Terna

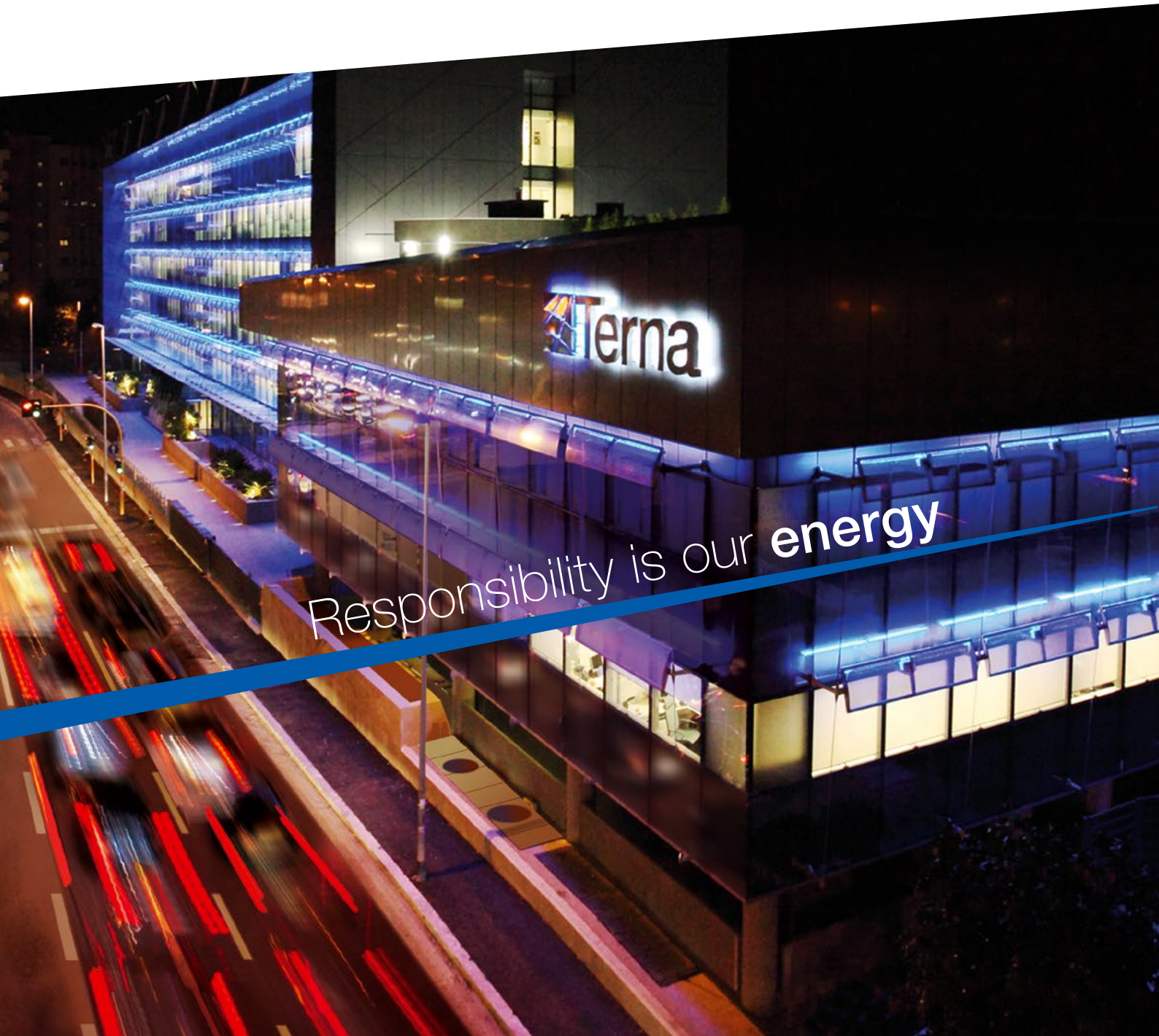
TERNA GROUP

2017

Report on corporate governance and ownership structures

Terna S.p.A.

TRADITIONAL ADMINISTRATION AND MANAGEMENT MODEL



Report on corporate governance and ownership structures Terna S.p.A.

Traditional administration and management model

Issuer: «Terna - Rete Elettrica Nazionale Società per Azioni» (Terna S.p.A.)

Website: www.terna.it

Reporting period: 2017

Date of approval: 21 March 2018

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Executive Summary

Structure and members of bodies

SHAREHOLDERS' MEETING

Board of Directors

Chairwoman	○	△	L
Catia Bastioli	●		ML
Chief Executive Officer			
Luigi Ferraris			ML
Secretary			
Filomena Passeggio			

Directors	€				○	△	L
Fabio Corsico	C		M		●	▲	ML
Luca Dal Fabbro			C	M	●	▲	ml
Paola Giannotti		M		M			ml
Yungpeng He			M		●	▲	ML
Gabriella Porcelli	M			C	●	▲	ml
Stefano Saglia	M	C			●	▲	ML
Elena Vasco		M			●	▲	ML

Board of Statutory Auditors

Chairman	L
Riccardo Enrico Maria Schioppo	ml

Standing Auditors	L
Vincenzo Simone	ML
Maria Alessandra Zunino de Pignier	ML

Alternate Auditor	L
Davide Attilio Rossetti	ml
Cesare Felice Mantegazza	ML
Renata Maria Ricotti	ML

Audit Company

PricewaterhouseCoopers S.p.A.

○ Independence from Consolidated Law on Finance

△ Independence from Corporate Governance Code

L Majority list (**ML**) / Minority list (**ml**)

€ Remuneration Committee

Audit and Risk, Corporate Governance and Sustainability Committee

Appointment Committee

Related-Party Transactions Committee

C: Chairperson - **M**: Member

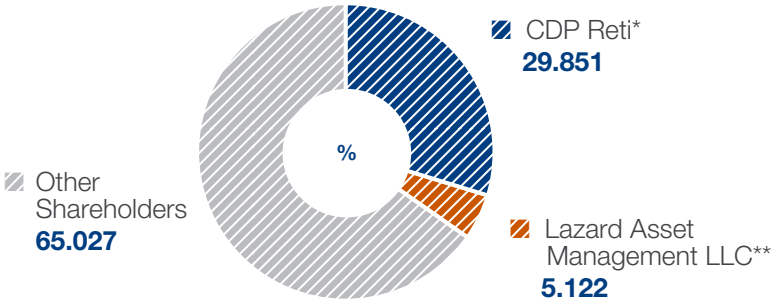
Terna's Shareholders

Terna's share capital at December 31, 2017 amounted to € 442,198,240 fully paid up, represented by 2,009,992,000 ordinary shares, with a par value of € 0.22 each, and was unchanged at the date of this Report. As regards the share capital indicated and based on the Shareholder Register, the information received regarding pursuant to the Issuer Regulations and the information available, Terna Shareholders having holdings in excess of significance thresholds indicated by CONSOB on 31 December 2017 are shown in the chart below. With reference to the above share capital and on the basis of the shareholder register, of the communications received under the terms of the Issuers Regulation and of the information available, the stakes in Terna's shareholdings of an amount over the significance thresholds specified by CONSOB at December 31, 2017, are shown in the chart below. At the date of this report, the situation remains unchanged.

The main shareholder is CDP Reti S.p.A. (CDP Reti), a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. (CDP).

CDP, on the one hand, and State Grid Europe Limited (SGEL) and State Grid International Development Limited (SGID), on the other, on November 27, 2014, **signed a shareholders' agreement** in relation to CDP RETI, SNAM S.p.A. and Terna; this was subsequently amended and supplemented to extend its provisions also in relation to Italgas S.p.A.
Subsequent to the transfer to CDP Reti of CDP's remaining shareholdings in SNAM S.p.A. and Italgas S.p.A., the essential information of the shareholders' agreement were most recently updated on May 23, 2017 and are available on the Terna's website.

SHAREHOLDERS AT THE DATE OF THE REPORT



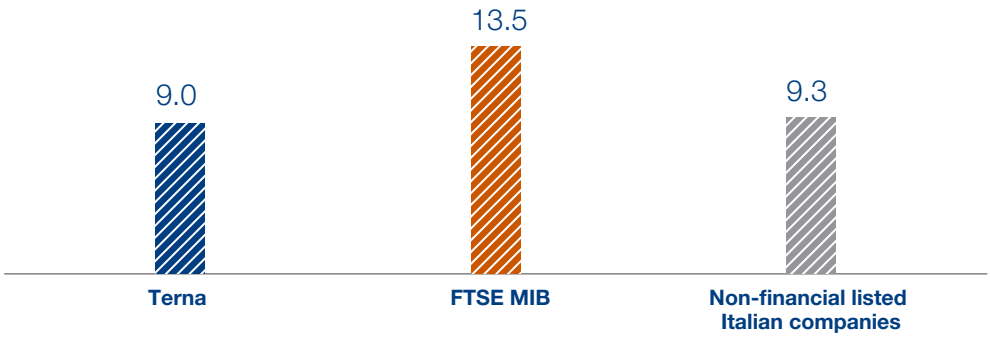
* Subsidiary of Cassa Depositi e Prestiti S.p.A. in turn controlled for 82.77% by the Ministry of Economy and Finance of the Italian Republic, holding no. 599,999,999 shares, equal to 29.851% of the share capital.

** In possession under discretionary asset management of no. 102,959,928 shares, equal to 5.122% of the share capital.

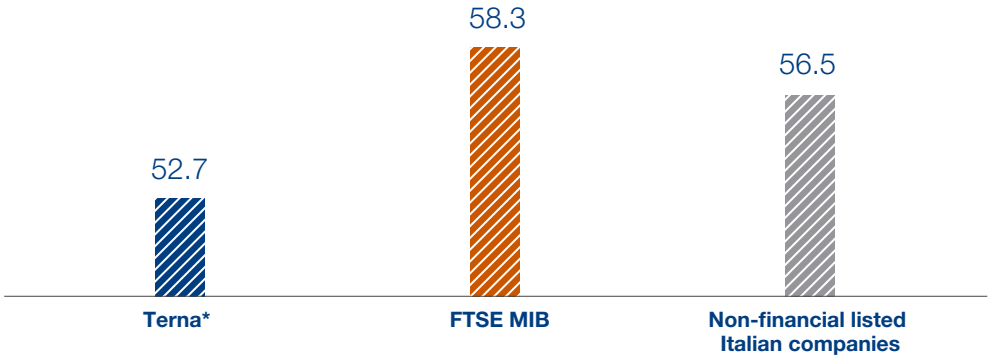
Terna's Board of Directors

Key indicators[1]

SIZE OF THE BOARD



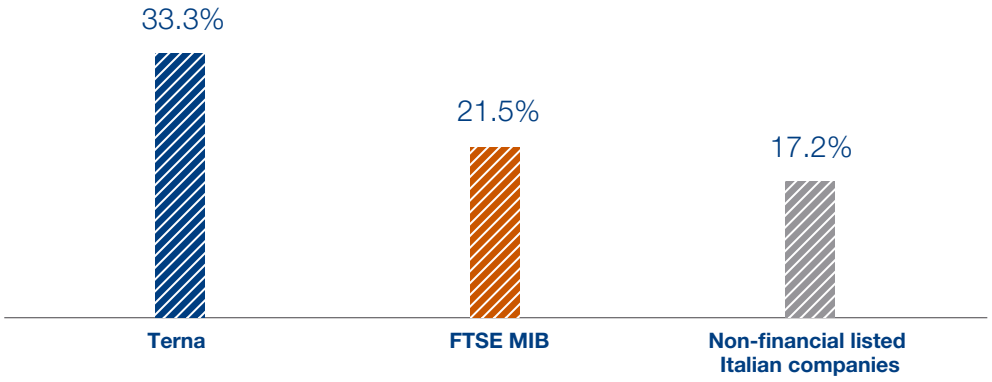
AVERAGE AGE OF THE DIRECTORS



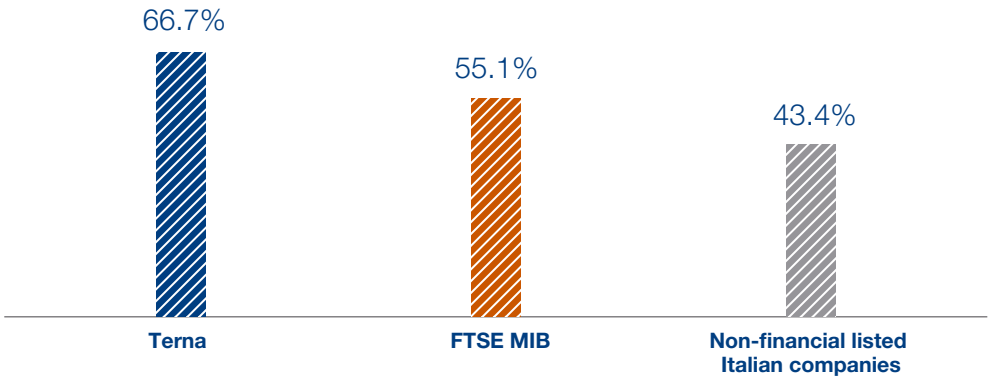
(1) In the charts below, the data on Companies listed in the FTSE MIB index and those on "Non-financial listed Italian companies" and "Listed company directors" are taken from the Assonime-Emittenti Titoli S.p.A. report, Notes and Studies 2/2018, "La *Corporate Governance* in Italia: autodisciplina, remunerazioni e comply-or-explain" (Corporate Governance in Italy: self-regulation, remuneration and comply-or-explain) (year 2017).

* Information updated to the approval date of this Report.

REPRESENTATION OF MINORITIES ON THE BOARD OF DIRECTORS

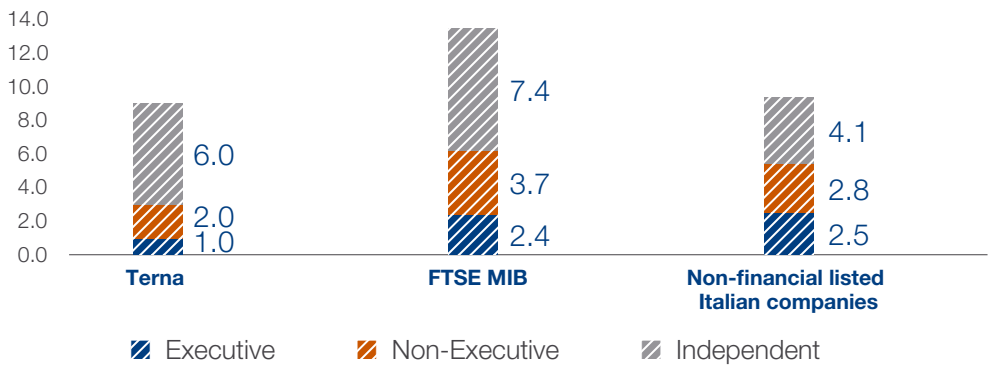


PRESENCE OF INDEPENDENT DIRECTORS [2]

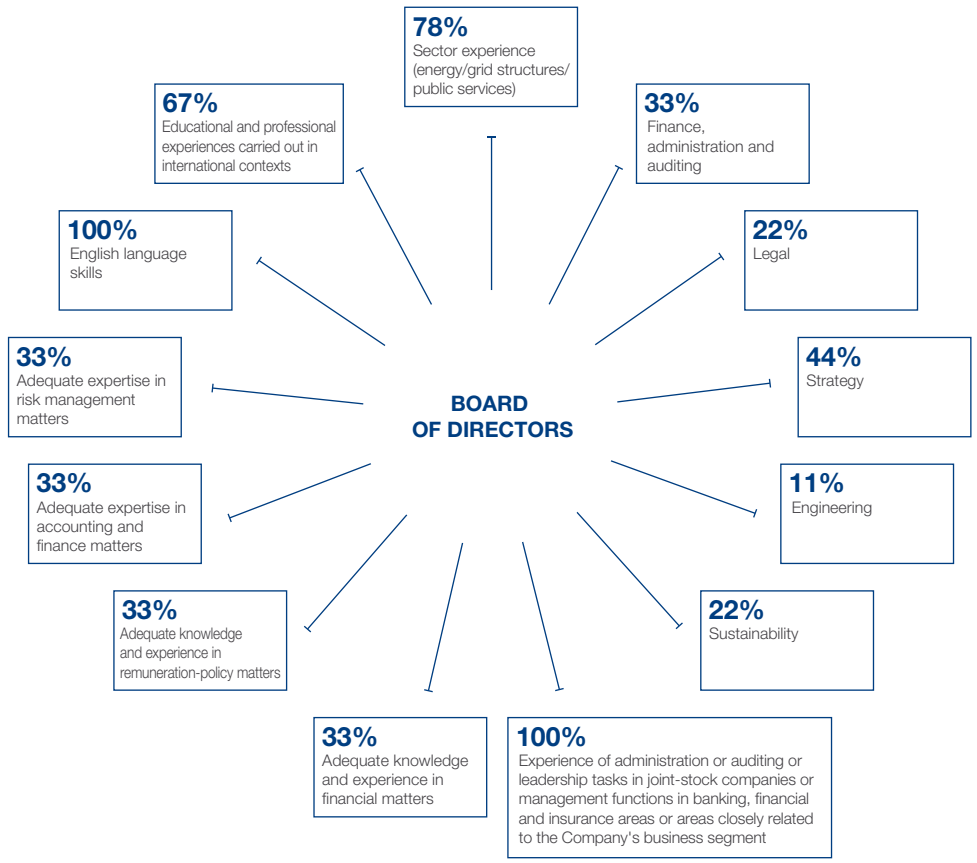


(2) Independence from Corporate Governance Code.

DETAILS OF THE COMPOSITION OF THE BOARD OF DIRECTORS (number and position)

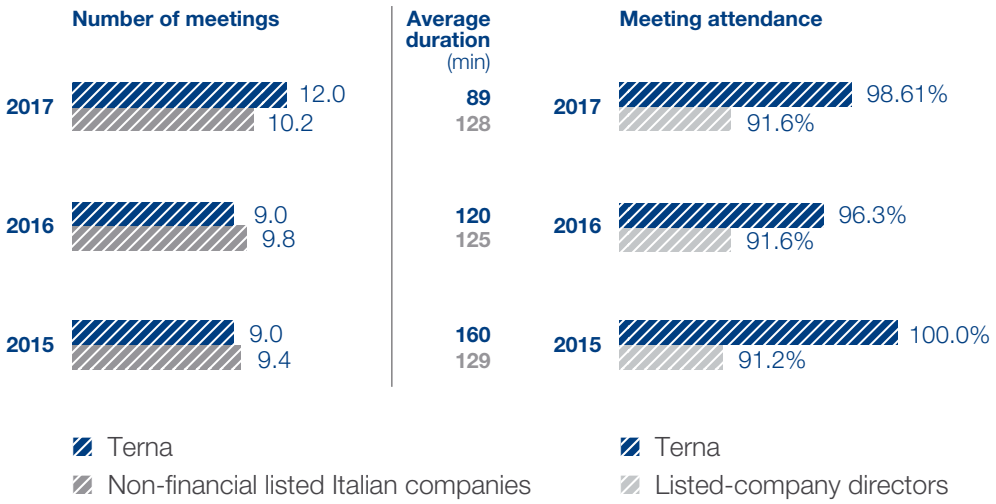


PROFESSIONAL SKILLS OF THE BOARD OF DIRECTORS

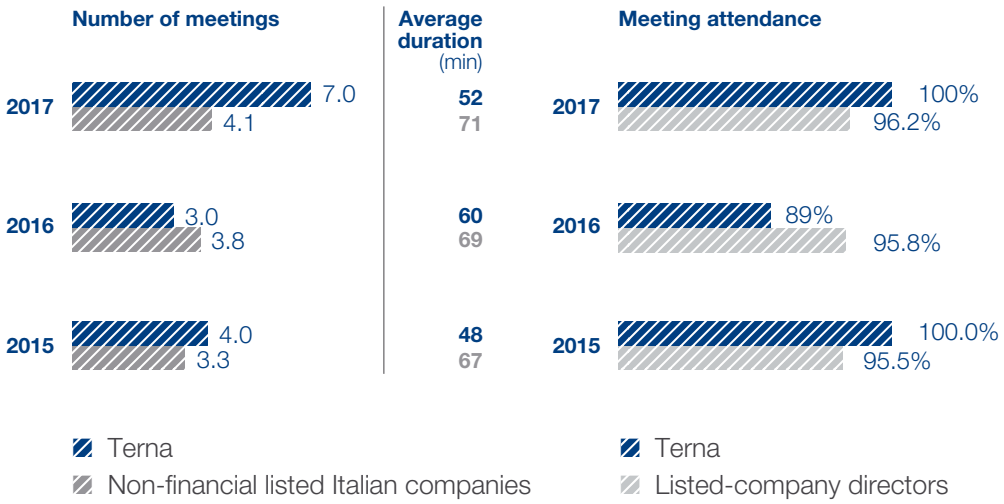


Operation of the Board of Directors

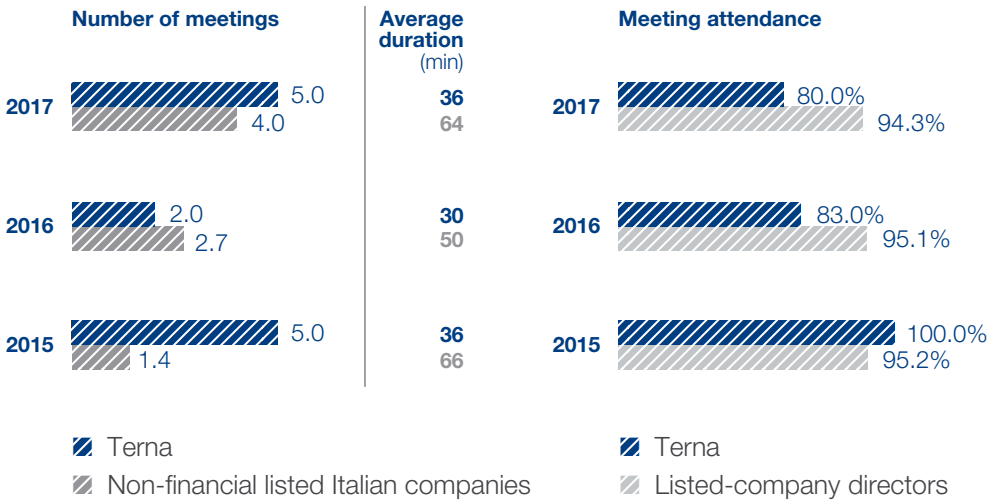
BOARD OF DIRECTORS - NUMBER OF MEETINGS AND ATTENDANCE



REMUNERATION COMMITTEE - NUMBER OF MEETINGS AND ATTENDANCE



APPOINTMENT COMMITTEE - NUMBER OF MEETINGS AND ATTENDANCE



OTHER CHARACTERISTICS OF THE FUNCTIONING OF THE BOARD OF DIRECTORS

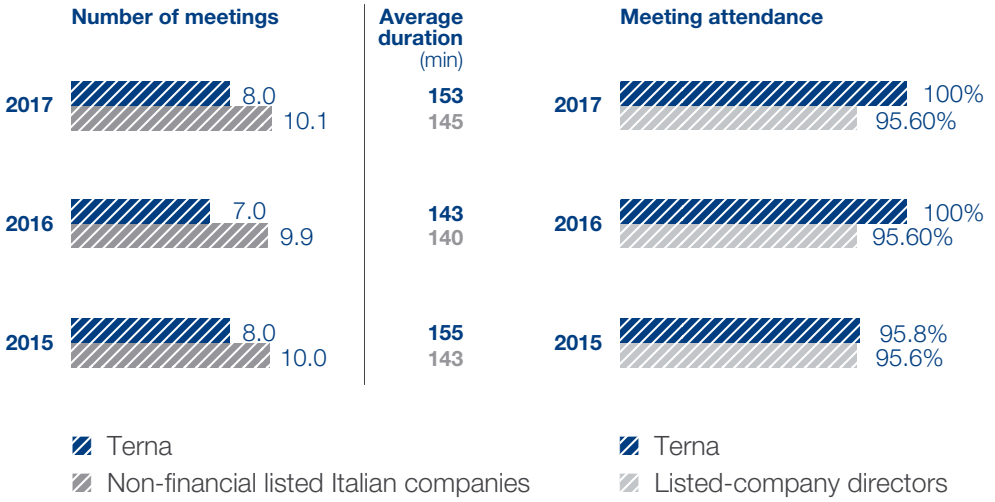
Board evaluation	Yes	
Advice from independent consultants for Board evaluation activities	Yes	Evaluating Body: Management Search*
Induction Programme	Yes	
Guidance on the maximum number of Director or Auditor roles	Yes	

(*) Relative to the Board Review activities carried out by the Board of Directors appointed by the Meeting of 27 April 2017.

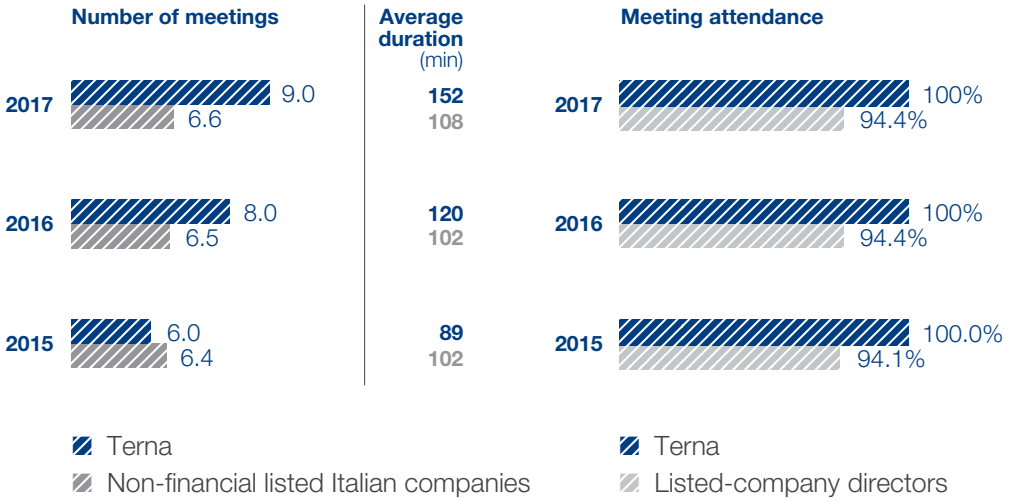
Internal Audit and Risk Management System

Body/Division		Notes
Director in Charge of the Internal Audit and Risk Management System	Chief Executive Officer	
Chief Risk Officer (CRO)	Bernardo Quaranta	Company Corporate Affairs Manager
Internal Audit unit		Internal to the Company
Internal Audit unit Manager	Fulvio De Luca	
Manager charged with preparing the company's financial reports	Agostino Scornajenchi	Administration, Finance, Audit Manager
Supervisory Body	Bruno Assumma (Chairman) Francesco De Leonardis Massimo Dinoia Francesca Covone	External member External member External member Internal member
Audit Company	PriceWaterhouseCoopers S.p.A.	Expiry Shareholders' Meeting for Financial Statements at December 31, 2019

BOARD OF STATUTORY AUDITORS - NUMBER OF MEETINGS AND ATTENDANCE



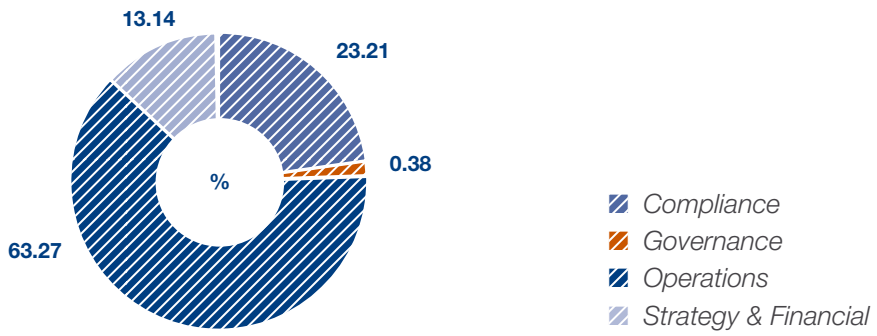
AUDIT AND RISK, CORPORATE GOVERNANCE AND SUSTAINABILITY COMMITTEE - NUMBER OF MEETINGS AND ATTENDANCE



MAIN ELEMENTS OF THE INTERNAL AUDIT AND RISK MANAGEMENT SYSTEM

Elements	Yes/No
Existence of a document containing the guidelines of the Internal Audit and Risk Management System	**Yes**
Existence of a Mandate of the Audit Unit approved by the Board of Directors	**Yes**
Presence of specific organisational structures responsible for the risk management activity	**Yes**
Adoption of an *Enterprise Risk Management Framework* to analyse types of risk	**Yes**
Annual assessment on the compatibility of the business risks with management of the company in keeping with the strategic objectives identified	**Yes**
Preparation of specific compliance programmes (Model 231, Audit Model 262, Integrated Management System, Information Security Governance Model, Privacy Model, Anti-Fraud Methodology Model, Open & Transparent Construction sites, Subcontrac Portal, Whistleblowing)	**Yes**

MAIN RISK CLASSES AND THEIR DISTRIBUTION



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Foreword

Terna S.p.A. ("Terna"), following the launch of the trading in its shares on the MTA stock market organised and managed by Borsa Italiana S.p.A. in June 2004, adopted a system of Corporate Governance in line with the principles contained in the Corporate Governance Code promoted by Borsa Italiana, and progressively approved system adjustments required by later editions of the Corporate Governance Code prepared by the Corporate Governance Committees of the listed companies and promoted by Borsa Italiana - the last of which was July 2015 based on the schedule for adjustment established in the transitional rules - implementing them in order to ensure compliance with the commitments made up until the date of approval of the draft financial statements for FY 2017 according to what is set out below. In so doing, Terna has again asserted its commitment to evaluating and implementing actions, aimed at constantly bringing Terna's Governance system into line with best practices.

