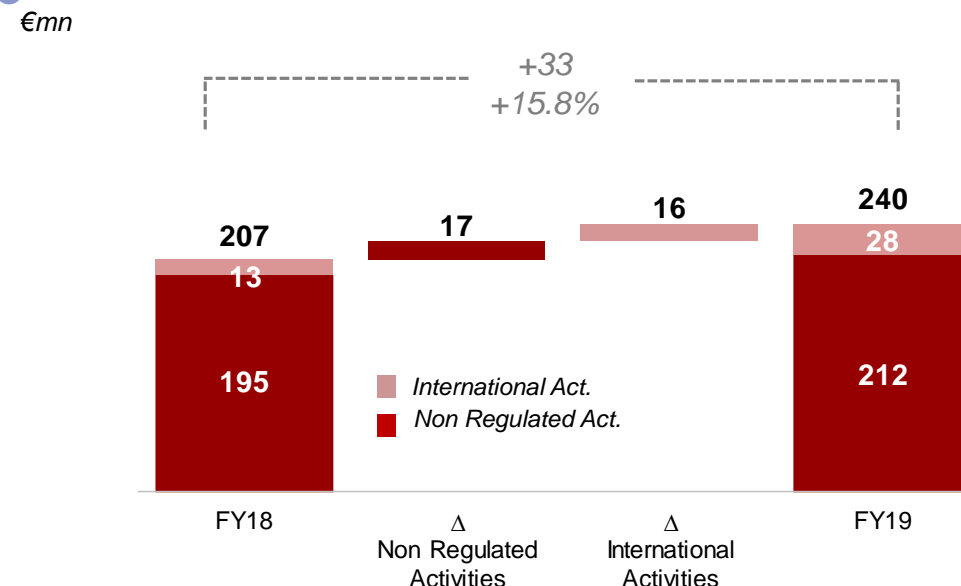
Focus on FY 2019

Revenues

REGULATED ACTIVITIES



NON REGULATED AND INTERNATIONAL

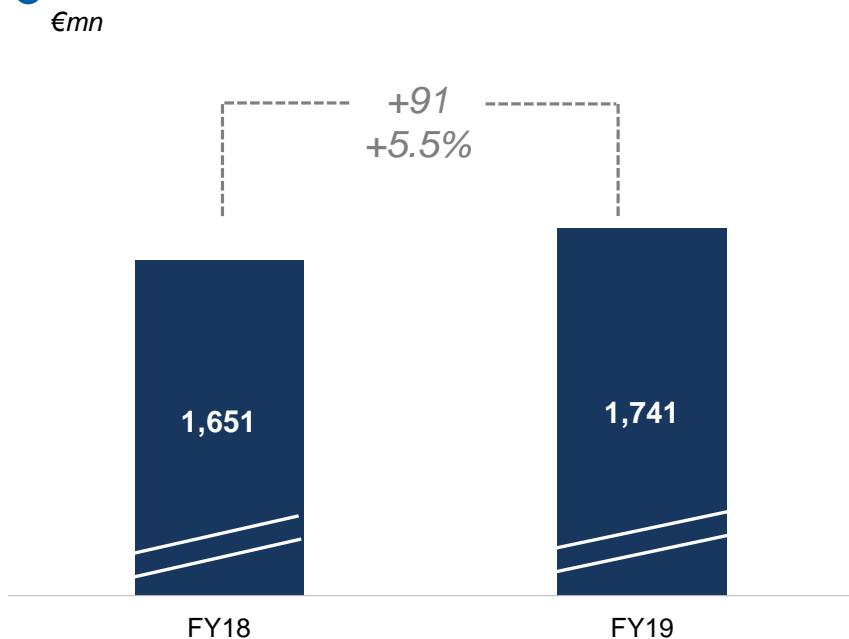


Higher contribution from all business lines

Focus on FY 2019

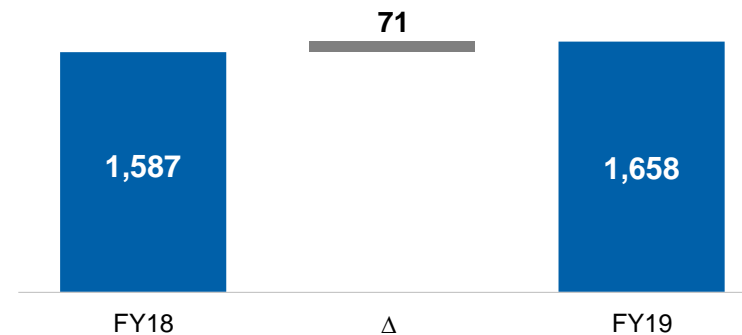
EBITDA

TOTAL EBITDA



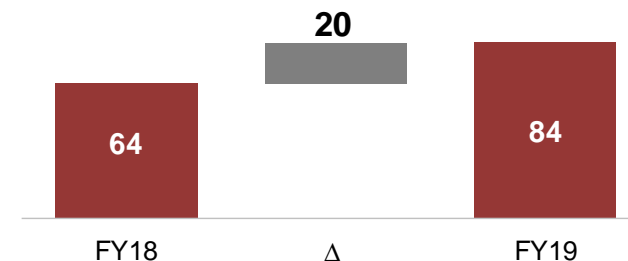
REGULATED ACTIVITIES

€mn



NON REGULATED AND INTERNATIONAL

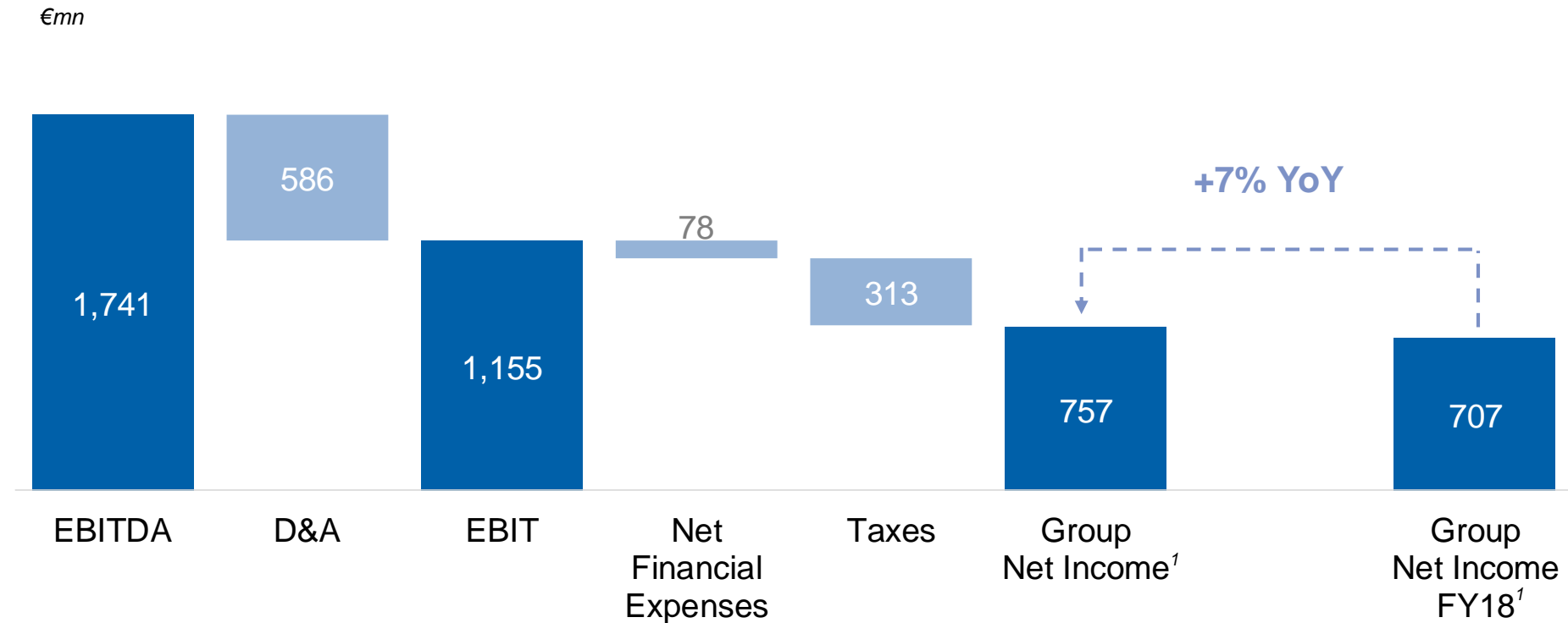
€mn



EBITDA increase driven by all activities

Focus on FY 2019

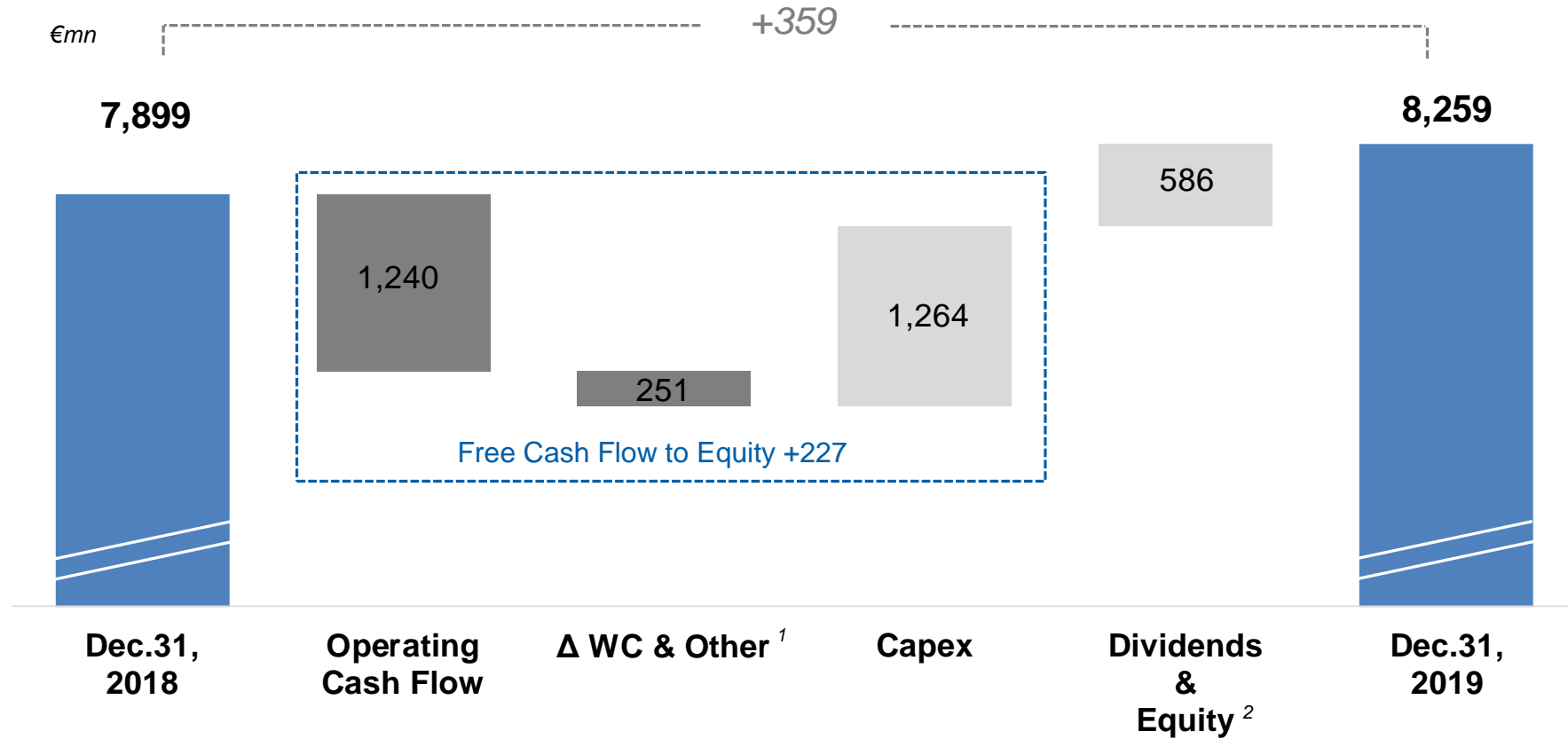
