

# CDP RETI

## *Investor Presentation*

*May 2015*

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## Executive Summary

CDP RETI S.p.A. (“CDP RETI” or the “Company”) is a company of the CDP Group with the corporate purpose of holding and managing the equity interest in SNAM S.p.A. (“SNAM”) and TERNA Rete Elettrica Nazionale S.p.A. (“TERNA”)

SNAM is the main Italian natural gas infrastructure company rated BBB by S&P and Baa1 by Moody’s

TERNA is the main Italian electricity transmission system operator rated BBB by S&P, Baa1 by Moody's and BBB+ by Fitch

In November 2014, CDP S.p.A. (“CDP”) sold a 40.9% stake in the Company to State Grid Europe Limited (“SGEL”) a subsidiary of State Grid Corporation of China (35.0%) and to a group of Italian institutional investors (5.9%)

As well as being CDP RETI’s major shareholder, CDP is also its single largest lender. In fact, in connection with the sale of CDP stake in CDP RETI, the Company raised €1.5bn financing (45% of which provided by CDP)

The financing has two main tranches: €750m of term loan and €750m of bridge loan

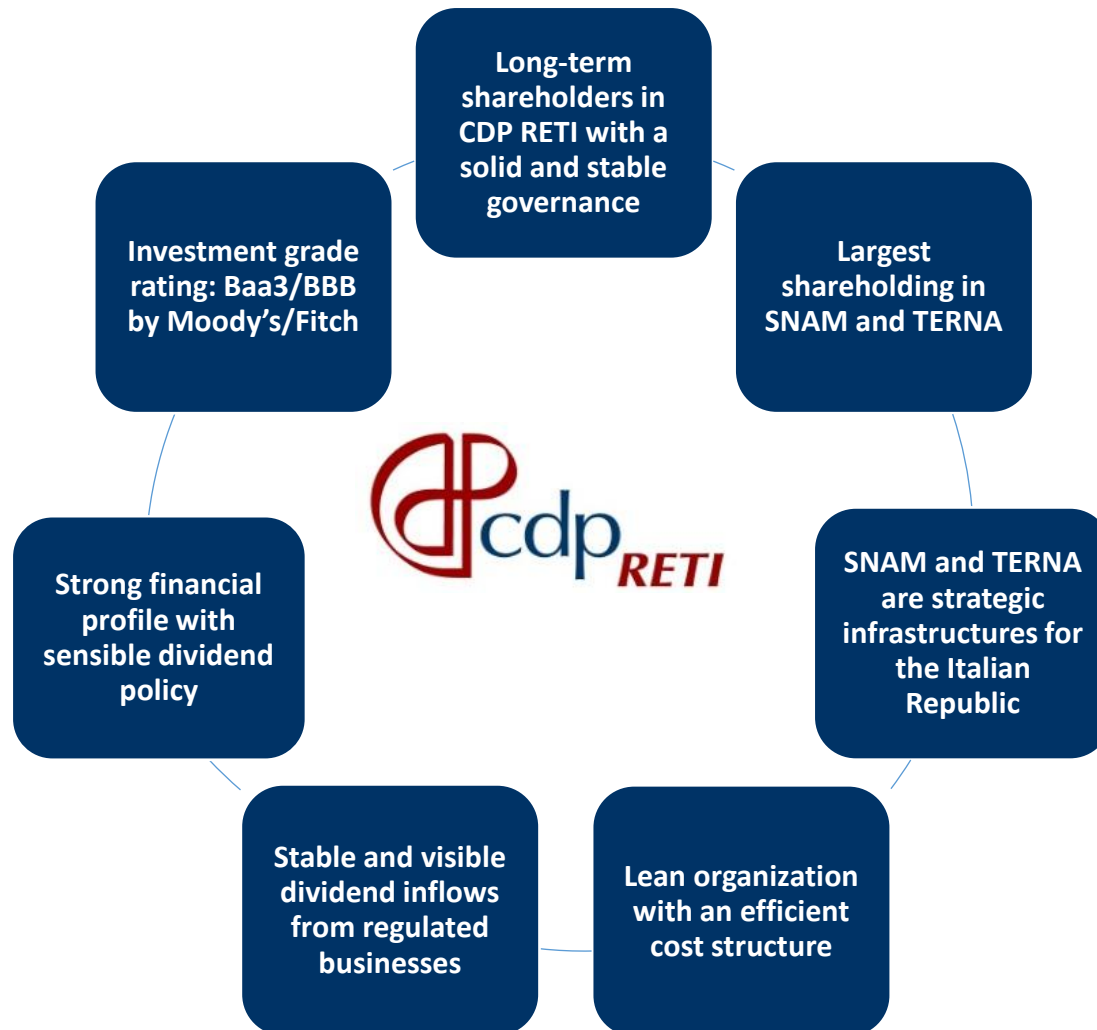
In order to refinance the bridge loan, CDP RETI intends to issue a benchmark senior unsecured bond rated Baa3/BBB by Moody’s/Fitch

## Agenda

1. Key investment highlights
  2. CDP RETI Overview
  3. Key Financials
  4. Overview of the transaction
  5. Closing Remarks
- Appendix

