

# EXECUTIVE COMPENSATION OVERVIEW 2019



*Our values  
That's Terna*

# RESPONSIBILITY

Responsibility means many things to us: promoting respect for the environment and local communities, valuing people and ensuring 100% secure management of the electricity system. Responsibility is the value that embodies our way of life, not only in our own eyes, but in the eyes of the entire country.



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# INTEGRITY

Our strength is rooted in transparency and loyalty. We see loyalty as the basis for building trust with people, local communities and the country as a whole. That is why demonstrating loyalty in everything we do is so fundamental. The words that define our approach are the words we believe in the most.



*Our values  
That's Terna*

# PASSION

Passion is at the core of our every action, and we always engage ourselves passionately: when we innovate, develop, share our knowledge, work as a team and adopt a proactive approach. Passion provides the energy we need to really make a difference.



# EXECUTIVE COMPENSATION OVERVIEW 2019

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## Letter from the Chairman of the Remuneration Committee



Dear Shareholders,

together with the other members of the Remuneration Committee, I am pleased to present the **Executive Compensation Overview** of the Terna Group.

This document has been developed with the aim of further improving the transparency and usability of information relating to the Group's Remuneration Policy, summarising the **main elements set out in the Annual Remuneration Report**.

We also wanted to provide an overview of the **contextual elements** contributing to the **definition of the Remuneration Policy** with particular reference to:

- the Group's specific **business profile**, the mission of which is to play a guiding role in the sustainable energy transition;
- **corporate governance principles**, in line with the recommendations formulated by Corporate Governance Code and with major international best practices;
- **sustainability** aspects, by linking to incentive systems;

- **company values** which the people of Terna see as their own;
- the importance Terna attaches to **dialogue** and **continuous interaction** with all the **stakeholders** on matters of remuneration.

We believe in fact that the Terna Group Remuneration Policy and the architecture of incentive systems, defined with the help of all these elements, will **continue to attract** the finest professional skills at all levels of the organisation, **enhance the value of people** by guaranteeing inclusion and equal opportunities and **ensure constant alignment** of management **remuneration**, company **performance** levels and long-term value creation for shareholders.



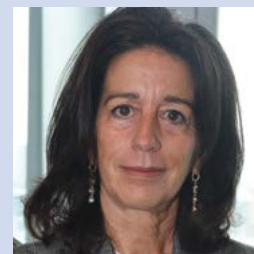
Specifically, in continuation with 2018, 2019 will also see a commitment to **constantly improving incentive systems** in terms of coherence and homogeneous application, motivational impact and loyalty of the people involved in order to **maximise the retention** of key resources.

We trust that the information contained in this Overview is exhaustive and useful to you, the Shareholders, and hope to receive your positive feedback.

**Fabio Corsico**  
Chairman of the  
Remuneration Committee,  
Independent director



**Gabriella Porcelli**  
Member of the  
Remuneration Committee,  
Independent director



**Elena Vasco**  
Member of the  
Remuneration Committee\*,  
Independent director



1 h

AVERAGE DURATION  
OF MEETINGS - YEAR 2018



4

COMMITTEE MEETINGS  
HELD IN 2018



92%

PERCENTAGE ATTENDANCE  
AT MEETINGS - YEAR 2018

INDEPENDENT EXTERNAL EXPERTS,  
ASSISTING THE COMMITTEE:

**WillisTowersWatson** 

(\*) From 20 March 2019. Following the resignation of the Director Stefano Saglia, which came into effect on 10th August 2018, and until the appointment of the Director Elena Vasco, the Committee was made up of Fabio Corsico and Gabriella Porcelli.

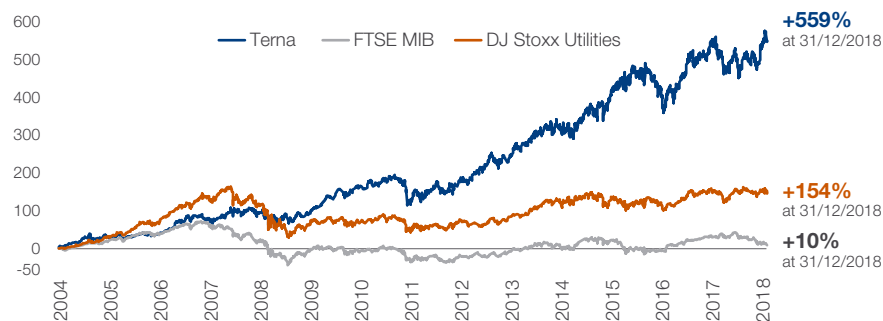


# Terna Group Profile

**Terna is a leading independent electricity transmission system operator (TSO)** in Europe, in terms of the kilometres of lines managed. Terna is the main owner of the National Transmission Grid in high and extra-high voltage and performs a public service for the transmission and dispatching of electricity throughout the country.