Therefore, the Corporate Governance system in place at Terna is in line with the principles of the July 2015 edition of the Corporate Governance Code (hereinafter the "Corporate Governance Code"), as well as the CONSOB recommendations on the subject and, more generally, with the principal applicable international best practices with which the Company compares itself.

This corporate governance system is essentially focused on the objective of creating value for shareholders, and is generally structured to capture and manage the legitimate requests of all parties involved, aware of the corporate relevance of the activities in which the Terna Group is involved and - as noted by CONSOB - "good corporate governance can create a virtuous cycle in terms of efficiency and business integrity, such as to also have a positive impact on the other stakeholders".

The corporate governance system also pays particular attention to Italian and European rules on the subject of functional and/or ownership unbundling that apply to all businesses operating in the electricity and natural gas industries ("Unbundling Legislation"), taking into account the specific nature of the business carried on by Terna and its subsidiaries subject to regulation by the Regulatory Authority for Electricity, Gas and Water (AEEGSI, now known as the Regulatory Authority for Energy, Networks and the Environment (ARERA) on the basis of the changes introduced by Law no. 205 of December 27, 2017, Article 1 paragraph 528.

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

This Report on Corporate Governance and Ownership Structures - prepared in consideration of the instructions provided by Borsa Italiana and the recommendations made in the annual report (2017) of the Corporate Governance Committee of listed companies, as promoted by Borsa Italiana - provides a specific section containing the information required by Article 123-*bis* of Italian Legislative Decree no. 58/98 (the Consolidated Law on Finance), as amended by Italian Legislative Decree no. 254 of December 30, 2016 ("Implementation of Directive 2014/95/EU of the European Parliament and of the Council of October 22, 2014, containing amendments to Directive 2013/34/EU relative to the communication of non-financial information and diversity information by certain companies and certain large groups"), and by Article 144-*decies* of the "Regulation enacting Italian Legislative Decree no. 58 of February 24, 1998, concerning issuer regulations" adopted by CONSOB (Issuer Regulation) and includes a specific attachment that explains the main characteristics of the internal audit and risk management systems existing in relation to the financial disclosure process.

The resolutions on defining the company's Corporate Governance rules are reserved for Terna's Board of Directors. They are to be approved on the proposal of the Chief Executive Officer and are summarised in the present Report which was examined and approved by the Board of Directors at its meeting on March 21, 2018. Any non-compliance with certain specific rules of the Corporate Governance Code - according to the provisions contained in the guidelines of the Corporate Governance Code itself - is explained and justified in the section of the Report regarding the related governance practice and otherwise applied by the Company, describing also, if the decision to deviate was taken differently, the reasons for this, and whether the deviation is limited in time. If need be, the conduct adopted as an alternative to achieve the objective implicit in the recommendation or to contribute to good corporate governance is also described.

All the information included in the report, unless otherwise specified, was updated on the basis of information available as of the date of the Report's approval.

Section I:

Issuer's Profile - Corporate Structure

Issuer's profile

Mission

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

Sustainability

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

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

From the point of view of sustainability, respect for the environment is particularly important. The physical presence of pylons, electricity lines and substations which interact with the landscape and biodiversity represent the most significant impact of Terna's activities. That is why Terna, since 2002, has adopted a voluntary process of preventive involvement of local institutions (regional and local administrations, park authorities, etc.), which since 2015 has also been extended to the citizens of the communities affected by Terna's work, through public meetings known as "Terna meets". These are events aimed at meeting the local populations and explaining to them the development needs of the grid which have led to the need for the work, illustrating the methods of implementing it, and the alternatives identified and, above all, making itself available to collect observations and requests for clarifications. During 2017 Terna held a total of 303 meetings with local administrations, involving approximately 260 Entities and created 13 "Terna meets" events.

Since 2009, Terna's cooperative approach has involved potentially critical stakeholders such as the main environmentalist associations with which it has stipulated partnership agreements, aimed at continuous improvement of the environmental sustainability of the National Transmission Grid, starting from the drafting of the annual Development Plan.

Finally, Terna has developed a management system to control and mitigate the environmental impacts deriving from its business, which has been ISO 14001 certified since 2007.

The results of this management approach, oriented towards continuous improvement through the definition of economic, social and environmental responsibility objectives are presented in the Sustainability Report, first published in 2005, identified by the Code of Ethics as an instrument aimed at providing stakeholders with an account of the degree of implementation of its undertakings, and published yearly since 2006, following approval of the Board of Directors and subject to review by an external auditing firm.

Starting from FY 2017 the Sustainability Report published by Terna has partly changed its nature as a voluntary publication and also takes on the role of "Consolidated Non-Financial Statement", the document that meets the obligations to disclose non-financial information required by Legislative Decree no. 254/2016.

Furthermore, since 2013, Terna has reported sustainability aspects in the Report on Operations - Integrated Report, demonstrating its commitment to complete and transparent communication, to the benefit of all stakeholders.

Terna's responsible approach, its transparency choices and its positive environmental, social and governance results - increasingly relevant in influencing the choices of institutional investors - are recognised through its inclusion, confirmed in 2017, in the main international sustainability indices, such as the Dow Jones Sustainability Index, the Stoxx ESG and the FTSE4GOOD.

Corporate Structure

In conformità a quanto previsto dalla legislazione italiana in materia di società con azioni quotate, In compliance with the provisions of the Italian legislation concerning listed companies, the Corporate Structure - based on the traditional administration and management model - includes the following:

- a Board of Directors (Article 14.1 of the Bylaws) responsible for Company management (Article 21.1 of the Bylaws). To this end, the Board is entrusted with the widest powers so as to complete all the actions that it deems appropriate for the pursuit and the attainment of the Corporate purpose, excluding only the action that the Law and the Bylaws reserve to the Shareholders' Meeting;
- a Board of Statutory Auditors responsible for monitoring: (I) that the Company complies with the Law, the Bylaws and the principles of correct administration in performing Company activities, (II) the adequacy of the Company's organisational structure, Internal Audit System and administrative/accounting system as well as those of the foreign subsidiaries outside of the EU. It is also responsible for carrying out all duties assigned to the Board of Statutory Auditors by Law and by the Corporate Governance Code for listed companies. Pursuant to the provisions of Article 19 of Italian Legislative Decree 39/2010 (as most recently amended by Article 18 of Italian Legislative Decree 135 of July 17, 2016, and based on the schedule according to which the indicated amendments take effect), the Board of Statutory Auditors is responsible for: a) informing the administrative body of the entity subject to auditing of the results of the statutory audit and sending this body the additional report pursuant to Article 11 of European Regulation 537/2014, accompanied by any observations; b) monitoring the financial disclosure process and presenting recommendations or proposals aimed at guaranteeing the integrity of the same; c) supervising the efficacy of the internal audit systems for the company's quality and risk management and, if applicable, internal audit, relative to the financial disclosures of the entity subject to auditing, without violating independence; d) monitoring the statutory audit of the separate financial statements and consolidated financial statements, also taking into account any results or conclusions resulting from quality checks performed by CONSOB, when available; e) verifying and monitoring the independence of the independent audit company, in particular relative to the adequacy of the services provided other than auditing of the entity being audited, in compliance with Article 5 of European Regulation 537/2014; f) the procedure aimed at selecting the independent auditors or independent auditing companies and recommending the independent auditors or independent auditing companies to be appointed pursuant to Article 16 of the cited European Regulation. The Board of Statutory Auditors is also responsible for the supervisory duties assigned to it by Legislative Decree no. 254 of December 30, 2016, which implemented Directive 2014/95/EU concerning non-financial information and information on diversity;
- the Shareholders' Meeting - ordinary and extraordinary - that resolves upon, inter alia, (I) the appointment and revocation of members of the Boards of Directors and of Statutory Auditors and their fees and duties, (II) the approval of the Financial statements and allocation of the profits for the year, (III) the purchase and sale of treasury shares, (IV) amendments to the Bylaws; (V) the issue of convertible bonds; (VI) authorisations for actions carried out by Directors concerning Transactions with Related Parties for which there was no favourable opinion by the competent independent body, in compliance with governing regulations and based on procedures adopted by the Board of Directors as well as on urgent transactions submitted by the Directors to an advisory vote of the Shareholders' Meeting (Article 13.3 of the Bylaws); and (VII) during consultations pursuant to Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance, on Company Policy on matters of remuneration of members of administration bodies, of general managers and of executives with strategic responsibilities:

- an Manager charged with preparing the Company's financial reports, who is given all assignments and responsibilities provided by legislation and regulations as well as those provided for by the Corporate Governance Code (Article 7.C.2).

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

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

In order to ensure independence of the company and of the officer in charge of auditing, the assignment for the statutory audit of the Company's financial statements and that of any company of the Group and of the consolidated financial statements is not in any case given to audit companies that fall within one of the incompatibility scenarios pursuant to Article 17 of Italian Legislative Decree no. 39/2010 and Part III, Title VI, paragraph I-*bis* of the Issuers Regulation.

The Shareholders' Meeting held on May 27, 2014 approved the amendments to Articles 4.1, 10, 14.3, 15.5 and 26.2 of the Company Bylaws, following resolution no. ARG/com 153/11 and resolution no. 142/2013/R/EEL passed by the Italian Regulatory Authority for Electricity, Gas and Water (AEEGSI, now known as the Regulatory Authority for Energy, Networks and the Environment (ARERA) on the basis of the changes introduced by Law no. 205 of December 27, 2017, Article 1, paragraph 528), under which this authority laid down the procedures for the certification of the electricity transmission system operator and adopted the final certification decision for Terna as electricity "transmission system operator" according to the ownership unbundling model.

These changes were implemented for the first time at the Shareholders' Meeting held on June 9, 2015, with reference to the appointment of a Director, who had previously been co-opted by the Board of Directors on January 21, 2015 and, subsequently, also at the Shareholders' Meeting of April 27, 2017, which decided to renew the corporate bodies.

The latest changes to the Bylaws in force at the date of this Report were introduced by the Extraordinary Shareholders' Meeting of Terna held on March 23, 2017, which approved the proposals of the Board of Directors aimed at, in particular, making additions to the regulations which govern list voting for appointment of the Board of Directors and the Board of Statutory Auditors, in the case in which the list that obtains the greatest number of votes does not have a sufficient number of candidates to ensure the number of candidates to be elected is met (Article 14.3 and Article. 26.2 of the Bylaws).

At December 31, 2017, through direct and indirect equity investments, the Terna Group includes 18 subsidiaries (of which 10 Italian), 1 (foreign) joint venture and 3 associates (of which 1 Italian).

Section II:

Information on ownership structures

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

Share capital structure

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

The Company's share capital as of March 21, 2018 amounts to € 442,198,240 and exclusively comprises nominative ordinary shares, for a total of 2,009,992,000 Terna ordinary shares with a face value of € 0.22 each, fully paid-up. Each share gives the right to one vote at both ordinary and extraordinary Shareholders' Meetings observing the limits set by current legislation and by the Bylaws. Ordinary shares grant further administrative and financial rights as provided for by the Law governing shares with voting rights.
Since June 23, 2004, Terna shares have been listed on the Italian stock exchange organised and managed by Borsa Italiana S.p.A., in the Electronic Stock Exchange (*Mercato Telematico Azionario*, "*MTA*") - Large Cap (or Blue Chip) segment comprising the 40 businesses that are most capitalised with the greatest level of liquidity and belong to the *Financial Times Stock Exchange - Milano Indice di Borsa* (FTSE MIB).
Pursuant to Article 5.2 of the Company Bylaws, the Shareholders' Meeting can approve capital increases through share issuance, also belonging to special categories, to be assigned free of charge pursuant to Article 2349 of the Italian Civil Code for employees, or rather as payment, and with the exclusion of the option right under Article 2441 of the Civil Code, in favour of subjects identified by shareholders.
The Company did not issue other financial instruments granting the right to subscribe newly issued shares.
Terna did not issue shares that were not negotiated on regulated markets of a country in the EU.

Significant interests in share capital and shareholders agreements

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

On the basis of the shareholders' book, communications received pursuant to the Issuers Regulation, and available information, and with reference to the Company's share capital as of March 21, 2018, equal to € 442,198,240.00 for a total of 2,009,992,000 Terna ordinary shares with a face value of € 0.22 each, the following investors hold an interest in the share capital in excess of the significance thresholds specified by CONSOB:

- CDP Reti S.p.A. (a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. in which in turn the Ministry for the Economy and Finance of the Italian Republic holds 82.77%), with 29.851% of the share capital;
- Lazard Asset Management LLC, is in possession, based on the discretionary control over 5.122% of the share capital.

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

This shareholding structure remains unchanged compared to that identified on the basis of this evidence, as of December 31, 2017.

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

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

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

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

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

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

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

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

With a letter dated November 11, 2016 CDP communicated to the Company further changes to the agreement made on November 7, 2016 to extend its provisions also in relation to Italgas S.p.A. and to coordinate its content with the provisions of the shareholders' agreement signed on October 20, 2016, which came into force on November 7, 2016, regarding all the shares held by CDP Reti, CDP GAS and SNAM in Italgas. The agreement as amended was filed at the Rome Companies Register on November 11, 2016 (registration date: November 17, 2016), as per the press notice of the same date in the newspaper "Il Sole 24 Ore", and the essential information related to the agreement, to which the reader is referred, were published on the websites of CONSOB and of the Company (www.terna.it, in the Investor Relations section, under "Shareholding Structure and Shareholders' Agreements"). Lastly, following the transfer to CDP Reti of the remaining equity investment held by CDP in SNAM S.p.A. and Italgas S.p.A., the essential information in the shareholders' agreement was last updated on May 23, 2017. This last update only concerned the voting rights of the above equity investments and not Terna's shares held by CDP Reti. According to the provisions of Article 131, paragraphs 2 and 5 of the Issuers' Regulations, upon CDP's request, Terna circulated and stored this update, which is also available on the appropriate section of the Company's website.

The Shareholders' Agreement contains (i) provisions regarding exercise of voting rights in Terna and in CDP Reti pursuant to Art. 122, paragraph 1, of the Consolidated Law on Finance; and (ii) clauses that place limits share transfers pursuant to Article 122, paragraph 5, letter b), of the Consolidated Law on Finance.

The duration of these agreements is set at 3 years from signing and automatic renewal for further periods of 3 years is provided for, subject to termination. If CDP communicates to the Investor its intention not to renew the agreement at least six months before the next expiry, the Investor will have the right to withdraw from CDP Reti.

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

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

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

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

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

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

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

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

Powers to increase share capital and authorization for the purchase of treasury shares (pursuant to Article 123-*bis*, paragraph 1, letter m) of the Consolidated Law on Finance)

At the date of the present report, the Board of Directors has no delegated powers under the terms of Art. 2443 of the Civil Code to increase the share capital, nor authorisations to issue equity instruments or to purchase the Company's own shares under the terms of Arts. 2357 and following of the Civil Code.

Terna does not own, nor has it purchased or sold during the year, including indirectly, treasury shares or shares of its parent company.

Employees' shareholdings: system to express the right to vote

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

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

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

As of March 21, 2018 the Company had not received any notification of the establishment of employee shareholding groups.

Change of control clauses

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

and statutory provisions regarding takeover bids

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

Regarding significant agreements which Terna or any of its subsidiaries are parties of at December 31, 2017, and that come into effect, are amended, or expire in the event of shareholding change within Terna, the following should be noted.

The loan contracts stipulated on December 31, 2017 with the European Investment Bank (EIB) include mandatory advance repayment clauses in the event the Company carries out or is involved in a merger, a split or transfer of a Company branch. Should such events occur, the EIB will have the power to request any information that the latter may reasonably require regarding the Company situation, in order to understand any changes and relative consequences regarding the Company's commitments towards the Bank. In such cases, should the EIB deem, according to its indisputable judgement, that these transactions may have negative consequences on the commitments undertaken by the Company, the bank itself will have the power to request the necessary changes in the loan contracts or alternative solutions that satisfy the Bank itself, such as early reimbursement of the loan.

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

Restrictions on share transfer and shares granting special powers

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

There are no limits in the Bylaws on the free availability of shares, except as already described in the previous section under "Significant interests in the share capital and shareholders' agreements" in relation to the shareholders' agreement signed by CDP, SGEL and SGID and to the provisions of the Bylaws in relation to the rules on the subject of privatisations of Law Decree no. 332 of May 31, 1994 converted with amendments by Law no. 474 of July 30, 1994 and subsequent amendments and additions - the "Privatisation Law".
In particular, pursuant to Italian regulations concerning privatisations, Terna's Bylaws establish a "maximum shareholding limit" - equal to a direct and/or indirect ownership of Terna's shares of more than 5% of the share capital - for subjects other than the Italian Government, public bodies and entities subject to their respective control: application of these provisions, in some circumstances as indicated by the Bylaws, also has effects on voting rights.

The "maximum shareholding limit" (provided for by Article 6.3 of the Bylaws and pursuant to Article 3 of the "Privatisation Law") is calculated also considering total share ownership related to the Parent Company, natural person or legal entity or company; to all direct and indirect subsidiaries as well as the subsidiaries under the same controlling subject; to all associated subjects as well as to natural persons bound by parental or affinity relationships up to second degree and by marriage, providing the spouse is not legally separated. Control occurs, also with reference to subjects other than companies, in cases provided for by Article 2359, paragraphs 1 and 2, of the Italian Civil Code. Association occurs in cases under Article 2359, paragraph 3, of the Civil Code, as well as between subjects who, directly or indirectly, through subsidiaries other than those managing common investment funds, stipulate, also with third parties, agreements related to the exercise of voting rights or to the transfer of shares or portions of third-party companies or, anyway, to agreements or pacts as per Article 122 of the Consolidated Law on Finance, with reference to other companies, if these agreements or pacts refer to at least 10% of the share capital with voting rights, in the case of listed companies, or 20% in the case of non-listed companies. With reference to the calculation of the above-mentioned limit of share ownership (5%), shares owned through trustees and/or through a third party and, generally, through an intermediary are also considered.
This limit established for share ownership - in accordance with the provisions of Article 3, paragraph 3 of the "Privatisation Law" - in any case fails to apply where it is exceeded as a result of a public takeover bid, as long as the bidder, following the offer, holds a stake of at least seventy-five percent of the capital with voting rights regarding the appointment or revocation of directors.
The right to vote related to share ownership exceeding the above-mentioned maximum limit cannot be exercised and proportionally reduces the right to vote of each subject to whom the limit in share ownership refers, except in the event of joint communications by the involved shareholders. In case of non-compliance, the decision can be appealed under Article 2377 of the Civil Code if the requested majority would not be achieved without the votes exceeding the above-mentioned limit. Shares for which the right to vote cannot be exercised are nevertheless included in calculations for the regular formation of the Shareholders' Meeting.

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

On the basis of the provisions of the "Golden Power Decree", parliament in fact laid down new provisions on the special powers of the government "*in relation to strategic activities in the energy, transport and communications industries*", in order to standardise national legislation with the legislation of the European Union, assigning the Government powers of intervention to protect the lawful, essential and strategic interests of the country. The "Golden Power Decree" was last modified by Legislative Decree no. 148 of October 16, 2017, the so-called "Taxation Decree", converted with amendments into Law no. 172 of December 4, 2017).

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

- the issue of specific regulations, to be updated at least once every three years, aimed at identifying "*the grids and systems - including those needed to ensure the minimum provisioning and operations of essential public services, assets and reports of strategic relevance for the national interests in the fields of energy, transport and communication, and the type of acts or operations within a single group to which the regulations of this Article do not apply*". On the basis of the amendments introduced by the aforementioned Taxation Decree, further regulations will have to be adopted for technology-intensive sectors, including: a) critical or sensitive infrastructures, including data storage and management, financial infrastructure; b) critical technologies, including artificial intelligence, robotics, semiconductors, technologies with potential dual-use applications, network security, space or nuclear technology; c) security of supply of critical inputs; d) access to sensitive information or the ability to control sensitive information;
- the obligation to notify the Administrative Coordination Department of the Prime Minister's Office - within 10 days and in any case before implementation - of resolutions, acts and operations adopted by a company holding one or more of the assets as identified above, which result in:
  - changes to the ownership, control or availability of the assets;
  - the change in their purpose, including resolutions of the Shareholders' Meeting or administrative bodies concerning the merger or spin-off of the company;
  - the transfer of the company offices abroad;
  - a change to the company purpose;
  - wind-up of the company;
  - the amendment of any statutory clauses adopted in accordance with Article 2351, third paragraph of the Italian Civil Code, or introduced in accordance with Article 3, paragraph 1 of the "Privatisation Law", as most recently amended by Article 3 of the same Decree;
  - the transfer of the business or a business unit encompassing these assets;
  - the assignment of them by way of guarantee;
  - and the obligation to notify resolutions passed by the Shareholders' Meeting or administrative bodies concerning the transfer of subsidiaries holding said assets;
- the Prime Minister's power to veto adopted - on the proposal of the Ministry for the Economy and Finance and on compliant resolution of the Council of Ministers - on resolutions, acts or operations notified that give rise "*to an exceptional situation, not regulated by national and European segment legislation, of a threat for serious damages to public interests concerning the safety and operation of the grids and systems and the continuity of service provision*". Furthermore, the Taxation Decree introduced a further (and alternative) requirement for exercising these special powers, namely the existence of a danger to security or public order; it was also specified that, in order to determine whether a foreign investment could impact security or public order, consideration should be taken of the circumstances under which the foreign investor is controlled by the Government of a country outside the EU, and "*also through significant funding*". The power to veto can also be exercised in the form of the imposition of specific provisions or conditions where such suffices to ensure the protection of the public interests in relation to the safety and operation of the grids and plants and the continuity of service provision. The veto is announced within 15 days of communication; said terms may be suspended once only for a request for information and until receipt of such, which must be within 10 days.

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

- the obligation to notify the Administrative Coordination Department of the Prime Minister's Office - within 10 days - of acquisitions for any reason, by a subject, whether natural person or legal entity, external to the European Union, or "*which does not have residence, usual place of domicile, registered office or administration or main centre of business in a European Union Member State or State of the European Economic Area or which is not in any case established therein*" of majority shareholdings in companies holding the assets identified as strategic "*of relevance such as to determine the permanent establishment of the buyer by virtue of the assumption of control over the company whose investment has been acquired*". The notice is accompanied "*by all information useful to providing a general description of the acquisition project, the buyer and its operational scope*". In calculating the significant shareholding, consideration is also taken of the investment held by third parties with which the buyer has stipulated shareholders' agreements;

- the power of the Prime Minister, within 15 days from the notification of said acquisitions and to be exercised, at the request of the Ministry for the Economy and Finance, in accordance with paragraph 8 of said Article, and by compliant resolution of the Council of Ministers, sent at the same time to the appointed parliamentary commissions, to:
  - subject the effect of the acquisition to the assumption by the buyer of commitments intended to guarantee the protection of the essential interests of the Government "*in relation to the safety and functioning of the grids and plants and the continuity of service provision*" where the acquisition entails a threat of serious prejudice to said interests, or
  - oppose the acquisition, in exceptional cases of risk to the protection of the mentioned essential interests of the Government, which cannot be eliminated through the assumption of the above commitments.

Once these terms have expired, the operation can be implemented.
Until notification and expiry of the terms for the potential exercise of the special powers relating to the indicated acquisitions, voting rights and other non-capital rights connected with the shares representing the significant investment are suspended, just as such rights are suspended in the event of failure to comply with the commitments set as a condition of the admissibility of the acquisition, for the entire period for which the breach continues. Any resolutions passed with the determining vote of said shares or in any case resolutions or acts adopted in breach or infringement of the conditions set, are null. Any buyer failing to comply with the commitments required is also subject, unless the action is a crime, to the administrative sanctions specified in said "Golden Power Decree".
In the event that the power of opposition is exercised, the buyer may not exercise voting rights and in any case those rights with a different nature to that of the capital rights connected with shares, which represent the significant shareholding. Any meeting resolutions adopted with the determining vote of said shares are null. Shares must be sold within 1 year and, in the event of failure to comply, at the request of the Government, the court orders the sale of said shares.
Without prejudice to the provisions commented on above, the acquisition, on any basis, by a party outside the European Union is permitted at mutual conditions, in compliance with the international agreements signed by Italy or by the European Union;

- the special powers of veto and opposition to acquisitions are exercised on the basis of objective criteria, such as:
  - the existence of connections between the operators involved and: (a) third party countries that do not recognise principles of democracy or the rule of law, which do not comply with rules of international law, or which have presented risk with regard to the international community, given the nature of their alliances; or (b) criminal organisations or subjects or entities connected to them;

- the suitability of the structure resulting from the legal act or the operation to guarantee: (a) the security and continuity of service provision; (b) the maintenance, security and operation of grids and systems.

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

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

Voting Restrictions

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

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

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

With regard to the expression of voting rights in Shareholders' Meetings, one should refer below to "Section XVI: Shareholders' Meetings", regarding provisions in the Bylaws (specifically Art.10.2, Art.14.3 letter f) and Art.26.2) introduced by the Shareholders' Meeting of the Company held on May 27, 2014 (as described in the previous section "Corporate Structure") which highlight potential conflicts of interest for the purposes of Art. 2373 of the Italian Civil Code in compliance with the provisions of Directive 2009/72/EC and Legislative Decree No 93/2011 and Resolution No ARG/com 153/11 and Resolution No 142/2013/R/EEL passed by the Italian Regulatory Authority for Electricity, Gas and Water ("AEEGSI", now known as the Regulatory Authority for Energy, Networks and the Environment, "ARERA", on the basis of the changes introduced by Law no. 205 of December 27, 2017, Article 1, paragraph 528), under which the Authority laid down the procedures for the certification of the electricity transmission system operator and adopted the final certification decision for Terna as electricity "transmission system operator" according to the ownership unbundling model.

Appointment and substitution of Directors and amendments to the Bylaws

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

Appointment, requirements and term of office of Directors

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

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

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

In accordance with the provisions of Article 4, paragraph 1-*bis* of the "Privatisation Law", of Article 147-*ter* of the Consolidated Law on Finance and the implementing regulations of the above-mentioned legislative provisions included in Articles 144-*ter* and following of the Issuer Regulation, the elective system establishes that the lists of candidates can be submitted by the outgoing Board of Directors or by shareholders who, alone or with other shareholders, represent at least 1% of the share capital as provided for by the law - or a lower amount, as established by the law, of the shares with voting rights in the Meeting. For this purpose CONSOB, implementing the provisions of Art. 147-*ter* of the Consolidated Law on Finance and Article 144-*septies* of the Issuers Regulation, has established - with Resolution no. 20273 dated January 24, 2018 and for the year ended December 31, 2017 - the minimum equity interest required for submitting candidate lists to be appointed to Terna's administrative and auditing bodies at 1% of the share capital, taking into account the Company's capitalisation, and without prejudice to any lower stake provided for in the Bylaws.