From EBITDA to Net Income



Robust 7% Group Net Income increase

Focus on FY 2019

Cash Flow & Net Debt Evolution



Strong Operating cash flow generation

○ 2020 – 2024 Group Financial Targets

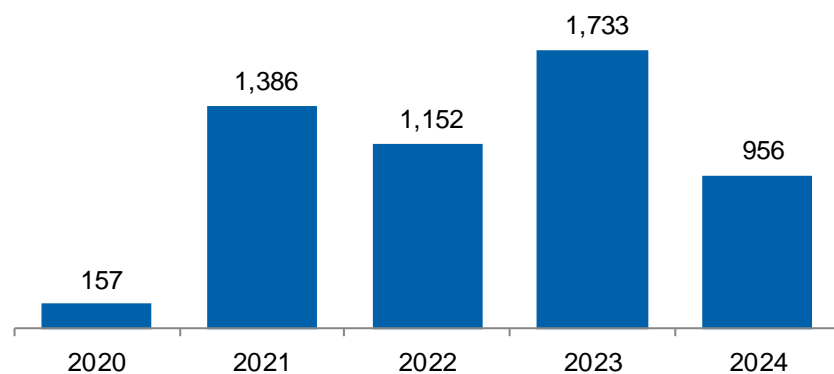
2020 – 2024 Group Financial Targets

Financial Efficiency and Financial Structure

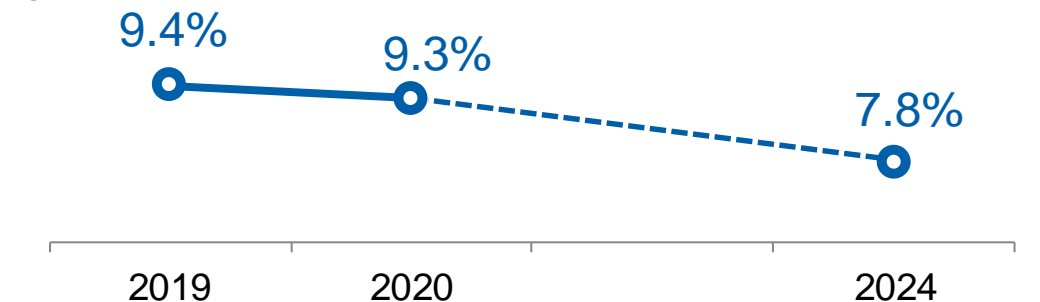
- Average Cost of Net Debt 2020-2024 @ **1.4%**
- Gross Debt as of YE 2019 @ **81% Fix rate**
- Net Debt / RAB¹ <**60%** over the Plan
- Average duration as of YE 2019 of **5 years**