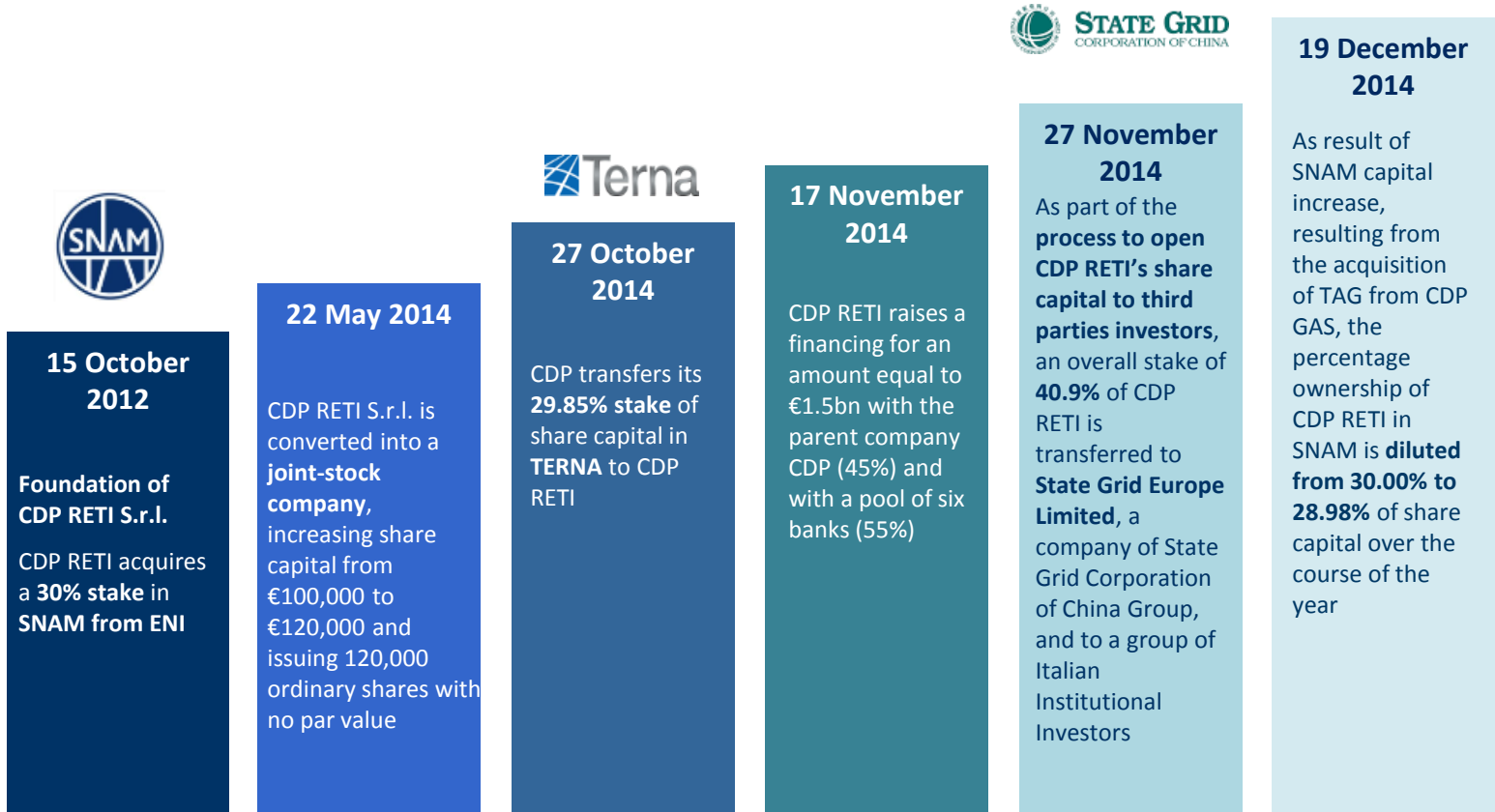
# 1. Key Investment highlights

## Key Investment Highlights



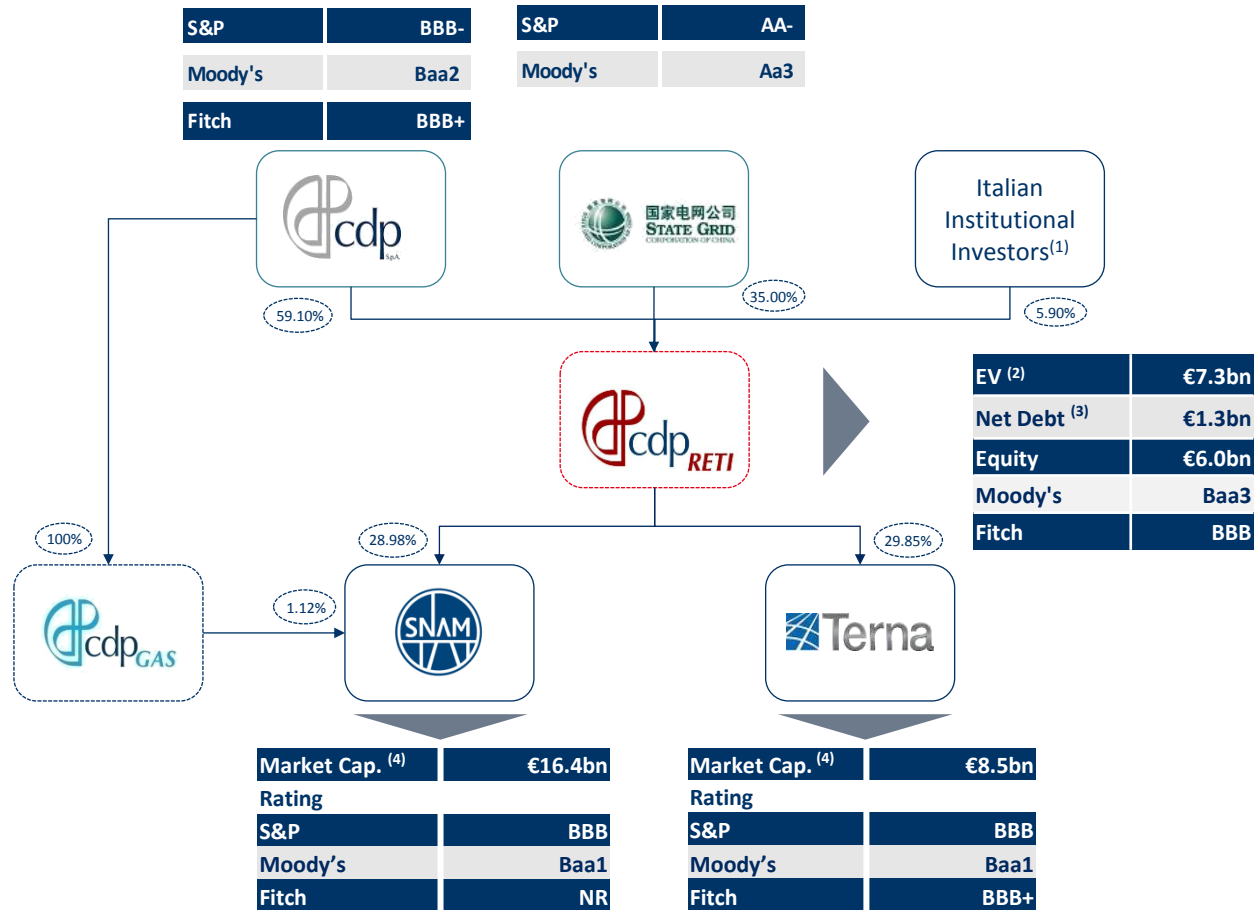
## 2. CDP RETI Overview

## CDP RETI: a vehicle created to hold strategic infrastructural assets





# Stable controlling structure with long-term shareholders



(1) Cassa Nazionale di Previdenza e Assistenza Forense (2.6%) and 33 bank foundations (3.3%)  
 (2) EV = TERNA Market Cap (29.85%) + SNAM Market Cap (28.98%) as of 11<sup>th</sup> May 2015  
 (3) As of December 31, 2014 (includes €1.5 bn gross debt and €0.2 bn cash)  
 (4) As of 11<sup>th</sup> May 2015

## Granting a stable governance

- On 27 November 2014 CDP and State Grid Europe Limited (“SGEL”) signed an agreement aimed at regulating the rights and the obligations of the shareholders together with certain aspects of corporate governance

### Board of Directors of CDP RETI

- Composed by 5 members, of which 3 designated by CDP and 2 by SGEL (only if holding in CDP RETI  $\geq$  20%)
- Chairman of the board and Managing Director selected among the directors designated by CDP

### Main matters reserved to CDP RETI Board of Directors

- Approval/amendment of the business plan and the incurrence of additional indebtedness of CDP RETI
- Decisions concerning SNAM and TERNA stakes including the choice of the list of candidates of their board of directors
- Approval of dividend and/or reserve distribution and/or any other form of distribution of CDP RETI

### List of candidates to the office as director of SNAM and TERNA

- Among the 6 board members of each of SNAM and TERNA to be picked by CDP RETI, 1 member will be nominated by SGEL (as long as holding in CDP RETI  $\geq$  20%)

### Restrictions on Transfers

- CDP and SGEL cannot transfer their participations in CDP RETI:
  - To anyone for a period of 2 years
  - To a direct competitor of SNAM and/or TERNA for a period of 4 years
- Right of first offer if a party intends to transfer its shareholding to a third party

### Dividend policy

- Distribution of the entire amount of the net profits with the limits posed by applicable laws and financial covenants

# CDP: supporting Italy's growth since 1850

**1** A joint stock company under public control:  
80.1% owned by the Italian government and a  
broad group of Italian foundation holdings (18.4%<sup>1</sup>)

**CONTROL**  
The Ministry of Economy and Finance exercises control by appointing the majority of CDP Board of Directors

**GUARANTEE**  
The Republic of Italy provides a full and unconditional guarantee on Postal Savings, CDP's main source of funding