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

More specifically, the presentation and filing of the lists must take place - in accordance with Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance, at least 25 days prior to the date scheduled for the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Directors.

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

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

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

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

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

As concerns the personal characteristics of the candidates and on the basis of that specified under Articles 2.P.3 and 3.C.3 and in the Comment to Article 2 of the Corporate Governance Code, in the notice convening the shareholders' meeting, shareholders are specifically asked, when preparing lists, to evaluate the characteristics of the candidates, also as concerns their professional characteristics, experience, including managerial experience, and gender, in relation to the dimensions of the Company and specific nature of the sector in which it operates.

Terna's Board of Directors, as better illustrated in Section IV: "Board of Directors - Composition - Diversity Policies", adopted diversity policies with regard to aspects such as age and seniority in office, gender, geographical origin, training, professional and managerial paths, in order to also guide the candidatures put forward by Shareholders during the renewal of the entire Board of Directors or proposals during the integration of its composition, to ensure a qualitative and quantitative composition of the Board of Directors, which will serve the purpose of effectively implementing the tasks and responsibilities entrusted to the management body, through the presence of persons who ensure a sufficient diversity of viewpoints and skills required for a good understanding of current business needs, risks and long-term opportunities relating to corporate activities and the sustainability of the business in the medium to long-term.d a These policies will be invoked in the event of future appointments and renewals and may be disclosed through publishing on the Company's website.

Moreover, in accordance with that specified in the Comment under Article 5 of the Corporate Governance Code, the lists of candidates must also be accompanied by an indication of their potential suitability to be classified as independent, in accordance with Article 3 of said Code. In this regard, together with the lists, according to a specific mention included in the notice convening the meeting, the certification of each candidate must also be filed, at their own responsibility, stating whether they are able to be classified as independent in accordance with Article 3 of said Code.

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

Shareholders presenting a "minority list" are addressees of the CONSOB communication no. DEM/9017893 of February 26, 2009 (concerning the "Appointment of the members of the administrative and auditing

bodies"), which recommends that they file, together with the list, a declaration certifying the lack of any connection pursuant to Article 147-*ter*, paragraph 3 of the Consolidated Law on Finance, setting out the information listed in said communication with regard to the election of the administrative body.

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

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

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

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

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

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

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

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

The Company has put in place a specific internal procedure that defines the criteria for assessing the independence of the non-executive members and for assessing the requirements necessary according to the Bylaws and the Corporate Governance Code ("Criteria of application and procedure for assessing

the independence of Directors pursuant to Article 3 of the Corporate Governance Code"). This procedure, updated with the resolution of December 19, 2012, in line with the provisions of the Corporate Governance Code, provides for the assessment of requirements following appointment, every time events take place that could interfere with the independence of a Director and in any case at least once a year. To this end, Directors are asked for the information necessary to allow the Board to make its assessment. Additionally, considering that established by the Comment of Article 5 of the Corporate Governance Code, it is established that non-executive directors who have declared their independence undertake to maintain that requirement for the entire duration of the appointment, submitting these requisites to verification by the Board of Directors.

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

On the basis of the procedure for appointing the Directors according to the "list voting" mechanism governed by Article 14.3 of the Company Bylaws, the Shareholders' Meeting of Terna on March 23, 2017 approved, in an extraordinary session, some amendments to the Bylaws, relative to the provisions of Articles 14.3 and 26.2, aimed at adding to the list voting regulations for the appointment of the Board of Directors and the Board of Statutory Auditors. The revised provisions were applied for the first time on the occasion of the renewal of the corporate bodies on April 27, 2017. To that end, we report below the procedure for appointment of the Directors based on the list voting mechanism governed by Article 14.3 of the Bylaws.
The procedure to appoint Directors based on the list voting mechanism governed by the Article 14.3 of the Bylaws envisages that each person with the right to vote can only vote one list in the shareholders' meeting. Seven tenths of the Directors to be elected (rounding down, if the proportion results in a fraction of less than one) are taken in the progressive order in which they are listed, from the list that obtained the greatest number of shareholder votes. The remaining directors (equal to three tenths of the remaining total) are taken from the other lists (the "minority lists"), applying, to this end, the specific rules dictated under letters b) and c) of said Art. 14.3.

In addition to the indicated provisions, in the case in which, after voting, the majority list does not have a number of candidates sufficient to ensure the number of candidates to be elected is reached, it is possible to proceed, without further voting, to take from said list all the candidates elected therein, following the progressive order in which they are found on said list and - after having covered the number of positions reserved for the minority lists as indicated in letter b) of Article 14.3 cited above - taking the remaining Directors from the list that obtained the greatest number of votes from among the minority lists (the "First Minority List" in relation to the capacity of said list. In the event of insufficient capacity, the remaining Directors are drawn using the same procedures, from the subsequent list ("Second Majority List") or from those following if need be, in relation to the number of votes and the lists' capacity. Finally, if the total number of candidates inserted on the lists presented, whether in the majority list or the minority lists, is less than the number of Directors to be appointed, the remaining Directors shall be appointed by the Shareholders' Meeting with the majorities provided by law and without observing the list voting procedure, so as to in any case ensure the presence of the required number of Directors holding the independence requirements established under the law and in Article 15.4 of the Bylaws, as well as ensuring compliance with the legislation in effect concerning gender balance.

The "list voting" mechanism is completed, with additional Bylaws provisions (Article 14.3, letters c) and c-*bis*)), aimed at guaranteeing gender balance and the minimum number of independent Directors foreseen under the law and in the Bylaws. These provisions establish that, if, once voting is complete, the requirements laid down by legislation on gender balance should not be met, for the next step is formation of a new decreasing list of all candidates elected on the various lists (including the list that obtained the greatest number of votes) and the replacement of the candidate of the gender most represented but which obtained the lowest level of this list, with the first candidate of the gender least represented and not elected, belonging to the same list as the candidate replaced; this is without prejudice to compliance with the minimum number of independent directors established by the Bylaws.

A similar mechanism is to also be adopted in the case that replacement is necessary on the basis of that foreseen in Article 14.3, letter c) of the Bylaws in the case in which, after voting, the minimum number of independent Directors are not appointed, as foreseen under the law and the Bylaws.

If quotas are equal, without prejudice to the minimum number of independent directors established by the Bylaws, the replacement is taken from the list that obtained the greatest number of votes (to be understood as the list from which the greatest number of candidates were taken, based on the mechanism illustrated). If there are no candidates on that list, based on that already foreseen in Article 14.3, letter c-*bis*) of the Bylaws, the procedure continues with the legal majorities, respecting a proportional representation of minorities in the Board of Directors. If more than one candidate of a different gender to that of the other candidates elected should need to be appointed, the substitution procedure specified is carried out starting from the bottom of the hierarchical list and moving upwards until the requirements of the legislation have been met.

The provisions of the Bylaws aimed at guaranteeing compliance with current legislation on gender balance - already introduced with a resolution by the Shareholders' Meeting on May 16, 2012 - apply, in accordance with the provisions of Article 31.1 of the Company Bylaws, to the first three renewals of the Board of Directors following the entry into force and effectiveness of the provisions of Article 1 of Italian Law no. 120 of July 12, 2011, published in Official Journal no. 174 of July 28, 2011 and in force as from August 12, 2011, without prejudice to any further extensions as may be provided for by law. In particular, these provisions were first applied on the occasion of renewal of the corporate bodies whose office expired on approval of the 2013 financial statements resolved by the Shareholders' Meeting of May 27, 2014 and for the second time at the renewal of the administrative body expired with the approval of the separate financial statements for the year ended December 31, 2016 as resolved by the Shareholders' Meeting of April 27, 2017.

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

For the appointment of directors who, for any reason, are appointed outside of cases of renewal of the entire body, as well as in all other cases in which, for any reason, it is not possible to follow the "list voting" procedure, the Shareholders' Meeting resolves with the legal majorities and in such a way as to in any case ensure:

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

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

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

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

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

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

Succession Plans

Considering the ownership structures of Terna and the concentration of shareholders, the Board of Directors resolved on March 20, 2012 - with reference to the provisions of paragraph VIII of the "Guidelines and transitional regime" in the Corporate Governance Code prepared by the Corporate Governance Committee of listed companies, as promoted by Borsa Italiana in December 2011 which brought forward the disclosure obligations with regard to the provisions of today's Article 5.C.2 of the Governance Code for issuers belonging to the FTSE-MIB index - not to proceed with an assessment of succession plans for the Executive Directors.

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

Amendments to the Bylaws

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

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

a) merger and split, in the cases envisaged by Law;

b) establishment or elimination of other offices;

c) indication of the directors which represent the Company;

d) reduction of the share capital in the case one or more members withdraw;

e) amendment of the Bylaws according to regulations;

f) national transfer of the Company headquarters.

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

Anyone not complying with the provisions relating to notification and veto, unless the action is a crime, is subject to the administrative sanctions specified in the "Golden Power Decree".

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

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

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

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

Management and coordination

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

Additional information and corporate governance practices

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

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

- compliance, (pursuant to Article 123-*bis*, paragraph 2, letter a) of the Consolidated Law on Finance) are illustrated in the section of the Report specifically devoted thereto (section III);
- the principal characteristics of existing risk management and existing internal audit systems in relation to the financial informative note, also consolidated (pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance), and further relevant Corporate Governance practices (pursuant to Article 123-*bis*, paragraph 2, letter a) of the Consolidated Law on Finance) are illustrated in the section of the Report devoted to the internal audit and risk management system (section XI) and in Attachment 1 therein;
- the Shareholders' Meeting activity (pursuant to Article 123-*bis*, paragraph 2, letter c), of the Consolidated Law on Finance) in the section of the Report devoted to the Shareholders' Meeting (section XVI);
- the composition of the Board and the role of the Board Members as well as those relative to the appointment and composition of the audit body and diversity policies in relation to the composition of the Board of Directors and Board of Statutory Auditors (pursuant to Article 123-*bis*, paragraph 2, letters a), d) and dbis) of the Consolidated Law on Finance and 144-*decies* of the Issuer Regulation), are illustrated in the Report in the section devoted to the Board of Directors (Section IV) and in subsequent sections devoted to the Board Internal Committees (Sections VI, VII, VIII and X) and in the sections devoted to the appointment and composition of the Board of Statutory Auditors (Sections XIII and XIV).

Relative to additional corporate governance practices, we also note that - pursuant to Italian Legislative Decree 25 of February 15, 2016 (the "Decree"), which eliminated the requirement to publish interim financial statements on the part of listed companies - Terna, during the course of 2016 and 2017 and in line with the best practices of other companies with listed financial instruments, after a resolution by the Board of Directors and in line with the past, published its consolidated results at March 31 and September 30.

With a press release issued on January 30, 2017, pursuant to article 82-*ter* of the Issuer Regulations (as amended by Consob Resolution 19770 of October 26, 2016) and a subsequent press release issued on January 24, 2018, Terna also confirmed this voluntary policy of transparency relative to the market, indicating its intention to continue - after a resolution by the Board of Directors - to publish its consolidated results at March 31 and September 30 in each financial year, in appropriate interim financial statements that guarantee the consistency and accuracy of the additional periodic financial information disseminated to the public, as well as the comparability of the relative informational elements with the corresponding data found in the interim financial statements previously released to the public.

Section III:

Compliance

The Corporate Governance system in place in the Company, as explained in the introduction, is broadly in line with the principles contained in the Corporate Governance Code for listed companies issued in December 2011 by the Corporate Governance Committee promoted by ABI, ANIA, Assonime, Assogestioni, Borsa Italiana and Confindustria (as updated in the July 2015 edition presented to the Board at the meeting on July 28, 2015 and available on the website of Borsa Italiana S.p.A. *http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm*). Terna accepted this Corporate Governance Code with a Resolution of the Board of Directors on July 24, 2012 as Terna proceeded over time and in line with changes to said Code with amendment of the existing procedures affected by subsequent resolutions of the Board of Directors on December 19, 2012 and also on May 27, 2014, when the Board of Directors was to be renewed following the end of its term of office with the approval of the financial statements for the year 2013 and, subsequently, when updating the Corporate Governance Code as appropriate. In particular, the new recommendations contained in the 2015 edition of the Code were also implemented, as described in this Report.

Further actions aimed at improving the Group's System of Governance are in progress and others will be evaluated to keep the Terna System of Governance continually up to date with best practices and, more generally, with the benchmark best practices found in the international context where the Company operates.

The Company is not subject to non-Italian laws that influence its Corporate Governance structure.

Section IV:

Board of Directors

Composition

In compliance with the shareholders' resolution passed during the ordinary meeting held on April 27, 2017, the Board of Directors numbers nine members, whose term will expire with the approval of the financial statements as of 2019.

The members of the Board of Directors, in accordance with that resolved by the Shareholders' Meeting of April 27, 2017 on the basis of the two submitted lists are: Catia Bastioli (Chairwoman), Luigi Ferraris (Chief Executive Officer), Elena Vasco, Yunpeng He, Fabio Corsico, Stefano Saglia (Directors elected from the majority list drawn up by CDP Reti S.p.A.), Luca Dal Fabbro, Gabriella Porcelli and Paola Giannotti (Directors elected from the minority list drawn up by a group of shareholders made up of asset management companies and other institutional investors as listed in the Company's specific press release relating to publication of the Lists of April 6, 2017).

Further information regarding the lists of candidates submitted and on the results of the voting is available on the Company's website at www.terna.it in the section "*Investor Relations/Corporate Governance / Shareholders' Meetings/Shareholders' Meeting of May 27/04/2017*".

The composition of the Board of Directors has remained unchanged since.

On the basis of the statements made for the appointment, of the vote count and of the end of voting, the composition of the Board of Directors also meets the requirements laid down both, on second application, by the relevant law on the subject of gender balance - as many as four of the members of the Board of Directors are women and five are men - and by Article 147-*ter*, paragraph 3 of the Consolidated Law on Finance, as three members of the Board of Directors appointed by the Meeting on April 27, 2017 were taken from the minority list which obtained the highest number of votes, not connected in any way, even indirectly, with the shareholders that submitted or voted the list that received the highest number of votes.

The Board of Directors consists of executive and non-executive directors and provides for the presence of a Chairman, appointed by resolution of the Shareholders' Meeting of April 27, 2017, in accordance with Article 16 of the Bylaws, and a single executive director, the Chief Executive Officer, appointed by the Board of Directors in accordance with Article 22 of the Bylaws, in accordance with that specified under the following title in this section "Delegated bodies" with suitable competence and professionalism (Articles 2.P.1 and 2.P.4 of the Governance Code).

Terna's Directors are suitably competent and professional (Article 2.P.1 of the Corporate Governance Code).

A brief description of the Board members' professional background is provided below:

- **Catia Bastioli, 60 years old - Chairwoman**
  [born in Foligno (Perugia) on October 3, 1957]

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

She worked on materials science, environmental sustainability and renewable raw materials at the Guido Donegani Institute, Montedison Corporate Research Centre, until 1988. She was one of the founders of the Fertec research centre on renewable raw materials, which then became Novamont S.p.A., a company in which from 2005 to the present she has held the position of Chief Executive Officer and where she has worked since 1991, holding various positions, most notably Technical Manager and later General Manager. Within Novamont she is also Chief Executive Officer of Matrìca S.p.A. (50/50 joint venture with Versalis), Mater-Biotech S.p.A. and is Chairwoman of Mater-Biopolymer S.r.l.

She is a member of the General Council of Federchimica, the Steering Committee of PlasticsEurope Italia and Chairwoman of the Kyoto Club Association. Since May 2013 she has been a Director of the Cariplo Foundation.

She is a member of important Advisory Boards at the European level, namely the High Level Group on Key Enabling Technologies and the Bioeconomy Stakeholders Panel (first term: 2013-2015; second term: 2016 - ongoing), which is the strategic platform of the European Commission whose aim is to support implementation of the Bioeconomy strategy in Europe. Since 2016, she has been a member of the High Level Panel on the Decarbonisation Pathways Initiative, an initiative set up by the EU Commission with the aim of bringing together the main European climate, energy and research policy and decision-makers to address the main challenges and pathways towards the decarbonisation of the EU.

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

Since 2016 she has been a member of the Committee of Experts of Natural Capital for the Ministry of the Environment and the Protection of Land and Sea.

She developed and tested the third-generation Biorefinery model. The author of significant scientific contributions in the form of both publications and international patents, she has contributed to creating an industrial culture particularly sensitive to the problems of environmental impacts and eco-sustainability of production processes and, for these reasons, in 2008 she received the Specialist Degree Honoris Causa in Industrial Chemistry from Genoa University. In November 2016, she was awarded an Honorary Degree in Materials Engineering from the University of Palermo.

She has received numerous awards and recognitions and has been given the title of merit *Cavaliere Al Merito della Repubblica Italiana* by the Italian State. In 2013, she received the "Eureka Prize" for technological innovation and in 2007 the "European Inventor of the Year" award for her inventions related to bioplastics between 1991 and 2001 and for managing to translate her research results into industrial products.

In May 2016 she was also awarded the Panda d'Oro - Diploma for the Conservation of Biodiversity - by WWF Italy for her commitment to research in the bio-economy and circular economy sectors.

In June 2017, she was awarded the honour of "Cavaliere del Lavoro" by the President of Italy, Sergio Mattarella.

- **Luigi Ferraris, 56 years old - Chief Executive Officer**
  [born in Legnano (MI) on February 23, 1962]

He has a degree in Economics and Business from Genoa University. He lectures on "Corporate Strategy" at the Department of Economics of the "Luiss Guido Carli" University of Rome, where he has also been a lecturer for numerous courses, including Energy Management as part of the Masters in Business Administration,

"Business Strategies", "Planning and Control" and "Management Control Systems". Since April 2017 he has been Chief Executive Officer, and since May General Manager, of Terna S.p.A..

He began his career in the auditing sector at PriceWaterhouse in 1988, and from 1990, he held several managerial positions, before working for several leading Italian and international industrial companies, including Agusta, Piaggio VE, Sasib Beverage, Elsag Bailey Process Automation, a company then belonging to the Finmeccanica Group and listed on the NYSE. From 1998 to 1999, he held the position of Chief Financial Officer (CFO) in Elsacom, a Finmeccanica Group company operating in the field of satellite telephony.

In 1999 he joined the Enel Group where, until 2001, he was CFO of Eurogen, Elettrogen and Interpower, generation companies destined for sale as part of the liberalisation process of the Italian electricity market,

and then held several top-management positions in administration of important subsidiaries. In particular: from 2002 to early 2004, he served as Head of Planning, Control, Administration and Services of the "Infrastructure and Networks" and "Market" Divisions; since December 2004 he has been the Sole Director of ENEL Servizi, a company of which he was Chairman with operational powers from 2007 to March 2014; From 2004 to 2005, he served as Head of Planning and Control of the ENEL Group and from June 2005 Director of the Administration, Planning and Control Function; from June 2009 to November 2014, he was CFO of the ENEL Group, leading Enel Green Power S.p.A., a company of which he was Chairman from 2009 to 2014, during the listing process, as well as in all the important Group capital market activities, including the rationalization of the Latin American subsidiaries, Strategic Planning and M&A operations. From November 2014 to January 2015 he held the positions of Head of the Latin America Area and CEO of Chilean Enersis S.A., the Group's investment leader in the area. Within the listed companies of the Enel Group, from 2007 to December 2014, he served as a Director of Endesa S.A., a company listed on the Madrid Stock Exchange, from May 2013 to November 2014 he was a Director of the Chilean subsidiary Enersis S.A., a company listed on the Santiago de Chile Stock Exchange and the NYSE.

In February 2015, he joined Poste Italiane Group, and as CFO, led its listing on the stock exchange. Within the Poste Italiane Group, he also successfully launched and implemented the Group's Management Control and Risk Management operations and was a Director of Banca del Mezzogiorno-Mediocredito Centrale. He has also served as a Director on the Board of Gruppo PSC S.p.A., a leading company in Italy in the infrastructure plant engineering sector, as well as for ERG S.p.A.

- **Fabio Corsico, 44 years old - Director**
  [born in Turin on October 20, 1973]

He has a degree in Political Science, is a manager, and has held prestigious public positions and management positions in important Italian companies. Since February 2005 he has been External Relations, Institutional Affairs and Development Manager of the Caltagirone Group within which he is also a Director of Cementir Holding S.p.A. In addition, he is Director of "Il Gazzettino", of NTV and, since 2009, has been Senior Advisor for Italy at Credit Suisse. Furthermore, he is a Director of the CRT Foundation (of which he is Chairman of the Investments Committee) and Deputy Chairman of the Sviluppo e Crescita (Development and Growth) Foundation, as well as Deputy Chairman of Equiter, an investment fund invested in by Banca Intesa, Compagnia di San Paolo and the CRT Foundation. He has been a Director of Terna S.p.A. since May 2014 and Chairman of the Remuneration Committee and member of the Appointment Committee since April 27, 2017. Up until April 27, 2017 he was a member of the Related-Party Transactions Committee and the Remuneration Committee of Terna S.p.A.

Among his past professional experience we can mention: his role as head of the Technical Secretariat of the Ministry for the Economy and Finance (2001) and member of the Committee for the Introduction of the Euro, the work on preparing international dossiers carried out within the Ministry of Defence at the Office of the Diplomatic Advisor of the Minister and at the Military Strategic Studies Centre (1997), and, in Enel, the role of head of Institutional Affairs, Relations with the Territory and Relations with Confindustria (2003).

From 1998 to 2001 he worked for Olivetti/Mannesmann, at the Company Infostrada in the communication and Human Resources sectors, before taking on the role of Public Affairs Manager. In the same period he represented the Company in Assinform and AIP.

He was a member of the Board of Directors of Grandi Stazioni S.p.A. (2007-2016) and led the process of strengthening and subsequently privatising the company together with the CEO of FS, on the account of Eurostazioni (Pirelli, Benetton, Caltagirone). He was also a member of the Board of Directors of Avio (2009-2010), Biverbanca and Consum.it (2008-2012), Alleanza Assicurazioni (2009-2011) Alleanza Toro Assicurazioni (2011-2013), CUIEM-CRT (2010-2013), the Teatro Regio of Turin (2010-2013), Energia (2012-2014), Perseo (2013-2014), and Chairman of Orione Investimenti (2010-2012).

He was a founding member of Aspen Junior Fellows, the Council for the United States and Italy Juniors and is on the Board of Rivista Zero and Rivista Formiche. He is the administrative director of the Centro Studi Americani. He has edited a number of publications for the Franco Angeli's Strategic Studies series and on the subject of banking foundations. He is the co-author of a text for "il Sole 24 Ore" on business management and management decisions in family run businesses.

- **Luca Dal Fabbro, 52 years old - Director**
  [born in Milan on February 8, 1966]

He graduated in Chemical Engineering from Rome "La Sapienza" University with full marks. He obtained a Master in International Policy at the Université Libre de Brussels and completed the Advance Management course at the MIT Sloane School of Management in Boston. He is CEO of GRT Group S.A., a leading Swiss company in the circular economy and green tech, and he has been Chairman of the companies Proil S.r.l. In 2018 he was appointed as an independent Director in Buzzi Unicem S.p.A. He has been a member of the Board of Directors and Chairman of the Appointment Committee of Terna S.p.A. since May 2014 and a member of the Related-Party Transactions Committee since April 27, 2017. He was a member of the Audit, Risk, Corporate Governance and Sustainability Committee of Terna S.p.A. until April 27, 2017. He is a director in Tamini Trasformatori S.r.l.

In the area of associations, he is a Member in Italy of the Advisory Board of Aspen Friends Association. Since 2016 he has been an adjunct professor at LUISS University in Rome.

He gained significant experience in the electricity and gas industry as well as in the infrastructure, finance and industrial sectors, with long periods working abroad (Brussels, London, Lausanne, Beijing). In particular, as the Chairman he supervised the listing of Electro Power Systems S.A. on the Paris stock market (2015).In the E.ON Group he has held important positions, including Chief Executive Officer of E.ON Italia S.p.A. (2009-2011) and previously in companies responsible for marketing and services: Chief Executive Officer E.ON Energia S.p.A., Director of AMGA - Azienda Multiservizi S.p.A. and Chairman of Somet, a company working in the sale and distribution of gas. Within the Enel Group, of which he was also Marketing Manager - Market Division of Enel S.p.A. (2001-2009), he was Chief Executive Officer of Enel Energia S.p.A., Director of Enel Gas S.p.A. and Marketing, Development and Structuring Manager of Enel Trade S.p.A. In the international context he also worked for Enron Capital & Trade as Development Manager London (1999-2001) and, in the Tenaris Group, he was Strategic Marketing and Development Manager of Techint S.p.A. (1997-1999).

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

In 2017 he published the book "L'economia del girotondo", on circular economies and climate change.

- **Paola Giannotti, 55 years old - Director**
  [born in Alessandria on July 13, 1962]

Degree with honours in Political Economics from the Bocconi University in Milan. She specialised in finance at Universität zu Köln (Cologne, Germany) and the New York University. She is an independent Director in EPS Equita PEP SPAC S.p.A. Since 2016 she has been a member of the Supervisory Board, Chairperson

of the Risk Committee and member of the Related Parties Committee of UBI Banca S.p.A. She has been a Director and member of the Audit and Risk, Corporate Governance and Sustainability Committee, as well as of the Related Party Transactions Committee of Terna S.p.A. since April 27, 2017.
From 2015 to 2016 she served as Director and member of the Audit and Risk Committee, with functions also in the Related Party Transactions Committee, at Ansaldo STS S.p.A.
She has held various managerial positions throughout her thirty years of experience both in Italy and internationally, including in the financial sector, in the corporate and investment banking area, working in corporate finance, as well as in the capital-markets, extraordinary-operations and project-financing sectors. Her experience includes the role of financial analyst at Montedison (1986-1987), at Sviluppo Finanziaria in Milan (1988-1989), and as business analyst at The Mac Group (1987-1988). From 1989 to 1998 she first worked for Morgan Stanley at their London office as a Corporate Finance Analyst, and then as Country Head for Portugal, as well as in New York in the equity capital markets sector and in Milan for the development of Italian clients. Subsequently, from 1998 to 2001, she served as Managing Director at Citigroup London, responsible for Italian Investment Banking activities in Italy, and from 2001 to 2003, at Dresdner Kleinwort Wasserstein in London, as Managing Director, responsible for the Bank's activities in Italy, as a member of the European Managing Director Committee and European Country Head Board, and member of the Board of Directors of Dresdner Kleinwort Wasserstein SGR. At BNP Paribas in Milan from 2003 to 2013, she was Managing Director responsible for the management and development of the Strategic Customer portfolio, which included Terna S.p.A., and had responsibility for the energy, gas and oil sectors. She was also a member of the Italian Executive Committee and the European Senior Banker Committee.

- **Yunpeng He, 53 years old - Director**
  [born in Baotou City (Inner Mongolia, China) on February 6, 1965]

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

He currently holds the position of Director of CDP Reti S.p.A., Snam S.p.A., Italgas S.p.A. and IPTO S.A.. Since January 21, 2015 he has been a Director di Terna S.p.A. and since April 27, 2017 a member of the Appointment Committee of Terna S.p.A.

He served as the Deputy General Manager of the State Grid Corporation of China European Representative Office from January 2013 to December 2014. He has also held the following main positions in the State Grid Tianjin Electric Power Company: Vice Chief Technical Officer (CTO) from December 2008 to September 2012, Manager of the economic and legal department from June 2011 to September 2012 Manager of the planning and development department from October 2005 to December 2008, Manager of the planning and design department from January 2002 to October 2005, and Chairman of the Tianjin Electric Power Design Institute from June 2000 to January 2002.

- **Gabriella Porcelli, 53 years old - Director**
  [born in Rome on March 10, 1965]

A lawyer and industrial business manager, she has a degree cum laude in Law from Rome "La Sapienza" University with a Master in Common Law ("European Young Lawyers Scheme" promoted by the British Council). She later completed further study of an international nature and in the field of commercial and company law. From 2009 to 2017 she was Legal Affairs Manager (Senior Counsel Italy) of Philip Morris Italia S.r.l. (Philip Morris International Group). Director of the Italian Association of Company Lawyers (Associazione Italiana Giuristi d'Impresa - AIGI) and a member of the Competition Committee of the International Chamber of Commerce - Italian Section. She is also a member of the Nedcommunity association (Italian Association Non-Executive and Independent Directors), and the ACC - Europe (Association of Corporate Counsel) as well as a member of the Association of Women Corporate Directors (WCD) and Deputy Chairwoman of Associazione Valore D. She teaches on the Master in Company Law at the Rome LUISS University. Since

May 27, 2014, she has been a Director of Terna S.p.A. and a member of the Remuneration Committee and since April 27, 2017 she has been the Coordinator for the Related-Party Transactions Committee, a committee of which she was previously a member.