MATURITIES

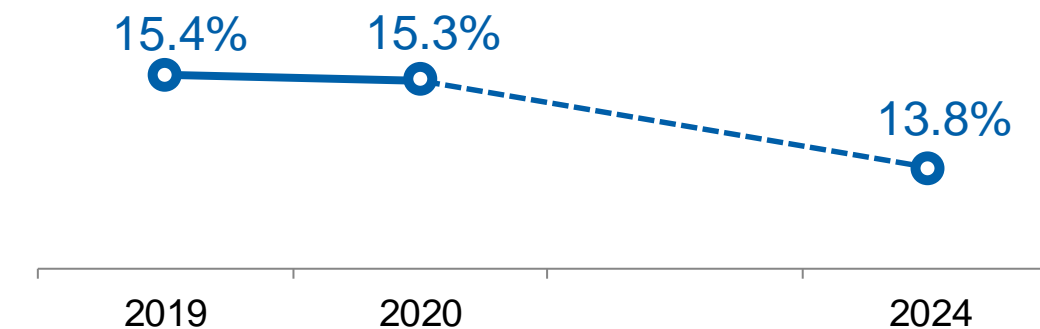
€mn



RCF/NET DEBT



FFO/NET DEBT



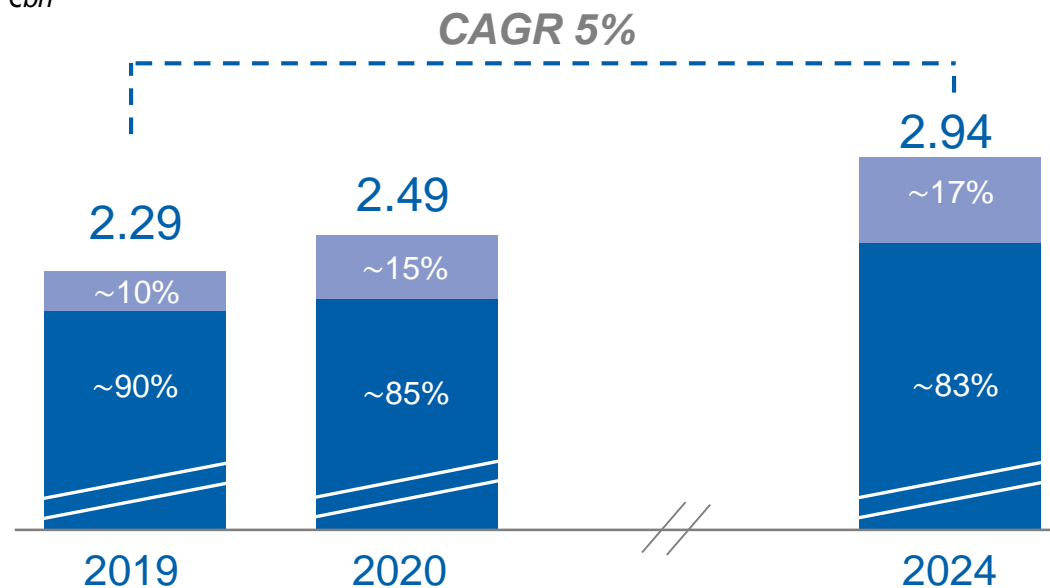
Robust financial structure

2020 – 2024 Group Financial Targets

P&L

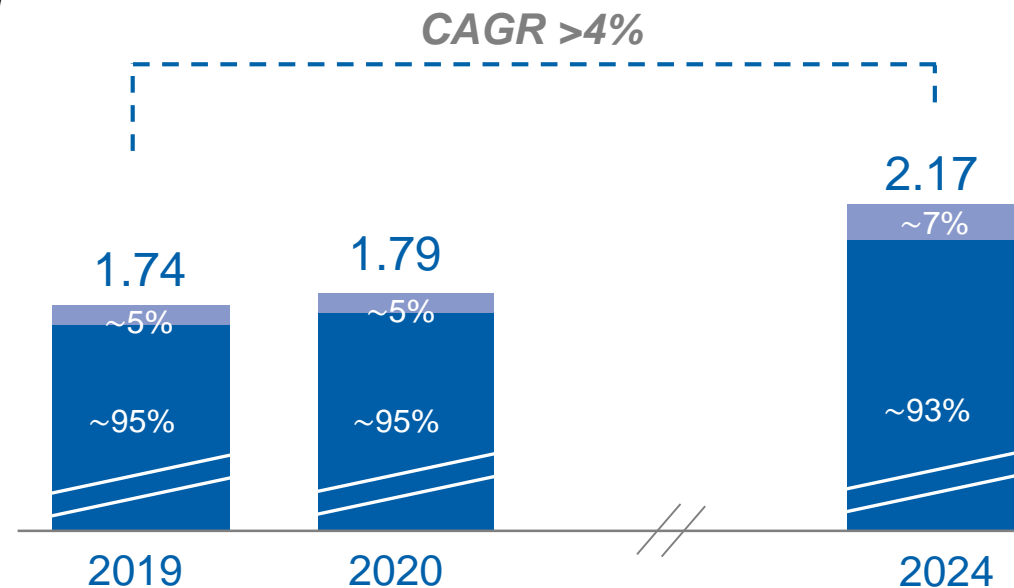
REVENUES

€bn



EBITDA

€bn



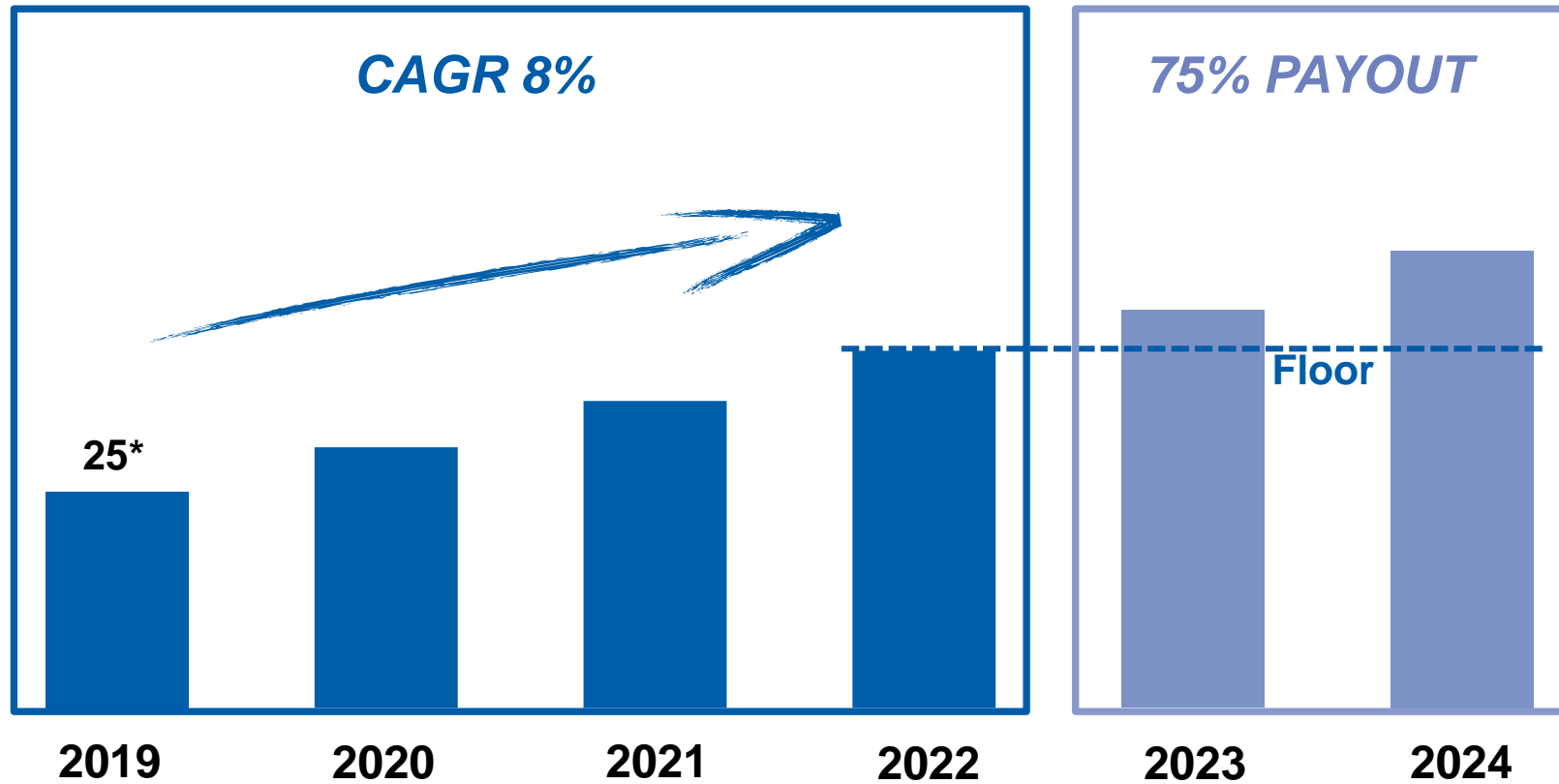
■ Regulated
■ Other*

EPS CAGR 5% vs >3% in old Plan

○ Dividend Policy and Closing Remarks

Dividend Policy

€ cents



Enhancing shareholders value