**3** Acting as catalyst for the development of country's infrastructure through debt and equity financing

**Main Holdings**



**Main Funded Entities**



**2** With a solid balance-sheet<sup>2</sup>

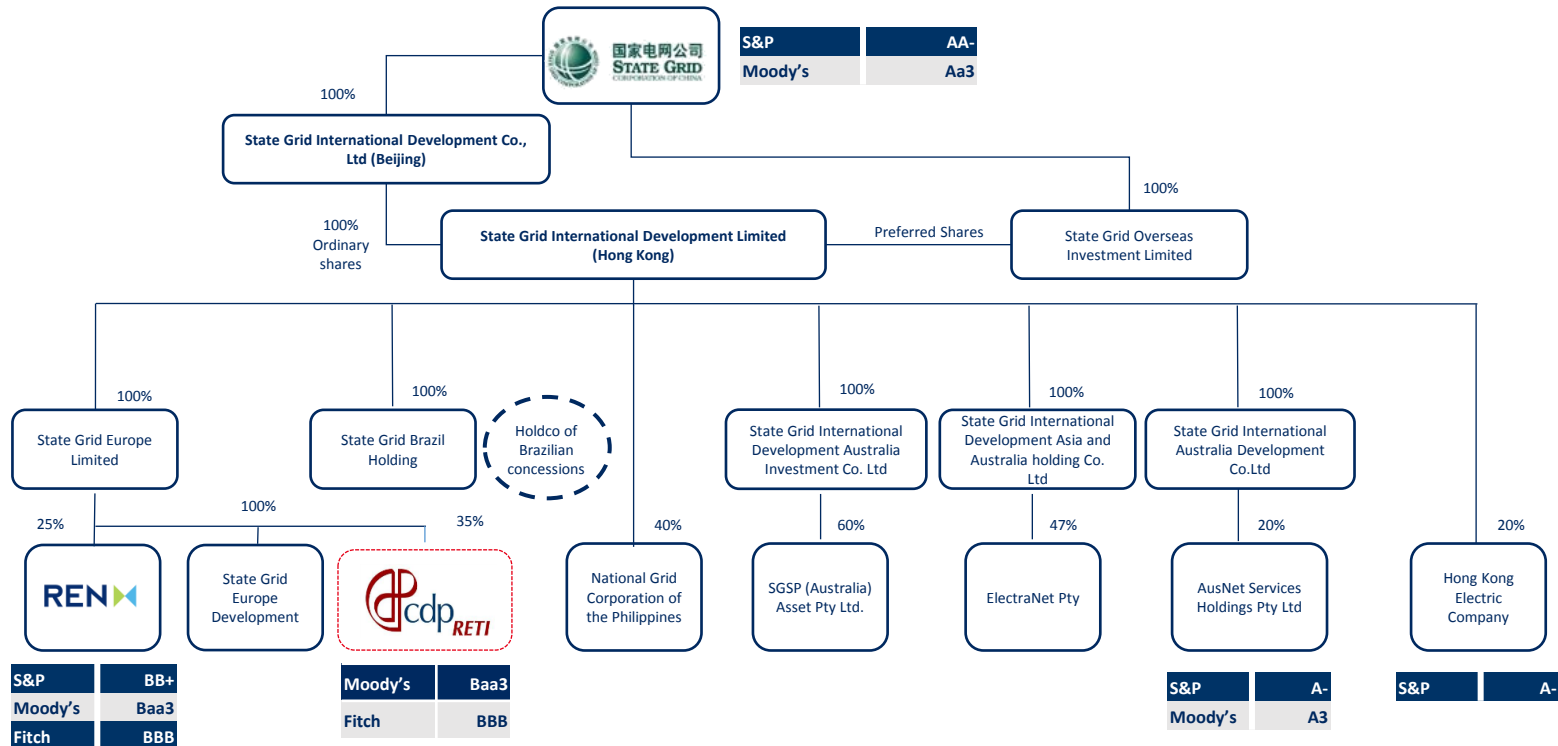
TOTAL ASSETS (€350.2BN)	TOTAL LIABILITIES (€350.2BN)
CASH (€180.9 BN)	POSTAL SAVINGS (€252.0 BN)
CENTRAL AND LOCAL GOVERNMENTS (€84.2 BN)	FINANCIAL INSTITUTIONS (€12.1 BN)
BANKS AND OTHER FMIs (€11.9 BN)	EMTN ISSUES (€8.9 BN)
CORP. AND PROJECT FIN. (€6.3 BN)	OTHER (€57.6 BN)
EQUITY STAKES (€30.3 BN)	EQUITY (€19.6 BN)
TREASURY BONDS AND OTHER (€36.5 BN)	

- ✓ 52% of total assets represented by cash
- ✓ 72% of the liabilities are postal savings

(1) The remaining 1.5% is represented by treasury shares  
(2) CDP S.p.A. unconsolidated, reclassified figures as of 31<sup>st</sup> December 2014.

# State Grid Corporation of China – world’s largest utility owned by the Chinese government

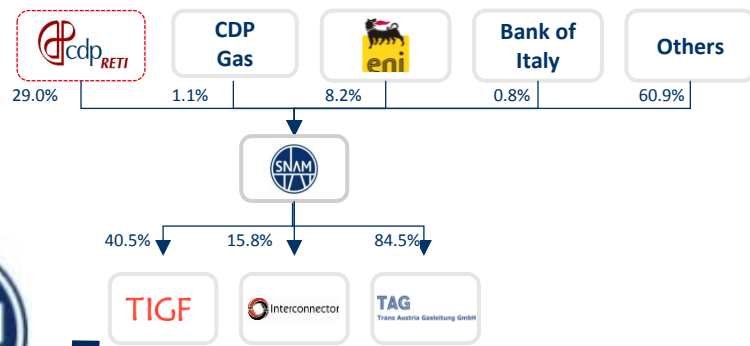
- State Grid Corporation of China (“SG”) is a **Chinese government-owned company** that was established in 2002 to construct and operate power networks in the country
- The company covers 26 provinces and municipality cities of the People’s Republic of China, representing 88% of the country’s territory, and services more than 1.1bn customers
- It manages a network of more than 1,095,000km
- With an asset base of c. US\$425bn, SG is the world’s largest utility with presence in Europe, Brazil, Australia, Philippines, Hong Kong beside mainland China