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

- **Stefano Saglia, 47 years old - Director**
  [born in Milan on February 1, 1971]

A strategic consultant in the industrial and financial sectors, he has worked for the company "2S CONSULTING S.r.l." since March 2013. He is a professional Journalist registered with the Order of Journalists of Lombardy, and an accountant. Currently he is also a member of the Experts Group of the Ideas for Sustainable Development Committee of ENEA and of the Scientific Committee of the Magna Carta Foundation. Since 2015, he has been the Secretary General of the Associazione Parlamentari per lo Sviluppo Sostenibile (Association of MPs for Sustainable Development). He has been a member of the Board of Directors of Terna S.p.A. since May 2014, and from April 27, 2017, has been Chairman of the Audit and Risk, Corporate Governance and Sustainability Committee of Terna S.p.A., as well as a member of the Remuneration Committee. Up until April 27, 2017, he was Chairman of the Related-Party Transactions Committee and member of the Appointment Committee of Terna S.p.A.

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

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

- **Elena Vasco, 53 years old - Director**
  [born in West Hartford (USA) on December 13, 1964]

Degree with honours in Economics and Business from the "Federico II" University of Naples in 1989 and Masters in Economic Science from the Northeastern University of Boston (USA) in 1991.

Since May 2015 she has been Secretary General of the Milan Chamber of Commerce, where she has worked since 2009, starting as Head of administration, finance, control, purchasing and logistics. She has been a Director and member of the Audit and Risk, Corporate Governance and Sustainability Committee since April 27, 2017.

She has been an independent Director of Parmalat S.p.A. since February 2016 and of Dea Capital S.p.A. since April 2016, both of which she is Chairperson of the Appointments and Remuneration Committee and since April 2017 she has also been Chairperson of the Appointments and Remuneration Committee of Fiera Milano S.p.A.

Previously, from 1992 to 1997, she worked for Mediobanca Servizio Partecipazioni e Affari Speciali (consulting, M&A and corporate finance), providing consulting services to companies in extraordinary finance operations, and from 1997 to 2002, she was responsible for the Strategic Planning and Control Department of Holding di Partecipazioni Industriali S.p.A. From 2002 to 2003 she was Chief Executive Officer of RCS Broadcast, also serving on numerous Boards of Directors of Group Companies, and from 2003 to 2004 she was Head of the Strategic and Special Affairs Department of RCS MediaGroup S.p.A.

From 2006 to 2009 she was Chief Financial Officer of Milano Serravalle Milano Tangenziali S.p.A. and Chairperson of the motorway operator, Sabrom.

Among her previous experiences she has been a member of the Boards of Directors of: RCS Editori, Valentino, GFT, RCS Libri, Rai Sat, Isagro, Banca Carige, Gtech, Orizzonte SGR and was a member of the Expo 2015 Liquidation Board.

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

The evaluation regarding the existence of the independence requirements for each of the non-executive members was made, taking into account the information provided by each individual, during the appointment and during the meeting held on March 21, 2018 according to the terms stated in the following paragraph "Independent Directors" (Art. 3.P.2 of the Corporate Governance Code).

Table 1 attached gives information on the members of the Board of Directors as at March 21, 2018 (Articles 1.C.1 letter i)-(1) of the Corporate Governance Code and 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).

Diversity policies

Terna manages all its activities with a sustainable approach, which is based on the company's mission and Code of Ethics. In concrete application of the guidelines set out in the Code of Ethics, Terna adopts selection, development and remuneration systems for personnel that recognise and reward merit and performance. Any form of discrimination, starting from the Company's selection process, is expressly prohibited.

These values also act as a reference point for the members of Terna's Board of Directors and Board of Statutory Auditors.

In this context, - as set out in the above Section II, under "*Appointment, requirements and term of office of Directors*" - Terna's Board of Directors, at its meeting of February 20, 2018, on the proposal of the Appointment Committee and the Audit and Risk, Corporate Governance and Sustainability Committee and after consulting the Board of Statutory Auditors,therefore decided to adopt diversity policies with reference to the composition of the Board of Directors, considering aspects such as age and seniority in office, gender, geographical origin, as well as training and professional paths, directed at:

- Shareholders, who pursuant to the law and Bylaws, wish to submit candidate lists for the appointment of the Board of Directors;
- the Shareholders' Meeting called to appoint the Board of Directors;
- the "outgoing" Board of Directors of the Company, in the event that - when renewing the Board of Directors - it wishes to present its own candidate list;

- the Board of Directors of the Company, as well as for Shareholders, in the event that - during their term of office - a member of the Board of Directors has to be replaced, pursuant to Article 2386 of the Italian Civil Code.

In drawing up these policies, Terna has taken into account: (i) the nature and complexity of the company's activities, the social and environmental context in which the Company operates, the experience gained by the Board with regard to the operating activities and procedures of the Board and its Committees; (ii) the results of the self-assessment processes carried out in recent years, as well as (iii) the provisions of Article. 123-*bis* of the Consolidated Law on Finance, updated by Legislative Decree no. 254 of December 30, 2016, published in the Official Gazette of January 10, 2017 and (iv) the "Guidelines on non-financial reporting (Methodology for reporting non-financial information)" published by the European Commission on July 5, 2017 (Communication 2017/C 215/01).

The objective of the approved policies (described in the document as "*Policy on the diversity of management and control bodies in Terna S.p.A.*" hereinafter also referred to as the "**Policy**" or the "**Diversity Policy**") is to identify the criteria for a qualitative and quantitative composition of the Board of Directors that will ensure the effective performance of tasks and responsibilities assigned to the management body, including through the presence of persons who ensure a sufficient diversity of viewpoints and skills required for a good understanding of current business needs, risks and long-term opportunities relating to the corporate activities.

The main provisions of the Policy relating to the diversity aspects considered by the Board of Directors are set out below:

- Professionalism/managerial skills, independence, competence and experience requirements

  The Policy invokes the application of provisions concerning requirements of professionalism/managerial skills already adopted at a statutory level (in particular Article 15.3 of the Company's Bylaws), as well as statutory provisions concerning the independence of Directors and principles of neutrality and impartiality in management (Articles 15.4 and 15.5 of the Company's Bylaws). It also expressly refers to the recommendations of the Corporate Governance Code, which Terna has already declared to adhere to, relating to both the independence requirements and the skills and experience of the members of the Board of Directors and Committees.

  In addition to the above, it is hoped that the Board of Directors will ensure a combination of diversified skills and experience in the following sectors: energy/network structures/public services; finance, administration and control; law; strategy; engineering; and sustainability.

  It is also hoped that all directors will possess a knowledge of English that will allow them to understand written texts, and, therefore to ensure that resolutions can be passed that directly concern documents in English.

- Age and seniority in office

  The presence of persons of different ages and seniority in the Board of Directors is considered useful, so as to favour the creation of an adequate balance between experience, continuity, innovation and propensity to risk.

- Gender

  In view of current legal and statutory provisions on gender diversity, according to which at least one third (rounded up) of the Board of Directors must be composed of persons of the "less represented" gender, adequate representation of both sexes must be ensured within the Board of Directors.

- Geographical origin and international experience

  The presence of Directors with training and professional experience gained within an international context is recommended, in order to further improve the quality of the Board›s dialectic, considering the presence of the Terna Group at an international level.

The Board of Directors is supported in monitoring the implementation of the Policy by the Appointment Committee and the Audit and Risk, Corporate Governance and Sustainability Committee.
To ensure implementation, the Policy adopted will be referenced at upcoming appointments and renewals and may be published on the Company's website under the section, "*Investor Relations/Corporate*

Governance/Corporate Governance System/Policy on the diversity of management and control bodies in Terna S.p.A".

The choices made in the adopted Policy, including those concerning the size of the Board of Directors, were reviewed and positively assessed during the annual self-assessment of the Board carried out at the meeting held on March 21, 2018, the results of which are reported in Section IV, under "*Assessment of the Board of Directors' Activity*". Based on these assessments, the current composition of the Board of Directors was deemed adequate in terms of sufficient diversity and skills required for a good understanding of current business needs, risks and long-term opportunities related to the corporate activities.

Maximum number of positions in other companies

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

To this end, since February 2007, in compliance with Article 1.C.3 of the Corporate Governance Code in effect at the time, Terna's Board of Directors approved its own guidelines regarding the maximum number of positions as Director or Auditor in significantly large companies that can be held still enabling the efficient performance of the duties as Director of Terna S.p.A. included in the internal document "Guidelines concerning the maximum number of positions that can be held by Directors of Terna S.p.A." requiring the Directors of Terna to consider these before accepting the office. More than 4 years after adoption, following the constant monitoring of the governance choices made by the Company and in line with the practice seen in similar companies, at the meeting of October 7, 2011, the Board of Directors proceeded to review the said guidelines, which, in order to consider the clarifications provided by the Corporate Governance Code in the December 2011 edition, were further updated by the resolution of December 19, 2012 and thus referred to in the "*Attendance Policy*" adopted by the Board of Directors on February 20, 2018, described below, within the scope of this section, in the paragraph, "Board Meetings and the Chairperson's Role".

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

a) companies with shares listed on regulated markets, in Italy or abroad;

b) Italian or foreign companies with shares not listed on regulated markets, and operating in the insurance, banking, brokerage, asset management or financial sectors;

c) other Italian or foreign companies with shares not listed on regulated markets, not operating in the sectors listed in letter b), having net assets exceeding € 1 billion.

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

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

All the Directors in office that were appointed by the Meeting on April 27, 2017 gave details of the positions they held at the time the lists were submitted and subsequently when they accepted their appointment. Based on the updated information delivered to the Company in compliance with the approved guidelines, as of March 21, 2018, all Directors held a number of positions that is compatible with the guidelines set by the Board.

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

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

Induction Programme

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

At the initiative of the Chairwoman in agreement with the Chief Executive Officer, following their appointment as well as during the year 2017, and up to the approval date of this Report, the Directors of Terna, also within the scope of the meetings of Committees constituted within the Board, participated in meetings with the Company's management, which were also attended by the members of the Board of Statutory Auditors. In particular, by virtue of the mandate provided in 2017, the Company organised presentations on Terna's business and organisation by top management, to provide Directors and Statutory Auditors with appropriate knowledge, as well as information about the Company's business sector and the reference regulatory and legal framework. Specific meetings were organised concerning: the corporate governance system and the fundamental governance guidelines in place, with particular reference to the set of rules adopted with regard to corporate disclosure; core business activities with particular reference to the National Transmission Grid Development Plan, to the Defence Systems Improvement Plan for the security of the National Electricity System (the so-called "Security Plan"), and to the regulatory and tariff framework required by ARERA to the interest of the Terna Group. Additional induction sessions are planned in 2018 in terms of risk management and a decision may be made to hold more. Off-site Board sessions are scheduled at Company facilities.

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

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

Role of the Board of Directors

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

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

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

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

- examines and approves the strategic, industrial and financial plans of the company and the Group it heads, regularly monitoring implementation. The current structure of Company powers (approved with a resolution on April 27, 2017) provides that, in particular, the Board of Directors approves the Company's annual budget and long-term plans updated on an annual basis (which include the combined annual budgets and long-term plans of the subsidiaries) (Article 1.C.1, letter a) of the Governance Code). Monitoring is carried out through the regular (quarterly) assessment of the trend of operations and specific Company Performance Management tools (BSC). In 2017, the Board of Directors examined and approved the strategic, industrial and financial plan of Terna and the Terna Group, presented to the market on February 20, 2017 (2017-2021 Strategic Plan) submitted for update, most recently, to the Board of Directors on March 21, 2018 (2018 - 2022 Strategic Plan), thereby pursuing the creation of value for shareholders in the medium/long-term, also taking account of trends and policies in place, in Europe and worldwide for the decarbonisation and circularity of economies. Monitoring was carried out in accordance with the terms specified and according to board meetings to approve the accounts. With regard to the action planned, the Board provides specific guidelines, a description of the objectives, characteristics and application methods of the activity monitoring the business processes and risk analysis, and defines the nature and level of accounting risk with the strategic objectives relating to the implementation of the mission assigned to the company including in their evaluations all those risks that may be significant relative to the medium/long-term sustainability of the Company's business (Articles 1.P.2 and 1.C.1, letter b) of the Governance Code). With regard to this matter, reference should be made to Section XI;
- defines the corporate governance system within the company and provides for appointment, and definition of functions and regulations of the internal committees of the board, as established by the current structure of powers in the company and presented in this Report (Articles 1.C.1, letter a); 7.P.3 and 7.C.1, letter d) of the Governance Code);
- resolves, with regard to the Group structure and regarding the establishment of new companies, the purchase and transfer of shares in companies, namely in companies or company branches with a value exceeding € 30 million, as envisaged by the current structure of powers in the company (Article 1.C.1, letter a) of the Governance Code);
- on the basis of the proposals by the specific Committee, approves Company Policy concerning remuneration of members of administration bodies, general directors and senior executives with strategic responsibilities, which is then submitted to the Shareholders' Meeting for an advisory vote, determines, on the basis of proposals prepared by the Committee itself and/or having heard from the Board of Statutory Auditors when envisaged, the remuneration of the CEO and of other Directors holding special office (Article 6.P.4 of the Governance Code) which it indicates annually in a specific report. With regard to this matter, reference should be made to Section IX. On the basis of the proposals formulated by the specific Committee the Board of Directors also determines: the criteria of a general nature for remuneration of the top management and for the incentive plans for which approval of the Shareholders' Meeting is required;

- constantly evaluates the suitability of the organisational, administrative and accounting structure of the company, defined by the CEO according to the proxies received, and its subsidiaries of strategic relevance (thereby meaning, in accordance with that resolved by the company's Board of Directors on February 22, 2007: a) subsidiaries listed on regulated markets and b) subsidiaries which abroad have a significant share of the segment of core business of the Group) and during the examination of internal procedures on the matter submitted to the Board and the resolutions passed on the various matters submitted to it as also occurred during FY 2017 (Article 1.C.1 letter c of the Corporate Governance Code). With specific reference to the Internal Audit and Risk Management System (as detailed in Section XI below), it defines the relevant guidelines, at the proposal of the Director in Charge of the Internal Audit and Risk Management System and, upon seeking the opinion of the specific Committee (Article 7.C.1, letter a) of the Corporate Governance Code). The evaluation of the suitability of the Internal Audit and Risk Management System of the Terna Group with respect to the characteristics of the business and the risk profile assumed, as well as its efficiency, is carried out at least once a year, after obtaining the opinion of the Audit and Risk, Corporate Governance and Sustainability (Article 7.C.1, letter b) of the Corporate Governance Code). With regard to this matter, reference should be made to Section XI;
- examines and approves transactions with a significant impact on the Company's financial position and results, especially if they are related-party transactions or could otherwise give rise to a potential conflict of interest. This is without prejudice to the powers assigned to the CEO for particularly urgent cases. In particular, in addition to the specific provisions of the special procedure for related-party transactions and the steps taken to identify and manage situations where a Director holds his or her own interest or an interest of third parties regarding a transaction that he or she should evaluate (for which we would refer you to the specific Section XII under "Interests of Directors and related-party transactions") "significant operations" concluded also by means of subsidiaries identified under the scope of a specific internal procedure of the Board ("*Approval of significant transactions and management of situations of interest*", updated on March 31, 2011 and, with particular regard to managing situations of interest, most recently on June 23, 2015 following a favourable opinion of the former Audit, Risk and Corporate Governance Committee - now known as the Audit and Risk, Corporate Governance and Sustainability Committee) are subjected to the prior approval or preventive examination (in case of operations for which the companies directly and/or indirectly controlled by Terna are competent) of the Board of Directors. These operations are identified as: (i) transactions that have as their object, amount and terms/time frames of implementation an impact on safeguarding the company assets or the completeness and correctness of Terna's information also of accounting information and that as such create an obligation for Terna to make available to the public an informative document in compliance with provisions by supervisory authorities of financial markets and/or (ii) financial transactions whose value exceeds € 50 million with the exception for transactions included in the budget and in approved financial plans as well as those regarding dispatching activity and all related services (Article 1.C.1, letter f) of the Corporate Governance Code). In this regard, it is specifically envisaged that the Board of Directors shall receive a suitable disclosure on the methods for implementation of significant operations, on timing and economic conditions for the implementation of such operations, on the evaluation procedure, the interests and reasoning underlying them and on any risks for Terna and its subsidiaries connected with said operations and, moreover, that can use the assistance of one or more independent experts for an opinion on the economic conditions and/or the executive and technical methods of the operation. Board resolutions taken in relation to intragroup transactions are suitably grounded with regard to the motivations for and benefits of the operation. According to the current structure of powers in the company, the Board of Directors is also entitled to pass resolutions on: the reduction of loans, assets and liabilities, in any form, in the medium/long-term, of a value in excess of € 100 million not envisaged by the budget and financial plans approved and not aimed at developing interventions that have already been approved by the Board in the National Transmission Grid Development Plan and/or the Strategic Plan, as well as the issue by the Company of sureties and real guarantees of an amount greater than € 30 million for each operation, not provided for in the budget or in the financial plans approved;

- receives, as does the Board of Statutory Auditors, in accordance with the provisions of Article 21.3 of the Bylaws, constant, complete information from the Chief Executive Officer on the activities carried out in the exercise of the proxies received and in relation to the trend of operations of the company, its foreseeable outlook and the most important operations, summarised on a quarterly basis in a specific report (Article 1.C.1, letter d) of the Governance Code). In particular, with respect to all significant transactions carried out by the Company and its subsidiaries (including any related-party transactions of lesser importance as identified in the specific Procedure adopted by Terna, and which are not exempt from application of the same, which do not require approval by the Board of Directors) the CEO reports to the Board of Directors on the (i) characteristics of the transactions, (ii) the parties involved and their relationship with the Company or its subsidiaries;
- assesses the general performance of Company operations, with specific reference to situations featuring conflict of interest, on the basis of the information received from the CEO and the Audit and Risk, Corporate Governance and Sustainability, periodically checking that planned results have been achieved (Article 1.C.1, letter e) of the Corporate Governance Code);
- carries out, at least once a year, an assessment on the operations of the Board and its committees and on their dimensions and composition and, taking assessment into account, provides guidance on managerial and professional figures to the shareholders, whose participation on the Board is considered opportune, as occurred also at the time of the renewal of the Board resolved by the Shareholders' Meeting on April 27, 2017. In this respect, we refer you to the details given under the title below "*Assessment of the Board of Directors' Activity*" (Article 1.C.1, letter g) and h) of the Corporate Governance Code);
- assesses, having consulted with the Board of Statutory Auditors and received the opinion of the Audit and Risk, Corporate Governance and Sustainability, the results given by the legal auditor in any letter of suggestions and in the report on the essential issues that have emerged during the legal audit (Article 7.C.1, letter e) of the Governance Code);
- reports to the shareholders in the meeting, in accordance with the provisions of current legislation. With regard to this matter, reference should be made to Section XVI.

Board of Directors Meetings and the role of the Chairwoman

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

During FY 2017, the Board of Directors held 12 meetings, each lasting an average of one and a half hours, which saw the regular participation of the Directors (98.61% overall and 98.77% for the new Board) and the attendance level of the Board of Statutory Auditors (97%) and which also saw the attendance, in line with the provisions of Article 1.C.6 of the Corporate Governance Code, of Executives of the Company, whose presence was considered of assistance in providing better information regarding the items on the agenda. The attendance level of independent directors at Board meetings during the year 2017 was 98 % overall (98.15% for the new Board). The participation of each Director in the meetings held during FY 2017 is indicated in table 1 attached (Article 1.C.1, letter i)-(2) of the Corporate Governance Code and Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).

For 2018, all board meetings related to the examination of the economic and financial data by the Board of Directors have been scheduled according to what was officially communicated to the market on January 24, 2018. In the current year and as of the date of approval of the present Report, the Board of Directors met three times.

The activities of the Board of Directors are coordinated by the Chairwoman. In accordance with the Bylaws, the latter has the legal power of representation of the company and the company signature, chairs the Shareholders' Meeting and the Board of Directors, convenes board meetings, establishes the agenda on

the request of the CEO and guides the related events; she also verifies implementation of board resolutions (Article 25 of the Bylaws) and is assigned the tasks attributed to the Chairwoman by the law or the Corporate Governance Code which the Company has endorsed.

With a resolution of the Board of Directors on April 27, 2017 the Chairwoman Catia Bastioli confirmed the institutional tasks already recognised by representatives of the previous term of the company, guiding and directing the work of the Board and assuming the promotional and advisory role of CSR (Corporate Social Responsibility), as well as overseeing activities related to the equity investment in the company "CESI - Centro Elettrotecnico Sperimentale Italiano Giacinto Motta S.p.A.", in coordination with the Chief Executive Officer.

Furthermore, Terna's Audit department reports to the Chairwoman of the Board of Directors.

More specifically, with regard to the duties involved in organising the Board works, the Chairwoman ensures that suitable documentation and information is given to enable the Board to rule knowledgeably on the matters submitted for its examination (Article 1.C.5 and Comment to Article 2 of the Governance Code).

In this regard, as from June 2014, to improve organisation and functioning of the Board and to protect the confidentiality of information, a specific software application was created to enable quick, secure (protected with personal user ID and password) and tracked access to Board documentation, allowing for verification of accesses as well as confidentiality and traceability of documents, which are displayed with user identification. From January 2015 an e-mail address dedicated to the exchange of correspondence between Directors and Statutory Auditors was also established, to ensure a secure and traceable flow of information to Directors and Statutory Auditors. Furthermore, during the meeting held on December 19, 2012 - considering the provisions of the Corporate Governance Code and the set of governance rules of the company with regard to the meetings of the Board of Directors and the committees established within the board - the Board of Directors defined, on the matters to be discussed, a disclosure prior to the board meeting and for the committees that is at least coherent with the terms envisaged by the Bylaws for convening meetings of these organisations, without prejudice to the fact that, where the subject so requires, the information given can be supplemented, including subsequently, by the presentation provided orally by the Chairwoman, the Chief Executive Officer or members of the Group management and/or consultants suitably authorised and invited during the meetings of said organisations, or the meetings of the Board of Statutory Auditors, or during specific informal meetings open to the participation of Directors and/or Auditors organised to further investigate matters of interest with reference to business management. The procedures for holding Board meetings and provision of pre-meeting information were also analysed by the Board of Directors at the Shareholders Meeting held on April 27, 2017 to appoint the new administrative body nominated on the same date; at this meeting it was clarified that, in order to facilitate understanding of the issues submitted to the Board for deliberation, analysis notes should be provided, accompanied where necessary by technical annexes, and the proposed draft resolution.

Subsequently to the resolution passed and until the date of approval of this Report, the disclosure made has been coherent with the indications of the Board (and therefore within the period of notice envisaged by the Bylaws) and the Chief Executive Officer ensured that, for Board and Committee meetings, members of Group management and/or consultants authorised for that purpose were available to speak when required, so as to take full advantage of the meetings and provide adequate information about the management of Terna. Managers from the Company participated in all meetings during the year.

In the context of the annual board review, performed with reference to financial year 2017 and better illustrated in the headline below "Assessment of the Board of Directors' Activity", the promptness and timeliness of the documentation prepared for the Board and informational flows were assessed positively. A largely positive assessment of the presentations given to the Board, also by Company directors, was also expressed and the adequacy of the minutes prepared for the meetings and the reasoning behind resolutions was also confirmed.

In connection with the role of promoting Sustainability, the Chairwoman, in 2017, participated in industry seminars and chaired the NEXT ENERGY panel, the initiative developed in partnership with Fondazione

Cariplo to promote the development of young talent and support the development of innovative projects in areas related to the development of the electricity system The first run, which ended in April 2017, selected four start-ups with which Terna began collaborating on innovative projects.

With regard to the task of organising the work of the Board, promoted by the Chairperson, taking into account international best practices, shared among companies belonging to the Dow Jones Sustainability Index (which includes Terna), the Board of Directors, at its meeting of February 20, 2018, on the proposal of the Audit and Risk, Corporate Governance and Sustainability Committee, approved a "Policy for participation in meetings of the Board of Directors" ("Attendance Policy") aimed at facilitating the widest possible participation of Directors in Board Meetings, providing that, in addition to the procedures for participation, including teleconferencing, as provided for in the Bylaws, the schedule of meetings is, as far as possible, anticipated, shared and transmitted to the Statutory Auditors.

Assessment of the Board of Directors' Activity

In compliance with the Corporate Governance Code, Terna's new Board of Directors, with the support of the Appointment Committee, assessed the operation of the Board and its committees, and their size and composition, with reference to the work done since its appointment. The Board conducted this assessment, drawing on the assistance of the company Management Search as a specialised external consultant to ensure the utmost objectivity of its evaluations. This initiative follows on from other analogous ones taken by Terna's Board of Directors since 2006 including the one carried out in the year 2017 on the occasion of which the Board standing down, as provided for in Art. 1.C.1 lett. h) of the Corporate Governance Code, expressed the guidelines on the professional figures whose presence on the Board was considered opportune presented in the previous Report on Corporate Governance and Ownership Structures. The analysis carried out for the year 2017 and described in this Report, has also reviewed the overall operations and functioning of the Board and the Committees, highlighting their strengths and areas for improvement, also taking into account the recommendations made by the Italian Corporate Governance Committee, which have been sent to listed Italian companies, to which reference is made in Section XVII "Considerations on the letter of December 13, 2017 from the Chairperson of the Corporate Governance Committee". This analysis has, inter alia, confirmed the appropriateness of the composition and organization of the Board of Terna and that the specific characteristics of the components, as in the past, have contributed towards taking informed decisions (Arts 2.P.1, 2.P.2, 2.P.3, 2.P.4 of the Corporate Governance Code).

Pursuant to Art. 1 C, letter g) of the Corporate Governance Code, it is noted that the company Management Search expressly declared the non-existence of any situations of conflicts of interest in relation to the activity to which it is entrusted and that it currently does not have any other consultancy and/or other professional arrangements with Terna, the Terna Group and the subsidiary company Terna Cassa Depositi e Prestiti S.p.A..

The analysis of the consulting firm, launched during the first quarter of 2018, relative to the first period of office, had as its objectives - taking into account the renewal of the administrative body whose term had expired - a structured survey of the size of the Board and its make-up, also referencing diversity, including gender, age, professionalism and competence, as well as the effectiveness of the Board and its Committees in operational terms and identifying opportunities for further improvement in order to perform as effectively as possible the role of planning, management and control of a complex entity such as the Terna Group. The analysis was carried out through the examination of relevant company documentation, as well as through questionnaires and direct interviews with all Directors (thus, an expression of the majority and the minority shareholders) on the size, composition and functioning of the Board, conducted by Management Search. In which at each point of the questionnaire each Director was able to respond with different levels of consensus from "strongly disagree" to "strongly agree" with the intermediate levels "agree", "partial agree" and "disagree". The answers to the questions recorded in the questionnaire were the starting point for the in-depth analysis conducted through the interviews. The interviews were also extended to members of the Board of Statutory Auditors, as observers, to gain their perspective on the issues addressed in the questionnaire (Art. 1.C.1 lett. i)-(3) of the Corporate Governance Code).

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

a) the structure and composition of the Board of Directors and Committees, including in terms of Director competency and more generally in terms of diversity;

b) the operation of the Board, including the number of meetings, their length and management of the same and, in general, the suitability of Board meetings and the organisation of the same with regards to: i) the completeness and timeliness of the information provided to the Board in preparation for meetings; the positive and constructive atmosphere of the Board and the procedures for holding meetings and decision-making processes; the role of the Chairperson;

c) the suitability of the time allocated by the Board to discussing all issues of importance to the Company and the Group, especially with regard to risk control and management and the Company's long-term strategy;

d) the operation of the Committees, including the definition of their mission, their autonomy and authority and the effectiveness of their support activities to the Board;

e) the adequate extent and structure of the flow of information, including in terms of timing and methods of providing information;

f) the effectiveness of the decision-making process and the contribution made by the Directors within the Board and to Board discussions;

g) the sensitivity of all members of the Board to issues of sustainability and proper governance, as well as how pervasive these issues are within the company organisation and integrated in the way that business is carried out.

