

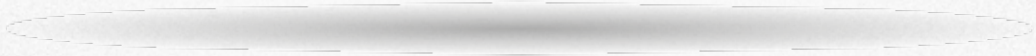
REPORT ON CORPORATE GOVERNANCE  
AND OWNERSHIP STRUCTURES  
TRADITIONAL ADMINISTRATION AND MANAGEMENT MODEL  
TERNA S.P.A. AND TERNA GROUP

2015

Approved by the Board of Directors on March 21, 2016



# Transmitting energy





REPORT ON CORPORATE GOVERNANCE  
AND OWNERSHIP STRUCTURES  
TRADITIONAL ADMINISTRATION AND MANAGEMENT MODEL  
TERNA S.P.A. AND THE TERNA GROUP



*(This is a translation of the original Italian text.  
For any difference in the meaning between the original Italian text and its translation,  
the Italian text prevails)*

Issuer: "Terna - Rete Elettrica Nazionale Società per Azioni" (Terna S.p.A.)  
Website: [www.terna.it](http://www.terna.it)  
Reporting period: 2015  
Date of approval: 21 March 2016



# Contents

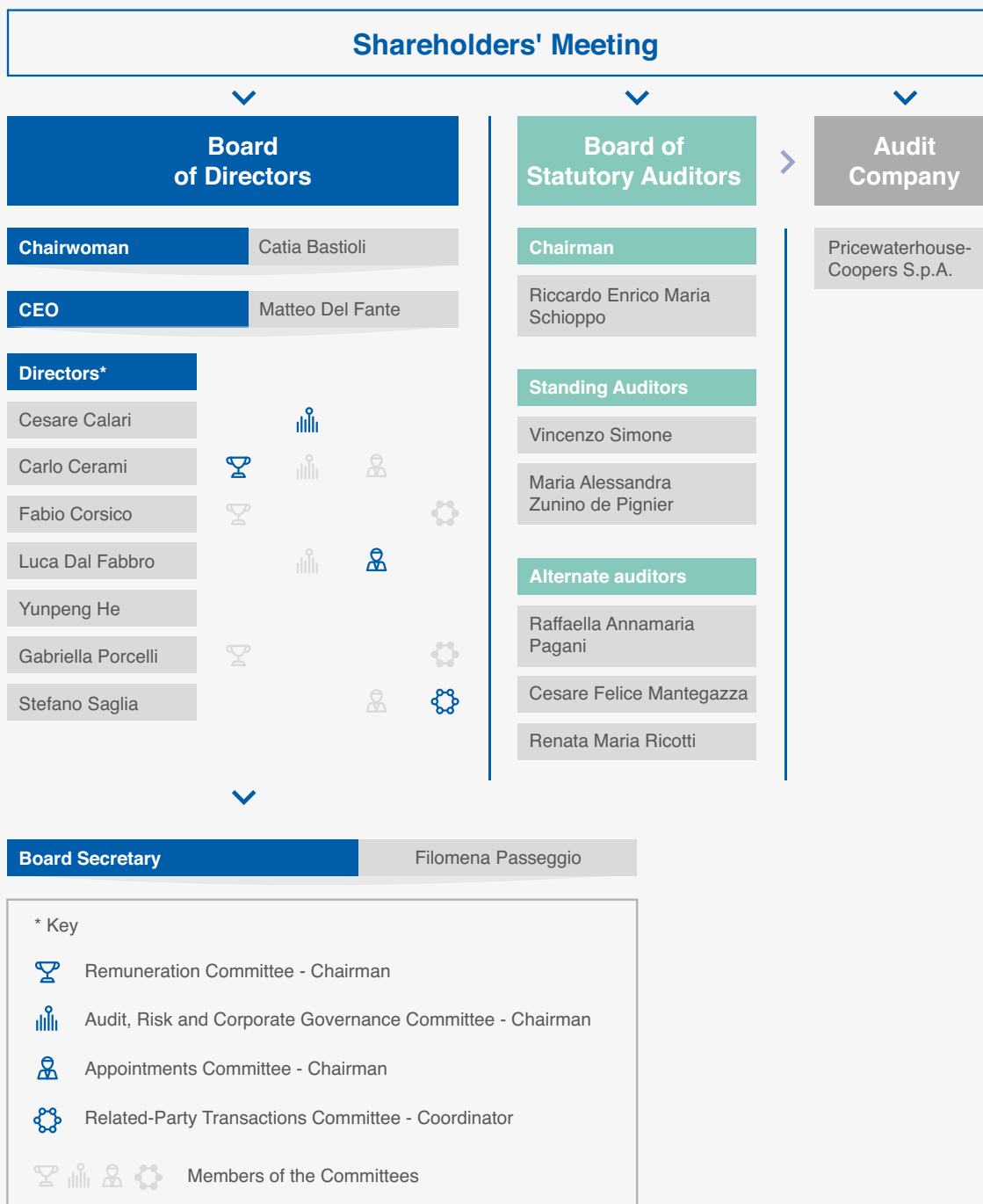
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**12 Report on corporate governance and ownership structures**



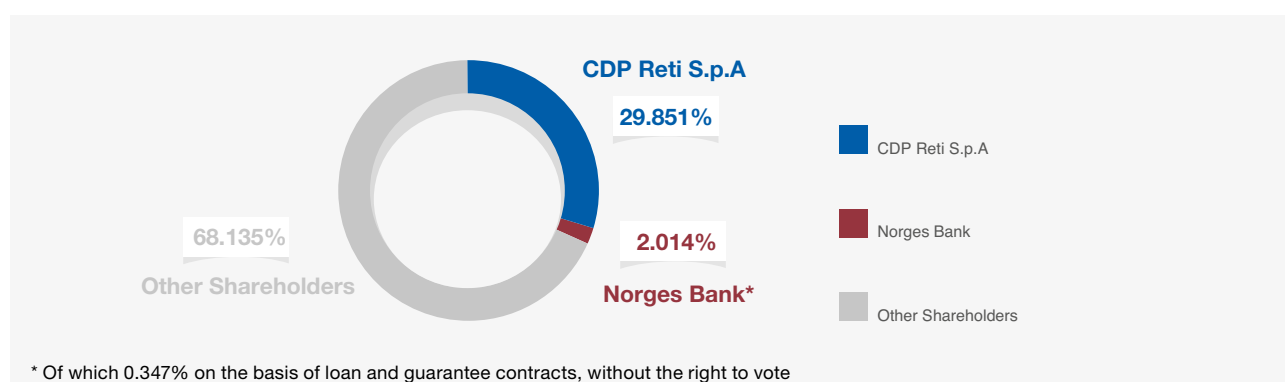


# Terna's Shareholders

Terna's share capital at December 31, 2015 amounted to € 442,198,240.00 fully paid up, represented by 2,009,992,000 ordinary shares, with a par value of € 0.22 each, and was unchanged at the date of this Report. With reference to the above share capital and on the basis of the shareholder register, of the communications received under the terms of the Issuer Regulation and of the information available, the stakes in Terna's shareholdings of an amount over the significance thresholds specified by CONSOB at the date of this Report are shown in the chart below.

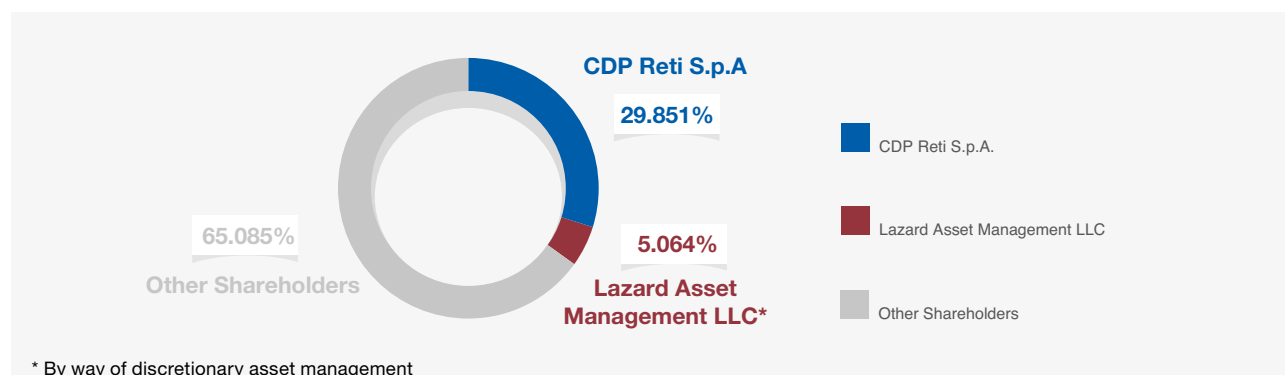
The main shareholder is CDP Reti S.p.A. (CDP RETI), a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. (CDP). CDP on the one hand, and State Grid Europe Limited (SGEL) and State Grid International Development Limited (SGID), on the other, on November 27, 2014, signed a shareholders' agreement in relation to CDP RETI, SNAM S.p.A. and Terna.

## Shareholders at the date of the report



## Shareholders at December 31, 2015

On the basis of the same evidence indicated above, the shareholdings in Terna's share capital at December 31, 2015 are shown in the chart below.

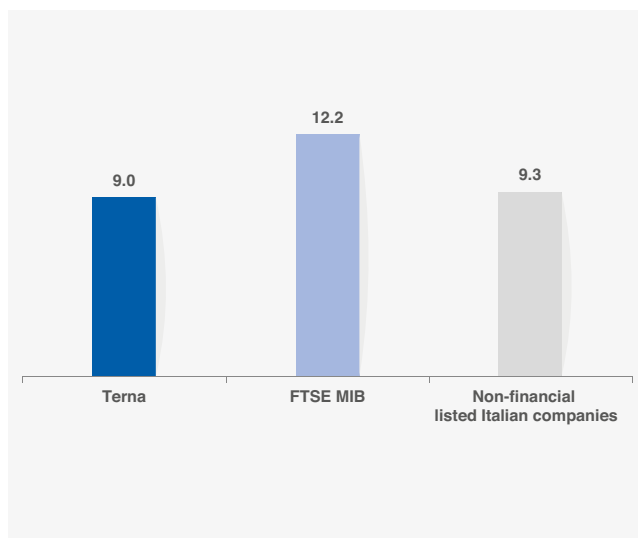


It should be remembered that management companies can avail themselves of the exemption provided for in Art. 119-bis, paragraphs 7 and 8, of the Issuer Regulation as amended by CONSOB Resolution No. 18214, which came into force on June 6, 2012, implementing Directive 2013/50/EU of the European Parliament and the Council. Therefore, starting from June 6, 2012, equity investments of more than 2% but less than the significance threshold of 5% held by such subjects need not be recognised. It should also be noted that the significance thresholds were recently amended by Italian Legislative Decree No. 25 of February 15, 2016, published in the Italian Official Journal on March 3, 2016 and in force since March 18, 2016.

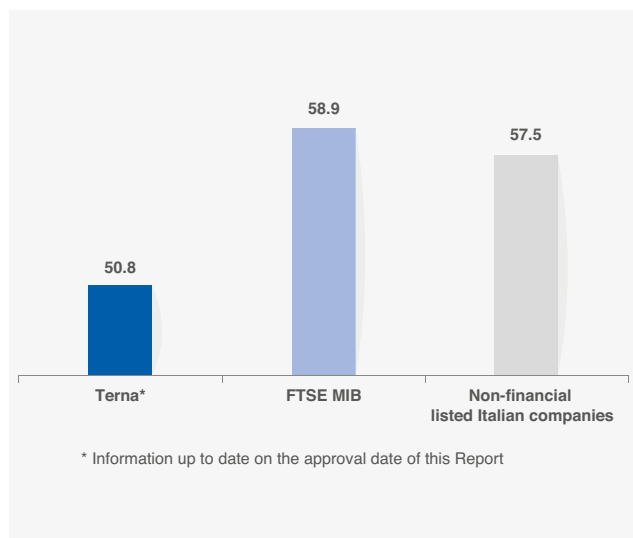
# Terna's Board of Directors

## Key indicators<sup>1</sup>

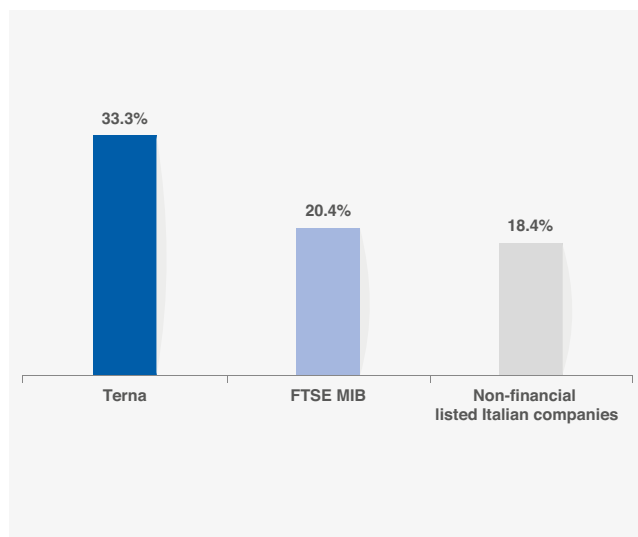
### SIZE OF THE BOARD



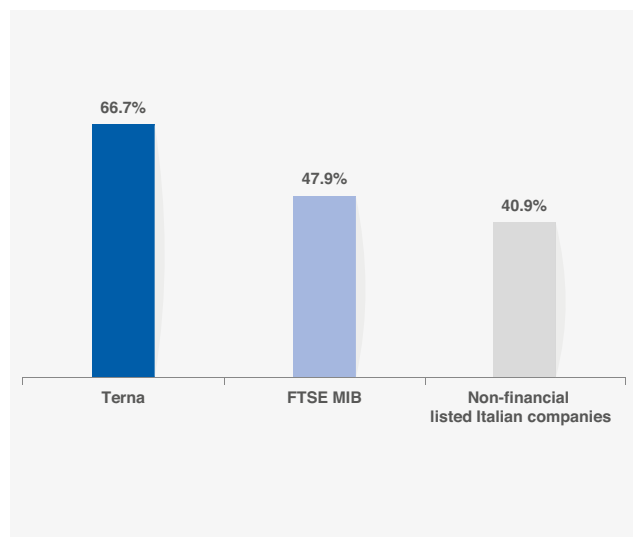
### AVERAGE AGE OF THE DIRECTORS



### REPRESENTATION OF MINORITIES ON THE BOARD OF DIRECTORS



### PRESENCE OF INDEPENDENT DIRECTORS<sup>2</sup>

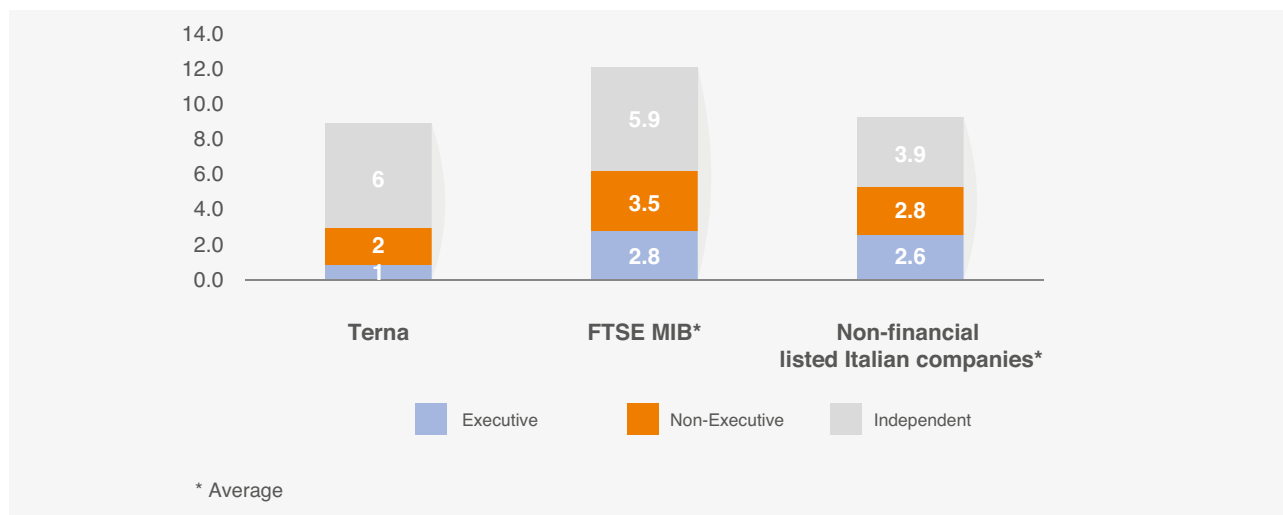


(1) In the charts below, the data on Companies listed in the FTSE MIB index and those on "Non-financial listed Italian companies" and "Listed-company directors" are taken from the Assonime-Emittenti Titoli S.p.A. report, Notes and Studies 10/2015, "La Corporate Governance in Italia: autodisciplina, remunerazioni e comply-or-explain" (Corporate Governance in Italy: self-regulation, remuneration and comply-or-explain).

(2) Independence from Corporate Governance Code.



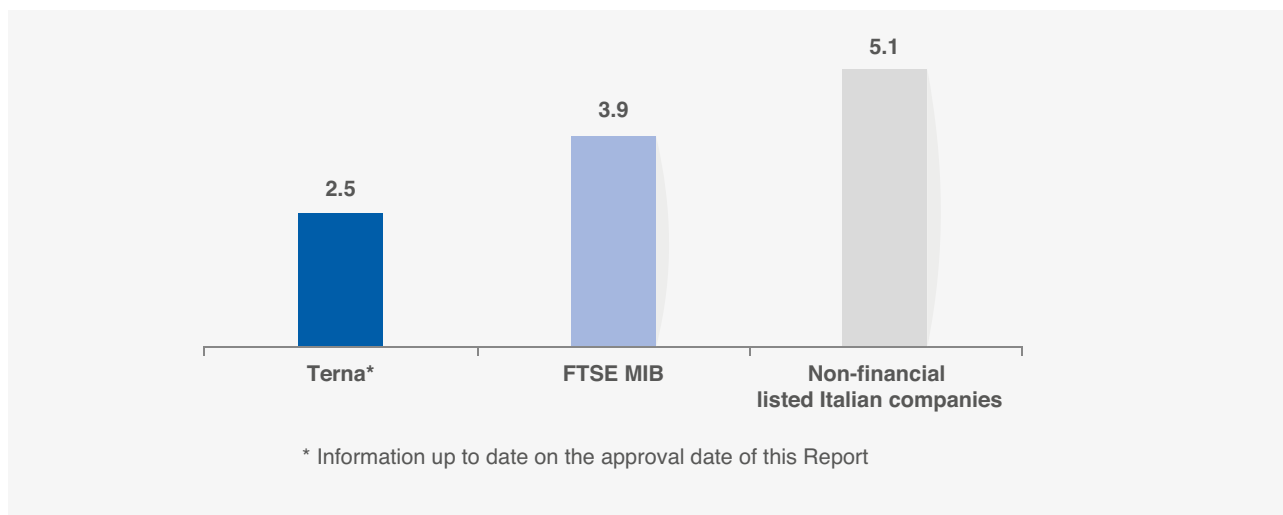
## DETAILS OF THE COMPOSITION OF THE BOARD OF DIRECTORS (NUMBER AND POSITION)



## PROFESSIONAL SKILLS OF TERNA'S DIRECTORS

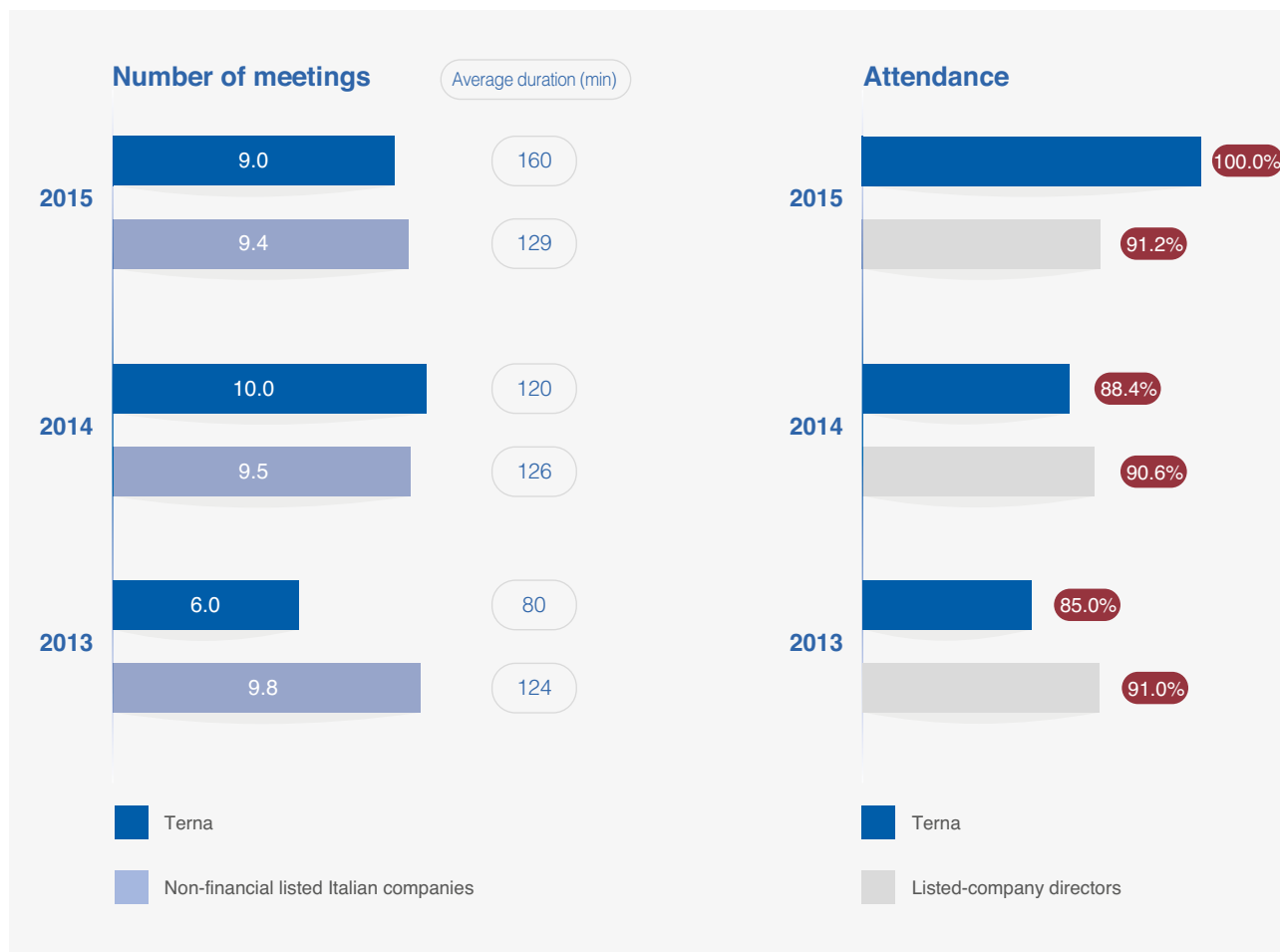
	% of the Board of Directors that have the professional skill
Sector experience (energy/grid structures/public services)	56%
Finance	22%
Legal	33%
Strategy	22%
Engineering	11%
Sustainability	11%
Experience of administration or auditing or leadership tasks in joint-stock companies or management functions in banking, financial and insurance areas or areas closely related to the Company's business segment	100%

## LENGTH OF SERVICE (TENURE IN YEARS) OF DIRECTORS

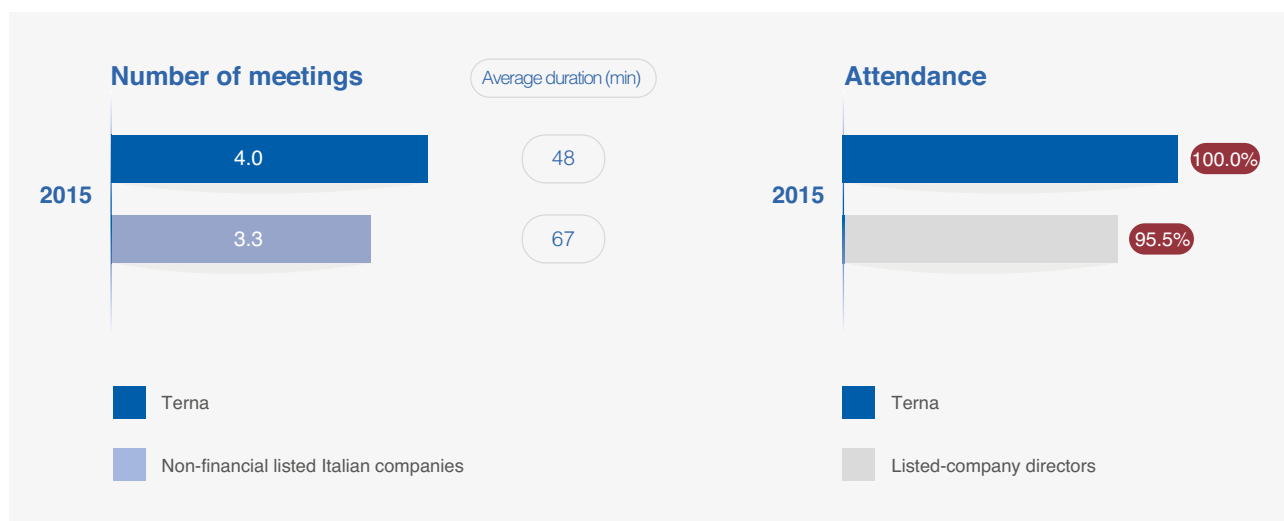


# Operation of the Board of Directors

## BOARD OF DIRECTORS - NUMBER OF MEETINGS AND ATTENDANCE

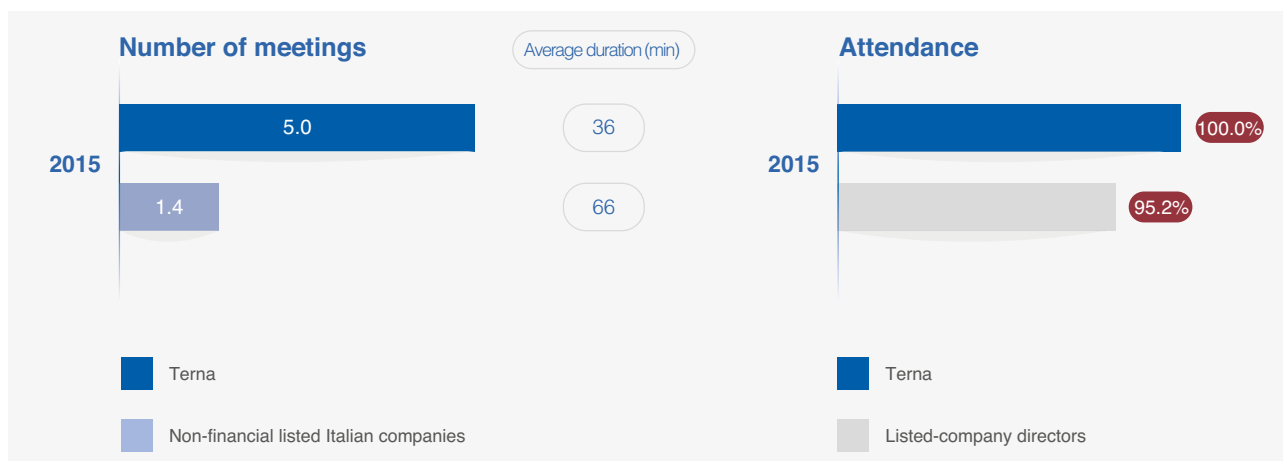


## REMUNERATION COMMITTEE - NUMBER OF MEETINGS AND ATTENDANCE





## APPOINTMENTS COMMITTEE - NUMBER OF MEETINGS AND ATTENDANCE



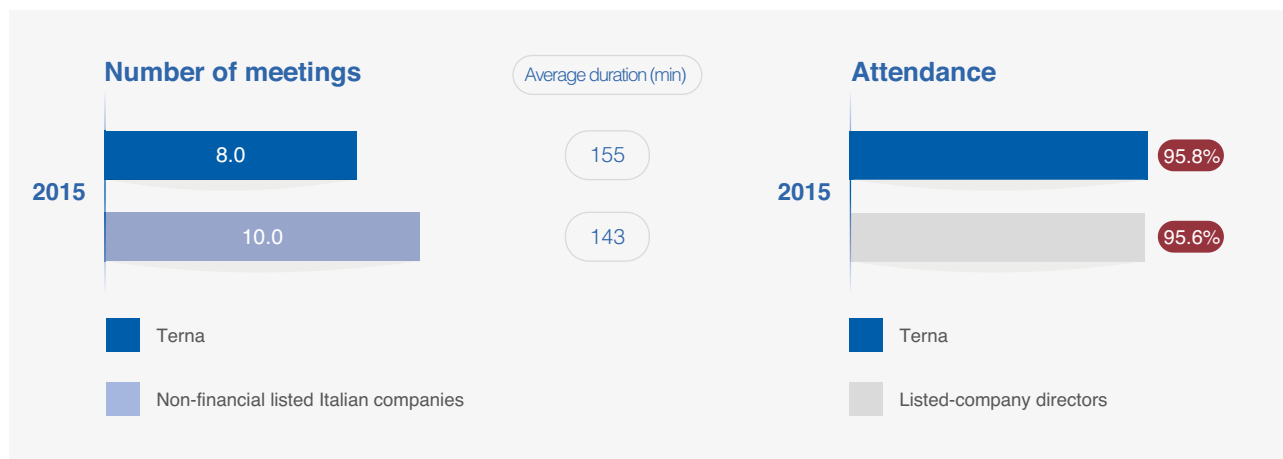
## OTHER CHARACTERISTICS OF THE OPERATION OF THE BOARD OF DIRECTORS

Yes / No		
Board evaluation	Yes	Annual frequency
Recourse to independent consultants for the Board evaluation activity	Yes	Evaluator: Spencer Stuart Italia S.r.l.
Induction Programme	Yes	
Orientations on the maximum number of positions as Director or Statutory Auditor	Yes	

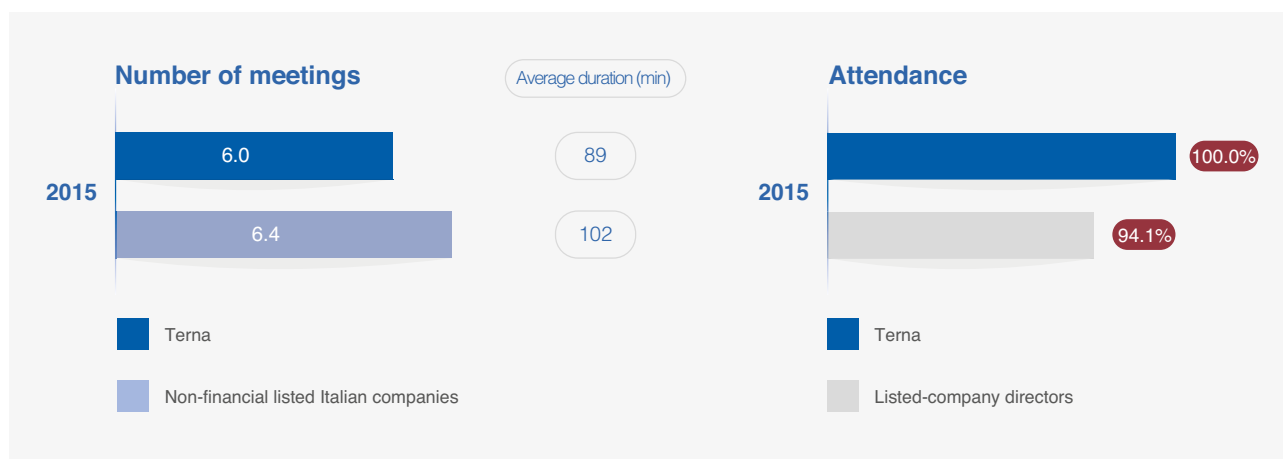
# Internal Audit and Risk Management System

Body/Division		Notes
Director in Charge of the Internal Audit and Risk Management System	Chief Executive Officer	
Chief Risk Officer (CRO)	Giuseppe Lasco	Manager of the Company's Corporate Affairs Division
Audit Unit		Internal to the Company
Manager of the Audit Unit	Fulvio De Luca	
Manager responsible for Corporate Financial Reporting (Financial Reporting Manager)	Pierpaolo Cristofori	Manager of the Administration, Finance, Audit and Investor Relations Department
Oversight Committee	Bruno Assumma (Chairman) Francesco De Leonardis Massimo Dinoia Francesca Covone	External member External member External member Internal member
Audit Company	PriceWaterhouseCoopers S.p.A.	Expiry Shareholders' Meeting for Financial Statements at December 31 2019

### BOARD OF STATUTORY AUDITORS - NUMBER OF MEETINGS AND ATTENDANCE



### AUDIT, RISK AND CORPORATE GOVERNANCE COMMITTEE - NUMBER OF MEETINGS AND ATTENDANCE

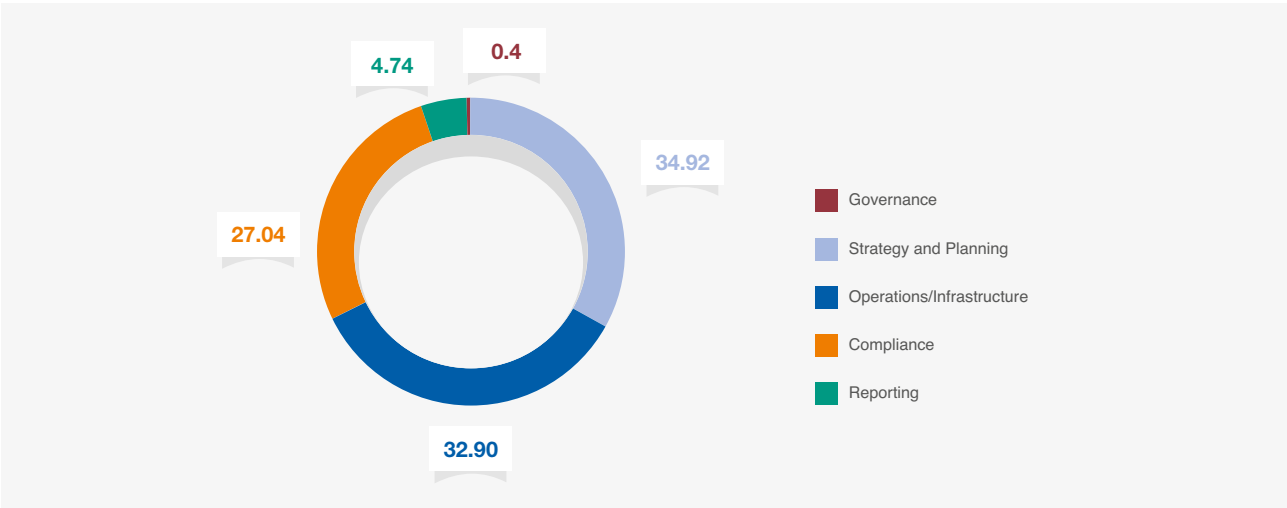


### MAIN ELEMENTS OF THE INTERNAL AUDIT AND RISK MANAGEMENT SYSTEM

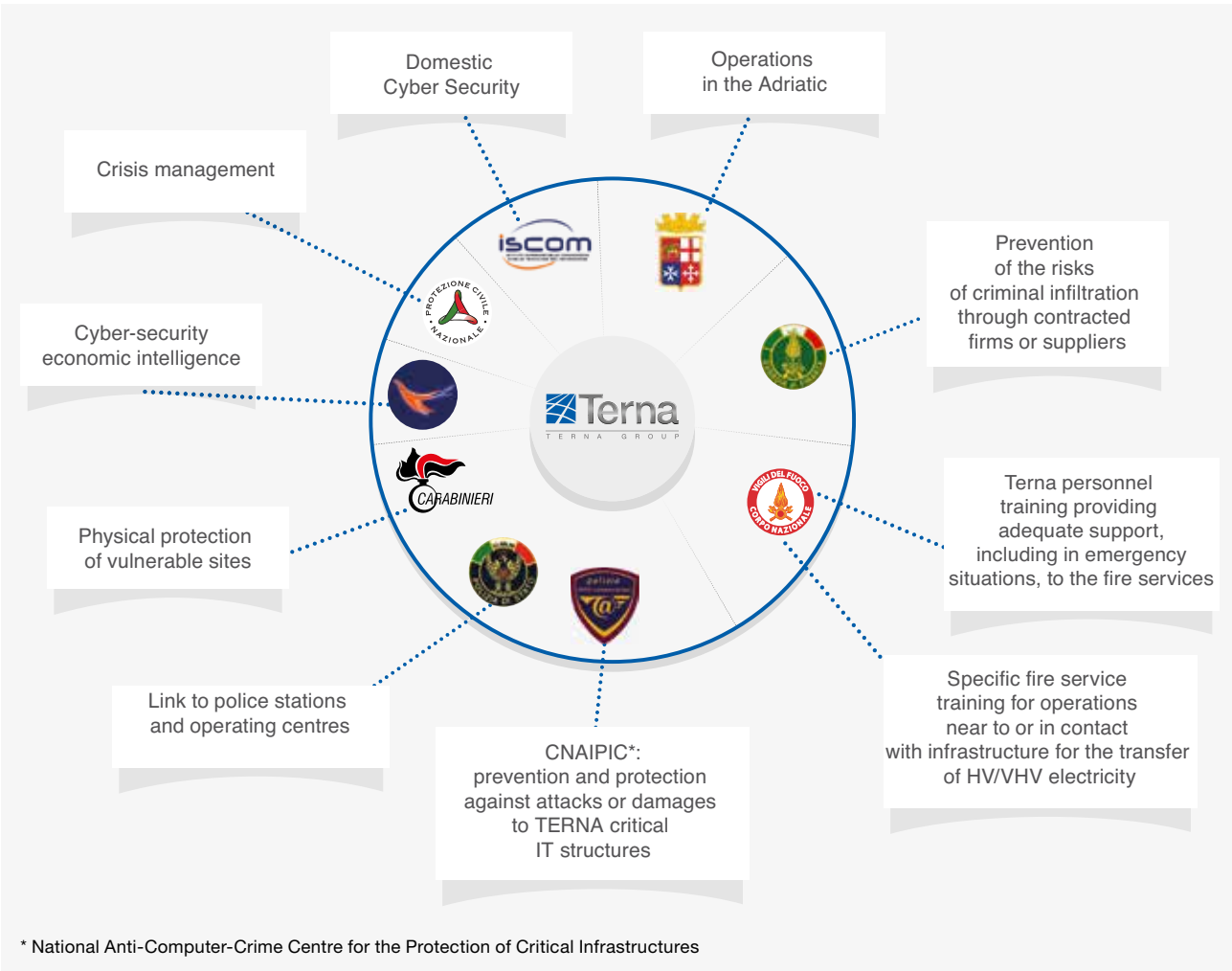
Elements	Yes / No
Existence of a document containing the guidelines of the Internal Audit and Risk Management System	Yes
Existence of a Mandate of the Audit Unit approved by the Board of Directors	Yes
Presence of specific organisational structures responsible for the risk management activity	Yes
Annual assessment on the compatibility of the business risks with management of the company in keeping with the strategic objectives identified	Yes
Preparation of specific compliance programmes (231 Model, Open & Transparent Construction Sites, Subcontract Portal, Whistleblowing)	Yes



MAIN RISK CLASSES AND THEIR DISTRIBUTION



MEMORANDA OF UNDERSTANDING WITH THE INSTITUTIONAL PARTNERS FOR RISK MANAGEMENT



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## Foreword

Terna S.p.A. (“Terna”), following the launch of the trading in its shares on the MTA stock market organized and managed by Borsa Italiana S.p.A. in June 2004, adopted a system of Corporate Governance in line with the principles contained in the Corporate Governance Code drawn up by the Corporate Governance Committee of listed companies promoted by Borsa Italiana, and progressively approved system adjustments required by later editions of the Corporate Governance Code – the last of which with regard to the reporting period was July 2014 – implementing them in order to ensure compliance with the commitments made up until the date of approval of the draft financial statements for FY 2015 according to what is set out below. Additional actions, aimed at constantly bringing Terna’s Governance system into line with the provisions of the new edition of the Corporate Governance Code dated July 2015 (which Terna declares it adheres to), are still in progress in accordance with the updating schedule outlined in the transitory provisions.

