



# 2018

2018 Annual  
Remuneration Report

*Rome, 21 March*

Terna S.p.A. and Terna Group



Energy is our **responsibility**



# Annual Remuneration Report Terna S.p.A. and Terna Group

Traditional administration and management model



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»  
(in abbreviated form Terna S.p.A.)

Website: [www.terna.it](http://www.terna.it)

Financial year to which the Report refers: 2017

Date of approval: 21 March 2018

# Letter from the Chairman

## of the Remuneration Committee

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Dear Shareholders,

Together with my colleagues, Gabriella Porcelli and Stefano Saglia, I am honoured to present the 2018 Annual Remuneration Report. For Terna, this is a form of qualified and important dialogue with all of our stakeholders. In preparing the Report we have tried to incorporate all the input that we have received from shareholders over time and to make this appointment a constructive moment of open dialogue with the community.

Our commitment has been aimed at continually improving the transparent and not infrequent discussions with all shareholders and stakeholders as regards the remuneration systems adopted by the Company.

We are conscious of the need not to be self-serving and of the institutional role to which we are called. This has led us to design a Terna Group remuneration policy which focuses on the values of transparency, quality, and a continual and increasingly close alignment between the management's actions and shareholders' interest. These elements have become the pillars of the Remuneration Policy and of the new instruments introduced. We believe that this will enable the Terna Group to continue to attract the best professional skills at every organisational level, to make the most of people and to ensure inclusion and equal opportunity.

The Remuneration Committee's agenda was full of moments aimed at proposing continual adjustments to Terna's remuneration model to the Board of Directors, to guarantee its constant alignment with the Group's strategic objectives, market best practices, our shareholders' expectations and Italian and European legislation.

With the appointment of the new Board of Directors, the Remuneration Committee immediately acted to give Terna a long-term incentive plan which would enable the greatest alignment possible with the objectives of the new Strategic Plan and which would be in line with the duration of the current mandate of the Board of Directors. We must specify that, in the absence of sufficient time to be able to complete the envisaged approval procedure for a completely equity-based plan, it was decided to proceed with the design of a rolling system that would see the first Cycle in monetary form, but allowing the possibility for the Board of Directors to convert it into equity. It was suggested that the first Cycle could be followed by two equity-based Cycles using "Phantom Stocks".

To summarise the Committee's work, it was mostly aimed at:

- continually adjusting Terna's remuneration system, both to guarantee constant alignment with international best practices and Italian and European legislation and to support and foster the Company's development in line with the Strategic Plan, introducing an architecture of the long-term performance systems which could continually take account of stock performance;
- supporting the Board of Directors in defining the new Long-Term Incentive Plan ("2017-2021 LTI Plan") which is characterised by:
  - a Rolling Plan, i.e. distributed over three three-year Cycles synchronised with the Strategic Plan;
  - a three-year vesting period for each Cycle;
  - a close correlation between the incentive and the performance of the stock through the adoption of equity-based Cycles;
  - linking the achievement of stock performance and economic/financial targets, such as Total Shareholder Return, and a sustainability target, in response to investors' growing attention to sustainability themes and in keeping with the importance that Terna attributes to socio-environmental responsibility issues;

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- providing more information on the subject of treatment of Senior Executives with Strategic Responsibilities, and in particular on short-term incentives (MBO) and Severance;
  - autonomously incorporating, in advance, the first notions of the new Shareholder Rights Directive, which was approved in 2017 and must be transposed to country level in 2019;
  - improving the transparency and usability of the contents of the Report, also through the revision and insertion of some illustrative graphs and certain statistics (e.g. pay mix for the roles of Chief Executive Officer and General Manager and for Senior Executives with Strategic Responsibilities);
  - providing a more detailed explanation of the objectives connected with both short- and long-term variable incentives, not only by precisely describing the content of the single objectives and the bonus curves associated with them, but also by presenting an explanation of the amounts according to both a cash and an accrual criterion in Section II. This choice also derived from the desire to further increase the ability to present the effectiveness of the bonus systems in remunerating performance (pay for performance).

The elements of the Remuneration Policy were endorsed by the Board of Directors, which, at its meeting on 21 March 2018, approved the present Report, structured as provided for in Art. 123-ter of the Consolidated Law on Finance.

In the constant alignment of Terna's remuneration system to the evolving regulatory context and to changes in best practices, the Committee appreciated the feedback provided by investors, considering it to be of great value.

We trust that Terna's shareholders will find the information contained in the Remuneration Report exhaustive and useful, and we hope to receive your positive support during the work of the Shareholders' Meeting.

Yours sincerely,

Fabio Corsico  
**Chairman of the  
Remuneration Committee**









# Executive Summary







# Introduction

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This Report summarises the principles and guidelines followed by Terna S.p.A. (hereinafter, for brevity, also “Terna” the “Company” or the “Group”) in order to define and monitor the remuneration policy and its implementation, with particular reference to the members of the administration and control bodies, the General Manager and Senior Executives with Strategic Responsibilities (SESRs).

The Company has voluntarily decided to expand the range of information it provides to enhance transparency for investors and the market.

The document is divided into two sections:

- **Section I** illustrates the Policy adopted for 2018 by Terna for the remuneration of the Directors, the General Manager and Senior Executives with Strategic Responsibilities, specifying the general purposes pursued, the bodies involved and the procedures used for its adoption and implementation;
- **Section II** presents the fees related to Financial Year 2017 by name for the Directors, the Statutory Auditors, the General Manager and in aggregate form for Senior Executives with Strategic Responsibilities.

This Report was prepared in compliance with the current provisions of law<sup>1</sup> and is consistent with the rules laid down by CONSOB<sup>2</sup>.

The Policy described in Section I was also prepared in line with the recommendations on the subject of remuneration of the Corporate Governance Code of listed companies (hereinafter “Corporate Governance Code”), in the version most recently approved in July 2015 and endorsed by Terna.

On 21 March 2018, Terna’s Board of Directors, following the proposal of the Remuneration Committee, approved Section I of the present 2018 Remuneration Report which is submitted to a non-binding vote of the Shareholders’ Meeting called for the approval of the Separate Financial Statements at 31 December 2017. Section II will also be taken to the same Shareholders’ Meeting, only for informative purposes. As mentioned, this section provides detailed information on remuneration related to Financial Year 2017.

The text of this Report is made available to the public, at the Company’s head office and in the Investor Relations - Corporate Governance section of the Company’s website [www.terna.it](http://www.terna.it), within the twenty-first day preceding the date of the Shareholders’ Meeting called to approve the Financial Statements for Financial Year 2017, as provided for by the current law.

The Information Documents related to the existing equity-based remuneration plans can be found in the Investor Relations - Corporate Governance section of the Company’s website.

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1. Art. 123-ter of Italian Legislative Decree no. 58 of 24 February 1998 (the Consolidated Law on Finance) which states that “at least twenty-one days before the date of the [...] Shareholders’ Meeting, listed companies must provide the public with a remuneration report, at the registered offices, on their websites and with the other methods established by CONSOB Regulations”. The same Article 123-ter, paragraph 6 of the CLF states that “the [...] Shareholders’ Meeting shall pass a resolution for or against the section of the remuneration report provided for in paragraph 3” (i.e. Section I of this document). This resolution “is not binding” but “the outcome of the vote is made available to the public”.

2. Resolution No. 18049 of 23 December 2011 which amended Art. 84-*quater* of the Issuer Regulations issued by CONSOB itself to implement the CLF (see note 1).

# Overview

## OVERVIEW OF THE 2018 POLICY

COMPONENT, PURPOSES AND CHARACTERISTICS	CONDITIONS FOR IMPLEMENTATION	AMOUNTS
<b>Fixed remuneration</b>  Remunerates the skills, the experience and the contribution required by the role.	Remunerative positioning assessed through market benchmarks, with respect to companies comparable for size, ownership structure, complexity of the business model and capitalisation.	<b>Chairwoman:</b> • <b>€ 238,000</b> gross per year (of which € 50,000 by way of emolument approved by the Shareholders' Meeting).  <b>CEO:</b> • <b>€ 235,000</b> gross per year (of which € 35,000 by way of emolument approved by the Shareholders' Meeting).  <b>GM:</b> • <b>€ 850,000</b> gross per year.  <b>SESRs (*)</b> : the fixed remuneration is related to the position held and the responsibilities attributed to it, as well as the experience and strategic nature of the resource.
<b>Short-Term Incentive (MBO)</b>  Provides an incentive to achieve and exceed the annual economic and financial targets set in the budget, and further non-economic annual targets.	<b>CEO:</b> 2018 Targets: • Net Income • Plan for the implementation of the new monitoring system for predictive maintenance of cable infrastructures and insourcing of related duties <i>In the event of achieving only one of the two targets, nothing is due.</i>  <b>GM:</b> 2018 Targets: • Investments and Income in the Financial Year (weight 40%) • EBITDA (weight 35%) • Quality of Service (weight 15%) • Innovation Factory and Innovation Projects (weight 10%)  <b>SESRs (*)</b> : The annual incentive is related: • to exceeding an Access Gate (budget EBITDA) • to Group economic and financial targets (weight 40%) • to transversal targets common to several units (weight 20%-30%) • to individual targets linked to the organisational role held (weight 20%-30%) • to qualitative targets related to managerial skills (weight 10%) For both the GM and the SESRs, if the weighted average of the scores of the single targets is less than <b>80%</b> , nothing is due. In the event of overperformance it is not possible to attain higher bonus than the maximum set ( <b>150%</b> ). Clawback: the Company reserves the right to ask for the return of the bonuses paid in the cases indicated, within the prescription terms provided for in the current legislation and irrespective of whether the relationship is still in being or has been terminated.	<b>CEO:</b> • <b>€ 200,000</b> gross (ON/OFF) on achieving both targets.  <b>GM:</b> • <b>€ 300,000</b> gross if the weighted average of the scores of the single targets meets the target (100%); € 450,000 gross (max) in the event that the score of all the targets is at the maximum level (150%). For intermediate figures linear interpolation is carried out.  <b>SESRs (*)</b> Incentive percentages up to <b>50%</b> of the Gross Annual Salary (RAL) for results at the target (100%) and up to 75% for maximum results (150%).

(\*) SESRs = Senior Executives with Strategic Responsibilities



COMPONENT, PURPOSES AND CHARACTERISTICS	CONDITIONS FOR IMPLEMENTATION	AMOUNTS
<p><b>Long-Term Incentive (LTI)</b></p> <p>Scheme reserved for positions to which the most direct responsibilities for corporate results are attributed. The purpose is the long term alignment of management actions and shareholders' interests.</p>	<p><b>GM and SESRs (*):</b> LTI Plan cycle in the form of Phantom Stocks, with three-year vesting period.</p> <p>The Phantom Stocks assigned will be attributable at the end of the vesting period if the performance targets are exceeded.</p> <p>On the basis of the results achieved, the Phantom Stocks will be converted into cash with reference to the average value of the closing prices of Terna S.p.A. ordinary shares in the 30 days before the attribution date.</p> <p><i>LTI Plan 2018-2020 Cycle Targets:</i></p> <ul style="list-style-type: none"> <li>• <b>Three-year Cumulative EBITDA:</b> compared with the Three-year Cumulative EBITDA of the Strategic Plan (weight 50%);</li> <li>• <b>Relative TSR:</b> positioning of Terna in the reference peer group (weight 30%);</li> <li>• <b>Dow Jones Sustainability Index (DJSI):</b> positioning of Terna in the three years (weight 20%).</li> </ul> <p>If the average score on all targets is less than the minimum (80%), no amount will be paid. If the score on all targets is at the maximum, the number of Phantom Stocks attributed may increase up to 150% of the number of Phantoms Stock assigned.</p> <p>Also for the long-term component, the Company reserves the right to ask for the return of the bonuses already paid (clawback) in the cases indicated.</p>	<p><b>GM:</b></p> <ul style="list-style-type: none"> <li>• Incentive percentage to be converted into Phantom Stocks of <b>123.6%</b> of the Gross Annual Salary (RAL), as total amount in the three years of duration of the LTI Plan Cycle, if the weighted average of the scores on the single objectives is at the target (100%) and equal to the value of Terna shares with respect to the grant date.</li> </ul> <p><b>SESRs (*):</b></p> <ul style="list-style-type: none"> <li>• Incentive percentages to be converted into Phantom Stocks up to <b>60%</b> of the Gross Annual Salary (RAL), as total amount in the three years of duration of the LTI Plan Cycle, if the weighted average of the scores on the single objectives is at the target (100%) and equal to the value of Terna shares with respect to the grant date.</li> </ul>
<p><b>Benefits</b></p> <p>These are an integral part of the "remuneration package" and have mainly welfare and pension-related functions.</p>	<p>Defined in accordance with the provisions of the relevant National Collective Employment Contract, and the corporate policies and practices applicable to all Terna's Management.</p>	<p><b>GM and SESRs (*) (and all the management):</b></p> <ul style="list-style-type: none"> <li>• corporate contribution to the supplementary pension fund (FONDENEL);</li> <li>• registration in the supplementary health insurance fund (ASEM);</li> <li>• forms of corporate cover against risks of death and permanent disability;</li> <li>• company car for company/private use.</li> </ul>

(\*) SESRs = Senior Executives with Strategic Responsibilities

CONTINUED

COMPONENT, PURPOSES AND CHARACTERISTICS	CONDITIONS FOR IMPLEMENTATION	AMOUNTS
<p><b>Severance</b></p> <p>Severance indemnities aimed at protecting the Company's interests and at preventing any disputes.</p>	<p><b>Chairwoman:</b> on completion of the mandate.</p> <p><b>CEO and GM:</b> in Terna the administrative role of the CEO and the management role of the GM are inseparable, therefore the termination of one determines the termination of the other.</p> <p><b>SESRs (*):</b> early termination of the employment relationship at the company's initiative.</p>	<p><b>Chairwoman:</b> Termination benefits on completion of the mandate equal to 1/12 of the remuneration paid for each year in office.</p> <p><b>CEO and GM:</b> Except in cases of disciplinary dismissal and resignation not for just cause, the following are provided for on termination of the employment relationship associated with expiry of the mandate: (i) as General Manager, payment of an indemnity equal to 24 months of all-inclusive remuneration, plus an amount equal to the indemnity for lack of notice pursuant to Art. 2121 of the Italian Civil Code (ii) as Chief Executive Officer, a severance indemnity (TFM - <i>Trattamento di Fine Mandato</i>) of an amount equal to 1/12 of the fee determined overall for the position of CEO, for each year of mandate.</p> <p><b>SESRs (*):</b> Except in cases of disciplinary dismissal and resignation not for just cause, on termination of the employment relationship at the company's initiative, a severance indemnity may be paid up to a maximum of 24 months of all-inclusive remuneration, plus an amount equal to the indemnity for lack of notice pursuant to Art. 2121 of the Italian Civil Code.</p>

(\*) SESRs = Senior Executives with Strategic Responsibilities



# Changes 2018

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Among the main changes for 2018 we can note:

- The entry into full operation of the architecture of the Long-Term Incentive Plan introduced in 2017 by means of a rolling-type mechanism. This architecture was designed to be more in keeping with Terna's Strategic Plan, having the same duration. The Plan is divided into three Cycles:
  - 2017-2019 three-year Cycle in cash form - possibly convertible by the Board of Directors into equity - introduced during 2017 after the Shareholders' Meeting, also owing to the desire of the then outgoing Board of Directors not to bind the incoming Board of Directors in the precise definition of the remuneration policy. This first LTI Plan Cycle was designed with a deferment mechanism to bring it into line with best practices and to be in keeping with the horizon of the Strategic Plan;
  - The 2018-2020 three-year Cycle and 2019-2021 three-year Cycle in the form of Phantom Stocks, designed with the objective of further strengthening the systemic link between the shareholders' objectives and the management's conduct through connecting the value of the bonus to the value of the stock;
- A series of actions based on the Shareholder's Rights Directive approved by the European Council in 2017 and to be integrated into Italian law shortly, incorporating a number of elements aimed at a strengthening the active and transparent commitment to the shareholders in advance and on a voluntary basis. In particular, Terna has decided:
  - to modify its incentive systems, adopting equity-based plans, for the purpose of greater alignment with shareholders' interests, envisaging relative Total Shareholder Return (TSR) as a performance indicator to simulate the same return profile as the shareholders and to design the system on a time horizon that is congruous with the Strategic Plan;
  - to focus further attention on sustainability issues, increasing the weight of this target within the long-term incentive system;
  - to provide greater disclosure regarding policies of Senior Executives with Strategic Responsibilities.
- The revision - thanks also to the feedback received via the shareholder engagement process - of the bonus mechanisms involving the relative TRS performance indicator, awarding payment of the bonus only in the event of positioning equal to or higher than the median, with respect to the reference peer group.
- The balancing of the pay-mix of the Chief Executive Officer and General Manager, increasing the weight of the long-term variable component.
- The presentation in Section II of the amounts according to both an accrual and a cash criterion for the purpose of a complete and synchronous presentation between the value of the variable elements and business performance.
- Greater disclosure for Senior Executives with Strategic Responsibilities, with particular attention to economic treatment in the event of termination of the employment relationship. We can note that the scope of the SESRs was widened, in order to reflect the Group's new organisational structure.