Closing Remarks

Domestic Regulated

Reinforcing domestic core activities

Non Regulated

Developing new services to support energy transition

International

Leveraging core competences

Operational efficiencies

Continuous effort in efficiency levels

Financial Structure

Robust financial structure

Dividend Policy

Enhancing shareholders value

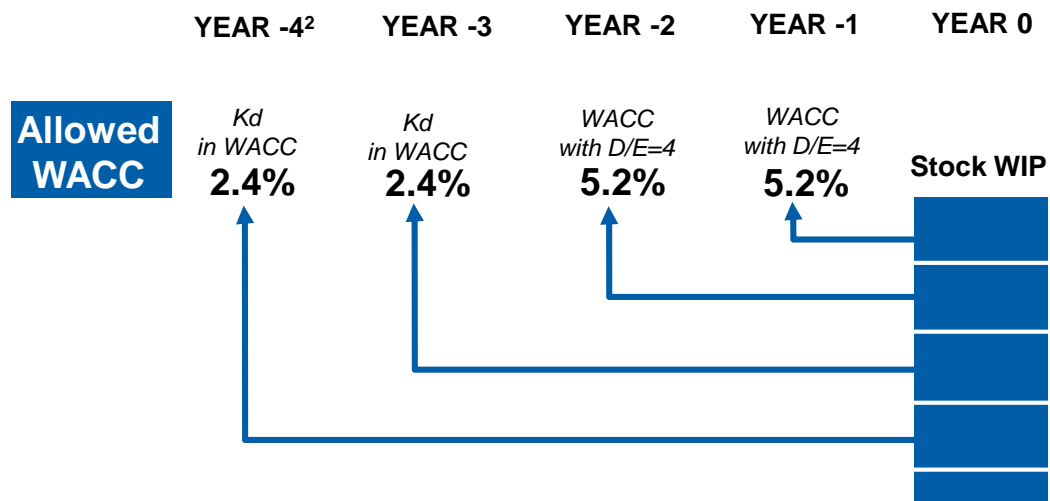
In line with EU Green Deal and National decarbonization strategy