Therefore, the Corporate Governance system in place at Terna is in line with the principles of the July 2014 edition of the Corporate Governance Code (hereinafter the “Corporate Governance Code”), as well as the CONSOB recommendations on the subject and, more generally, with international best practices with which the Company compares itself.

This corporate governance system is essentially focused on the objective of creating value for shareholders, aware of the corporate relevance of the activities in which the Group is involved and the consequent need to suitably consider, in the related implementation, all interests involved and that – as noted by CONSOB – “good corporate governance can create a virtuous cycle in terms of efficiency and business integrity, such as to also have a positive impact on the other stakeholders”.

The corporate governance system also pays particular attention to the Italian and European rules on the subject of functional and/or ownership unbundling that apply to all businesses operating in the electricity and natural gas industries (“Unbundling Legislation”), taking into account the specific nature of the business carried on by Terna and its subsidiaries subject to regulation by the Regulatory Authority for Electricity, Gas and Water.

Since 2004, Terna has used this annual report to provide information on the evolution of its corporate governance system with reference to the recommendations contained in the various subsequent editions of the Corporate Governance Code and the conduct effectively adopted.

This Report on Corporate Governance and Ownership Structures – prepared in consideration of the instructions given by Borsa Italiana – provides a specific section containing the information required by Article 123-*bis* of Italian Legislative Decree no. 58/98 (the Consolidated Law on Finance) and by Article 144-*decies* of the “Regulation enacting Italian Legislative Decree no. 58 of February 24, 1998, concerning issuer regulations” adopted by CONSOB (Issuers Regulation) and includes a specific attachment that explains the main characteristics of the internal audit and risk management systems existing in relation to the financial disclosure process.

The resolutions on defining the company’s Corporate Governance rules are reserved for Terna’s Board of Directors. They are to be approved on the proposal of the Chief Executive Officer and are summarised in the present Report. Any non-compliance with certain specific rules of the Corporate Governance Code – according to the provisions contained in the guidelines of the Corporate Governance Code itself – is explained and justified in the section of the Report regarding the related governance practice and otherwise applied by the Company, describing also, if the decision to deviate was taken differently, the reasons for this, and whether the deviation is limited in time. If need be, the conduct adopted as an alternative to achieve the objective implicit in the recommendation or to contribute to good corporate governance is also described. All the information included in the report, unless otherwise specified, was updated on the basis of information available as of the date of the Report’s approval.

With reference to the changes introduced by the July 2015 edition of the Corporate Governance Code to be applied subsequent to this reporting period, as indicated in the updating schedule outlined in the transitory provisions, this Report specifically notes where the new requirements are already being followed in Terna’s best practices.



# Section I: Issuer's Profile - Corporate Structure

## Issuer's profile

### Mission

"Terna is a leading grid operator for energy transmission. The Company manages electricity transmission in Italy and guarantees its safety, quality and affordability over time. It ensures equal access conditions for all grid users. It develops market activities and new business opportunities with the experience and technical skills gained in the management of complex systems. It creates value for the shareholders with a strong commitment to professional best practices and with a responsible approach to the community, respecting the environment in which it operates".

### Social Responsibility

Terna manages all its activities strongly focusing on their possible economic, social and environmental impacts, and in adopting a sustainable approach to business, has identified a method for creating, maintaining and consolidating a relationship of mutual trust with its stakeholders, that supports the creation of value for the Company, for society and for the environment.

Terna's main orientation in terms of Social Responsibility can be found in the Code of Ethics and in the Company's mission, and entails defining concrete and measurable responsibilities and objectives in economic, environmental and social areas, in addition to Terna's specific responsibility for the electricity service.

From the point of view of sustainability, respect for the environment is particularly important. The physical presence of pylons, electricity lines and substations which interact with the landscape and biodiversity represent the most significant impact of Terna's activities. That is why Terna has chosen the approach of negotiation and coordination with Local Authorities, also involving potentially critical stakeholders such as the main environmentalist associations to take environmental needs into consideration from the early stages of planning new lines. In recent years – especially in 2015 – the citizens in the relevant local communities have become increasingly involved in this. Terna has also developed a management system to control and limit the environmental impact of its activities. Thus, consideration of environmental issues matches the Company's interest in implementing grid development investments and in the more general interest of community for a reliable, inexpensive and environmentally safe electricity system.

The results of this management approach, oriented towards continuous improvement through the definition of economic, social and environmental responsibility objectives are presented in the Sustainability Report, identified by the Code of Ethics as an instrument aimed at providing stakeholders with an account of the degree of implementation of its undertakings, and published yearly since 2006.

The Sustainability Report has also been submitted to an external auditing firm for analysis and to the Board of Directors for approval. The main contents of the Sustainability Report are also presented in the Report on Operations, creating an Integrated Report based on the principles of the International Integrated Reporting Council (IIRC).

Among the main results in 2015 for CSR it is worth mentioning:

- substantial progress, measured by numerous corporate sustainability KPIs, such as reducing the level of SF<sub>6</sub> leaks, CO<sub>2</sub> emissions and accidents at work and increasing the number of training hours per person and the percentage of recycled waste;
- the definition of the new mapping of stakeholders, completed in early 2015, and the definition of the Guideline "Stakeholders' Management Model" (October 2015);
- the holding of an "Open Day" with direct educational sessions with the population of areas affected by network development projects;



- the adoption of an Energy Management System which, in December 2015, was certified ISO 50001:2008;
- the continued active participation in the Business Network of the International Integrated Reporting Council (IIRC) to consolidate expertise in Integrated Reporting;
- as regards initiatives in the community: the conclusion of the “Here come Grandma and Grandpa” initiative and the realization of the monitoring scheme on final beneficiaries, in collaboration with SDA Bocconi;
- the timely implementation of all preparatory work for the launch of the operational phase of the “Community Farm”, with the handover in December 2015 of the buildings and land to the ONLUS Jus Vitae from Palermo on free loan use.

During 2015 Terna was confirmed in all major international sustainability indices and in September, on the occasion of the annual review of the Dow Jones Sustainability Indexes, it was confirmed as being included in the World and Europe indexes and was acknowledged as Industry leader in the Electric Utilities sector. In its “Sustainability Yearbook 2016” published in January 2016, RobecoSAM assigned Terna, as Industry Leader, a place in the Gold Class.

## Corporate Structure

In compliance with the provisions of the Italian legislation concerning listed companies, the Corporate Structure – based on the traditional administration and management model – includes the following:

- a Board of Directors responsible for the Company management. To this end, the Board is entrusted with the widest powers so as to complete all the actions that it deems appropriate for the pursuit and the attainment of the Corporate purpose, excluding only the action that the Law and the Bylaws reserve to the Shareholders’ Meeting;
- a Board of Statutory Auditors responsible for monitoring: (I) that the Company complies with the Law, the Bylaws and the principles of correct administration in performing Company activities, (II) the adequacy of the Company’s organisational structure, Internal Audit System and administrative/ accounting system as well as those of the foreign subsidiaries outside of the EU. It is also responsible for carrying out all duties assigned to the Board of Statutory Auditors by Law and by the Corporate Governance Code for listed companies. Pursuant to the provisions of article 19 of Italian Legislative Decree 39/2010, it is the responsibility of the Board of Statutory Auditors to supervise the financial disclosure process, the efficiency of the internal audit systems, of internal reviews and of risk management, the statutory audit of annual and consolidated results and the independence of the auditing company;
- the Shareholders’ Meeting – ordinary and extraordinary – that resolves upon, *inter alia*, (I) the appointment and revocation of members of the Boards of Directors and of Statutory Auditors and their fees and duties, (II) the approval of the Financial statements and allocation of the profits for the year, (III) the purchase and sale of treasury shares, (IV) amendments to the Bylaws; (V) the issue of convertible bonds; (VI) authorizations for actions carried out by Directors concerning Transactions with Related Parties for which there was no favourable opinion by the competent independent body, in compliance with governing regulations and based on procedures adopted by the Board of Directors as well as on urgent transactions submitted by the Directors to an advisory vote of the Shareholders’ Meeting (Article 13.3 of the Bylaws); and (VII) during consultations pursuant to Article 123-ter, paragraph 6 of the Consolidated Law on Finance, on Company Policy on matters of remuneration of members of administration bodies, of general managers and of executives with strategic responsibilities;
- an Executive in charge of the preparation of the company’s accounting documents, who is given all assignments and responsibilities provided by legislation and regulations as well as those provided for by the Corporate Governance Code (Article 7.C.2).

Statutory auditing activities are entrusted to a specialized company enrolled in the specific register of legal auditors, which is appointed by the Shareholders' Meeting on proposal by the Board of Statutory Auditors.

Terna's independent statutory auditors also have similar engagements with the Company's main subsidiaries.

It has been some time since the Organizational Model adopted by the Company pursuant to Legislative Decree no. 231/01 – which was recently updated based on the provisions of Legislative Decree no. 39/2010 – has provided that the auditing of the Company's Financial statements and that of any company of the Group and of the Consolidated financial statements is not compatible with consultancy activities for Terna or any company of the Group, extending such compatibility to the entire network of the audit company as well as to shareholders, Directors, members of audit bodies and employees of the audit company and of the other companies belonging to the same network. In addition, in Terna, any assignments to the auditing firm other than that made under the terms of law, but in any event related to auditing activities, are submitted for authorisation to the Control and Risk Committee (now Control, Risk and Corporate Governance Committee). In order to ensure independence of the company and of the officer in charge of auditing, the assignment for the statutory audit of the Company's financial statements and that of any company of the Group and of the consolidated financial statements is not in any case given to audit companies that fall within one of the incompatibility scenarios pursuant to Article 17 of Italian Legislative Decree no. 39/2010 and Part III, Title VI, paragraph I *bis* of the Issuers Regulation.

The Shareholders' Meeting held on May 27, 2014 approved the amendments to Articles 4.1, 10, 14.3, 15.5 and 26.2 of the Company By-laws, following resolution No. ARG/com 153/11 and resolution No. 142/2013/R/EEL passed by the Italian Regulatory Authority for Electricity, Gas and Water (AEEGSI), under which the AEEGSI laid down the procedures for the certification of the electricity transmission system operator and adopted the final certification decision for Terna as electricity "transmission system operator" according to the ownership unbundling model.

These changes were implemented for the first time at the Shareholders' Meeting held on June 9, 2015, with reference to the appointment of a Director, who had previously been coopted by the Board of Directors on January 21, 2015.

The latest changes to the By-laws in force at the date of this Report were introduced by the Board of Directors of Terna on December 18, 2014, which approved some updates to the By-laws to bring their content into line with recently-introduced legal provisions, and to delete the references to certain delegated powers for increasing the Company's share capital, which were now out of date since the increases had already taken place.

In particular, implementing Italian Law Decree no. 21 of March 15, 2012, converted into law by Art. 1, paragraph 1, of Italian Law no. 56 of May 11, 2012, ("Golden Power Decree"), the clauses on the subject of special powers present in Terna's Bylaws and certain outdated transitory rules relating to the last sentence of Art. 6.4 (which, following the overall changes to the Bylaws, is renumbered as Art. 6.3) were eliminated, as were the clauses of Art. 5 (Arts 5.3, 5.4 and 5.5), which had become ineffective, relating to the delegated powers for share capital increases serving stock option plans.

## Section II: Information on ownership structures (pursuant to Article 123-bis, paragraph 1 of the Consolidated Law on Finance)

### Share capital structure

(pursuant to Article 123-bis, paragraph 1, letter a) of the Consolidated Law on Finance)

The Company's share capital as of March 21, 2016 amounts to € 442,198,240.00 and exclusively comprises nominative ordinary shares, for a total of 2,009,992,000 Terna ordinary shares with a face value of € 0.22 each, fully paid-up. Each share gives the right to one vote at both ordinary and extraordinary Shareholders' Meetings observing the limits set by current legislation and by the Bylaws. Ordinary shares grant further administrative and financial rights as provided for by the Law governing shares with voting rights.

Since June 23, 2004, Terna shares have been listed on the Italian stock exchange organised and managed by Borsa Italiana S.p.A., in the Electronic Stock Exchange (*Mercato Telematico Azionario*, "MTA") – Large Cap (or Blue Chip) segment comprising the 40 businesses that are most capitalised with the greatest level of liquidity and belong to the *Financial Times Stock Exchange – Milano Indice di Borsa (FTSE MIB)*.

Pursuant to Article 5.2 of the Company Bylaws, the Shareholders' Meeting can approve capital increases through share issuance, also belonging to special categories, to be assigned free of charge pursuant to Article 2349 of the Italian Civil Code for employees, or rather as payment, and with the exclusion of the option right under Article 2441 of the Civil Code, in favour of subjects identified by shareholders.

The Company did not issue other financial instruments granting the right to subscribe newly issued shares. Terna did not issue shares that were not negotiated on regulated markets of a country in the EU.

### Significant interests in share capital and shareholders agreements

(pursuant to Article 123-bis, paragraph 1, letters c) and g) of the Consolidated Law on Finance)

On the basis of the shareholders' book, communications received pursuant to the Issuers Regulation, and available information, and with reference to the Company's share capital as of March 21, 2016, equal to € 442,198,240.00 for a total of 2,009,992,000 Terna ordinary shares with a face value of € 0.22 each, the following investors hold an interest in the share capital in excess of the significance thresholds specified by CONSOB:

- CDP Reti S.p.A. (a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. in which in turn the Ministry for the Economy and Finance of the Italian Republic holds 80.1%), with 29.851% of the share capital;
- Norges Bank, in possession of 2.014% of the share capital, 0.347% of which on the basis of loan and guarantee contracts, without the right to vote.

In this respect, one should note that the significance thresholds were recently subject to amendment in Legislative Decree No 25 of February 15, 2016 ("*Implementation of Directive 2013/50/EU of the European Parliament and of the Council of October 22, 2013, amending Directive 2004/109/EC of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published for the public offer or admission to trading of financial instruments and Directive 2007/14/EC of the Commission laying down detailed rules for the application of certain provisions of Directive 2004/109/EC*"), published in the Italian Official Journal on March 3, 2016 and in force since March 18, 2016.



On the basis of this evidence, as of December 31, 2015 the following investors held a stake in the capital in excess of the significance thresholds specified by CONSOB:

- CDP Reti S.p.A. (a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. in which in turn the Ministry for the Economy and Finance of the Italian Republic holds 80.1%), with 29.851% of the share capital;
- Lazard Asset Management LLC, in possession of 5.064% of the share capital, by way of discretionary asset management.

BlackRock Inc. (with reference to shares held through management companies of the BlackRock Group, by way of asset management), declared that it was applying the exemption established under Article 119-bis, paragraphs 7 and 8 of the Issuers Regulation, as amended by CONSOB Regulation no. 18214, which came into force on June 6, 2012. Therefore, as from June 6, 2012, BlackRock Inc.: (i) requested that the investments declared previously in Terna, in excess of 2% and less than 5%, not be considered significant in terms of the disclosure obligations; (ii) declared that it be kept beneath the new *medio tempore* significance threshold established by the entry into force of CONSOB changes; and (iii) that it held (through management companies of the BlackRock Group, by way of asset management), as of November 8, 2012, an interest equal to 2.73% of the share capital.

Similarly, with its communication dated January 19, 2016 regarding a transaction on January 14, 2016, Lazard Asset Management LLC announced the reduction of its shareholding by way of discretionary asset management to below the significance threshold of 5%.

No other investors own more than the significance thresholds indicated by CONSOB in Terna S.p.A.'s share capital.

With reference to the control situation in particular we can state that in a letter of October 30, 2014, Cassa Depositi e Prestiti S.p.A. ("CDP") made known that it had sold the entire equity investment held in Terna of 29.851% of the share capital to CDP Reti S.p.A. ("CDP Reti"), a company at that time wholly owned by CDP stating that there had been *"no change in the de facto controlling relationship existing between CDP and Terna, declared in the communication of April 19, 2007"*.

With a subsequent letter dated December 2, 2014, CDP made it known that:

- on the one hand, on November 27, 2014, it had sold a total stake of 40.898% in the share capital of CDP Reti to State Grid Europe Limited ("SGEL" or "the Investor") - a company wholly controlled by State Grid International Development Limited ("SGID"), of the State Grid Corporation of China Group - and to a group of Italian institutional investors and that, as a result of the said equity sale transaction, the controlling interest held by CDP in CDP Reti was made up of 95,458 category A shares, representing 100% of the category A shares and 59.102% of the share capital;
- on the other there had been instead *"no change in the other data previously communicated in relation to the above equity investments"*.

In this regard we can state also that, in the context of shareholders' agreements signed by CDP, SGEL and SGID on November 27, 2014 and in relation to CDP Reti, Snam S.p.A. and Terna as below, CDP confirmed that it had exclusive control by right over CDP Reti.

As regards the agreements between shareholders we can state that, the only shareholders' agreement currently in being of which the Company is aware and relevant under the terms of Art. 122 of the Consolidated Law on Finance is the shareholders' agreement between CDP, SGEL and SGID, signed on November 27, 2014 and registered in the Rome Companies Register on December 1, 2014, as per the press release in the newspaper "Il Sole 24 Ore" of December 2, 2014 and the extract published on the websites of CONSOB and the Company ([www.terna.it](http://www.terna.it), in the section Investor Relations, under Shareholding Structure and Shareholders' Agreements) to which you are referred.

In this regard we can state in fact that, in a communication of August 5, 2014, CDP - in view of the sale transaction involving the equity interest in CDP Reti described above - communicated to the Company the essential information, under the terms of Art. 122 of the Consolidated Law on Finance and of Arts 127 and 130 of the Issuers Regulation, contained in the sale contract signed for the purpose on July 31, 2014 and published on the Company's website.

After the equity sale transaction, CDP communicated to the Company that it had signed with SGEL and SGID, on the same date as the sale and replacing the previous agreements of July 31, 2014 with the same parties, a shareholders' agreement in relation to CDP Reti, Snam S.p.A. and Terna, which gives SGEL rights of governance, transmitting the essential information on this agreement.

The Shareholders' Agreement contains (i) provisions regarding exercise of voting rights in Terna and in CDP Reti pursuant to Art. 122, paragraph 1, of the Consolidated Law on Finance; and (ii) clauses that place limits share transfers pursuant to Article 122, paragraph 5, letter b), of the Consolidated Law on Finance. The duration of these agreements is set at 3 years from signing and automatic renewal for further periods of 3 years is provided for, subject to termination. If CDP communicates to the Investor its intention not to renew the agreement at least six months before the next expiry, the Investor will have the right to withdraw from CDP Reti.

As regards what we are concerned with here, the aforementioned agreement of November 27, 2014 attributes in particular to the Investor:

- with reference to CDP Reti
  - the right to appoint two of the five members of the Board of Directors of CDP Reti, while CDP retains the right to designate the others;
  - the right to appoint one standing auditor and one alternate auditor as long as the Investor holds an interest of at least 20% of the share capital of CDP Reti, while the Chairman of the board of auditors will in any case continue to be chosen from among the standing auditors designated by CDP;
  - some matters reserved for the control of the Board of Directors relating, among other things, (i) to the budget and business plan, (ii) to proposals to amend CDP Reti's bylaws, (iii) to decisions concerning the list of candidates to be presented for the purpose of renewing Terna's Board of Directors, (iv) to decisions on exercising CDP Reti's voting rights at Terna's extraordinary shareholders' meetings, (v) to the transfer, wholly or in part, of the 29.851% equity interest held by CDP Reti in Terna and to the purchase of any further Terna shares, if and to the extent to which this purchase gives rise to the obligation for CDP Reti to launch a mandatory takeover bid for Terna, (vi) to assumption of debt (further with respect to that existing when the agreement was signed) higher than certain thresholds and changes to the main terms and conditions of the loan agreements signed by CDP Reti before the agreement was signed, (vii) to proposals to distribute dividends and/or reserves and/or other distributions on the part of CDP Reti, (viii) to transactions with CDP Reti's related parties which are not at market conditions;
  - the Investor's right to veto resolutions under (v), (vi) and (viii) pursuant to the previous point, which cannot be adopted without a vote in favour of at least one of the directors designated by the Investor;
  - specific quorums for board resolutions that provide for the necessary participation of at least 1 member of CDP Reti's Board of Directors designated by the Investor, unless a new meeting of the Board is convened with the same agenda;
  - specific quorums for resolutions in CDP Reti's extraordinary shareholders' meetings, as long as the Investor holds an equity interest of at least 20% of CDP Reti's share capital, related to specific subjects, namely: share capital increases with the exclusion or limitation of shareholders' option rights, non-proportional demergers, mergers that do not regard companies wholly owned or 90% owned, changes to clauses in the bylaws that provide for rights protecting non-controlling shareholders;
  - the right to withdraw from CDP Reti if, among other things, for any reason, CDP's exclusive control by right over CDP Reti ceases (Change of Control);
- with reference to Terna and as long as the Investor holds an interest of at least 20% in CDP Reti's share capital
  - the right to designate a candidate to be included in the list of candidates for the position of Director of Terna, attributing to him or her a position in the list such as to guarantee appointment to him or her if the same obtains a majority of votes at Terna's Shareholders' Meeting.

According to the provisions of the law on the subject of mandatory takeover bids, in the context of the agreement illustrated it is forbidden respectively for the Investor and for CDP, by reason of the direct or indirect equity investment in CDP Reti, to purchase shares in Terna, directly or indirectly.

With regard next to certain agreements relating to intragroup transfers and those relating to the absolute non-transferability of equity investments held by the parties to such agreements in CDP Reti ("Absolute Non-Transferability"), we can note the specific one relating to the Non-Transferability of such equity investments to "a direct competitor of Snam and/or Terna - meaning by this any industrial subject the main business of which consists of managing natural gas and/or electricity transmission systems in the territory of the European Union and also any person who exercises control, directly or indirectly, including jointly, over this industrial subject" ("Non-Transferability to a Direct Competitor").

In case of transfers of the equity investment to third parties, if one of the parties, following the transfer, comes to hold an equity interest in CDP Reti below 20% of its share capital, there is in any case provision for a reciprocal commitment by the parties to ensure that the Directors designated by it in CDP RETI and/or Terna will resign. The same commitment to ensure resignation of the Directors designated by the Investor in Terna is regulated when the Investor is no longer wholly owned, directly and/or indirectly by SGID.

In the context of the said agreements specific provisions were also introduced that take account of the provisions of the Unbundling Legislation and of the rules of the corporate governance system of Terna, as the company operating in the electricity sector, aimed at guaranteeing observance.

In particular, the Investor undertook to ensure that the Director designated by it on Terna's Board of Directors (if and to the extent to which this Director is not independent under the terms of Art. 148 of the Consolidated Law on Finance) abstains, as far as is permitted by law, from receiving information and/or documentation from Terna in relation to questions on which this Director has a conflict of interest on behalf of the Investor and/or of any subject affiliated to it, in relation to commercial opportunities in which both Terna and the Investor and/or a subject affiliated to it, has an interest and there may be competition ("Matters Involving Conflict"). In addition, this Director may not take part in the discussions of Terna's Board of Directors concerning Matters Involving Conflict.

Moreover, in order to resolve any breaches of the legislation on ownership unbundling wherein the Investor does not intend to comply with any prescriptions or measures imposed by the competent authorities, a specific exception to the rules of the agreement relating to Absolute Non-Transferability is provided for.

## **Powers to increase share capital and authorization for the purchase of treasury shares**

(pursuant to Article 123-bis, paragraph 1, letter m) of the Consolidated Law on Finance)

At the date of the present report, the Board of Directors has no delegated powers under the terms of Art. 2443 of the Civil Code to increase the share capital, nor authorisations to issue equity instruments or to purchase the Company's own shares under the terms of Arts. 2357 and following of the Civil Code. Terna does not own, nor has it purchased or sold during the year, including indirectly, treasury shares or shares of its parent company.

## **Employees' shareholdings: system to express the right to vote**

(pursuant to Article 123-bis, paragraph 1, letter e) of the Consolidated Law on Finance)

The system for expressing the right to vote during the Shareholders' Meeting through shareholding associations, including employee's shareholding groups, is regulated based on the existing specific legal provisions on the subject.



Based on the provisions regarding the special legislation on listed companies, Terna's Bylaws introduced a special provision aimed at facilitating the collection of voting proxies with its employee shareholding groups as well as those of its subsidiaries, encouraging in this way the relative involvement in meeting decision-making processes (Article 11.1 of the Bylaws).

As of March 21, 2016 the Company had not received any notification of the establishment of employee shareholding groups.

## Change of control clauses

(pursuant to Article 123-*bis*, paragraph 1, letter h) of the Consolidated Law on Finance)  
**and statutory provisions regarding takeover bids**

(pursuant to Article 104, paragraph 1-*ter*, and 104-*bis*, paragraph 1 of the Consolidated Law on Finance)

Regarding significant agreements which Terna or any of its subsidiaries are parties of, and that come into effect, are amended, or expire in the event of shareholding change within Terna, the following should be noted. The loan contracts stipulated with the European Investment Bank (EIB) include mandatory advance repayment clauses in the event the Company carries out or is involved in a merger, a split or transfer of a Company branch. Should such events occur, the EIB will have the power to request any information that the latter may reasonably require regarding the Company situation, in order to understand any changes and relative consequences regarding the Company's commitments towards the Bank. In such cases, should the EIB deem, according to its indisputable judgement, that these transactions may have negative consequences on the commitments undertaken by the Company, the bank itself will have the power to request the necessary changes in the loan contracts or alternative solutions that satisfy the Bank itself, such as early reimbursement of the loan.

On the subject of takeover bids and public offers to exchange, the bylaws do not provide for any exceptions to the provisions of the Consolidated Law on Finance on the passivity rule provided for in Art. 104, paragraphs 1 and 1-*bis*, of the Consolidated Law on Finance, nor are the neutralisation rules contemplated in Art. 104-*bis*, of the Consolidated Law on Finance provided for, without affecting – under the terms of Art.104-*bis* paragraph 7, of the Consolidated Law on Finance – the rules of the bylaws and laws on the subject of limits on share possession and voting rights, pursuant to Art. 3 Law Decree no. 332 of May 31, 1994 converted with amendments by Law no. 474 of July 30, 1994 and subsequent amendments and additions (the "Privatisation Law").

## Restrictions on share transfer and shares granting special powers

(pursuant to Article 123-*bis*, paragraph 1, letters b) and d), of the Consolidated Law on Finance)

There are no limits in the bylaws on the free availability of shares, except as already described in the previous section under "Significant interests in the share capital and shareholders' agreements" in relation to the shareholders' agreement signed by CDP, SGEL and SGID and to the provisions of the Bylaws in relation to the rules on the subject of privatisations of Law Decree no. 332 of May 31, 1994 converted with amendments by Law no. 474 of July 30, 1994 and subsequent amendments and additions – the "Privatisation Law".

In particular, pursuant to Italian regulations concerning privatisations, Terna's Bylaws establish a "maximum shareholding limit" – equal to a direct and/or indirect ownership of Terna's shares of more than 5% of the share capital – for subjects other than the Italian Government, public bodies and entities subject to their respective control: application of these provisions, in some circumstances as indicated by the Bylaws, also has effects on voting rights.

The "maximum shareholding limit" (provided for by Article 6.3 of the Bylaws and pursuant to Article 3 of the "Privatisation Law") is calculated also considering total share ownership related to the Parent Company, natural person or legal entity or company; to all direct and indirect subsidiaries as well as the subsidiaries under the same controlling subject; to all associated subjects as well as to natural persons bound by parental or affinity relationships up to second degree and by marriage, providing the spouse is not legally separated. Control occurs, also with reference to subjects other than companies, in cases provided for by Article 2359, paragraphs 1 and 2, of the Italian Civil Code. Association occurs in cases under Article 2359, paragraph 3, of the Civil Code, as well as between subjects who, directly or indirectly, through subsidiaries other than those managing common investment funds, stipulate, also with third parties, agreements related to the exercise of voting rights or to the transfer of shares or portions of third-party companies or, anyway, to agreements or pacts as per Article 122 of the Consolidated Law on Finance, with reference to other companies, if these agreements or pacts refer to at least 10% of the share capital with voting rights, in the case of listed companies, or 20% in the case of non-listed companies. With reference to the calculation of the above-mentioned limit of share ownership (5%), shares owned through trustees and/or through a third party and, generally, through an intermediary are also considered. This limit established for share ownership - in accordance with the provisions of Article 3, paragraph 3 of the "Privatisation Law" - in any case fails to apply where it is exceeded as a result of a public takeover bid, as long as the bidder, following the offer, holds a stake of at least seventy-five percent of the capital with voting rights regarding the appointment or revocation of directors.

The right to vote related to share ownership exceeding the above-mentioned maximum limit cannot be exercised and proportionally reduces the right to vote of each subject to whom the limit in share ownership refers, except in the event of joint communications by the involved shareholders. In case of non-compliance, the decision can be appealed under Article 2377 of the Civil Code if the requested majority would not be achieved without the votes exceeding the above-mentioned limit. Shares for which the right to vote cannot be exercised are nevertheless included in calculations for the regular formation of the Shareholders' Meeting.

As a result of abrogation of the rules contained in Art. 2, paragraph 1, of the Privatisation Law on the subject of "special powers" exercisable by the Italian State (represented to this end by the Ministry for the Economy and Finance, irrespective of the quantity of any Terna shares held by the said Ministry), which occurred with entry into force, from June 7, 2014, of both Presidential Decree no. 85 of March 25, 2014 (in O.J. June 6, 2014 containing "*Regulations for the identification of assets of strategic relevance in the energy, transport and communications sector, pursuant to Article 2, paragraph 1, of Law Decree no. 21 of March 15, 2012*," and the provisions of Law Decree no. 21 of March 15, 2012, converted into law by Art. 1, paragraph 1, of Italian Law no. 56 of May 11, 2012, (henceforth the "Golden Power Decree"), the clauses on the subject of "special powers" present in Terna's Bylaws ceased to have effect, and were eliminated with a resolution of the Company's Board of Directors of December 18, 2014 (as described above, under "Corporate Structure").