# Shareholder engagement

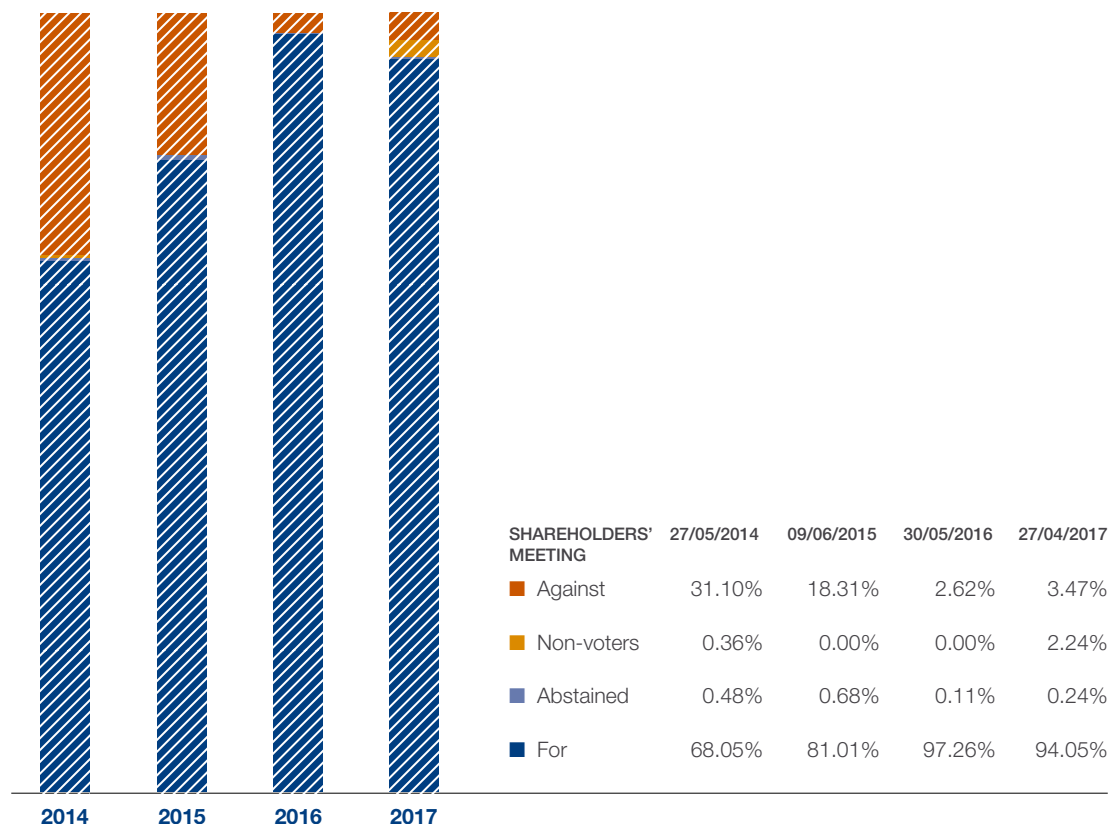
Terna gives great importance to dialogue and continuous interaction during the year with the main addressees and users of its Remuneration Policy, in order to ensure constant improvement in the adoption of the best market practices, also by incorporating ideas for development, especially if received from shareholders and proxy advisors.

In 2017 individual meetings or conference calls were held with 20 leading institutional investors, with the aim of analysing their opinions regarding the key points of the Remuneration Report submitted to the Shareholders' Meeting of 27 April 2017; the Company also organised meetings or conference calls with the main proxy advisors.

This dialogue has provided Terna's technical departments and the Remuneration Committee with valuable feedback on the point of view of the shareholders, and of the market more generally, regarding the characteristics of Terna's Remuneration Policy.

This feedback, along with the voting results of the Shareholders' Meeting on the *Remuneration Report*, has been a reference for the evaluation of the new developments and continual improvements introduced into this document, to guarantee ever-increasing disclosure and alignment of Terna's remuneration policy with market best practices.

## TREND OF THE VOTING RESULTS FROM THE ANNUAL REMUNERATION REPORT (2014-2017)





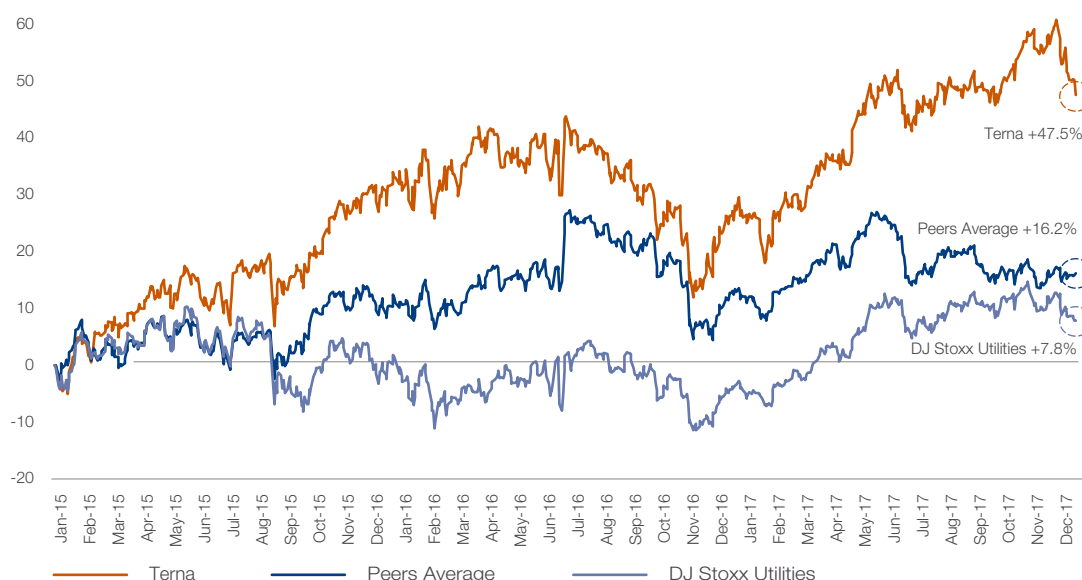
## Total Shareholder Return of the Terna Group from 2015 to 2017

The trend of the Terna Group's TSR, compared with its peers, in the three years 2015-2017, is presented below, together with the Group's economic performance from IPO to 2017.

In the three years 2015-2017, Terna achieved for its shareholders a Total Shareholder Return (TSR) of 47.5%, while in sector terms, the European benchmark index (DJ Stoxx Utilities) recorded a lower TSR, of 7.8%.

In the same period, Terna's shareholders benefited from a return on investment that was higher than the average of the peer group identified for the purposes of the LTI Plan, which was 16.2%.

### PERFORMANCE OF TOTAL SHAREHOLDER RETURN FROM JANUARY 2015 TO DECEMBER 2017



The "peer average" is related to: Snam, Red Electrica de Espana, Enagas, National Grid, United Utilities and Severn Trent.

Source: Bloomberg

### Economic performance from IPO to 2017 (amounts in € millions)

	2004 (IPO)	2017	Δ 17 vs IPO	Δ 17 vs IPO
Revenue	1,023	2,248	>2X	119.7%
EBITDA	683	1,604	>2X	134.8%
EBIT	512	1,077	>2X	110.4%
Net Income	236	688	>2.5X	191.5%

# Remuneration benchmark

## CEO and General Manager

The Remuneration Committee was advised by the consultancy firm Willis Towers Watson, which carried out a comparative assessment on the total remuneration of the Chief Executive Officer and General Manager within a panel of 12 Italian and European companies comparable with Terna in terms of (equivalent or similar) business model or capitalisation.

The details of the companies used for the remuneration benchmark are presented below:

<i>Atlantia</i>	<i>Severn Trent</i>
<i>Enel</i>	<i>United Utilities</i>
<i>Snam</i>	<i>Leonardo</i>
<i>Enagas</i>	<i>Prysmian</i>
<i>National Grid</i>	<i>Saipem</i>
<i>Red Electrica</i>	<i>Telecom Italia</i>

The study showed that, for the Terna Group, the total remuneration (Total Direct Compensation = fixed component + MBO + LTI) of the CEO and GM is in line with the median of the sample identified.

## Senior Executives with Strategic Responsibilities

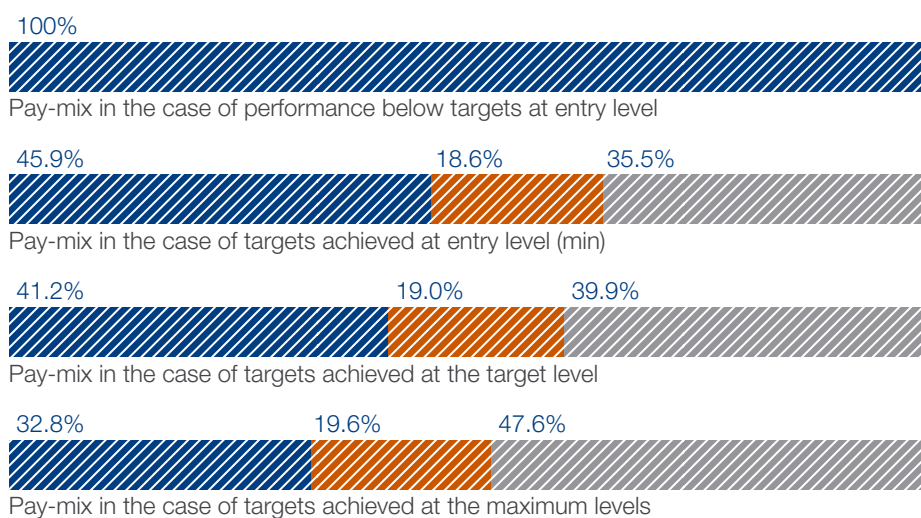
Also with reference to Senior Executives with Strategic Responsibilities, the Remuneration Committee was advised by the firm Willis Towers Watson which carried out a comparative assessment of the total remuneration of analogous roles within a panel of 16 leading Italian listed companies, which for Terna can constitute a benchmark in terms of business model, capitalisation and operating market.

The total remuneration of Senior Executives with Strategic Responsibilities comes out overall below the market median.

# Pay mix

## CEO and General Manager

With reference to the Chief Executive Officer, considering also the amount he receives for his executive employment relationship, as General Manager, the pay mix shows the weight of the variable component in the various possible performance scenarios.



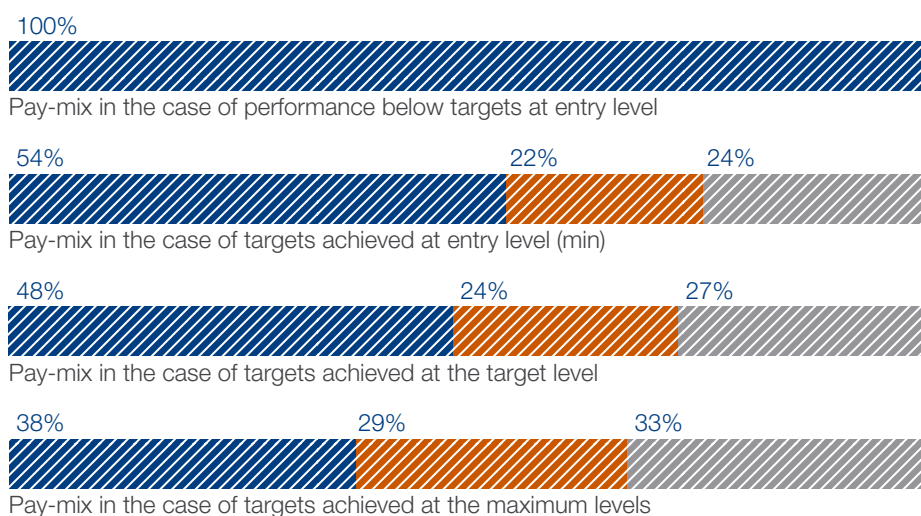
■ Fixed remuneration

■ Short-Term Incentive (MBO)

■ Long-Term Incentive (LTI)

Fixed remuneration: Emoluments pursuant to Art. 2389 paragraph 1 and paragraph 3 + Gross Annual Salary.  
Long-term incentive: this is referred to the bonus potential of a three-year Cycle.

## Senior Executives with Strategic Responsibilities



■ RAL

■ Short-Term Incentive (MBO)

■ Long-Term Incentive (LTI)

RAL: Gross Annual Salary.  
Long-term incentive: this is referred to the bonus potential of a three-year Cycle.









## Section I: Remuneration Policy

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# 1. Governance

## of the remuneration process

### 1.1 Corporate bodies and parties involved

The Policy on remuneration of the members of Terna's Board of Directors is defined in compliance with the legislative and statutory provisions, according to which:

- the Shareholders' Meeting determines the remuneration to which the Chairwoman and the members of the Board of Directors are entitled, at the moment of their appointment and for the entire duration of the mandate;
- the Board of Directors determines the remuneration of the Directors with delegated powers for participation in the Board Committees, after obtaining an opinion from the Board of Statutory Auditors.

In accordance with Terna's governance model, the Board is also responsible - in the context of performance plans, to which the determination of the Chief Executive Officer and the General Manager's variable remuneration is connected - for defining the targets and approving the business results, as well as defining the general criteria for the remuneration of Senior Executives with Strategic Responsibilities.

Finally, in line with the recommendations contained in the Corporate Governance Code, the Board of Directors is supported, for questions of remuneration, by a Remuneration Committee formed by independent Non-Executive Directors, with consultative and advisory functions on the subject. The table presented below summarises the decision-making bodies, the proposal-making bodies and the supporting structures, for each party involved in the Policy.