The Group's **Mission** is **to play a leading role for a sustainable energy transition**, leveraging innovation, skills and distinctive technologies with the goal of generating value for all stakeholders.

## TOTAL SHAREHOLDER RETURN (since listing date up to the end of 2018)

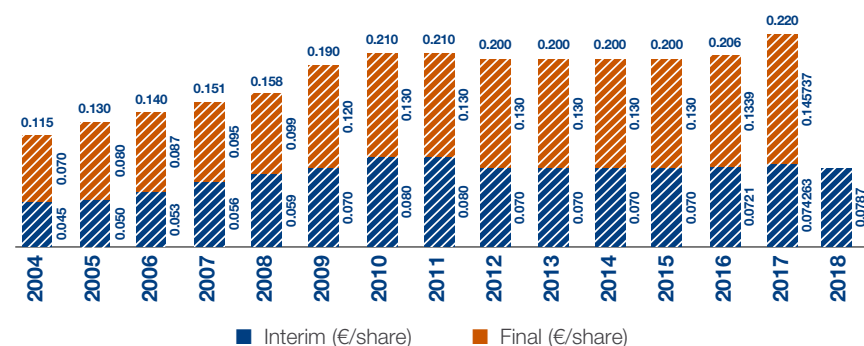


Source: Bloomberg

This Mission defines Terna's **primary role** in the current **transition phase towards an increasingly decarbonised and sustainable national and international energy system**. An objective that Terna intends reaching by focusing on expertise, innovation and digitalisation.

**More investments, more innovation and more development of skills, to manage activities that are growing in volume and complexity both in the core business, and in new non-regulated business opportunities, and in projects for growth abroad.**

## DIVIDENDS DISTRIBUTED TO TERNA SHAREHOLDERS



## Performance

Total shareholder return (TSR) from IPO to end of 2018

**+559%**

Capitalization:

**10 € bln** APPROX.

AT THE END OF 2018

Total cumulated investments  
Strategic Plan 2019 -2023

**6.8 € bln** APPROX.

## Financial (data as of 31/12/2018)

Revenues

**2,197 € mln**

EBITDA

**1,651 € mln**

Net profit

**707 € mln**

## Corporate (data as of 31/12/2018)

Lines

**74,442 km**

Employees

**4,252**

Electrical substations

**881**

# Governance

Our Corporate Governance system aims to **create value for shareholders**. We believe that a good Corporate Governance system can give rise to a positive cycle of efficiency and corporate integrity, with positive effects for other stakeholders as well.

Our system is aligned with the principles of the **Corporate Governance Code** for listed companies. We also adhere to **Consob** guidelines and to leading **international best practices**.

## GOVERNANCE OF REMUNERATION POLICIES

The **Shareholders' Meeting** determines the remuneration to which the Chairperson and the members of the Board of Directors are entitled, at the moment of their appointment and for the entire duration of the mandate.

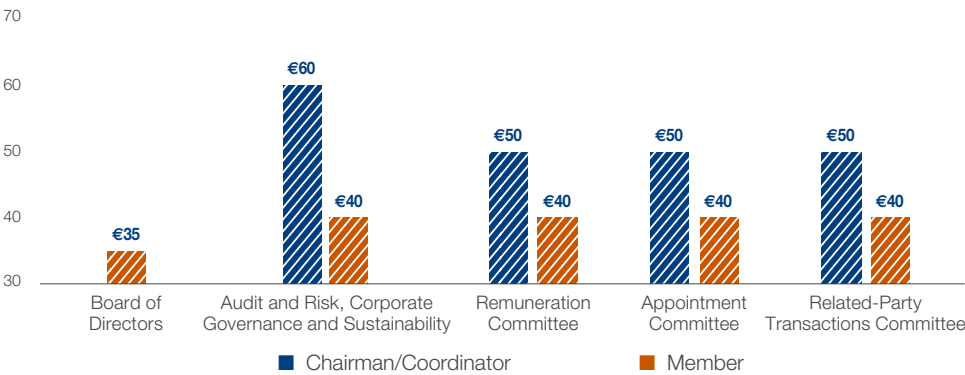
### The Board of Directors

- determines the remuneration of the Directors with delegated powers for participation in the Board Committees, after obtaining an opinion from the Board of Statutory Auditors;
- defines and verifies the final figures of the targets assigned to the CEO and GM;
- determines the general criteria of the remuneration policy addressed to SESRs.