# SNAM: an integrated company operating in the gas sector

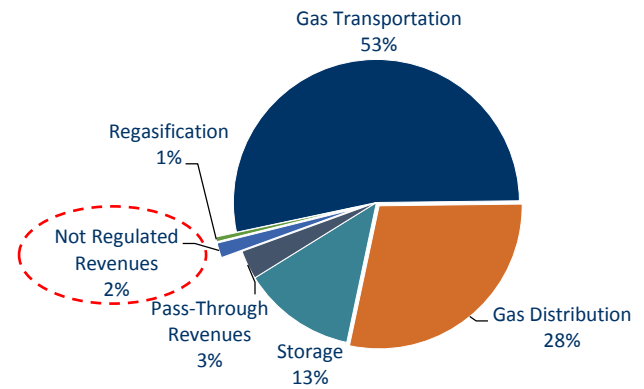
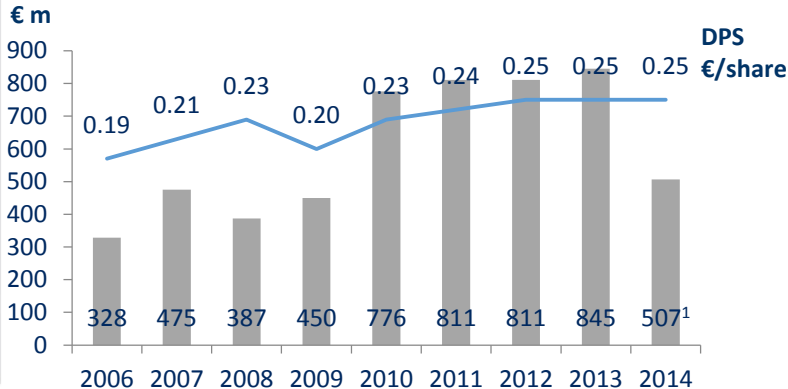
- 1**
- ✓ National operator in the gas sector in Italy
  - ✓ It's one of the main regulated operators in Europe
  - ✓ Solid investment grade profile: rated BBB/Baa1 by S&P/Moody's

**2** CDP Group, with a 30% stake is the largest shareholder in SNAM



**4** Strong track record in dividend payments with high visibility on future pay out

**3** Focused on regulated activities: ca. 98% of SNAM consolidated revenues is regulated<sup>2</sup>

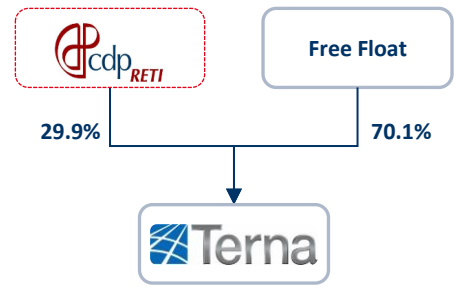


(1) Change in dividend distribution policy  
 (2) As of 31<sup>st</sup> December 2014

# TERNA: the largest electricity transmission system in Europe

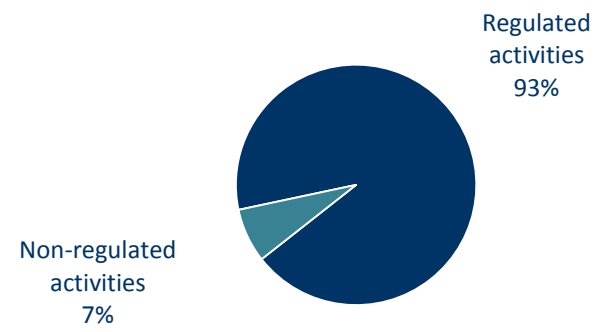
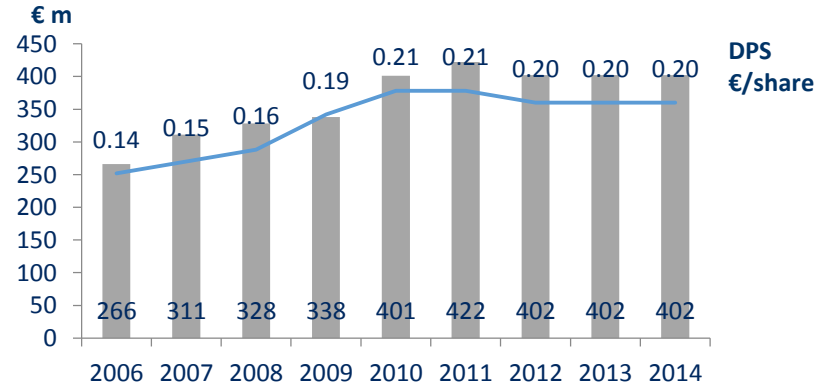
- 1**
- ✓ National Italian electricity transmission system operator
  - ✓ With 63,900km of power lines, TERNA is the first electricity transmission grid operator in Europe
  - ✓ Strong credit profile: rated BBB/Baa1/BBB+ by S&P/Moody's/Fitch