#### CORPORATE BODIES AND PARTIES INVOLVED

Individual requiring remuneration	Proposal-making body	Decision-making body	Any independent expert consultants
Chairwoman	<ul style="list-style-type: none"> <li>• Shareholders</li> <li>• Remuneration Committee</li> <li>• Corporate Affairs/Human Resources and Organisation</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholders' Meeting</li> <li>• Board of Directors</li> </ul>	<i>Independent consultant</i>
Chief Executive Officer	<ul style="list-style-type: none"> <li>• Remuneration Committee</li> <li>• Corporate Affairs/Human Resources and Organisation</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholders' Meeting</li> <li>• Board of Directors</li> </ul>	<i>Independent consultant</i>
Directors	<ul style="list-style-type: none"> <li>• Shareholders</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholders' Meeting</li> </ul>	
General Manager	<ul style="list-style-type: none"> <li>• Remuneration Committee</li> <li>• Corporate Affairs/Human Resources and Organisation</li> </ul>	<ul style="list-style-type: none"> <li>• Board of Directors</li> </ul>	<i>Independent consultant</i>
Senior Executives with Strategic Responsibilities	<ul style="list-style-type: none"> <li>• Remuneration Committee</li> <li>• Corporate Affairs/Human Resources and Organisation</li> </ul>	<ul style="list-style-type: none"> <li>• Chief Executive Officer</li> </ul>	<i>Independent consultant</i>

### 1.2 Shareholders' Meeting

The roles of the Shareholders' Meeting under the Bylaws - solely with regard to the topics of interest of this report - are:

- appointing and dismissing the Directors, appointing the Statutory Auditors and the Chairman/Chairwoman of the Board of Statutory Auditors;
- determining the remuneration of the Directors and Statutory Auditors;
- approving the Incentive Plans based on financial instruments or on performance targets linked to the performance of the Company's stock;
- expressing its opinion on the Remuneration Report itself.

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## 1.3 Board of Directors

The Board of Directors of Terna S.p.A. currently in office consists of nine Directors: Catia Bastioli (Chairwoman), Luigi Ferraris (Chief Executive Officer and General Manager), Fabio Corsico, Luca Dal Fabbro, Paola Giannotti, Yunpeng He, Gabriella Porcelli, Stefano Saglia, Elena Vasco. For a detailed description of the functions of the Board of Directors, please refer to the Report on Corporate Governance and Ownership Structures.

The roles of the Board under the Bylaws - solely with regard to the topics of interest of this Report - are:

- determining the remuneration of Directors holding special office, after consultation with the Board of Statutory Auditors. This remuneration is defined in line with the decisions of the Shareholders' Meeting that can determine an overall amount for the remuneration of all Directors, including those with special duties;
- defining targets and approving the business results for the performance plans to which the calculation of the Directors' variable remuneration is linked;
- approving the general criteria for the remuneration of Senior Executives with Strategic Responsibilities;
- assessing the vote regarding the Remuneration Report.

In addition, the Board may delegate its powers to an Executive Committee composed of some of its members or to one or more of its members, including the Chairman/Chairwoman, determining the content, limits and procedures for fulfilling the delegated powers in accordance with Article 2381 of the Italian Civil Code and fixing their remuneration.

## 1.4 The Remuneration Committee

### 1.4.1 Composition

Terna's Remuneration Committee was set up in 2004; currently it is made up entirely of Non-Executive and Independent Directors - in compliance with the current provisions of law and in line with the Corporate Governance Code - whilst one member was elected from the lists of minorities. Moreover, in line with the Corporate Governance Code, at least one member of the Committee has suitable knowledge and experience in financial matters or remuneration policies, assessed by the Board of Directors at the time of appointment. As of the date of this Report, the members of the Remuneration Committee, appointed by the Board of Directors on 27 April 2017, are:

**Fabio Corsico**  
(Chairman)

**Gabriella Porcelli**

**Stefano Saglia**

### 1.4.2 Objectives

It is the Committee's duty to ensure that the Directors' and Senior Executives with Strategic Responsibilities' remuneration policies are developed with no conflicts of interest and in compliance with the provisions of the Corporate Governance Code. To this extent the Committee has consultative and advisory functions. The power to determine the remuneration of Directors holding special office remains, in any case, with the Board of Directors, after consultation with the Board of Statutory Auditors in compliance with Article 2389, paragraph 3 of the Italian Civil Code, which verifies the consistency of the proposals with the Remuneration Policy adopted by the Company.



### 1.4.3 Functions and activities

By invitation of the Chairman/Chairwoman, the members of the Audit and Risk, Corporate Governance and Sustainability Committee and/or other members of the Board of Directors, or the Chairman/Chairwoman of the Board of Statutory Auditors (who may designate another Auditor to participate in his/her place), or other Auditors, or other corporate bodies' members may participate in the meetings. The same goes for others whose presence may be helpful for the Committee's functions. The establishment of this Committee guarantees broad transparency and information on remuneration and on the methods used to establish remuneration. No Director takes part in Committee meetings in which proposals intended for the Board are formulated on matters concerning his/her remuneration, unless the proposals regard general Committee members as established within the Board. In particular, the Committee:

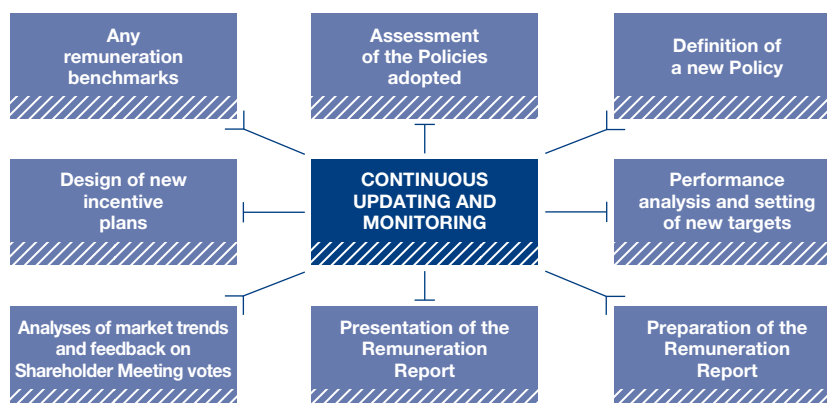
- periodically assesses the adequacy, the overall consistency and the concrete application of the general policy adopted for the remuneration of the Directors, the General Manager and Senior Executives with Strategic Responsibilities;
- submits proposals and delivers opinions to the Board of Directors concerning the remuneration of the executive Directors and of the other Directors holding special office, as well as concerning the setting of performance targets linked to the variable component of the overall remuneration by monitoring the application of decisions adopted by the Board, and verifying, in particular, the actual achievement of the performance objectives;
- develops, submits to the Board of Directors, and monitors the application of short and long term incentive schemes directed to the SESRs and also applied to Senior Executives in general. These schemes are intended as tools for attracting, retaining, and motivating professionals with suitable experience and technical skills, by developing their corporate loyalty and ensuring their constant focus on value creation over time.

The Committee, for performing the above functions, may make use of the support of independent external consultants of leading importance at international level.

Information on the activities carried out annually by the Committee is also included in the Report on Corporate Governance and Ownership Structures, published by the Company together with the Annual Financial Report pursuant to Article 154-ter of the Consolidated Law on Finance and available on the Company's website (Investor Relations - Corporate Governance section).

We should note that the activities of the Committee were developed within a complex and ongoing process, aimed at defining the new Policy and the related compensation tools, as well as the preparation of the Report.

#### THE CYCLE OF ACTIVITIES OF THE REMUNERATION COMMITTEE



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In particular, in the course of the financial year 2017, the Committee held 7 meetings, with an average duration of around 1 hour and an attendance rate of 100%.

Among other things, the Committee dealt with the following issues:

- verification of achievement of the 2016 targets linked to the annual variable remuneration of the Chief Executive Officer and General Manager, both for the role of Director and for the executive employment role;
- identification of the objectives of the annual variable remuneration of the Chief Executive Officer and the General Manager for the financial year 2017;
- evaluation of remuneration structures of peers (market benchmark) on long-term incentive plans and proposal of the new rolling Long-Term Incentive Plan (LTI Plan), 2017-2019 Cycle;
- preparation of the 2017 Annual Remuneration Report;
- assessment of the overall adequacy and consistency and the concrete application of the 2017 Remuneration Policy.

It should also be noted that in the first few months of 2018 the Committee has:

- developed the proposal for the 2018 Remuneration Policy, summarised in this Remuneration Report, submitted to the 2018 Shareholders' Meeting for approval;
- examined the objectives to which the 2018 annual variable remuneration of the Chief Executive Officer and General Manager is linked, both for the role of Director and for the executive employment role, as well as the Senior Executives with Strategic Responsibilities;
- verified the achievement of the 2017 results, for the payment of the annual variable remuneration of the Chief Executive Officer and General Manager, both for the role of Director and for the executive employment role, as well as Senior Executives with Strategic Responsibilities;
- developed the proposal for the activation of the 2018-2020 and 2019-2021 rolling equity-based cycles of the LTI Plan, approved by the Board of Directors on 21 March 2018 and submitted to the 2018 Shareholders' Meeting for approval, through the appropriate Information Document.

## 1.5 Action of independent experts

Terna decided to be assisted by the consultancy firm Willis Towers Watson, whose responsibilities include a contribution regarding the analyses performed on remuneration, as well as third-party and independent evaluation for the definition of incentive plans and remuneration policy.

## 1.6 Other entities

The Human Resources and Organisation Department prepares the guidelines along with all the technical aspects required for the preparation of the Remuneration Policy. This department also acts as an internal technical body supporting the Remuneration Committee, for which it prepares the material for the Committee's activities.

The Administration, Finance and Audit Department contributes to the identification and achievement of the economic/financial targets underlying the short and long-term structures.

## 1.7 Policy definition and approval

- The Remuneration Committee submits the Policy to the Board of Directors for approval. The Committee may access company information and departments useful for carrying out its duties, involve the Human Resources and Organisation Department, and may also use independent experts in the field within the limits approved by the Board of Directors and set out in the Corporate Governance Code.
- The Board of Directors defines and adopts the Policy in its forms and internal regulatory sources. Specifically, the Board adopts the contents regarding the remuneration policy for members of the administration bodies and long-term incentive plans. Moreover, with regard to determining the remuneration of Directors holding special office, the Board takes into consideration the opinion of the Board of Statutory Auditors.
- The Board of Directors, having examined and approved the Policy, submits it to the Shareholders' Meeting for an advisory vote<sup>3</sup>.

3. It is worth remembering as the Procedure for Related-Party Transactions, adopted by the Board of Directors on 12 November 2010, as subsequently amended and supplemented (last update: Board of Directors on 15/12/2016) does not include shareholders' resolutions pursuant to Article 2389, first paragraph of the Italian Civil Code, regarding remuneration of Board members and of the Executive Committee, resolutions on the remuneration for Directors holding special office falling within the total amount previously determined by the Shareholders' Meeting pursuant to Article 2389, third paragraph of the Italian Civil Code and resolutions pursuant to Article 2402 of the Italian Civil Code regarding compensation due to members of the Board of Statutory Auditors. Furthermore, the following resolutions are excluded from the same Procedure for Related-Party Transactions:

- 1) Those concerning remuneration plans based on financial instruments approved by Terna's Shareholders' Meeting pursuant to Article 114-bis of the Consolidated Law on Finance, and related executive operations;
- 2) Those concerning the remuneration for Directors holding special office and for senior executives with strategic responsibilities if a Remuneration Policy is adopted based on CONSOB regulations on the matter.

# 2. The Terna

## Remuneration Policy

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### 2.1 Content and goals

The Policy described in this Report focuses exclusively on the remuneration of members of the administration bodies, the General Manager, and the Senior Executives with Strategic Responsibilities.

The Policy is aimed at:

- attracting, retaining and motivating resources endowed with the professional skills required to successfully manage the Company;
- facilitating the alignment of interests of the management with the most important objective of creating value for the shareholders and achieving pre-established performance targets, through the use of variable short and long-term components.

### 2.2 Guidelines

In developing the Policy, the Board took into consideration the principles and criteria contained in the Corporate Governance Code and in particular that the CEO and GM is the addressee of a Policy in which a significant part of the remuneration is linked to the achievement of specific performance targets, including non-economic targets, (e.g. indicators of Sustainability). Similar principles also inspired the Policy for other Senior Executives with Strategic Responsibilities, as better described below.

### 2.3 Implementation

In implementing the above principles we can note that:

- the remuneration of Directors not holding special office shall be commensurate to participation in Board Committees, with different fees for the Chairman/Chairwoman compared to the members of each Committee;
- the remuneration of the Chairwoman of the Board of Directors consists of a fixed amount in line with the role held;
- the remuneration of the Chief Executive Officer and, if the position exists, of the General Manager<sup>4</sup>, is adequately balanced between:
  - a fixed component, in line with the delegated powers and/or responsibilities attributed and sufficient to remunerate the services should the variable component not be paid due to failure to achieve the performance targets specified by the Board of Directors;
  - a variable component linked to the achievement of pre-established, measurable and well defined objectives in order to remunerate the performance achieved both in the short and long term, in line with the economic and financial targets of the Company's Strategic Plan;
  - severance payments for the termination of the role of Director, as well as for termination of employment as General Manager in the case of termination of employment, except in specific cases.

Finally, the Policy takes into account the nature and risk level compatible with the objectives of Terna's Strategic Plan, approved by the Board of Directors in its Meeting on 21 March 2018.

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4. Senior Executives with Strategic Responsibilities will see the implementation of a similar policy to the one provided for the General Manager role.



## 2.4 Remuneration of BoD members

In this section the main characteristics of the Remuneration Policy are indicated for the following groups of individuals identified by the internal codes:

- Directors not holding special office;
- Directors holding special office. As of the date of this Report:
  - > the following are Directors not holding special office<sup>5</sup>:
    - Fabio Corsico (Chairman of the Remuneration Committee);
    - Luca Dal Fabbro (Chairman of the Appointments Committee);
    - Paola Giannotti;
    - Yunpeng He;
    - Gabriella Porcelli (Coordinator of the Related-Party Transactions Committee);
    - Stefano Saglia (Chairman of the Audit and Risk, Corporate Governance and Sustainability Committee);
    - Elena Vasco;
  - > the following are Directors holding special office:
    - Catia Bastioli (Chairwoman of the Board of Directors);
    - Luigi Ferraris (Chief Executive Officer and General Manager).

### 2.4.1. Remuneration of Directors not holding special office

#### *A) Shareholders' Meeting established remuneration*

The annual remuneration of the Directors not holding special office is composed solely by the fixed component, considered sufficient to attract, retain and motivate directors endowed with the professional qualities required to successfully manage the Company. This component is linked to the commitment required for each of them. For the 2017-2019 mandate, this remuneration, as determined by the Shareholders' Meeting of 27 April 2017, based on the proposals made by the shareholders, is € 35,000 per year.

No variable component tied to the economic results achieved by the Company and the Group is contemplated. The Directors not holding special office do not participate in the incentive plan and there is no distinction in terms of remuneration between independent and non-independent Directors.

These Directors are also entitled to reimbursement for expenses incurred while carrying out their duties in addition to coverage for civil liability towards third parties; they have the right, finally, to an insurance policy for occupational accidents related to the position.

5. The evaluation regarding the existence of the independence requirements of each of the non-executive members is performed by the Board of Directors, taking into account the information provided by the individuals involved, during the appointment and at least annually according to what is represented in the Annual Report on Corporate Governance and Ownership Structures approved by the Board of Directors and published on the Company's website.

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### *B) Fee for participating in Board Committees*

The additional fees for members of the Committees set up within the Board of Directors are in any case resolved by the Board of Directors, after consulting the Board of Statutory Auditors.

For the 2017-2019 mandate, the annual remuneration of the Directors participating in the Board Committees was determined by the Board of Directors on 9 May 2017, after consultation with the Board of Statutory Auditors, which was elected by the Shareholders' Meeting of 27 April 2017 - in line with the previous tenure - and is made up as follows:

- Chairman/Chairwoman of the Audit and Risk, Corporate Governance and Sustainability Committee: € 60,000 per year;
- Chairmen/Chairwomen of the Remuneration Committee, the Appointments Committee, and the Related-Party Transactions Committee: € 50,000 per year;
- Members of the Committees: € 40,000 per year.

## **2.4.2 Remuneration of Directors holding special office**

### *A) CHAIRWOMAN OF THE BOARD OF DIRECTORS*

For the 2017-2019 mandate, the total remuneration for the position of Chairwoman of the Board of Directors consists exclusively of the fixed component, structured as follows:

- annual amount approved by the Shareholders' Meeting on 27 April 2017, **€ 50,000<sup>6</sup>**;
- a fixed annual amount of **€ 188,000<sup>7</sup>** approved by the Board of Directors on 9 May 2017, as proposed by the Remuneration Committee after consultation with the Board of Statutory Auditors.