Please note that all persons abstain from board resolutions pertaining to their own remuneration.

The Board of Directors is assisted, for questions of remuneration, by a **Remuneration Committee** formed of independent Non-Executive Directors, with consultative and advisory functions on the subject.

### DIRECTORS' REMUNERATION (€1.000)





## BoD Composition

Directors:  
9

Independent:  
67%

## Total Chairperson Remuneration

238,000 €

## Variable Remuneration

Provided exclusively for roles  
with executive powers

## Internal departments more deeply involved in the definition of the remuneration policy:

Human Resources,  
Organisation and  
General Affairs

Administration,  
Finance and Control

## Board Evaluation

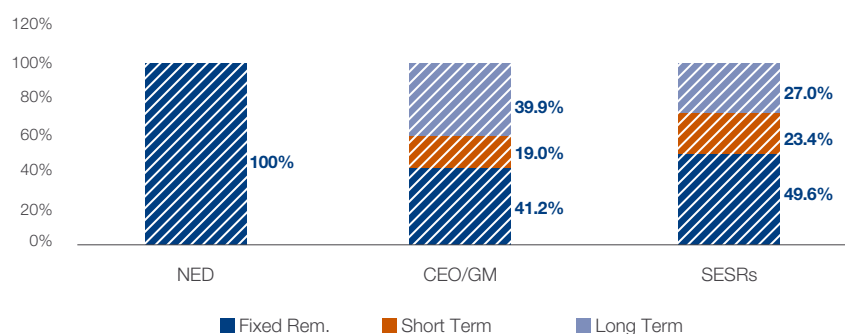
Conducted annually with an independent  
company (the results are reported in the  
corporate governance report)

# Remuneration Policy

Main elements of the remuneration policy and objectives:

- **Fixed Remuneration:** remunerates the skills, the experience and the contribution required by the role.
- **Short-term incentive (MBO):** provides an incentive to achieve the annual economic and financial targets set in the budget, and further non-economic annual targets. It allows for the assessment of the annual contribution of each beneficiary to the performance of Terna and directs management actions towards strategic objectives in line with business priorities.
- **Long-Term Incentive (LTI):** aims to align management action in the long term with the interests of shareholders and the achievement of Strategic Plan objectives.
- **Benefits:** complete the remuneration and have mainly welfare and pension-related functions.
- **Severance:** indemnities aimed at protecting the Company's interests and at preventing any disputes.
- **Non-competition agreements:** currently not present for CEOs/GMs and Directors. The Company may apply non-competition agreements with reference to Executives with Strategic Responsibilities, in cases where they have professionalism and skills such that termination of the employment relationship may result in risks for the company.

PAY MIX AT TARGET





## Purposes:

- Attraction and Retention
- Alignment of management and shareholders' interests
- Alignment with national and international best practice and legislation
- Integration of sustainability and innovation-related elements

## Identification criteria of the benchmark sample:

- companies listed on regulated markets;
- business sector;
- economic structure;
- organisational structure;
- market capitalisation;
- organisational and business complexity.

## Positioning:

- Generally in line with the market median

## Remuneration Policy

### Chief Executive Officer and General Manager

#### Short-term variable incentive (MBO):

For the post of **Chief Executive Officer**, access to the incentive is subordinated to the achievement of pre-defined corporate objectives.

- **2019 Targets:** 1) Net Profits; 2) IoT for the Grid (building data collection infrastructure by installing sensors distributed across assets of the Italian National Transmission Grid in the Veneto Region).
- **Bonus Curve:** on/off scale with no possibility of overperformance. The amount will be paid only on achievement of both the targets, while failure to achieve even only one of the two targets will not generate a payment.