○ Annexes

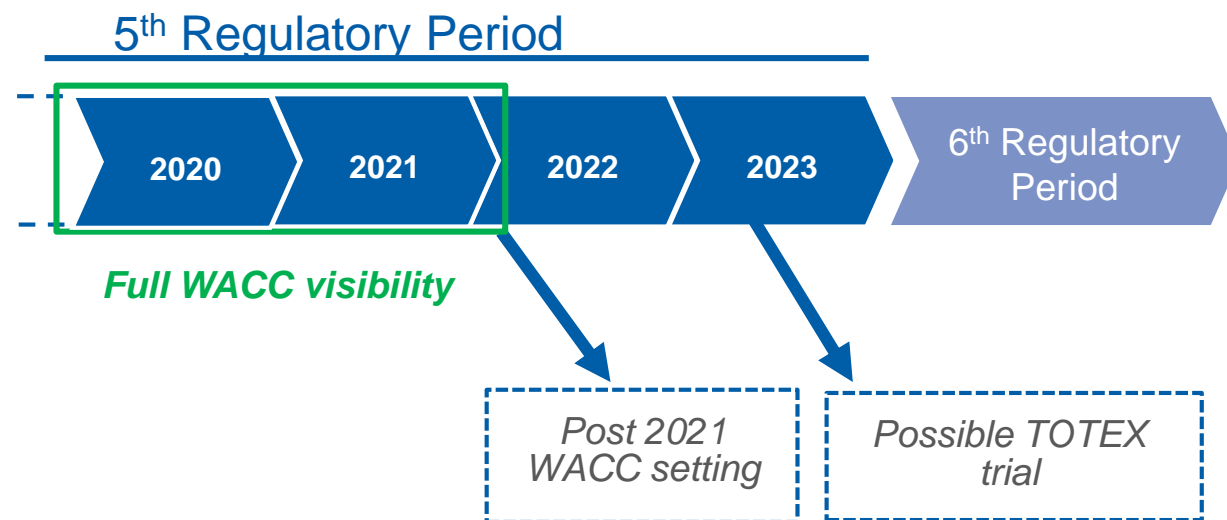
Strategic Annexes

Regulatory Visibility

WORK IN PROGRESS REMUNERATION¹



TIMELINE

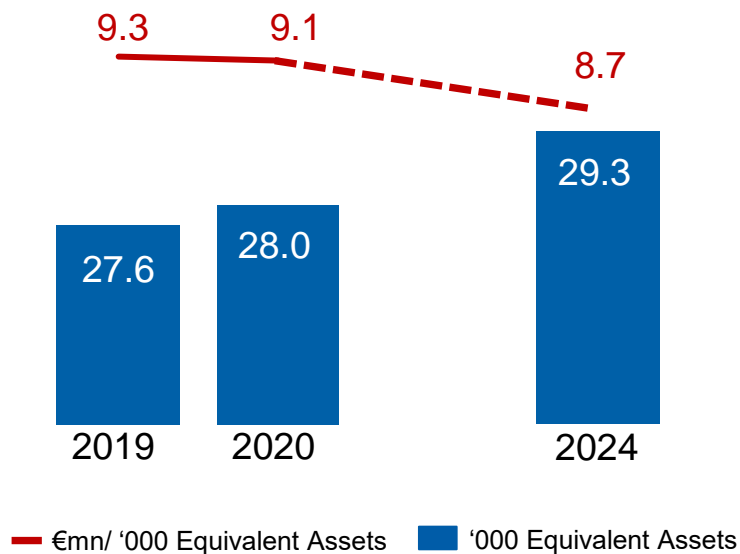


WIP recognition and higher regulatory visibility

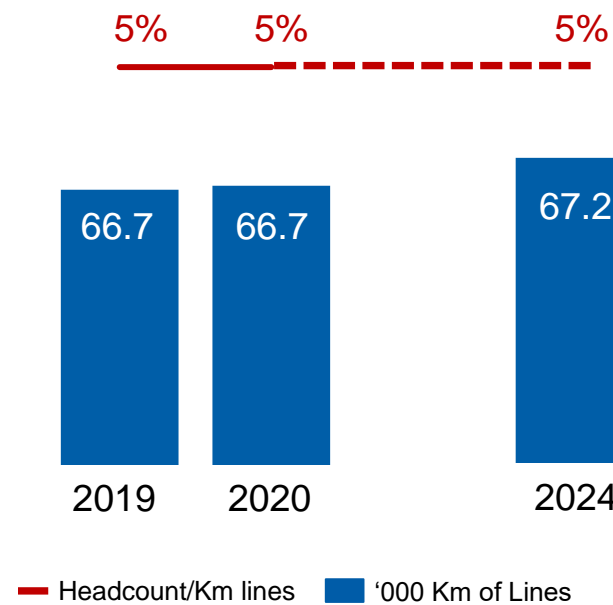
Strategic Annexes

Operational Efficiency

OPEX / EQUIVALENT ASSETS*



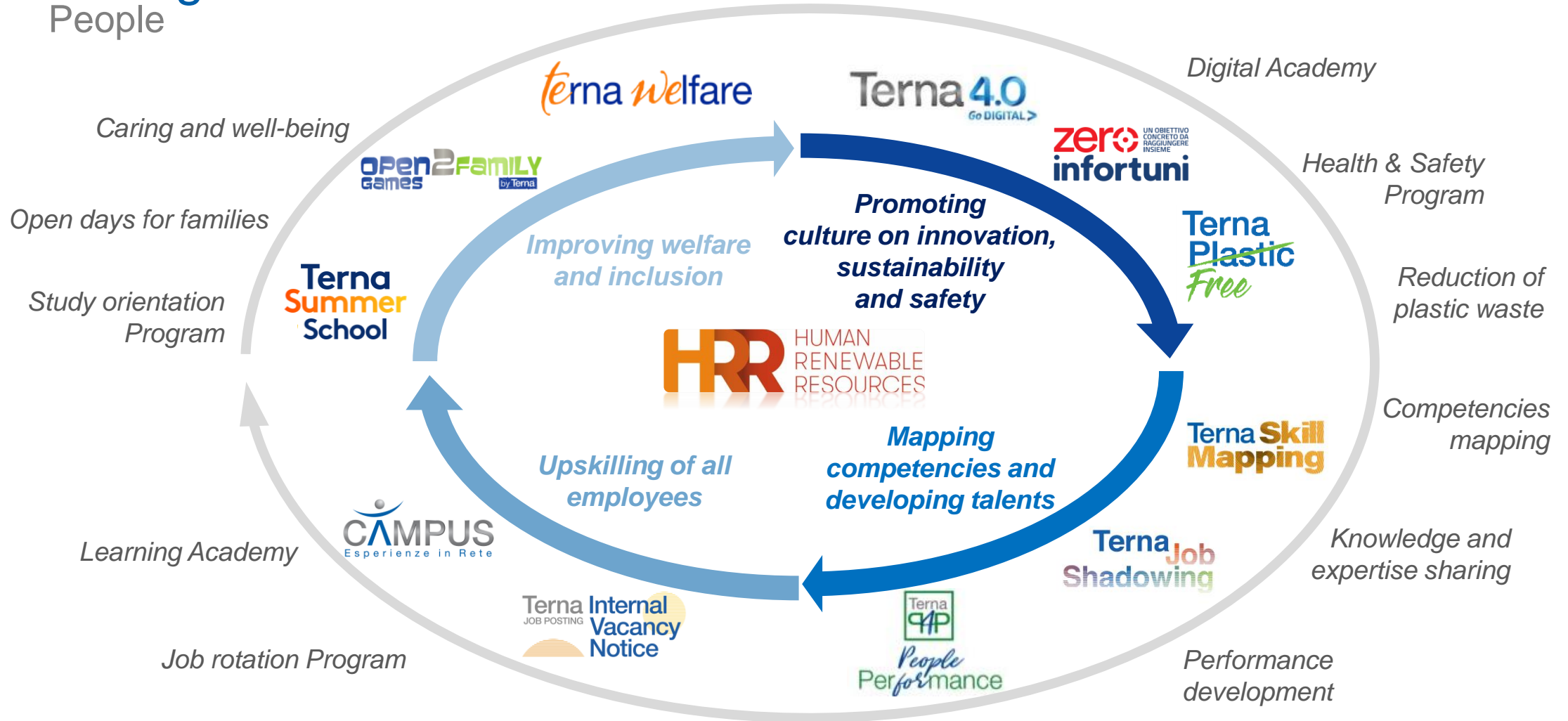
HEADCOUNT / ASSETS



Continuous effort in efficiency levels

Strategic Annexes





People



People Strategy

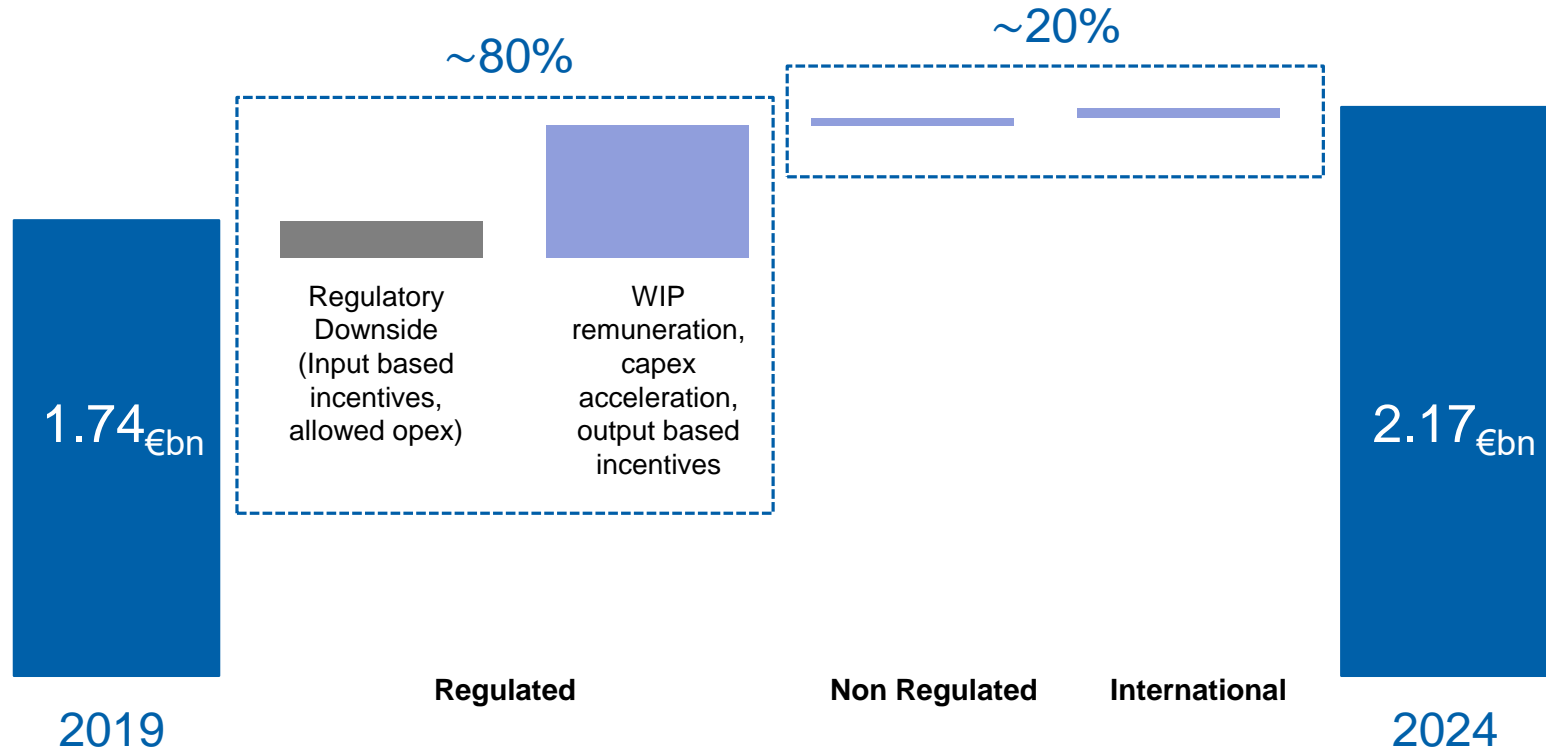
Strategic Annexes

Terna's Sustainable Management Approach

Pillars	KPIs	2019		2020-2024
		Targets	Results	Targets
 Human Resources	<ul style="list-style-type: none"> Employees with performance valuation (%) 	70%	75%	85% at 2020
	<ul style="list-style-type: none"> Employees with digital competences (n.) 	450	882	1,000 at 2021
	<ul style="list-style-type: none"> Health & Safety training for operative employees (%) 	50%	87%	100% at 2020
	<ul style="list-style-type: none"> Safety Index 	≤1	1.17	≤1 Plan period
 Local and central stakeholders	<ul style="list-style-type: none"> Local Stakeholders: sentiment 	+15% (vs 2018)	+17.9% (vs 2018)	≥ 2019 level
 Integrity, responsibility, transparency	<ul style="list-style-type: none"> Suppliers with ISO 14001 and OHSAS 18001 certifications (%) 	91%	94%	100% at 2020
	<ul style="list-style-type: none"> Green Capex (% of cumulated capex) 	Over 20% 2019-2023	Well on track	~30%
 Environment	<ul style="list-style-type: none"> Incidence of SF6 leakages (%) 	0.47%	0.40%	0.45% from 2020
	<ul style="list-style-type: none"> Km of new underground and undersea lines (% on total new lines) 	~60% 2019-2023	Well on track	