On the basis of the provisions of the "Golden Power Decree", parliament in fact laid down new provisions on the special powers of the government "*in relation to strategic activities in the energy, transport and communications industries*", in order to standardise national legislation with the legislation of the European Union, assigning the Government powers of intervention to protect the lawful, essential and strategic interests of the country.

These provisions, set out under Articles 2 and 3 of the "Golden Power Decree" basically state:

- the issue of specific regulations, to be updated at least once every three years, aimed at identifying "*the grids and systems – including those needed to ensure the minimum provisioning and operations of essential public services, assets and reports of strategic relevance for the national interests in the fields of energy, transport and communication, and the type of acts or operations within a single group to which the regulations of this Article do not apply*";

- the obligation to notify the Administrative Coordination Department of the Prime Minister's Office – within 10 days and in any case before implementation – of resolutions, acts and operations adopted by a company holding one or more of the assets as identified above, which result in:
  - changes to the ownership, control or availability of the assets;
  - the change in their purpose, including resolutions of the Shareholders' Meeting or administrative bodies concerning the merger or spin-off of the company;
  - the transfer of the company offices abroad;
  - a change to the company purpose;
  - wind-up of the company;
  - the amendment of any statutory clauses adopted in accordance with Article 2351, third paragraph of the Italian Civil Code, or introduced in accordance with Article 3, paragraph 1 of the "Privatisation Law", as most recently amended by Article 3 of the same Decree;
  - the transfer of the business or a business unit encompassing these assets;
  - the assignment of them by way of guarantee;
  - and the obligation to notify resolutions passed by the Shareholders' Meeting or administrative bodies concerning the transfer of subsidiaries holding said assets;
- the Prime Minister's power to veto adopted – on the proposal of the Ministry for the Economy and Finance and on compliant resolution of the Council of Ministers – on resolutions, acts or operations notified that give rise *"to an exceptional situation, not regulated by national and European segment legislation, of a threat for serious damages to public interests concerning the safety and operation of the grids and systems and the continuity of service provision"*. The power to veto can also be exercised in the form of the imposition of specific provisions or conditions where such suffices to ensure the protection of the public interests in relation to the safety and operation of the grids and plants and the continuity of service provision. The veto is announced within 15 days of communication; said terms may be suspended once only for a request for information and until receipt of such, which must be within 10 days. The resolutions, acts or operations adopted or implemented in breach of the disclosure obligations or in breach of the conditions, provisions or veto established by the Government are null. The Government may also demand that the company and any counterparty restore the previous situation at its own expense. Anyone not complying with the provisions relating to notification and veto, unless the action is a crime, is subject to the administrative sanctions specified in the "Golden Power Decree";
- the obligation to notify the Administrative Coordination Department of the Prime Minister's Office – within 10 days – of acquisitions for any reason, by a subject, whether natural person or legal entity, external to the European Union, or *"which does not have residence, usual place of domicile, registered office or administration or main centre of business in a European Union Member State or State of the European Economic Area or which is not in any case established therein"* of majority shareholdings in companies holding the assets identified as strategic *"of relevance such as to determine the permanent establishment of the buyer by virtue of the assumption of control over the company whose investment has been acquired"*. The notice is accompanied *"by all information useful to providing a general description of the acquisition project, the buyer and its operational scope"*. In calculating the significant shareholding, consideration is also taken of the investment held by third parties with which the buyer has stipulated shareholders' agreements;
- the power of the Prime Minister, within 15 days from the notification of said acquisitions and to be exercised, at the request of the Ministry for the Economy and Finance, in accordance with paragraph 8 of said Article, and by compliant resolution of the Council of Ministers, sent at the same time to the appointed parliamentary commissions, to:
  - subject the effect of the acquisition to the assumption by the buyer of commitments intended to guarantee the protection of the essential interests of the Government *"in relation to the safety and functioning of the grids and plants and the continuity of service provision"* where the acquisition entails a threat of serious prejudice to said interests, or
  - oppose the acquisition, in exceptional cases of risk to the protection of the mentioned essential interests of the Government, which cannot be eliminated through the assumption of the above commitments.

Once these terms have expired, the operation can be implemented.



Until notification and expiry of the terms for the potential exercise of the special powers relating to the indicated acquisitions, voting rights and other non-capital rights connected with the shares representing the significant investment are suspended, just as such rights are suspended in the event of failure to comply with the commitments set as a condition of the admissibility of the acquisition, for the entire period for which the breach continues. Any resolutions passed with the determining vote of said shares or in any case resolutions or acts adopted in breach or infringement of the conditions set, are null. Any buyer failing to comply with the commitments required is also subject, unless the action is a crime, to the administrative sanctions specified in said “Golden Power Decree”.

In the event that the power of opposition is exercised, the buyer may not exercise voting rights and in any case those rights with a different nature to that of the capital rights connected with shares, which represent the significant shareholding. Any meeting resolutions adopted with the determining vote of said shares are null. Shares must be sold within 1 year and, in the event of failure to comply, at the request of the Government, the court orders the sale of said shares.

Without prejudice to the provisions commented on above, the acquisition, on any basis, by a party outside the European Union is permitted at mutual conditions, in compliance with the international agreements signed by Italy or by the European Union;

- the special powers of veto and opposition to acquisitions are exercised on the basis of objective criteria, such as:
  - the existence of connections between the operators involved and: (a) third party countries that do not recognise principles of democracy or the rule of law, which do not comply with rules of international law, or which have presented risk with regard to the international community, given the nature of their alliances; or (b) criminal organisations or subjects or entities connected to them;
  - the suitability of the structure resulting from the legal act or the operation to guarantee: (a) the security and continuity of service provision; (b) the maintenance, security and operation of grids and systems.

The procedures for notifications and for activating the “special powers” were regulated by Presidential Decree no. 86 of March 25, 2014 in O.J. June 6, 2014 (henceforth “Procedure”) and by Prime Ministerial Decree “of August 6, 2014, registered at the Italian Court of Auditors on September 26, 2014, containing rules on coordination activities of the Prime Minister’s Office preparatory to the exercise of special powers on corporate structures in the defence and national security sectors, and on activities of strategic importance in the energy, transport and telecommunications sectors” pursuant to the notice of publication that appeared in O.J. no. 229 of October 2, 2014, which implemented the rules of the Procedure identifying the competent offices involved (henceforth “implementing PMD”).

The Bylaws do not provide for multiple-vote shares (under the terms of Art.127-*sexies* of the Consolidated Law on Finance) or increased-vote shares (under the terms of Art.127-*quinquies* of the Consolidated Law on Finance).

## Voting Restrictions

(pursuant to Article 123-*bis*, paragraph 1, letter f) of the Consolidated Law on Finance)

Pursuant to the privatisation law, certain restrictions exist (under Articles 6.3 of the Bylaws) to the right to vote related to the limits of share ownership as mentioned above. Further restrictions are provided for on the basis of the rules laid down in the Golden Power Decree, according to the indications of the section above, in connection with activities preparatory to the exercise of special powers in relation to acquisitions for any reason, by a subject, whether natural person or legal entity, external to the European Union, or “which does not have residence, usual place of domicile, registered office or administration or main centre of business in a European Union Member State or State of the European Economic Area or which is not in any case established therein”, of controlling equity investments in Terna and, also, in the event that the power of opposition is exercised.

Finally, further restrictions are applied to operators of the electricity sector (as provided for by Article 3 of the Prime Ministerial Decree of May 11, 2004 as regards “*criteria, methods and conditions for unification of ownership and management of the National Transmission Grid*”) for which a limit of 5% of the share capital was established for exercising the right to vote on appointing Directors (Article 14.3 letter e) of the Company Bylaws.

With regard to the expression of voting rights in Shareholders’ Meetings, one should refer below to “Section XVI: Shareholders’ Meetings”, regarding provisions in the Bylaws (specifically Art.10.2, Art.14.3 letter f) and Art.26.2) introduced by the Shareholders’ Meeting of the Company held on May 27, 2014 (as described in the previous section “Corporate Structure”) which highlight potential conflicts of interest for the purposes of Art. 2373 of the Italian Civil Code in compliance with the provisions of Directive 2009/72/EC and Legislative Decree No. 93/2011 and Resolution No. ARG/com 153/11 and Resolution No. 142/2013/R/EEL passed by the Italian Regulatory Authority for Electricity, Gas and Water (AEEGSI), under which the AEEGSI laid down the procedures for the certification of the electricity transmission system operator and adopted the final certification decision for Terna as electricity “transmission system operator” according to the ownership unbundling model.

## Appointment and substitution of Directors and amendments to the Bylaws

(pursuant to Article 123-*bis*, paragraph 1, letter l) of the Consolidated Law on Finance)

### Appointment, requirements and term of office of Directors

The terms for appointing the members of the Board of Directors are governed by Article 14 of the Bylaws. As resolved upon by the Meeting, the Board of Directors is made up of seven to thirteen members who are appointed for a period of no longer than three years (Article 14.1 of the Bylaws) and they may be reappointed at the end of their term (Article 14.2 of the Bylaws).

The Chairman is appointed by the Shareholders’ Meeting among the members of the Board (Article 16.1 of Bylaws and Article 2380-*bis*, paragraph 5 of the Civil Code), and if this is not possible, by the Board itself. The Board can appoint a Deputy Chairman.

The appointment of the entire Board of Directors takes place – in compliance with the privatisation law and in compliance with the provisions of the Italian Law for listed companies – according to the mechanism of “list voting”, governed by Article 14.3 of the Bylaws, aimed at guaranteeing the presence in the management body of members designated by minority shareholders equal to 3/10 of the Directors to be appointed, rounding up in case of a fraction.

In accordance with the provisions of Article 4, paragraph 1-*bis* of the “Privatisation Law”, of Article 147-*ter* of the Consolidated Law on Finance and the implementing regulations of the above-mentioned legislative provisions included in Articles 144-*ter* and following of the Issuer Regulation, the elective system establishes that the lists of candidates can be submitted by the outgoing Board of Directors or by shareholders who, alone or with other shareholders, represent at least 1% of the share capital as provided for by the law – or a lower amount, as established by the law, of the shares with voting rights in the Meeting. For this purpose CONSOB, implementing the provisions of Art. 147-*ter* of the Consolidated Law on Finance and Article 144-*septies* of the Issuers Regulation, has established – with Resolution no. 19499 dated January 28, 2016 and for the year ended December 31, 2015 – the minimum equity interest required for submitting candidate lists to be appointed to Terna’s administrative and auditing bodies at 1% of the share capital, taking into account the Company’s capitalisation, and without prejudice to any lower stake provided for in the Bylaws.

The presentation, filing and publication of the lists are regulated by specific referral of the Bylaws, by applicable legislation and regulation and, where required by the Bylaws, by indications provided by the Company in the notice convening the shareholders’ meeting.

More specifically, the presentation and filing of the lists must take place – in accordance with Article 147-ter, paragraph 1-bis of the Consolidated Law on Finance, at least 25 days prior to the date scheduled for the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Directors. Ownership of the minimum stake required to submit lists shall be determined – in accordance with the provisions of Article 147-ter, paragraph 1-bis of the Consolidated Law on Finance – by taking into account the shares that are registered in the name of the Shareholder(s) on the day on which the lists are filed with the Company. In order to prove ownership of the number of shares necessary for presenting the lists, shareholders with rights must present and/or deliver the related documentation issued in accordance with Article 23 of the “Regulation governing the centralised management services, liquidation, guarantee systems and related management companies” as in force (adopted by the Bank of Italy/CONSOB on February 22, 2008 as subsequently amended, the “single measure”), also after filing the list, as long as within the terms envisaged for publication of the lists (i.e. at least 21 days before the date set for the Shareholders' Meeting called to resolve on appointment of the administrative body).

Each Shareholder may present or assist in the presentation of one single list and each candidate may be on one list only or will be considered ineligible.

The lists shall set out candidates according to a progressive number (Article 14.3 of the Bylaws).

Lists with three or more candidates must include candidates of different gender, in accordance with the provisions of the notice convening the meeting, in order to enable a Board of Directors to be formed in compliance with current legislation on the balance of gender in the administrative and auditing bodies of companies with listed shares pursuant to Italian Law no. 120 of July 12, 2011 and Article 147-ter, paragraph 1-ter of the Consolidated Law on Finance in accordance with the provisions of Articles 14.3 and 31.1 of the Company Bylaws.

The lists specify which candidates meet the independence requirements established by the law and the Bylaws (Article 147-ter of the Consolidated Law on Finance and Article 15.4 of the Company Bylaws) and all other information or declarations required by the legislation and regulations applicable and by the Bylaws for the respective positions.

As concerns the personal characteristics of the candidates and on the basis of that specified under Articles 2.P.3 and 3.C.3 and in the Comment to Article 2 of the Corporate Governance Code, in the notice convening the shareholders' meeting, shareholders are specifically asked, when preparing lists, to evaluate the characteristics of the candidates, also as concerns their professional characteristics, experience, including managerial experience, and gender, in relation to the dimensions of the Company and specific nature of the sector in which it operates. Moreover, in accordance with that specified in the Comment under Article 5 of the Corporate Governance Code, the lists of candidates must also be accompanied by an indication of their potential suitability to be classified as independent, in accordance with Article 3 of said Code. In this regard, together with the lists, according to a specific mention included in the notice convening the meeting, the certification of each candidate must also be filed, at their own responsibility, stating whether they are able to be classified as independent in accordance with Article 3 of said Code.

The lists shall be accompanied by statements in which the individual candidates accept their candidacy and certify, under their own responsibility, that there are no grounds for their ineligibility or incompatibility (including those set out in Art. 15.5 of the Bylaws introduced by the Shareholders' Meeting held on May 27, 2014 for all Company Directors, in compliance with the provisions of Directive 2009/72/EC and Legislative Decree No 93/2011 and Resolution Nos. ARG/com 153/11 and 142/2013/R/EEL passed by the Italian Regulatory Authority for Electricity, Gas and Water (AEEGSI), under which the AEEGSI laid down the procedures for the certification of the electricity transmission system operator and adopted the final certification decision for Terna as electricity “transmission system operator” according to the ownership unbundling model. Such statements will also include the information provided for in Art.144-octies, paragraph 1, letter b) of the Issuer Regulation and any other information required by any legal, statutory or regulatory provisions governing such matters.

Shareholders presenting a “minority list” are addressees of the CONSOB communication no. DEM/9017893 of February 26, 2009 (concerning the “Appointment of the members of the administrative and auditing bodies”), which recommends that they file, together with the list, a declaration certifying the lack of any connection pursuant to Article 147-ter, paragraph 3 of the Consolidated Law on Finance, setting out the information listed in said Communication with regard to the election of the administrative body.



The lists, complete with information on the specific characteristics of the candidates and the additional declarations and information envisaged by Article 144-*octies*, paragraph 1 of the Issuers Regulation and CONSOB Communication no. DEM/9017893 of February 26, 2009, are made available to the public – in accordance with Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance – at the company's headquarters, on the company's website and according to the methods set out by CONSOB, at least 21 days prior to the date of the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Directors, thereby guaranteeing a transparent procedure for the appointment of the Board of Directors.

The Director must meet the requirements of integrity, professionalism and independence envisaged by the Company Bylaws.

More specifically, the Company's Directors must meet certain **integrity and professionalism requirements**, similar to those required by the Auditors of listed companies (Article 15.2 of the Bylaws). The appointed Directors must communicate without hesitation the loss of requirements as per current regulations and according to the Bylaws to the Board of Directors, as well as any possible cause of ineligibility or incompatibility (Article 14.3 of the Bylaws).

As regards the **requirements of professionalism**, the Bylaws (Article 15.3) provide that those who have not accrued experience of at least three years cannot be appointed as Director, and if they are, they must step down:

- administrative, auditing and management activities in companies having a share capital not lower than € 2 million; or
- professional activities or university teaching in legal, economic, financial and technical/scientific subjects and closely related to the activities of the Company as defined in Article 26.1 of the Bylaws; or
- management roles in public bodies or public authorities in the finance and insurance fields or in fields closely related to that of the Company, as defined by the Article 26.1 of the Bylaws (subjects such as business law, tax law, business economics and finance, as well as subjects linked to energy in general, and network communications and structures, are to be considered as closely related to the Company's scope of activities).

With stricter application compared to the provisions of Article 147-*ter* paragraph 4 of the Consolidated Law on Finance, at least 1/3 of the Directors in office must also be in possession of specific **independence requirements** under Article 15.4 of the Bylaws based on the requirements of the Auditors indicated by Article 148, paragraph 3 of the Consolidated Law on Finance; furthermore, taking into account the specific activity carried out by the Company, the independence requirements set out by Article 15.5 of the Bylaws are applicable to Executive Directors.

The presence of "Independent" Directors as provided for by the Corporate Governance Code becomes important in the composition of the Board Committees, as provided for by the Code itself and by the Related-Party Transactions Committee established within Terna for implementing the provisions of CONSOB Regulations that include provisions regarding related-party transactions issued with Resolution no. 17221 dated March 12, 2010 and subsequently amended with Resolution no. 17389 dated June 23, 2010.

The Board of Directors assesses the presence of integrity, professionalism and independence requirements, for every one of its members and periodically assesses the presence of independence requirements for every one of its non-executive members, on the basis of the information supplied by each member.

The Company has put in place a specific internal procedure that defines the criteria for assessing the independence of the non-executive members and for assessing the requirements necessary according to the Bylaws and the Corporate Governance Code ("Criteria of application and procedure for assessing the independence of Directors pursuant to Article 3 of the Corporate Governance Code"). This procedure, recently updated with the resolution of December 19, 2012, in line with the new provisions of the Corporate Governance Code, provides for the assessment of requirements following appointment, every time events take place that could interfere with the independence of a Director and in any case at least once a year (generally in the 30 days before approval of the draft financial statements). To this end, Directors are asked for the information necessary to allow the Board to make its assessment. Additionally, considering that established by Article 5 of the Corporate Governance Code, it is established that non-executive directors who have declared their independence undertake to maintain that requirement for the entire duration of the appointment, submitting these requisites to verification by the Board of Directors.

If applicable, this can also be carried out with reference to criteria that differs partially from that identified and disclosed in accordance with the requirements of the Governance Code (Article 3.C.4).

On the basis of the procedure for appointing the Directors according to the “list voting” mechanism governed by Article 14.3 of the Company Bylaws, each person with the right to vote can only vote one list in the shareholders’ meeting. Seven tenths of the Directors to be elected (rounding down, if the proportion results in a fraction of less than one) are taken in the progressive order in which they are listed, from the list that obtained the greatest number of shareholder votes. The remaining directors are taken from the other lists (the “minority lists”), applying, to this end, the specific rules dictated under letters b) and c) of said Article 14.3.

If, once voting is complete, the requirements laid down by legislation on gender balance should not be met, Article 14.3, letter *c-bis* of the Company Bylaws provides for the preparation of a new decreasing list of all candidates elected on the various lists (including the list that obtained the greatest number of votes) and the replacement of the candidate of the gender most represented but which obtained the lowest level of the list, with the first candidate of the gender least represented and not elected, belonging to the same list as the candidate replaced; this is without prejudice to compliance with the minimum number of independent directors established by the Bylaws. If quotas are equal, the replacement is taken from the list that obtained the most votes, without prejudice to the minimum number of independent directors established by the Bylaws. If there are no candidates on that list, the procedure continues with the legal majorities, respecting a proportional representation of minorities in the Board of Directors. If more than one candidate of a different gender to that of the other candidates elected should need to be appointed, the substitution procedure specified will be carried out starting from the bottom of the hierarchical list and moving upwards until the requirements of the legislation have been met.

The provisions of the Bylaws - introduced by Shareholders’ Meeting resolution of May 16, 2012 - aimed at guaranteeing compliance with current legislation on gender balance, apply, in accordance with the provisions of Article 31.1 of the Company Bylaws, to the first three renewals of the Board of Directors following the entry into force and effectiveness of the provisions of Article 1 of Italian Law no. 120 of July 12, 2011, published in Official Journal no. 174 of July 28, 2011 and in force as from August 12, 2011, without prejudice to any further extensions as may be provided for by law. In particular these provisions were first applied on the occasion of renewal of the corporate bodies whose office expired on approval of the 2013 financial statements resolved by the Shareholders’ Meeting of May 27, 2014.

According to the provisions of Article 147-ter, paragraph 3 of the Consolidated Law on Finance, at least one of the members of the Board of Directors should be appointed by the minority list that has obtained the highest number of votes and is not connected in any way, including indirectly, with the members who have submitted or voted the list with the majority of votes.

For the appointment of directors who, for any reason, are not elected according to the “list voting” procedure, the shareholders’ meeting resolves with the legal majorities and in such a way as to in any case ensure:

- the presence of the necessary number of directors meeting the independence requirements established by law (i.e. at least one director, if the board numbers no more than seven members, or two directors if the board numbers more than seven members);
- compliance with current legislation on gender balance.

Finally, the Bylaws establish a limit for electrical industry operators of 5% of the share capital as concerns the exercise of voting rights when appointing Directors, in accordance with that specified under the above-mentioned section. These restrictions are aligned with those laid down, more generally, for exercising voting rights at shareholders’ meetings implementing the law on the subject of privatisations currently in force and linked to the limits on share possession regulated by Article 6.3 of the Bylaws, according to what has already been described in the previous section under “Restrictions on share transfer and shares granting special powers”.

Any replacement of Directors will be carried out pursuant to Article 2386 of the Civil Code.

In any case, the replacement of Directors who have stood down is assured by the Board of Directors, guaranteeing the necessary number of Directors meeting the independence requirements laid down by the law and by Article 15.4 of the Bylaws and compliance with current gender-balance legislation.

If the majority of the Directors appointed by the Shareholders' Meeting is not met, the entire Board of Directors is considered as having resigned and the Shareholders' Meeting must be called without delay by the Directors still in office in order to appoint a new Board.

When the Directors are elected, in any of the ways provided for in the Bylaws, the specific provisions of the Bylaws (specifically Art. 14.3 lett. f of the Bylaws) on the subject of conflict of interest also apply for the purposes of Art. 2373 of the Italian Civil Code introduced under the terms of Directive no. 2009/72/EC of July 13, 2009, and of Italian Legislative Decree no. 93 of June 1, 2011, illustrated in more detail in Section XVI: "Shareholders' Meetings" below.

## Succession Plans

Considering the ownership structures of Terna and the concentration of shareholders, the Board of Directors resolved on March 20, 2012 – with reference to the provisions of paragraph VIII of the "Guidelines and transitional regime" which brought forward to last year the disclosure obligations with regard to the provisions of today's Article 5.C.2 of the Governance Code for issuers belonging to the FTSE-MIB index – not to proceed with an assessment of succession plans for the Executive Directors.

In any case, at its meeting on May 27, 2014, the Board of Directors set up the Appointment Committee, as described in more detail in Section VII: "Appointment Committee", to which it attributed the task of supporting the Board of Directors, with fact-finding, recommendatory and advisory functions, in the assessments and decisions relating to the size and composition of the Board itself. In order to respond more adequately to any future appointment requirements, the Board of Directors, upon updating the Appointments Committee Regulation approved on June 23, 2015, extended the proactive tasks of the Committee to cover the procedures geared towards ensuring operational continuity in cases where there is a need to replace the Chairman or Executive Directors of Terna in the course of their period in office.

## Amendments to the Bylaws

With regard to regulations applicable to the amendments to the Bylaws, the extraordinary Shareholders' Meeting resolves on the matter with the majority envisaged by Law.

The Bylaws (Article 21.2), according to legal provisions, attributes the Board of Directors the power to adopt any resolutions pertaining to the Shareholders' Meeting that can determine amendments to the Bylaws such as:

- a) merger and split, in the cases envisaged by Law;
- b) establishment or elimination of other offices;
- c) indication of the directors which represent the Company;
- d) reduction of the share capital in the case one or more members withdraw;
- e) amendment of the Bylaws according to regulations;
- f) national transfer of the Company headquarters.

The rules of the "Golden Power Decree" – as already described above in the section "Restrictions on share transfer and shares granting special powers" – attribute to the Government the "special power" of veto on the occasion of resolutions that concern changes to the Bylaws relating to the matters identified by the said "Golden Power Decree" which give rise to *"to an exceptional situation, not regulated by national and European legislation governing the industry, of a threat of serious damage to the public interests concerning the safety and operation of the grids and systems and the continuity of supply"*. The power to veto can also be exercised in the form of the imposition of specific provisions or conditions where such suffices to ensure the protection of the public interests in relation to the safety and operation of the grids and plants and the continuity of service provision. The veto is announced within 15 days of communication; said terms may be suspended once only for a request for information and until receipt of such, which must be within 10 days.



The resolutions, acts or operations adopted or implemented in breach of the disclosure obligations or in breach of the conditions, provisions or veto established by the Government are null. The Government may also demand that the company and any counterparty restore the previous situation at its own expense. Anyone not complying with the provisions relating to notification and veto, unless the action is a crime, is subject to the administrative sanctions specified in the “Golden Power Decree”.

In addition, according to the provisions of Art. 3, paragraph 3, of the “Privatisation Law”, Terna’s Bylaws state that the rules of Art. 6.4 of the said Bylaws relating to the “maximum shareholding limit” already illustrated in the section “Restrictions on share transfer and special rights” cannot be amended.

## Indemnities for Directors in case of resignation, discharge or cessation of relation following a public take-over bid

(pursuant to Article 123-*bis*, paragraph 1, letter i) of the Consolidated Law on Finance)

The information required by Article 123-*bis*, paragraph 1, letter i) of the Consolidated Law on Finance on the agreements between the Company and the Directors, which envisage indemnity in the case of redundancies or termination/revocation without just cause or where employment ceases following a public take-over bid, are reported within Terna’s “Annual Remuneration Report”, published by Terna in compliance with the provisions of Article 123-*ter* of the Consolidated Law on Finance and CONSOB Resolution no. 18049 of December 23, 2011 (published in Official Journal no. 303 of December 30, 2011) which, among other things, introduced Article 84-*quater* of the Issuers Regulation.

## Management and coordination

Terna is subject to the de-facto control of Cassa Depositi e Prestiti S.p.A., currently held through CDP Reti S.p.A. (a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A.), which has a 29.851% interest in the share capital. The check, from which existence of the said control emerged, was carried out by Cassa Depositi e Prestiti itself and made known to the Company and to CONSOB already on April 19, 2007 and, subsequently, as described in more detail in Section II, under “*Significant interests in the share capital and shareholders’ agreements*” above, with letters dated October 30, 2014 and December 2, 2014. As of today, no management and coordination activity has been formalised or exercised; Terna carries out its activity either directly or through its subsidiaries in conditions of independent management and negotiation.

It is specified that the additional information on the Company’s Corporate Governance envisaged in Article 123-*bis*, paragraph 2 of the Consolidated Law on Finance and Article 144-*decies* of the Issuers Regulation, with regard to:

- compliance, (pursuant to Article 123-*bis*, paragraph 2, letter a) of the Consolidated Law on Finance) are illustrated in the section of the Report specifically devoted thereto (section III);
- the principal characteristics of existing risk management and existing internal audit systems in relation to the financial informative note, also consolidated (pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance), and further relevant Corporate Governance practices (pursuant to Article 123-*bis*, paragraph 2, letter a) of the Consolidated Law on Finance) are illustrated in the section of the Report devoted to the internal audit and risk management system (section XI) and in Attachment 1 therein;

- the Shareholders' Meeting activity (pursuant to Article 123-*bis*, paragraph 2, letter c), of the Consolidated Law on Finance) in the section of the Report devoted to the Shareholders' Meeting (section XVI);
- the composition of the Board and the role of the Board Members as well as those relative to the appointment and composition of the audit body (pursuant to Article 123-*bis*, paragraph 2, letters a) and d) of the Consolidated Law on Finance and 144-*decies* of the Issuer Regulation), is illustrated in the Report respectively in the section devoted to the Board of Directors (section IV) and in subsequent sections devoted to the Board Internal Committees (sections VI, VII, VIII and X) and in the sections devoted to the appointment and composition of the Board of Statutory Auditors (sections XIII and XIV).

## Section III: Compliance

The Corporate Governance system in place in the Company, as explained in the introduction, is broadly in line with the principles contained in the Corporate Governance Code for listed companies issued in December 2011 by the Corporate Governance Committee promoted by ABI, ANIA, Assonime, Assogestioni, Borsa Italiana and Confindustria (as updated in July 2014 and available on the website of Borsa Italiana S.p.A. <http://www.borsaitaliana.it/comitato-corporate-governance/code/2014clean.pdf> ). Terna accepted this Corporate Governance Code with a Resolution of the Board of Directors on July 24, 2012 and also amended the existing procedures affected by the new provisions in the Corporate Governance Code with subsequent resolutions of the Board of Directors on December 19, 2012 and also on May 27, 2014, when the Board of Directors was to be renewed following the end of its term of office with the approval of the financial statements for the year 2013 and, subsequently, when updating the Corporate Governance Code as appropriate.

Further actions aimed at improving the Group's System of Governance are in progress and others will be evaluated to keep the Terna System of Governance continually up to date with best practices and, more generally, with the benchmark best practices found in the international context where the Company operates. It also intends to maintain compliance with the provisions of the latest edition of the Corporate Governance Code dated July 2015, which Terna states to accept following its illustration to the Terna Board of Directors on July 28, 2015. Some of its new requirements are already being followed, although it will be applied subsequent to this reporting period, as indicated in the updating schedule outlined in the transitory provisions for this edition. The Company is not subject to non-Italian laws that influence its Corporate Governance structure.

## Section IV: Board of Directors

### Composition

In compliance with the shareholders' resolution passed during the ordinary meeting held on May 27, 2014, the Board of Directors numbers nine members, whose term will expire with the approval of the financial statements as of 2016.

The members of the Board of Directors, in accordance with that resolved by the Shareholders' Meeting of May 27, 2014 are: Catia Bastioli (Chairwoman), Matteo Del Fante (Chief Executive Officer), Carlo Cerami, Fabio Corsico, Stefano Saglia (Directors elected from the majority list drawn up by Cassa Depositi e Prestiti S.p.A.), Cesare Calari, Luca Dal Fabbro and Gabriella Porcelli (Directors elected from the minority list drawn up by a group of shareholders made up of asset management companies and other institutional investors as listed in the Company's specific press release relating to publication of the Lists of May 6, 2014).

Further information regarding the lists of candidates submitted and on the results of the voting is available on the Company's website at [www.terna.it](http://www.terna.it) in the section "*Investor Relations/Corporate Governance/Company bodies/Shareholders' Meetings/Shareholders' Meeting of May 27, 2014*".

Following the resignation of the Director Simona Camerano (elected by the aforementioned Shareholders' Meeting from the majority list), the Board of Directors, at its meeting on January 21, 2015, resolved - with the express approval of the Board of Statutory Auditors and taking into account the positive assessment of the Appointment Committee - to appoint by co-option Yunpeng He (taking into account what had been reported by the relative majority shareholder CDP Reti S.p.A., a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. which selected the Director to resign), after checking, on the basis of the declarations made, the existence of the statutory requirements for his appointment (pursuant to Arts 15.2, 15.3 and 15.5 of the Bylaws).



The Director He, who is a member of the Board of Directors of CDP Reti S.p.A., declared – under the terms of the requirements provided for in Art.148 paragraph 3 of the Consolidated Law on Finance and in Art.3 of the Corporate Governance Code – that he did not possess the independence requirements. In accordance with Art. 2386 of the Italian Civil Code, this appointment was confirmed by the Shareholders' Meeting of June 9, 2015.

On the basis of the statements made for the appointment, of the vote count and of the end of voting, the composition of the Board of Directors, also following the appointment of Director He, also meets the requirements laid down both, on first application, by the relevant law on the subject of gender balance - as two of the members of the Board of Directors are women and seven are men - and by Article 147-ter, paragraph 3 of the Consolidated Law on Finance, as three members of the Board of Directors appointed by the Meeting on May 27, 2014 were taken from the minority list which obtained the highest number of votes, not connected in any way, even indirectly, with the shareholders that submitted or voted the list that received the highest number of votes.

The Board of Directors consists of executive and non-executive directors and provides for the presence of a Chairman, appointed by resolution of the Shareholders' Meeting of May 27, 2014, in accordance with Article 16 of the Bylaws, and a single executive director, the Chief Executive Officer, appointed by the Board of Directors in accordance with Article 22 of the Bylaws, in accordance with that specified under the following title in this section “Delegated bodies and other Executive Directors” with suitable competence and professionalism (Articles 2.P.1 and 2.P.4 of the Governance Code).

Terna's Directors are suitably competent and professional (Article 2.P.1 of the Corporate Governance Code). A brief description of the Board members' professional background is provided below:

- **Catia Bastioli, 58 years old - Chairwoman**

[born in Foligno (Perugia) on October 3, 1957]

She has a Chemistry degree from Perugia University and in 1985 attended the Business Management school “Montedison High Potential” at Bocconi University. Since May 2014 she has been Chairwoman of Terna S.p.A.

She worked on materials science, environmental sustainability and renewable raw materials at the Guido Donegani Institute, Montedison Corporate Research Centre, until 1988. She was one of the founders of the Fertec research centre on renewable raw materials, which then became Novamont S.p.A., a company in which she holds the position of Chief Executive Officer and where she has worked since 1999 holding various positions, most notably Technical Manager and later General Manager. Within Novamont she is Chief Executive Officer of Matrica S.p.A. and Mater-Biotech S.p.A. Catia Bastioli is Chairwoman of Mater-Biopolymer S.r.l.

A member of the Executive Committee and the Management Committee of Federchimica, of the Management Committee of PlasticsEurope Italia and Chairwoman of the Kyoto Club Association. Since May 2013 she has been a Director of the Cariplo Foundation.

She is a member of important Advisory Boards at the European level, namely the High Level Group on Key Enabling Technologies and the Bioeconomy Panel, the strategic platform whose aim is to support implementation of the bioeconomy strategy in Europe.

She is the Chairwoman of SPRING - *Sustainable Processes and Resources for Innovation and National Growth*, the Italian Technological Cluster of Green Chemistry. Since 2014 she has also been a member of the Representatives Committee of the Symbola Foundation for Italian Quality and of the Executive Committee of the Foundation for Sustainable Development, of the Executive Committee of the Civita Association and of the Assessment Committee of the Raul Gardini Foundation. Since December 2014 she has been a Full Member of the international NGO The Club of Rome.

She developed and tested the third-generation Biorefinery model. The author of significant scientific contributions in the form of both publications and international patents, she has contributed to creating an industrial culture particularly sensitive to the problems of environmental impacts and eco-sustainability of production processes and, for these reasons, in 2008 she received the Specialist Degree Honoris Causa in Industrial Chemistry from Genoa University. She has received numerous awards and recognitions and has been given the title of merit Cavaliere Al Merito della Repubblica Italiana by the Italian State. In 2013, she received the “Eureka Prize” for technological innovation and in 2007 the “European Inventor of the Year” award for her inventions related to bioplastics between 1991 and 2001 and for managing to translate her research results into industrial products.

- **Matteo Del Fante, 48 years old - Chief Executive Officer**

[born in Florence on May 27, 1967]

He has a degree in Political Economics from the “Luigi Bocconi” University in Milan. He attended specialisation courses in international financial markets at the Stern Business School, New York University.