For the post of **General Manager**, access to the incentive is subordinated to the achievement of pre-defined corporate objectives:

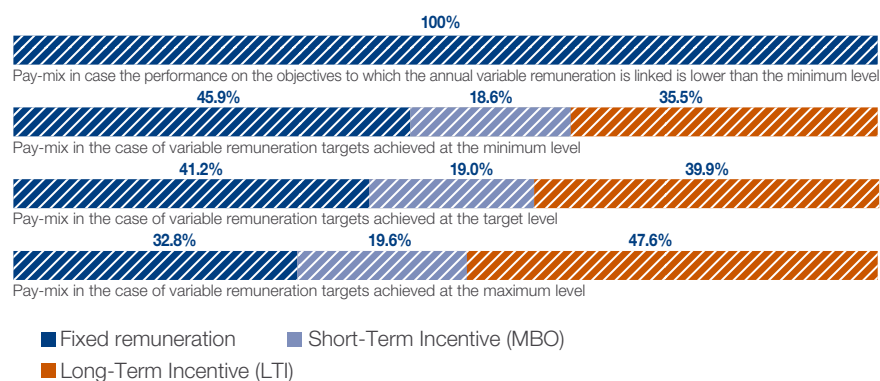
- **2019 Targets:**
  - 1) Investments and Operating Revenues in the Financial Year (weight 30%);
  - 2) EBITDA (weight 30%);
  - 3) Quality of Service (weight 20%);
  - 4) Workplace safety (weight 20%).

The Quality of Service objective is defined by ARERA (Regulatory Authority for Network Energy and the Environment).

- **Bonus Curve:** if the weighted average of the single targets is less than 80%, nothing is due; in the event of overperformance, a bonus greater than the maximum bonus established (Cap. 150%) cannot be attained.

**Long-term variable incentive (LTI):** see the detailed sheet below.

#### CEO AND GM PAY-MIX





## Total Fixed remuneration (AD and GM):

**1,085,000 €**

## Short Term Variable Remuneration (AD and GM):

Target:

**500,000 €**

Maximum:

**650,000 €**

## Long Term Variable Remuneration (GM):

Target:

**123.6%** of the  
Gross Annual Salary

Maximum:

**185.4%** of the  
Gross Annual Salary

## Pay Ratio:

**26:1** (constant in the three-year period 2016-2018)

## Sample for Benchmark

Atlantia  
Enagas  
Enel  
Italgas  
Leonardo  
Maire Tecnimont  
National Grid

Prysmian  
Red Electronica  
Saipem  
Severn Trent  
Snam  
TIM  
United Utilities Group

## Market remuneration positioning: Median

**Claw-back:** on all variable  
components (short and long term)

## Remuneration Policy

### Senior Executives with Strategic Responsibilities (SESRs)

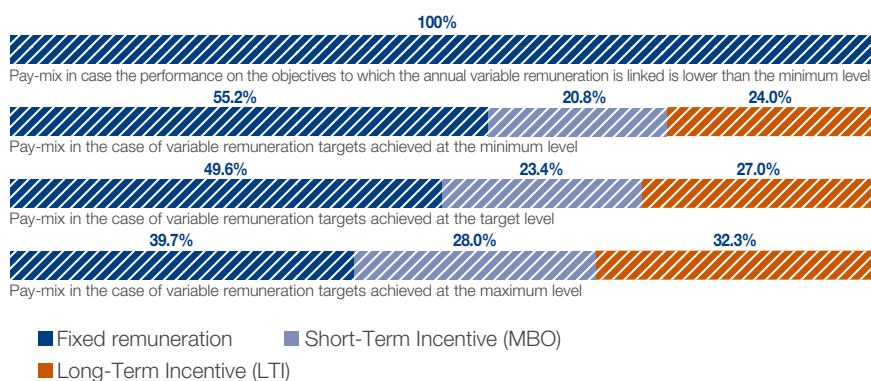
The variable remuneration of SESRs is composed of the following elements:

- **the short term incentive (MBO)** – Target: up to **50%** of the Gross Annual Salary; Maximum: up to **75%** of the Gross Annual Salary.
- **the long term incentive (LTI)** – Target: up to **60%** of the Gross Annual Salary; Maximum: up to **90%** of the Gross Annual Salary.

#### Functioning of the MBO System:

- **Gate:** EBITDA pre-condition for activation.
- **Vesting:** annual.
- **Assignment of targets:** structured cascade assignment process of the objectives to ensure coherence in the contribution to results, of all managers and corporate areas.
- **Bonus Curve:** if the weighted average of the single targets is less than 80%, nothing is due; in the event of overperformance, a bonus greater than the maximum bonus established (Cap. 150%) cannot be attained.
- **Risk propensity:** regulated by balancing the short and long term incentive systems.