The Company does not pay any indemnity or any extraordinary compensation linked to termination of the term to other Directors holding special office, who have been given specific grants and without an employment contract with the Company, with the exception of the Chairman/Chairwoman, who is entitled to a termination benefits equal to 1/12 of the total annual remuneration for each year in which he/she has held this position.

### *B) CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER*

It is worth noting that in Terna, for the CEO and General Manager, the role of Director and the executive role are connected, so the termination of one leads to the termination of the other role.

The executive employment relationship of the General Manager is governed by the National Collective Employment Contract (CCNL) for senior executives of companies producing goods and services. The General Manager is subject to the compensation envisaged by Senior Executives in general, in addition to those listed below.

## **B.1. Fixed elements of remuneration**

### *i. CHIEF EXECUTIVE OFFICER*

For the 2017-2019 mandate, the total fixed remuneration for the position of Chief Executive Officer is made up of:

- an annual amount approved by the Shareholders' Meeting on 27 April 2017, of **€ 35,000<sup>6</sup>**;
- an annual amount approved by the Board of Directors on 9 May 2017, following proposal of the Remuneration Committee, after consultation with the Board of Statutory Auditors, of **€ 200,000<sup>7</sup>**.

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6. Under the terms of Article 2389, paragraph 1 of the Italian Civil Code and pursuant to Article 24.1 of Terna's Bylaws.

7. Under the terms of Article 2389, paragraph 3 of the Italian Civil Code.

## ii. GENERAL MANAGER

The total fixed compensation foreseen for the General Manager includes:

- a gross annual fixed component (Gross Annual Salary, RAL);
- benefits recognised by the National Collective Employment Contract (CCNL)<sup>8</sup> and company policies and practices.

The Gross Annual Salary approved by the Board of Directors at its meeting on 9 May 2017 is **€ 850,000**.

*Overall, therefore, the CEO/GM, for the current mandate, is paid an annual gross fixed remuneration of **€ 1,085,000**.*

*This annual gross fixed remuneration, if expressed as a multiple of the average fixed remuneration of the entire Italian population of the Terna Group, corresponds to a value of 26.*

## B.2 Short-term incentive (MBO)

The short-term incentive (MBO) plan allows for the assessment of the annual contribution of each beneficiary to the performance of Terna and directs management actions towards strategic objectives in line with business priorities.

The Board of Directors, following the proposal of the Remuneration Committee, defines the MBO objectives for Directors holding special office and for the General Manager, with the abstention of the Chief Executive Officer and General Manager, within the scope of his interests.

### i. CHIEF EXECUTIVE OFFICER

The short-term incentives foreseen for the Chief Executive Officer, for the powers delegated to them, are determined by the Board of Directors, with the abstention of the Chief Executive Officer and General Manager, following the proposal of the Remuneration Committee and consultation with the Board of Statutory Auditors. Access to the incentive is subordinated to the achievement of pre-defined corporate objectives of particular significance for the Company, proposed ex-ante by the Committee, approved by the Board of Directors and measured ex-post by the same Committee on an on/off basis.

The table below shows the targets defined for the year 2018:

### 2018 MBO OBJECTIVES - CHIEF EXECUTIVE OFFICER

OBJECTIVES	SCORE CURVE
Terna Group - 2018 Net Income	ON/OFF (vs Budget)
Plan for the implementation of the new monitoring system for predictive maintenance of cable infrastructures and insourcing of related duties	ON/OFF

The amount of the annual incentive, approved by the Board of Directors, is equal to **€ 200,000** gross; it is an **on/off** payment. Therefore, this amount will be paid only on achievement of **both** the targets, while failure to achieve even only one of the two targets will not generate a payment.

8. Supplementary social security and medical insurance (pursuant to the National Collective Employment Contract for Senior Executives of companies producing goods and services of 30.12.2014).

ii. GENERAL MANAGER

The payment of short-term incentives (MBO) to the General Manager is subject to verifying the achievement of the performance targets assigned annually, defined by the Board of Directors, following the proposal of the Remuneration Committee, with the abstention of the Chief Executive Officer and General Manager within the scope of his interests.

For the year 2018, the targets assigned to the General Manager are shown in the table below, with the related score curves.

**2018 MBO OBJECTIVES - GENERAL MANAGER**

OBJECTIVE	WEIGHT	SCORE CURVE	
Investments and Operating Revenues*	40%	Delta vs budget	Score
		-2%	80%
		Budget	100%
		+1.5%	130%
		+3%	150%
		(*Cap at +10% only for investments) For negative deltas greater than 2% the score is zero For intermediate figures linear interpolation	
		Terna Group - 2018 EBITDA	35%
-1%	80%		
Budget	100%		
+2%	150%		
For negative deltas greater than 1% the score is zero For intermediate figures linear interpolation			
Quality of Service (Reference Energy Not Supplied, RENS)	15%		
		ARERA** Target + 300 MWh	0
		Figure equal to the worst result 2014-2017	80%
		ARERA 2018 Target +5%	100%
		ARERA 2018 Target	150%
		For intermediate figures linear interpolation	
INNOVATION FACTORY: Establishment of the structure and innovation projects ("Smart Tower" and innovative Storage projects)	10%	ON (150)/OFF (0)	

\* Both indicators that make up the target are referred to the Terna Group's regulated activities. Each of the two indicators contributes equally to achieving the target, according to the score curve indicated. In the final calculation, therefore, the score attributed to the target will be the arithmetic average of the scores of the two indicators (provided that both scores are  $\geq 80\%$ , otherwise the bonus portion related to the target is reduced to zero).

\*\* ARERA is the Regulatory Authority for Network Energy and the Environment (Autorità di Regolazione per Energia Reti e Ambiente).



The first of the objectives assigned to the General Manager measures the value of **investments and operating revenues** budgeted for 2018 for all regulated activities of the Terna Group. "Operating revenues" refers to the value of the assets that are made available for network operation or operational use in the company during the period in question.

"**Quality of Service**" provides indications on the operating performance of the company through the measurement, in MWh, of the quantity of Energy Not Supplied (RENS); therefore, the lower the value related to this parameter, the higher the score will be, up to the maximum score (150%) which corresponds to the target set, for 2018, by the Regulatory Authority for Network Energy and the Environment (ARERA).

The objective related to the **Innovation Factory** relates, on the one hand, to the establishment of a structure composed of dedicated full time resources and with the appropriate skills to start up and manage innovative projects with interests across several organisational areas, and on the other hand, to the implementation of the 2018 milestones provided by the "Smart Tower" project and innovative projects in the area of Storage.

The amount of the incentive actually disbursed varies according to the level of achievement of the targets assigned to the single objectives:

- if the average score of the single targets is 80%, the amount is **€ 240,000** gross (28.2% of the GM's Gross Annual Salary);
- if the average score of the single targets is 100%, the amount is **€ 300,000** gross (35.3% of the GM's Gross Annual Salary);
- if the average score of the single targets is 130%, the amount is **€ 390,000** gross (45.9% of the GM's Gross Annual Salary);
- if the average score of the single targets is 150% (max), the amount is **€ 450,000** gross (52.9% of the GM's Gross Annual Salary).

If the average of the scores of the single targets is less than 80%, nothing is due. In the event of overperformance, it is not possible to attain a higher bonus than the maximum set (150%).

*Therefore, overall, the CEO/GM, for the current mandate, is paid a short-term variable remuneration which, **at the target**, is **€ 500,000** gross per year and at the maximum level is € 650,000 gross per year.*

### B3. Long-Term Incentive (LTI)

In order to contribute to the achievement of the long-term strategic objectives, the Company adopts a long-term incentive system aimed at:

- ensuring an alignment between management interests and the creation of long-term value for shareholders, by introducing an economic incentive into the remuneration structure of the beneficiaries linked to the achievement of challenging multi-year company performance objectives, influenced by stock value and also by non-economic indicators;
- rewarding long-term performance through a series of three-year Cycles consistent with the strategic objectives for 2021;
- creating loyalty among the beneficiaries over the Plan period by making the economic incentive set out in the Plan linked to the employment relationship with the Group for the period of validity of the plan.

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#### *LONG-TERM VARIABLE INCENTIVE PLAN 2017-2021*

With the appointment of the new Board of Directors and Chief Executive Officer at the Shareholders' Meeting of 27 April 2017, Terna needed to design and implement a new Long-Term Incentive Plan.

At this time, Terna decided to set up an instrument that would, on the one hand, provide the best alignment possible with market practices, with the provisions of the Corporate Governance Code and the objectives of the Strategic Plan 2017-2021, and on the other hand, guarantee complete coverage of the mandate period of the new CEO and GM (2017-2019).

In 2017, following the appointment of the new Board of Directors and the beginning of the work of the Remuneration Committee, due to very tight time constraints, which would not have allowed for the normal approval process for a plan based entirely on financial instruments (equity based) to be completed, it was decided to proceed with the design of a rolling system, structured as follows:

- A first "Convertible" monetary three-year Cycle 2017-2019: A monetary plan characterised by the option for the Board of Directors to choose whether to convert the bonus into equity. The choice of this type of plan has allowed for an approval process to be followed, which is suitable for initiating the Plan by September 2017, responding to the need to fully cover the mandate period of the new Chief Executive Officer, while at the same time leaving open the option for the Board to pay the same through financial instruments;
- Two subsequent three-year "equity-based" Cycles, covering 2018-2020 and 2019-2021: plans in the form of Phantom Stocks, which reward persistent and sustainable growth in shareholder value and which, being based on financial instruments, are in line with market practices and the provisions of the Corporate Governance Code.

The Long-Term Variable Incentive Plan 2017-2021, configured as such, is intended for the General Manager, who also holds the position of Chief Executive Officer, but it is also directed at Group managers, including Senior Executives with Strategic Responsibilities, other Senior Executives and a selection of Middle managers, who carry out functions that are relevant for the achievement of the company's strategic results.

In particular, each of the three Cycles of the Plan is characterised by a vesting period of three years in order to reward the creation of long-term shareholder value and at the same time retain key resources.

The first "Convertible" monetary three-year Cycle 2017-2019 has already started, as a monetary cycle and approved as such by the Board of Directors on 6 September 2017.

The subsequent two equity based Cycles were approved, on the proposal of the Remuneration Committee, by the Board of Directors on 21 March 2018 and have been submitted for approval to the 2018 Shareholders' Meeting, with an appropriate Information Document, made available to the public at the Company's registered office and in the Investor Relations - Corporate Governance section of the Company website.

#### *1<sup>st</sup> Cycle of the LTI Plan: "Convertible" monetary incentive (2017-2019)*

In the interests of utmost transparency and disclosure to the market, the first Cycle - in relation to the 2017-2019 performance period - is summarised below, which was adopted after the Shareholders' Meeting to approve the 2017 Remuneration Report, in line with the objectives of the Strategic Plan 2017-2021, and was designed as a "Convertible" monetary incentive plan, due to very tight time constraints, which would not have allowed for the normal approval process of an allocation in financial instruments to proceed. This Cycle was designed by introducing the right of the Board of Directors to subsequently decide on the conversion of the monetary Cycle to equity, in which case the Cycle is submitted to the Shareholders' Meeting for approval.

The sustainability of the performance to which the payment of the incentive is linked was further strengthened by a mechanism for deferring 40% of the bonus accrued at the end of the vesting period, by a period of twelve months.

Access to the incentive is subject to verification of the achievement of the specific KPIs, in line with the Group's Strategy and linked to the Strategic Plan 2017-2021, approved by the Board of Directors on 15 March 2017.

The KPIs related to the 2017-2019 LTI Cycle are presented in the table below, with the relevant score curves:

#### LTI Cycle 2017-2019

OBJECTIVES	WEIGHT	SCORE CURVE
<b>Cumulative EBITDA for the period 2017-2019</b>	80%	Delta vs Strategic Plan target
		Score
		-0.5%
		80%
		Target
<b>Dow Jones Sustainability Index (DJSI)</b> Positioning of Terna in the years 2017-2018-2019	20%	100%
		+1%
		150%
		For negative delta greater than 0.5% the score is zero (for intermediate figures linear interpolation is carried out)
		Positioning
		Score
		Non-inclusion in DJSI
		0%
		Inclusion in DJSI
		80%
		Positioning 1 year out of 3 in the 1 <sup>st</sup> decile of the index and 2 years in the 2 <sup>nd</sup> decile
		100%
		Positioning 2 years out of 3 in the 1 <sup>st</sup> decile of the index and 1 year in the 2 <sup>nd</sup> decile
		130%
		Positioning in the 1 <sup>st</sup> decile of the index for all the years of the Cycle
		150%

The overall performance will be measured as the weighted average of the scores achieved for each of the two Plan targets, according to the respective performance curves presented above. For the incentive system to become active and, therefore, for the right to payment of a bonus to be attained, an overall performance of at least 80% has to be achieved, below which nothing shall be due. In the event of overperformance, it is not possible to attain a higher bonus than the maximum set (150%).

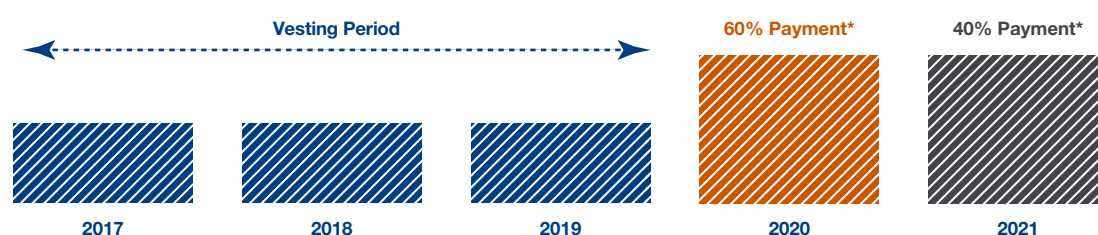
The variable remuneration of the General Manager linked to the 1<sup>st</sup> Cycle 2017-2019 of the LTI Plan is established with reference to:

- an incentive level corresponding to **99%** of the GM's Gross Annual Salary, as a total value of the three-year Cycle, if an overall performance is achieved at the minimum level (**80%**);
- an incentive level corresponding to **123.6%** of the GM's Gross Annual Salary, as a total value of the three-year Cycle, if an overall performance is achieved at the target level (**100%**);
- an incentive level corresponding to **185.4%** of the GM's Gross Annual Salary, as a total value of the three-year Cycle, if an overall performance is achieved at the maximum level (**150%**).

The amount deriving from the 1<sup>st</sup> Cycle of the Plan will be paid:

- for a share equal to 60% at the end of the vesting period (following approval of the 2019 Financial statements);
- for the remaining 40% with a 12-month deferment (so-called “*deferred payment*”) with respect to the payment date of the first share, in line with the provisions of the Governance Code for listed companies.

The image below shows the timeline of the 2017-2019 LTI Plan:



\* Subject to verified achievement of performance targets.

For the Chief Executive Officer and General Manager, in the event of termination of employment before payment of the bonus for reasons other than:

- disciplinary dismissal;
- resignation without just cause;
- revocation of the position of Director for just cause;
- resignation as a Director without just cause;

and therefore even in the event of a consensual termination of employment, the right (for the beneficiary or for the heirs or assignees) to receive a part of the bonus will be maintained, applying the “*pro-rata temporis*” criterion, if performance results are achieved.

#### *2<sup>nd</sup> and 3<sup>rd</sup> Cycles of the LTI Plan: Phantom Stock Plan 2018-2021*

Following the definition of the new Strategic Plan 2018-2022, Terna decided to adopt an instrument that would allow, on the one hand, the best alignment possible with market practices, with the provisions of the Corporate Governance Code and the objectives of the new Strategic Plan 2018-2022 (approved by the Board of Directors on 21 March 2018), and at the same time cover the current mandate period in order to guarantee lasting and sustainable growth.