Since May 2014 he has been Chief Executive Officer and General Manager of Terna S.p.A., a company in which since April 2008 he has been a member of the Board of Directors and the Control and Risk Committee. In addition, since June 25, 2015, he has been Vice President of ENTSO-E, the European Network of Transmission System Operators for Electricity.

He began his career in the JP Morgan Research Department in 1991 and, after holding various positions at the Milan and London offices, in 1999 he assumed the position of Managing Director. He was with JP Morgan until 2003, having responsibility for public sector customers in the EMEA (Europe-Middle East-Africa) area, and in 2004 he joined Cassa Depositi e Prestiti S.p.A. (CDP) just after its privatisation, as Finance and M&A Manager. Here he launched the business in the real estate sector, holding the position of Chief Executive Officer of the Group's asset management company (CDP Investimenti SGR S.p.A.) from 2009 to July 2014.

From June 2010 to May 2014 he was General Manager of CDP, until the appointment in Terna. He has also been a member of the boards of directors of numerous investee companies of the CDP Group, including STMicroelectronics (both STMicroelectronics N.V. - from 2005 to 2008 - and STMicroelectronics Holding - from 2008 to 2011) and of the European Energy Efficiency Fund (EEEF) from 2011 to 2013.

- **Cesare Calari, 61 years old - Director**

[born in Bologna on May 10, 1954]

He has a Law degree from Bologna University and in Economics/International Affairs from Johns Hopkins University/School of Advanced International Studies (Washington DC), with subsequent specialisation courses at Harvard and Stanford. He is a member of the Bretton Woods Committee and has taught as Adjunct Professor of International Finance at Johns Hopkins/SAIS in Washington. Member of the Board of Directors and, considered a financial expert thanks to his professional and academic experience, Chairman of the Audit Risk and Corporate Governance Committee of Terna S.p.A. since May 2014.

After developing wide experience in the field of private equity and in financial, banking and insurance services in developing countries, he has been a Partner in Encourage Capital LP since 2015, a firm specialised in the management of private equity investments. He is currently also a Director of Global Ports Holdings (Global Liman Isletmeleri A.S. - Istanbul).

In the past, after a short period at the Bank of Italy, in 1981 he began a long career at the World Bank and he held positions of growing responsibility at the IFC – International Financial Corporation (an Agency of the World Bank Group), before assuming, in 2001, a top position in Washington, at the World Bank itself, as Vice President of the Financial Sector. He has held various administrative posts in several Italian and foreign companies: Director and member of the Internal Control and Related Parties Committees of Assicurazioni Generali S.p.A. (2010-2013); Director of Meritum Bank (Danzig, Poland 2011-2013), Moneda Asset Management (Santiago, Chile 2001-2005), Zivnostenska Banka (Prague, 1992-1995), International Bank in Poland (Warsaw, 1991-1994), Nomura Magyar (Budapest, 1991-1994). He has served on the Capital Markets Advisory Committee of Georgetown University McDonough Business School (Washington DC) and on the Advisory Board of the Asia Society.

- **Carlo Cerami, 51 years old - Director**

[born in Verona on February 2, 1965]

He has a Law degree from Milan University, and is a Lawyer specialised in administrative law and owner of the Cerami-Administrative Law Office, he has gained great professional experience with local public administrations and with companies operating in the public services sector. He has provided and provides legal advice on the following subjects: territorial programming and planning, local public services, public works, construction, ecology and the environment, energy, local public finance, expropriations, trade, work contracts, concessions and in general contracts of the P.A. and the related tender procedures.

Since September 2013, he has been a member of the Study Group set up at the Ministry of Infrastructure and Transport to define a national legislative framework on the subject of governing the territory and social housing. Currently, beside the position of Chairman of the Board of Directors of InvestiRE SGR, he is also a Director of Vita-Salute San Raffaele University. He has been a Director, Chairman of the Remuneration Committee and a member of the Appointment Committee of Terna S.p.A. since May 2014, and a member of the Control, Risk and Corporate Governance Committee since March 2015.

In the past he was Chairman of Polaris Real Estate SGR, until December 2014, and a Director of Polaris Investment SGR (2010-2013), of the Cariplo Foundation with delegated powers in the field of social housing (2007-2013) and of Galileo Avionica S.p.A. - Finmeccanica Group (2007-2010).

- **Fabio Corsico, 42 years old - Director**

[born in Turin on October 20, 1973]

He has a degree in Political Science, is a manager, and has held prestigious public positions and management positions in important Italian companies. Since February 2005 he has been External Relations, Institutional Affairs and Development Manager of the Caltagirone Group within which he is also a Director of Cementir Holding S.p.A. In addition, he is Director of Grandi Stazioni S.p.A., "Il Gazzettino", BSI (Banca Svizzera Italiana), and, since 2009, has been Senior Advisor for Italy at Credit Suisse. Furthermore, he is a Director of the CRT Foundation (of which he is Chairman of the Investments Committee) and Deputy Chairman of the Sviluppo e Crescita (Development and Growth) Foundation. He has been a Director, and member of the Remuneration Committee and the Related-Party Transactions Committee of Terna S.p.A. since May 2014.

Among his past professional experience we can mention: his role as head of the Technical Secretariat of the Ministry for the Economy and Finance (2001) and member of the Committee for the Introduction of the Euro, the work on preparing international dossiers carried out within the Ministry of Defence at the Office of the Diplomatic Advisor of the Minister and at the Military Strategic Studies Centre (1997), and, in Enel, the role of head of Institutional Affairs, Relations with the Territory and Relations with Confindustria (2003). From 1998 to 2001 he worked for Olivetti/Mannesmann, at the Company Infostrada in the communication and Human Resources sectors, before taking on the role of Public Affairs Manager. In the same period he represented the Company in Assinform and AIP.

He was a member of the Board of Directors of Avio (2009-2010), Biverbanca and Consum.it (2008-2012), Alleanza Assicurazioni (2009-2011) Alleanza Toro Assicurazioni (2011-2013), CUIEM-CRT (2010-2013), Aspen Junior Fellows, The Council for the United States and Italy Juniores, the board of Rivista Zero and Rivista Formiche, the Teatro Regio of Turin (2010-2013), and Chairman of Orione Investimenti (2010-2012). He has edited a number of publications for the Franco Angeli's Strategic Studies series and on the subject of banking foundations.



- **Luca Dal Fabbro, 50 years old - Director**

[born in Milan on February 8, 1966]

He graduated in Chemical Engineering from Rome “La Sapienza” University with full marks. He obtained a Master in International Policy at the Université Libre de Brussels and completed the Advance Management course at the MIT Sloane School of Management in Boston. He is CEO of Domoenergia S.r.l. and, since January 2015 he has been Chairman of Electro Power Systems S.A., a company listed on the Paris Stock Exchange and operating worldwide in the field of energy storage. He is a member of the Board of Directors and Chairman of the Appointments Committee of Terna S.p.A. and has been a member of the Audit, Risk and Corporate Governance Committee of Terna S.p.A. since May 2014. Within the Terna Group he is a member of the Board of Directors in Tamini Trasformatori S.r.l.

In the area of associations he is a Member of the Board of Assofranchising and of the Friends of Aspen Group of the Aspen Association for internationalisation of entrepreneurial, political and cultural leadership of the country. Since 2016 he has been an adjunct professor at LUISS University in Rome.

He gained significant experience in the electricity and gas industry holding important positions in E.ON Group as Chief Executive Officer of E.ON Italia S.p.A. (2009-2011) and previously in companies responsible for marketing and services: Chief Executive Officer E.ON Energia S.p.A., Director of AMGA - Azienda Multiservizi S.p.A. and Chairman of Somet, a company working in the sale and distribution of gas. Within the Enel Group, of which he was also Marketing Manager - Market Division of Enel S.p.A. (2001-2009), he was Chief Executive Officer of Enel Energia S.p.A., Director of Enel Gas S.p.A. and Marketing, Development and Structuring Manager of Enel Trade S.p.A. In the international context he also worked for Enron Capital & Trade as Development Manager London (1999-2001) and, in the Tenaris Group, he was Strategic Marketing and Development Manager of Techint S.p.A. (1997-1999).

Consultant in Coopers & Lybrand Management Consultants (1996-1997) and Business Development Manager China/Far East of CTIP S.p.A. (1994-1996). In Brussels he held the post of European Product Projects Manager in Procter & Gamble (1991-1994). He did academic work and presentations at SAIS John Hopkins of Bologna and the Rome campus of St John's University. He collaborated with the Institute of International Affairs (IIA). He represented Italy at the first “Asian-European Young Leaders Meeting” in Japan and took part as a speaker at UN conferences in Geneva at the UNCTAD and in various conferences and meetings on energy in Italy and abroad. Named Italian Talent by the Meritocracy Forum in 2012.

- **Yunpeng He, 51 years old - Director**

[born in Baotou City (Inner Mongolia, China) on February 6, 1965]

Degree and Master's Degree in Electrical and Automation Systems at Tianjin University. Master's Degree in Technology Management at the Rensselaer Polytechnic Institute (RPI).

He currently holds the position of Director of CDP Reti S.p.A. and Snam S.p.A. Since January 21, 2015 he has been a Director of Terna S.p.A.

He has also held the following main positions: Vice Chief Technical Officer (CTO) of State Grid Tianjin Electric Power Company from December 2008 to September 2012, Head of the Tianjin Binhai Power Company from December 2008 to March 2010 and Manager of the economic and legal department of State Grid Tianjin Electric Power Company (from June 2011 to September 2012). At State Grid Tianjin Electric Power Company he previously also held numerous prestigious positions including: Manager of the planning and development department (from October 2005 to December 2008), Manager of the planning and design department (from January 2002 to October 2005), Chairman of the Tianjin Electric Power Design Institute (from June 2000 to January 2002).

- **Gabriella Porcelli, 51 years old - Director**

[born in Rome on March 10, 1965]

A lawyer and industrial business manager, she has a degree cum laude in Law from Rome “La Sapienza” University with a Master in Common Law (“European Young Lawyers Scheme” promoted by the British Council). She later completed further study of an international nature and in the field of commercial and company law. Since 2009 she has been Legal Affairs Manager (Senior Counsel Italy) of Philip Morris Italia S.r.l. (Philip Morris International Group). Director of the Italian Association of Company Lawyers (Associazione Italiana Giuristi d’Impresa – AIGI) and a member of the Competition Committee of the International Chamber of Commerce – Italian Section. She is also a member of the Nedcommunity association (Italian Association Non-Executive and Independent Directors), and the ACC – Europe (Association of Corporate Counsel). She teaches on the Master in Company Law at the Rome LUISS University. She has been a Director, a member of the Remuneration Committee and the Related-Party Transactions Committee of Terna S.p.A. since May 27, 2014.

Her experience in companies includes the role of Deputy Legal Affairs Manager of Pfizer Italia S.r.l. (1998-2008), Senior Legal Advisor ENI-Agip S.p.A. and, subsequently, of Agip Petroli S.p.A. (1994-1998). In the professional field, her experience was gained in the field of legal advice and assistance of an international nature involving commercial and corporate matters, and in competition and Corporate Governance law and she did legal work at Italian and British courts and law offices (1991-1994). As part of these activities she has edited publications and taken part as a speaker at conferences. She was also an Official of Confcommercio (1989-1991) in Public Affairs relations with the EU area, regulations on structural funds for the tourism industry (tertiary).

- **Stefano Saglia, 45 years old - Director**

[born in Milan on February 1, 1971]

A strategic consultant in the industrial and financial sectors, he has worked for the company “Palazzo Novecento” since March 2013. He is a professional Journalist registered with the Order of Journalists of Lombardy, and an accountant. Currently he is also a member of the Senior Council Strategic Advice, of the Experts Group of the Ideas for Sustainable Development Committee of ENEA and of the Scientific Committee of the Magna Carta Foundation. He is a member of the Board of Directors, Chairman of the Related-Party Transactions Committee and member of the Appointments Committee of Terna S.p.A. since May 2014.

He began his career as a professional journalist (from 1993) in various newspapers and, from 1995 to 2000 was Senior Manager of the President’s Office of Lombardy Regional Council.

He has held numerous posts and important institutional positions, including: Member of the Chamber of Deputies from 2001 to 2013; Under-secretary at the Ministry of Economic Development with delegated powers for Energy, technical regulations, cooperatives and protection of competition at the Chairman’s Office of the National Consumers’ Council from 2009 to 2011; Chairman of the “Public and Private Work” Commission at the Chamber of Deputies; Deputy Chairman of the Enquiry Commission on the waste cycle within the Chamber of Deputies Production Commission. He has held directorships in a number of Italian companies such as Immobiliare Fiera S.p.A. of Brescia from 2000 to 2002 and Consorzio INN. TEC S.r.l. of which he was also Deputy Chairman. As part of his parliamentary work he held the role of Rapporteur at the liaison stage for numerous legislative measures and was the promoter of important reforms, including: the reorganisation of the fuels network, the reform of gas distribution areas, incentive schemes for high-energy-consumption companies, reorganisation of hydroelectric concessions, tariffs on biomasses, high-yield cogeneration subsidies, promotion of incentives for renewable energy sources, and decommissioning of the Italian nuclear power stations. At the international level, he was the Head of numerous diplomatic economic missions and took part in the sessions of the European Energy Council and of the International Energy Agency.

On its appointment, the Board of Directors ascertained that each of its members possessed the requisites of integrity and professionalism (Art. 2.P.1 of the Corporate Governance Code) and those provided for in Art. 15.5 of the Bylaws as amended by the Shareholders' Meeting of May 27, 2014 in relation to the provisions of the Unbundling Legislation.

The evaluation regarding the existence of the independence requirements for each of the non-executive members was made, taking into account the information provided by each individual, during the appointment and during the meeting held on March 21, 2016 according to the terms stated in the following paragraph "Independent Directors" (Art. 3.P.2 of the Corporate Governance Code).

Table 1 attached gives information on the members of the Board of Directors as at March 21, 2016 (Articles 1.C.1 letter i)-(1) of the Corporate Governance Code and 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).

### Maximum number of positions in other companies

All the Directors accept their appointment to office when they believe they can devote the necessary time to the diligent performance of their duties – also considering the number and type of positions they hold outside the Company in other companies listed on regulated markets (also abroad), financial companies, banks, insurance companies and significantly large companies, and the work required in terms of additional working and professional activities carried out and the association offices held – and they devote the necessary time to the diligent performance of their duties, as they are well aware of the responsibilities of the office held.

To this end, since February 2007, in compliance with Article 1.C.3 of the Corporate Governance Code, Terna's Board of Directors approved its own guidelines regarding the maximum number of positions as Director or Auditor in significantly large companies that can be held still enabling the efficient performance of the duties as Director of Terna S.p.A. included in the internal document "Guidelines concerning the maximum number of positions that can be held by Directors of Terna S.p.A." requiring the Directors of Terna to consider these before accepting the office. More than 4 years after adoption, following the constant monitoring of the governance choices made by the company and in line with the practice seen in similar companies, in the meeting of October 7, 2011, the Board of Directors proceeded to review the said guidelines, which, in order to consider the clarifications provided by the Corporate Governance Code in the December 2011 edition, were further updated by the resolution of December 19, 2012.

To this end, "significantly large companies" were defined as:

- a) companies with shares listed on regulated markets, in Italy or abroad;
- b) Italian or foreign companies with shares not listed on regulated markets, and operating in the insurance, banking, brokerage, asset management or financial sectors;
- c) other Italian or foreign companies with shares not listed on regulated markets, not operating in the sectors listed in letter b), having net assets exceeding € 1 billion.

The Board has identified different general criteria for the commitments required of each role (CEO, Executive Director – for example Executive Chairman, Managing Director, i.e. with special proxy – Non-executive and/or Independent Director and Standing Auditor), considering the nature and size of the Company in which the positions are held and whether they are part of the Terna Group or are Terna's investees (which, originating from the assignment itself, are not calculated in the total number). It is specified that the attribution of deputy powers or powers for urgent cases only to directors without management powers of attorney does not, in itself, make them executive directors, except where such powers are, in actual fact, used with significant frequency. A "weight" was assigned to each type of position for the purposes of assessing the commitment required, and the Directors also established that the role of CEO at Terna is incompatible with the same role in other significantly large companies.

When more than one office is held within the same Group, also for a role with a company belonging to the Group itself, only the most important assignment is considered.

All the Directors in office that were appointed by the Meeting on May 27, 2014 gave details of the positions they held at the time the lists were submitted and subsequently when they accepted their appointment.

Likewise, Director co-opted by the Board of Directors on January 21, 2015 and confirmed by subsequent Shareholders' Meeting on June 9, 2015. Based on the updated information delivered to the Company in compliance with the approved guidelines, as of March 21, 2016, all Directors held a number of positions that is compatible with the guidelines set by the Board.

In the summaries of each Director's personal characteristics, all the positions held by them are indicated. The total number of positions held as Directors or Auditors in other significantly large companies is provided in the attached table 1.

There have not been exceptions, issued by Terna's Shareholders' Meeting, to the prohibition of competition by the Directors provided for by Article 2390 of the Civil Code (Article 1.C.4 of the Corporate Governance Code).

## Induction Programme

Terna has considered it appropriate to organise initiatives, by now a regular activity carried out at least annually, aimed at providing Directors and Auditors with suitable knowledge of the business segment in which the company operates, business dynamics and their evolution and the reference legislative and self-regulatory framework, as established by Article 2.C.2 of the Corporate Governance Code.

At the initiative of the Chairwoman in agreement with the Chief Executive Officer, following their appointment as well as during the year 2015, the Directors of Terna, also within the scope of the meetings of Committees constituted within the Board, participated in meetings with the Company's management, which were also attended by the members of the Board of Statutory Auditors. In particular, two specific days of meetings were also organised regarding: the system of corporate governance and fundamental lines of Governance with special reference to the system of rules adopted relating to corporate disclosures; core business activities with particular reference to the National Transmission Grid Development Plan, to the Defence Systems Improvement Plan for the security of the National Electricity System (the so-called "Security Plan"), as well as the regulatory and tariff framework required by AEEGSI to the interest of the Terna Group; and they also made specific visits to the plants.

In line with the provisions of Art. 1.C.6 of the Corporate Governance Code, on the occasion of Board meetings, the Chief Executive Officer called upon to take part, also at the invitation of the Chairwoman or at the request of a single Director, senior executives of the Company whose presence was considered of assistance in providing better information on the matters placed on the agenda and, if required by the specific topic, to illustrate its relevant legal framework. The same thing occurred in the work of the Committees established within the board, and at the invitation of the Chairwoman or Coordinator of the Committee.

The Directors are kept constantly informed by competent departments on the main legislative and regulatory innovations concerning the Company and the exercise of own functions.

## Role of the Board of Directors

The Company's Board of Directors holds a crucial role in its organization. It has strategic and organizational functions and responsibilities with respect to the Company and the Group. It is also responsible for verifying that the necessary controls are in place to monitor the performance of the Company and its subsidiaries.

In addition to exercising the powers that are attributed to it by Law, the Company's Bylaws (Article 21.1), according to the law, attribute the Board the role of managing issues pertaining to the Shareholders' Meeting that can determine amendments to the Bylaws as previously described in "amendments to the Bylaws".

Within the limits as per Article 2381 of the Italian Civil Code, the Board of Directors may delegate its tasks to an executive committee and/or to one or more of its members (Article 22.1 of the Bylaws).

In this context and in compliance with the Law and the provisions of specific resolutions, and considering the provisions of Article 1 of the Corporate Governance Code, the Board of Directors reserved to itself a series of decisions necessary or useful to pursuing the company purpose. In particular, the Board of Directors:



- examines and approves the strategic, industrial and financial plans of the company and the Group it heads, regularly monitoring implementation. In this respect, the current structure of Company powers provides that, in particular, the Board of Directors approves the Company's annual budget and long-term plans updated on an annual basis (which include the combined annual budgets and long-term plans of the subsidiaries) (Article 1.C.1, letter a) of the Governance Code). Monitoring is carried out through the regular (quarterly) assessment of the trend of operations and specific Company Performance Management tools (BSC). In 2015, the Board of Directors examined and approved the strategic, industrial and financial plan of Terna and the Terna Group, presented to the market on March 26, 2015 (2015-2019 Strategic Plan), most recently updated on February 17, 2016 (2016-2019 Strategic Plan), thereby pursuing the creation of value for shareholders in the medium/long-term, also taking account of trends and policies in place, in Europe and worldwide (COP 21), for the decarbonisation and circularity of economies. Monitoring was carried out in accordance with the terms specified and according to board meetings to approve the accounts. With regard to the action planned, the Board provides specific guidelines, a description of the objectives, characteristics and application methods of the activity monitoring the business processes and risk analysis, and defines the nature and level of accounting risk with the strategic objectives relating to the implementation of the mission assigned to the company (Articles 1.P.2 and 1.C.1, letter b) of the Governance Code). With regard to this matter, reference should be made to section XI;
- defines the corporate governance system within the company and provides for appointment, and definition of functions and regulations of the internal committees of the board, as established by the current structure of powers in the company and presented in this Report (Articles 1.C.1, letter a); 7.P.3 and 7.C.1, letter d) of the Governance Code);
- resolves, with regard to the Group structure and regarding the establishment of new companies, the purchase and transfer of shares in companies, namely in companies or company branches with a value exceeding € 30 million, as envisaged by the current structure of powers in the company (Article 1.C.1, letter a) of the Governance Code);
- on the basis of the proposals by the specific Committee, approves Company Policy concerning remuneration of members of administration bodies, general directors and senior executives with strategic responsibilities, which is then submitted to the Shareholders' Meeting for an advisory vote, and after having heard the Board of Statutory Auditors, determines the remuneration of the CEO and of other Directors holding special office (Article 6.P.4 of the Governance Code) which it indicates annually in a specific report. With regard to this matter, reference should be made to section IX. On the basis of the proposals formulated by the specific Committee the Board of Directors also determines: (i) the remuneration of the Chief Executive Officer and of the other Directors holding special office; (ii) the criteria of a general nature for remuneration of the top management and for the incentive plans for which approval of the Shareholders' Meeting is required;
- constantly evaluates the suitability of the organisational, administrative and accounting structure of the company, defined by the CEO according to the proxies received, and its subsidiaries of strategic relevance (thereby meaning, in accordance with that resolved by the company's Board of Directors on February 22, 2007: a) subsidiaries listed on regulated markets and b) subsidiaries which abroad have a significant share of the segment of core business of the Group) and during the examination of internal procedures on the matter submitted to the Board and the resolutions passed on the various matters submitted to it during FY 2015. With specific reference to the internal audit and risk management system, it defines the relevant guidelines, at the proposal of the Director in Charge of the Internal Audit and Risk Management System and, upon seeking the opinion of the specific Committee (Articles 1.C.1, letter c) and 7.C.1, letter a) and b) of the Governance Code). The evaluation of the suitability of the Internal Audit and Risk Management System of the Terna Group with respect to the characteristics of the business and the risk profile assumed, as well as its efficiency, is carried out at least once a year, after obtaining the opinion of the Control, Risk and Corporate Governance Committee (Article 7.C.1, letter b) of the Corporate Governance Code). With regard to this matter, reference should be made to section XI;

- examines and approves transactions with a significant impact on the Company's financial position and results, especially if they are related-party transactions or could otherwise give rise to a potential conflict of interest. This is without prejudice to the powers assigned to the CEO for particularly urgent cases. In particular, in addition to the specific provisions of the special procedure for related-party transactions and the steps taken to identify and manage situations where a Director holds his or her own interest or an interest of third parties regarding a transaction that he or she should evaluate (for which we would refer you to the specific section XII under "Interests of Directors and related-party transactions") "significant operations" concluded also by means of subsidiaries identified under the scope of a specific internal procedure of the Board (*"Approval of significant transactions and management of situations of interest"*, updated on March 31, 2011 and, with particular regard to managing situations of interest, most recently on June 23, 2015 following a favourable opinion of the Audit, Risk and Corporate Governance Committee) are subjected to the prior approval or preventive examination (in case of operations for which the companies directly and/or indirectly controlled by Terna are competent) of the Board of Directors. These operations are identified as: (i) transactions that have as their object, amount and terms/time frames of implementation an impact on safeguarding the company assets or the completeness and correctness of Terna's information also of accounting information and that as such create an obligation for Terna to make available to the public an informative document in compliance with provisions by supervisory authorities of financial markets and/or (ii) financial transactions whose value exceeds € 50 million with the exception for transactions included in the budget and in approved financial plans as well as those regarding dispatching activity and all related services (Article 1.C.1, letter f) of the Corporate Governance Code). In this regard, it is specifically envisaged that the Board of Directors shall receive a suitable disclosure on the methods for implementation of significant operations, on timing and economic conditions for the implementation of such operations, on the evaluation procedure, the interests and reasoning underlying them and on any risks for Terna and its subsidiaries connected with said operations and, moreover, that can use the assistance of one or more independent experts for an opinion on the economic conditions and/or the executive and technical methods of the operation. Board resolutions taken in relation to intragroup transactions are suitably grounded with regard to the motivations for and benefits of the operation. According to the current structure of powers in the company, the Board of Directors is also entitled to pass resolutions on: the reduction of loans, assets and liabilities, in any form, in the medium/long-term, of a value in excess of € 100 million not envisaged by the budget and financial plans approved and not aimed at developing interventions that have already been approved by the Board in the National Transmission Grid Development Plan and/or the Strategic Plan, as well as the issue by the Company of sureties and real guarantees of an amount greater than € 30 million for each operation, not provided for in the budget or in the financial plans approved;
- receives, as does the Board of Statutory Auditors, in accordance with the provisions of Article 21.3 of the Bylaws, constant, complete information from the Chief Executive Officer on the activities carried out in the exercise of the proxies received and in relation to the trend of operations of the company, its foreseeable outlook and the most important operations, summarised on a quarterly basis in a specific report (Article 1.C.1, letter d) of the Governance Code). In particular, with respect to all significant transactions carried out by the Company and its subsidiaries (including any related-party transactions of lesser importance as identified in the specific Procedure adopted by Terna, and which are not exempt from application of the same, which do not require approval by the Board of Directors) the CEO reports to the Board of Directors on the (i) characteristics of the transactions, (ii) the parties involved and their relationship with the Company or its subsidiaries;
- assesses the general performance of Company operations, with specific reference to situations featuring conflict of interest, on the basis of the information received from the CEO and the Control, Risk and Corporate Governance Committee, periodically checking that planned results have been achieved (Article 1.C.1, letter e) of the Corporate Governance Code);

- carries out, at least once a year, an assessment on the operations of the Board and its committees and on their dimensions and composition. In this respect, we refer you to the details given under the title below *“Assessment of the Board of Directors’ Activity”* (Article 1.C.1, letter g) of the Corporate Governance Code);
- assesses, having consulted with the Board of Statutory Auditors and received the opinion of the Control, Risk and Corporate Governance Committee, the results given by the legal auditor in any letter of suggestions and in the report on the essential issues that have emerged during the legal audit (Article 7.C.1, letter e) of the Governance Code);
- reports to the shareholders in the meeting, in accordance with the provisions of current legislation. With regard to this matter, reference should be made to section XVI.

## Board of Directors Meetings and the role of the Chairwoman

The Directors gather regularly and carry out tasks autonomously and based on their full knowledge, pursuing the objective of creating value for shareholders, taking into account the social aspects of the Group’s activities and the resulting need to adequately consider all stakeholders in the performance of those activities (Articles 1.P.1 and 1.P.2 of the Governance Code).

During FY 2015, the Board of Directors held 9 meetings, each lasting an average of 2 hours and 40 minutes, which saw the regular participation of the Directors (100%) and the attendance of the Board of Statutory Auditors (96%) and which also saw the attendance, in line with the provisions of Article 1.C.6 of the Corporate Governance Code, of executives of the Company, whose presence was considered of assistance in providing better information regarding the items on the agenda. The presence of independent directors at Board meetings during the year 2015 was 100%. The participation of each Director in the meetings held during FY 2015 is indicated in table 1 attached (Article 1.C.1, letter i)-(2) of the Corporate Governance Code and Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance).

For 2016, all board meetings related to the examination of the economic and financial data by the Board of Directors have been scheduled according to what was officially communicated to the market on January 29, 2016 and on February 15, 2016. In the current year and as of the date of approval of the present Report, the Board of Directors met three times.

The activities of the Board of Directors are coordinated by the Chairwoman. In accordance with the Bylaws, the latter has the legal power of representation of the company and the company signature, chairs the Shareholders’ Meeting and the Board of Directors, convenes board meetings, establishes the agenda on the request of the CEO and guides the related events; she also verifies implementation of board resolutions (Article 25 of the Bylaws) and is assigned the tasks attributed to the Chairwoman by the law or the Corporate Governance Code which the Company has endorsed.

With a resolution of the Board of Directors of May 27, 2014 the Chairwoman Catia Bastioli was also given the institutional responsibility of representing the company, guiding and directing the work of the Board and assuming the promotional and advisory role of CSR (corporate social responsibility), as well as overseeing activities related to the equity investment in the company “CESI - Centro Elettrotecnico Sperimentale Italiano Giacinto Motta S.p.A.”, in coordination with the Chief Executive Officer.

Furthermore, Terna’s Audit Department reports to the Chairwoman of the Board of Directors.

More specifically, with regard to the duties involved in organising the Board works, the Chairwoman ensures that suitable documentation and information is given to enable the Board to rule knowledgeably on the matters submitted for its examination (Article 1.C.5 and Comment to Article 2 of the Governance Code). In this regard, a specific software platform was created to enable secure and confidential access to the board documentation together with an e-mail address dedicated to the exchange of correspondence between Directors and Statutory Auditors. Furthermore, during the meeting held on December 19, 2012 – considering the provisions of the Corporate Governance Code and the set of governance rules of the company with regard to the meetings of the Board of Directors and the committees established within the board – the Board of Directors defined a disclosure prior to the board meeting and for the committees that is at least coherent with the terms envisaged for convening the meetings of these organisations, without prejudice to the fact that, where the subject so requires, the information given can be supplemented, including subsequently, by the presentation

provided orally by the Chairwoman, the Chief Executive Officer or members of the Group management and/or consultants suitably authorised and invited during the meetings of said organisations, or the meetings of the Board of Statutory Auditors, or during specific informal meetings open to the participation of Directors and/or Auditors organised to further investigate matters of interest with reference to business management.

Subsequently to the resolution passed and until the date of approval of this Report, the disclosure made has been coherent with the Board's indications.

In connection with the role of promoting CSR, the Chairwoman presided over the work of the Sustainability Steering Committee in 2015, constituted with the participation of the Directors of the highest level and the Directors of the subsidiaries, which approved and coordinated the activities of the group in terms of sustainability.

### Assessment of the Board of Directors' Activity

In compliance with the Corporate Governance Code, Terna's new Board of Directors, with the support of the Appointment Committee, assessed the operation of the Board and its committees, and their size and composition, with reference to the work done since its appointment. The Board conducted this assessment, drawing on the assistance of the company Spencer Stuart Italia S.r.l. as a specialised external consultant to ensure the utmost objectivity of its evaluations. This initiative, considered in relation to the Board's three-year term, follows on from other analogous ones taken by Terna's Board of Directors since 2006 and up to just before the appointment of the new Board on the occasion of which the Board standing down, as provided for in Art. 1.C.1 lett. h) of the Corporate Governance Code, expressed the guidelines on the professional figures whose presence on the Board was considered opportune presented in the previous Report on Corporate Governance and Ownership Structures. The analysis carried out for the year 2015 and explained in this Report, *inter alia*, confirmed the appropriateness of the composition and organization of the Board of Terna and that the specific characteristics of the components, as in the past, have contributed towards taking informed decisions (Arts 2.P.1, 2.P.2, 2.P.3, 2.P.4 of the Corporate Governance Code).

Pursuant to Art. 1 C, letter g) of the Corporate Governance Code, it is noted that the company Spencer Stuart Italia S.r.l. expressly declared the non-existence of any situations of conflicts of interest in relation to the activity to which it is entrusted and that it does not have any other consultancy and/or other professional arrangements with Terna, the Terna Group and the subsidiary company Terna Cassa Depositi e Prestiti S.p.A., with the exception of one arrangement with the latter which is not relevant to the rendered consultancy services.

The analysis of the consulting firm, launched during the first quarter of 2016, relative to the second period of office, had as its objectives the structured survey of the effectiveness of the Board and its Committees in operational terms and identifying opportunities for further improvement in order to perform as effectively as possible the role of planning, management and control of a complex entity such as the Terna Group. The analysis was carried out through direct interviews with all Directors (thus, an expression of the majority and the minority shareholders) on the size, composition and functioning of the Board, conducted by Spencer Stuart senior consultants, experts in corporate governance and board effectiveness. The Interviews were conducted using an "Interview Guide" in which each point requested a quantitative assessment and a qualitative comment regarding each topic examined. The comments made by the Board of Statutory Auditors during a meeting held with all members of the Board were also collected, which took place in a constructive and collaborative manner. As part of the analysis a specific comparison has been carried out with the international best practices (art. 1.C.1 lett. i)-(3) of the Corporate Governance Code).

In particular, the analysis focused on a number of relevant aspects:

- a) the heterogeneous and appropriate size and composition of the Board of Directors and Committees;
- b) the suitability of Board and Committee meetings and the organisation of the same with regards to: i) the proposed work agenda and the time dedicated to the relevant issues; ii) the effectiveness of the decision-making process; iii) the positive and constructive atmosphere of the Board; iv) the suitable knowledge of the Terna Group by the Board Members; v) the frequency of meetings and participation by Board Members; vi) the treatment of confidential information;
- c) the level of interaction between Board Members and the Management Team required to provide adequate information;



- d) the authoritative and leadership role played by the Chairwoman and the relationship between the Chairwoman and the Chief Executive Officer;
- e) the role of the Chief Executive Officer;
- f) the adequate extent and structure of the flow of information, including in terms of timing and methods of providing information;
- g) the duties of the Board of Directors and Committees;
- h) the appreciation of the activities carried out by the Corporate Secretariat and the Secretariat itself, and the promptness of reports in the Committees;
- i) the constructive contribution of the Board of Statutory Auditors;
- l) benchmarking with Italian and international best practices.

Said analysis has shown the non-existence of any areas demonstrating a particular lack of uniformity in the responses and feedback of Board Members, and that Terna's Board of Directors is completely aligned with the Corporate Governance Code and rightfully stands as an instance of best practices at both the Italian and international level, confirming the positive compliance assessment relative to these requirements.

The Board of Directors, in the meeting of 21 March 2016, based on the results of the analyses performed, which noted a particularly significant overall improvement, has therefore reached a positive overall assessment of the size, composition and operation of the Board of Directors and its Committees, having been positively impressed by all the professional profiles examined, all intent on exercising their role to the best advantage. In particular, the Board considered that the operation of the Board has confirmed its high level of efficiency and the general trend towards continuous improvement has demonstrated certain areas of excellence. These include: a) the size of the Board and the balance of its components; b) Board planning activities, the positive and constructive environment of Board meetings, the clear communication of the daily agenda, adequate knowledge of the Group by Board Members, the frequency and participation rate of meetings as well as the time dedicated to discussion, the treatment of confidential information; c) relations with the Management and the support provided to enable the Board to act knowledgeably; d) the ability of the Chairperson to coordinate work and debate and the constructive and coherent relationship of the same with the Chief Executive Officer in line with the Group's Corporate Governance Code; e) the suitable flow of information from the Chief Executive Officer, including in terms of timing and informative means both for the exercise of powers and the management of and participation in debates; f) the contribution of Board Members to discussions and the level of preparation of the same for Board Meetings.