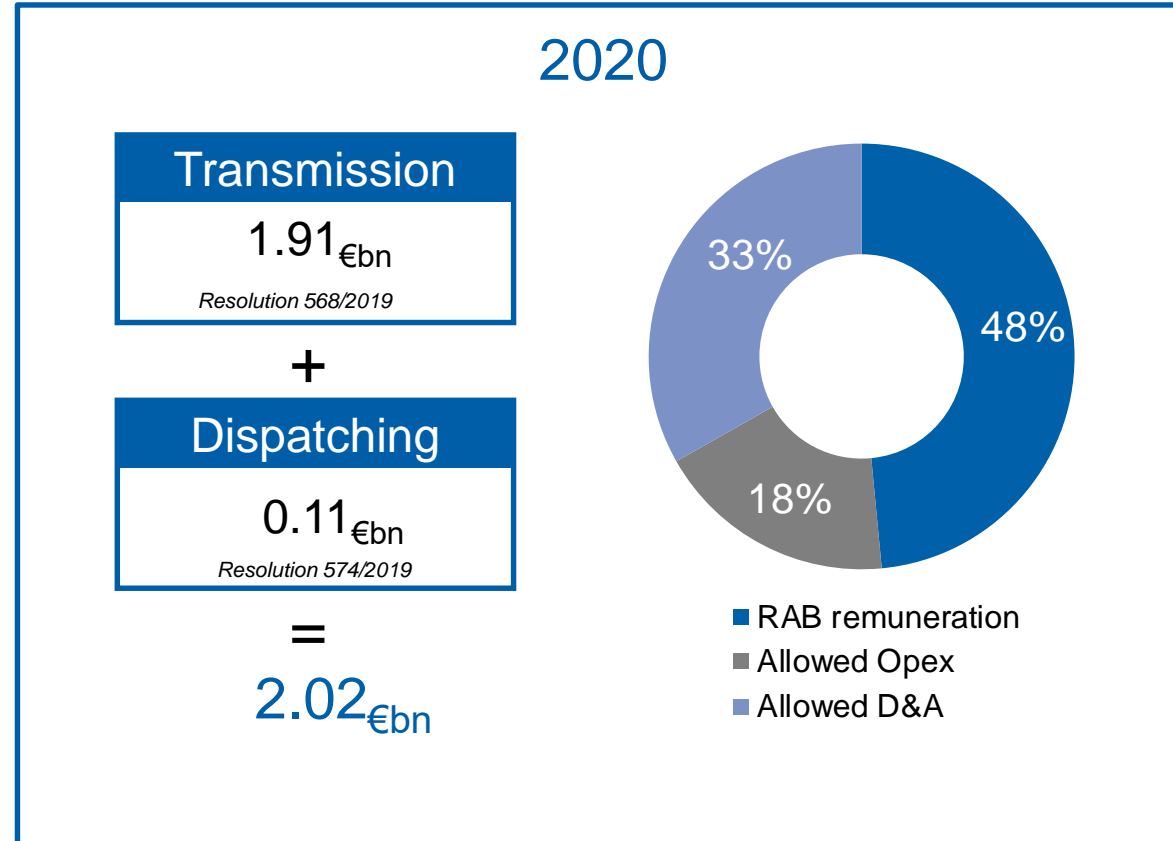
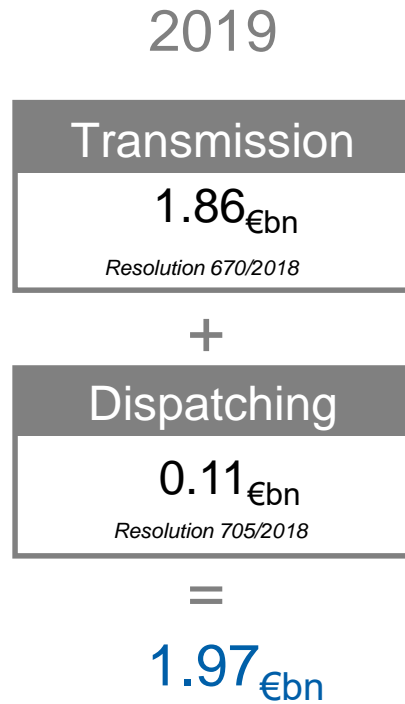
Strategic Annexes

EBITDA Evolution



Strategic Annexes

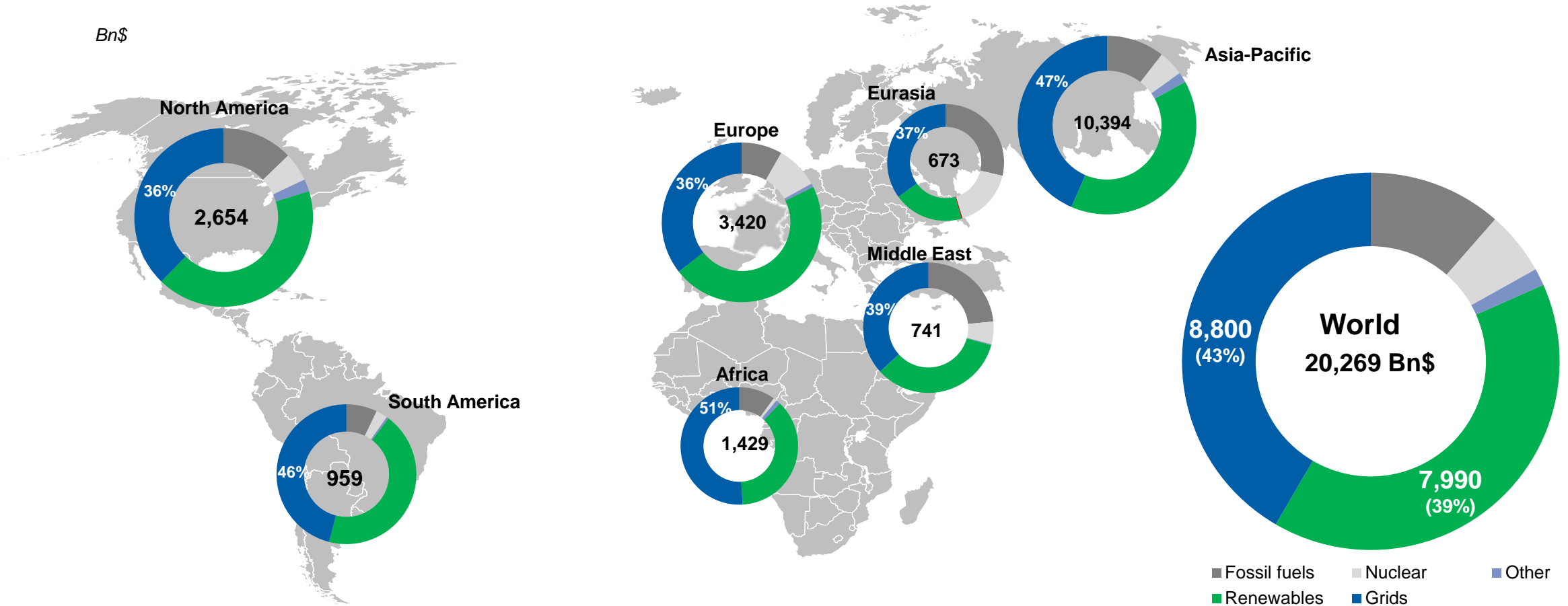
2020 Total Grid Fee update*



Strategic Annexes

Global Energy Trends – Power Sector Investments up until 2040

Bn\$



Increasing capex on infrastructures

Financial Annexes (1/5)