In this sense, the second and third Cycles of the LTI Plan were designed using Phantom Stocks and structured over the 2018-2020 and 2019-2021 three-year periods.

The LTI Plan provides for the allocation, for each Cycle, of a certain number of entitlements to receive Phantom Stocks linked to the share value at the end of the vesting period, provided that the performance objectives relating to the Cycle are achieved, thus making it possible to link the growth in the stock value and industrial performance in a systemic manner.

To this end, the performance indicators that will determine the number of Phantom Stocks to be attributed at the end of the performance period are in line with the objectives defined in the new Strategic Plan 2018-2022, approved by the Board of Directors on 21 March 2018, and in particular:

- The three-year cumulative **EBITDA**, reflecting the achievement of operating performance;
- **The Relative TSR** vs Peer Group, reflecting the achievement of market performance;
- **The Dow Jones Sustainability Index** to measure performance linked to the sustainability of Terna's business.



**LTI Cycle 2018 - 2020 and LTI Cycle 2019 - 2021**

OBJECTIVES	WEIGHT	SCORE CURVE	
Common to both Cycles	50%		
Three-year cumulative EBITDA at 2020 (at 2021) compared with the Strategic Plan three-year cumulative EBITDA		Delta vs Strategic Plan target	Score
		-1%	80%
		Target	100%
		+2%	150%
		For negative delta greater than 1% the score is zero (for intermediate figures linear interpolation is carried out)	
Common to both Cycles	30%		
Relative Total Shareholder Return 2018-2020 (and 2019-2021) <sup>9</sup> <i>Terna positioning in the reference “Peer Group”<sup>10</sup> reference</i>		Positioning in the peer group	Score
		7 <sup>th</sup> , 6 <sup>th</sup> or 5 <sup>th</sup> place	0%
		4 <sup>th</sup> place	80%
		3 <sup>rd</sup> place	100%
		1 <sup>st</sup> or 2 <sup>nd</sup> place	150%
		If, although positioned in 1 <sup>st</sup> or 2 <sup>nd</sup> place, the TSR of Terna is negative in the period of reference, overperformance will not be recognised: the associated score will therefore be 100% (so-called “negative TSR threshold”).	
Common to both Cycles	20%		
Dow Jones Sustainability Index (DJSI) <i>Annual positioning of Terna in the years 2018-2019-2020 (and 2019-2020-2021)</i>		<ul style="list-style-type: none"><li>• in the event of non-inclusion in the index for all three years of the Cycle period -&gt; 0%</li><li>• in the event of inclusion in the index for all three years of the Cycle period -&gt; 80% (Minimum level);</li><li>• in the event of inclusion in the index for all three years and positioning among the top 7 companies, in at least 1 of the 3 years of the Cycle period -&gt; 100% (Target level);</li><li>• in the event of inclusion in the index for all three years and positioning among the top 7 companies, in at least 2 of the 3 years of the Cycle period -&gt; 130%;</li><li>• in the event of inclusion in the index for all three years and positioning among the top 7 companies, in at least 2 of the 3 years of the Cycle period and in the first decile in 1 year out of 3 -&gt; 150% (Maximum level)</li></ul>	

The overall performance is measured as the weighted average of the scores achieved for each of the three Plan targets, according to the respective performance curves presented above. For the incentive system to become active and, therefore, for the right to payment of a bonus to be attained, an **overall** performance of at least 80% has to be achieved, below which nothing shall be due. In the event of overperformance, it is not possible to attain a higher bonus than the maximum set (150%).

9. The TSR of Terna and of the peers is calculated over a time period of three years, using, for the second Cycle, the average of the closing values of the share price in 2018 and the same average for 2020 and, for the third Cycle, the average of the closing values of the share price in 2019 and the same average for 2021. The data source for the TSR is Bloomberg.

10. The companies belonging to the Peer Group (*Snam, Red Electrica, Enagas, National Grid, Severn Trent, United Utilities*) are major European utilities companies listed on the stock exchange. They are part of the regulated utilities sub-sector and therefore implement a business model that, although related to different sectors, presents elements of uniformity and comparability with Terna's. The selection of the peer group was therefore guided towards the identification of stocks that reflect the characteristics of Terna's stock, with reference to the business cycle as well as with reference to external elements that may affect their performance, so much so that at the time of drafting this Report, the same stocks were examined by financial analysts for the purposes of evaluating and comparing them with Terna's stock. Equities that are subject to extraordinary operations that entail their delisting or a significant reduction in the floating capital, will be replaced (up to a maximum of two) by the following stock, listed in order: Elia, REN.

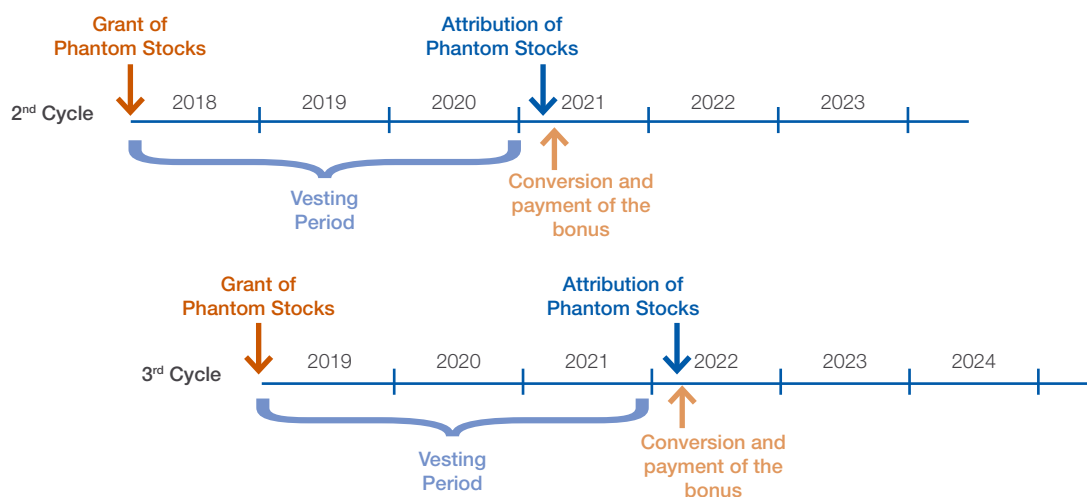
The variable remuneration of the General Manager linked to the 2<sup>nd</sup> and 3<sup>rd</sup> Cycle of the LTI Plan is established with reference to:

- an allocation of a number of Phantom Stocks corresponding to **99%** of the GM's Gross Annual Salary, as the total value of each Cycle in the event that an overall performance is achieved at a minimum level (**80%**) and for the same value of Terna's share with respect to the allocation date;
- an allocation of a number of Phantom Stocks corresponding to **123.6%** of the GM's Gross Annual Salary, as the total value of each Cycle in the event that an overall target performance is achieved (**100%**) and for the same value of Terna's share with respect to the allocation date;
- an allocation of a number of Phantom Stocks corresponding to **185.4%** of the GM's Gross Annual Salary, as the total value of each Cycle in the event that an overall performance is achieved at a maximum level (**150%**) and for the same value of Terna's share with respect to the allocation date.

The Board of Directors will verify whether the objectives of the Plan for determining the number of Phantom Stocks to be allocated have been achieved, based on the directions provided by the Remuneration Committee, when approving the draft Financial statements at 31 December 2020 for the second Cycle and at 31 December 2021 for the third Cycle.

Following approval of the Financial statements, the conversion of these Phantom Stocks into cash bonuses will take place at the average closing price of Terna's ordinary shares over the last 30 working days of the stock market from the reference date.

The image below shows the timeline of the LTI Cycles 2018-2020 and 2019-2021:



For the Chief Executive Officer and General Manager, in the event of termination of employment before payment of the bonus for reasons other than:

- disciplinary dismissal;
- resignation without just cause;
- revocation of the position of Director for just cause;
- resignation as a Director without just cause;

and therefore even in the event of a consensual termination of employment, the right (for the beneficiary or for the heirs or assignees) to receive a part of the bonus will be maintained, applying the “*pro-rata temporis*” criterion, if performance results are achieved.

### **“CLAWBACK” AND “MALUS” CLAUSES**

*The variable portion of the compensation paid to the Chief Executive Officer and General Manager is subject to the application of “clawback” clauses, which require the repayment of amounts already paid within the statute of limitations established by current legislation and regardless of whether the relationship is still in existence or terminated, as well as “malus” clauses, which provide for the right for the Company to withhold any part of the incentive subject to deferment, where applicable, in the event that it is proved that the payment of the bonus was made on the basis of data that is clearly wrong or fraudulently altered, in the event of serious and intentional violations of the law, Code of Ethics and company regulations, in the event of fraudulent conduct or gross negligence on the part of the beneficiary to the detriment of the Company or one of the Group Companies. The application of these mechanisms is nevertheless without prejudice to any other action permitted by the law to protect the interests of the Company.*

### **B.4 Benefits**

Similarly to the case of the Senior Executives of the Group, in line with the Policy implemented in 2017, the benefits package for the General Manager is defined in accordance with the provisions of the applicable National Collective Employment Contract as well as that governed by the corporate policies and practices applicable to all Senior Executives (e.g. allocation of cars for company/private use, supplementary health insurance, etc.).

### **B.5 Non-competition agreements**

With reference to Directors and the General Manager, Terna does not currently have non-competition agreements in place that provide compensation of a fixed amount or an amount referable to the Gross Annual Salary (RAL) in relation to the duration and scope of the obligation deriving from the agreement itself. However, Terna reserves the right to assess, at the appropriate time, the need to provide for specific provisions in this regard.

### **B.6. Severance**

The Chief Executive Officer and General Manager, consistent with market practices, and in order to protect the interests of the Company by preventing possible disputes, is entitled to termination benefits and severance indemnities. Indeed, it is worth noting that for the CEO and General Manager, the role of Director and the executive employment role are connected, so that the termination of one leads to the termination of the other role.

Except in cases of disciplinary dismissal and resignation not for just cause, the following are provided for on termination of the employment relationship associated with expiry of the mandate: (i) as General Manager, payment of an indemnity equal to 24 months of all-inclusive remuneration, plus an amount equal to the indemnity for lack of notice pursuant to Art. 2121 of the Italian Civil Code (ii) as Chief Executive Officer, a severance indemnity (TFM - Trattamento di Fine Mandato) of an amount equal to 1/12 of the fee determined overall for the position of CEO, for each year of mandate.

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## 2.5 Remuneration of Senior Executives with Strategic Responsibilities

Senior Executives with Strategic Responsibilities (SESRs) refers to persons who, directly or indirectly, have the power and responsibility for the planning, direction and control of the Company's operations.

Senior Executives with Strategic Responsibilities, whose scope has been widened to reflect the new organisational procedures of the Group, have responsibilities in the following positions:

- *Manager of Corporate Affairs*
- *Manager of Strategy and Development*
- *Manager of Administration, Finance and Audit*
- *Chief Executive Officer of Terna Rete Italia S.p.A.*
- *Manager of International Engineering & Construction*
- *Manager of External Communication and Sustainability.*

The list of Senior Executives with Strategic Responsibilities has been drafted by interpreting Article 152-*sexies*, paragraph 1(c) of CONSOB Regulation No. 11971 dated 14 May 1999 and subsequent amendments extensively, in order to ensure the utmost transparency towards shareholders regarding operations performed by company Senior Executives with Strategic Responsibilities, albeit in their specific areas of competence.

When developing the Remuneration Policy for Senior Executives with Strategic Responsibilities it was taken into consideration that these were the recipients of a Policy in which a part of the remuneration is linked to the achievement of specific performance targets, and of non-economic targets, indicated and determined in advance and in line with the guidelines contained in the general remuneration policy defined by the Board of Directors (Principle 6. P.2 of the Governance Code).

Criteria 6.C.1 and 6.C.2 of the Governance Code apply, as they are also compatible when determining the remuneration of Senior Executives with Strategic Responsibilities.

The employment contract of the Senior Executives with Strategic Responsibilities is governed by the National Collective Employment Contract (CCNL) for senior executives of companies producing goods and services. The Senior Executives with Strategic Responsibilities are subject to the compensation envisaged by Senior Executives in general, in addition to those listed below.

The remuneration of Senior Executives with Strategic Responsibilities consists of the following elements:

- Gross Annual Salary (RAL), defined in relation to the role held, the responsibilities assigned to them and the strategic nature of the resource;
- short-term incentives (MBO) that can be attained upon achievement of predefined company objectives, which at target level represent up to 50% of Gross Annual Salary (RAL);
- long-term incentives that can be attained upon achievement of pre-established multi-year objectives, which taken as an overall value over the three-year Cycle period, at target level represent a pre-established share of up to 60% of Gross Annual Salary (RAL);
- benefits recognised by the applicable National Collective Employment Contract and company policies and practices.
- indemnities for early termination of employment, initiated by the Company, defined in line with best market practices, as further detailed in point 2.5.5.

### 2.5.1 Short-Term Incentive (MBO)

The short-term incentive (MBO) plan allows for the assessment of the annual contribution of the beneficiary to the performance of Terna and directs management actions towards strategic objectives in line with business priorities.



The MBO objectives of the Senior Executives with Strategic Responsibilities are defined by the Chief Executive Officer, in line with the Remuneration Policy and the general criteria defined by the Remuneration Committee. The objectives structure for Senior Executives with Strategic Responsibilities is composed as follows:

OBJECTIVE TYPE	DESCRIPTION	RELATIVE WEIGHT
Access gate	EBITDA of budget	-
Group objectives	Economic/financial objectives	40%
Transversal objectives	Objectives common to several departments with reference to particular priorities or company initiatives	20%-30%
Individual objectives	Role-specific objectives	20%-30%
Qualitative objectives	Evaluation relating to the managerial behaviour of the Leadership Model	10%

Payment of the MBO incentive to Senior Executives with Strategic Responsibilities is subject to the verification of the Remuneration Committee, with the support of the Human Resources and Organisation Department, of the achievement of annually assigned performance targets.

The amount of the incentive actually disbursed varies according to the level of achievement of targets linked to the single objectives (and therefore related to the scores achieved by each KPI) which are specific to each role:

- if the weighted average of the single targets is 80% (min), the amount may reach up to **40%** of the Gross Annual Salary;
- if the weighted average of the single targets is 100% (target), the amount may reach up to **50%** of the Gross Annual Salary;
- if the weighted average of the single targets is 150% (max), the amount may reach up to **75%** of the Gross Annual Salary.

If the weighted average of the single targets is less than 80%, nothing is due; in the event of overperformance, a bonus greater than the maximum bonus established (150%) cannot be attained.

### 2.5.2 Long-Term Incentive (LTI)

In line with the provisions already set out for the General Manager, participation in all three Cycles of the 2017-2021 Long-Term Incentive Plan can also be envisaged for Senior Executives with Strategic Responsibilities.

As for the CEO and GM, the first "Convertible" monetary three-year Cycle 2017-2019 has already been allocated to Senior Executives with Strategic Responsibilities, while for the two Equity-based Cycles 2018-2020 and 2019-2021, already approved by the Board of Directors on 21 March 2018, allocation will take place after the 2018 Shareholders' Meeting, to which the appropriate Information Document will be submitted.

The two equity-based Cycles for 2018-2020 and 2019-2021 for Senior Executives with Strategic Responsibilities, envisage the same performance objectives (three-year cumulative EBITDA, Relative TSR, DJSI) as the General Manager, with the same weights and score curves, as well as the same vesting period and delivery mechanisms.

Therefore, that described in section B.3. is fully referred to herein, with the exception of bonus opportunities and aspects linked to payment in the event of early termination of employment, for which there are specific provisions described below.