## Delegated bodies and other Executive Directors

### CEOs

On May 27, 2014 the current structure of the Board of Directors provides for only one CEO, to which the Board has attributed powers, defining their nature, limits and any methods for exercising them; no executive committee was established.

The CEO has powers of legal representation of the Company and is entrusted with the widest powers for the administration of the Company, pursuant to the aforementioned Board Resolution, with the exception of those differently attributed by the Law, by the Bylaws or reserved for the Board of Directors, as described in this section under the "Role of the Board of Directors" (Article 2.C.1 of the Corporate Governance Code). The CEO informs the Board of Directors and the Board of Statutory Auditors of the activities and of the management of the Company as well as of the resolutions passed in exercising his powers pursuant to Article 21.3 of the Bylaws, at least on a quarterly basis and on occasion of Board meetings.

On a quarterly basis, specific reports are prepared in order to inform the Board regarding major actions and activities.

At the date of the present Report and under the terms of Art. 2.C.5 of the Corporate Governance Code, we can specify that there are no situations of cross directorship: in fact Terna's Chief Executive Officer does not hold any directorships in companies outside the Terna Group, of which another Director of Terna is Chief Executive Officer (CEO).

With the exception of the Chief Executive Officer Matteo Del Fante, the other 8 members of the Board of Directors (Catia Bastioli, Cesare Calari, Carlo Cerami, Fabio Corsico, Yunpeng He, Luca Dal Fabbro, Gabriella Porcelli and Stefano Saglia) must all be considered non-executive. In actual fact, we note, in this regard, that the Chairwoman Catia Bastioli does not hold an executive role, insofar as she has not been assigned individual management powers, nor does she have a specific role in preparing business strategies (Articles 2.P.1 and 2.C.1 of the Governance Code).

As already explained in the previous title "Board Meetings and role of the Chairwoman", the Bylaws assign the Chairwoman powers of legal representation of the Company and the company signature, the chair of the Shareholders' Meetings and the power to convene and chair the Board of Directors and verify the implementation of the Board's resolutions (Article 25 of the Bylaws); he or she is also assigned the duties assigned to the Chairwoman by law and by the Corporate Governance Code.

In this context, the separation of roles between the Chairwoman and CEO in Terna strengthens the characteristics of impartiality and balance required of the Chairwoman of the Board of Directors as envisaged by the Corporate Governance Code (Comment to Article 2 of the Governance Code).

Non-executive directors (insofar as they do not have any operative delegated powers and/or management functions within the company):

- apply their specialised knowledge in the Board's discussions, allowing examination of the matters being discussed from various perspectives, and subsequently pass thoroughly analysed, informed and compliant resolutions in line with social interests (Article 2.P.2 of the Governance Code) and
- in terms of their number, knowledge, authority and availability of time, are capable of guaranteeing that their judgement can have a significant weight in the Board's decisions in line with what provided for by the Governance Code (Article 2.P.3 of the Corporate Governance Code).

The suitability of the size, composition and functioning of Terna's Board and its committees, in this regard is certified by the results of the annual board reviews, as illustrated in the previous section "Assessment of the Board of Directors' Activity".

## Independent Directors

A suitable number, also in terms of competence, of non-executive Directors are independent.

Although independence characterises the activity of all the Directors, executives and non-executives, the presence of Directors that can be qualified as "independent" in compliance with the independence requirements set out by the law, the Bylaws and the Governance Code adopted by Terna, and whose role is significant both within the Board and its committees, suitably ensures adequate consideration of all shareholding members' interests.

The Company therefore put in place, back in February 2007, a specific internal procedure that defines the criteria for the evaluation of independence of the non-executive members and for the assessment of the requirements according to the Bylaws and the Corporate Governance Code ("Criteria for applying and procedure for assessing independence of the directors pursuant to Art. 3 of the Corporate Governance Code"), in keeping with the provisions of the Corporate Governance Code, according to the description already provided in the previous section II under "Appointment, requirements and term of office of Directors". With reference to this criteria, and on the basis of the information supplied by the individual parties concerned, the Board of Directors has assessed compliance with the independence requirements set out by the law, the Bylaws and the Governance Code with each Director at the first opportunity following appointment (Articles 3.P.2 of the Governance Code and 144-*novies*, paragraph 1-*bis* of the Issuers Regulation) and, subsequently, once a year at the board review (Articles 3.P.2 and 3.C.4 of the Governance Code), with regard, as specifically required by the Governance Code, more to the substantive profile than the formal profile and rewarding merit rather than value of the office held.

In particular, at the meeting of March 21, 2016, during which the Board of Directors evaluated, on the basis of the information supplied by the individual parties concerned, the commercial, financial and professional relations entertained directly or indirectly by the Directors with Terna, which may be or could appear to be such as to compromise the independence of a Director by virtue of their significance, both in absolute terms and as concerns the economic-financial position of the party concerned, and thereby certified that independence criteria were met by the 6 non-Executive Directors: Cesare Calari, Carlo Cerami, Fabio Corsico, Luca Dal Fabbro, Gabriella Porcelli and Stefano Saglia (Arts 3.C.1, 3.C.2 and 3.C.4 of the Corporate Governance Code).

At the same time, the correct application of the defined criteria and the procedures adopted by the Board of Directors was verified by the Board of Statutory Auditors (Article 3.C.5 of the Corporate Governance Code). Among the assessments carried out by the Board, with reference to the 6 Directors and the chairwoman, the existence is proven of the independence requirements envisaged in Article 15.4 of the Bylaws that requires that at least 1/3rd of the Directors in office – rounding down in case of a fraction – meets the independence requirements established for Auditors by Article 148, paragraph 3, of the Consolidated Law on Finance.

The number of independent directors is therefore already more than in line with the requirements for members of the board as set out in the Corporate Governance Code for issuers belonging to the FTSE-MIB index (Article 3.C.3 of the Corporate Governance Code).

The number and duties of the independent directors have also guaranteed a suitable membership of the committees indicated by the Corporate Governance Code and set up in Terna in accordance with the provisions of current transitional regulations of said Code (paragraph VIII of the “Guidelines and transitional regime” and 3.C.3, first sentence, of the Corporate Governance Code).

Given the composition of the Board of Directors, characterised by a high number of independent Directors, and its working methods (illustrated in the section above under “Board of Directors Meetings and role of the Chairwoman”), and the significant participation of the independent directors in the composition of the Committees, in the operating system a constant exchange of information occurred among the said independent Directors both on the occasion of meetings of the internal Committees and on the occasion of the board meetings themselves which did not make necessary specific meetings reserved only for them. With a view to progressive improvement of practice and conduct to achieve best practice, some of the independent Directors requested meetings reserved for all the independent Directors who are members of the Board, to be held in financial year 2015. Terna, with a letter of the Chairwoman of the Board of Directors, stated expressly that the Company was willing to support their organisation (Art. 3.C.6 of the Corporate Governance Code). No further specific requests have been received since, however.

With reference to the specific provisions of Terna’s Bylaws introduced to implement the Unbundling Legislation, we can note finally that as part of the periodical assessment carried out by the Board, for all Directors appointed the existence of the independence requirements provided for in Art. 15.5 of the Bylaws was verified. The Bylaws, in fact, state that *“the Company’s directors may not hold, on penalty of disqualification, positions of director, member of the supervisory committee or of other bodies which legally represent a company that carries on the business of generating or supplying electricity or gas”*.

### Lead independent director

The working method and composition of the Board of Directors has assured the suitable coordination of the contributions and the requests of the non-executive Directors and, in particular, of the Independent Directors; it has also guaranteed a preventive exchange of information which allows the work of the Board to be completely productive and focused on the real needs of the Company. On the basis of these assumptions, confirmed by the results of the board review to which the Board itself is subjected, and without the criteria being met as specified in the provisions of the Corporate Governance Code (Art. 2.C.3 of the Corporate Governance Code), in Terna the figure of Lead Independent Director has not yet been established (Art. 2.C.4 of the Corporate Governance Code).

## Section V: Management of company information

In April 2004, in accordance with the provisions of the Corporate Governance Code in force at the time, the Company's Board of Directors adopted a specific regulation for the internal management and processing of confidential information, also setting out procedures for the disclosure of documents and information concerning the Company and its subsidiaries, aimed at protecting confidential information, whilst also assuring that the market disclosure in relation to company data is correct, complete, suitable, timely and not selective.

This regulation – which also provides guidance for the subsidiaries, to assure that they provide Terna with all information necessary to fulfil the communication obligations laid down by law – was then supplemented in December 2006, with specific reference to the insider information pursuant to Article 114, paragraph 1 of the Consolidated Law on Finance, aimed at preventing insider trading and, most recently, updated on December 19, 2012 by the CEO according to the delegated powers received from the Board to take account of the applicable regulatory changes and the new organisational and documentary structure of the Group (Article 1.C.1, letter j) of the Corporate Governance Code).

The Directors and Auditors of Terna and its subsidiaries are required to comply with the provisions of this regulation and, in any case, to keep confidential all documents and information acquired in the performance of their duties, as well as the content of any discussions during Board meetings.

The regulation – available on the Company's website [www.terna.it](http://www.terna.it) under the section “Investor Relations/Corporate Governance/Regulations and Procedures/Information Management Regulations” – assigns, on a general basis, the CEO of the Company and the respective company heads (Sole Director, Executive Chairman, Chief Executive Officers and/or General Managers, as applicable) of the subsidiaries, the management of the relevant confidential information, establishing that disclosure of information on the individual subsidiaries must in any case take place with the authorisation of the Company's CEO.

Moreover, the regulation establishes specific procedures to be followed when disclosing corporate documents and information, with a particular focus on the disclosure of insider information. It also scrupulously governs the way in which company employees should deal with the press and other mass media, or rather with financial analysts and institutional investors (Comment to Article 1 of the Corporate Governance Code).

Lastly, specific “Measures for persons committing violations” are also envisaged in the regulation.

Moreover, in the general interest of corporate information protection and to ensure an adequate level of protection within the Group of information and cyber-security of networks and information systems (particularly the mission-critical ones), Terna continued during 2015 various initiatives to improve security and cyber-risk mitigation, also as regards the subsidiaries, in compliance with the requirements of the regulatory framework of “Information Security Policy” and with the Information Security Governance model adopted within the Group, inspired by best practices and the best international standards.

In compliance with the provisions of Article 115-*bis* of the Consolidated Law on Finance and with the regulatory measures issued by CONSOB, Terna's Board of Directors created a specific list of people with access to insider information within Terna. It also prepared a specific regulation to govern how the list should be kept and updated. The same regulation requires that subsidiaries also create their own list. As of April 2004, the Company's Board of Directors also approved the code of conduct on internal dealing, in compliance with the regulatory measures laid down by Borsa Italiana S.p.A., establishing the market transparency requirement for listed companies with respect to significant transactions, involving the financial instruments of the same companies or their subsidiaries, carried out by people with significant decision-making powers in the company and with access to price-sensitive information (“relevant persons”).



Following entry into force of the new internal dealing regulations that were introduced by Law no. 62 dated April 18, 2005 (“2004 Community Law” that integrated the provisions of Article 114 of the Consolidated Law on Finance) and of the related implementing provisions (Articles 152-*sexies* to 152-*octies* and Attachment 6 of the Issuer Regulation), starting from 2006 Terna adopted a specific internal procedure to identify Terna’s “relevant persons” and to manage, handle and disseminate to the market information regarding the transactions in financial instruments carried out by them.

Within this procedure – subsequently updated based on CONSOB’s clarifications and on the Company’s structure – Terna deemed it appropriate to maintain, for the “relevant persons” identified, the obligation to refrain – either directly or indirectly – from carrying out transactions that are subject to internal dealing regulations during two blocking periods in concomitance with the approval of the draft separate financial statements and of the interim financial report by Terna’s Board of Directors.

The transparency obligations are governed by legislative and/or regulatory provisions of reference, as in force at the time (Article 114, paragraph 7 of the Consolidated Law on Finance and Article 152-*sexies* et seq. of the Issuer Regulation, as resulting following the simplifications made by CONSOB Resolution no. 18079 of January 20, 2012 published in the Official Journal of February 7, 2012, aimed at combining the competitiveness of the market with the necessary investor protection and the related thresholds for the disclosure of operations subsequent to those already disclosed).

This procedure is available on the Company’s website [www.terna.it](http://www.terna.it) in the “*Investor Relations/Corporate Governance/Regulations and Procedures/Internal Dealing*” section. The procedure includes the following qualifying elements, which are considered adequate in raising the quality of its content:

- application of internal dealing transparency obligations towards “relevant persons” within the Company and its subsidiaries as identified in the procedure (in addition to Terna’s actual Directors and Standing Auditors, the list of whom is updated in line with the organisational changes made to the Company);
- “relevant persons” are not allowed to carry out transactions (other than the exercise of options) during the 30 days before approval of the draft separate financial statements and interim financial report by Terna’s Board of Directors. Moreover, the Board can establish additional blocking periods during the year, following specific events;
- an adequate penalty system was created for “relevant persons” identified as breaching the rules of this procedure.

## Section VI: Committees within the Board

The “Remuneration Committee”, the “Control, Risk and Corporate Governance Committee”, and the “Appointment Committee”, all with recommendatory and advisory functions and composed of at least three Directors, as provided for by the Corporate Governance Code, were set up within the Board of Directors, in order to guarantee the effective fulfilment of its duties. The criteria adopted for the composition, duties and responsibilities of these Committees were identified in line with the provisions of the Corporate Governance Code of reference at the time and the methods for holding meetings are governed by specific internal Organisational Regulations adopted by the Board of Directors on January 24, 2007 and thereafter updated on December 19, 2012, with reference to the new provisions of the Corporate Governance Code and on May 27, 2014, as regards the “Control, Risk and Corporate Governance Committee” and the newly established “Appointment Committee” (Articles 4.P.1 and 4.C.1, letters a) and b) of the Corporate Governance Code).

The “Remuneration Committee”, the “Control, Risk and Corporate Governance Committee” and the “Appointment Committee” are made up of only independent Directors including the Chairman of the same. At least one member of the “Remuneration Committee” possesses adequate knowledge and experience in financial and remuneration-policy matters, and at least one member of the “Control, Risk and Corporate Governance Committee” possesses adequate expertise in accounting and finance or risk management matters. The composition of these committees is therefore in line both with the current transitional provisions of the Corporate Governance Code (paragraph VIII of the “Guidelines and transitional regime” and Article 3.C.3, first sentence, of the Corporate Governance Code) and with the new provisions of the Corporate Governance Code.

The information given in this Report on the activities carried out during the year, on the number and average duration of the meetings held, and the related percentage attendance of each member of the committees set up, is given with the support of the Chairman or other members, as far as their respective duties are concerned (Article 4.C.1, letter g) of the Corporate Governance Code).

Within the Board of Directors, another Committee was set up (“Related-Party Transactions Committee”) to fulfil the role required by the “Regulation on Related-Party Transactions” issued by CONSOB in March 2010 and subsequently amended and on the basis of the provisions in the “Procedure for Related-Party Transactions” adopted by the Company and illustrated in Section XII of this Report. The Committee is assigned preliminary, proactive and advisory duties and powers in evaluations and decisions concerning the above-mentioned Related-Party Transactions, both for the approval of the more important transactions and of the less important ones indicated in Terna’s procedure, as well as in relation to possible proposals for amendments to the same procedure adopted by Terna. This Committee is composed of at least three Directors, all independent, according to the provisions of the Corporate Governance Code.

Minutes are taken of committee meetings (Article 4.C.1, letter d) of the Corporate Governance Code). Each Committee also has the right to access the necessary information and corporate departments to carry out its tasks and can use possible external advisers within the limits provided for by the Board of Directors (Article 4.C.1, letter e) of the Corporate Governance Code).

Within the Company budget, adequate financial resources are allocated for implementing the tasks of each Committee (Article 4.C.1, letter e) of the Corporate Governance Code). At the invitation of the Chairman/Coordinator of each Committee, the meetings may be attended by other members of the Board of Directors or other people whose presence may prove helpful in ensuring the best possible fulfilment of the functions of the Committee with reference to the items on the agenda and in accordance with what is detailed below with reference to each of the Committees established (Article 4.C.1, letter f) of the Corporate Governance Code).

## Section VII: Appointment Committee

At its meeting of May 27, 2014, on the occasion of the first renewal of the Board following the entry into force of the provisions of Art.5.P.1 of the Corporate Governance Code, the Board of Directors established the Appointments Committee whose tasks were identified in line with the provisions of the Corporate Governance Code and the procedures for conducting meetings are governed by Organisational Regulations adopted by Board of Directors on the same date (“*Organisational Regulations of the Appointments Committee of TERNA S.p.A.*”) and updated by the Board of Directors on June 23, 2015 (Art.4.C.1 lett. b) of the Corporate Governance Code). The Appointment Committee has the task of supporting the Board of Directors, with fact-finding, recommendatory and advisory functions, in the assessments and decisions relating to the size and composition of the Board itself.

More specifically, the duties of the Committee are: a) to formulate opinions or express recommendations to the Board of Directors: (i) on the size and composition of the same and on the professional figures whose presence on the Board is considered appropriate; (ii) on the positions to be taken by the Board with regard to the maximum number of appointments as director or statutory auditor in other companies listed on regulated markets (including abroad), in financial, banking and insurance companies or in large companies; (iii) on the annual self-assessment procedures of the Board of Directors and its Committees, and (iv) on any particular problems related to the application of the prohibition of competition specified for Directors by Art. 2390 of the Italian Civil Code, if the Shareholders’ Meeting, for organizational needs, has authorized for general and precautionary reasons exceptions to this prohibition (Arts 5. C. 1 letter a) of the Corporate Governance Code); (b) to propose to the Board of Directors candidates for the Office of Director in cases of cooptation and in cases where the Board decides to make use of the possibility under the By-laws to present its own list (Arts.5.C.1 letter b) of the Corporate Governance Code and Comment to Art. 5 of the Corporate Governance Code published July 2015); (c) propose to the Board the appropriate means of ensuring continuity in cases where, in the course of the mandate, it is necessary to replace the Chairman or Executive Directors of Terna; and (d) to perform any further tasks assigned by the Board of Directors.

The Appointment Committee is currently made up of three independent Non-Executive Directors: Luca Da Fabbro (who chairs it and represents the minority shareholders), Carlo Cerami and Stefano Saglia (Art. 5.P.1 and 4.C.1 lett. a) of the Corporate Governance Code).

The Chairman of the Committee, with the assistance of the Secretariat of the Board of Directors, may from time to time invite to the meetings of the Committee meetings, other members of the Board of Directors, or other members of the Terna structure or other persons whose presence could be helpful in improving the fulfilment of the functions of the Committee (Art.4.C.1 letter f) of the Corporate Governance Code).

According to the provisions of the Committee Regulation, no Director takes part in the meetings of the Appointment Committee in which proposals are formulated for the Board of Directors in relation to his or her own candidature or position within the Board or the Committees, unless they are proposals that regard all the members of the Committees set up within the Board of Directors.

The Appointment Committee, in performing its duties has the option to access, through the Secretariat of the Board of Directors, the information and corporate departments necessary to perform its tasks and may make use of external consultants, within the limits approved by the Board of Directors and in the provisions of the Corporate Governance Code (Art. 4.C.1 lett. e).

Since it was set up in 2015, the Appointment Committee has held five meetings, which were attended by all its members (100%) and lasted, on average, for about 40 minutes. All meetings of the Committee are regularly minuted (Art.4.C.1 letter d) of the Corporate Governance Code).

At the invitation of the Chairman of the Committee, the Chairman of the Board of Statutory Auditors and the other statutory auditors, as well as other members of the Board of directors or senior executives of the company attended the meetings and also any persons whose presence was helpful for providing greater information on the subjects on the agenda and for improving the fulfilment of the functions of the Committee itself.

For the current year (2016) a number of Committee meetings have been scheduled that should be sufficient for the performance of the tasks entrusted to it. During the current year up to the date of approval of this report, the Committee has held 2 meetings.

The participation of each Member of the Committee at meetings held during the year 2015 is shown in Table 1 attached (Article 123-*bis*, paragraph 2, letter d) of the TUF).

During 2015 and with reference to the specific consultative and advisory competencies attributed to it, the Appointments Committee was predominantly occupied in supporting the Board in its activity of the annual board review, with reference to the identification of procedures for the performance and selection of the specialized external consultant (as explained above in section IV under "Assessment of the Board of Directors' Activity") and in decisions regarding the size and composition of the Board of Directors and in decisions regarding the replacement and appointment by cooptation of a Director pursuant to Art. 2386 of the Italian Civil Code and for updating its own Regulations.

During the meeting of March 21, 2016, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the Committee was confirmed by the Board of Directors as part of the annual review of the Board itself and the Committees. The Committee has been granted adequate financial resources.

## Section VIII: Remuneration Committee

### Functions of the Remuneration Committee

In 2004, a specific Remuneration Committee was established within the Board of Directors, the duties of which have been identified in line with the provisions of the Corporate Governance Code of reference, and the methods for holding meetings are governed by the specific internal Organisational Regulations adopted by the Board of Directors on January 24, 2007 ("Organisational Regulation of the Remuneration Committee of Terna S.p.A.") and thereafter updated on November 9, 2011 and most recently on December 19, 2012, to comply with the new provisions of the Corporate Governance Code (Article. 6).

More specifically, the duties of the Committee are: (i) related to the remuneration policy of the Directors and Executives with strategic responsibilities (Articles 6.P.4 and 6.C.5 of the Corporate Governance Code); (ii) related to the proposals and opinions for the remuneration of Executive Directors and other Directors holding specific roles; (iii) related to the fixing of performance objectives linked to the variable part of this remuneration; (iv) monitoring the application of the decisions taken by the Board; and (v) verifying the effective achievement of performance targets (Article 6.C.5 of the Corporate Governance Code).

The Committee is currently made up of the following three independent Non-Executive Directors, one of whom was elected from the list of minorities: Carlo Cerami (who chairs it), Fabio Corsico and Gabriella Porcelli. At least one member is in possession of adequate knowledge and experience in financial or remuneration-policy matters (Art. 6.P.3 of the Corporate Governance Code).

The Chairman of the Committee or other member of the Committee reports to shareholders on how its duties are performed. To this end, it is envisaged that the Chairman of the Committee or another member of the Committee shall attend the Annual Shareholders' Meeting (Comment to Article 6 of the Corporate Governance Code). The Chairman of the Committee attended the Shareholders' Meeting of June 9, 2015, making a speech.

No Director takes part in Remuneration Committee meetings where proposals intended for the Board of Directors are formulated on matters concerning its own remuneration, unless proposals are presented which regard all members of the Committees established within the Board (Article 6.C.6 of the Corporate Governance Code).

At the request of the Chairman of the Committee, the meetings may be attended by members of the Control and Risk and Corporate Governance Committee and/or other members of the Board of Directors, the Chairman of the Board of Statutory Auditors or another Auditor appointed by him, and other Terna executives or other people whose presence may prove helpful for the best fulfilment of the Committee's functions (Article 4.C.1, letter f) and Comment to Article 6 of the Corporate Governance Code).

During financial year 2015, the Remuneration Committee held a total of 4 meetings, characterised by the regular attendance of its members (100%), which lasted on average about 50 minutes each. None of the Directors attended Committee meetings which formulated proposals regarding their remuneration to be submitted to the Board of Directors. No meeting of the Committee held during 2015 focused on specific proposals to the Board of Directors regarding the remuneration of individual members of the Committee. At the invitation of the Chairman of the Committee, the Chairman of the Board of Statutory Auditors and the other statutory auditors and the senior executives of the Company attended the meetings and also any persons whose presence was deemed helpful for providing greater information on the subjects on the agenda and for improving the fulfilment of the functions of the Committee itself.

Minutes were duly taken of all Committee meetings and the Committee had the chance to access the information and corporate departments necessary to go about its duties, and to use external consultants in accordance with the terms established by the Board (Article 4.C.1, letter e) of the Corporate Governance Code). In this latter regard, the Committee verified the existence of the independence requirement of the consultants used (Article 6.C.7 of the Corporate Governance Code).

In 2016, the Committee will hold as many meetings as are sufficient for carrying out the duties assigned. During the year up to the date of approval of this Report, the Committee has held three meetings.



The participation of each member of the Committee in the meetings held during 2015 is indicated in the annexed table 1 (Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).

As part of its duties, and with respect to the remuneration of the CEO and other Directors holding special office, overall during 2015 the Remuneration Committee dealt with the following matters:

- verification that the 2014 results had been achieved in order to pay the variable remuneration of the CEO, both for his administrative role and his role as manager;
- identification of the variable remuneration targets of the CEO for FY 2015, which look to be particularly challenging and which will involve much of the company's business and the development initiatives under way;
- preparation, with the support of the company Towers Watson, of the Annual Remuneration Report submitted for the approval of the Board of Directors, under the scope of which the remuneration policy adopted by Terna for the remuneration of the executive directors, other directors holding special office, auditors, general directors and executives with strategic responsibilities submitted to the annual Shareholders' Meeting in accordance with Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance, was presented;
- assessment of the overall adequacy and consistency, and the concrete application of the Remuneration Policy.

In 2016, the Committee, after reviewing targets on variable remuneration of the Chief Executive Officer, also formulated a proposal for the "Remuneration Policy" approved by the Board, which will be submitted to the Shareholders' Meeting called to approve the financial statements for the year 2015 under Article 6-*ter*, paragraph 123 of TUF and has verified the achievement of the 2015 results for the payment of the variable remuneration to the CEO in his work as a director and as a senior executive. The Committee also examined the Long Term Incentive plan 2016-2018 (LTI 2016-2018), approved by the Board at its meeting of March 21, 2016, which will be submitted to the Shareholders' Meeting.

During the meeting of March 21, 2016, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the Committee was confirmed by the Board of Directors as part of the annual review of the Board itself and the Committees. The Committee has been granted adequate financial resources.

## Section IX: Remuneration of Directors

With regard to FY 2015, we would remind you that in December 2011, Terna's Board of Directors adopted the "Remuneration Policy" in implementation of the provisions of the reference Corporate Governance Code, in force at the time, at the proposal of the "Remuneration Committee".

Following entry into force of the regulatory provisions implementing Art. 123-*ter* of the Consolidated Law on Finance issued by CONSOB Resolution no. 18049 of December 23, 2011 (published in Official Journal no. 303 of December 30, 2011), which, among other things, introduced Art. 84-*quater* into the Issuer Regulation, on the proposal of the "Remuneration Committee", in 2015, Terna's Board of Directors approved the update to the Policy adopted as described in the "Annual Remuneration Report". This report, published annually, is made available to the public at the registered office and on the Company's website [www.terna.it](http://www.terna.it), as well as on that of the market management company, Borsa Italiana S.p.A. ([www.borsaitaliana.it](http://www.borsaitaliana.it)); it is also submitted for an advisory, non-binding vote to the Shareholders' Meeting, in accordance with Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance. The Shareholders' Meeting has always expressed in favour, also on the occasion of the meeting of June 9, 2015.

The information and/or updates of the Company's Remuneration Policy approved by the Board of Directors on the proposal of the "Remuneration Committee", regarding the remuneration of the members of administration bodies, general directors and executives with strategic responsibilities, at least with reference to the following year, and regarding the work of the Committee and the procedures used to adopt and implement said Policy, in addition to the information required by Article 6 of the Corporate Governance Code which Terna has endorsed, are summarised in the "Annual Remuneration Report"; this was approved by the Board of Directors

on March 21, 2016 and will be published by Terna and submitted for the approval of the forthcoming annual Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015, in compliance with the provisions of Article 123-ter of the Consolidated Law on Finance and the aforementioned CONSOB Resolution.

With regard to the remuneration of the Directors, this is established by the Shareholders' Meeting for each Director (Article 24.1 of the Bylaws).

Extra fees for members of the Committees formed within the Board of Directors in compliance with the Corporate Governance Code are resolved, following evaluation by the Board of Statutory Auditors, in compliance with Article 2389, paragraph 3, of the Italian Civil Code and with Article 24.2 of the Bylaws, by the Board itself; the overall remuneration for the Chairwoman and the CEO is also identified by the Board of Directors based on the proposal submitted by the Remuneration Committee and following evaluation by the Board of Statutory Auditors.

For an adequate presentation of the fees paid during the year of reference, for any reason and in any way by the Company and subsidiaries or associates to members of the administrative body of Terna and executives with strategic responsibilities for FY 2015, including the representation of each of the items comprising remuneration, treatment established in the event of cessation of office or termination of employment, the clawback clauses in accordance with the provisions of Art. 6.C.1 lett. f) of the Corporate Governance Code, and a judgement of consistency with the Company's Remuneration Policy approved the previous year, we would refer you to the aforementioned "Annual Remuneration Report" which will be published and submitted to the forthcoming annual Shareholders' Meeting called to approve the financial statements for the financial year ended on December 31, 2015 in compliance with the provisions of Article 123-ter of the Consolidated Law on Finance and the aforementioned CONSOB Resolution.

Finally, based on the provisions of Article 84-quater, paragraph 4, of the Issuer Regulation, the "Annual Remuneration Report" includes information concerning compensation plans provided for by Article 114-bis of the Consolidated Law on Finance and information on shareholdings in Terna and in subsidiaries held by members of the administration and management bodies, by general directors, and by other executives with strategic responsibilities, as well as by spouses not legally separated and by children (minors), directly or through subsidiaries, trust companies or third parties.

## Section X: Control, Risk and Corporate Governance Committee

### Functions of the Control, Risk and Corporate Governance Committee

In 2004, within the Board of Directors, a specific Internal Control Committee was established, with the task of providing instructions, in the form of advice and suggestions, and, in particular, supporting the Board of Directors in its assessments and decisions relating to the "Internal Audit System" and regularly monitoring its suitability, as well as in connection with specific aspects relating to the identification of the main business risks (for example, operational risk, financial risk, market risk, and compliance risk (in addition to accounting compliance), regularly reporting back to the Board on the suitability of the system and the work performed. The duties of the Committee have been identified in compliance with the Corporate Governance Code and the methods of conducting the meetings have been regulated in specific Organisational Regulations, which were adopted by the Board of Directors on January 24, 2007. In the meeting held on December 19, 2012, the Board of Directors resolved the necessary adjustments in relation to the members and duties of the committee in place in order to ensure that these Organisational Regulations were perfectly in line with the new provisions of the Corporate Governance Code on the internal

audit and risk management system (Articles 7.P.3, letter a-ii), 7.C.1 and 7.C.2 of the Corporate Governance Code) making some changes to them. Following the renewal of the entire Board of Directors, in the meeting of May 27, 2014, with a view to continuous improvement of the corporate governance system, the Board of Directors expanded the duties of Control and Risk Committee, adding to the latter's duties those related to the corporate governance system and making the consequent changes to the Organisational Regulation (now entitled "Organisational Regulation of Terna S.p.A.'s Control, Risk and Corporate Governance Committee") appointing the Members in keeping with the indications of the Corporate Governance Code according to what was communicated to the market on the same date. Consequently the "Control and Risk Committee" has been renamed "Control, Risk and Corporate Governance Committee".

More specifically, the "Control, Risk and Corporate Governance Committee" has the task of supporting the Board of Directors, with suitable guidance, in the assessments and decisions relating to the "Internal Control and Risk Management System" (the "System"), to Corporate Governance, to approval of the annual financial report and the interim financial report and to relations between the Company and the external auditor (Article 7.P.3, letter a-ii) of the Corporate Governance Code). In this regard, the Committee is specifically assigned the following tasks:

- supporting the Board of Directors in fulfilling the duties assigned in the Corporate Governance Code on internal audit and risk management, preparing specific opinions in this regard:
  - i. defining the System guidelines and level of compatibility of these risks with business management consistent with the strategic objectives identified by the Board of Directors (Article 7.C.1, letter b) of the Corporate Governance Code);
  - ii. regularly verifying the suitability of the System with respect to the characteristics of the business and the risk profile assumed and its effectiveness (Article 7.C.1 letter a) of the Corporate Governance Code);
  - iii. approving the plan of works prepared by the Internal Audit Department Manager (Article 7.C.1, letter c) of the Corporate Governance Code);
  - iv. describing the main characteristics of the system in the Annual Report on Corporate Governance and Ownership Structures and in the assessment of the suitability of the system (Article 7.C.1, letter d) of the Corporate Governance Code);
  - v. assessing the results presented by the legal auditor and in the report on the essential issues that emerged during the legal audit;
- assessing, together with the Executive in charge of the preparation of the company's accounting documents, having heard the opinions of the legal auditor and the Board of Statutory Auditors, the correct application of accounting standards and their uniformity for preparation of the consolidated financial statements (Article 7.C.2, letter a) of the Corporate Governance Code);
- expressing opinions at the request of the CEO, on specific aspects concerning identification of the main business risks (Article 7.C.2, letter b) of the Corporate Governance Code);
- examining the regular reports concerning assessment of the system and those of particular relevance prepared by the Audit Department (Article 7.C.2, letter c) of the Corporate Governance Code);
- monitoring the independence, suitability, efficacy and efficiency of the Audit Department (Article 7.C.2, letter d) of the Corporate Governance Code). Please see the section below "Internal Audit Department Manager";
- supporting the Board of Directors in performing the tasks assigned to the latter on the subject to general policies of the corporate governance system of the Company and of the Group acting to: (i) monitor the evolution of the legislation and the Italian and international best practice on the subject of corporate governance and inform the Board of Directors when there have been significant changes; (ii) check that the corporate governance system which the Company and the Group have developed is aligned with the legislation, the recommendations of the Corporate Governance Code and the national and international best practice, formulating to the Board of Directors any opinions or proposals on the said corporate governance system, if it sees the need or the opportunity;
- reporting at least once every six months to the Board of Directors during approval of the annual financial report and interim financial report, on the activities carried out and on the suitability of the system (Article 7.C.2, letter f) of the Corporate Governance Code);
- carrying out any additional duties as may be assigned by the Board of Directors.

Additional specific duties are assigned to the Committee based on the Organisational Model adopted by Terna in compliance with Legislative Decree 231/01 and with Terna's Code of Ethics.

The Committee can ask the Internal Audit Department and the Chief Risk Officer to carry out checks on specific operating areas, simultaneously informing the Chairman of the Board of Statutory Auditors (Article 7.C.2, letter e) of the Corporate Governance Code).

The Chairman of the Board of Statutory Auditors (or another auditor appointed by him) shall attend the meetings of the Committee, and in any case, all other auditors can also attend (Article 7.C.3 of the Corporate Governance Code). At the invitation of the Committee Chairman, the meetings can be attended by the Internal Audit Department Manager and, with reference to the individual items on the agenda, the CEO (in his capacity as Director appointed to oversee the functions of the Internal Audit and Risk Management System), the members of the Remuneration Committee and/or other members of the Board of Directors or other people whose presence may be useful to ensure the best possible operation of the Committee (Article 4.C.1, letter f) of the Corporate Governance Code).

The Committee may access company information and functions necessary for carrying out its duties, via the secretary of the Board of Directors, and may use external consultants within the limits approved by the Board of Directors (art. 4.C.1 lett. e) of the Corporate Governance Code.)