Further aspects analysed include:

- a satisfactory knowledge of the Terna Group on the part of the Directors, complemented through induction activities;
- the adequacy and effectiveness of corporate governance procedures and systems adopted by the Board and the Committees;
- the authoritative and leadership role played by the Chairwoman and the relationship between the Chairwoman and the Chief Executive Officer;
- the role of the Chief Executive Officer and the adequacy of the findings they provided to the Board;
- benchmarking through domestic and international best practices. International benchmarking was carried out with other companies in the sector and those not listed on the stock exchange, and looked at the composition of the relevant Boards, the number of executive and non-executive Directors, the professional background of non-executive Directors, the nationality of the Board and anything else significant, including the methods of conducting their board reviews.

This analysis showed that: a) over the past year, Terna's Board - in compliance with the guidelines and requirements contained in the regulatory provisions applicable to issuers and to the internal regulatory framework adopted by the Company - has fulfilled the tasks assigned to it, including adequate internal expertise and a fair balance among all its members and supported the Company in pursuing its objectives, exercising its institutional role of guidance and monitoring at the same time and b) from the evidence emerging from benchmarking activities, Terna ranks among the best companies within the reference sample, whilst operating in strict compliance with best domestic and international governance practices.

The Board of Directors, in the meeting of March 21, 2018, based on the results of the analyses performed, which noted a particularly significant overall improvement, has therefore confirmed a positive overall assessment of the size, composition and operation of the Board of Directors and its Committees, having been positively impressed by all the professional profiles examined, all intent on exercising their role to the best advantage. In particular, the Board considered that the operation of the Board has confirmed its high level of efficiency and the general trend towards continuous improvement, and identified several particular areas of excellence. These include: a) the pleasant climate within the Board; b) the effectiveness

of procedures for conducting meetings, favoured by the quality of the documentation available to the Directors in preparation for meetings; c) the open and constructive relationship between the Directors and the Chairperson and the availability of the Chairperson; d) the adequate numbers of Directors attending meetings that guarantees continuity of action at Board level; e) the favourable and constructive relationship between the Chairperson and the Managing Director, in compliance with their roles; f) the involvement of the Company's top management in presentations on issues under their respective responsibility, the clarity of the presentations and their effectiveness in increasing the Board's knowledge of issues of utmost importance to the Company; g) the quality and continuity of relations between the Managing Director and the Board and the level of information on the management of the Company provided by the Managing Director to the Board; h) the clarity and sharing within the Board of the Company's long-term strategy; i) the adequacy of the procedures and policies adopted by the Company on the subject of Sustainability and the adequacy of the incentive systems for the Company's top management, with a view to sustainability; j) the effectiveness of the Company's risk management and control system and the adequacy of the organisational solutions implemented by the Company for this purpose; k) the effectiveness of the work carried out by the Committees as a whole and the level of support received by the same from their respective corporate functions.

Delegated bodies

On April 27, 2017 the current structure of the Board of Directors provides for only one CEO, to which the Board has attributed powers, defining their nature, limits and any methods for exercising them; no executive committee was established.
The CEO has powers of legal representation of the Company and is entrusted with the widest powers for the administration of the Company, pursuant to the aforementioned Board Resolution, with the exception of those differently attributed by the Law, by the Bylaws or reserved for the Board of Directors, as described in this section under the "Role of the Board of Directors" (Article 2.C.1 of the Corporate Governance Code).
The CEO informs the Board of Directors and the Board of Statutory Auditors of the activities and of the management of the Company as well as of the resolutions passed in exercising his powers pursuant to Article 21.3 of the Bylaws, at least on a quarterly basis and on occasion of Board meetings.
On a quarterly basis, specific reports are prepared in order to inform the Board regarding major actions and activities.
At the date of the present Report and under the terms of Art. 2.C.5 of the Corporate Governance Code, we can specify that there are no situations of cross directorship: in fact, Terna's Chief Executive Officer does not hold any directorships in companies outside the Terna Group, of which another Director of Terna is Chief Executive Officer (CEO).

Other Executive Directors

With the exception of the Chief Executive Officer Luigi Ferraris, the other 8 members of the Board of Directors (Catia Bastioli, Fabio Corsico, Luca Dal Fabbro, Paola Giannotti, Yunpeng He, Gabriella Porcelli, Stefano Saglia and Elena Vasco) must all be considered non-executive. In actual fact, we note, in this regard, that the Chairwoman Catia Bastioli does not hold an executive role, insofar as she has not been assigned individual management powers, nor does she have a specific role in preparing business strategies (Articles 2.P.1 and 2.C.1 of the Governance Code).
As already explained in the previous title "Board Meetings and role of the Chairwoman", the Bylaws assign the Chairwoman powers of legal representation of the Company and the company signature, the chair of the Shareholders' Meetings and the power to convene and chair the Board of Directors and verify the implementation of the Board's resolutions (Article 25 of the Bylaws); he or she is also assigned the duties assigned to the Chairwoman by law and by the Corporate Governance Code.

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

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

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

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

Independent Directors

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

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

The Company therefore put in place, back in February 2007, a specific internal procedure that defines the criteria for the evaluation of independence of the non-executive members and for the assessment of the requirements according to the Bylaws and the Corporate Governance Code ("Criteria for applying and procedure for assessing independence of the directors pursuant to Art. 3 of the Corporate Governance Code"), in keeping with the provisions of the Corporate Governance Code, according to the description already provided in the previous Section II under "*Appointment, requirements and term of office of Directors*".

With reference to this criteria, and on the basis of the information supplied by the individual parties concerned, the Board of Directors has assessed compliance with the independence requirements set out by the law, the Bylaws and the Governance Code with each Director at the first opportunity following appointment (Articles 3.P.2 of the Governance Code and 144-novies, paragraph 1-*bis* of the Issuers Regulation) and, subsequently, once a year at the board review (Articles 3.P.2 and 3.C.4 of the Governance Code), with regard, as specifically required by the Governance Code, more to the substantive profile than the formal profile and rewarding merit rather than value of the office held.

In particular, at the meeting of March 21, 2018, during which the Board of Directors evaluated, on the basis of the information supplied by the individual parties concerned, the commercial, financial and professional relations entertained directly or indirectly by the Directors with Terna, which may be or could appear to be such as to compromise the independence of a Director by virtue of their significance, both in absolute terms and as concerns the economic-financial position of the party concerned, and thereby certified that independence criteria were met by the 6 non-Executive Directors: Fabio Corsico, Luca Dal Fabbro, Paola Giannotti, Gabriella Porcelli, Stefano Saglia and Elena Vasco (Arts 3.C.1, 3.C.2 and 3.C.4 of the Corporate Governance Code).

At the same time, the correct application of the defined criteria and the procedures adopted by the Board of Directors was verified by the Board of Statutory Auditors (Article 3.C.5 of the Corporate Governance Code).

Among the assessments carried out by the Board, with reference to the 6 Directors and the chairwoman, the existence is proven of the independence requirements envisaged in Article 15.4 of the Bylaws that requires that at least 1/3rd of the Directors in office - rounding down in case of a fraction - meets the independence requirements established for Auditors by Article 148, paragraph 3, of the Consolidated Law on Finance.

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

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

Given the composition of the Board of Directors, characterised by a high number of independent Directors, and its working methods (illustrated in the section above under "Board of Directors Meetings and role of the Chairwoman"), and the significant participation of the independent directors in the composition of the Committees, in the operating system a constant exchange of information occurred among the said independent Directors both on the occasion of meetings of the internal Committees and on the occasion of the board meetings themselves which did not make necessary specific meetings reserved only for them. With a view to progressive improvement of practice and conduct to achieve best practice, in FY 2015 some of the independent Directors had requested meetings reserved for all the independent Directors who are members of the Board, to be held in the same FY. Terna, with a letter of the Chairwoman of the Board of Directors, stated expressly that the Company was willing to support their organisation (Art. 3.C.6 of the Corporate Governance Code). No further specific requests have been received since, however, including relative to financial year 2017.

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

Lead independent director

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

Section V:

Management of company information

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

This regulation was then supplemented and amended on various occasions (most recently in December 2012) to take account of occasional applicable regulatory changes and changes in the organisational and governance structure of the Group (Article 1.C.1, letter j of the Corporate Governance Code).

In particular, specific procedures have been established to be observed when releasing corporate documents and information to the public - especially for the release of insider information - and to govern the methods by which company spokespeople make contact with the press and other forms of mass media (or with financial analysts and institutional investors) (Comment to article 1 of the Corporate Governance Code).

Subsequently, on entry into force of new European regulations on market abuse on July 3, 2016 (and in particular EU Regulation no. 596/2014, supplemented by the provisions of Delegated Regulation EU 2016/522, Implementing Regulation EU 2016/1055 and further implementation provisions), the Board of Directors of Terna replaced the aforementioned regulations, adopting a new "Procedure for the management, treatment and communication of corporate information relative to TERNA S.p.A. and its subsidiaries" (referenced under this headline also as the "Company Information Procedure"), updating the notion of insider information and, more specifically, governing activities relative to cases of delay in the release of insider information as foreseen in Article 17, paragraph 4, third sub-section of Regulation EU 596/2014 and the cited Implementing Regulation. The Company Information Procedure - which, like the previous regulation, also establishes official guidelines for subsidiary companies for coordinated management of information flows within the Group - regulates the relative responsibilities and obligations for communications to CONSOB, also providing the connection with activities relative to the establishment and the updating of a registry of individuals with access to insider information (Insider Registry), as governed by a specific, separate procedure (see below).

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

This Procedure - available on the Company's website www.terna.it under the section "*Investor Relations/ Corporate Governance/Corporate Governance System/Management procedure, treatment and communication of information*" - assigns, on a general basis, the CEO of the Company and the respective company heads (Sole Director, Executive Chairman, Chief Executive Officers and/or General Managers, as applicable) of the subsidiaries, the management of the relevant confidential information, establishing that disclosure of information on the individual subsidiaries must in any case take place with the authorisation of Terna's CEO.

Lastly, specific "Measures for persons committing violations" are also envisaged in the Company Information Procedure.

Moreover, in the general interest of corporate information protection and to ensure an adequate level of protection within the Group of information and cyber-security of networks and information systems (particularly the mission-critical ones), Terna continued during 2017 various initiatives to improve security and cyber-risk mitigation, also as regards the subsidiaries, in compliance with the requirements of the regulatory framework of "Information Security Policy" and with the Information Security Governance model adopted within the Group, inspired by best practices and the best international standards.

Again with regard to the management of Company Information, and in particular privileged information, the Board of Directors of Terna - in compliance with the aforementioned European provisions on market abuse and in particular to EU Regulation 596/2014 and Implementing Regulation EU 2016/347, provided for the establishment of a specific Registry of individuals who, based on their working or professional activities or the roles held, have access - on a regular or occasional basis - to insider information, ensuring updating of the same. To that end, the Board of Directors of Terna has adopted a specific "Procedure for the retention and updating of the Register of persons with access to insider information and potential insider information", thereby updating the provisions that had already been previously adopted in compliance with the provisions found in article 115-*bis* of the Consolidated Law on Finance and the regulatory provisions issued by CONSOB. This document can be found on the Company's website www.terna.it in the section "*Investor Relations/Corporate Governance/Corporate Governance System/Procedure for managing, processing and communicating corporate information - Procedure for the retention and updating of the Register of persons with access to insider information and potential insider information*".

Furthermore, as of April 2004, to guarantee transparency relative to the market in regards to significant transactions involving the purchase, sale, subscription or exchange of Terna shares, or of financial instruments connected with the same, carried out - directly or indirectly - by individuals in possession of significant decision-making powers in the company and with access to price sensitive information ("significant persons"), the Company's Board of Directors approved a code of conduct on internal dealing, in compliance with the regulatory measures laid down by Borsa Italiana S.p.A..

In this context, Terna established an obligation for these individuals to abstain from executing - directly or indirectly - transactions subject to internal dealing rules during two blocking periods, specifically around the approval of the draft separate (and consolidated) financial statements and the interim financial report by the Board of Directors of Terna. These obligations were kept also when the "Procedure for management, processing and communication to the market of information relative to financial instrument transactions performed by significant persons" was adopted by the Board of Directors of the Company, following the entry into force of the provisions on internal dealing introduced in the Consolidated Law on Finance of Italian Law no. 62 of April 18, 2005 and with the relative implementing regulations issued by CONSOB (articles 152-*sexies* to 152-*octies* and Annex 6 to the Issuer Regulations).

Subsequently, communication and transparency obligations concerning internal dealing were further adjusted, in compliance with that foreseen in the aforementioned European market abuse regulations, in effect as of July 3, 2016 (and in particular by EU Regulation 596/2014 "MAR", by Delegated Regulation EU 2016/522 and Implementing Regulation EU 2016/523), in the context of the Internal Dealing Procedure (referenced in this headline as the "Internal Dealing Procedure"), adopted by the Board of Directors of Terna and updated on July 27, 2017, in compliance with the provisions of CONSOB with Resolution no. 19925 of March 22, 2017 containing "Amendments to the regulations implementing Legislative Decree no. 58 of February 24, 1998 concerning the regulation of issuers and markets, as well as related party transactions, for the implementation of EU Regulation no. 596/2014 on market abuse" and also taking into account the guidelines received from ESMA in the context of "Question and Answers on the Market Abuse Regulation".

The Internal Dealing Procedure applies to transactions conducted on behalf of the parties set forth in Article 19 of the MAR ("relevant parties") and persons closely linked to them, as identified pursuant to Article 3(1) of MAR no. 26, and taking into consideration the clarifications provided by ESMA in this respect. In accordance with Article 19, paragraphs 8 and 9 of the MAR and Article 152-*quinquies*.1 of the Issuers Regulation, all subsequent transactions are reported, as identified in the regulations, once they have reached or exceeded € 20,000 during a calendar year. The € 20,000 threshold is calculated by adding all transactions together, without compensation, completed within a calendar year. It being understood that, once this threshold is exceeded, all transactions (even those of a lower amount) must be reported. The obligations to disclose significant transactions provided for by Article 114, paragraph 7, of the Consolidated Finance Act of articles

152-*sexies* et seq. of the Issuers' Regulations are therefore confirmed, with regard to (i) shareholders who hold an equity investment equal to at least 10% of the share capital and to parties who in any case control the issuer and (ii) persons closely associated with them, whose definition has been maintained within the scope of Article 152-*sexies*, paragraph 1, letter d), of the Issuers' Regulation.

On the Company's website, (www.terna.it, specifically in the section "*Investor Relations/Corporate Governance/ Internal Dealing*") the Procedure on internal dealing is available, which serves to identify "significant parties" at Terna and "persons closely associated" with them, as well as to manage, process and communicate to the market information relative to financial instrument transactions carried out by these individuals, and to prepare and maintain the list of significant persons, established pursuant to the regulations in effect and for significant subjects to obtain authorisation, if necessary to carry out transactions during the blocking periods. In addition, on the relevant archive page, the previous version of the procedure and market communications made by Terna from April 1, 2006 on can be found, relative to transactions subject to the internal dealing regulations in effect at the time, performed by "significant persons" at Terna and persons closely associated with them.

Section VI:

Committees within the Board

The "Remuneration Committee", the "Audit and Risk, Corporate Governance and Sustainability", and the "Appointment Committee", all with recommendatory and advisory functions and composed of at least three Directors, as provided for by the Corporate Governance Code, were set up within the Board of Directors, in order to guarantee the effective fulfilment of its duties. The criteria adopted for the composition, duties and responsibilities of these Committees were identified in line with the provisions of the Corporate Governance Code of reference at the time and the methods for holding meetings are governed by specific internal Organisational Regulations adopted by the Board of Directors on January 24, 2007 and thereafter all updated on December 19, 2012, with reference to the provisions of the Corporate Governance Code in effect at the time and, subsequently, on May 27, 2014, to regulate the operation of the established "Appointment Committee" (further updated on June 23, 2015) and the update of the tasks of the Audit, Risk and Corporate Governance Committee, the latter was further integrated on December 15, 2016 in relation to sustainability issues, for which the same committee was renamed the Audit and Risk, Corporate Governance and Sustainability Committee (Articles 4.P.1 and 4.C.1, letters a) and b) of the Corporate Governance Code).

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

In addition, based on that foreseen in their respective Organisational Regulations, the Remuneration Committee reports on the activities performed to the Board of Directors at least once per year, while the Audit and Risk, Corporate Governance and Sustainability Committee reports at least twice a year, at the time the annual financial report and the interim financial report are approved, also relative to the adequacy of the Internal Audit and Risk Management System.

The Chairman of each Committee established provides information at the first Board meeting subsequent to the meetings of their respective Committee (article 4.C.1, letter d) of the Corporate Governance Code).

In any case, all the Committees established provided specific information to the Board of Directors on March 15, 2017, relative to the activities performed during the year. Similar reporting was given at the time of the March 21, 2018 meeting of the Board of Directors.

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

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

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

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

Section VII:

Appointment Committee

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

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

Following the renewal of the entire Board of Directors, the Appointment Committee is currently made up of three Directors, all Non-Executive and a majority of independents, with one member being a Director elected from the list of minorities. The Committee shall be made up of: Luca Dal Fabbro (who chairs it and represents the minority shareholders), Fabio Corsico and Yunpeng He (Art. 5.P.1 and 4.C.1 lett. a) of the Corporate Governance Code).

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

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

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

During 2017, the Appointment Committee has held five meetings, which saw the participation of a majority of the members (80%) and lasted, on average, for about 40 minutes. All meetings of the Committee are regularly minuted (Art.4.C.1 letter d) of the Corporate Governance Code).

For the current year (2018) a number of Committee meetings have been scheduled that should be sufficient for the performance of the tasks entrusted to it. During the current year, up to the date of approval of this report, the Committee has held 2 meetings.

The participation of each incumbent Member of the Committee at meetings held during the year 2017 is shown in Table 1 attached (Article 123-*bis*, paragraph 2, letter d) of the TUF).

Information on the number of meetings and activities refers to the overall activities carried out by the Committee in 2017.

Both during 2017 and in 2018, as of the date of this Report, and with reference to the specific consultative and advisory competencies attributed to it, the Appointment Committee was predominantly occupied: (i) in supporting the Board in its activity of the annual board review (both in 2017 and in 2018), with reference to the identification of procedures for the performance and selection of the specialized external consultant (as explained above in section IV under "Assessment of the Board of Directors' Activity") and in decisions regarding the size and composition of the Board of Directors and, specifically in 2017, in supporting the Board of Directors whose term was expiring with the approval of the 2017 separate financial statements, also relative to the development of guidance on professionals whose presence on the Board is held to be auspicious; (ii) verification of Terna's compliance with the regulations concerning succession plans.

Following the renewal of its composition, the Committee appointed a Secretary.

During the meeting of March 21, 2018, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the Committee was confirmed by the Board of Directors as part of the annual review of the Board itself and the Committees.

The Committee may make use of adequate financial resources.

Section VIII:

Remuneration Committee

Functions of the Remuneration Committee

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

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

Following the renewal of the entire Board of Directors on April 27, 2017, the Committee is currently made up of the following three independent Non-Executive Directors, one of whom was elected from the list of minorities: Fabio Corsico (who chairs it), Gabriella Porcelli and Stefano Saglia. At least one member is in possession of adequate knowledge and experience in financial or remuneration-policy matters (Art. 6.P.3 of the Corporate Governance Code).

The Chairman of the Committee or other member of the Committee reports to shareholders on how its duties are performed. To this end, it is envisaged that the Chairman of the Committee or another member of the Committee shall attend the Annual Shareholders' Meeting (Comment to Article 6 of the Corporate Governance Code). The Chairman of the Committee, at that time Carlo Cerami. attended the Shareholders' Meeting of April 27, 2017, making a speech.

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

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

During financial year 2017, the Remuneration Committee held a total of 7 meetings, characterised by the regular attendance of its members (100%), which lasted on average about 50 minutes each. None of the Directors attended Committee meetings which formulated proposals regarding their remuneration to be submitted to the Board of Directors, except in the case of formulating guidelines regarding compensations generally assigned to internal board committees, as also represented in the Remuneration Policy indicated in the "Annual Remuneration Report", submitted to the Board of Directors and which also received the reasoned opinion of the Board of Statutory Auditors. The compensation awarded to the Remuneration Committee remained consistent with the guidelines of the Policy approved by the Shareholders' Meeting of April 27, 2017 (Article 6.C.6 of the Corporate Governance Code).

In the context of the cited meetings, which, upon invitation, the Chairman of the Board of Statutory Auditors also attended (100%), the senior executives of the Company attended the meetings and also any persons whose presence was deemed helpful for providing greater information on the subjects on the agenda and for improving the fulfilment of the functions of the Committee itself participated.

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

In 2018, the Committee will hold as many meetings as are sufficient for carrying out the duties assigned. During the year, up to the date of approval of this Report, the Committee has held 3 meetings.

The participation of each member of the incumbent Committee in the meetings held during 2017 is indicated in the annexed table 1 (Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).

Information on the number of meetings and activities refers to the overall activities carried out by the Committee in the 2017 year up to the date of this Report.

As part of its duties, and with respect to the remuneration of the CEO and other Directors holding special office, overall during 2017 the Remuneration Committee, meeting with the relative departments of the Company, obtained additional information about remuneration criteria and the salary structure for management and carried out all the activities associated with the power attributed to it by the Board of Directors to determine remuneration proposals for top management. The Committee dealt with, amongst other things, the following matters:

- verification that the 2016 results had been achieved in order to pay the annual variable remuneration of the CEO and General Manager, both for their administrative role and their role as manager;
- identification of the annual variable remuneration targets of the CEO for FY 2017;
- assessment of peers' remuneration structures (market benchmark) with regard to incentive plansin the new rolling Long Term Incentive Plan (Piano LTI), Cycle 2017-2019;
- preparation, with the support of the company Willis Towers Watson, of the Annual Remuneration Report submitted for the approval of the Board of Directors, under the scope of which the remuneration policy adopted by Terna for the remuneration of the executive directors, other directors holding special office, auditors, general directors and executives with strategic responsibilities submitted to the annual Shareholders' Meeting in accordance with Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance, was presented;
- assessment of the overall adequacy and consistency, and the concrete application of the Remuneration Policy with reference to peers (market benchmark), with regard to fixed remuneration and short and long-term incentive plans, including when determining fixed remuneration and the short and long-term objectives of variable remuneration, for 2017, assigned to the Managing Director appointed following renewal of the composition of the Board of Directors, in their work as a director and as a senior executive, and to Senior Executives with Strategic Responsibilities.

Following the renewal of its composition, the Committee appointed the Secretary.

In addition, in 2018 the Committee has:

- formulated a proposal for the 2018 "Remuneration Policy" approved by the Board of Directors, which will be submitted to the Shareholders' Meeting called to approve the financial statements for the year 2017 under Article 6-*ter*, paragraph 123 of TUF;

- examined the objectives linked to the annual variable remuneration of the Chief Executive Officer for 2018, in their work as a director and as a senior executive, and for Senior Executives with Strategic Responsibilities;
- verified the achievement of the 2017 results for the payment of the annual variable remuneration to the CEO in their work as a director and as a senior executive, and to Senior Executives with Strategic Responsibilities;
- formulated a proposal for the activation of the 2018-2020 and 2019-2021 equity-based rolling cycles of the LTI Plan, which were approved by the Board of Directors at its meeting of March 21, 2018 through the Information Document.

The Chairman of the Committee provided information at the next meeting of the Board following Committee meetings (article 4.C.1, letter d) of the Corporate Governance Code).

During the meeting of March 21, 2018, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the Committee was confirmed by the Board of Directors as part of the annual review of the Board itself and the Committees.

The Committee may make use of adequate financial resources.

Section IX:

Remuneration of Directors

With regard to FY 2017, we would remind you that in December 2011, Terna's Board of Directors adopted the "Remuneration Policy" in implementation of the provisions of the reference Corporate Governance Code, in force at the time, at the proposal of the "Remuneration Committee".

Following entry into force of the regulatory provisions implementing Art. 123-*ter* of the Consolidated Law on Finance issued by CONSOB Resolution no. 18049 of December 23, 2011 (published in Official Journal no. 303 of December 30, 2011), which, among other things, introduced Art. 84-*quater* into the Issuer Regulation, on the proposal of the "Remuneration Committee", in 2017, Terna's Board of Directors approved the update to the Policy adopted as described in the "Annual Remuneration Report". This report, published annually, is made available to the public at the registered office and on the Company's website (www.terna.it), as well as on that of the market management company, Borsa Italiana S.p.A. (www.borsaitaliana.it); it is also submitted for an advisory, non-binding vote to the Shareholders' Meeting, in accordance with Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance. The Shareholders' Meeting has always expressed in favour, also on the occasion of the meeting of April 27, 2017.

The information and/or updates of the Company's Remuneration Policy approved by the Board of Directors on the proposal of the "Remuneration Committee", regarding the remuneration of the members of administration bodies, general directors and executives with strategic responsibilities, at least with reference to the following year, and regarding the work of the Committee and the procedures used to adopt and implement said Policy, in addition to the information required by Article 6 of the Corporate Governance Code which Terna has endorsed, are summarised in the "Annual Remuneration Report"; this was approved by the Board of Directors on March 21, 2018 and will be published by Terna and submitted for the approval of the forthcoming annual Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2017, in compliance with the provisions of Article 123-*ter* of the Consolidated Law on Finance and the aforementioned CONSOB Resolution.

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

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

For an adequate presentation of the fees paid during the year of reference, for any reason and in any way by the Company and subsidiaries or associates to members of the administrative body of Terna and executives with strategic responsibilities for FY 2017, including the representation of each of the items comprising remuneration, treatment established in the event of cessation of office or termination of employment, the clawback clauses in accordance with the provisions of Art. 6.C.1 lett. f) of the Corporate Governance Code, and a judgement of consistency with the Company's Remuneration Policy approved the previous year, we would refer you to the aforementioned "Annual Remuneration Report" which will be published and submitted to the forthcoming annual Shareholders' Meeting called to approve the financial statements for the financial year ended on December 31, 2017 in compliance with the provisions of Article 123-*ter* of the Consolidated Law on Finance and the aforementioned CONSOB Resolution.

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

Section X:

Audit and Risk, Corporate Governance and Sustainability Committee

Functions of the Audit and Risk, Corporate Governance and Sustainability Committee

In 2004, within the Board of Directors, a specific Internal Control Committee was established, with the task of providing instructions, in the form of advice and suggestions, and, in particular, supporting the Board of Directors in its assessments and decisions relating to the "Internal Audit System" and regularly monitoring its suitability, as well as with specific aspects relating to the identification of the main business risks (for example, operational risk, financial risk, market risk, and compliance risk (in addition to accounting compliance), and periodic reporting back to the Board on the suitability of the system and the work performed. The duties of the Committee have been identified in compliance with the Corporate Governance Code and the methods of conducting the meetings have been regulated in specific Organisational Regulations, which were adopted by the Board of Directors on January 24, 2007.

In the meeting held on December 19, 2012, the Board of Directors resolved the necessary adjustments in relation to the members and duties of the committee in place in order to ensure that these Organisational Regulations were perfectly in line with the provisions of the Corporate Governance Code in effect at the time on the internal audit and risk management system (Articles 7.P.3, letter a-ii), 7.C.1 and 7.C.2 of the Corporate Governance Code) making some changes to them. Following the renewal of the entire Board of Directors, in the meeting of May 27, 2014, with a view to continuous improvement of the corporate governance system, the Board of Directors expanded the duties of Control and Risk Committee, adding to the latter's duties those related to the corporate governance system and making the consequent changes to the Organisational Regulation appointing the Members in keeping with the indications of the Corporate Governance Code according to what was communicated to the market on the same date. Consequently the "Control and Risk Committee" was renamed the "Control, Risk and Corporate Governance Committee". The responsibilities indicated were subsequently added to, in compliance with the new provisions contained in article 7.C.1, letter g) of the Self Governance Code, and said Committee was also assigned tasks relative to Sustainability. A resolution on December 15, 2016 made the consequent amendments to the Committee's Organisational Regulations (now known as "Organisational Regulations of the Terna S.p.A. Audit and Risk, Corporate Governance and Sustainability Committee").