The characteristics and opportunities for the target bonus for the SESR are summarised below:

LTI PLAN CYCLE	OBJECTIVES	VESTING PERIOD	BONUS OPPORTUNITIES
2017-2019	80% cumulative EBITDA 20% DJSI	Three-year	Incentive percentages to be converted into Phantom Stocks up to 60% of Gross Annual Salary (RAL), as an overall value over the three-year period of the LTI Plan Cycle, if the weighted average of the single targets is at target (100%) and at the same value of Terna's share with respect to the allocation date.
2018-2020 and 2019-2021	50% cumulative EBITDA		
	30% Relative TSR		
	20% DJSI		

In particular, for the SESRs, in the event of termination of employment before payment of the bonus for reasons other than:

- disciplinary dismissal;
- resignation without just cause;

and therefore even in the event of a consensual termination of employment, the right (for the beneficiary or for the heirs or assignees) to receive a part of the bonus will be maintained, applying the “pro-rata temporis” criterion, if performance results are achieved.

*The short-term and long-term variable portion of the compensation paid to the SESRs is also subject to the application of **clawback clauses**, which require the repayment of amounts already paid within the statute of limitations established by current legislation and regardless of whether the relationship is still in existence or terminated, as well as “**malus**” clauses, which provide for the right for the Company to withhold any part of the incentive subject to deferment, where applicable, in the event that it is proved that the payment of the bonus was made on the basis of data that is clearly wrong or fraudulently altered, in the event of serious and intentional violations of the law, Code of Ethics and company regulations, in the event of fraudulent conduct or gross negligence on the part of the beneficiary to the detriment of the Company or one of the Group Companies. The application of these mechanisms is nevertheless without prejudice to any other action permitted by the law to protect the interests of the Company.*

### 2.5.3 Benefits

In line with the current Policy, the benefits package for Senior Executives with Strategic Responsibilities is defined in accordance with the provisions of the applicable National Collective Employment Contract as well as that governed by the corporate policies and practices applicable to all Senior Executives (e.g. allocation of cars for company/private use, supplementary health insurance, etc.).

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#### 2.5.4 Non-competition agreements

With reference to Senior Executives with Strategic Responsibilities, Terna does not currently have non-competition agreements in place that provide compensation of a fixed amount or an amount referable to the Gross Annual Salary in relation to the duration and scope of the obligation deriving from the agreement itself. However, Terna reserves the right to assess, at the appropriate time, the need to provide for specific provisions in this regard.

#### 2.5.5 Severance

In the event of early termination of employment, initiated by the Company, amounts established by ex ante agreements or at the time of termination may be paid, established in accordance with the responsibilities assigned and work carried out.

In particular, for the SESRs, except in the case of disciplinary dismissal and resignation without just cause, a severance indemnity may be granted, of up to a maximum of 24 months' salary, in addition to a sum equal to the indemnity for failure to provide notice pursuant to Article 2121 of the Italian Civil Code.

# 3. Subject analytical index

(CONSOB Resolution No. 18049, Section I)

In order to facilitate the reading of this report, a subject analytical index is presented below, indicating references to the paragraphs that contain information on individual items of the contents of CONSOB Resolution No. 18049, Section I.

CONSOB RESOLUTION	REQUIRED INFORMATION	REFERENCES
A	Bodies or persons involved in the preparation and approval of the remuneration policy, specifying their respective roles, as well as the bodies or individuals responsible for the proper implementation of this policy;	Pages 19 to 23
B	the possible scope of action of a remuneration committee or other relevant committee, describing its composition (with distinction between non-executive and independent directors), its competences and operating methods;	Pages 19 to 22
C	the names of any independent experts that contributed to the formulation of the remuneration policy;	Page 22
D	the objectives pursued through the remuneration policy, its underlying principles, and any changes to the remuneration policy with respect to the previous financial year;	Pages 11; 24
E	description of the policies regarding fixed and variable components of remuneration, particularly with regard to the relative weightings within the overall remuneration, distinguishing between short and long term variable components;	Pages 8 to 10; 15; 25 to 39
F	the policy adopted with respect to non-monetary benefits;	Pages 9; 35; 38
G	a description of performance objectives, according to which variable components of the remuneration are assigned, distinguishing between short and long term variable components, and information on the connection between changes in results and changes in remuneration;	Pages 27 to 38
H	the criteria used to evaluate performance objectives forming the basis of the allocation of shares, options, other financial instruments or other variable components of remuneration;	Pages 27 to 38
I	information intended to demonstrate that the remuneration policy is consistent with pursuing the company's long-term interests and with its risk management policy, where formalised;	Pages 29 to 35; 37; 38
J	the vesting period, any deferred payment systems, with indications of the periods of deferment and the criteria used to determine these periods and ex-post correction mechanisms, if applicable;	Pages 29 to 35; 37; 38
K	information on the presence of clauses for the retention of financial instruments in the portfolio after acquisition, with an indication of the retention period and the criteria used to determine these periods;	<i>Not applicable</i>
L	policy on compensation envisaged in case of termination of office or termination of the employment contract, specifying the circumstances determining the right to the compensation and any link between these payments and the company's performance;	Pages 35; 39
M	information on any insurance, social security or pension plans, other than the obligatory schemes;	Pages 9; 35; 38
N (i)	the remuneration policy possibly implemented with reference to the independent directors;	The Company does not provide for specific remuneration policies for Independent Directors
N (ii)	the remuneration policy possibly implemented with reference to participation in committees;	Page 26
N (iii)	the remuneration policy possibly implemented with reference to the performance of particular tasks (Chairman/Chairwoman, Deputy Chairman/Chairwoman, etc.);	Pages 8; 26
O	information regarding the use of remuneration policies of other reference companies and, if used, the criteria chosen for the selection of these companies.	In developing its policy, the company did not take the remuneration policies of other companies as a reference. However a remuneration benchmark was made with a peer group (page 14)



# 4. Analytical Index

to applicative criteria 6.C.1 of the Corporate Governance Code  
(July 2015 Edition)

In order to make the reading of this Report easier, the following is an analytical index that lists the references to the sections containing information with respect to the individual points of the Applicative Criteria 6.C.1.

APPLICATIVE CRITERIA 7.C.1	REFERENCES
a) fixed and variable components are adequately balanced depending on the Issuer's strategic objectives and risk management policy, also taking into account the business sector in which it operates and the nature of business it actually performs;	Pages 15; 24
b) maximum limits for the variable components shall be established;	Pages 8; 29; 31; 34; 37
c) the fixed component shall be adequate to remunerate the services of the Director, should the variable component not be paid because of failure to achieve the performance objectives specified by the Board of Directors;	Pages 24 to 27
d) the performance objectives - i.e. the economic results and any other specific objectives linked to the payment of variable components (including the objectives defined for the share-based compensation plans) - are predetermined, measurable and linked to the creation of value for the shareholders in the long term;	Pages 27; 28; 31; 33; 37; 38
e) the payment of a significant portion of the variable component of remuneration shall be deferred for an appropriate period of time with respect to the moment of its accrual; the amount of that portion and the period of deferral shall be consistent with the characteristics of the business carried out and the associated risk profiles;	Pages 31 to 34; 37; 38
f) contractual mechanisms are foreseen to allow the company to request the return, in whole or in part, of the variable components of remuneration paid (or to withhold sums that have been deferred), that were calculated based on data that later turned out to be clearly wrong;	Pages 35; 38
g) any severance payment, established on the termination of the directorship, is defined in such a way that its total amount does not exceed a certain amount or a certain number of years of remuneration. This indemnity is not paid if the termination of the relationship is due to the achievement of objectively inadequate results.	Pages 10; 35







Section II: Implementation of the 2017 Remuneration Policies 44

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# Introduction

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This section is subdivided into two parts and illustrates by names, through tables attached in the second part, the compensations of members of administration and audit bodies, as well as of the General Manager and the information concerning Company shares held by them.

This section also illustrates, at an aggregate level, the compensation envisaged for Senior Executives with Strategic Responsibilities, pursuant to CONSOB Resolution No. 18049, who during the year, did not receive total compensations greater than the highest total compensation attributed to members of administration and audit bodies, as well as to the General Manager.

The implementation of the Policy, as verified by the Remuneration Committee during its regular assessment as foreseen by the Corporate Governance Code, remained in line with the general principles indicated in the resolutions adopted by the Board of Directors.

See Section I for the detailed description of each component part of the remuneration, including treatments foreseen in the case of termination of office or termination of the employment contract.

The compensation items listed are consistent with the Policy established in 2017 by the Board of Directors and submitted for the advisory and non-binding vote of the Shareholders' Meeting of 27 April 2017, pursuant to Art. 123-ter, paragraph 6, of the Consolidated Law on Finance, which was favourable.

# Part One

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## 1. Fixed amounts

It should be noted that on 27 April 2017, at the 2017 Shareholders' Meeting, the Board of Directors was renewed.

Therefore, the Directors in office from 1 January 2017 to 27 April 2017 and from 27 April 2017 to 31 December 2017 respectively, received their compensation *pro rata temporis*.

In particular:

- the **non-executive Directors** were paid the fixed amounts *pro rata temporis*, confirmed in the two mandates, established by the Shareholders' Meetings of 27 May 2014 and 27 April 2017 respectively (€ 35,000 per year for each Director);
- the **Chairwoman** was paid the fixed amounts, confirmed in the two mandates, established by the Shareholders' Meetings of 27 May 2014 and 27 April 2017 respectively (€ 50,000 per year) and established by the Board of Directors on 25 June 2014 and 9 May 2017 respectively (€ 188,000 per year). Therefore, the overall annual remuneration package for the Chairwoman, in terms of fixed remuneration, amounted to € 238,000;
- the **Chief Executive Officer and General Manager**, both incoming and outgoing, were paid *pro rata temporis*
  - the fixed amount as Director, confirmed in the two mandates, established by the Shareholders' Meetings of 27 May 2014 and 27 April 2017 respectively (€ 35,000 per year);
  - the fixed amount, confirmed in the two mandates, established by the Board of Directors on 25 June 2014 and 9 May 2017 respectively, for the assigned powers and duties (€ 200,000 per year);
  - the fixed component of remuneration as General Manager (€ 850,000 per year).

The amounts related to the fixed compensation are specified in the relevant column of Table 1.

## 2. Variable amounts

### 2.1 Short-term variable incentive

#### *2017 MBO OBJECTIVES - CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER*

In 2017, the current Chief Executive Officer and General Manager received the short-term incentive remuneration (MBO), based on the performance achieved in achieving the targets foreseen for the two roles, as reported in the draft Financial Statements for 2017, which shall be submitted to the Shareholders' Meeting, which approved Section I of this Report.

This compensation is paid pursuant to the principles indicated in the Remuneration Policy submitted for the advisory vote of the ordinary Shareholders' Meeting held on 27 April 2017.

More specifically, the annual variable amount envisaged for 2017 for the office of Chief Executive Officer (€ 200,000 gross) and for the office of General Manager (€ 450,000 gross) will be paid, at the level of maximum achievement of all objectives.

In this regard, it should be noted that the MBO bonus established in favour of the Chief Executive Officer is an on/off bonus. The payment of this bonus is conditional on the achievement of pre-determined corporate objectives of particular significance to the Company, summarised in the tables below:

#### **2017 MBO OBJECTIVES - CHIEF EXECUTIVE OFFICER**

OBJECTIVES	LEVEL OF ACHIEVEMENT
Terna Group 2017 EBITDA	ON
Generational Turnover Project	ON

## 2017 MBO OBJECTIVES - GENERAL MANAGER

OBJECTIVES	WEIGHT	LEVEL OF ACHIEVEMENT
Investments (Total Group Capex)	40%	150%
Free Cash Flow	35%	150%
Quality of Service (Energy Not Supplied, RENS)	10%	150%
R&D Projects/Sustainability		
1. Information system that warns about the formation of sleeves of ice on overhead power lines	15%	150%
2. On-line monitoring of electrical substation equipment and machinery		
WEIGHTED AVERAGE		150%

Therefore, the total short-term variable remuneration for the CEO and GM, relating to the 2017 performance period, was equal to **€ 650,000** gross.

The amounts related to the variable compensation are specified in the relevant column of Tables 1 and 3B.

## 2017 MBO OBJECTIVES - SENIOR EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

Senior Executives with Strategic Responsibilities received - on the basis of the draft Financial Statements for 2017 - a short-term annual variable amount, at a level of achievement of objectives close to the maximum level or with an average percentage score of approximately 148%.

## 2.2 Long-term variable incentive

With regard to Terna's policies, the long-term variable incentive plans for 2017 are as follows:

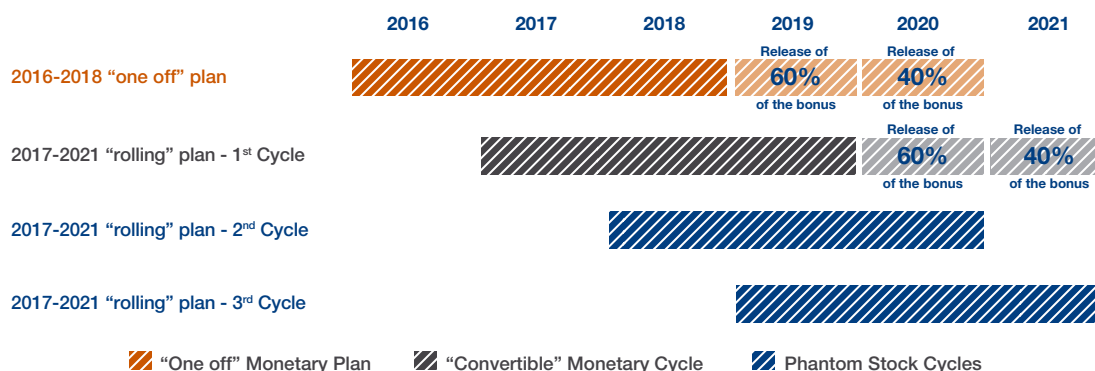


Table 3B provides the pertinent values of the plans.

It should be noted that the 2016-2018 Plan was described in the 2016 and 2017 Policies, published in the respective 2016 and 2017 Remuneration Reports.



### 3. Fees for participating in Board Committees

It should be noted that on 27 April 2017, at the 2017 Shareholders' Meeting, the Board of Directors was renewed. Therefore, the Directors in office from 1 January 2017 to 27 April 2017 and from 27 April 2017 to 31 December 2017 respectively, received their fees for participating in Board Committees *pro rata temporis*.

In particular:

- the **Chairmen/Chairwomen** of the Appointments Committee, the Remuneration Committee and the Coordinator in office of the Related-Party Transactions Committee, in addition to their fee as Directors (€ 35,000 per year), were accorded an annual remuneration of € 50,000;
- the **Chairman** of the Audit and Risk, Corporate Governance and Sustainability Committee, in addition to the fee as Director (€ 35,000 per year), was accorded an annual remuneration of € 60,000;
- the **members in office** of all Committees, in addition to their fee as Directors (€ 35,000 per year), were accorded an annual remuneration of € 40,000.

The amounts paid to Directors and for participating in Committees are summarised in Table 1.

### 4. Benefits

In line with the Policy, during 2017, the Chairwoman, the CEO, as General Manager, and Senior Executives with Strategic Responsibilities were granted benefits as listed in Table 1.

### 5. Severance

During 2017, indemnities were paid for termination of employment, as shown in the "Severance indemnities for end of office or termination of employment" column in Table 1.