**2** CDP Group, with a 30% stake is the largest shareholder in TERNA



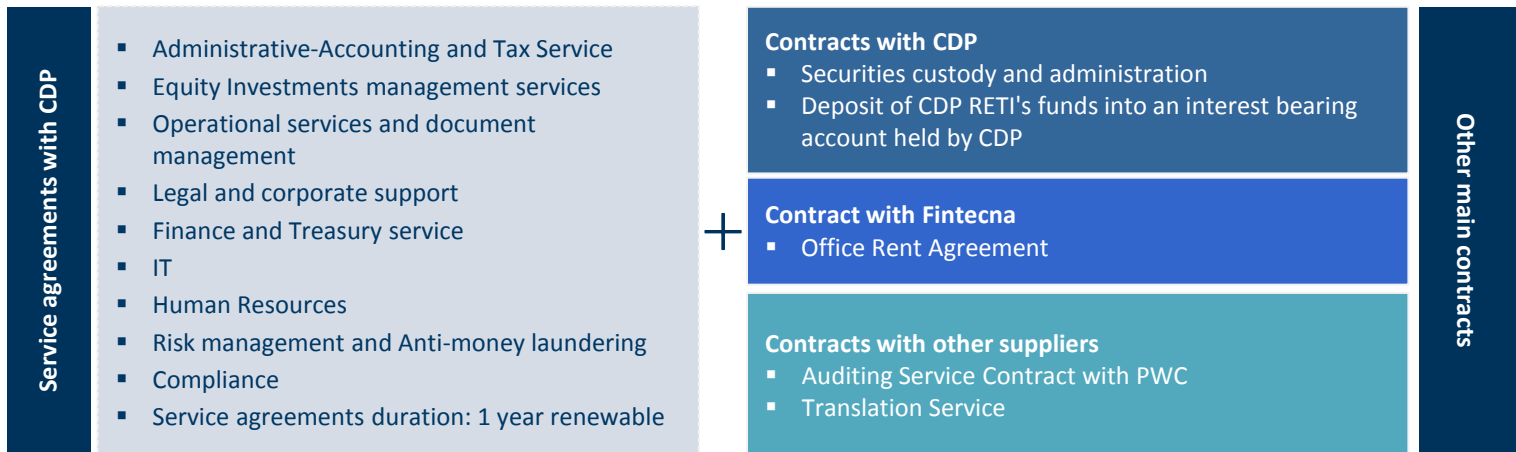
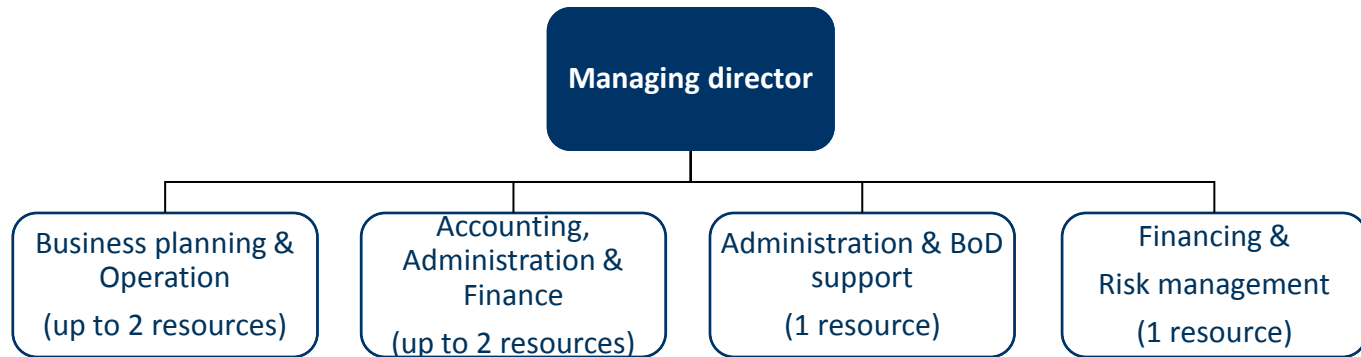
**4** Strong track record in dividend payments with high visibility on future pay out