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

- supporting the Board of Directors in fulfilling the duties assigned in the Corporate Governance Code on internal audit and risk management, preparing specific opinions in this regard:
  - i. defining the System guidelines and level of compatibility of these risks with business management consistent with the strategic objectives identified by the Board of Directors (Article 7.C.1, letter b) of the Corporate Governance Code);
  - ii. regularly verifying the suitability of the System with respect to the characteristics of the business and the risk profile assumed and its effectiveness (Article 7.C.1 letter a) of the Corporate Governance Code);
  - iii. approving the plan of works prepared by the Internal Audit unit Manager (Article 7.C.1, letter c) of the Corporate Governance Code);
  - iv. describing the main characteristics of the system in the Annual Report on Corporate Governance and Ownership Structures and in the assessment of the suitability of the system (Article 7.C.1, letter d) of the Corporate Governance Code);
  - v. assessing the results presented by the legal auditor and in the report on the essential issues that emerged during the legal audit;

- assessing, together with the Manager charged with preparing the Company's financial reports, having heard the opinions of the legal auditor and the Board of Statutory Auditors, the correct application of accounting standards and their uniformity for preparation of the consolidated financial statements (Article 7.C.2, letter a) of the Corporate Governance Code);
- expressing opinions at the request of the CEO, on specific aspects concerning identification of the main business risks (Article 7.C.2, letter b) of the Corporate Governance Code);
- examining the regular reports concerning assessment of the system and those of particular relevance prepared by the Audit Department (Article 7.C.2, letter c) of the Corporate Governance Code);
- monitoring the independence, suitability, efficacy and efficiency of the Audit Department (Article 7.C.2, letter d) of the Corporate Governance Code). Please see the section below "Internal Audit unit Manager";
- supporting the Board of Directors in performing the tasks assigned to the latter on the subject to general policies of the corporate governance system of the Company and of the Group acting to: (i) monitor the evolution of the legislation and the Italian and international best practice on the subject of corporate governance and inform the Board of Directors when there have been significant changes; (ii) check that the corporate governance system which the Company and the Group have developed is aligned with the legislation, the recommendations of the Corporate Governance Code and the national and international best practice, formulating to the Board of Directors any opinions or proposals on the said corporate governance system, if it sees the need or the opportunity;
- report to the Board of Directors on the meetings held at the next Board of Directors meeting, also reporting at least once every six months to the Board of Directors during approval of the annual financial report and interim financial report, on the activities carried out and on the suitability of the system (Article 7.C.2, letter f) of the Corporate Governance Code);
- support, through appropriate research, the assessments and decisions of the Board of Directors relative to risk management deriving from prejudicial events that the Board of Directors becomes aware of (article 7.C.2, letter g) of the Corporate Governance Code);
- support the Board of Directors: (i) in examining and assessing sustainability policies aimed at ensuring the creation of value over time for the majority of shareholders and for all other stakeholders over a medium/long-term horizon; (ii) in examining sustainability guidelines and plans, issues of sustainability associated with the interaction of company business and stakeholders and sustainability reporting submitted annually to the Board of Directors; (iii) in monitoring the inclusion of the Company in sustainability indexes (comment, article 4, Corporate Governance Code);
- carrying out any additional duties as may be assigned by the Board of Directors.

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

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

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

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

Following the renewal of the entire Board of Directors, as of April 27, 2017, the Committee is currently made up of three independent Non-Executive Directors: Stefano Saglia (who chairs it), Paola Giannotti (represents the minority shareholders) and Elena Vasco. At least one member is in possession of adequate experience in accounting and financial or risk management matters (Art. 7.P.3 of the Corporate Governance Code).

More specifically, during FY 2017, the Audit and Risk, Corporate Governance and Sustainability held a total of 9 meetings, characterised throughout 2017 by the regular attendance of its members (100%), and of the Chairman of the Board of Statutory Auditors and of all other auditors (93%), in view of the specific supervisory duties over the system that are assigned to the Board of Statutory Auditors by current legislation on listed companies and by the Corporate Governance Code (Articles 7.P.3, letter d) and 7.C.3 of the Corporate Governance Code). At the invitation of the Committee Chairman in relation to the items on the agenda, the Internal Audit unit Manager attended the meetings along with other persons whose presence helped to improve the Committee's functions, including the Senior Executive responsible for preparing the company's financial reports and representatives of the Auditor Company also attended. The average duration of the meetings was approximately 1 hour.

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

For the current year (2018) a number of Committee meetings have been scheduled that should be sufficient for the performance of the tasks entrusted to it. During the current year, up to the date of approval of this report, the Committee has held 3 meetings.

The participation of each incumbent Member of the Committee at meetings held during the year 2017 is shown in Table 1 attached (Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).

Information on the number of meetings and activities refers to the overall activities carried out by the Committee in 2017.

As regards the activities carried out during 2017, the Committee, in accordance with the provisions of the Corporate Governance Code:

- received extensive disclosures on financial management and on the composition and performance of the Company's debt and the relative hedging of risks, Company policies on financial and exchange risks as well as on procedures in place regarding market abuse and anti-corruption and on Terna's rating characteristics. It also received periodic financial reports, illustrated in detail by the relative company managers. In this context, the impact of the new accounting standards were investigated further through meetings with the Manager of Administration, Finance and Audit;
- expressed its positive opinion concerning the decision made by the Board on the degree of compatibility of the main risks concerning Terna and its subsidiaries with a business management consistent with the identified strategic objectives, when meeting with the *Chief Risk Officer* (as defined below) and the Head of Risk Management;
- shared the company's decision-making process regarding methods for the first-time implementation of the "Consolidated Non-Financial Statement" in compliance with Legislative Decree 254/2016, examining in particular the results of the materiality analysis carried out by the Company as a premise to the Statement;
- in conjunction with and with the involvement of various interested parties and bodies, expressed its positive opinion on the adequacy of Internal Audit and Risk Management System with respect to the company structure and risk profile assumed, as well as on its efficacy, and examined the report of the Chief Risk Officer

(CRO) set up as described below in Section XI under the "Internal Audit and Risk Management System" presented to the Committee by the same and expressed its opinion on the appointment of the new CRO;

- to analyse any additional risks relative to the Company, it examined the Company's assessments of sustainability issues, met with the Company's Senior Executives to assess the methods for managing any risks connected with peaks in energy demand and structural interventions to cover energy demand and with the launch of the capacity market mechanism and the integration of the portions of the National Transmission Grid resulting from the acquisition from the Ferrovie dello Stato Italiane S.p.A. Group, it held a specific meeting with the manager of the corporate security structure;
- met the Internal Audit unit Manager and positively examined the structure of Terna's audit, the work schedule prepared by the Internal Audit unit Manager and the regular reports prepared by the Internal Audit Manager in 2017, obtaining elements for the evaluation of the audit and risk management system, also as concerns the Group reorganisation and formulating its opinion to the Board of Directors on the Internal Audit unit's Reporting line;
- met the independent auditing firm to assess the auditing activities with particular regard to the methods by which they were carried out and the results;
- appointed the Secretary following renewal of the Committee's composition.

Pursuant to the provisions of the Corporate Governance Code, the Committee assessed, together with the Manager charged with preparing the Company's financial reports and having consulted with the legal auditor and the Board of Statutory Auditors, the correct use of the accounting standards and received information on auditing activities implemented for compliance with the provisions of Italian Law 262/05 and subsequent amendments. The Committee, up until the date of this Report, also met twice with the Oversight Committee set up in Terna pursuant to Italian Legislative Decree 231/01 and received the expected disclosure from them on the activities performed, as well as relative to the adequacy of and developments made to the Model. The Committee reported to the Board at the time of approval of the annual and interim financial reports on the activities carried out and the suitability of the Internal Audit and Risk Management System (Articles 7.C.2, letter c) and f) of the Corporate Governance Code).

Finally, relative to other responsibilities of the Committee, at the time of the actions connected to approval of the 2016 draft financial statements, it examined the Annual Report on Corporate Governance and Ownership Structures, annexed to the financial statements and the Sustainability Report. A similar examination was done at the time the 2017 draft financial statements were approved, which was also extended, with reference to the Sustainability Report, to contents relating to the Consolidated Non-Financial Statement. Also relative to Corporate Governance, the Committee had supported the Board of Directors in expressing its opinion on the adoption of the Diversity Policy and the Attendance Policy and had specific meetings with the relative company managers and consultants to examine the regulatory changes in relation to market abuse and their consequences on company procedures.

During the meeting of March 21, 2018, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the Committee was confirmed by the Board of Directors as part of the annual review of the Board itself and the Committees.

The Committee may make use of adequate financial resources.

Section XI:

Internal Audit and Risk Management System

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

- defined the "Internal Audit System of the Terna Group" (now the "Internal Audit and Risk Management System of the Terna Group" or the "IARMS"), taking its inspiration from national and international best practices such as the set of rules, procedures and organisational structures, which, through a suitable process identifying, measuring, managing and monitoring the main risks, enable correct, coherent business management with the objectives established by the Company (articles 7.P.1 and 7.P.2 of the Corporate Governance Code);
- established the guidelines of the "Internal Audit and Risk Management System of the Terna Group" (IARMS), envisaged by the new Corporate Governance Code (adopted by resolution of December 19, 2012), describing the rules, procedures and organisational structures prepared to ensure that the main risks faced by Terna and its subsidiaries are correctly identified and suitably measured, managed and monitored in accordance with criteria compatible with healthy, correct management in line with the strategic objectives identified (Article 7.C.1, letter a) of the Corporate Governance Code). On the same occasion and based on that foreseen in the indicated guidelines, the Board of Directors, after hearing the opinion of what was then the Audit and Risk Committee, defined the nature and level of risk compatible with Terna's strategic objectives and those of its subsidiaries. The Board of Directors then verifies this every year, when assessing the adequacy of the Internal Audit and Risk Management System with respect to the characteristics of the company and its risk appetite. The indicated guidelines in the "Internal Audit and Risk Management System of the Terna Group" were subsequently updated by the Board of Directors by resolution of December 15, 2016 after obtaining an opinion of the Audit and Risk, Corporate Governance and Sustainability Committee, taking into account the new provisions in the Corporate Governance Code relative to, among other things assessment of all risks that may be of relevance with an eye to the medium/long-term sustainability of Terna's business.

Finally, Terna has adopted a specific procedure for the management and communication of critical events to top management which, when events classified as "critical" occur, envisages, among other things, the calling of a Strategic Crisis Committee, consisting of the Group Manager and the Chief Executive Officer, as the Executive Director responsible for the Internal Audit and Risk Management System, which defines guidelines for management and resolution of critical problems. Furthermore, in order to monitor the critical environmental, social, political, authorisation, implementation and judicial issues connected with the Group's planned, ongoing and operational works, Terna has set up a Risk Observatory, with the aim of ensuring the correct application of Corporate Governance policies and the management of information flows to the CRO. A Territorial and Authorisation Committee has therefore been set up, consisting of Group managers, who meet periodically to analyse the critical issues identified by the Risk Observatory and to define the relative containment actions.

The "Internal Audit and Risk Management System of the Terna Group" helps, with reasonable certainty, to guarantee the safeguarding of the company assets, the efficiency and effectiveness of the business processes, the reliability of the financial operations, compliance with the law, regulations, Bylaws and internal procedures and the reliability of the company's reports and information released to corporate bodies and the market. Moreover, it is constructed considering the specific nature and type of activities carried out by Terna and the connected risks and corporate interests, with special attention paid to the part of the IARMS that has the objective of safeguarding the continuity of the electrical service and guaranteeing impartial conduct in carrying out licensed activities.

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

- the "audit environment", the basis of all other components, consists of the set of ethical and cultural values, the governance and organisational model, the leadership style exercised by the company's senior management and by the management and staff management policies. In these terms, the Code of Ethics is adopted; this document also from a moral point of view, stresses Terna's unique position. It recalls the need to comply with universal ethical standards, in which everyone can immediately recognise themselves, and that should be fully adopted by the Group. It confirms legality, integrity and responsibility as being its general ethical principles and acknowledges that standards of good business management, respect in the broadest sense of the term, fairness as a basis for loyal, impartial behaviour, and transparency in conduct and communication, are particularly important. Disciplinary procedures are foreseen in the case of violations. These ethical standards apply to all Group companies and employees are duly informed of them. Finally, an organisational structure is adopted with a clear assignment of roles and responsibilities and operating limits, in line with the skills required by the roles assigned;
- the "risk management system" implemented by the company's Senior Executives and Management starts from the definition of the business objectives (strategic plans, budget, key performance indicators, risk appetite) and enables the various levels of the organisation to identify the main risks of the individual processes to which the action plans are related. These action plans are to prevent and manage risk in order to keep it within acceptable limits, monitoring the results over time. The risk management models and methods adopted, the roles and responsibilities within the organisation are defined in specific corporate procedures and policies. In order to implement an integrated "risk management system", in 2007 Terna created a Corporate Security (today called Corporate Protection) Department significantly integrating its security tools and defining a transversal system for identifying, analysing and controlling business risks. Moreover, in accordance with the provisions of the guidelines of the "Internal Audit and Risk Management System of the Terna Group", the role of the Chief Risk Officer (CRO) has been outlined (Comment on Article 7 of the Corporate Governance Code), appointed by the Director in Charge of the Internal Audit and Risk Management System since May 2013 (and later on February 20, 2018), to which the main responsibility assigned consists of supporting Senior Management in effectively implementing and managing the Group Risk Management process, with reference to all financial, operational and business risks. In addition to ensuring absolute compliance with legal provisions, this integrated model allows the achievement of corporate security levels that exceed the regular standards attainable through sectoral and fragmented security management. The CRO reports to the Audit and Risk, Corporate Governance and Sustainability Committee once a year on the activities carried out relative to risk management, highlighting any major problems faced and the methods used to resolve them;
- the "audit activities" carried out by the management and all staff of the Terna Group in order to achieve the specific business objectives are based on underlying reference principles such as self-control, hierarchical control, accountability, traceability and simple reconstruction of actions performed, the establishment of control points, with possible methods of blocking subsequent steps in the process, balancing different interests (check and balance) and the separation of responsibilities. This is to ensure with reasonable certainty that company objectives are achieved and responses to identified risks are implemented properly and on schedule;
- the "communication and information" processes which ensure that the company's objectives, culture, values, roles, responsibilities and expected conduct are clearly communicated internally, while guaranteeing that disclosures to stakeholders outside the company are correct and transparent. More specifically, internal communication is implemented clearly and directly by management with regard to: business objectives, culture, values, roles and responsibilities, conduct and sanctions. In managing information, a suitable level of security must be guaranteed in relation to the nature of the data. "Open" communication channels between management and personnel are promoted, as well as informational channels outside of the normal hierarchical structure, when appropriate (e.g. notifications of violations of the Code of Ethics, or of Model 231). An intranet site exists to make internal communication easier, allowing for prompt and widespread notification of company events and procedures. External communication is then regulated

by procedures and organisational systems that are able to guarantee the transparency and correctness of corporate communications and prevent corporate crime. In these terms, the "Procedure for the management, processing and communication of company information regarding TERNA S.p.A. and its subsidiaries" has been adopted (please refer to Section V, "Management of company information");

- "monitoring", which guarantees the effectiveness of the "Internal Audit and Risk Management System of the Terna Group" through continuous activities carried out by personnel in the performance of their work, and through separate assessments (or "offline"), that are regular, but not continuous, often making use of spot checks, and typical of, but not exclusive to, the Audit Department.

In addition, with a view to continuously monitoring governance and compliance risks, Terna has developed:

- an "Information Security Governance" model, based on a regulatory framework of policies and procedures and an Information Risk Management (IRM) operational programme coordinated by the Group's Chief Information Security Officer ("CISO"). Within the Corporate Protection Department, a new organisation was defined with the creation of a Computer Emergency Readiness Team ("CERT") focused on the Cyber processes of Security Monitoring & Respond and Info Sharing and Threat Intelligence in line with the provisions of Directive (EU) 2016/1148 on the security of networks and information systems in the Union ("NIS Directive");
- a specialist department dedicated to the prevention and management of corporate fraud, also aimed at developing a culture of legality and compliance with corporate rules. In order to identify potential vulnerabilities in its control system, Terna, in addition to collaboration with institutional partners (such as the Guardia di Finanza, Carabinieri, Polizia di Stato, Protezione Civile, CNAIPIC), has over time developed a methodological reference model based on the systematic analysis of conditions that can generate fraudulent events, identifying "critical areas" and intercepting potential organisational and operational critical situations in which such phenomena can manifest itself, and putting in place a series of measures to prevent their occurrence. The fight against fraudulent phenomena is therefore implemented through a process of continuous monitoring of the degree of exposure to the risk of fraud and of the risk factors, through the collection and analysis of reports and indications of potential offences, the examination of processes, the adoption of adequate governance and control measures, increasingly rigorous for the prevention of fraud. To achieve this objective, Terna has equipped itself with specialised software and databases capable of processing targeted analyses, both in terms of aggregate and statistical data and with a specific focus on suppliers, contracts, projects and corporate areas. Another element of control that has been developed concerns the analysis of stakeholders with whom Terna interfaces, aimed at containing the risks deriving from transactions with third parties, and monitoring "critical" customers, in order to minimise losses deriving from non-collectable receivables. Additionally, confirming its commitment to fighting corruption, in 2016 Terna voluntarily adhered to international norm ISO 37001:2016 "Anti-bribery management systems", becoming the first Group in Italy to certify its anti-bribery management system. In this regard, in 2017, with the favourable opinion of the Audit and Risk, Corporate Governance and Sustainability Committee, specific "Global Anti-Bribery Guidelines" were adopted within the Terna Group as an overall program to prevent corruption in the public and private sectors, in activities carried out by the respective companies of the Terna Group or by parties who operate under the name and/or on behalf of the same in Italy or abroad, in doing so identifying rules and guidelines in compliance with the Terna Group's anti-corruption program that will support the respect and dissemination of said program. On the basis of the Parent Company guidelines, external companies have also adopted a "Global Compliance Program", prepared in light of the principles contained in the most relevant international regulations and best practices generally applied, so as to ensure an adequate control for the prevention of criminal conduct of international importance;
- an EGRC (Enterprise Governance, Risk and Compliance) system, aimed at ensuring an integrated view of the risks in the Company, constituting the only access point for the collection and extraction of information, data and reporting in relation to risk management. This enables and ensures: integration of the departments that manage different types of risk (strategic, operational, financial and compliance)

and consequently permits a coordinated analysis and a holistic vision on the risks of the organisation; the timeliness of information in support of the strategic and operational decision-making process; the structuring of the risk management process through a workflow system that manages transmission of requests, compilation, approval and review;

- a "Whistleblowing Policy" for managing reports of breaches of the Internal Audit and Risk Management System of the Terna Group (Comment on Art. 7 of the Corporate Governance Code). This guideline, adopted following the resolutions passed by the Board of Directors on March 21, 2016, outlines the organisational model for managing the said reports - following the provisions of Model 231, the Code of Ethics and anti-fraud policies - and defines the various responsibilities in the various stages of the process, guaranteeing all the security aspects, above all the protection and confidentiality of the identity of the reporter, as well as that of the individual reported. Furthermore, in line with best practices at national and international level and with current legislation (Law 179/2017), Terna has set up reporting channels, including an electronic channel: the 'Reporting Procedure' web portal. This portal can be used by anyone (the whistleblower) to make a report.

Verification of the truthfulness and reliability of the report is carried out through various investigatory procedural stages, during which, at all times, thanks to the adoption of "IT security" protocols and the use of tools to encrypt the contents of the report and any attachments, Terna guarantees confidentiality and security in the protection of personal data and the processing of information.

Upon completion of the resolutions passed on the IARMS as described above and on the basis of the positive opinion of the Control and Risk Committee (now Audit and Risk, Corporate Governance and Sustainability Committee), during the meeting of December 19, 2012, the Board of Directors expressed a positive opinion on the suitability of the Internal Audit and Risk Management System with respect to the characteristics of the business and the risk profile assumed, as well as its effectiveness. This assessment, supported by the annual report of the Audit and Risk, Corporate Governance and Sustainability Committee, was also confirmed by the Board of Directors during 2016 and 2017.

Subsequently, Terna's Board of Directors' meeting of March 21, 2018, in compliance with the opinion rendered by the Audit and Risk, Corporate Governance and Sustainability Committee on the basis of the analyses made during 2017 and when approving the draft financial statements for FY 2017, confirmed the positive assessment given and judged the Internal Audit and Risk Management System of the Terna Group suitable to achieve an acceptable risk profile, in consideration of the industry in which Terna operates, of its size, and organisational and Corporate structure (Article 1.C.1, letter c) and 7.C.1 letter b) of the Corporate Governance Code).

The Audit and Risk, Corporate Governance and Sustainability Committee, in its report, also made reference to the report of the Supervisory Board, appointed pursuant to Italian Legislative Decree no. 231/01 regarding the enactment of the Organisational Model at Terna and at other Group companies, as well as referring to the report of the Chief Risk Officer (CRO), focused on risk-management methods employed within Terna, as set out and quantified in the supporting documents. Annex 1 to this Report includes the principal characteristics of existing risk management and internal audit systems with respect to the financial disclosure process, also at the consolidated level (pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance).

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

The CEO of Terna, as the "Director in Charge of the Internal Audit and Risk Management System" identified by the Board of Directors in its resolution of December 19, 2012, is responsible for establishing and maintaining the "Internal Audit and Risk Management System of the Terna Group". In particular, he implements the

guidelines set out by the Board of Directors, taking care of planning, enacting and managing the same and ensuring their continuing suitability and efficiency, adapting them based on operating conditions and the legislative and regulatory context. He also identifies the principal corporate risks, keeping up to date on the key features of the business carried out by the Company and its subsidiaries, and periodically submitting this information to the Board of Directors (Article 7.P.3, letters a)-i) and 7.C.4, letters a), b) and c) of the Corporate Governance Code). He carries out the duties assigned by the Corporate Governance Code (Article 7.C.4, letters c), d) and e) of the Corporate Governance Code). He also appoints and revokes the Chief Risk Officer (CRO), after consultation with the Audit and Risk, Corporate Governance and Sustainability Committee, ensuring that the former has the resources necessary to fulfil the appointment.

He may also ask the Audit Department to audit specific operating areas and compliance with internal rules and procedures in the carrying out business operations, simultaneously informing the Chairwoman of the Board of Directors, the Chairman of the Audit and Risk, Corporate Governance and Sustainability Committee and the Chairman of the Board of Statutory Auditors, and reports promptly to the Audit and Risk, Corporate Governance and Sustainability Committee (or the Board of Directors) on any problems or critical issues that have emerged in going about his business or of which he has become aware, so that the committee (or Board of Directors) can take any necessary action (Article 7.C.4, letters d) and e) of the Corporate Governance Code.

In performing these duties during FY 2017, more specifically, the Chief Executive Officer implemented the guidelines of the “Internal Audit and Risk Management System of the Terna Group” defined by the Board of Directors- as explained in section XI under “Internal Audit and Risk Management System” - and monitored the trend of the Company’s operating conditions as a result of the Group reorganisation, in this respect, through the appointed company structures, reporting back to the Audit and Risk, Corporate Governance and Sustainability Committee.

Internal Audit unit Manager

The “Internal Audit and Risk Management System of the Terna Group” - according to the provisions of the “Internal Audit and Risk Management System of the Terna Group” guidelines, adopted on December 19, 2012 and most recently updated on December 15, 2017, already presented in this section - provides for an Internal Audit unit and the figure of the Internal Audit Manager appointed by the Board of Directors on the proposal of the “Director in Charge of the Internal Audit and Risk Management System” after obtaining the favourable opinion of the Audit and Risk, Corporate Governance and Sustainability Committee and having consulted with the Board of Statutory Auditors (Article 7.C.1 of the Corporate Governance Code). The same is given the tasks indicated by the Corporate Governance Code (Art. 7.C.5 of the Corporate Governance Code) and is not placed in any operating area; he or she reports to the Board of Directors (Art. 7.C.5 lett. b) of the Corporate Governance Code) and, in this regard, to the Chairwoman of the Board of Directors, and also to the Chief Executive Officer in his capacity as “Director in Charge of the Internal Audit and Risk Management System”.

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

Terna's Internal Audit unit Manager:

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

The plan of works prepared by the Internal Audit Manager is approved by the Board of Directors at least once a year and having first sought the opinion of the Audit and Risk, Corporate Governance and Sustainability Committee, having consulted with the Board of Statutory Auditors and the "Director in Charge of the Internal Audit and Risk Management System" (Article 7.C.1, letter c) of the Corporate Governance Code). For FY 2017, the plan of works was approved by the Board in the meeting of March 15, 2017, having first obtained the opinion of what was the Control, Risk and Corporate Governance and Sustainability Committee and after consulting the Board of Statutory Auditors and the "Director in Charge of the Internal Audit and Risk Management System". The new work schedule for FY 2018 was approved by the Board in the meeting held on March 21, 2018, having first obtained the favourable opinion of the Audit and Risk, Corporate Governance and Sustainability Committee, having consulted with the Board of Statutory Auditors and the "Director in Charge of the Internal Audit and Risk Management System".

The Internal Audit Manager operates through audits, the scope of application of which is extended to Terna and its subsidiaries. Audit activities are performed according to the annual action plan and can be carried out in connection with the departments that perform audits in the subsidiaries. The Chief Executive Officer, as the "Director in Charge of the Internal Audit and Risk Management System", may ask the Internal Audit unit to perform audits on specific operating areas and on compliance with the internal rules and procedures in the execution of business operations, communicating this at the same time to the Chairwoman of the Board of Directors, to the Chairman of the Audit and Risk, Corporate Governance and Sustainability Committee and to the Chairman of the Board of Statutory Auditors (Art. 7.C.4 lett. d) of the Corporate Governance Code).

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

The Board of Statutory Auditors, within its own activities, can request the Internal Audit unit to carry out assessments on specific operating areas or company operations (Article 8.C.5 of the Corporate Governance Code).

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

The Board of Statutory Auditors and the Audit and Risk, Corporate Governance and Sustainability Committee exchange significant information to fulfil their tasks (Article 8.C.6 of the Corporate Governance Code).

During 2017 several significant business areas were audited concerning inter alia: management of the electricity system and service, impartiality towards Grid users, the management of data security, and non-regulated businesses. The action of the Audit Department of Terna, subjected every five years to a "Full External Quality Assessment" by qualified external experts, was given in 2014 the highest rating possible in relation to "International Standards for the Professional Practice of Internal Audit". More specifically, the Audit activities were found to be: "generally compliant with the definition of Internal Auditing, the Profession's Code of Ethics, the Standards regarding Auditors and Standards of Performance; suitable for the processes and procedures defined internally; aimed at facilitating the auditing processes, risk management and control governance; focused on continuous improvement; and aimed at adding value and improving the organisation's operating processes".

Code of Ethics

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

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

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

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

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

The Code of Ethics was approved in December 2006. It applies to all of Terna Group's subsidiaries for sections 1 (Principles), 2 (Conflicts of interest, company loyalty and the integrity of company assets) and for section 3

(Relations with stakeholders) limited to the initial guidelines for the conduct to be followed with the individual categories of stakeholders. In addition, taking into account the evolution over time in the Terna Group's organisational structure, in February 2015, specific Guidelines were adopted on the adoption of the Code of Ethics in the Terna Group's subsidiaries, which contains interpretative guidance on the connection between specific contents of the Code and operating contests of the Terna Group's Parent Company and subsidiaries.

The Code of Ethics represents the Charter in which Terna sets out the ethical commitments made with regard to its stakeholders. These commitments translate into concrete and measurable objectives, which Terna reports on once a year in its Sustainability Report.

Back in 2009, Terna established an Ethics Committee to provide internal and external stakeholders with a new, specific channel for comparisons and reports on matters regarding the Code of Ethics. The members of the Ethics Committee are appointed by the Chief Executive Officer. In December 2017, following the entry into force of the new Committee Regulation, the Chief Executive Officer appointed new members of the Ethics Committee, which increased from three to five members.