Following the replacement - on March 4, 2015 - of a Director who had resigned from the Board of Directors, the Committee is currently made up of three independent Non-Executive Directors: Cesare Calari (who chairs it and represents the minority shareholders), Carlo Cerami and Luca Dal Fabbro. At least one member is in possession of adequate experience in accounting and financial or risk management matters (Art. 7.P.3 of the Corporate Governance Code). Information on the number of meetings refers to the total activities of the Committee in FY 2015.

More specifically, during FY 2015, the Control, Risk and Corporate Governance Committee held a total of 6 meetings, characterised by the regular attendance of its members (100%), and of the Chairman of the Board of Statutory Auditors and of all other auditors, in view of the specific supervisory duties over the system that are assigned to the Board of Statutory Auditors by current legislation on listed companies and by the Corporate Governance Code (Articles 7.P.3, letter d) and 7.C.3 of the Corporate Governance Code). The meetings lasted on average approximately one and a half hours each. At the invitation of the Committee Chairman, the Internal Audit Department Manager attended the meetings.

All meetings of the Committee were minuted correctly and the Committee had the opportunity to access information and company departments as required in the execution of its tasks. At the Committee's request, the meetings were also attended by the Company executives whose presence was deemed helpful for the best information regarding the items on the agenda.

For the current year (2016) a number of Committee meetings have been scheduled that should be sufficient for the performance of the tasks entrusted to it. During the current year up to the date of approval of this report, the Committee has held 2 meetings.

The participation of each Member of the Committee at meetings held during the year 2015 is shown in Table 1 attached (Article 123-bis, paragraph 2, letter d) of the TUF).

As regards the activities carried out during 2015, the Committee, in accordance with the provisions of the Corporate Governance Code:

- received extensive disclosures on financial management and on the composition and performance of the Company's debt as well as its risk levels and related hedges and the fiscal arrangements for compensation made under dispatching services, and expressed its positive opinion concerning the decision made by the Board on the degree of compatibility of the main risks concerning Terna and its subsidiaries with a business management consistent with the identified strategic objectives, when meeting with the Administration, Finance, Control and Investor Relations Director;
- in conjunction with and with the involvement of various interested parties and bodies, expressed its positive opinion on the adequacy of Internal Audit and Risk Management System with respect to the company structure and risk profile assumed, as well as on its efficacy, and examined the report of the Chief Risk Officer (CRO) set up as described below in section XI under the "Internal Audit and Risk Management System", meeting with him for information about managing security and the protected risk areas, which cover the physical security of assets and equipment, the security of workplaces and information, as well as protecting processes;



- met the Internal Audit Department Manager and positively examined the structure of Terna's audit, the work schedule prepared by the Audit Department Manager and the regular reports prepared by the Audit Manager in 2015, obtaining elements for the evaluation of the audit and risk management system, also as concerns the Group reorganisation and formulating its opinion to the Board of Directors on the Internal Audit Department's Reporting line;
- met the independent auditing firm to assess the auditing activities with particular regard to the methods by which they were carried out and the results.

Pursuant to the provisions of the Corporate Governance Code, the Committee assessed, together with the Executive in charge of the preparation of the company's accounting documents and having consulted with the legal auditor and the Board of Statutory Auditors, the correct use of the accounting standards and received information on auditing activities implemented for compliance with the provisions of Italian Law 262/05 and subsequent amendments. The Committee also received the required information from the Supervisory Board pursuant to Italian Legislative Decree 231/01 on the suitability and development of the Model and activities carried out by said Committee and reported to the Board at the time of approval of the annual and interim financial reports on the activities carried out and the suitability of the Internal Audit and Risk Management System (Articles 7.C.2, letter c) and f) of the Corporate Governance Code). During the meeting of March 21, 2016, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the Committee was confirmed by the Board of Directors as part of the annual review of the Board itself and the Committees. The Committee has been granted adequate financial resources.

## Section XI: Internal Audit and Risk Management System

With regard to internal auditing, back in December 2006, on the basis of the prior enquiry by the Internal Control Committee (now the Control, Risk and Corporate Governance Committee), the Board of Directors:

- defined the "Internal Audit System of the Terna Group" (now the "Internal Audit and Risk Management System of the Terna Group" or the "IARMS"), taking its inspiration from national and international best practices such as the set of rules, procedures and organisational structures, which, through a suitable process identifying, measuring, managing and monitoring the main risks, enable correct, coherent business management with the objectives established by the Company;
- established the guidelines of the "Internal Audit and Risk Management System of the Terna Group" (IARMS), envisaged by the new Corporate Governance Code (by resolution of December 19, 2012), describing the rules, procedures and organisational structures prepared to ensure that the main risks faced by Terna and its subsidiaries are correctly identified and suitably measured, managed and monitored in accordance with criteria compatible with healthy, correct management in line with the strategic objectives identified (Articles 7.P.1, 7.P.2 and 7.C.1, letter a) of the Corporate Governance Code). More specifically, these guidelines were updated by the Board of Directors – also considering the new provisions of the Corporate Governance Code – by resolution of December 19, 2012 and after obtaining an opinion of the Control, Risk and Corporate Governance Committee. At the same time and in accordance with the provisions of the aforementioned guidelines, after obtaining the opinion of the Control, Risk and Corporate Governance Committee, the board defined the nature and level of risk compatible with the strategic objectives of Terna and its subsidiaries.

The "Internal Audit and Risk Management System of the Terna Group" helps, with reasonable certainty, to guarantee the achievement of strategic objectives, the safeguarding of the company assets, the efficiency and effectiveness of the business processes, the reliability of the financial operations, compliance with the law, regulations, Bylaws and internal procedures and the reliability of the company's reports and financial disclosure.

Moreover, it is constructed considering the specific nature and type of activities carried out by Terna and the connected risks and corporate interests, with special attention paid to the part of the IARMS that has the objective of safeguarding the continuity of the electrical service and guaranteeing impartial conduct in carrying out licensed activities.

The IARMS is based on the following elements: audit environment; risk management system; audit activities; information, communication and monitoring. The coordinated functioning of these elements determines the overall effectiveness of the IARMS in achieving the objectives:

- the “audit environment”, the basis of all other elements, consists of the set of ethical and cultural values, the governance and organisational model, the leadership style exercised by the company’s senior management and by the management and staff management policies. In these terms, the Code of Ethics is adopted; this document also from a moral point of view, stresses Terna’s unique position. It recalls the need to comply with universal ethical standards, in which everyone can immediately recognise themselves, and that should be fully adopted by the Group. It confirms legality, integrity and responsibility as being its general ethical principles and acknowledges that standards of good business management, respect in the broadest sense of the term, fairness as a basis for loyal, impartial behaviour, and transparency in conduct and communication, are particularly important. These ethical standards apply to all Group companies and employees are duly informed of them. Finally, an organisational structure is adopted with a clear assignment of roles and responsibilities and operating limits, in line with the skills required by the roles assigned;
- the “risk management system” implemented by the company’s senior executives and management starts from the definition of the business objectives (strategic plans, budget, key performance indicators, risk appetite) and enables the various levels of the organisation to identify the main risks of the individual processes to which the action plans are related. These action plans are to prevent and manage risk in order to keep it within acceptable limits, monitoring the results over time. The risk management models and methods adopted, the roles and responsibilities within the organisation are defined in specific corporate procedures and policies. In order to implement an integrated “risk management system”, in 2007 Terna created a Corporate Security (today Corporate Protection) Department significantly integrating its security tools and defining a transversal system for identifying, analysing and controlling business risks. Moreover, in accordance with the provisions of the guidelines of the “Internal Audit and Risk Management System of the Terna Group”, the role of the Chief Risk Officer (CRO) has been outlined (Comment on Article 7 of the Corporate Governance Code), appointed by the Director in Charge of the Internal Audit and Risk Management System in May 2013, to which the main responsibility assigned consists of supporting senior management in effectively implementing and managing the Group Risk Management process, with reference to all financial, operational, business and other risks.

In addition to ensuring absolute compliance with legal provisions, this integrated model allows the achievement of corporate security levels that exceed the regular standards attainable through sectoral and fragmented security management;

- the “audit activities” carried out by the management and staff in order to achieve the specific business objectives are based on underlying reference principles such as self-control, hierarchical control, accountability, balancing different interests and the separation of roles;
- the “communication and information” processes which ensure that the company’s objectives, culture, values, roles, responsibilities and expected conduct are clearly communicated internally, while guaranteeing that disclosures to stakeholders outside the company are correct and transparent. More specifically, internal communication is implemented clearly and directly by management with regard to: business objectives, culture, values, roles and responsibilities, conduct and sanctions. In managing information, a suitable level of security must be guaranteed in relation to the nature of the data. External communication is then regulated by procedures and organisational systems that are able to guarantee the transparency and correctness of corporate communications and prevent corporate crime. In these terms, the “regulation for the management and processing of confidential information and external communication of documents and information” has been adopted (please refer to Section V, “Management of company information”);

- “monitoring” aims at constantly verifying the effectiveness of the “Internal Audit and Risk Management System of the Terna Group” through continuous activities carried out by personnel in the performance of their work, and through separate assessments that are regular, but not continuous, and typical of, but not exclusive to, the Audit Department.

In addition Terna has developed:

- an appropriate structure dedicated to preventing and managing corporate fraud activities also aimed at spreading the culture of legality and compliance with corporate rules. Continuously monitoring processes, verifying and managing reports of illegalities have led to introducing specific controls aimed at reducing such risks and at defining, for certain critical processes, specific procedures aimed at preventing illegal conduct;
- an EGRC (Enterprise Governance, Risk and Compliance) system, aimed at ensuring an integrated view of the risks in the Company, constituting the only access point for the collection and extraction of information, data and reporting in relation to risk management. This enables and ensures: integration of the departments that manage different types of risk (strategic, operational, financial and compliance) and consequently permits a coordinated analysis and a holistic vision on the risks of the organisation; the timeliness of information in support of the strategic and operational decision-making process; the structuring of the risk management process through a workflow system that manages transmission of requests, compilation, approval and review;
- a “Whistleblowing Policy” for managing reports by employees of breaches of the Internal Audit and Risk Management System of the Terna Group (Comment on Art. 7 of the Corporate Governance Code, July 2015 edition). This guideline, adopted following the resolutions passed by the Board of Directors on March 21, 2016, outlines the organisational model for managing the said reports and defines the various responsibilities in the various stages of the process, guaranteeing all the security aspects, above all the protection and confidentiality of the identity of the reporter, as well as that of the individual reported.

Upon completion of the resolutions passed on the IARMS as described above and on the basis of the positive opinion of the Control and Risk Committee (now Control, Risk and Corporate Governance Committee), during the meeting of December 19, 2012, the Board of Directors expressed a positive opinion on the suitability of the Internal Audit and Risk Management System with respect to the characteristics of the business and the risk profile assumed, as well as its effectiveness. This assessment, supported by the annual report of the Control, Risk and Corporate Governance Committee, was also confirmed by the Board of Directors during the meeting of March 21, 2016.

Terna’s Board of Directors’ meeting of March 21, 2016, in compliance with the opinion rendered by the Control, Risk and Corporate Governance Committee on the basis of the analyses made during 2015 and when approving the draft financial statements for FY 2015, confirmed the positive assessment given and judged the Internal Audit and Risk Management System of the Terna Group suitable to achieve an acceptable risk profile, in consideration of the industry in which Terna operates, of its size, and organisational and Corporate structure (Article 1.C.1, letter c) and 7.C.1 letter b) of the Corporate Governance Code).

The Control, Risk and Corporate Governance Committee, in its report, also made reference to the report of the Supervisory Board, appointed pursuant to Italian Legislative Decree no. 231/01 regarding the enactment of the Organisational Model at Terna and at other Group companies, as well as referring to the report of the Chief Risk Officer (CRO), focused on risk-management methods employed within Terna, as set out and quantified in the supporting documents.

Annex 1 to this Report includes the principal characteristics of existing risk management and internal audit systems with respect to the financial disclosure process, also at the consolidated level (pursuant to Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Finance).

## Executive Director in Charge of the Internal Audit and Risk Management System

The CEO of Terna, as the “Director in Charge of the Internal Audit and Risk Management System” identified by the Board of Directors in its resolution of December 19, 2012, is responsible for establishing and maintaining the “Internal Audit and Risk Management System of the Terna Group”. In particular, he implements the guidelines set out by the Board of Directors, taking care of planning, enacting and managing the same and ensuring their continuing suitability and efficiency, adapting them based on operating conditions and the legislative and regulatory context. He also identifies the principal corporate risks, keeping up to date on the key features of the business carried out by the Company and its subsidiaries, and periodically submitting this information to the Board of Directors (Article 7.P.3, letters a)-i) and 7.C.4, letters a) and b) of the Corporate Governance Code). He carries out the duties assigned by the Corporate Governance Code (Article 7.C.4, letters c), d) and e) of the Corporate Governance Code). He also appoints and revokes the Chief Risk Officer (CRO), after consultation with the Control, Risk and Corporate Governance Committee, ensuring that the former has the resources necessary to fulfil the appointment.

He may also ask the Audit Department to audit specific operating areas and compliance with internal rules and procedures in the carrying out business operations, simultaneously informing the Chairwoman of the Board of Directors, the Chairman of the Control, Risk and Corporate Governance Committee and the Chairman of the Board of Statutory Auditors, and reports promptly to the Control, Risk and Corporate Governance Committee (or the Board of Directors) on any problems or critical issues that have emerged in going about his business or of which he has become aware, so that the committee (or Board of Directors) can take any necessary action.

In performing these duties during FY 2015, more specifically, the Chief Executive Officer implemented the guidelines of the “Internal Audit and Risk Management System of the Terna Group” defined by the Board of Directors – as explained in section XI under “Internal Audit and Risk Management System” – and monitored the trend of the Company’s operating conditions as a result of the Group reorganisation, in this respect, through the appointed company structures, reporting back to the Control, Risk and Corporate Governance Committee.

## Internal Audit Department Manager

The “Internal Audit and Risk Management System of the Terna Group” – according to the provisions of the “Internal Audit and Risk Management System of the Terna Group” guidelines, as most recently updated on December 19, 2012 and already presented in this section – provides for an Audit Department and the figure of the Internal Audit Department Manager appointed by the Board of Directors on the proposal of the “Director in Charge of the Internal Audit and Risk Management System” after obtaining the favourable opinion of the Control, Risk and Corporate Governance Committee and having consulted with the Board of Statutory Auditors (Article 7.C.1 of the Corporate Governance Code). The same is given the tasks indicated by the Corporate Governance Code (Art. 7.C.5 of the Corporate Governance Code) and is not placed in any operating area; he or she reports to the Board of Directors (Art. 7.C.5 lett. b) of the Corporate Governance Code) and, in this regard, to the Chairwoman of the Board of Directors, and also to the Chief Executive Officer in his capacity as “Director in Charge of the Internal Audit and Risk Management System”.

Terna’s structure incorporated a specific Internal Audit Department some time ago and assigned its responsibility to a Company executive with suitable requirements of professionalism without any operating responsibilities or appointments who reports to the Board of Directors, assigning to the same resources and means for overseeing the suitability, operations and function of the IARMS and remuneration coherent with business policies (Article 7.C.1 of the Corporate Governance Code). This structure has guaranteed the efficiency of the Audit Department in pursuing its mission and the conformity of the activities carried out with the Standard for the practice of Internal Auditing issued by the IIA and consequently, the Board of Terna has maintained its current structure and the figure of the Internal Audit Department Manager already in place in Terna and held by the engineer Mr Fulvio De Luca.



Terna's Internal Audit Department Manager:

- checks, both continuously and in relation to specific needs and in compliance with international standards, on the operations and suitability of the Internal Audit and Risk Management System through the audit plan based on a structured process analysing and prioritising the main risks (Article 7.C.1, letter a) of the Corporate Governance Code);
- has direct access to all information useful for fulfilling the appointment. More specifically, in order to go about its duties, the Audit Department may access freely all company information systems, and all deeds and information in the company (Article 7.C.1, letter c) of the Corporate Governance Code);
- prepares regular reports containing suitable information on his work, on the way in which risks are managed and on compliance with the plans defined to limit them. The regular reports contain an assessment of the suitability of the Internal Audit and Risk Management System (Article 7.C.1, letter d) of the Corporate Governance Code);
- prepares prompt reports on particularly important events (Article 7.C.1, letter e) of the Corporate Governance Code);
- sends the reports pursuant to the above points to the Chairmen of the Board of Statutory Auditors and the Control, Risk and Corporate Governance Committee, and the Chairwoman of the Board of Directors, as well as to the "Director in Charge of the Internal Audit and Risk Management System" (Article 7.C.1, letter f) of the Corporate Governance Code);
- checks, as part of the audit plan, the reliability of the information systems including the accounting systems (Article 7.C.1, letter g) of the Corporate Governance Code).

The plan of works prepared by the Internal Audit Department Manager is approved by the Board of Directors at least once a year and having first sought the opinion of the Control, Risk and Corporate Governance Committee, having consulted with the Board of Statutory Auditors and the "Director in Charge of the Internal Audit and Risk Management System" (Article 7.C.1, letter c) of the Corporate Governance Code). For FY 2015, the plan of works was approved by the Board in the meeting of March 4, 2015, having first obtained the opinion of the Control, Risk and Corporate Governance Committee and after consulting the Board of Statutory Auditors and the "Director in Charge of the Internal Audit and Risk Management System". The new work schedule for FY 2016 was approved by the Board in the meeting held on March 21, 2016, having first obtained the favourable opinion of the Control, Risk and Corporate Governance Committee, having consulted with the Board of Statutory Auditors and the "Director in Charge of the Internal Audit and Risk Management System". The Internal Audit Department Manager operates through audits, the scope of application of which is extended to Terna and its subsidiaries. Audit activities are performed according to the annual action plan and can be carried out in connection with the departments that perform audits in the subsidiaries. The Chief Executive Officer, as the "Director in Charge of the Internal Audit and Risk Management System", may ask the Internal Audit Department to perform audits on specific operating areas and on compliance with the internal rules and procedures in the execution of business operations, communicating this at the same time to the Chairwoman of the Board of Directors, to the Chairman of the Control and Risk Committee and to the Chairman of the Board of Statutory Auditors (Art. 7.C.4 lett. d) of the Corporate Governance Code).

The Control, Risk and Corporate Governance Committee can ask the Audit Department to carry out audits on specific operating areas, simultaneously notifying the Chairman of the Board of Statutory Auditors (Article 7.C.1, letter e) of the Corporate Governance Code) and the "Director in Charge of the Internal Audit and Risk Management System".

The Board of Statutory Auditors, within its own activities, can request the Audit Department to carry out assessments on specific operating areas or company operations (Article 8.C.4 of the Corporate Governance Code).

The Internal Audit Department Manager informs the "Director in Charge of the Internal Audit and Risk Management System" of the requests for audits received from the Control, Risk and Corporate Governance Committee and the Board of Statutory Auditors.

The Board of Statutory Auditors and the Control, Risk and Corporate Governance Committee exchange significant information to fulfil their tasks (Article 8.C.5 of the Corporate Governance Code).

During 2015 several significant business areas were audited concerning inter alia: management of the electricity system and service, impartiality towards Grid users, company IT systems and telecommunications, regulatory accounting. The action of the Audit Department of Terna, subjected during

the previous year 2014 to a “Full External Quality Assessment” by qualified external experts, was given the highest rating possible in relation to “International Standards for the Professional Practice of Internal Audit”. More specifically, the Audit activities were found to be: “generally compliant with the definition of Internal Auditing, the Profession’s Code of Ethics, the Standards regarding Auditors and Standards of Performance; suitable for the processes and procedures defined internally; aimed at facilitating the auditing processes, risk management and control governance; focused on continuous improvement; and aimed at adding value and improving the organisation’s operating processes”.

## Code of Ethics

In May 2002, aware of the moral aspects involved in its core activities, Terna’s Board of Directors resolved to adopt its Code of Ethics (later updated in March 2004) to allow employees and all those having relations with Terna, to operate in the right way in order to establish trust, strengthen the Company’s positive reputation and create value.

In 2006, following the change that made Terna an independent operator in the electricity transmission market, the Code of Ethics underwent an updating process to provide Terna with a set of rules and principles to follow on the basis of its new context of reference.

The new Code of Ethics, which was approved by the Board of Directors on December 21, 2006, stresses also in ethical terms, Terna’s uniqueness. It underlines the need to respect universal ethical principles, that can be immediately recognised by everybody, and that should be fully adopted by the Group. It is not by coincidence that the Code of Ethics specifically notes the 10 principles of the Global Compact, the most prestigious expression of this vision that Terna has followed since 2009.

Terna’s Code of Ethics is broken down into five sections, which discuss, in this order:

- Terna’s fundamental ethical principles, which are organised into general ethical principles (legality, honesty and accountability), that are universal and therefore to be recognised and shared by all, and into four main principles that Terna believes are particularly important, given its activities and nature (good management, respect, fairness and transparency);
- the conduct required, especially from employees, based on three important elements: loyalty to the Company, conflicts of interest and the integrity of company assets;
- general instructions on conduct in relations with stakeholders, broken down into eight groups in which Terna requires a consistent approach;
- Terna’s commitment to comply with the Code and the conduct required in relation to certain stakeholders;
- the rules implementing the Code and the relevant people responsible for updating it and gathering reports, who should be contacted for any clarifications.

The Code of Ethics was approved in December 2006. It applies to all of Terna Group’s subsidiaries for sections 1 (Principles), 2 (Conflicts of interest, company loyalty and the integrity of company assets) and for section 3 (Relations with stakeholders) limited to the initial guidelines for the conduct to be followed with the individual categories of stakeholders. In addition, taking into account the evolution over time in the Terna Group’s organisational structure, in February 2015, specific Guidelines were adopted on the adoption of the Code of Ethics in the Terna Group’s subsidiaries, which contains interpretative guidance on the connection between specific contents of the Code and operating contexts of the Terna Group’s Parent Company and subsidiaries. The Code of Ethics represents the Charter in which Terna sets out the ethical commitments made with regard to its stakeholders. These commitments translate into concrete and measurable objectives, which Terna reports on once a year in its Sustainability Report.

Back in 2009, Terna established an Ethics Committee to provide internal and external stakeholders with a new, specific channel for comparisons and reports on matters regarding the Code of Ethics. The Ethics Committee is an organisation comprising three members, appointed by the Chief Executive Officer from amongst the group employees.

## 231 Organisational Model pursuant to Italian Legislative Decree 231/2001

Since December 2002, Terna's Board of Directors has resolved to adopt an Organisational and Management Model that met the requirements of Legislative Decree no. 231 of June 8, 2001 ("Model 231"), which introduced into the Italian Law a system of administrative (and criminal) liability for companies with respect to certain types of offences committed by their Directors, Auditors, managers or employees in the companies' interest or to their benefit. The Model was updated in June 2004, after the Company's shares were listed.

During 2010, the Model 231 was amended following changes in law provisions as per Article 24-ter regarding "organised crime offences" and Article 25-bis, 25-novies and 25-novies-(bis) regarding, respectively, "offences against industry and trade", "crimes related to the violation of copyright" and "crime of incitement to refrain from issuing statements or to issue false statements", introducing the new Special Section I, related to organised crime offences and updating the "General Section" and the "Special Sections" "A", "B", "G" and "H" for the other types of offences.

In addition to identifying areas deemed to be mostly at-risk for committing offences (so called "At-risk Areas"), the activity also involved defining conduct principles which all company representatives must comply with in order to prevent such offences, in addition to the provisions already included in the existing procedures within the Company.

This project goes hand-in-hand with the Code of Ethics, as the Company believes that the adoption of this Model 231 – regardless of the regulations making it optional rather than mandatory – is a valid tool in increasing the awareness of those operating in the name and on behalf of Terna and its Group, so that their conduct is correct and transparent in performing their activities, to prevent the risk of the offences provided for by the Decree from being committed.

In 2011, due to the extension of the predicate offences category to environmental crimes, pursuant to Article 25-undecies of Legislative Decree no. 231/2001, an assessment was carried out, as well as the mapping of company areas, roles and responsibilities, identifying the "At-Risk Areas", and the definition of principles of conduct with which company representatives must comply in order to prevent the occurrence of new predicate offences. Therefore, following said activity, Model 231 was further extended, through the introduction of the Special Section "L" on "Environmental Offences".

In 2012, owing to the business reorganisation of the Terna Group, the Model 231 was completely reviewed and updated and specific Organisational Models were prepared for the subsidiaries to consider their specific business.

Under the scope of the new special part "D", the new Model 231 also considers the extension of the list of predicate crimes established under Article 25-duodecies of Italian Legislative Decree no. 109 of July 16, 2012, which establishes the extension of the administrative liability to include entities where the minimum rules relating to the employment of citizens of third party countries with invalid permits to stay are exceeded, as established in Italian Legislative Decree no. 286 of July 25, 1998 (the Consolidated Law on Immigration). With the subsequent expansion of the category of offences, also in 2013, following the enactment of Law No 190/2012 on anti-corruption, there was an assessment, mapping of business areas, and roles and responsibilities and the so-called "Risk Areas" were identified, defining the standards of conduct which the corporate officers must comply with in order to prevent the committing of new offences. Therefore, following this activity, the Model 231 was further supplemented, updating Special Parts A and B to consider in particular the changes made to the crimes of "undue encouragement to give or promise benefits", "extortion", "corruption in performing a duty" and the introduction of the crime of "corruption between private parties". In relation to organised crime, the new category of "trafficking of illegal influences" was added to "special part I" of the Model. This crime, although not included as a new predicate crime for the application of Italian Legislative Decree no. 231/01, does concern conduct similar to that of corruption, and as such was considered best mapped and included in the Model under crimes of association.

Similarly, during 2015 - following the entry into force of Law No 186 of December 15, 2014 which introduced the crime of self-money-laundering into our system by providing that a person has administrative responsibility of the institution in whose interest or to whose advantage the offence was committed - there

was an additional update to the 231 Model. In this regard, after the usual activities of risk assessment and gap analysis, there emerged a need to include tax crimes in the mapping of risk areas. The Organisational Model 231 was then adjusted even through some changes of a formal nature of the “Special Section F”, dedicated to the crimes of money laundering and handling stolen goods, and inherent in the offence of self-money-laundering. Model 231 updates were also made, aimed at aligning it with the doctrine and case-law that has built up regarding the crime of “*Illegal burning of waste*”.

The Model is currently organised into eleven sections:

- a “general section” which describes, *inter alia*, the content of Legislative Decree no. 231/2001, the objectives of the Model and its implementation, the duties of the Supervisory Board – structured as a collective body – required to monitor the implementation and compliance of the Model, information flows and the penalty system. In this regard, in the meeting on December 19, 2012 and considering the current legislative and regulatory structure concerning the appointments and duties of the Board of Statutory Auditors, the Board of Directors chose not to transfer the functions of the Supervisory Board to this body (Comment to Article 7 of the Corporate Governance Code);
- a “special section A” concerning the crimes committed in transactions with the public administration and the crime of inducing someone not to make a declaration or to make untruthful declarations to the legal authorities;
- a “special section B”, which discusses corporate crimes;
- a “special section C”, which deals with crimes of terrorism or subversion of the democratic order;
- a “special section D” in relation to crimes against the individual person and the employment of citizens from third countries with invalid residence permits;
- a “special section E”, concerning market abuse offences, with the addition of a specific “Compliance regulation for the prevention of offences and administrative market abuse crimes”;
- a “special section F” concerning offences of receiving stolen goods, money-laundering and use of money, goods or assets of illicit origin, as well as self-money-laundering introduced into Decree 231/01 as a result of the entry into force of Legislative Decree 231/07;
- a “special section G”, regarding manslaughter and serious or very serious injuries committed in violation of the rules on occupational health and safety;
- a “special section H” relating to computer crime and breach of copyright;
- a “special section I” relating to organised crime offences;
- a “special section L”, concerning environmental crimes.

The content of this Model is consistent with the guidelines prepared for this purpose by trade associations. It is also in line with best practices, and represents the final step towards complete accuracy, transparency and accountability in internal and external relations, while offering shareholders a guarantee of efficient and correct management.

As a supplement to the Model, back in 2008 Terna also approved a specific “Compliance regulation for the prevention of crimes and administrative market-abuse offences”, most recently updated in July 2012, aimed at providing the recipients of the Model with an additional operational tool for evaluating their conduct to include crimes and administrative market-abuse offences and consequently for preventing conduct potentially representing a source of administrative responsibility for the Company.

In order to guarantee greater awareness of the adopted Model, it is published on the Company’s website ([www.terna.it](http://www.terna.it)) under the “Investor Relations” section. Since 2010, a widespread, customised training campaign has been carried out involving all employees. In particular, also in 2015 an awareness raising campaign based on “At-risk areas” for crimes where everyone operates, and other activities were undertaken aimed at ensuring an effective process-modulated awareness of regulations and conduct to be followed by all company representatives. Moreover, an Intranet portal has been set up, with a specific section dedicated to the matters pursuant to Italian Legislative Decree no. 231/01, in which the Models of all Group companies can be accessed, along with detailed information on jurisprudence and case law and a manual on the “Organisational and Management Model for Procedures” intended for Terna’s personnel, called on to implement the Model in order to allow a simplified interpretation of the Model, but one that is complete in terms of clearly indicating proper conduct and conduct to be avoided in terms of liability.

## Independent Auditors

The assignment of auditing the separate and consolidated financial statements was entrusted, pursuant to the resolution passed by the Shareholders' Meeting of May 13, 2011 on proposal of the Board of Statutory Auditors, to the audit company PricewaterhouseCoopers S.p.A. for the 2011-2019 period in replacement of the audit company KPMG S.p.A., whose appointment expired with no possibility for renewal or extension pursuant to Article 17 of Legislative Decree no. 39 of January 27, 2010.

In drafting the auditing assignment proposal submitted to the Meeting of May 13, 2011, the Board of Statutory Auditors preliminarily assessed the independence requirements of this company with reference to Terna and the Group. This company confirms its independence to the Board of Statutory Auditors once a year, in accordance with Article 17, paragraph 9 of Italian Legislative Decree no. 39 of January 27, 2010.

## Executive in charge of the preparation of the company's accounting documents and other company roles and functions

In implementation of Article 154-*bis* of the Consolidated Law on Finance – introduced by Italian Law no. 262 of December 28, 2005 and subsequently modified by Italian Legislative Decree no. 303 of December 29, 2006 – Terna's Shareholders' Meeting of May 24, 2007 provided for in the Bylaws (Article 21.4) the position of Executive in charge of the preparation of the company's accounting documents, delegating his appointment to the Board of Directors, following the indication by the Board of Statutory Auditors, based on specific requirements of professionalism.

The choice to reserve the appointment and revoking of the Executive in charge of the preparation of the company's accounting documents to the Board of Directors was carried out in line with the legal provisions that directly give the Board of Directors the specific task of supervision (Article 154-*bis*, paragraph 4 of the Consolidated Law on Finance). In this regard, within the scope of the "Internal Audit and Risk Management System of the Terna Group" guidelines, as most recently updated on December 19, 2012 and already presented in this section, the Board has specifically assigned the "Director in Charge of the Internal Audit and Risk Management System", regulated by the Corporate Governance Code, the task of making the appointment proposals, after consulting the Board of Statutory Auditors.

The Executive in charge of the preparation of the company's accounting documents must also be in possession of the requirements of honour indicated by law and professionalism indicated in the Bylaws (Article 21.4).

In particular, the Executive in charge of the preparation of the company's accounting documents must have at least three years' experience in:

- a) administration activities, finance and control and/or managing functions inherent to the activity of preparation and/or analysis and/or evaluation and/or verification of company documents whose accounting complexity is comparable to that of the Company accounting documents; or
- b) legal control of the accounts in companies listed in Italian regulated markets or in those of other countries of the European Union; or
- c) professional activities or university teaching in financial or accounting subjects.

The figure of the Executive in charge of the preparation of the company's accounting documents is regulated by specific "Regulations of the Executive in charge of the preparation of the company's accounting documents", a document that defines the tasks and associated responsibilities, and the related powers and resources attributed, prepared at Terna back in 2007 and subsequently updated in agreement with the "Director in Charge of the Internal Audit and Risk Management System".

In accordance with the relevant legislation, the Board of Directors acted quickly to appoint an Executive in charge of the preparation of the company's accounting documents. This position has been held since October 15, 2014 by Pierpaolo Cristofori, appointed by the Board of Directors after verification of the requirements of honour and professionalism. This appointment is in line with the evolution of the Company's organisational structure and of the functions assigned to Mr Cristofori as manager of the Administration, Finance and Control Department, a top management Department reporting directly to the Chief Executive Officer.



The Executive in charge of the preparation of the company's accounting documents carries out all the activities necessary to allow the Board of Directors to comply with its supervisory tasks as per Article 154-*bis*, paragraph 4 of the Consolidated Law on Finance.

The Executive in charge of the preparation of the company's accounting documents issues a declaration on the compliance, under Article 154-*bis*, paragraph 2 of the Consolidated Law on Finance, with the Company acts and communications provided for by Law or communicated to the market, with reference to Company financial reporting, including interim reports, Company documents, and accounting books and records. These declarations have been made since the interim financial report of 2007.

In accordance with Article 154-*bis*, paragraph 3 of the Consolidated Law on Finance, the Executive in charge of the preparation of the company's accounting documents prepares suitable administrative and accounting procedures to compile the separate and consolidated financial statements and any other financial communication requiring issuance of a certificate by the same. In this regard, the Executive in charge of the preparation of the company's accounting documents certifies, together with the appointed administrative bodies, with a specific report on the separate financial statements, the abridged interim financial statements and the consolidated financial statements, their suitability and effective application, in accordance with paragraph 5 of the same Article, according to the model established in the Issuer Regulation. These declarations have been made on the basis of the financial statements as at December 31, 2007.

During 2015, in continuity with respect to the activities of the previous years, the Executive in charge of the preparation of the company's accounting documents updated:

- the Administrative and Accounting procedures;
- the Analysis documents of the Internal Audit and Risk Management System at the Entity level.

Upon completion of said updates and also for the purposes pursuant to Article 154-*bis* of the Consolidated Law on Finance, the Executive in charge of the preparation of the company's accounting documents has carried out specific monitoring aimed at verifying the correct application of said procedures.

In accordance with the provisions of the Corporate Governance Code, the Executive in charge of the preparation of the company's accounting documents has, together with the Control, Risk and Corporate Governance Committee, evaluated the correct use of the accounting standards (Article 7.C.2, letter a) of the Corporate Governance Code).

## Coordination of the parties involved in the Internal Audit and Risk Management System

The "Internal Audit and Risk Management System of the Terna Group" involves, each insofar as they are competent, the Board of Directors, the CEO identified by the Board as the "Director in Charge of the Internal Audit and Risk Management System", the "Control, Risk and Corporate Governance Committee", the Board of Statutory Auditors, the Audit Department and its Manager, the Supervisory Board (SB) set up in accordance with Italian Legislative Decree no. 231 of June 8, 2001, the Executive in charge of the preparation of the company's accounting documents established in accordance with Article 154-*bis* of the Consolidated Law on Finance, the Chief Risk Officer (CRO), and provides for the ways in which they shall liaise, describing roles and duties as regards the Internal Audit and Risk Management System, in order to maximise the overall efficiency of the IARMS and reduce duplication of activities.