**3** Focused on regulated activities: ca. 93% of TERNA consolidated revenues is regulated<sup>1</sup>



(1) As of 31<sup>st</sup> December 2014

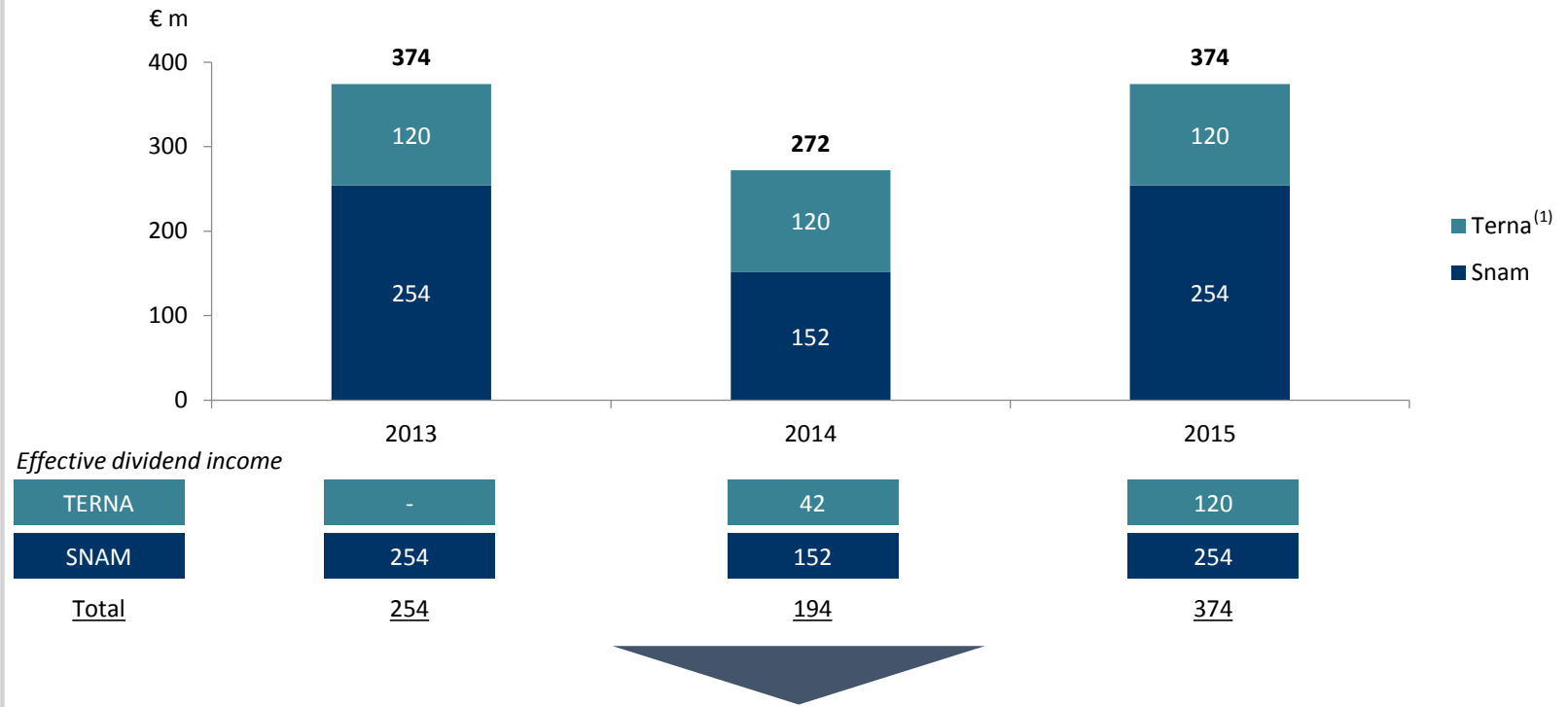
## CDP RETI: benefitting from a lean organizational structure



## 3. Key Financials



## Stable dividend inflows deriving from regulated assets

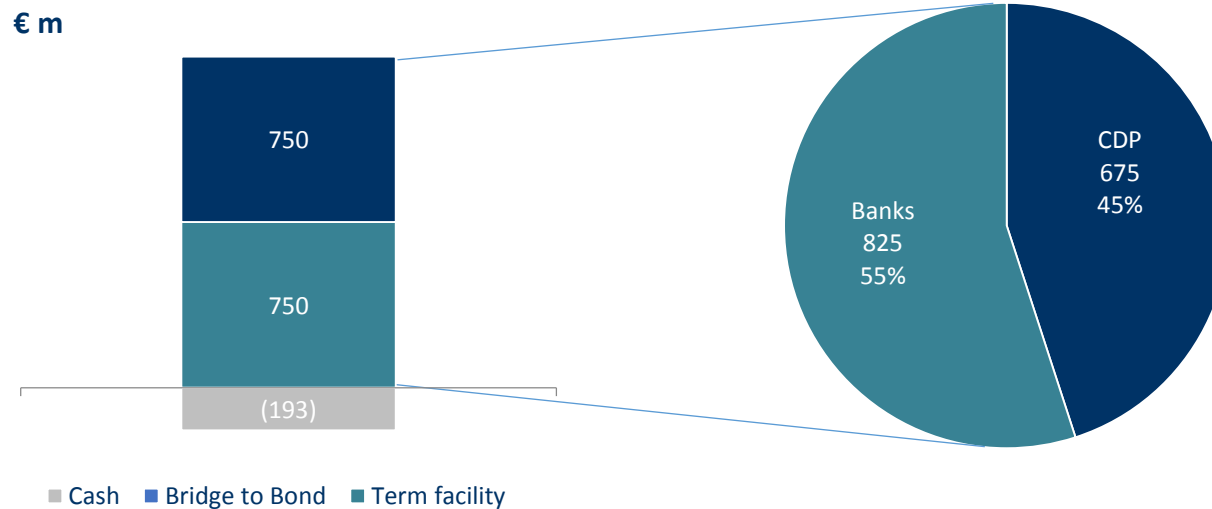


- Due to a change in SNAM's dividend policy no interim dividend advance payment was made in 2014

### With a strong visibility of future pay out:

- ✓ TERNA announced a dividend per share of €0.20 for 2015
- ✓ SNAM announced a dividend per share of €0.25 for 2015

## Strong debt structure with CDP as lender of 45% of total debt



### Bank facilities

- ✓ In September 2014 CDP RETI entered in a 5-year term facility of €500m subsequently increased to €750m and a bridge facilities of €1,000m currently of €750m
- ✓ The bank facilities envisage for CDP RETI the respect of some financial covenants with 2 trigger levels, firstly suspending dividend payments and subsequently resulting in a Event of Default
- ✓ As of 31-Dec-14 there was plenty of headroom for all covenants levels