231 Organisational Model pursuant to Italian Legislative Decree 231/2001

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

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

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

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

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

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

Under the scope of the new special part "D", the new Model 231 also considers the extension of the list of predicate crimes established under Article 25-*duodecies* of Italian Legislative Decree no. 109 of July 16, 2012, which establishes the extension of the administrative liability to include entities where the minimum rules relating to the employment of citizens of third party countries with invalid permits to stay are exceeded, as established in Italian Legislative Decree no. 286 of July 25, 1998 (the Consolidated Law on Immigration).

With the subsequent expansion of the category of offences, also in 2013, following the enactment of Law no. 190/2012 on anti-corruption, there was an assessment, mapping of business areas, and roles and responsibilities and the so-called "Risk Areas" were identified, defining the standards of conduct which the corporate officers must comply with in order to prevent the committing of new offences. Therefore, following this activity, the Model 231 was further supplemented, updating Special Parts A and B to consider in particular the changes made to the crimes of "undue encouragement to give or promise benefits", "extortion", "corruption in performing a duty" and the introduction of the crime of "corruption between private parties". In relation to organised crime, the new category of "trafficking of illegal influences" was added to "special part I" of the Model. This crime, although not included as a new predicate crime for the application of Italian Legislative Decree no. 231/01, does concern conduct similar to that of corruption, and as such was considered best mapped and included in the Model under crimes of association.

Similarly, during 2015 - following the entry into force of Law no. 186 of December 15, 2014 which introduced the crime of self-money-laundering into our system by providing that a person has administrative responsibility of the institution in whose interest or to whose advantage the offence was committed - there was an additional update to the 231 Model. In this regard, after the usual activities of risk assessment and gap analysis, there emerged a need to include tax crimes in the mapping of risk areas. The Organisational Model 231 was then adjusted even through some changes of a formal nature of the "Special Section F", dedicated to the crimes of money laundering and handling stolen goods, and inherent in the offence of self-money-laundering. Model 231 updates were also made, aimed at aligning it with the doctrine and case-law that has built up regarding the crime of "*Illegal burning of waste*".

During 2016, Model 231 was then updated based on the changes introduced with Italian Laws 68/2015 and 69/2015 relative to environmental crimes, crimes against the public administration, Mafia-type associations and false accounting. The most significant amendments involved Special Part L of Model 231, updated relative to the types of crimes relative to the environment, specifically: environmental pollution, environmental disaster, premeditated crimes against the environment, and trafficking and abandonment of highly radioactive material. Additional amendments affected Special Part B, updated relative to the new types of crimes on the subject of false accounting (articles 2621, 2621-*bis* and 2622, Italian Civil Code), Special Part C, updated relative to the new types of crimes on the subject of terrorism, and Special Part D, which was adjusted relative to crimes of soliciting minors and virtual pornography, envisaged under articles 609-*undecies* and 600-*quater1* of the Italian Criminal Code.

Finally, in 2017, Model 231 was updated:

- implementing the regulatory adjustments of the cases already described and the relative organisational controls concerning market abuse ("Special Part E"), anti-money laundering ("Special Part F") and crimes against the individual ("Special Part D"), as well as
- for the introduction of the controls inherent in new crimes such as illegal intermediation and exploitation of labour, illegal recruitment (described in the new "Special Part D") and incitement to corruption between private individuals (described in the new "Special Part B"), and
- to provide for so-called whistleblowing reporting systems, ("General Part") as provided for by Law 179/2017 which amended Article 6 of Legislative Decree no. 231/2001.

The Model is currently organised into eleven sections:

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

The content of this Model is consistent with the guidelines prepared for this purpose by trade associations. It is also in line with best practices, and represents a central element considered within the integrated security system adopted by Terna, which demonstrates complete accuracy, transparency and accountability in internal and external relations, while offering shareholders a guarantee of efficient and correct management.

In order to guarantee greater awareness of the adopted Model, it is published on the Company's website (www.terna.it) under the "Investor Relations" section in which the relevant parts of the Models of the Italian subsidiaries can also be found. Since 2010, a widespread, customised training and information campaign has been carried out involving all employees, through classroom sessions as well as e-learning modules, with content that is differentiated according to the target group and based on actual examples. In particular, also in 2017 an awareness raising campaign based on "At-risk areas" for crimes where everyone operates, and other activities were undertaken aimed at ensuring an effective process-modulated awareness of regulations and conduct to be followed by all company representatives.

Moreover, an Intranet portal has been set up, with a specific section dedicated to the matters pursuant to Italian Legislative Decree no. 231/01, in which all Models of the Group can be accessed, along with detailed information on jurisprudence and case law and a manual on the "Organisational and Management Model for

Procedures" intended for Terna's personnel, called on to implement the Model in order to allow a simplified interpretation of the Model, but one that is complete in terms of clearly indicating proper conduct and conduct to be avoided in terms of liability.

In compliance with the provisions of Article 6 of Legislative Decree 231/0, the Parent Company and the main Italian subsidiaries have entrusted the task of supervising the operation and monitoring of their respective Models, and subsequent updating, to an Oversight Committee with autonomous initiative and control powers. The Oversight Committee is a collective body whose members, identified by the Executive Body (Board of Directors of the Parent Company), must adhere to the requirements of autonomy, independence, professionalism, continuity of action, integrity and absence of conflicts of interest. The current Oversight Committee of the Parent Company, appointed at the approval of the 2017 Financial statements, is composed of the following four members, three of whom are external: Bruno Assumma, who holds the role of Chairman, Massimo Dinoia and Francesco De Leonardis, as external members, and Francesca Covone, as an internal member.

Independent Auditors

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

In drafting the auditing assignment proposal submitted to the Meeting of May 13, 2011, the Board of Statutory Auditors preliminarily assessed the independence requirements of this company with reference to Terna and the Group. This company, up to FY 2016, confirmed its independence to the Board of Statutory Auditors, in accordance with Article 17, paragraph 9 of Italian Legislative Decree no. 39 of January 27, 2010 in effect with reference to the same financial year. Following the entry into force, from the financial year ending December 31, 2017, of the amendments to the above provisions and the amended Article 19(1)(e) of the same decree concerning the new powers attributed to the Board of Statutory Auditors on this subject (amendments made by Legislative Decree no. 135 of July 17, 2016), the Board of Statutory Auditors verifies and monitors the independence of the Audit Company.

Furthermore, all other tasks, other than the statutory audit, in accordance with the provisions of Article 5(4) of EU Regulation 537/2014, conferred to PricewaterhouseCoopers S.p.A. and its network, were subject to pre-approval by the Board of Statutory Auditors in its capacity as the Internal Control and Audit Committee. In this context, PricewaterhouseCoopers S.p.A. was also charged with checking compliance with the Consolidated Non-Financial Statement, required from 2017 by Legislative Decree 254/2016 and delivered as part of the Sustainability Report.

Manager charged with preparing the Company's financial reports

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

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

The Manager charged with preparing the Company's financial reports must also be in possession of the requirements of honour indicated by law and professionalism indicated in the Bylaws (Article 21.4).

In particular, the Manager charged with preparing the Company's financial reports must have at least three years' experience in:

a) administration activities, finance and control and/or managing functions inherent to the activity of preparation and/or analysis and/or evaluation and/or verification of company documents whose accounting complexity is comparable to that of the Company accounting documents; or

b) legal control of the accounts in companies listed in Italian regulated markets or in those of other countries of the European Union; or

c) professional activities or university teaching in financial or accounting subjects.

The figure of the Manager charged with preparing the Company's financial reports is regulated by specific "Regulations of the Manager charged with preparing the Company's financial reports", a document that defines the tasks and associated responsibilities, and the related powers and resources attributed, prepared at Terna back in 2007 and subsequently updated in agreement with the "Director in Charge of the Internal Audit and Risk Management System".

In accordance with the relevant legislation, the Board of Directors acted quickly to appoint an Manager charged with preparing the Company's financial reports. This position, as communicated to the market on August 3,2017, is held by Agostino Scornajenchi, who was appointed by the Board of Directors after verification of the requirements of honour and professionalism. This appointment is in line with the evolution of the Company's organisational structure and of the functions assigned to Mr Scornajenchi as the manager of Administration, Finance and Control, reporting directly to the Chief Executive Officer.

The Manager charged with preparing the Company's financial reports carries out all the activities necessary to allow the Board of Directors to comply with its supervisory tasks as per Article 154-*bis*, paragraph 4 of the Consolidated Law on Finance.

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

In accordance with Article 154-*bis*, paragraph 3 of the Consolidated Law on Finance, the Manager charged with preparing the Company's financial reports prepares suitable administrative and accounting procedures to compile the separate and consolidated financial statements and any other financial communication requiring issuance of a certificate by the same. In this regard, the Manager charged with preparing the Company's financial reports certifies, together with the appointed administrative bodies, with a specific report on the separate financial statements, the abridged interim financial statements and the consolidated financial

statements, their suitability and effective application, in accordance with paragraph 5 of the same Article, according to the model established in the Issuer Regulation. These declarations have been made on the basis of the financial statements as at December 31, 2007.

During 2017, in continuity with respect to the activities of the previous years, the Manager charged with preparing the Company's financial reports updated:

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

Upon completion of said updates and also for the purposes pursuant to Article 154-*bis* of the Consolidated Law on Finance, the Manager charged with preparing the Company's financial reports has carried out specific monitoring aimed at verifying the correct application of said procedures.
In accordance with the provisions of the Corporate Governance Code, the Manager charged with preparing the Company's financial reports has, together with the Audit and Risk, Corporate Governance and Sustainability Committee, evaluated the correct use of the accounting standards (Article 7.C.2, letter a) of the Corporate Governance Code).

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

The "Internal Audit and Risk Management System of the Terna Group" involves, each insofar as they are competent, the Board of Directors, the CEO identified by the Board as the "Director in Charge of the Internal Audit and Risk Management System", the "Audit and Risk, Corporate Governance and Sustainability Committee", the Board of Statutory Auditors, the Internal Audit unit and its Manager, the Supervisory Board set up in accordance with Italian Legislative Decree no. 231 of June 8, 2001 ("SB"), the Manager charged with preparing the Company's financial reports established in accordance with Article 154-*bis* of the Consolidated Law on Finance, the Chief Risk Officer (CRO), and provides for the ways in which they shall liaise, describing roles and duties as regards the Internal Audit and Risk Management System, in order to maximise the overall efficiency of the IARMS, in compliance with the respective roles and responsibilities, and reduce duplication of activities (article 7.C.1, letter d) of the Corporate Governance Code).

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

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

Section XII:

Directors' interests and related-party transactions

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

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

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

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

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

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

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

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

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

favourable opinion provided by the Committee and taking into account that there appeared to be no issues, deemed the Procedure on the whole valid and effective and did not find it necessary to make any revision to it.

Subsequently, on January 26, 2016 proceeding with the planned three-year audit of the document, the Board of Directors unanimously and after obtaining the approval of Related-Party Transactions Committee, resolved to make a few, mainly formal, changes to the "Procedure for Related-Party Transactions", consisting of reformulations and clarifications to make the use of the document easier for all company departments and stakeholders. Additional audits of the "Procedure for Related-Party Transactions" will be carried out, based on the same one, whenever deemed appropriate but at least every three years, also in consideration of the organisational structure of the Company and the Group, and the ownership structure and the effectiveness demonstrated by the Procedure in its application.

On December 15, 2016, the Board of Directors, unanimously and having heard the positive opinion of the Related Party Transactions Committee, also resolved to extend the reach of the "Procedure for Related-Party Transactions", also to include senior executives of the Terna Group, as identified by the Chief Executive Officer of the Company and included in the specific "Related Party Registry".

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

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

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

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

The Related-Party Transactions Committee, following the renewal of the entire Board of Directors on April 27, 2017, is currently composed of Gabriella Porcelli (Acting as Coordinator), Luca Dal Fabbro and Paola Giannotti, all non-executive and independent directors and representatives of the minority; at least one member is also in possession of appropriate experience in accounting and finance.

During 2017, the whose presence was deemed helpful for providing greater information on the subjects on the agenda held a total of 2 meetings, with an average duration of about 20 minutes each, characterized by the regular participation of the components (100%) and which, at the invitation of the Committee, were attended by senior executives of the company whose presence was deemed helpful for providing greater information on the subjects on the meeting agenda. All meetings of the Committee were minuted correctly and the Committee had the opportunity to access information and company departments as required in the execution of its tasks.

During the current year (2018) up to the date of approval of this report, the Committee has not held any meetings.

The participation of each Member of the incumbent Committee at meetings held during the year 2017 is shown in Table 1 attached (Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance). Information on the number of meetings and activities refers to the overall activities carried out by the Committee in 2017.

With regard to the activities carried out during the year 2017 up to the date of this Report, the Related-Party Transactions Committee: supported, on a preliminary and preparatory basis, the Board of Directors and the Company departments charged with the examination of specific transactions under the Procedure, not having identified any critical issues and at the time of setting-up, dedicated a special meeting to planning future activities to be implemented and appointed the Secretary.

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

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

Section XIII:

Appointment of the Statutory Auditors

Appointment and requirements of Statutory Auditors

The terms for appointing the members of the Board of Directors are governed by Article 26 of the Bylaws.

In compliance with the provisions of the Company's Bylaws, the Board of Statutory Auditors is comprised of three Standing Auditors and three Alternate Auditors, who are appointed by the Shareholders' Meeting for a period of three years and may be re-appointed at the end of their term.

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

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

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

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

On the basis of this referral and in accordance with the provisions of Articles 4, paragraph 1-*bis*, of the Privatisation Law and modified by Italian Legislative Decree no. 27 of January 27, 2010, by Article 148 of the Consolidated Law on Finance and by the implementing rules for the above mentioned provisions included in Articles 144-*ter* and following of the Issuers Regulation, that the lists of candidates can be presented by shareholders that, alone or jointly with other shareholders, hold at least 1% of the share capital - or a lower amount as envisaged by the law - of shares with voting rights in the meeting. For this purpose CONSOB, implementing the provisions of Art. 148-*ter* of the Consolidated Law on Finance and Article 144-*septies* of the Issuers Regulation, has established - with Resolution no. 20273 dated January 24, 2018 and for the year ended December 31, 2017 - the minimum equity interest required for submitting candidate lists to be appointed to Terna's administrative and auditing bodies at 1% of the share capital, taking into account the Company's capitalisation, and without prejudice to any lower stake provided for in the Bylaws.

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

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

Ownership of the minimum stake required to submit lists shall be determined - in accordance with the provisions of Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance - by taking into account the shares that are registered in the name of the Shareholder(s) on the day on which the lists are filed with the Company. In order to prove ownership of the number of shares necessary for presentation of the

lists, shareholders with rights must present and/or deliver the related documentation issued in accordance with Articles 144-*sexies*, paragraph 4-*quater*, Issuers Regulation and 23 of the "Regulation governing the centralised management services, liquidation, guarantee systems and related management companies" in force at the time (adopted by the Bank of Italy and CONSOB on February 22, 2008 as subsequently amended, the so-called "single measure"), also after filing the list, as long as, within the terms envisaged for publication of the lists (i.e. at least 21 days before the date set for the Shareholders' Meeting called to resolve on appointment of the auditing body).

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

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

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

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

In this regard, lists which, considering both sections, have three or more candidates must include, both in the first two places of the section of the list relating to Standing Auditors and in the first two places on the list relating to Alternate Auditors, candidates of different genders, in order to enable a Board of Statutory Auditors to be formed in compliance with current legislation on gender balance in the administrative and auditing bodies of companies with listed shares pursuant to Italian Law no. 120 of July 12, 2011 and Articles 147-*ter*, paragraph 1-*ter* and 148, paragraph 1-*bis* of the Consolidated Law on Finance. These statutory provisions aimed at guaranteeing compliance with current legislation on gender balance - introduced by the resolution of the Shareholders' Meeting passed on May 16, 2012 - apply, in accordance with the provisions of Article 31.1 of the Bylaws, to the first three renewals of the Board of Statutory Auditors subsequent to entry into force and application of the provisions of Article 1 of Italian Law no. 120 of July 12, 2011, published in Official Journal no. 174 of July 28, 2011 and in force as from August 12, 2011 without prejudice to any extensions envisaged by the law. In particular, these provisions were first applied on the occasion of renewal of the corporate bodies whose office expired on approval of the 2013 financial statements resolved by the Shareholders' Meeting of May 27, 2014. On the same occasion, in accordance with the provisions of Article 31.2 of the Bylaws, the new provisions of the Bylaws applied, which - for the same purpose and for the first three renewals, save any additional extensions provided for by law - have increased the members of the Board of Statutory Auditors, which is made up of a total of three Standing Auditors and three Alternate Auditors. The provisions in the Bylaws aimed at guaranteeing compliance with the current regulations on gender balance, also relative to the Board of Statutory Auditors, was applied for the second time upon renewal of said Board, whose terms expired with approval of the separate financial statements for the year ending at December 31, 2017 as resolved by the Shareholders' Meeting of April 27, 2017.

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

to consider that, on the basis of what is envisaged by Article 19 of Italian Legislative Decree 39/2010 as most recently amended by Article 18 of Italian Legislative Decree no. 135 of July 17, 2016, the members of the Board of Statutory Auditors, overall, must be competent in the sector in which Terna operates.

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

a) with information on the identity of the shareholders who have submitted the lists, indicating the total percentage equity interest held;

b) with a declaration by shareholders other than those who hold, also as a group, a controlling interest or relative majority, indicating the absence of relationships as set forth in Article 144-*quinquies* of the Issuers Regulation with the latter. In this regard, CONSOB, with Communication no. DEM/9017893 of February 26, 2009 (concerning the "Appointment of the members of the administrative and auditing bodies") recommends that shareholders presenting a "minority list" provide the information required with regard to the election of the auditing bodies in this declaration;

c) with an accurate description of the personal and professional characteristics of the candidates, accompanied - pursuant to Article 2400, last paragraph of the Italian Civil Code - by a list of administration and auditing positions held within other companies as well as a statement by the candidates certifying possession of the requisites set by the law (including possession of independence requisites pursuant to Article 148, paragraph 3 of the Consolidated Law on Finance) and their acceptance of the candidacy.

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

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

In this regard, on the basis of the procedure for appointing the Auditors according to the "list voting" mechanism governed by Article 26.2 of the Bylaws and Article 144-*sexies* of the Issuers Regulation, each person with the right to vote can vote a single list only in the shareholders' meeting.

Relative to the proceedings for appointing statutory auditors based on the list voting mechanism governed by article 26.2 of the Bylaws, the Shareholders' Meeting of Terna on March 23, 2017 approved in an extraordinary session, some amendments to the Bylaws relating to the provisions of Articles 14.3 and 26.2 aimed at adding to the list voting regulations for the appointment of the Board of Directors and Board of Statutory Auditors. The revised provisions have already been applied for the first time on the occasion of the renewal of the corporate bodies on Aprile 27, 2017. To that end, below we provide the proceedings for appointing the Statutory Auditors based on the list voting mechanism governed by Article 26.2 of the Bylaws.
The proceedings to appoint the Statutory Auditors based on the list voting mechanism governed by Article 26.2 of the Bylaws envisages that, in the progressive order in which they appear in the list, two Standing Auditors and two Alternate Auditors are taken from the list that has obtained the most shareholder votes (the "majority list"); the remaining Standing Auditor and the remaining Alternate Auditor are instead taken from the other lists (the "minority lists") considering that which obtained the most votes, according to the mechanism described in letter b) of Article 14.3 for the election of Directors; this is to be applied separately to each of the sections into which the lists are divided and which has been presented and voted by shareholders who are not directly or indirectly connected, in accordance with Article 144-*quinquies* of the Issuers Regulation, with the shareholders who presented or voted the majority list.

In compliance with the Italian legislation for listed companies, the Bylaws (Article 26.2) attribute the role of Chairperson of the Board of Statutory Auditors to the Auditor appointed by the minority list (to be understood, on the basis of the resolution passed by the Shareholders' Meeting of March 23, 2017, as the candidate appointed with the methods envisaged in Article 14.3, letter b)).

For the appointment of Statutory Auditors taking place outside the context of the renewal of the entire Board of Statutory Auditors, the Shareholders' meeting shall resolve with the legal majorities and without observing the procedure described above, in any case in such a way as to assure a composition of the Board of Statutory Auditors in compliance with requirements of integrity and professionalism as envisaged by the law and the Bylaws, as well as ensuring compliance with current legislation on gender balance. The slate voting procedure is therefore only applied in the event of renewal of the entire Board of Statutory Auditors. This principle, already implicit in the legislation and in Article 26.2 of the Corporate Bylaws, has been expressly clarified by theamendments to the Bylaws approved by the Shareholders' Meeting of March 23, 2017 that expressly provided for the appointment of Statutory Auditors, who for whatever reason are not elected according to the "slate voting" procedure described above, the Shareholders' Meeting will resolve according to the majorities provided by law and without observing the said procedure so as to ensure that the composition of the Board of Statutory Auditors complies with current legislation also concerning gender balance.

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

In addition to the provisions indicated and on the basis of the resolutions passed by the Extraordinary Shareholders' Meeting of March 23, 2017, in the case in which, after voting, there was, *mutatis mutandis*, a situation analogous to that foreseen in the proposed amendments to Article 14.3, letter b)-*bis* - specifically in which the majority list lacked a sufficient number of candidates to ensure the number of candidates to be appointed was reached - the procedures pursuant to the same letter b)-*bis* apply, both for standing and alternate auditors, to the extent they are compatible with the regulations in effect and the present article.

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

Relative to the proposals for remuneration of the statutory auditors and taking into account that foreseen in the new provisions of article 8.C.3 of the Corporate Governance Code, on the occasion that the Shareholders' Meeting called upon to resolve on the renewal of the Board of Statutory Auditors whose term was expiring with the approval of the separate financial statements for the year ending at December 31, 2017, the invitation was expressly made to the shareholders to formulate proposals for remuneration commensurate with the commitment required, significance of the position held, and Terna's size and the sector in which it operates.

Section XIV:

Composition and operation of the Board of Statutory Auditors

The Board of Statutory Auditors currently in office, appointed by the ordinary Shareholders' Meeting of April 27, 2017, will be in office until the approval of the 2019 financial statements.

According to what was resolved by the Shareholders' Meeting on April 27, 2017, the following make up the Board of Statutory Auditors: Riccardo Enrico Maria Schioppo (Chairman of the Board of Statutory Auditors elected from the minority list formulated by a group of shareholders made up of asset management companies and other institutional investors as listed in the Company's specific press release relating to publication of the Lists of April 6, 2017), Vincenzo Simone and Maria Alessandra Zunino de Pignier (Standing Auditors appointed by the majority list submitted by CDP Reti S.p.A.).

The following Alternate Auditors were also elected: Davide Attilio Rossetti (indicated by the minority list formulated by a group of shareholders made up of asset management companies and other institutional investors as listed in the Company's specific press release relating to publication of the Lists of April 6, 2017), Cesare Felice Mantegazza and Renata Maria Ricotti (indicated by the majority list submitted by CDP Reti S.p.A.).

The Auditors appointed represent both lists submitted for the said meeting. Further information regarding the lists of candidates submitted and on the results of the voting is available on the Company's website at www.terna.it in the section "*Investor Relations/Corporate Governance /Shareholders' Meetings/ Shareholders' Meeting of 27/04/2017*". Following the statements made for the appointment, the vote count and after the voting, a standing member was elected by the minority members that are not connected, even indirectly, with the members who submitted or voted the list that obtained the highest number of votes.

Since the appointment, at the Shareholders' Meeting of April 27, 2017, the composition of the Board of Statutory Auditors has remained unchanged.

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

- **Riccardo Enrico Maria Schioppo, 67 years old - Chairman of the Board of Statutory Auditors**
  [born in Milan on July 20, 1950]

Chartered Accountant registered in the Order of Milan and in the Register of Legal Auditors. He does professional work in the sectors of administration and auditing of joint-stock companies. In the Mediobanca Group he is the Chairman of the Board of Statutory Auditors of CheBanca! S.p.A., Mediobanca Sgr S.p.A. (Former Duemme Sgr S.p.A.), SelmaBipiemme Leasing S.p.A. and Spafid S.p.A. In the Roche Group, he is a Standing Auditor of Roche S.p.A., Roche Diagnostics S.p.A. and of Roche Diabetes Care Italy S.p.A. Custodian of the Esperia Philanthropy Onlus trust. He is also alternate statutory auditor in Telecom Italy S.p.A.

He has been Chairman of the Board of Statutory Auditors of Terna S.p.A. since May 2014.

He has acquired numerous and qualified professional experiences, also related to extraordinary operations, as legal auditing manager of leading Italian groups and companies listed on the Stock Exchange; CFO of Ernst & Young Italia from 2005 to 2013 and Audit Partner of Reconta Ernst & Young from 1984 to 2013. He was also a member of the Italian Commission for Accounting Standards of the Italian Council of Chartered Accountants.

- **Vincenzo Simone, 57 years old - Standing Auditor**
  [born in Padula (SA) on November 20, 1960]

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

He has done professional work since 1990 and is the majority shareholder and consultant of a joint-stock company which has operated, for more than fourteen years, in the sector of fiscal, financial and business

consultancy. He is a member of the Evaluation Team of the Municipality of Potenza as well as standing member of the Board of Statutory Auditors for the Federation of Cooperative Credit Banks of Puglia and Basilicata. He has been regular statutory auditor of Terna S.p.A. since May 2014.

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

- **Maria Alessandra Zunino de Pignier, 65 years old - Standing Auditor**
  [born in Rome on May 1, 1952]

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

She performs private professional practice and was a member of the Board of Directors of Mediolanum S.p.A. and Veneto Banca S.p.A. and a statutory auditor in a number of regulated entities. She is currently a member of the Board of Directors Banca Intermobiliare di Investimenti e Gestioni S.p.A. (BIM). She has been a regular statutory auditor of Terna S.p.A. since May 2014.

She is the author of books and articles on rules governing markets, services and financial instruments.

During the appointment and taking account of the information provided by the individuals involved, the Board of Directors, as reported in the press release of April 27, 2017, based on the envisaged terms, has confirmed and verified the existence of the requisites of integrity, professionalism and independence of the members of the Board of Statutory Auditors appointed by the Shareholders' Meeting held on April 27, 2017, as well as the possession, for the body as a whole, of the competence requirements pursuant to Article 19(3) of Legislative Decree 39/2010.

In the attached Table 2, information is included regarding the composition of the Board of Statutory Auditors as of March 21, 2018.

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

The total number of assignments as Director or Auditor in other companies according to Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the Civil Code, relevant according to Article 148-*bis* of the Consolidated Law on Finance, is indicated in the annexed Table 2. The total number of assignments according to Article 144-*quinquiesdecies* of the above-mentioned Issuers Regulation based on CONSOB Resolution no. 17326 dated Mary 13, 2010, is published by CONSOB and is available on its website (www.CONSOB.it). In this regard, it should be remembered that following the amendments to Articles 144-*terdecies* and 144-*quaterdecies* of the Issuers Regulation as per CONSOB Resolution no. 18079 of

January 20, 2012 (published in the Official Journal on February 7, 2012), the limits on the total number of assignments and the consequent obligation to notify CONSOB are not applicable to standing members of the auditing body who hold the position of standing member of the auditing body "in one issuer only".

During 2017, the Board of Statutory Auditors held a total of 8 meetings which lasted on average approximately 2 hours and 33 minutes each, with the regular participation of the Standing Auditors (100%).

In the current year (2018), all the meetings prior to examination of the economic-financial data by the Board of Directors have been scheduled. During the year in progress up to the date of approval of this Report, the Board of Statutory Auditors has held 2 meetings.

The Board of Statutory Auditors - with reference to the provisions of Art. 148, paragraph 3, of the Consolidated Law on Finance, and on the basis of the criteria envisaged for assessing the independence of the non-executive members of the Board of Directors under the terms of Art. 3 of the Corporate Governance Code and in ways that comply with those envisaged for the Directors - with reference to the information supplied by the individual parties concerned - has certified that the independence requirements are met by all Standing Auditors (Article 8.C.1 of the Corporate Governance Code). This verification was most recently confirmed by the meeting held on January 24, 2018.

Terna's Board of Statutory Auditors, already from March 16, 2007, decided to make itself subject voluntarily to a system of transparency analogous to that of the Directors (explained in section XII) in case of operations in which they have an interest for themselves or for third parties (Article 8.C.4 of the Corporate Governance Code). This orientation was also confirmed by the Board of Statutory Auditors in office.