In order to guarantee suitable coordination between the parties involved in the IARMS, Terna implements:

- suitable, continuous flows of information between the parties involved in the IARMS;
- specific meetings for the management of specific situations or events, needed to ensure prompt control of exposure to risks and the recognition of operating anomalies;
- regular meetings to communicate the status of the risk management system and plan tests;
- systematic reporting on exposure to risks with different information levels according to the addressee.

## Section XII: Directors' interests and related-party transactions

Even before listing its shares in the stock market, Terna and its subsidiaries decided to lay the foundation for ensuring that related-party transactions were carried out in compliance with the principles of procedural and substantial correctness, in its own interest, and as a duty to the market.

As of February 22, 2007, in implementing the provisions of the 2006 edition of the Corporate Governance Code, Terna defined these conditions as part of specific internal procedures submitted in advance to the Internal Audit Committee and approved by the Board of Directors. Among other things, these procedures provided for specific reporting to the Board of Directors and Board of Statutory Auditors that was implemented periodically.

Following the publication of the "Regulation on Related-Party Transactions" issued by CONSOB with Resolution no. 17221 dated March 12, 2010, subsequently amended with Resolution no. 17389 dated June 23, 2010 ("CONSOB Related-Party Regulations"), Terna's Board of Directors – as announced to the market on November 12, 2010 – defined these conditions within a new Procedure ("Procedure for Related-Party Transactions"), effective as of January 1, 2011, taking into account the new regulations as well as the provisions of the Civil Code and those of the Corporate Governance Code. The resolution was approved unanimously following the positive opinion of the Committee established for this purpose and made up of independent Directors only (as established by Article 4, paragraph 3, of CONSOB Related-Party Regulations) whose members were identified among the Remuneration Committee set up at the time.

Within the "Procedure for Related-Party Transactions" and pursuant to Article 4 of CONSOB Related-Party Regulations, the following were implemented:

- Related Parties were identified, Related-Party Transactions were defined and the new methods for identifying, approving and implementing the various categories of Related-Party Transactions were laid down;
- transactions of an insignificant amount were identified as well as cases in which the provisions of the Procedure should not be applied (in line with the provisions of Articles 13 and 14 of CONSOB Related-Party Regulations) having taken into account the size of the Company and the sector it operates in, as well as the ownership structure;
- the methods were identified for forming the Committee of Directors called upon to express its opinion on the single Transactions of greater or lesser importance, as well as the contents of this opinion and the independence requirements of the Committee members. Furthermore, specific measures were identified should at least 3 independent, non-related Directors not be present;
- the rules were established regarding cases in which Terna has to examine or approve transactions of Italian or foreign subsidiaries;
- the terms and time frames were established with which Directors and the Related-Party Transactions Committee should be provided with information on Related-Party Transactions and the related documentation;
- the choices were identified as made by the Company with reference to the possibilities included in CONSOB's Related-Party Regulations.

Compared to previous principles of conduct regarding Related-Party Transactions adopted by Terna, the "Procedure for Related-Party Transactions" envisaged lowering the significance thresholds regarding certain types of Transactions which should be reported to the Board of Directors, so as to determine an increase in Related-Party Transactions classifiable – according to the definition indicated by CONSOB in the aforementioned resolution – as transactions of lesser importance.

The statutory changes required by the "Procedure for Related-Party Transactions" were approved in the resolution passed by the Shareholders' Meeting of May 13, 2011.

Since 2011, an annual census has been carried out of the related parties as envisaged by Article 4.

According to the document in its first application, the "Procedure for Related-Party Transactions" was subjected to a first audit for possible changes by the Board of Directors of Terna which, on the basis of

the favourable opinion provided by the Committee and taking into account that there appeared to be no issues, deemed the Procedure on the whole valid and effective and did not find it necessary to make any revision to it. Subsequently, on January 26, 2016 proceeding with the planned three-year audit of the document, the Board of Directors unanimously and after obtaining the approval of Related-Party Transactions Committee, resolved to make a few, mainly formal, changes to the “Procedure for Related-Party Transactions”, consisting of reformulations and clarifications to make the use of the document easier for all company departments and stakeholders. Additional audits of the “Procedure for Related-Party Transactions” will be carried out, based on the same one, whenever deemed appropriate but at least every three years, also in consideration of the organisational structure of the Company and the Group, and the ownership structure and the effectiveness demonstrated by the Procedure in its application.

The Procedure for Related-Party Transactions was released on the company’s website on November 12, 2010 and it can be found in its updated version (under [www.terna.it](http://www.terna.it), in the section: Investor Relations/Corporate Governance System/Procedure for Related-Party Transactions).

In accordance with the Procedure for Related-Party Transactions and since its adoption, there has been a special Related-Party Transactions Committee, consisting of at least three independent directors, within the scope of the Board of Directors of Terna.

The Board identified this Committee as the body in charge of carrying out the role required by “Regulations on Related-Party Transactions” issued by CONSOB with Resolution no. 17221 of March 12, 2010, subsequently amended with Resolution no. 17389 of June 23, 2010, for the approval of both more import transactions and those of lesser importance as indicated in the Terna “Procedure for Related-Party Transactions”. The Committee is assigned duties and powers to make enquiries and proposals and to provide advice, in assessments and decisions regarding the aforesaid Related-Party Transactions, as well as in relation to possible proposals to amend the Procedure adopted by Terna. A special “Organizational Regulation of the Related-Party Transaction Committee of Terna S.p.A.” approved in a resolution on December 12, 2010 and in force since January 1, 2011, governs the Committee’s composition, duties and operation.

The Company’s budget provides for adequate financial resources for carrying out the duties of the Related-Party Transactions Committee. Moreover, for the purposes of its own assessments, the said Committee may require the Company to utilize specialized, independent experts external to the Company, who are designated by this committee; costs for services rendered by consultants are met by the Company. At the invitation of the Coordinator, other people whose presence could be helpful for the smooth performance of the Committee’s functions may attend the meetings of the Related-Party Transactions Committee.

The Related-Party Transactions Committee is currently composed of Stefano Saglia (Acting as Coordinator), Gabriella Porcelli and Fabio Corsico, all non-executive and independent directors; at least one component is also in possession of appropriate experience in accounting and finance.

During 2015, the whose presence was deemed helpful for providing greater information on the subjects on the agenda held a total of 3 meetings, with an average duration of about 1 hour each, characterized by the regular participation of the components (89%) and which, at the invitation of the Committee, were attended by senior executives of the company whose presence was deemed helpful for providing greater information on the subjects on the meeting agenda. All meetings of the Committee were minuted correctly and the Committee had the opportunity to access information and company departments as required in the execution of its tasks. During the current year (2016) up to the date of approval of this report, the Committee has held 1 meeting. The participation of each Member of the Committee at meetings held during the year 2015 is shown in Table 1 attached (Article 123-bis, paragraph 2, letter d) of the TUF).

With regard to the activities carried out during the year 2015, the Related-Party Transactions Committee examined the survey of Related Parties and, at the outset and during the procedures, supported the Board of Directors and the Company departments charged with the examination of specific transactions under the Procedure and availed itself of its power to call upon independent external experts, specially chosen through a selection procedure. In particular, with respect to the acquisition of the entire stake of the share capital of S.EL.F. S.r.l. (now called Rete S.r.l.) referred to in the prospectus published by Terna on December 16, 2015, the Committee was involved in the various phases of the operation and sought assistance from an independent expert from Rothschild, and prepared its opinion in favour of the transaction itself.

Terna has also identified specific methods for the approval of the significant operations concluded by the Company, also through subsidiaries (Article 1.C.1, letter f) of the Corporate Governance Code) – explained in section IV under “Role of the Board of Directors” – and for the identification and management of situations in which a Director holds his own interest or an interest of third parties regarding a transaction that he should evaluate, in compliance with the regulations of the previous edition of the Corporate Governance Code and according to the provisions of Article 2391 of the Italian Civil Code under the scope of a specific internal procedure adopted in 2007 and subsequently updated (on March 31, 2011 and, with particular regard to managing situations of interest, most recently on June 23, 2015 following a favourable opinion of the Audit, Risk and Corporate Governance Committee: “*Approval of significant operations and management of situations of interest*”), thereby ensuring procedural monitoring that also applies where the provisions on related-party transactions do not apply. In this regard, Directors who have an interest (including potential or indirect interests) in the transaction:

- shall immediately inform the Board of Directors and the Board of Statutory Auditors regarding the existence of any such interest, specifying the nature, terms, origin and scope, in order not to receive notices about such topics where there is a conflict of interest and also not participating in the discussions of the Board relating to the handling of the topic relating to which he/she is a bearer of contrasting or conflicting interest, unless the Board specifically authorizes participation in the discussion and without prejudice to the obligation to abstain from voting;
- are required to inform the Board of the offices they hold at the time of their appointment and, regularly, update the Board on the existence of any employment or collaboration with competing companies, although not constituting a condition for the application of the prohibition referred to in Article 2390 of the Italian Civil Code .

## Section XIII: Appointment of the Statutory Auditors

### Appointment and requirements of Statutory Auditors

The terms for appointing the members of the Board of Directors are governed by Article 26 of the Bylaws. In compliance with the provisions of the Company’s Bylaws, the Board of Statutory Auditors is comprised of three Standing Auditors and three Alternate Auditors, who are appointed by the Shareholders’ Meeting for a period of three years and may be re-appointed at the end of their term.

All members of the Board of Statutory Auditors must meet the integrity and professionalism requirements as per the special legislation for Statutory Auditors of listed companies (Article 148, paragraph 4 of the Consolidated Law on Finance) now governed by Ministry for Justice Decree no. 162 of March 30, 2000, as supplemented by appropriate provisions of the Bylaws (Article 26.1 of Bylaws).

Each Statutory Auditor may not be Statutory Auditor of five or more companies that have issued securities and can hold other administrative and control positions in joint-stock companies according to Book V, Title V, Chapters V, VI and VII of the Italian Civil Code within the limits established by Article 144-*terdecies* of the Issuers Regulation implementing the provisions of Article 148-*bis* of the Consolidated Law on Finance.

All members of the Board of Statutory Auditors must also possess the independence requirements provided for by Article 148, paragraph 3 of the Consolidated Law on Finance.

The appointment of the entire Board of Statutory Auditors takes place, in application of the provisions on privatisation and in compliance with the provisions of Italian legislation concerning listed companies, according to the “list voting” mechanism, governed by Article 26.2 of the Bylaws, aimed at guaranteeing the presence in the auditing body of a Standing Auditor and an Alternate Auditor appointed by the minority shareholders and aimed at establishing – according to the provisions of Article 144-*sexies*, paragraph 9, of the Issuers Regulation – the criteria for identifying the candidate to be elected if lists receive the same

number of votes, by referral to the provisions on the appointment of the Board of Directors.

On the basis of this referral and in accordance with the provisions of Articles 4, paragraph 1-*bis*, of the Privatisation Law and modified by Italian Legislative Decree no. 27 of January 27, 2010, by Article 148 of the Consolidated Law on Finance and by the implementing rules for the above mentioned provisions included in Articles 144-*ter* and following of the Issuers Regulation, that the lists of candidates can be presented by shareholders that, alone or jointly with other shareholders, hold at least 1% of the share capital – or a lower amount as envisaged by the law – of shares with voting rights in the meeting. For this purpose CONSOB, implementing the provisions of Art. 148-*ter* of the Consolidated Law on Finance and Article 144-*septies* of the Issuers Regulation, has established – with Resolution no. 19499 dated January 28, 2016 and for the year ended December 31, 2015 – the minimum equity interest required for submitting candidate lists to be appointed to Terna's administrative and auditing bodies at 1% of the share capital, taking into account the Company's capitalisation, and without prejudice to any lower stake provided for in the Bylaws.

The presentation, filing and publication of the lists, by specific referral of the Bylaws, are regulated in a similar fashion as arranged for the appointment of the entire Board of Directors, where compatible with the legislation and regulations applicable and with the specific provisions of Article 26 of the Bylaws for the appointment of the Board of Statutory Auditors.

More specifically, the presentation and filing of the lists must take place - in accordance with Article 148, paragraph 2 and 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance and 144-*sexies*, paragraph 4 of the Issuers Regulation - at least 25 days prior to the date scheduled to resolve on the appointment of the members of the Board of Statutory Auditors.

Ownership of the minimum stake required to submit lists shall be determined – in accordance with the provisions of Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance – by taking into account the shares that are registered in the name of the Shareholder(s) on the day on which the lists are filed with the Company. In order to prove ownership of the number of shares necessary for presentation of the lists, shareholders with rights must present and/or deliver the related documentation issued in accordance with Articles 144-*sexies*, paragraph 4-*quater*, Issuers Regulation and 23 of the “Regulation governing the centralised management services, liquidation, guarantee systems and related management companies” in force at the time (adopted by the Bank of Italy and CONSOB on February 22, 2008 as subsequently amended, the so-called “single measure”), also after filing the list, as long as, within the terms envisaged for publication of the lists (i.e. at least 21 days before the date set for the Shareholders' Meeting called to resolve on appointment of the auditing body).

Pursuant to Article 144-*sexies*, paragraph 5, of the Issuers Regulation, in the event that on the date due for the submission of the lists for the Board of Statutory Auditors only one list has been filed, or only lists submitted by members who are connected to each other pursuant to the applicable legal provisions, lists may be submitted up to the third day following said date; In this case, the thresholds set forth above shall be reduced by half.

Each Shareholder may present or assist in the presentation of one single list and each candidate may be on one list only or will be considered ineligible in accordance with the provisions of the Bylaws and Article 144-*sexies*, paragraph 6 of the Issuer Regulation.

Lists must not include more candidates than the number to be elected. The names are marked by a progressive number (Article 26.2 of the Bylaws) and the lists are divided into two sections, one for candidates for the position of Standing Auditor, and the other for candidates for the position of Alternate Auditor. The first of the candidates of each section of the lists must be registered in the register of Auditors and must have exercised the activity of legal auditing of accounts for a period of at least three years.

Both the provisions of Article 26.2 on gender balance of the Auditors to be elected, and the provisions of the Bylaws on requisites of integrity and professionalism of Auditors, indicated under Article 26.1, apply.

In this regard, lists which, considering both sections, have three or more candidates must include, both in the first two places of the section of the list relating to Standing Auditors and in the first two places on the list relating to Alternate Auditors, candidates of different genders, in order to enable a Board of Statutory Auditors to be formed in compliance with current legislation on gender balance in the administrative and auditing bodies of companies with listed shares pursuant to Italian Law no. 120 of July 12, 2011 and Articles 147-*ter*, paragraph 1-*ter* and 148, paragraph 1-*bis* of the Consolidated Law on Finance. These statutory provisions aimed at guaranteeing compliance with current legislation on gender balance –



introduced by the resolution of the Shareholders' Meeting passed on May 16, 2012 – apply, in accordance with the provisions of Article 31.1 of the Bylaws, to the first three renewals of the Board of Statutory Auditors subsequent to entry into force and application of the provisions of Article 1 of Italian Law no. 120 of July 12, 2011, published in Official Journal no. 174 of July 28, 2011 and in force as from August 12, 2011 without prejudice to any extensions envisaged by the law. In particular these provisions were first applied on the occasion of renewal of the corporate bodies whose office expired on approval of the 2013 financial statements resolved by the Shareholders' Meeting of May 27, 2014. On the same occasion, in accordance with the provisions of Article 31.2 of the Bylaws, the new provisions of the Bylaws applied, which – for the same purpose and for the first three renewals, save any additional extensions provided for by law – have increased the members of the Board of Statutory Auditors, which is made up of a total of three Standing Auditors and three Alternate Auditors.

As concerns the personal characteristics of the candidates and on the basis of what is specified under Article 8.C.1 of the Corporate Governance Code, in the notice convening the shareholders' meeting, shareholders are specifically asked, when preparing lists, to evaluate the characteristics of the candidates, also as concerns their independence, as envisaged by Article 3 of the same Code with reference to Directors.

In order to ensure a transparent procedure for the appointment of the Board of Statutory Auditors, the lists are filed complete, in accordance with Article 144-*sexies*, paragraph 4 of the Issuers Regulation:

- a) with information on the identity of the shareholders who have submitted the lists, indicating the total percentage equity interest held;
- b) with a declaration by shareholders other than those who hold, also as a group, a controlling interest or relative majority, indicating the absence of relationships as set forth in Article 144-*quinquies* of the Issuers Regulation with the latter. In this regard, CONSOB, with Communication no. DEM/9017893 of February 26, 2009 (concerning the "Appointment of the members of the administrative and auditing bodies") recommends that shareholders presenting a "minority list" provide the information required with regard to the election of the auditing bodies in this declaration;
- c) with an accurate description of the personal and professional characteristics of the candidates, accompanied – pursuant to Article 2400, last paragraph of the Italian Civil Code – by a list of administration and auditing positions held within other companies as well as a statement by the candidates certifying possession of the requisites set by the law (including possession of independence requisites pursuant to Article 148, paragraph 3 of the Consolidated Law on Finance) and their acceptance of the candidacy.

The lists - complete with all information envisaged by Article 144-*octies*, paragraph 1 of the Issuers Regulation and CONSOB communication no. DEM/9017893 of February 26, 2009 - are therefore made available to the public - in accordance with Article 148, paragraph 2 of the Consolidated Law on Finance and with Article 144-*octies*, paragraph 1 of the Issuers Regulation - at the company's office, on the company's website and according to the ways established by CONSOB, at least 21 days prior to the date of the specified Shareholders' Meeting.

Pursuant to Article 148, paragraph 2 of the Consolidated Law on Finance, at least one effective member is appointed by the minority shareholders who are not connected, not even indirectly, with the shareholders who have introduced or voted the list which obtains the highest number of votes.

In this regard, on the basis of the procedure for appointing the Auditors according to the "list voting" mechanism governed by Article 26.2 of the Bylaws and Article 144-*sexies* of the Issuers Regulation, each person with the right to vote can vote a single list only in the shareholders' meeting. In the progressive order in which they appear in the list, two Standing Auditors and two Alternate Auditors are taken from the list that has obtained the most shareholder votes (the "majority list"); the remaining Standing Auditor and the remaining Alternate Auditor are instead taken from the other lists (the "minority lists") considering that which obtained the most votes, according to the mechanism described in letter b) of Article 14.3 for the election of Directors; this is to be applied separately to each of the sections into which the lists are divided and which has been presented and voted by shareholders who are not directly or indirectly connected, in accordance with Article 144-*quinquies* of the Issuers Regulation, with the shareholders who presented or voted the majority list.

In compliance with the Italian legislation for listed companies, the Bylaws (Article 26.2) attribute the role of chairman of the Board of Statutory Auditors to the Auditor appointed by the minority list.

For the appointment of Statutory Auditors taking place outside the context of the renewal of the entire Board of Statutory Auditors, the Shareholders' meeting shall resolve with the legal majorities and without observing the procedure described above, in any case in such a way as to assure a composition of the Board of Statutory Auditors in compliance with requirements of integrity and professionalism as envisaged by the law and the Bylaws, as well as ensuring compliance with current legislation on gender balance.

For any replacement of the Statutory Auditors, the terms of Article 26.2 of the Bylaws will be applied. If one of the Statutory Auditors is replaced, without prejudice to the possession of the legal requirements, the first of the Alternate Auditors taken from the same list shall take his or her place. If the replacement, carried out in this way, does not enable the reconstruction of a Board of Statutory Auditors compliant with current legislation on gender balance, the second of the Alternate Auditors on the same list shall be appointed. If, subsequently, it should be necessary to replace the other Statutory Auditor taken from the same list that has obtained the greatest number of votes, in any case the additional Alternate Auditor taken from the same list shall be appointed. If the Chairman of the Board of Statutory Auditors is replaced, this position will be taken by the Alternate Auditor taken from the same list.

When the Statutory Auditors are elected, in any of the ways provided for in the Bylaws, the specific provisions of the Bylaws (specifically Art. 14.3 lett. f) as referred to in Art. 26.2 of the Bylaws) on the subject of conflict of interest also apply for the purposes of Art. 2373 of the Italian Civil Code introduced under the terms of Directive no. 2009/72/EC of July 13, 2009, and of Italian Legislative Decree no. 93 of June 1, 2011, illustrated in more detail in Section XVI: "Shareholders' Meetings" below.

## Section XIV: Composition and operation of the Board of Statutory Auditors

The Board of Statutory Auditors currently in office, appointed by the ordinary Shareholders' Meeting of May 27, 2014, will be in office until the approval of the 2016 financial statements.

According to what was resolved by the Shareholders' Meeting on May 27, 2014, the following make up the Board of Statutory Auditors: Riccardo Enrico Maria Schioppo (Chairman of the Board of Statutory Auditors elected from the minority list formulated by a group of shareholders made up of asset management companies and other institutional investors as listed in the Company's specific press release relating to publication of the Lists of May 6, 2014), Vincenzo Simone and Maria Alessandra Zunino de Pignier (Standing Auditors appointed by the majority list submitted by Cassa Depositi e Prestiti S.p.A.).

The following Alternate Auditors were also elected: Raffaella Annamaria Pagani (indicated by the minority list formulated by a group of shareholders made up of asset management companies and other institutional investors as listed in the Company's specific press release relating to publication of the Lists of May 6, 2014), Cesare Felice Mantegazza and Renata Maria Ricotti (indicated by the majority list submitted by Cassa Depositi e Prestiti S.p.A.).

The Auditors appointed represent both lists submitted for the said meeting. Further information regarding the lists of candidates submitted and on the results of the voting is available on the Company's website at [www.terna.it](http://www.terna.it) in the section "*Investor Relations/Corporate Governance/Company bodies/Shareholders' Meetings/Shareholders' Meeting of May 27, 2014*". Following the statements made for the appointment, the vote count and after the voting, a standing member was elected by the minority members that are not connected, even indirectly, with the members who submitted or voted the list that obtained the highest number of votes.

Since the appointment, at the Shareholders' Meeting of May 27, 2014, the composition of the Board of Statutory Auditors has remained unchanged.

A summary of the professional background of the Auditors is provided below.

- **Riccardo Enrico Maria Schioppo, 65 years old – Chairman of the Board of Statutory Auditors**  
[born in Milan on July 20, 1950]

Chartered Accountant registered in the Order of Milan and in the Register of Legal Auditors. He does professional work in the sectors of administration and auditing of joint-stock companies. In the Mediobanca Group he is the Chairman of the Board of Statutory Auditors of Che Banca! S.p.A., SelmaBipiemme Leasing S.p.A. and of Spafid S.p.A. In the Roche Group he is a Standing Auditor of Roche S.p.A., Roche Diagnostics S.p.A. and of Roche Diabetes Care Italy S.p.A. He is also alternate statutory auditor in Telecom Italy S.p.A. He has been Chairman of the Board of Statutory Auditors of Terna S.p.A. since May 2014. He has acquired numerous and qualified professional experiences, also related to extraordinary operations, as legal auditing manager of leading Italian groups and companies listed on the Stock Exchange; CFO of Ernst & Young Italia from 2005 to 2013 and Audit Partner of Reconta Ernst & Young from 1984 to 2013. He was also a member of the Italian Commission for Accounting Standards of the Italian Council of Chartered Accountants.

- **Vincenzo Simone, 55 years old – Standing Auditor**  
[born in Padula (SA) on November 20, 1960]

He has a degree in Business and Economics from Salerno University, Chartered Accountant, with an Office in Potenza, registered in the Register of Legal Auditors, registered on the List of Technical Consultants of the Court of Potenza and on the List of Statutory Auditors of the Puglia and Basilicata Association of Cooperative Banks.

He has done professional work since 1990 and is the majority shareholder and consultant of a joint-stock company which has operated, for more than fourteen years, in the sector of fiscal, financial and business consultancy. He is a member of the Evaluation Team of the Municipality of Potenza. She has been regular statutory auditor of Terna S.p.A. since May 2014.

As part of his professional activities he has held Directorships of commercial companies, also with delegated powers, and has been a Member of the Board of Statutory Auditors in companies, Public Bodies, Economic Public Bodies and Banks. He has performed business consultancy activities for Collective Loan Guarantee Consortia, and has been an official receiver, a liquidator, and a technical consultant appointed by the Court of Potenza and the Consortium for Industrial Development. He has been a Member of the Technical Committee of the loan consortium Consorzio FIDI. He has prepared appraisals and valuations of companies and business units also on the occasion of extraordinary business combinations (transformations, mergers, demergers - also of banks -, contributions and liquidations).

- **Maria Alessandra Zunino de Pignier, 63 years old – Standing Auditor**  
[born in Rome on May 1, 1952]

She has a degree in Business and Economics from the Catholic University of the Sacred Heart, Milan, and is a Chartered Accountant registered in the Register of Legal Auditors. She is a partner of Alezio.net Consulting S.r.l. and, in that capacity, she is a member of Assosim – Italian Association of Financial Intermediaries. She also deals with private equity and it provides advisory services on investment and banking services. In the context of associations, she is also a member of AIAF – Italian Association of Financial Analysts and Financial Advisers (AIAF) and Assiom-Forex – Association of Financial Market Operators.

She performs private professional practice and was a member of the Board of Directors of Mediolanum S.p.A. and statutory auditor in a number of regulated entities. She is currently a regular statutory auditor in Esperia Fiduciaria S.p.A. and Gefran S.p.A. She has been regular statutory auditor of Terna S.p.A. since May 2014. She is the author of books and articles on rules governing markets, services and financial instruments.

During the appointment and taking account of the information provided by the individuals involved, the Board of Directors, based on the envisaged terms, has confirmed and verified the existence of the requisites of integrity, professionalism and independence of the members of the Board of Statutory Auditors appointed by the Shareholders' Meeting held on May 27, 2014.

In the attached Table 2, information is included regarding the composition of the Board of Statutory Auditors as of March 21, 2016.

No Standing Auditor holds five assignments in other Italian companies issuing shares listed in the Italian regulated markets or in other countries of the European Union and in companies issuing financial instruments available to the public in significant amounts pursuant to Article 116 of the Consolidated Law on Finance as defined by Article 2-*bis* of the Issuers Regulation.

The total number of assignments as Director or Auditor in other companies according to Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the Civil Code, relevant according to Article 148-*bis* of the Consolidated Law on Finance, is indicated in the annexed Table 2. The total number of assignments according to Article 144-*quinquiesdecies* of the above mentioned Issuers Regulation based on CONSOB Resolution no. 17326 dated May 13, 2010, is published by CONSOB and is available on its website ([www.consob.it](http://www.consob.it)). In this regard, it should be remembered that following the amendments to Articles 144-*terdecies* and 144-*quaterdecies* of the Issuers Regulation as per CONSOB Resolution no. 18079 of January 20, 2012 (published in the Official Journal on February 7, 2012), the limits on the total number of assignments and the consequent obligation to notify CONSOB are not applicable to standing members of the auditing body who hold the position of standing member of the auditing body “in one issuer only”. During 2015, the Board of Statutory Auditors held a total of 8 meetings which lasted on average approximately 2 hours and 35 minutes each, with the regular participation of the Standing Auditors (96%). In the current year (2016), all the meetings prior to examination of the economic-financial data by the Board of Directors have been scheduled. During the year in progress up to the date of approval of this Report, the Board of Statutory Auditors has held 2 meetings.

The Board of Statutory Auditors – with reference to the provisions of Art. 148, paragraph 3, of the Consolidated Law on Finance, and on the basis of the criteria envisaged for assessing the independence of the non-executive members of the Board of Directors under the terms of Art. 3 of the Corporate Governance Code and in ways that comply with those envisaged for the Directors – with reference to the information supplied by the individual parties concerned – has certified that the independence requirements are met by all Standing Auditors (Article 8.C.1 of the Corporate Governance Code). This verification was most recently confirmed by the meeting held on February 15, 2016.

Terna's Board of Statutory Auditors, already from March 16, 2007, decided to make itself subject voluntarily to a system of transparency analogous to that of the Directors (explained in section XII) in case of operations in which they have an interest for themselves or for third parties (Article 8.C.3 of the Corporate Governance Code). This orientation was also confirmed by the Board of Statutory Auditors in office.

In 2015, overall the Board carried out its typical supervisory duties as established by Italian legislation on (I) observance of the Law and of the memorandum of association, including observance of principles of proper administration in carrying out corporate activities, (II) adequacy of the organisational structure, (III) adequacy and effectiveness of the Internal Audit and Risk Management System and (IV) suitability of the company's administrative-accounting system; (V) methods of concrete implementation of the rules of corporate governance set out by the code of conduct with which the Company has declared it complies; and (VI) the financial disclosure process and legal auditing of the annual and consolidated accounts (Article 7.P.3 and Comment to Article 8 of the Corporate Governance Code). It also verified implementation of the provisions pursuant to Article 114, paragraph 2 of the Consolidated Law on Finance relating to communication obligations. The Board of Statutory Auditors also monitored the independence of the auditing firm verifying both observance of the provisions applicable on the matter, and the nature and quantity of the services other than the accounting and auditing provided to Terna and to its subsidiaries by PricewaterhouseCoopers S.p.A. and the entities belonging to its network.

The Board of Statutory Auditors verified the proper application of the criteria and procedures adopted by the Board of Directors for evaluating the independence of its members and also analysed the implementation of the regulations pursuant to Legislative Decree no. 231/01 and of the Regulations for the Executive in charge of the preparation of the company's accounting documents pursuant to Italian Law no. 262/05.

In 2015, the Board of Statutory Auditors, through its Chairman, was recipient of the results of the audits on the Head of the Audit Department and the statutory auditors regularly attended the meetings of the Board of Directors and the Audit Risk and Corporate Governance Committee and also – the Chairman – participated in the meetings of the Remuneration Committee ensuring appropriate involvement of the Board of Statutory Auditors in many internal procedures.

In carrying out its activity, the Board of Statutory Auditors was coordinated with the Audit Unit and with the Control, Risk and Corporate Governance Committee according to the terms included in the previous “Section XI: Internal Audit System” (Articles 8.C.4 and 8.C.5 of the Corporate Governance Code), with the Supervisory Board pursuant to Legislative Decree no. 231/01, with the Executive in charge of the preparation of the company’s accounting documents pursuant to Law no. 262/05, as well as with the Boards of Statutory Auditors of the holding company and with the auditing firm, exchanging relevant information to perform their respective duties.

As regards participation of the Board of Statutory Auditors in initiatives aimed to provide to the Directors and Statutory Auditors adequate knowledge of the business segment in which the Company operates, the business performance and its evolution, and the legislative and self-regulatory framework of reference, as provided for in Art. 2.C.2 of the Corporate Governance Code, please see the description provided above in the Section IV, under “Composition”, in paragraph “Induction Programme”.

## Section XV: Investor Relations

Since its listing on the stock exchange, the Company has believed that is both in its best interest and a duty to the market to establish a constant dialogue, based on the mutual understanding or roles, with all shareholders and institutional investors: this dialogue is to be carried on in compliance with both the procedure for the disclosure of documents and information outside the Company and the principles included in the “Guide for market disclosures” and in recent regulatory measures and regulations on market disclosure.

In this regard, and also considering the Company’s size, it was decided that this dialogue could be facilitated by the creation of specific Company structures.

Accordingly, the Company set up the (I) Investor Relations Unit, which is currently part of the Administration, Finance, Control and Investor Relations Department, and has the task of managing relations with institutional investors under the responsibility of Antonio Colombi (Viale Egidio Galbani, 70, 00156 Rome - tel. +39 06 8313 9041 - fax +39 06 8313 9312 - e-mail: [investor.relations@terna.it](mailto:investor.relations@terna.it)) – and (II) a department for relations with general shareholders within the Corporate and Legal Affairs Department under the direction of Attorney Francesca Covone (Viale Egidio Galbani, 70, 00156 Rome – tel. +39 06 8313 8136 - fax +39 06 8313 8218 - e-mail: [azionisti.retail@terna.it](mailto:azionisti.retail@terna.it)) – (Articles 9.P.1, 9.P.2, and 9.C.1 of the Corporate Governance Code).

Furthermore, the Company has further encouraged dialogue with investors by creating a specific section in its website ([www.terna.it](http://www.terna.it)), where they can find both financial information (financial statements, half-yearly and quarterly reports and presentations to the financial community) and updated information and documents of interest to general shareholders (press releases, the Company structure, the Bylaws and regulations for Shareholders’ Meetings, Corporate Governance information and documents, the Code of Ethics and the Organizational and Management Model pursuant to Legislative Decree no. 231/2001, distributed dividends, etc.

Individual alerts can also be activated on the Company’s website, for future events in the company’s calendar.

## Section XVI: Shareholders’ Meetings

The Governance Code establishes that the Shareholders’ Meetings should be considered as special occasions to initiate fruitful dialogue between shareholders and the Board of Directors (despite the wide-ranging diversification of the communications methods used by listed companies with their shareholders, institutional investors and the market). This was carefully evaluated and fully approved by the Company, which believed it necessary to adopt specific measures to adequately improve the meetings, in addition to guaranteeing the participation of its Directors (Article 9.C.2 of the Corporate Governance Code).



Also on the basis of special legislation enacted as expected in relation to listed companies, Terna introduced into its Bylaws a specific regulation aimed at facilitating the gathering of voting proxies for shareholders who are employees of the Company and its subsidiaries, so as to involve them in the decision-making process at the Shareholders' Meetings.

Pursuant to Article 11.1 of the Bylaws, every shareholder that has the right to attend the Shareholders' Meeting can be represented according to the Law, through a proxy.

In order to facilitate the notification of proxies to the Company, with resolution of October 18, 2010, Terna's Board of Directors approved the amendments to the Bylaws necessary for adjusting the Company Bylaws to the novelties introduced by legal provisions regarding the rights of shareholders of listed companies aiming at favouring the participation of shareholders in the life of the Company (Directive 2007/36/EC and related implementing Legislative Decree no. 27 dated January 27, 2010) including notification of proxies by electronic means and, according to Article 125-*bis* of the Consolidated Law on Finance, mentioning such terms from time to time in the notice of call. At this time, the Board of Directors deemed it appropriate to allow shareholders the possibility to grant proxies together with specific voting instructions to a Designated Company Representative according to Article 135-*undecies* of the Consolidated Law on Finance without exercising the "opt-out" possibility provided for in the Consolidated Law on Finance (Article 9.P.1 of the Corporate Governance Code). Additionally, with a resolution of the Shareholders' Meeting held on May 13, 2011 and with reference to current legislation looking to encourage the participation of shareholders in company life, the possibility of using the single call of the Shareholders' Meeting has been envisaged, with a view to providing shareholders and the market with a single indication of the real date on which the meeting is held.

In order to facilitate the collection of proxies with the shareholders employed by the Company and its subsidiaries who are members of with shareholders' associations that meet the requirements envisaged by the existing laws, spaces to be used for communication and for carrying out activities for collecting proxies have been made available to these associations, according to the terms and methods agreed upon in each case with their legal representatives.

With regard to the right to attend a Shareholders' Meeting, the Bylaws (Article 10.1) – as modified by the Board of Directors on October 18, 2010 implementing Legislative Decree no. 27 of January 27, 2010 – envisage that attendance at the Shareholders' Meeting is allowed only to those who have the right to participate in the Meeting and to exercise the voting right pursuant to the legal or regulatory provisions in force.