## The envisaged transaction will strengthen the debt profile

### Pro-forma debt maturity profile after the bond issue



### Financing policy

- ✓ The Company shall aim to return dividends received, from SNAM and TERNA, to its shareholders **subject to available cash for distribution while keeping a significant headroom versus the financial covenants**
- ✓ CDP RETI aims to **prudently manage its debt refinancing** by ensuring a **smooth maturity profile** and by completing the refinancing at least a year before the maturity
- ✓ **At the end of the year**, the Company intends to keep **enough cash** to cover future interest expenses for **at least 12-18 months**

## Main Financials

### Profit and loss

31 December - Euro million	2012A	2013A	2014A
<b>Dividends</b>	<b>101</b>	<b>254</b>	<b>194</b>
Financial income	6	5	2
Borrowing expenses	(6)	(3)	(3)
Administrative expenses	(0)	(0)	(13) <sup>(1)</sup>
<b>Profit before taxes</b>	<b>102</b>	<b>255</b>	<b>180</b>
Taxes	(0)	29 <sup>(2)</sup>	9 <sup>(2)</sup>
<b>Net income</b>	<b>102</b>	<b>284</b>	<b>189</b>

### Net financial position



31 December - Euro million	2012A	2013A	2014A
<b>Net financial position</b>	<b>(982)</b>	<b>(253)</b>	<b>1,310</b>
<i>Gross debt</i>	0 <sup>(3)</sup>	0	1,503
<i>Cash and cash equivalents</i>	(982)	(253)	(193)

(1) Administrative expenses in 2014 are mainly due to non recurring expenses related to fees and commissions on the financing

(2) Taxes in 2013 and 2014 refer entirely to gains arising from CDP RETI's participation in the tax consolidation scheme of CDP

(3) Gross debt in 2012 does not include the liability (€883m) due to the amount payable to ENI in connection with the third and final tranche of the price for the acquisition of the equity investment in SNAM

## CDP RETI: investment grade credit profile

Rating agency	Key relevant comments	Rating
	<ul style="list-style-type: none"> <li>• Issuer rating reflects the <b>stable and predictable cashflows and moderate leverage of SNAM and TERNA</b>, mitigated by the fact that CDP RETI will only benefit from these cashflows in proportion to its ownership and in the form of dividends</li> <li>• Moody's expectation that <b>the company will maintain its current equity participation portfolio</b>. The existing shareholders' agreement between Cassa Depositi e Prestiti (Baa2 stable) and State Grid Corporation of China (Aa3 stable) further reduces the likelihood of any variation in CDP RETI's scope of activity</li> <li>• <b>SNAM and TERNA will be able to maintain their current level of dividend distribution in absolute terms</b>, partially as a result of a progressive reduction in their cost of debt and lower corporate taxes</li> <li>• Moody's does not anticipate any material increase from the current debt level of the holding company (€1.5bn gross debt)</li> </ul>	<p><b>Baa3 stable</b></p>
	<ul style="list-style-type: none"> <li>• The rating mainly reflects the holding profile of the company, whose dividend stream is inherently subordinated to the operating companies <b>SNAM and TERNA (BBB+/Stable)</b>, the two transmission system operators (TSOs) of the Italian gas and electricity system respectively</li> <li>• The rating also takes into account a one-notch uplift reflecting our view of the operating and <b>strategic links between CDP RETI and Cassa Depositi e Prestiti (CDP, BBB+/Stable) as strong</b></li> <li>• Fitch foresees <b>CDP RETI will keep a solid dividend coverage</b> over the rating horizon of 2015-2018. The company retains a strong control over the dividend policy of the underlying companies</li> <li>• <b>Solid underlying assets</b>. SNAM and TERNA activities are almost entirely regulated and benefit from a mature and transparent regulatory and independent authority framework</li> </ul>	<p><b>BBB stable</b></p>

## 4. Overview of the Upcoming Transaction

## Overview of the Upcoming Transaction

	Public Bond Issuance
Issuer	<ul style="list-style-type: none"> <li>CDP RETI</li> </ul>
Rating	<ul style="list-style-type: none"> <li>Baa3 by Moody's and BBB by Fitch</li> </ul>
Security	<ul style="list-style-type: none"> <li>Unsecured and Pari Passu with existing indebtedness</li> </ul>
Tenor / Coupon	<ul style="list-style-type: none"> <li>Medium/long term tenor, Fixed Rate</li> </ul>
Main Covenants	<ul style="list-style-type: none"> <li>IG style</li> <li>Negative Pledge</li> <li>Change of Control (put @100%)</li> </ul>
Use of Proceeds	<ul style="list-style-type: none"> <li>Repay bridge to bond</li> </ul>
Listing/Governing law	<ul style="list-style-type: none"> <li>Irish Stock Exchange/Italian Law</li> </ul>
Minimum Denomination	<ul style="list-style-type: none"> <li>€100,000 + €1,000</li> </ul>
Bookrunners	<ul style="list-style-type: none"> <li>Banca IMI, BNP Paribas, Mediobanca, HSBC, Société Générale, UniCredit Bank</li> </ul>

## 5. Final Remarks



## Final Remarks

- ✓  Part of CDP Group (80% owned by Italian government) with common management
- ✓  Stable dividend inflows deriving from regulated assets
- ✓  Minimal cost base
- ✓  Flexibility to reduce dividend outflows
- ✓  Investment Grade rating