# Part Two

Table 1 - Fees paid to members of administration and control bodies, General Managers and Senior Executives with Strategic Responsibilities

A	B	C	D	1	2
NAME AND SURNAME	OFFICE	PERIOD IN WHICH OFFICE WAS HELD	EXPIRATION OF OFFICE	FIXED AMOUNTS	FEES FOR PARTICIPATION IN COMMITTEES
<b>Catia Bastioli</b>	<b>Chairwoman of the Board of Directors</b>	01/01/2017-31/12/2017	Approval of 2019 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				50,000.00 €	
(II) Remuneration from subsidiaries and associates				188,000.00 €	
<b>(III) Total</b>				<b>238,000.00 €</b>	
<b>Matteo Del Fante</b>	<b>CEO and General Manager</b>	01/01/2017-27/04/2017	Approval of 2016 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				11,666.68 €	
(II) Remuneration from subsidiaries and associates				66,666.68 €	
<b>(III) Total</b>				<b>283,333.31 €</b>	
<b>Luigi Ferraris</b>	<b>CEO and General Manager</b>	27/04/2017-31/12/2017	Approval of 2019 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				23,333.36 €	
(II) Remuneration from subsidiaries and associates				133,333.36 €	
<b>(III) Total</b>				<b>566,666.71 €</b>	
<b>Cesare Calari</b>	<b>Director</b>	01/01/2017-27/04/2017	Approval of 2016 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				11,339.00 €	19,438.26 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>11,339.00 €</b>	<b>19,438.26 €</b>
<b>Carlo Cerami</b>	<b>Director</b>	01/01/2017-27/04/2017	Approval of 2016 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				11,339.00 €	42,116.59 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>11,339.00 €</b>	<b>42,116.59 €</b>
<b>Fabio Corsico</b>	<b>Director</b>	01/01/2017-31/12/2017	Approval of 2019 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				35,000.00 €	86,617.64 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>35,000.00 €</b>	<b>86,617.64 €</b>
<b>Luca Dal Fabbro</b>	<b>Director</b>	01/01/2017-31/12/2017	Approval of 2019 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				35,000.00 €	90,000.00 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>35,000.00 €</b>	<b>90,000.00 €</b>
<b>Paola Giannotti</b>	<b>Director</b>	27/04/2017-31/12/2017	Approval of 2019 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				23,716.89 €	54,210.04 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>23,716.89 €</b>	<b>54,210.04 €</b>

3		4	5	6	7	8
VARIABLE NON-EQUITY REMUNERATION		NON-MONETARY BENEFITS	OTHER REMUNERATION	TOTAL	FAIR VALUE OF EQUITY-BASED REMUNERATION	SEVERANCE INDEMNITIES FOR END OF OFFICE OR TERMINATION OF EMPLOYMENT
BONUSES AND OTHER INCENTIVES	SHARE OF PROFITS					
		18,254.60 €		68,254.60 €		59,500.00 €
				188.000.00 €		
		<b>18,254.60 €</b>		<b>256,254.60 €</b>		<b>59,500.00 €</b>
		41,943.80 €		53,610.48 €		4,743,750.00 €
				66,666.68 €		
				283,333.31 €		
		<b>41,943.80 €</b>		<b>403,610.47 €</b>		<b>4,743,750.00 €</b>
650,000.00 €		69,583.37 €		742,916.73 €		
				133,333.36 €		
				566,666.71 €		
<b>650,000.00 €</b>		<b>69,583.37 €</b>		<b>1,442,916.80 €</b>		
		2,360.62 €		33,137.88 €		
		<b>2,360.62 €</b>		<b>33,137.88 €</b>		
		4,100.04 €		57,555.63 €		
		<b>4,100.04 €</b>		<b>57,555.63 €</b>		
		9,328.07 €		130,945.71 €		
		<b>9,328.07 €</b>		<b>130,945.71 €</b>		
		9,587.50 €		134,587.50 €		
		<b>9,587.50 €</b>		<b>134,587.50 €</b>		
		5,977.00 €		83,903.93 €		
		<b>5,977.00 €</b>		<b>83,903.93 €</b>		

A	B	C	D	1	2
NAME AND SURNAME	OFFICE	PERIOD IN WHICH OFFICE WAS HELD	EXPIRATION OF OFFICE	FIXED AMOUNTS	FEES FOR PARTICIPATION IN COMMITTEES
<b>Yunpeng He</b>	<b>Director</b>	01/01/2017-31/12/2017	Approval of 2019 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				35,000.00 €	27,105.00 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>35,000.00 €</b>	<b>27,105.00 €</b>
<b>Gabriella Porcelli</b>	<b>Director</b>	01/01/2017-31/12/2017	Approval of 2019 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				35,000.00 €	86,617.64 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>35,000.00 €</b>	<b>86,617.64 €</b>
<b>Stefano Saglia</b>	<b>Director</b>	01/01/2017-31/12/2017	Approval of 2019 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				35,000.00 €	97,500.00 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>35,000.00 €</b>	<b>97,500.00 €</b>
<b>Elena Vasco</b>	<b>Director</b>	27/04/2017-31/12/2017	Approval of 2019 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				23,716.89 €	27,105.02 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>23,716.89 €</b>	<b>27,105.02 €</b>
<b>Riccardo Schioppo</b>	<b>Standing Auditor</b>	01/01/2017-31/12/2017	Approval of 2019 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				55,000.00 €	
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>55,000.00 €</b>	
<b>Vincenzo Simone</b>	<b>Standing Auditor</b>	01/01/2017-31/12/2017	Approval of 2019 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				45,000.00 €	
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>45,000.00 €</b>	
<b>M. Alessandra Zunino de Pignier</b>	<b>Standing Auditor</b>	01/01/2017-31/12/2017	Approval of 2019 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				45,000.00 €	
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>45,000.00 €</b>	
<b>Senior Executives with Strategic Responsibilities (6)</b>					
(I) Remuneration in the company that draws up the Financial Statements				1,077,030.20 €	
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>1,077,030.20 €</b>	

3		4	5	6	7	8
VARIABLE NON-EQUITY REMUNERATION		NON-MONETARY BENEFITS	OTHER REMUNERATION	TOTAL	FAIR VALUE OF EQUITY-BASED REMUNERATION	SEVERANCE INDEMNITIES FOR END OF OFFICE OR TERMINATION OF EMPLOYMENT
BONUSES AND OTHER INCENTIVES	SHARE OF PROFITS					
		4,763.45 €		66,868.45 €		
		4,763.45 €		66,868.45 €		
		9,328.07 €		130,945.71 €		
		9,328.07 €		130,945.71 €		
		10,162.75 €		142,662.75 €		
		10,162.75 €		142,662.75 €		
		3,898.04 €		54,719.95 €		
		3,898.04 €		54,719.95 €		
		4,218.50 €		59,218.50 €		
		4,218.50 €		59,218.50 €		
		3,451.50 €		48,451.50 €		
		3,451.50 €		48,451.50 €		
		3,451.50 €		48,451.50 €		
		3,451.50 €		48,451.50 €		
555,100.00 €		141,024 €		1,773,154 €		3,125,000.00 €
555,100.00 €		141,024.22 €		1,773,154.42 €		3,125,000.00 €



## Notes

Catia Bastioli	Col.1	The amount comprises: the pro-rata amount for the period from 1 January 2017 to 27 April 2017 and the pro-rata amount for the period from 27 April 2017 to 31 December 2017 of the annual fixed fee, under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Chairwoman of the BoD, established respectively by the Shareholders' Meeting of 27 May 2014 (€ 50,000) and by the Shareholders' Meeting of 27 April 2017 (€ 50,000); the pro-rata amount for the period from 1 January 2017 to 27 April 2017 and the pro-rata amount for the period from 27 April 2017 to 31 December 2017 of the annual fixed fee, under the terms of Art. 2389 paragraph 3 of the Italian Civil Code, for the position of Chairwoman of the BoD, established respectively by the BoD of 25 June 2014 (€ 188,000) and by the BoD of 9 May 2017 (€ 188,000).
	Col. 8	The amount is by way of Severance Indemnity
Matteo Del Fante	Col.1	The amount comprises: the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the annual fixed fee established by the Shareholders' Meeting of 27 May 2014 (€ 35,000) under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Director; the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the annual fixed fee established by the BoD of 25 June 2014 (€ 200,000) under the terms of Art. 2389 paragraph 3 of the Italian Civil Code, for the position of Chief Executive Officer; the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the gross annual salary (€ 850,000) as General Manager.
	Col.8	Of which: € 3,808,750 by way of indemnity for termination of employment and of the mandate, € 925,000 as advance notice indemnity fulfilling the contractual obligations related to termination of employment, € 10,000 by way of novation transaction in view of specific waivers. We can note in addition that what is due in relation to the rights accrued according to the long-term incentive plan will also be paid, in keeping with the policy described in the 2017 Remuneration Report (see table 3B).
Luigi Ferraris	Col.1	The amount comprises: the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the annual fixed fee established by the Shareholders' Meeting of 27 April 2017 (€ 35,000) under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Director; the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the annual fixed fee established by the BoD of 9 May 2017 (€ 200,000) under the terms of Art. 2389 paragraph 3 of the Italian Civil Code, for the position of Chief Executive Officer; the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the gross annual salary (€ 850,000) as General Manager.
Cesare Calari	Col. 1	The amount comprises: the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the annual fixed fee established by the Shareholders' Meeting of 27 May 2014 (€ 35,000) under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Director.
	Col. 2	The amount comprises: the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the fee for the position of Chairman of the Audit and Risk, Corporate Governance and Sustainability Committee (€ 60,000).
Carlo Cerami	Col. 1	The amount comprises: the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the annual fixed fee established by the Shareholders' Meeting of 27 May 2014 (€ 35,000) under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Director.
	Col. 2	The amount comprises: the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the fee for the position of Chairman of the Remuneration Committee (€ 50,000); - the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the fee for the position of Member of the Audit and Risk, Corporate Governance and Sustainability Committee (€ 40,000); - the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the fee for the position of Member of the Appointments Committee (€ 40,000).
Fabio Corsico	Col. 1	The amount comprises: the pro-rata amount for the period from 1 January 2017 to 27 April 2017 and the pro-rata amount for the period from 27 April 2017 to 31 December 2017 of the annual fixed fee, under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Director, established respectively by the Shareholders' Meeting of 27 May 2014 (€ 35,000) and by the Shareholders' Meeting of 27 April 2017 (€ 35,000).
	Col. 2	The amount comprises: the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the fee for the position of Member of the Remuneration Committee (€ 40,000); the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the fee for the position of Member of the Related-Party Transactions Committee (€ 40,000); the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the fee for the position of Chairman of the Remuneration Committee (€ 50,000); the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the fee for the position of Member of the Appointments Committee (€ 40,000).
Luca Dal Fabbro	Col. 1	The amount comprises: the pro-rata amount for the period from 1 January 2017 to 27 April 2017 and the pro-rata amount for the period from 27 April 2017 to 31 December 2017 of the annual fixed fee, under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Director, established respectively by the Shareholders' Meeting of 27 May 2014 (€ 35,000) and by the Shareholders' Meeting of 27 April 2017 (€ 35,000).
	Col. 2	The amount comprises: the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the fee for the position of Member of the Audit and Risk, Corporate Governance and Sustainability Committee (€ 40,000); the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the fee for the position of Chairman of the Appointments Committee (€ 50,000); the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the fee for the position of Chairman of the Appointments Committee (€ 50,000); the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the fee for the position of Member of the Related-Party Transactions Committee (€ 40,000).

Yunpeng He	Col. 1	The amount comprises: the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the annual fixed fee established by the Shareholders' Meeting of 27 May 2014 (€ 35,000) under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Director; the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the annual fixed fee established by the Shareholders' Meeting of 27 April 2017 (€ 35,000) under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Director.
	Col. 2	The amount comprises: the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the fee for the position of Member of the Appointments Committee (€ 40,000).
Paola Giannotti	Col. 1	The amount comprises: the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the annual fixed fee, under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Director, established by the Shareholders' Meeting of 27 April 2017 (€ 35,000).
	Col. 2	The amount comprises: the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the fee for the position of Member of the Audit and Risk, Corporate Governance and Sustainability Committee (€ 40,000); the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the fee for the position of Member of the Related-Party Transactions Committee (€ 40,000).
Gabriella Porcelli	Col. 1	The amount comprises: the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the annual fixed fee established by the Shareholders' Meeting of 27 May 2014 (€ 35,000) under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Director; the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the annual fixed fee established by the Shareholders' Meeting of 27 April 2017 (€ 35,000) under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Director.
	Col. 2	The amount comprises: the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the fee for the position of Member of the Remuneration Committee (€ 40,000); the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the fee for the position of Member of the Related-Party Transactions Committee (€ 40,000); the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the fee for the position of Member of the Remuneration Committee (€ 40,000); the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the fee for the position of Coordinator of the Related-Party Transactions Committee (€ 50,000).
Stefano Saglia	Col. 1	The amount comprises: the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the annual fixed fee established by the Shareholders' Meeting of 27 May 2014 (€ 35,000) under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Director; the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the annual fixed fee established by the Shareholders' Meeting of 27 April 2017 (€ 35,000) under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Director.
	Col. 2	The amount comprises: the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the fee for the position of Member of the Appointments Committee (€ 40,000); the pro-rata amount, for the period from 1 January 2017 to 27 April 2017, of the fee for the position of Coordinator of the Related-Party Transactions Committee (€ 50,000); the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the fee for the position of Chairman of the Audit and Risk, Corporate Governance and Sustainability Committee (€ 60,000); the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the fee for the position of Member of the Remuneration Committee (€ 40,000).
Elena Vasco	Col. 1	The amount comprises: the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the annual fixed fee, under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Director, established by the Shareholders' Meeting of 27 April 2017 (€ 35,000).
	Col. 2	The amount comprises: the pro-rata amount, for the period from 27 April 2017 to 31 December 2017, of the fee for the position of Member of the Audit and Risk, Corporate Governance and Sustainability Committee (€ 40,000).
Riccardo Schioppo	Col. 1	The amount comprises: the pro-rata amount for the period from 1 January 2017 to 27 April 2017 and the pro-rata amount for the period from 27 April 2017 to 31 December 2017 of the annual fixed fee, under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Chairman of the Board of Statutory Auditors, established respectively by the Shareholders' Meeting of 27 May 2014 (€ 55,000) and by the Shareholders' Meeting of 27 April 2017 (€ 55,000).
Vincenzo Simone	Col. 1	The amount comprises: the pro-rata amount for the period from 1 January 2017 to 27 April 2017 and the pro-rata amount for the period from 27 April 2017 to 31 December 2017 of the annual fixed fee, under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Statutory Auditor, established respectively by the Shareholders' Meeting of 27 May 2014 (€ 45,000) and by the Shareholders' Meeting of 27 April 2017 (€ 45,000).
Maria Alessandra Zunino de Pignier	Col. 1	The amount comprises: the pro-rata amount for the period from 1 January 2017 to 27 April 2017 and the pro-rata amount for the period from 27 April 2017 to 31 December 2017 of the annual fixed fee, under the terms of Art. 2389 paragraph 1 of the Italian Civil Code, for the position of Statutory Auditor, established respectively by the Shareholders' Meeting of 27 May 2014 (€ 45,000) and by the Shareholders' Meeting of 27 April 2017 (€ 45,000).