Taking into account that foreseen in the new provisions of article 8.C.1 of the Corporate Governance Code, at the time of the Shareholders' Meeting of April 27, 2017, that resolved relative to the renewal of the Board of Statutory Auditors whose term was expiring, it was expressly noted that the statutory auditors must be individuals who can be classified as independent, also on the basis of the criteria foreseen in this Code, with reference to directors, and that the Board of Statutory Auditors is required to verify compliance with said criteria after appointment and subsequently on an annual basis, sending the result of said checks to the Board of Directors which releases them, after appointment, through a communication disseminated to the market and, subsequently, in the context of the Annual Report on Corporate Governance, using methods analogous to those envisaged for the Directors. The results of these checks were thus issued in a press release on April 27, 2017.

In 2017, overall the Board carried out its typical supervisory duties as established by Italian legislation for the Board of Statutory Auditors on (I) observance of the Law and of the memorandum of association, including observance of principles of proper administration in carrying out corporate activities, (II) adequacy of the organisational structure, (III) adequacy and effectiveness of the Internal Audit and Risk Management System and (IV) suitability of the company's administrative-accounting system; (V) methods of concrete implementation of the rules of corporate governance set out by the code of conduct with which the Company has declared it complies; (VI) the financial disclosure process and legal auditing of the annual and consolidated accounts, and (VII), in this context, compliance with the provisions of Legislative Decree no. 254 of December 30, 2016, which implemented Directive 2014/95/EU on non-financial information and information on diversity (Article 7.P.3 and Comment to Article 8 of the Corporate Governance Code). It also verified implementation of the provisions pursuant to Article 114, paragraph 2 of the Consolidated Law on Finance relating to communication obligations. The Board of Statutory Auditors also monitored the independence of the auditing firm verifying both observance of the provisions applicable on the matter, and the nature and quantity of the services other than the accounting and auditing provided to Terna and to its subsidiaries by PricewaterhouseCoopers S.p.A. and the entities belonging to its network.

The Board of Statutory Auditors verified the proper application of the criteria and procedures adopted by the Board of Directors for evaluating the independence of its members and also analysed the implementation of the regulations pursuant to Legislative Decree no. 231/01 and of the Regulations for the Manager charged with preparing the Company's financial reports pursuant to Italian Law no. 262/05.

In 2017, the Board of Statutory Auditors, through its Chairman, was recipient of the results of the audits on the Head of the Audit Department and the statutory auditors regularly attended the meetings of the Board of Directors and the Audit Risk and Corporate Governance Committee and also - the Chairman - participated in the meeting of the Remuneration Committee ensuring appropriate involvement of the Board of Statutory Auditors in many internal procedures.

In carrying out its activity, the Board of Statutory Auditors was coordinated with the Audit Unit and with the Control, Risk and Corporate Governance Committee according to the terms included in the previous "Section XI: Internal Audit System" (Articles 8.C.5 and 8.C.6 of the Corporate Governance Code), with the Supervisory Board pursuant to Legislative Decree no. 231/01, with the Manager charged with preparing the Company's financial reports pursuant to Law no. 262/05, as well as with the Boards of Statutory Auditors of the holding company and with the auditing firm, exchanging relevant information to perform their respective duties.

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

Diversity policies

Terna's Board of Directors, as better explained in Section IV below: "Board of Directors - Composition - Diversity Policies", has adopted diversity policies with regard to aspects such as age and seniority in office, gender, geographical origin, training and professional paths, in order to also guide the candidatures put forward by Shareholders during the renewal of the entire Board of Statutory Auditors, which will serve the purpose of integrating the same.

To this end, in the context of the document "Policy on the diversity of management and control bodies in Terna S.p.A" (hereinafter also the "**Policy**" or "**Diversity Policy**") approved by Terna's Board of Directors, at its meeting of February 20, 2018, upon proposal of the Appointment Committee and the Audit and Risk, Corporate Governance and Sustainability Committee and after consulting the Board of Statutory Auditors - in line with the provisions of Article 123 bis of the Consolidated Finance Act updated by Legislative Decree no. 254 of December 30, 2016, published in the Official Gazette of January 10, 2017 and the "Guidelines on non-financial reporting (Methodology for reporting non-financial information)" published by the European Commission on July 5, 2017 (Communication 2017/C 215/01) - the Policy contains some provisions concerning the composition of the Board of Statutory Auditors, referring first of all to the laws and regulations in force regarding the requirements of professionalism, integrity and independence for statutory auditors. In addition to the above, the Policy envisages that:

- the members of the Board of Statutory Auditors, taken as a whole, are competent in the sector in which the Company operates.
- the principles of this Policy, established for the Board of Directors, apply to the members of the Board of Statutory Auditors, insofar as they are compatible, in particular with regard to age, gender, seniority and professional experience.

To ensure implementation, the Policy adopted will be referred to at upcoming appointments and renewals and may be published on the Company's website in the section "Investor Relations/Corporate Governance/ Corporate Governance System/Policy on the diversity of management and control bodies in Terna S.p.A".

Section XV:

Investor Relations

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

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

Accordingly, the Company set up the (I) Investor Relations Unit, entrusted to the responsibility of Doctor Omar Al Bayaty, which has the task of managing relations with institutional investors, within the External Communication and Sustainability Department (Viale Egidio Galbani, 70, 00156 Rome - tel. +39 06 8313 8282 - fax +39 06 8313 9312 - e-mail: investor.relations@terna.it) - and (II) a department for relations with general shareholders within the Corporate and Legal Affairs Department under the management of Francesca Covone (Viale Egidio Galbani, 70, 00156 Rome - tel. +39 06 8313 8136 - fax +39 06 8313 8218 - e-mail: azionisti.retail@terna.it) - (Articles 9.P.1, 9.P.2, and 9.C.1 of the Corporate Governance Code).

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

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

Section XVI:

Shareholders' Meetings

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

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

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

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

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

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

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

These provisions do not entail any obstacles to subsequent trading of shares. The credit and debit registrations made on accounts subsequent to the said term are not material for purposes of legitimizing the exercise of the right to vote in the Shareholders' Meeting. Therefore, those who appear as owners of the Company shares subsequent to the said date will not be allowed to participate and vote in the Meeting.

Communications by intermediaries for participation must be received by the Company by the end of the third trading day prior to the date set for the first (or only) call of the Shareholders' Meeting. This involves no prejudice to the entitlement to participate and vote if the Company has received the communications after said indicated term, provided that they are received by the time the Meeting begins on single call (Article 83-*sexies*, paragraph 4 of the Consolidated Law on Finance).

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

The right to add to the agenda and to present new proposed resolutions on the part of the shareholders, by virtue of the general reference pursuant to Article 30 of the Bylaws, is held by the shareholders that, also jointly, represent at least one fortieth of the share capital according to the direct provisions of the Law (Article 126-*bis* of the Consolidated Law on Finance). On the basis of this provision, shareholders can present a written application, also by correspondence or electronically, in compliance with any requirements strictly necessary to identify the applicants and as indicated by the company, within ten days of the publication of the notice convening the meeting, to supplement the agenda with additional items, specifying in the application what additional items are proposed, or presenting proposed resolutions on items already on the agenda, filing a report within these same terms, giving the reasoning for the proposed resolutions on the new items up for discussion or the reasoning in relation to the additional proposed resolutions presented on items already on the agenda, along with documentation certifying ownership of the shares in accordance with the Regulation governing the centralised management services, liquidation, guarantee systems and related management companies "as in force (adopted by the Bank of Italy and CONSOB on February 22, 2008 and subsequently amended with: Bank of Italy/Consob Act of December 24, 2010, the Bank of Italy/CONSOB ruling October 22, 2013; Bank of Italy/CONSOB Act of February 11, 2015; Bank of Italy/CONSOB Act of February 24, 2015).

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

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

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

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

Starting March 3, 2004, with a special shareholders' resolution, the Company implemented a special shareholder's resolution aimed at ensuring the exact and functional conduct of Shareholders' Meetings, with detailed rules for the various phases, in compliance with each shareholders' fundamental right to request clarifications on the various issues being discussed, express an opinion and submit proposals (Article 9.C.3 of the Corporate Governance Code). With the shareholders' resolution of May 13, 2011, the text of the adopted "Regulations for Terna S.p.A.'s Shareholders' Meetings" was adjusted to be in line with the provisions of Legislative Decree no. 27, dated January 27, 2010 with regard to the exercising of certain rights of shareholders of listed companies. At the same time, some further adjustments were made in order

to better define the scope of certain provisions of the Regulations in light of the experience gained in applying them and to ensure smoother conduct of the Shareholders' Meetings. The main amendments made, which were illustrated in detail to the shareholders with a specific report to the Shareholders' Meeting, regarded provisions concerning rules on the right to participate and vote in a Shareholders' Meeting and provisions concerning the right to pose questions on the items on the agenda, also before the Shareholders' Meeting.

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

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

The Board of Directors reports to the Shareholders' Meeting on the activities carried out and planned on the occasion of approval of the financial statements and in the report on operations and, with specific reports, provides the shareholders with adequate information in a timely manner, so that they may pass resolutions with full knowledge of the facts; further clarifications, where required, are also provided in response to queries raised by shareholders during the meeting (Article 9.C.2 of the Corporate Governance Code). In this regard, the annual Shareholders' Meeting held in financial year 2017, called upon to approve, among other things, the 2016 statutory financial statements was attended by 5 Directors out of 9 and by the entire Board of Statutory Auditors. On this occasion, the Chairman of the Remuneration Committee attended and also spoke (comments to Article 6 of the Corporate Governance Code).

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

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

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

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

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

As regards the expression of the right to vote at Shareholders' Meetings, (as described in Section II above under "Voting Restrictions") the Bylaws identify (specifically in Arts 10.2, 14.3 lett. f) and 26.2) a number of cases of conflict of interest for the purposes of Art. 2373 of the Italian Civil Code under the terms of Directive no. 2009/72/EC of July 13, 2009 and of Italian Legislative Decree no. 93 of June 1, 2011 and subject to the assessments made by ARERA in the process of certifying the Company as a transmission system operator under the ownership unbundling. In particular, for the purposes of Art. 2373 of the Italian Civil Code, the following are considered as having a conflict of interest:

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

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

During 2017, the Shareholders' Meeting took place twice: on March 23, 2017 in an extraordinary sitting, approving the amendments to the Bylaws described in Section I, under "Organisation of the Company", and on April 27, 2017 in an ordinary sitting, to approve the Financial statements and the net results, as well as to renew the corporate bodies that have expired and to deliberate on the Remuneration Policy.
The outcomes of the Shareholders' Meetings were promptly communicated to the market.

During FY 2017 - with reference to the regulations for minority rights and in compliance with the regulations and rules for the Company mentioned above - no significant changes were made in market capitalisation of the Company's shares or in the composition of its corporate bodies for which the Board of Directors had to evaluate the opportunity of proposing to the Shareholders' Meeting any amendments to the Bylaws regarding the percentages established for exercising shares and of the prerogatives set for minority protection (Article 9.C.4 of the Corporate Governance Code).

Section XVII:

Considerations on the letter of December 13, 2017 from the Chairman of the Committee for Corporate Governance Corporate Governance

In December 2017, Terna received the annual letter from the Chairman of the Italian Committee for Corporate Governance to the Chairmen of Boards of Directors, Managing Directors and Chairmen of Boards of Statutory Auditors of listed Italian companies, with the aim of promoting the development of Corporate Governance by all Italian listed companies, as well as the attached Annual Report (2017) of the said Committee, also made available on the Borsa Italiana website, concerning the application of the Corporate Governance Code.

The Annual Report (2017) of the Italian Committee for Corporate Governance, providing evidence of the monitoring carried out by said Committee concerning the application of the main recommendations of the Corporate Governance Code, represented: on the one hand, an appreciation of the level of transparency offered, on average, by reports on corporate governance, and on the other, the main critical issues found concerning the application of the main recommendations and possible areas for improvement.

The results of the report and the recommendations made, as requested by the Committee, were brought to the attention of Terna's Board of Directors and the competent Committees, through their Chairmen on February 20, 2018 so that the results could also be taken into account during the annual self-assessment of the Board and Committees, aimed at identifying possible improvements in governance.

To this regard, the Board of Directors, when assessing the results of the board review and with reference to the three main areas identified by the Committee for 2017, which are essentially related: (i) the timeliness, completeness and relevance of pre Board meeting information; (ii) the clarity and completeness of remuneration policies regarding long-term variable components, claw-back clauses and the assignment of any severance indemnity and (iii) the establishment and functions of the Appointment Committee, noted that:

(i) the effectiveness of the operation of the Board was also made possible by ensuring that the Directors had access to ample, well-structured and sufficiently early pre-meeting documentation, which allowed the Board to study issues in depth and to carry out its role in an informed and active manner;

(ii) the Remuneration Committee, within the scope of its powers, carried out the necessary in-depth analyses on the remuneration criteria and on the composition of the remuneration structure for the Managing Director and the management, with reference also to the new guidelines on the subject and contained in the Corporate Governance Code. The Committee met with adequate frequency in relation to the issues discussed, carrying out its activities in support of the Board in a timely manner, and also provided the Board with adequate information on the activities carried out;

(iii) the Appointment Committee carried out its duties in a timely and effective manner, adequately examining the issues to be dealt with in compliance with the provisions of the Corporate Governance Code and its clearly defined mission in the related internal organisational rules, also providing adequate information to the Board on the activities carried out.

At the same time and with reference to the further areas of improvement identified in the Annual Report (2017) of the Italian Committee for Corporate Governance, which are essentially related: (i) succession plans for Executive Directors; (ii) the assessment of the independence of non-executive directors and (iii) the consideration in the board review process of the effectiveness of the Board's operation with regard to the processes for defining strategic plans and monitoring management performance and adequacy of the Internal Audit and Risk Management System, the Board of Directors also noted that:

(i) the Company will begin an in-depth analysis to assess the feasibility of preparing a succession or contingency plan for the position of Chief Executive Officer and any other key figures in management;

(ii) the independent Directors were suitably qualified as such in accordance with the applicable regulations and internal rules of the Company and the proper application of the defined criteria and procedures adopted by the Board of Directors was verified by the Board of Statutory Auditors;

(iii) during the board review process, it was found that the Directors agree that the time dedicated to the debate on governance, business management, the Company's strategy and risk identification and management system was adequate, considering Terna's organisational solutions adopted for this purpose to be appropriate, in line with defined risk management policies.

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

Table 1:

Composition of TERNA's Board of Directors and of the Committees

B.o.D.

POSITION	Members (Last name and first name)	Year of birth	Date of first appointment	In office since	In office until	List
CHAIRMAN	Bastioli Catia	03/10/1957	27/05/2014	27/04/2017	31/12/2019	M
CHIEF EXECUTIVE OFFICER • ◊	Ferraris Luigi	23/02/1962	27/04/2017	27/04/2017	31/12/2019	M
DIRECTOR	Corsico Fabio[1]	20/10/1973	27/05/2014[1]	27/04/2017	31/12/2019	M
DIRECTOR	Dal Fabbro Luca[2]	08/02/1966	27/05/2014[2]	27/04/2017	31/12/2019	m
DIRECTOR	Giannotti Paola	13/7/1962	27/4/2017	27/4/2017	31/12/2019	m
DIRECTOR	He Yunpeng[3]	06/02/1965	21/01/2015[3]	27/04/2017	31/12/2019	M
DIRECTOR	Porcelli Gabriella[4]	10/03/1965	27/05/2014[4]	27/04/2017	31/12/2019	m
DIRECTOR	Saglia Stefano[5]	01/02/1971	27/05/2014[5]	27/04/2017	31/12/2019	M
DIRECTOR	Vasco Elena	31/12/1964	27/04/2017	27/04/2017	31/12/2019	M
Directors who resigned from their position during the year in question:						
CHIEF EXECUTIVE OFFICER • ◊	Del Fante Matteo[6]	27/05/1967	28/04/2008[6]	27/05/2014	27/4/2017	M
DIRECTOR	Calari Cesare	10/05/1954	27/05/2014	27/05/2014	27/4/2017	m
DIRECTOR	Cerami Carlo[7]	02/02/1965	27/05/2014	27/05/2014	27/4/2017	M

Number of meetings held during the year in question:	
Legal number necessary for submitting the lists during the last appointment:	

Note

(1) Director Corsico, during the time covered in his previous office from May 2014, carried out the role of member (M) of the Remuneration Committee and member (M) of the Related-Party Transactions Committee, in the scope of the BoD.

(2) Director Dal Fabbro, during the time covered in his previous office from May 2014, carried out the role of Chairman (C) of the Appointment Committee and member (M) of the Audit and Risk, Corporate Governance and Sustainability Committee, in the scope of the BoD.

(3) The Director Yungpeng He was appointed on January 21, 2015 by co-optation, pursuant to Art. 2386 of the Italian Civil Code, by indication of the relative majority shareholder CDP Reti S.p.A., a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. and confirmed by the Shareholders' Meeting on June 9, 2015.

(4) Director Porcelli, during the time covered in her previous office from May 2014, carried out the role of member (M) of the Remuneration Committee and member (M) of the Related-Party Transactions Committee, in the scope of the BoD.

(5) Director Saglia, during the time covered in his previous office from May 2014, carried out the role of Coordinator (C) of the Related-Party Transactions Committee and member (M) of the Appointment Committee, in the scope of the BoD.

(6) From April 28, 2008 to May 27, 2014, the Chief Executive Officer Matteo Del Fante, within the Board of Directors, held the positions of Director and member of the Appointment Committee and Chairman of the Related Party Transactions Committee.

(7) Director Carlo Cerami took over as a member of the Audit and Risk, Corporate Governance and Sustainability Committee on March 4, 2015 replacing Director Simona Camerano, who resigned on November 27, 2014.

Key

C.d.A.: Board of Directors of Terna S.p.A.

C.R.C.: Audit and Risk, Corporate Governance and Sustainability Committee. The "Control and Risk Committee", already established in Terna S.p.A. according to the provisions of the Corporate Governance Code, with a resolution of the Board of Directors of May 27, 2014 - adding to the previous duties relating to the Corporate Governance system, has been renamed "Control, Risk and Corporate Governance Committee". Subsequently, with a resolution on December 15, 2016 that added responsibilities relative to sustainability, it took on its current title of Audit and Risk, Corporate Governance and Sustainability Committee, confirmed by the Board of Directors on April 27, 2017, when the internal board committees were reconstituted within the new Board of Directors appointed by the Shareholders' Meeting of April 27, 2017.

R.C.: Remuneration Committee of Terna S.p.A.

A.C.: Appointment Committee established in Terna S.p.A. with a resolution of May 27, 2014.

RPT Committee: Related-Party Transaction Committee established in Terna S.p.A. for approving the Procedure for Related-Party Transactions as indicated by the "Regulation on Related-Party Transactions" issued by CONSOB with Resolution no. 17221 dated March 12, 2010, as subsequently modified by Resolution no. 17389 dated June 23, 2010 ("CONSOB Regulations for Related Parties"). The Committee is made up of at least three directors in possession of the independence requirements provided for in the Procedure, of which one with acting as Coordinator.

Position: It indicates whether Chairman of the B.o.D., Deputy Chairman, CEO, etc.

						C.R.C.		R.C.		A.C.		R.P.T. Committee	
Exec.	Non exec.	Indep. based on Code	Indep. based on Cons. Law on Fin.	Attendance at meetings of the B.o.D.	Other assignments	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
	√		√	12/12	1								
√				9/9	0								
	√	√	√	11/12	4			7/7	"P"	0/3	"M"		
	√	√	√	12/12	1					5/5	"P"	2/2	M
	√	√	√	9/9	2	7/7	"M"					2/2	M
	√			11/12	4					3/3	"M"		
	√	√	√	12/12	0			7/7	"M"			2/2	"P"
	√	√	√	12/12	0	7/7	"P"	6/6	"M"				
	√	√	√	9/9	3	7/7	"M"						
√				3/3	-								
	√	√	√	3/3	-	2/2	"P"						
	√	√	√	3/3	-	2/2	"M"[7]	1/1	"P"	2/2	"M"		
				B.o.D.		C.R.C.		R.C.		A.C.		R.P.T. Committee	
				12		9		7		5		2	
					1%								

Date of first appointment: This is the date on which the director was appointed for the very first time to Terna S.p.A.'s B.o.D.

In office since: This is the date on which the director was appointed for the very first time to Terna S.p.A.'s B.o.D. in the period of the relevant three-year mandate of the Administrative Body of which he or she has been a member (i.e.: for the BoD appointed by the Shareholders' Meeting of May 27, 2014, refers to the three years 2014-2016; for the BoD appointed by the Shareholders' Meeting of May 13 2011, refers to the three years 2011-2013).

In office until: This is the date on which the mandate expires.

List: It indicates M/m based on whether the Director was appointed from the majority list ("M") or from the minority list ("m") or in any case appointed following co-optation.

Exec: This is ticked if the Director can be qualified as an executive.

Non Exec: This is ticked if the Director can be qualified as a non-executive.

Position: It indicates whether Chairman of the Board of Statutory Auditors, Standing Auditor, Alternate Auditor.

Indep. based on Code: This is ticked if the Director can be qualified as independent according to the criteria of the Corporate Governance Code.

Indep. based on Consolidated Law on Finance: This is ticked if the director has the independence requirements as per Article 148, paragraph 3 of the Consolidated Law on Finance as indicated by Article 147-*ter*, paragraph 4 of the same Law.

Attendance at meetings of the B.o.D.: This column indicates the director's attendance at meetings of the B.o.D. during the year under consideration (indicates the number of meetings attended with respect to the total number of meetings at which he or she could have attended since assuming office on the B.o.D.; e.g. 6/8; 8/8 etc.).

Other positions: It indicates the total number stated of positions as director or statutory auditor held by the director in other companies listed in regulated markets (also foreign markets), in financial, banking and insurance companies or in large companies, identified on the basis of criteria defined by the Board. In calculating the positions indicated, those held in subsidiaries, either directly or indirectly controlled, namely TERNA S.p.A.'s subsidiaries, were not included. When more than one office is held within the same Group, also for a role with a company belonging to the Group itself, only the most important assignment is considered. For the list of positions held by each Director, please see the brief professional resumes included in this Report.

(*): This column indicates the director's attendance at meetings of the Committee during the year under consideration (indicates the number of meetings attended with respect to the total number of meetings at which he or she could have attended since assuming office on the Committee; e.g. 6/8; 8/8 etc.).

(**): This column indicates the director's role in the Committee: "C": Chairman; "M": member. The RPT Committee provides for the figure of a Coordinator.

•: This symbol indicates the director in charge of Terna S.p.A.'s internal audit and risk management system.

◊: This symbol indicates the main manager of Terna S.p.A.'s operations (Chief Executive Officer or CEO).

Number of meetings held during the year in question: The information refers the total number of meetings during the year under consideration.

Table 2:

Composition of the Board of Statutory Auditors

Board of Statutory Auditors									
POSITION	Members (Last name and first name)	Year of birth	Date of first appointment	In office since	In office until	List	Indep. based on Code	Attendance at meetings of the Board of Statutory Auditors	Number of other assignments
CHAIRMAN	Schioppo Riccardo Enrico Maria	20/07/1950	27/05/2014	27/04/2017	31/12/2019	m	√	8/8	7[1]
STATUTORY AUDITOR	Simone Vincenzo	20/11/1960	27/05/2014	27/04/2017	31/12/2019	M	√	8/8	0[1]
STATUTORY AUDITOR	Zunino de Pignier Maria Alessandra	01/05/1952	27/05/2014	27/04/2017	31/12/2019	M	√	8/8	1
ALTERNATE AUDITOR	Davide Attilio Rossetti	31/10/1971	27/04/2017	27/04/2017	31/12/2019	m	-	-	-
ALTERNATE AUDITOR	Mantegazza Cesare Felice	12/03/1954	27/05/2014	27/04/2017	31/12/2019	M	-	-	-
ALTERNATE AUDITOR	Ricotti Renata Maria	28/09/1960	27/05/2014	27/04/2017	31/12/2019	M	-	-	-
Auditors who resigned from their position during the year in question									
ALTERNATE AUDITOR	Pagani Raffaella Annamaria	21/06/1971	27/05/2014	27/05/2014	27/4/2017	m	-	-	-
Legal number necessary for submitting the lists during the last appointment:							8		
Number of meetings held during the year in question:							1%		

Note

(1) The provisions of Article 144 quinquiesdecies of the Issuers' Regulations do not apply to the Standing Auditor, as provided for in paragraph 3 bis of the same article, since this Standing Auditor holds the position of member of the control body in only one issuer.

Key

Position: It indicates whether Chairman of the Board of Statutory Auditors, Standing Auditor, Alternate Auditor.

Date of first appointment: This is the date on which the statutory auditor was appointed for the very first time to Terna S.p.A.'s Board of Statutory Auditors.

In office since: This is the date on which the statutory auditor was appointed for the very first time to Terna S.p.A.'s Board of Statutory Auditors in the period of the relevant three-year mandate of the Auditing Body of which he or she has been a member (i.e.: for the Board of Statutory Auditors appointed on May 27, 2014, it refers to the three years 2014-2016; for the Board of Statutory Auditors appointed by the Shareholders' Meeting of May 13 2011, it refers to the three years 2011-2013).

In office until: This is the date on which the mandate expires.

List: It indicates M/m based on whether the statutory auditor was appointed from the majority list ("M") or from the minority list ("m").

Indep. based on Code: This is ticked if the statutory auditor can be qualified as independent according to the criteria of the Corporate Governance Code.

Attendance at meetings of the Board of Statutory Auditors: This column indicates the statutory auditor's attendance at meetings of the Board of Statutory Auditors during the year in question (indicates the number of meetings attended with respect to the total number of meetings which he or she could have attended since taking office on the Board of Statutory Auditors; e.g. 6/8; 8/8 etc.).

Number other assignments: It indicates the total number of positions as director or statutory auditor held by the statutory auditor as at December 31, 2017 in companies as per Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the Italian Civil Code, that are significant according to Article 148-*bis* of the Consolidated Law on Finance. The total number of assignments, where provided for by Article 144-*quinquiesdecies* of the above-mentioned Issuers Regulation based on CONSOB resolution no. 17326 dated May 13, 2010, is published by CONSOB and is available on its website www.CONSOB.it).

Attachment I:

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

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

Introduction

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

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

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

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

Definitions of the field of activity (scoping) and of the processes to be analysed are updated by the Manager charged with preparing the Company's financial reports at least once a year in order to analyse, identify and consider the variations that have impacted the IARMS and supplement/modify the administrative and accounting procedures accordingly.

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

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

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

Individual Company Analysis

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

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

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

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

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

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

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

Individual Process Analysis

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

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

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

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

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

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

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

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

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

On the basis of quality and quantity parameters, after defining the significant information and selecting the relevant processes, the Manager charged with preparing the Company's financial reports establishes the guidelines for "risk activities and audits" that represent administrative and accounting procedures and assesses their adequacy and effective implementation (assessment of their operational level).

For this purpose, the analysis of significant processes occurs through the following operational steps:

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

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

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

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

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

Control assessment, where deemed necessary, can involve identifying compensatory audits, corrective measures and improvement plans. The results of these activities are submitted to the evaluation of the Manager charged with preparing the Company's financial reports who in turn notifies the company executives.

Roles and Departments involved

Manager charged with preparing the Company's financial reports

In relation to the responsibilities assigned to him or her:

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

c) the suitability of the means and resources made available to the Manager charged with preparing the Company's financial reports and the methods of use;

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

The Manager charged with preparing the Company's financial reports can rely on the assistance of qualified external companies with specialized professional staff for carrying out plan assessment activities and the assessment of the operational levels of audits on administrative and accounting procedures.

Internal Audit and Risk Management

They are responsible for:

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

Terna S.p.A.'s First-level managers

They are responsible for:

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

Head of the Human Resources and Organisation Department

He or she is responsible for:

- supporting the Manager charged with preparing the Company's financial reports in preparing and updating the administrative-accounting procedures;
- supporting the Manager charged with preparing the Company's financial reports and the Departments/Units of the Terna Group in the correct implementation of the action plans that can give rise to organisational changes. To this end, the Manager charged with preparing the Company's financial reports is informed in advance regarding any organisational changes.

The managements of individually significant companies

They are responsible for:

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

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

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

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

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