FY 2019 results - Consolidated Income Statement¹

€ mn	FY19	FY18	Δmn	Δ%
Total Revenue	2,295	2,197	98	4.5%
<i>Regulated Activities</i>	2,055	1,990	65	3.3%
<i>Transmission</i>	1,860	1,789	71	4.0%
<i>Dispatching</i>	113	143	-30	-21.1%
<i>Other²</i>	54	32	22	70.2%
<i>IFRIC12</i>	28	26	2	8.2%
<i>Non Regulated Activities</i>	212	195	17	8.6%
<i>International Activities</i>	28	13	16	127.2%
Total Costs	554	546	8	1.4%
<i>Regulated Activities</i>	398	403	-6	-1.4%
<i>Labour Costs</i>	213	203	10	4.8%
<i>External Costs</i>	151	156	-5	-3.2%
<i>Other²</i>	6	19	-13	-66.8%
<i>IFRIC12</i>	28	26	2	8.2%
<i>Non Regulated Activities</i>	142	134	7	5.4%
<i>International Activities</i>	15	9	6	65.2%
EBITDA	1,741	1,651	91	5.5%
<i>D&A</i>	586	554	32	5.8%
EBIT	1,155	1,097	59	5.3%
<i>Net Financial Charges</i>	78	89	-11	12.5%
Pre Tax Profit	1,077	1,008	70	6.9%
<i>Taxes</i>	313	296	17	5.9%
<i>Tax Rate (%)</i>	29.1%	29.4%	-0.3 pp	
Total Net Income	764	712	52	7.3%
<i>Minority Interest</i>	7	5	2	32.0%
Group Net Income	757	707	51	7.2%

Financial Annexes (2/5)

FY 2019 results - P&L Quarterly Analysis

€ mn	1Q19	1Q18 ¹	Δ	2Q19	2Q18 ¹	Δ	3Q19	3Q18 ¹	Δ	4Q19	4Q18 ¹	Δ
Total Revenue	537	523	14	561	540	21	568	542	26	630	592	38
<i>Regulated Activities</i>	500	488	12	505	492	13	513	501	12	537	509	28
<i>Transmission</i>	464	451	13	464	447	17	466	450	16	465	441	25
<i>Dispatching</i>	28	29	0	27	31	-4	29	43	-14	28	40	-12
<i>Other²</i>	5	5	1	10	10	0	12	3	9	27	15	12
<i>IFRIC12</i>	2	3	-1	3	3	0	6	6	0	17	14	3
<i>Non Regulated Act.³</i>	33	32	1	49	46	4	48	40	8	81	77	5
<i>International Activities⁴</i>	4	3	1	7	2	4	6	1	6	11	7	5
Total Costs	117	114	3	135	134	1	136	127	9	167	172	-5
<i>Regulated Activities</i>	95	95	0	96	99	-3	94	94	0	113	115	-3
<i>Labour Costs</i>	57	54	4	53	55	-2	50	48	2	53	48	6
<i>External Costs</i>	34	34	0	35	37	-2	35	34	1	47	50	-3
<i>Other²</i>	1	4	-3	5	4	1	4	6	-3	-4	4	-9
<i>IFRIC12</i>	2	3	-1	3	3	0	6	6	0	17	14	3
<i>Non Regulated Act.³</i>	21	17	3	35	33	2	38	31	8	47	53	-6
<i>International Activities</i>	2	2	0	4	2	2	3	2	1	7	3	4
EBITDA	420	409	11	426	406	20	432	415	17	463	421	42
<i>D&A</i>	140	133	8	148	135	13	148	133	15	150	154	-4
EBIT	280	277	3	278	271	7	285	283	2	313	267	46
<i>Net Financial Charges</i>	16	25	-9	23	18	5	22	24	-2	17	22	-5
Pre Tax Profit	264	252	12	255	253	2	262	258	4	296	245	52
<i>Taxes</i>	78	69	9	72	74	-2	76	76	1	87	78	9
<i>Tax Rate (%)</i>	29.5%	27.2%	2.3%	28.4%	29.4%	-1.0%	29.0%	29.3%	-0.2%	29.4%	31.9%	-2.5%
Total Net Income	186	184	2	182	178	4	186	183	3	209	167	43
<i>Minority Interest</i>	0	1	-1	2	1	1	0	2	-1	5	2	3
Group Net Income	186	183	3	181	178	3	186	181	5	205	165	40

Financial Annexes (3/5)

FY 2019 results - Consolidated Balance Sheet

€ mn	Dic. 31,2019	Dec. 31,2018	Δmn
<i>PP&E</i>	13,864	13,244	620
<i>Intangible Asset</i>	543	519	23
<i>Financial Inv. and Other</i>	502	320	182
Total Fixed Assets	14,908	14,084	825
Net WC	-2,208	-1,822	-385
Funds	-210	-308	97
Net Capital Invested	12,490	11,954	537
<i>Financed by:</i>			
Consolidated Net Debt	8,259	7,899	359
Total Shareholder's Equity	4,232	4,054	178
Total	12,490	11,954	537
D/E Ratio	2.0	1.9	
D/D+E Ratio	0.7	0.7	
Number of Shares (mn)	2,010	2,010	

Financial Annexes (4/5)

FY 2019 results - Consolidated Cash Flow

€ mn	FY19	FY18
<i>Total Net Income</i>	764	712
<i>D&A¹</i>	573	551
<i>Net Change in Funds</i>	-97	-48
Operating Cash Flow	1,240	1,214
<i>Δ Working Capital & Other²</i>	251	261
Cash Flow from Operating Activities	1,491	1,474
<i>Capital Expenditures</i>	-1,264	-1,091
Free Cash Flow to Equity	227	383
<i>Dividends & Equity³</i>	-586	-486
Change in Net Cash (Debt)	-359	-103

Financial Annexes (5/5)

FY 2019 results - Capex

€ mn	FY19	FY18	Δ mn	Δ%
<i>Incentivized Investment</i> ¹	50	56	-6	-11%
<i>Other Reguleted</i>	1,097	933	165	18%
Regulated Capex	1,148	989	159	16%
<i>Other</i> ²	117	103	14	14%
Total Group Capex	1,264	1,091	173	16%

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