Table 3B

## Monetary incentive plans for Directors, General Managers and other Senior Executives with Strategic Responsibilities

A	B	1	2			3			4
NAME AND SURNAME	OFFICE	PLAN	YEARLY BONUSES			BONUSES FOR PREVIOUS YEARS			OTHER BONUSES
			(A) PAYABLE/ PAID	(B) DEFERRED	(C) DEFERRAL PERIOD	(A) NO LONGER PAYABLE	(B) PAYABLE/ PAID	(C) STILL DEFERRED	
Matteo Del Fante	Chief Executive Officer	2016-2018 LTI Plan (GM)		€ 550,000.00	(*)			€ 550,000.00 (^)	
(II) Remuneration from subsidiaries and associates									
(III) Total				€ 550,000.00				€ 550,000.00	
Luigi Ferraris	Chief Executive Officer								
		2017 MBO (CEO)	€ 200,000.00						
		2017 MBO (GM)	€ 450,000.00						
(I) Remuneration in the company that draws up the Financial Statements		2016-2018 LTI Plan (GM)		€ 550,000.00	(*)				
		LTI Plan - 2017-2019 Cycle (GM)		€ 525,300.00	(**)				
(II) Remuneration from subsidiaries and associates									
(III) Total			€ 650,000.00	€ 1,075,300.00					
Senior Executives with Strategic Responsibilities (6)									
		2017 MBO	€ 555,100.00						
(I) Remuneration in the company that draws up the Financial Statements		2016-2018 LTI Plan		€ 801,875.00	(*)			€ 566,250.00 (^)	
		LTI Plan - 2017-2019 Cycle		€ 313,125.00	(**)				
(II) Remuneration from subsidiaries and associates									
(III) Total			€ 555,100.00	€ 1,115,000.00				€ 566,250.00	

(^): Verification of achievement of the objectives associated with the incentive will be carried out by the Board of Directors on the basis of information provided by the Remuneration Committee when approving the Financial Statements at 31/12/2018: the amount in column 2B represents the amount payable at the maximum amount for the year 2016, for achievement of the three-year targets defined in the 2016-2018 LTI Plan).

(\*): Verification of achievement of the objectives associated with the incentive will be carried out by the Board of Directors on the basis of information provided by the Remuneration Committee when approving the Financial Statements at 31/12/2018: the amount in column 2B represents the amount payable at the maximum amount for the year 2017, for achievement of the three-year targets defined in the 2016-2018 LTI Plan).

(\*\*): Verification of achievement of the targets associated with the incentive will be carried out by the Board of Directors on the basis of information provided by the Remuneration Committee when approving the Financial Statements at 31/12/2019: the amount in column 2B represents the amount payable at the maximum amount for the year 2017, that is the first year of the Cycle, for achievement of the three-year targets defined in the 2017-2019 LTI Plan).

The present note was drawn up for the purposes of greater transparency and clarity to the market on what was paid by way of variable incentive (MBO) in Financial Year 2017 and not shown in the present table because the same was compiled adopting an accrual criterion.

In 2017, the Chief Executive Officer and General Manager (Matteo Del Fante) was paid the short-term variable incentive (MBO), based on the performance achieved in reaching the targets foreseen for Financial Year 2016.

Specifically, Matteo Del Fante was paid the maximum annual variable fee in his capacity as Chief Executive Officer (€ 200,000 gross), on achieving the performance targets assigned for 2016, namely Group EBITDA and Observance of the S.E.L.F. Integration Plan. - Terna (RVH Grid) Integration Plan; please note in this regard, that the MBO bonus established in favour of the Chief Executive Officer is an on/off bonus.

The General Manager (Matteo Del Fante) was paid the maximum annual variable fee (€ 450,000) corresponding to achievement at the maximum level (150%) of the performance targets assigned for 2016, namely Free Cash Flow (with 45% weight), Revenue from Non-Regulated Activities (with 30% weight), Quality of Service (with 15% weight), R&D Projects (with 10% weight).

With reference to the SESRs in relation to the 2016 MBO Plan, paid in 2017, the total amount awarded was € 583,500.

## Scheme 7-ter Annex 3A

### Shareholdings held by Directors, Statutory Auditors, General Managers and Senior Executives with Strategic Responsibilities

#### Shares held by Directors, Auditors, General Managers and Senior Executives with Strategic Responsibilities

Pursuant to the provisions of Art. 84-*quater*, paragraph 4, of CONSOB Resolution No. 11971/99, in the tables below, the shares of TERNA S.p.A. and its subsidiaries are listed held by Directors, Auditors, General Managers (table 1), and by Senior Executives with Strategic Responsibilities (table 2), as well as by not legally separated spouses and under-age children, directly or through subsidiaries, trust companies or third parties, as indicated in the company's shareholder books, in notices received and other information obtained by the members of administration and audit bodies, general managers and Senior Executives with Strategic Responsibilities themselves. Therefore, all those who, in 2017, held positions as Directors, Auditors, General Managers or Senior Executives with Strategic Responsibilities are included.

The number of shares is indicated by name for the members of administration and audit bodies and for General Managers, and cumulatively, for the other Senior Executives with Strategic Responsibilities.

**Table 1**

NAME AND SURNAME	OFFICE	SHAREHOLDING IN COMPANY <sup>1</sup>	NUMBER OF SHARES HELD AT THE END OF THE PREVIOUS YEAR (2016)	NUMBER OF SHARES PURCHASED (IN 2017)	NUMBER OF SHARES SOLD (IN 2017)	NUMBER OF SHARES HELD AT THE END OF FINANCIAL YEAR 2017	OWNERSHIP <sup>2</sup>
<b>Bastioli Catia</b>	Chairwoman of the Board of Directors	TERNA S.p.A.	2,100 <sup>3</sup>	0	0	2,100 <sup>3</sup>	owner
<b>Luigi Ferraris</b>	Chief Executive Officer and General Manager <sup>4</sup>	-	0	0	0	0	-
<b>Del Fante Matteo</b>	Chief Executive Officer and General Manager <sup>5</sup>	-	0	0	0	0	-
<b>Calari Cesare</b>	Director <sup>6</sup>	-	0	0	0	0	-
<b>Cerami Carlo</b>	Director <sup>7</sup>	-	0	0	0	0	-
<b>Corsico Fabio</b>	Director	-	0	0	0	0	-
<b>Dal Fabbro Luca</b>	Director	-	0	0	0	0	-
<b>Giannotti Paola</b>	Director <sup>8</sup>	-	0	0	0	0	-
<b>He Yunpeng</b>	Director	-	0	0	0	0	-
<b>Porcelli Gabriella</b>	Director	-	0	0	0	0	-
<b>Saglia Stefano</b>	Director	-	0	0	0	0	-
<b>Vasco Elena</b>	Director <sup>9</sup>	-	0	0	0	0	-
<b>Schioppo Riccardo Enrico Maria</b>	Chairman of the Board of Statutory Auditors	-	0	0	0	0	-
<b>Simone Vincenzo</b>	Standing Auditor	-	0	0	0	0	-
<b>Zunino de Pignier Maria Alessandra</b>	Standing Auditor	-	0	0	0	0	-
<b>Davide Attilio Rossetti</b>	Alternate Auditor <sup>10</sup>	-	0	0	0	0	-
<b>Pagani Raffaella Annamaria</b>	Alternate Auditor <sup>11</sup>	-	0	0	0	0	-
<b>Mantegazza Cesare Felice</b>	Alternate Auditor	-	0	0	0	0	-
<b>Ricotti Renata Maria</b>	Alternate Auditor	-	0	0	0	0	-

1. TERNA S.p.A. and its subsidiaries.

2. This column - addition to Scheme 7-ter of Annex 3A as set out by art. 84-*quater*, paragraph 4, of CONSOB Resolution No. 11971/99 - shows if the participation is held as ownership, collateral, usufruct, deposit, carry-forward, etc.

3. Of which 2,100 shares held by cohabitant.

4. Director in office since 27 April 2017.

5. Director in office up to 27 April 2017.

6. Director in office up to 27 April 2017.

7. Director in office up to 27 April 2017.

8. Director in office since 27 April 2017.

9. Director in office since 27 April 2017.

10. Alternate Auditor since 27 April 2017.

11. Alternate Auditor up to 27 April 2017.

**Table 2**

NUMBER OF SENIOR EXECUTIVES WITH STRATEGIC RESPONSIBILITIES	SHAREHOLDING IN COMPANY <sup>12</sup>	NUMBER OF SHARES HELD AS OF THE END OF THE PREVIOUS YEAR (2016)	NUMBER OF SHARES PURCHASED (IN 2017)	NUMBER OF SHARES SOLD (IN 2017)	NUMBER OF SHARES HELD AT THE END OF FINANCIAL YEAR 2017	OWNERSHIP <sup>13</sup>
6	-	0	0	0	0	-

12. TERNA S.p.A. and its subsidiaries.

13. This column - addition to Scheme 7-ter of Attachment 3A as set out by Art. 84-quater, paragraph 4, of CONSOB Resolution No. 11971/99 - shows if the participation is held as ownership, collateral, usufruct, deposit, carry forward, etc.



# Glossary

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**Executive Directors:** the CEOs of the Company or of a subsidiary of strategic importance, including Chairmen/Chairwomen thereof when granted with individual management powers or when they play a specific role in the formulation of business strategies; Executive Directors are also those who hold management positions in the Company or in a subsidiary of strategic importance, or in the Parent Company when the position also regards Terna. Finally, Executive Directors are also those Directors who are members of the Executive Committee, when no Chief Executive Officer has been identified or when participation in the Executive Committee, taking into account the frequency of meetings and the subject of related resolutions, actually entails the systematic involvement of its members in the current management of Terna.

**Directors holding special office:** the Chairwoman of the Board of Directors and the Chief Executive Officer.

**Directors not holding special office:** all the Directors with the exclusion of the Chairwoman of the Board of Directors and the Chief Executive Officer.

**Shareholders' Meeting:** the collective decision-making body of the Company. All holders of voting rights (either directly or by proxy) are represented within this body. It has the powers conferred on it by law and by the Bylaws: the main powers are the approval of the Financial Statements, the appointment and removal of Directors, the Board of Statutory Auditors and its Chairman/Chairwoman. With regard to the Remuneration Policy, it expresses a non-binding opinion on Section I of the Remuneration Report.

**Clawback:** contractual mechanisms to allow the Company to request the return, in whole or in part, of the variable components of remuneration paid that were calculated based on results that later turned out to be wrong due to fraudulent conduct or gross negligence by the beneficiary or performed in violation of the reference rules (company, legal and regulatory, etc.), and without which the results would not have been achieved.

**Corporate Governance Code:** as defined by Borsa Italiana in July 2015, this is the "Self-regulatory Code for Listed Companies in Relation to Corporate Governance". The document embodies a number of details about *best practices* on the organisation and operation of listed companies in Italy. These recommendations are not binding, even if listed companies should "keep the market and its shareholders informed about its governance structure and the degree of adherence to the Code".

**Board of Statutory Auditors:** this is the internal supervisory body of the Company, which is attributed the function of supervising the observance of the law and of the Bylaws, compliance with the principles of sound administration, and in particular, on the adequacy of the organisational, administrative and accounting procedures adopted by the Company and its concrete operation. It expresses a mandatory, though not binding, opinion on the definition of the Remuneration Policy for Directors holding special office, which must be taken into account in the decisions taken by the Board of Directors.

**Audit and Risk, Corporate Governance and Sustainability Committee:** established within the Board of Directors on the basis of Principle 7 of the Corporate Governance Code. It is composed of Independent Directors or, alternatively, by at least 3 Non-Executive Directors, the majority of whom are independent, and in this case the Chairman/Chairwoman of the Committee shall be independent. For a description of the functions of the Audit and Risk, Corporate Governance and Sustainability Committee, refer to the Report on Corporate Governance and Ownership Structures.

**Related-Parties Committee:** consists of 3 Independent Directors who were assigned the functions and duties set out by CONSOB Regulation No. 17221/2010. For a description of the functions of the Related-Parties Committee, refer to the Report on Corporate Governance and Ownership Structures.

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**Remuneration Committee:** established within the Board of Directors on the basis of Principle 6 of the Corporate Governance Code. It is composed of Independent Directors or, alternatively, by at least 3 Non-Executive Directors, the majority of whom are independent, and in this case the Chairman/Chairwoman of the Committee shall be independent. For a description of the functions of the Remuneration Committee, refer to the Report on Corporate Governance and Ownership Structures.

**Appointments Committee:** established within the Board of Directors on the basis of Principle 5 of the Corporate Governance Code. It is composed of Independent Directors or, alternatively, by at least 3 Non-Executive Directors, the majority of whom are independent, and in this case the Chairman/Chairwoman of the Committee shall be independent. The Committee that issues opinions to the Board of Directors regarding the size and composition of the Board and makes recommendations regarding the professional figures whom it considers appropriate to sit on the Board.

**Board of Directors (BoD):** the collective body responsible for the management of the Company. The Board of Directors of Terna S.p.A. consists of 9 Directors. It is the body responsible for matters including the approval of the Remuneration Policy proposed by the Remuneration Committee.

**Senior Executives With Strategic Responsibilities (SESs):** these are persons who, directly or indirectly, have the power and responsibility for the planning, direction and control of the Company's operations. For the definition of "Senior Executives with Strategic Responsibilities", please refer to Annex 1 of the Regulations on Related-Party Transactions No. 17221 of 12 March 2010.

**Dow Jones Sustainability Index (DJSI or Index):** the sustainability index published annually by the Company RobecoSAM, consisting of listed companies that are considered the best for sustainability performance and corporate social responsibility (CSR); in this document, specific reference is made to the World index.

**EBITDA:** this is an operating performance measure; it is calculated as the net income for the year before taxes, net financial income (expenses), amortisation, depreciation and impairment, as reported in the Financial Statements.

**Entry level:** minimum level of performance indicators, below which the incentive plans do not provide for any payment of bonuses.

**Gate:** "gate condition" failure to achieve which does not enable the bonus to be paid.

**Key Performance Indicator (KPI):** the indicator used to measure the performance and achievement of previously defined objectives.

**Long Term Incentive Plan (LTI):** the long term incentive plan that provides the individuals involved with a bonus, based on the achievement of long term objectives defined by the Company.

**Management by Objectives (MBO):** the short term incentive plan that enables the individuals involved to receive an annual cash bonus, based on established objectives and agreed on with each participant in the Plan.

**Phantom Stock:** this refers to the "units" that virtually represent a Share and track its value over time, simulating the official price of the stock, whose form of payment is monetary. The number of "units" awarded as a Bonus is linked to specific Performance Objectives.

**Target objective:** the level of achievement of objectives, that entitles the person to receive 100% of the incentive.

**Maximum overperformance objective:** the maximum level of achievement of objectives that entitles the person concerned to a maximum pre-determined percentage, above 100% of the incentive.

**Issuer Regulation:** CONSOB Issuer Regulation No. 11971 of 14 May 1999 (as amended), which contains the rules relating to issuers of financial instruments.

**Regulation on Related-Party Transactions:** the CONSOB Regulation No. 17221 of 10 March 2010 that identifies the rules to ensure transparency and the substantial and procedural correctness of related-party transactions carried out directly by the Company or through its subsidiaries.

**Gross Annual Salary (RAL):** the gross annual remuneration paid, inclusive only of fixed elements of employee remuneration. It excludes benefits paid in accordance with the employment contract and any amounts paid on an occasional basis for reimbursement of expenses, as well as any bonuses and variable components even if defined as guaranteed and/or paid on a one-off or continuous basis, either repeated or deferred, of the share of employee termination benefits and any indemnity provided for by law and by the applicable collective agreement.

**Shareholder:** any shareholder of the Company.

**Stakeholder:** any individual who holds an interest in the Company.

**Consolidated Law on Finance:** this is the Italian “Consolidated Law on Financial Intermediation” i.e. Legislative Decree No. 58 of 24 February 1998 (as amended).

**Total Shareholder Return (TSR):** indicates the total return of an equity investment, calculated as the sum of the following components:

- i) capital gain: ratio between the change in the price of the share (difference between the price recorded at the end and at the beginning of the reference period) and the price recorded at the beginning of the said period;
- ii) dividends reinvested: the ratio between the dividends per share distributed in the reference period and the price of the stock at the beginning of the said period. The dividends are considered reinvested in the stock. The source used for calculating the TSR is Bloomberg.

**Net Income:** an operating performance measure; it is calculated as the difference between revenues and operating expenses net of amortisation, depreciation, write-downs and impairment, net financial income (expenses) and taxes.

**Vesting (vesting period):** with reference to an incentive system, this is the period that runs between allocation and maturation, which is when the right to receive the incentive is earned.









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