On the basis of this provision and according to the current Article 83-*sexies* of the Consolidated Law on Finance, eligibility to participate in the Meeting and exercise voting rights is certified by a notice to the Company, made by an intermediary, in compliance with its own accounting books, in favour of the person entitled to voting rights on the basis of evidence of the accounts specified by Article 83-*quater*, paragraph 3 of the Consolidated Law on Finance related to the close of the accounting day of the seventh trading day prior to the date set for the Shareholders' Meeting on first (or only) call, the "record date".

These provisions do not entail any obstacles to subsequent trading of shares. The credit and debit registrations made on accounts subsequent to the said term are not material for purposes of legitimizing the exercise of the right to vote in the Shareholders' Meeting. Therefore, those who appear as owners of the Company shares subsequent to the said date will not be allowed to participate and vote in the Meeting. Communications by intermediaries for participation must be received by the Company by the end of the third trading day prior to the date set for the first (or only) call of the Shareholders' Meeting. This involves no prejudice to the entitlement to participate and vote if the Company has received the communications after said indicated term, provided that they are received by the time the Meeting begins on single call (Article 83-*sexies*, paragraph 4 of the Consolidated Law on Finance).

The Bylaws do not envisage attendance at the Shareholders' Meeting through telecommunications means or through the expression of the right to vote by correspondence or by electronic means.

The right to add to the agenda and to present new proposed resolutions on the part of the shareholders, by virtue of the general reference pursuant to Article 30 of the Bylaws, is held by the shareholders that, also jointly, represent at least one fortieth of the share capital according to the direct provisions of the Law (Article 126-*bis* of the Consolidated Law on Finance). On the basis of this provision, shareholders can present a written application, also by correspondence or electronically, in compliance with any requirements strictly

necessary to identify the applicants and as indicated by the company, within ten days of the publication of the notice convening the meeting, to supplement the agenda with additional items, specifying in the application what additional items are proposed, or presenting proposed resolutions on items already on the agenda, filing a report within these same terms, giving the reasoning for the proposed resolutions on the new items up for discussion or the reasoning in relation to the additional proposed resolutions presented on items already on the agenda, along with documentation certifying ownership of the shares in accordance with the Regulation governing the centralised management services, liquidation, guarantee systems and related management companies as in force (adopted by the Bank of Italy and CONSOB on February 22, 2008 and subsequently amended with: Bank of Italy/CONSOB Act of December 24, 2010, the Bank of Italy/CONSOB ruling October 22, 2013; Bank of Italy/CONSOB Act of February 11, 2015; Bank of Italy/CONSOB Act of February 24, 2015).

Those with voting rights can individually present proposed resolutions to the Shareholders' Meetings.

Additions to the list of items to be discussed are allowed only for those topics on which the Shareholders' Meeting is authorized to resolve pursuant to the Law. These topics exclude those for which the Law itself envisages that a resolution be made on the proposal of the Directors or on the basis of one of their projects or of a report they have prepared, other than that on the items on the agenda.

In case of an addition to the agenda or the presentation of additional proposals, the modified list of matters to be discussed during the Meeting and the new proposals must be published according to the same terms as for the notice of call, at least fifteen days prior to the day scheduled for the Meeting. At the same time – using the same methods envisaged for the Directors' Report on the items on the agenda – the report presented by the shareholders is made available to the public, accompanied by any considerations of the administrative body.

Under the terms of Art. 127-ter of the Consolidated Law on Finance, those with voting rights in the Shareholders' Meeting can ask questions on the items on the agenda, even before the meeting. The notice convening the meeting specifies the terms and conditions in compliance with which any questions raised prior to the meeting must reach the company.

Starting March 3, 2004, with a special shareholders' resolution, the Company implemented a specific regulation aimed at ensuring the exact and functional conduct of Shareholders' Meetings, with detailed rules for the various phases, in compliance with each shareholders' fundamental right to request clarifications on the various issues being discussed, express an opinion and submit proposals (Article 9.C.3 of the Corporate Governance Code). With the shareholders' resolution of May 13, 2011, the text of the adopted "Regulations for Terna S.p.A.'s Shareholders' Meetings" was adjusted to be in line with the provisions of Legislative Decree no. 27, dated January 27, 2010 with regard to the exercising of certain rights of shareholders of listed companies. At the same time, some further adjustments were made in order to better define the scope of certain provisions of the Regulations in light of the experience gained in applying them and to ensure smoother conduct of the Shareholders' Meetings. The main amendments made, which were illustrated in detail to the shareholders with a specific report to the Shareholders' Meeting, regarded provisions concerning rules on the right to participate and vote in a Shareholders' Meeting and provisions concerning the right to pose questions on the items on the agenda, also before the Shareholders' Meeting.

In particular, with regard to the right of each shareholder to speak regarding the items on the agenda, Article 6 of the Regulations envisages that those entitled to exercise the right to vote can ask for the floor only once for the topics being discussed, presenting observations, requesting information and formulating proposals. The request to speak may be submitted at the time the Shareholders' Meeting is held and – unless otherwise stated by the Chairman – until the said Chairman has declared the discussion on the topic closed. The terms for such requests, for taking the floor and the related order, are established by the Chairman. Considering the topic and the importance of each item discussed, as well as the number of those requesting the floor and possible questions posed by shareholders before the Shareholders' Meeting which were not answered by the Company, the Chairman predetermines the duration of the reports and the responses – usually not to exceed ten minutes for reports and five minutes for the responses – in order to guarantee that the Shareholders' Meeting can complete its activity in a single session. The Chairman and, by his or her invitation, all those who assist him or her, respond to the speakers at the conclusion of all the reports, or after each report, taking into consideration also possible questions posed by shareholders before the Shareholders' Meeting which were not answered by the Company. Those that have asked to speak may reply briefly.

Although the said Regulation is not included in the Bylaws, it is approved by the Ordinary Shareholders' Meeting under the specific power given to the shareholders by the Bylaws (Article 11.2). The contents of the Regulation have been aligned with the most sophisticated models prepared by trade associations (Assonime and ABI), for listed companies. The "Regulations for Terna S.p.A.'s Shareholders' Meetings" can be found on the Company's website under the section: "Investor Relations/Corporate Governance/Corporate bodies/Shareholders' Meeting".

The Board of Directors reports to the Shareholders' Meeting on the activities carried out and planned on the occasion of approval of the financial statements and in the report on operations and, with specific reports, provides the shareholders with adequate information in a timely manner, so that they may pass resolutions with full knowledge of the facts; further clarifications, where required, are also provided in response to queries raised by shareholders during the meeting (Article 9.C.2 of the Corporate Governance Code). In this regard, the annual Shareholders' Meeting held in financial year 2015, called upon to approve, among other things, the 2014 statutory financial statements was attended by 5 Directors out of 9 and by the entire Board of Statutory Auditors and by a Standing Auditor. On this occasion, the Chairman of the Remuneration Committee attended and also spoke (comments to Article 6 of the Corporate Governance Code).

With reference to the position expressed in the Comment on Art. 9 of the Corporate Governance Code, it is acknowledged that, in the case of resolutions submitted to the Shareholders' Meeting for which the Board of Directors has not formulated a proposal of its own, the controlling shareholders provided their proposals to the Shareholders' Meeting with sufficient advance notice.

The Shareholders' Meeting is chaired by the Chairwoman of the Board of Directors, or, in case of her absence or impossibility, by the Deputy Chairman, if appointed, or, in the absence of both, by another person designated by the Board of Directors; should all the above conditions not apply, the Shareholders' Meeting appoints its own Chairman (Article 12.1 of the Bylaws).

The Chairman of the Shareholders' Meeting is assisted by a secretary, even if not a shareholder, designated by those present at the request of the Chairman, and can appoint one or more tellers (Article 12.2 of the Bylaws and Article 4 of the Regulations for Terna S.p.A.'s Shareholders' Meetings). The assistance of the secretary, according to the terms envisaged by the Law, is not necessary if the Chairman waives said assistance or when the minutes of the Shareholders' Meeting are prepared by a notary public, even in cases in which it is not mandatory by law (Article 4 of the Regulations for Terna S.p.A.'s Shareholders' Meetings).

The Shareholders' Meeting, unless otherwise stated by the terms envisaged by Article 21.2 of the Bylaws, assigns to the Board of Directors, according to the terms established by Law, the power to adopt certain resolutions that fall under the duties of the Shareholders' Meetings that can determine amendments to the Bylaws, and resolves on all the topics as established by the Law or the Bylaws (Article 13.1 of the Company Bylaws) according to the indications in the foregoing Section I under the heading: "Corporate Structure".

Shareholders' Meeting resolutions subject to the exercise of "special powers" of the Government "in relation to strategic activities in the energy, transport and communications industries" and indicated in the "Golden Power Decree" (as described in Section II above under "Restrictions on share transfer and shares granting special powers") must be adopted and executed in accordance with the provisions of the same measures. Where not otherwise established by the Bylaws, resolutions for both the ordinary and extraordinary Shareholders' Meetings are passed with the majorities required by the law applicable in the individual cases (Article 13.2 of the Bylaws). In particular, the Bylaws provide that: (i) for transactions with related parties that have not received a favourable opinion from the competent body, the Shareholders' Meeting resolves, in addition to the majority provided for by law, in the presence of unrelated shareholders, as defined by governing regulations, who represent at least 10% of the share capital with voting rights and with a favourable vote by the majority of said unrelated shareholders; (ii) for urgent related-party transactions that have been submitted by the Directors for an advisory vote, the Shareholders' Meeting adopts resolutions with the majority provided for by law (Article 13.3 of the Bylaws).

As regards the expression of the right to vote at Shareholders' Meetings, (as described in Section II above under "Voting Restrictions") the Bylaws identify (specifically in Arts 10.2, 14.3 lett. f) and 26.2) a number of cases of conflict of interest for the purposes of Art. 2373 of the Italian Civil Code under the terms of Directive

no. 2009/72/EC of July 13, 2009 and of Italian Legislative Decree no. 93 of June 1, 2011 and subject to the assessments made by the Authority for Electricity, Gas and Water in the process of certifying the Company as a transmission system operator under the ownership unbundling. In particular, for the purposes of Art. 2373 of the Italian Civil Code, the following are considered as having a conflict of interest:

- a) anyone who, directly or indirectly exercising control of the Company or holding in it a significant equity investment under the terms of Art. 120 of Italian Legislative Decree no. 58 of 24 February 1998, operates in the sector of generating or supplying electricity or gas or, directly or indirectly, controls a business operating in the sector of generating or supplying electricity or gas (Art. 10.2 of the Bylaws);
- b) anyone who at the moment of election of the directors, in any of the ways provided for in the Bylaws, operates in the sector of generating or supplying electricity or gas or, directly or indirectly, controls a business operating in the sector of generating or supplying electricity or gas or holds a significant equity investment in the same under the terms of Art. 120 of Italian Legislative Decree no. 58 of 24 February 1998. (Art. 14.3 lett. f) of the Bylaws). The same rule is applied at the moment of election of the Statutory Auditors (Art. 26.2 of the Bylaws).

To this end, each participant in the Shareholders' Meeting declares, under his/her own responsibility, any existence of a conflict of interest.

During 2015 – with reference to the regulations for minority rights and in compliance with the regulations and rules for the Company mentioned above – no significant changes were made in market capitalisation of the Company's shares or in the composition of its corporate bodies for which the Board of Directors had to evaluate the opportunity of proposing to the Shareholders' Meeting any amendments to the Bylaws regarding the percentages established for exercising shares and of the prerogatives set for minority protection (Article 9.C.4 of the Corporate Governance Code).

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The two tables annexed hereto summarise some of the most significant information included in the fourth, eighth, tenth, twelfth and fourteenth sections of the document. An "Annex 1" is also attached; this contains a description of the "Main characteristics of existing risk management systems with regard to the financial disclosure process" (pursuant to Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Finance).

# Table 1

## Composition of TERN's Board of Directors and of the Committees

B.o.D.													C.R.C.		R.C.		A.C.		R.P.T. Committee	
Position	Name (Last name and first name)	Year of birth	Date of first appointment	In office since	In office until	List	Exec.	Non exec.	Indep. based on Code	Indep. based on Cons. Law on Fin.	Attendance at meetings of the B.o.D.	Other assignments	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Chairwoman	Bastoli Catia	03/10/1957	27/05/2014	27/05/2014	31/12/2016	M		•		•	9/9	1								
Chief Executive Officer • ♦	Del Fante Matteo	27/05/1967	28/04/2008 <sup>1</sup>	27/05/2014	31/12/2016	M	•				9/9	0								
Director	Calari Cesare	10/05/1954	27/05/2014	27/05/2014	31/12/2016	m		•	•	•	9/9	0	6/6 "C"							
Director	Cerami Carlo	02/02/1965	27/05/2014	27/05/2014	31/12/2016	M		•	•	•	9/9	2	4/4 "M" <sup>2</sup>	4/4 "C"	5/5 "M"					
Director	Corsico Fabio	20/10/1973	27/05/2014	27/05/2014	31/12/2016	M		•	•	•	9/9	4		4/4 "M"				3/3 "M"		
Director	Dal Fabbro Luca	08/02/1966	27/05/2014	27/05/2014	31/12/2016	m		•	•	•	9/9	1	6/6 "M"			5/5 "C"				
Director	He Yunpeng <sup>3</sup>	06/02/1965	21/01/2015	21/01/2015	31/12/2016	M		•			8/8 <sup>3</sup>	2								
Director	Porcelli Gabriella	10/03/1965	27/05/2014	27/05/2014	31/12/2016	m		•	•	•	9/9	0		4/4 "M"				2/3 "M"		
Director	Saglia Stefano	01/02/1971	27/05/2014	27/05/2014	31/12/2016	M		•	•	•	9/9	0				5/5 "M"	3/3 "C"			

### DIRECTORS WHO RESIGNED FROM THEIR POSITION DURING THE YEAR IN QUESTION

- -

### NUMBER OF MEETINGS HELD DURING THE YEAR IN QUESTION

B.o.D.	C.R.C.	R.C.	A.C.	R.P.T. Committee
9	6	4	5	3

### LEGAL NUMBER NECESSARY FOR SUBMITTING THE LISTS DURING THE LAST APPOINTMENT:

1%

- (1) From April 28, 2008 to May 27, 2014 the Chief Executive Officer Matteo Del Fante, within the B.o.D. had held position of Director and member of the Audit and Risk Committee.
- (2) The Director Carlo Cerami took over as a member the Control, Risk and Corporate Governance Committee on March 4, 2015 replacing the Director Simona Camerano who had resigned on 27 November 2014.
- (3) The Director Yunpeng He was appointed on January 21, 2015 by co-optation, pursuant to Art. 2386 of the Italian Civil Code, by indication of the relative majority shareholder CDP Reti S.p.A., a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. and confirmed by the Shareholders' Meeting on June 9, 2015.



TABLE 1 - KEY

<b>B.o.D.:</b>	Board of Directors of Terna S.p.A.
<b>C.R.C.:</b>	Control, Risk and Corporate Governance Committee. The "Control and Risk Committee", already established in Terna S.p.A. according to the provisions of the Corporate Governance Code, with a resolution of the Board of Directors of May 27, 2014 - adding to the previous duties relating to the Corporate Governance system, has been renamed "Control, Risk and Corporate Governance Committee".
<b>R.C.:</b>	Remuneration Committee of Terna S.p.A.
<b>A.C.:</b>	Appointment Committee established in Terna S.p.A. with a resolution of May 27, 2014.
<b>RPT Committee:</b>	Related-Party Transaction Committee established in Terna S.p.A. for approving the Procedure for Related-Party Transactions as indicated by the "Regulation on Related-Party Transactions" issued by CONSOB with Resolution no. 17221 dated March 12, 2010, as subsequently modified by Resolution no. 17389 dated June 23, 2010 ("CONSOB Regulations for Related Parties"). The Committee is made up of at least three directors in possession of the independence requirements provided for in the Procedure, of which one with acting as Coordinator.
<b>Position:</b>	It indicates whether Chairman of the B.o.D., Deputy Chairman, CEO, etc.
<b>Date of first appointment:</b>	This is the date on which the director was appointed for the very first time to Terna S.p.A.'s B.o.D.
<b>In office since:</b>	This is the date on which the director was appointed for the very first time to Terna S.p.A.'s B.o.D. in the period of the relevant three-year mandate of the Administrative Body of which he or she has been a member (i.e.: for the BoD appointed by the Shareholders' Meeting of May 27, 2014, refers to the three years 2014-2016; for the BoD appointed by the Shareholders' Meeting of May 13 2011, refers to the three years 2011-2013).
<b>In office until:</b>	This is the date on which the mandate expires.
<b>List:</b>	It indicates M/m based on whether the Director was appointed from the majority list ("M") or from the minority list ("m") or in any case appointed following co-optation.
<b>Exec:</b>	This is ticked if the Director can be qualified as an executive.
<b>Non Exec:</b>	This is ticked if the Director can be qualified as a non-executive.
<b>Indep. based on Code:</b>	This is ticked if the Director can be qualified as independent according to the criteria of the Corporate Governance Code.
<b>Indep. based on Consolidated Law on Finance:</b>	This is ticked if the director has the independence requirements as per Article 148, paragraph 3 of the Consolidated Law on Finance as indicated by Article 147-ter, paragraph 4 of the same Law.
<b>Attendance at meetings of the B.o.D.:</b>	This column indicates the director's attendance at meetings of the B.o.D. during the year under consideration (indicates the number of meetings attended with respect to the total number of meetings at which he or she could have attended since assuming office on the B.o.D.; e.g. 6/8; 8/8 etc.).
<b>Other positions:</b>	It indicates the total number stated of positions as director or statutory auditor held by the director in other companies listed in regulated markets (also foreign markets), in financial, banking and insurance companies or in large companies, identified on the basis of criteria defined by the Board. In calculating the positions indicated, those held in subsidiaries, either directly or indirectly controlled, namely TERNA's subsidiaries, were not included. When more than one office is held within the same Group, also for a role with a company belonging to the Group itself, only the most important assignment is considered. For the list of positions held by each Director, please see the brief professional resumes included in this Report.
<b>(*):</b>	This column indicates the director's attendance at meetings of the Committee during the year under consideration (indicates the number of meetings attended with respect to the total number of meetings at which he or she could have attended since assuming office on the Committee; e.g. 6/8; 8/8 etc.).
<b>(**):</b>	This column indicates the director's role in the Committee: "C": Chairman; "M": member. The RPT Committee provides for the figure of a Coordinator.
<b>•</b>	This symbol indicates the director in charge of Terna S.p.A.'s internal audit and risk management system.
<b>◊</b>	This symbol indicates the main manager of Terna S.p.A.'s operations (Chief Executive Officer or CEO).
<b>Number of meetings held during the year in question:</b>	The information refers the total number of meetings during the year under consideration.

## Table 2

### Composition of the Board of Statutory Auditors

Position	Members (Last name and first name)	Year of birth	Date of first appointment	In office since	In office until	List	Indep. based on Code	Attendance at meetings of the Board of Statutory Auditors	Number of other assignments
Chairman	Schioppa Riccardo Enrico Maria	20/07/1950	27/05/2014	27/05/2014	31/12/2016	m	•	8/8	6 <sup>1</sup>
Standing Auditor	Simone Vincenzo	20/11/1960	27/05/2014	27/05/2014	31/12/2016	M	•	8/8	0 <sup>1</sup>
Standing Auditor	Zunino de Pignier Maria Alessandra	01/05/1952	27/05/2014	27/05/2014	31/12/2016	M	•	7/8	3
Alternate Auditor	Pagani Raffaella Annamaria	21/06/1971	27/05/2014	27/05/2014	31/12/2016	m	-	-	-
Alternate Auditor	Mantegazza Cesare Felice	12/03/1954	27/05/2014	27/05/2014	31/12/2016	M	-	-	-
Alternate Auditor	Ricotti Renata Maria	28/09/1960	27/05/2014	27/05/2014	31/12/2016	M	-	-	-

#### AUDITORS WHO RESIGNED FROM THEIR POSITION DURING THE YEAR IN QUESTION

- -

#### LEGAL NUMBER NECESSARY FOR SUBMITTING THE LISTS DURING THE LAST APPOINTMENT:

1%

#### NUMBER OF MEETINGS HELD DURING THE YEAR IN QUESTION:

8

(1) The provisions of Art. 144-*quinquiesdecies* of the Issuers Regulation do not apply to the Standing Auditor, according to the provisions of paragraph 3-bis of the same article, because this Standing Auditor is a member of the auditing body of only one issuer.

#### TABLE 2 - KEY

<b>Position:</b>	It indicates whether Chairman of the Board of Statutory Auditors, Standing Auditor, Alternate Auditor.
<b>Date of first appointment:</b>	This is the date on which the statutory auditor was appointed for the very first time to Terna S.p.A.'s Board of Statutory Auditors.
<b>In office since:</b>	This is the date on which the statutory auditor was appointed for the very first time to Terna S.p.A.'s Board of Statutory Auditors in the period of the relevant three-year mandate of the Auditing Body of which he or she has been a member (i.e.: for the Board of Statutory Auditors appointed on May 27, 2014, it refers to the three years 2014-2016; for the Board of Statutory Auditors appointed by the Shareholders' Meeting of May 13 2011, it refers to the three years 2011-2013).
<b>In office until:</b>	This is the date on which the mandate expires.
<b>List:</b>	It indicates M/m based on whether the statutory auditor was appointed from the majority list ("M") or from the minority list ("m").
<b>Indep. based on Code:</b>	This is ticked if the statutory auditor can be qualified as independent according to the criteria of the Corporate Governance Code.
<b>Attendance at meetings of the Board of Statutory Auditors:</b>	This column indicates the statutory auditor's attendance at meetings of the Board of Statutory Auditors during the year in question (indicates the number of meetings attended with respect to the total number of meetings which he or she could have attended since taking office on the Board of Statutory Auditors; e.g. 6/8; 8/8 etc.).
<b>Number other assignments:</b>	It indicates the total number of positions as director or statutory auditor held by the statutory auditor as at December 31, 2015 in companies as per Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the Italian Civil Code, that are significant according to Article 148-bis of the Consolidated Law on Finance. The total number of assignments, where provided for by Article 144- <i>quinquiesdecies</i> of the above mentioned Issuers Regulation based on CONSOB resolution no. 17326 dated May 13, 2010, is published by CONSOB and is available on its website ( <a href="http://www.consob.it">www.consob.it</a> ).

# Attachment 1

## Main characteristics of existing risk management and internal audit systems with regard to the financial disclosure process

(pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance)

### Introduction

The Terna Group has prepared the “262 Audit Model” which governs preparation of the financial statements in terms of the certifications required by paragraphs 2 and 5 of Article 154-*bis* of the Consolidated Law on Finance, with the aim of contributing towards the evaluation of the “Internal Audit and Risk Management System” (hereinafter the “IARMS”).

The “262 Audit Model” must be considered together with the “Internal Audit and Risk Management System”, insofar as they are elements of the same “system” described in the “Internal Audit and Risk Management System of the Terna Group” guidelines approved by the Board of Directors (last update December 19, 2012). In these guidelines, the IARMS is recognised as the “set of rules, procedures and organisational structures aimed at enabling the identification, measurement, management and monitoring of the main risks for running a business coherently with the business objectives defined by the Board of Directors and encouraging informed decision making”.

The provisions of Law no. 262 (dated December 28, 2005 subsequently modified by Legislative Decree no. 303 dated December 29, 2006) relating to the IARMS that oversees the drafting of the financial statements have the main objective of ensuring that financial disclosure provides a truthful and proper representation of the company’s equity as well as its economic and financial position in compliance with the commonly-accepted accounting standards.

On the basis of the provisions envisaged by Article 154-*bis* of the Consolidated Law on Finance, the IARMS which governs the drafting of the financial statements, actively involving all the corporate departments, is focused on the reliability objectives pursued by establishing adequate “accounting administrative procedures” and by verifying their actual implementation.

Definitions of the field of activity (scoping) and of the processes to be analysed are updated by the Executive in charge of the preparation of the company’s accounting documents at least once a year in order to analyse, identify and consider the variations that have impacted the IARMS and supplement/modify the administrative and accounting procedures accordingly.

This update is substantiated in order to guarantee the traceability of activities.

### Description of the main characteristics of the existing risk management and internal audit systems with respect to the financial disclosure process

The analytical approach of the IARMS that governs preparation of the financial statements adopted by Terna is based on a twofold method of analysis:

#### Individual Company Analysis

Overall analysis (brief) on the individual companies of the Group with reference to the 5 elements that form the CoSO Report, specifically focusing on the adequacy of financial disclosure. This is mainly an analysis of the infrastructural components of the IARMS (the supervisory activities carried out by the Board of Directors, by the Control, Risk and Corporate Governance Committee, by the Board of Statutory Auditors, as well as the Corporate policies and general group policies etc.) conducted in general terms but with a particular focus on the consequences in terms of the quality of the economic and financial information.

The establishment, management and assessment of the IARMS at the individual company level is to be carried out by those in charge of the various company departments (management) with regard to their respective duties, in line with the structure of the “individual company” being analysed.

The objective of the individual company analysis is to identify any shortcomings in the general control of the individual company that would potentially render ineffective even the best structure of audits overseeing the processes.

The assessment is expressed with a “benchmarking” activity with respect to the reference procedures defined or referred to by official bodies or with the international best-practices adopted by companies similar to the Terna Group.

This method is applied by filling out a checklist based on the five components of the audit system (Audit Environment, Risk Assessment, Audit Activity, Information System and Communication Flows, and Monitoring), developed in specific audit objectives.

Auditing is assessed on the basis of the following requirements, where applicable:

- existence of the audit tool (organizational structure, legal structure, process);
- adequate communication regarding the existence of the audit tool identified for all the bodies referred to;
- understanding on the part of the company’s employees of their role and responsibility in implementing the identified audit tool;
- appropriate and effective monitoring of the audit tool;
- management support in implementing the audit tool;
- application, or action undertaken by the management aimed at ensuring compliance with the implemented audit tool.

### Individual Process Analysis

Analysis of relevant processes by establishing guidelines that define, for each activity, the principal risks on the financial disclosure and the related auditing aimed at mitigating them.

The individual process analysis makes it possible to assess the action plan and the operation of the auditing on Corporate processes and sub-processes on which the financial disclosure is based.

The terms for carrying out this analysis are the establishment of administrative and accounting procedures for preparing the separate financial statements/consolidated financial statements/condensed interim financial statements that include the execution of specific control activities aimed at preventing the occurrence of risks of significant accounting errors during the development of the processes.

The process analysis and the subsequent establishment of administrative and accounting procedures requires the selection of “significant processes”. To this end it is necessary to carry out specific “scoping” both to identify the Group companies “singularly significant” for the purposes of the IARMS and the related significant accounting items, and to associate the significant information with the processes.

The relevance of the financial disclosure is assessed with reference to the possible consequence that its omission or misrepresentation could determine in decisions made by persons who are informed of the same through the financial statements. With regard to the above, quantity parameters are identified; these are normally defined in terms of percentages compared to average income before taxes for the last five financial years, a method which successfully normalises the parameter. Quality parameters are also identified; these include a risk-based approach, capable of rendering information relevant, even if the amount is lower than the level of relevance identified.

Identifying significant information is carried out through the combination of quantitative parameters, linked to the level of significance defined for the Terna Group and quality parameters linked to the specific risk for sections of the financial statements or other disclosures.

Identifying quality parameters consists in considering possible “factors” that mean that certain companies, and therefore their accounts, are classified as significant, even if these do not exceed the threshold of materiality by themselves. Investors could demonstrate a certain interest in various calculations in the financial statements that represent an important performance indicator or an important indicator for the sector they belong to.

The association of the information identified as being significant with the related processes they are based on enables identification activities to be concentrated on processes that can determine significant errors regarding the financial information.

Each selected significant item of information/accounting item must be associated with the processes that contribute to its formation, in order to determine the significant processes.

On the basis of quality and quantity parameters, after defining the significant information and selecting the relevant processes, the Executive in charge of the preparation of the company's accounting documents establishes the guidelines for "risk activities and audits" that represent administrative and accounting procedures and assesses their adequacy and effective implementation (assessment of their operational level). For this purpose, the analysis of significant processes occurs through the following operational steps:

- defining and analysing activities that form the processes ("mapping");
- identifying and assessing risks for each activity and associating them with the auditing objectives;
- identifying and assessing existing audits;
- assessing the operational level of existing audits.

Analysing the activities that form the processes ("mapping") is aimed at clearly identifying the process that creates the data or the comment to be presented in the financial statements, from identifying the initial event that originates it up to its being included in the accounting statements or in the notes.

Mapping the activities that form the processes supports achievement of the final objective of implementing checks in all stages of the preparation of the data and notes on the financial statements, and should be able to ensure that information with an administrative impact is collected, processed and transferred correctly and in a timely manner.

For every process, for the purposes of mapping and subsequently associating the risks and checks, the "key" elements useful in identifying existing risks and checks must be identified.

The verification of the efficiency of the design and effective operation of the "key" audits is ensured through testing, namely monitoring for the purpose pursuant to Article 154-*bis* of the Consolidated Law on Finance, carried out by a dedicated structure using verification and sampling techniques recognised by international best practices.

Control assessment, where deemed necessary, can involve identifying compensatory audits, corrective measures and improvement plans. The results of these activities are submitted to the evaluation of the Executive in charge of the preparation of the company's accounting documents who in turn notifies the company executives.

## Roles and Departments involved

### Executive in charge of the preparation of the company's accounting documents

In relation to the responsibilities assigned to him or her:

- he or she annually updates the field of activity and the significant processes considering the factors of change/risk communicated by the Directors of Terna S.p.A. and by the management of the companies that are individually significant;
- he or she prepares the updates to the "262 Audit Model" and the "Regulations of the Executive in charge of the preparation of the company's accounting documents" in agreement with the "Director in Charge of the Internal Audit and Risk Management System";
- he or she establishes and updates adequate administrative and accounting procedures for drafting the separate financial statements, the consolidated financial statements and the condensed interim financial statements;
- he or she reports regularly to the Chief Executive Officer, also in his or her capacity as "Director in Charge of the Internal Audit and Risk Management System", on:
  - a) the activities carried out in order to monitor effective application of the administrative and accounting procedures and the critical issues that have emerged;
  - b) the corrective action plans defined to overcome the critical issues that have emerged and the results obtained;
  - c) the suitability of the means and resources made available to the Executive in charge of the preparation of the company's accounting documents and the methods of use;



- he or she ensures, with the collaboration of all Directors, the implementation of corrective action plans and, with the collaboration of the Human Resources and Organisation Department, disseminates the administrative and accounting procedures;
- he or she supports the Directors and the management of the companies that are individually significant in executing operational, audit and reporting activities that are part of their specific duties.

The Executive in charge of the preparation of the company's accounting documents can rely on the assistance of qualified external companies with specialized professional staff for carrying out plan assessment activities and the assessment of the operational levels of audits on administrative and accounting procedures.

#### Internal Audit and Risk Management

They are responsible for:

- sending the Executive in charge of the preparation of the company's accounting documents the regular reports prepared and the reports prepared against specific needs, regarding the operations and suitability of the IARMS and to support the Executive in Charge in assessing the correct function of the internal audit system and the related risk governance mechanisms, including any IT implementations;
- coordinating with the Executive in charge of the preparation of the company's accounting documents in defining the annual audit plan, for the part regarding administrative-accounting processes;
- providing the Executive in charge of the preparation of the company's accounting documents with a suitable information flow in relation to the results of the activities connected with the respective audit plans relating to the responsibilities of the Executive in charge of the preparation of the company's accounting documents following the shared methods;
- in case of involvement in specific testing activities, ensuring the necessary collaboration and changes in the audit plan and in defining priorities also, if necessary, with the assistance of the administrative body in charge.

#### Terna S.p.A.'s Directors

They are responsible for:

- coordinating those in charge of individual audits, including of subsidiaries, in executing the audits they are responsible for;
- coordinating individual audits, including of subsidiaries, in establishing and implementing the Action Plan;
- supporting the activities carried out by the Executive in charge of the preparation of the company's accounting documents and ensuring access to all documents/information useful in carrying out his or her activities;
- preparing and forwarding in the time frames established by the reporting calendar the certifications regarding the audit activities and their operational level.

#### Human Resources and Organisation Manager

He or she is responsible for:

- supporting the Executive in charge of the preparation of the company's accounting documents in preparing and updating the administrative-accounting procedures;
- supporting the Executive in charge of the preparation of the company's accounting documents and the Departments/Units of the Terna Group in the correct implementation of the action plans that can give rise to organisational changes. To this end, the Executive in charge of the preparation of the company's accounting documents is informed in advance regarding any organisational changes.

### The managements of individually significant companies

They are responsible for:

- coordinating those in charge of individual audits in executing the audits they are responsible for;
- assessing, in collaboration with the Executive in charge of the preparation of the company's accounting documents, the IARMS on the financial disclosure of individually significant companies;
- preparing and forwarding, in the time frame established by the reporting calendar, the certifications regarding the IARMS of individually significant companies.

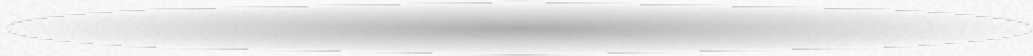
To enable the Executive in charge of the preparation of the company's accounting documents and the administrative bodies in charge to issue the certificates in compliance with Article 154-*bis* of the Consolidated Law on Finance, it was necessary to define a system of "chain" certificates with the objective of ensuring the adequacy and actual implementation of administrative and accounting procedures drafted as part of the "262 Audit Model", of preparing and disseminating the Plan for corrective measures, where necessary, and to update such procedures.

The certification, issued to the market following CONSOB's model, is based on a complex evaluation process that includes:

- collecting internal "chain" certificates issued both by the Directors of Terna S.p.A. and by the management of individually significant companies. The existence of a periodic reporting flow makes it possible to carry out:
  - periodic assessment of the plan for existing audits and consequent updating of administrative and accounting procedures;
  - assessment of the operational level of existing audits and subsequent certification of the actual implementation of administrative and accounting procedures;
  - assessment of the shortcomings (absence of audit or failure to execute audit) that emerge with reference to their impact on the accounting disclosure;
- the assessment of the actual operational level of administrative and accounting procedures carried out by the Executive in charge of the preparation of the company's accounting documents;
- the final assessment of the adequacy and effective application of administrative and accounting procedures by the CEO and the Executive in charge of the preparation of the company's accounting documents. This activity is supported by the assessment of the plan for specific audits as well as by that for their operational level as mentioned above. It is therefore carried out overall with reference to the probability that, following one or more significant shortcomings, an error in the financial statements could occur and with reference to the risk that this error may have been significant. To support the CEO and the Executive in charge of the preparation of the company's accounting documents in their final assessments concerning the concrete possibility that there is significant error in the financial statements, where one or more significant deficiencies are seen, compensatory checks and audits can be envisaged, which, if successful, despite the presence of one or more significant deficiencies identified specifically by the lines, enable the CEO and Executive in charge of the preparation of the company's accounting documents to issue their report without observations; any significant deficiencies highlighted by the assessment process must be notified promptly, together with the results of the compensatory controls performed by the CEO and the Executive in charge of the preparation of the company's accounting documents to the Control, Risk and Corporate Governance Committee, the Supervisory Board and the Board of Statutory Auditors of Terna S.p.A.

Coordination and Development by Terna S.p.A.

# **An Asset for the Country**



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