#### SESRs PAY-MIX



#### MBO system target type:

**30%-50%:** Group objectives common to all beneficiaries.

**20%-30%:** Transversal objectives common to several units.

**10%-30%:** Individual objectives specific to role.

**10%:** Qualitative objective on leadership model.



## Senior Executives with Strategic Responsibilities:

- Chief Financial Officer
- Head of Corporate Affairs
- Head of Innovation, Digital and Energy Solutions
- Head of International Operations
- Head of External Relations and Sustainability
- Head of National Transmission Grid
- Head of Strategy, Development and System Operation

## Market remuneration positioning:

Median (16 companies in the benchmark)

## Claw-back:

on all variable components (short and long term)

## Remuneration Policy

### Long-Term Incentives (LTI)

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

- ensuring the **correlation** of **management interests** and the **value creation for the shareholders** in the long term;
- **rewarding long term performance** and **creating loyalty among the beneficiaries** over the Plan period.

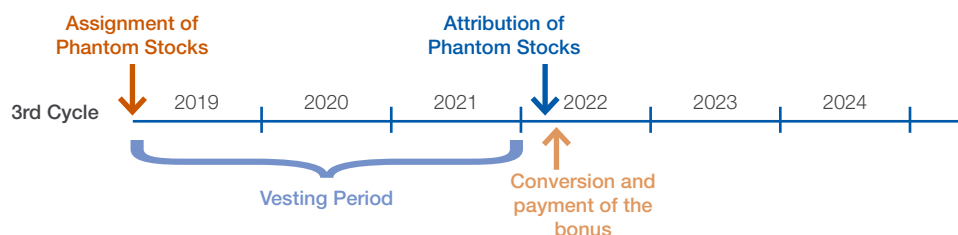
**In 2018 the BoD and the Shareholders' meeting approved a rolling plan structured as follows:** two «equity based» three-year cycles 2018-2020 and 2019-2021 in the form of Phantom Stock.

**Beneficiaries:** General Manager, Senior Executives with Strategic Responsibilities, other Senior Executives and Middle Managers carrying out functions relevant to the achievement of the Group's strategic results.

#### Functioning of the Cycle 2019-2021:

1. **Assignment** of a given number of **rights** to receive Phantom Stock subject to three-yearly **vesting**.
2. The final bonus depends on: **1) number of Phantom Stock accrued** (based on the level of achievement of the performance objectives:); **2) Share value**, according to the Stock Market performance.
3. Ascertainment of having achieved the objectives of the Plan, at the moment of approval of the draft **Financial Statements as at 31 December 2021**.
4. Simultaneous **conversion** of the Phantom Stock into a **monetary bonus**.

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



Maximum number  
of Beneficiaries

**80**

2018 Shareholders' meeting  
vote on LTI plan (in favour)

**96.77%**

## Underlying indicators:

Cumulative EBITDA

**50%**

Relative TSR

**30%**

Dow Jones Sustainability  
Index (DJSI)

**20%**

## Relative TSR panel:

1) *Snam*

2) *Enagas*

3) *Severn Trent*

4) *Red Electrica*

5) *National Grid*

6) *United Utilities*

## DJSI Focus

(maximum achievement):

- In the event of inclusion in the Index for all three years
- ranking among the top 7 companies in at least 2 years out of 3
- ranking in the top 10% one year out of three

# Sustainability

Terna's sustainability performance is recognised at an international level. In 2018 Terna was in the top position among companies in the Electric Utilities sector of the **Dow Jones Sustainability** Index. Terna is included in the other major international sustainability indices (Vigeo Euronext, FTSE4Good, MSCI, STOXX ESG and others). Terna was the only Italian electricity company included in the **Bloomberg Gender Equality Index 2019**.



The Terna Business Plan includes 14 sustainability objectives divided into more than 120 actions relating to 4 areas: human resources, stakeholders and territory, environment and integrity-responsibility-transparency.

Sustainable investors are 9.5% of the floating capital, 13% of the capital held by institutional investors.







## IMPACT ON INCENTIVE SYSTEMS:

### Short-Term Incentive (MBO)

- CEO/GM and SESRs: the system includes an indicator of the Group and Contracting Companies' **accident rate**.

### Long-Term Incentive (LTI)

- CEO/GM and SESRs: one of the underlying indicators is **positioning in the DJSI index**, an independent and reliable measure of the quality of policies, management systems and performance in all areas of sustainability.

## Analysis of the last season of Shareholders' Meetings

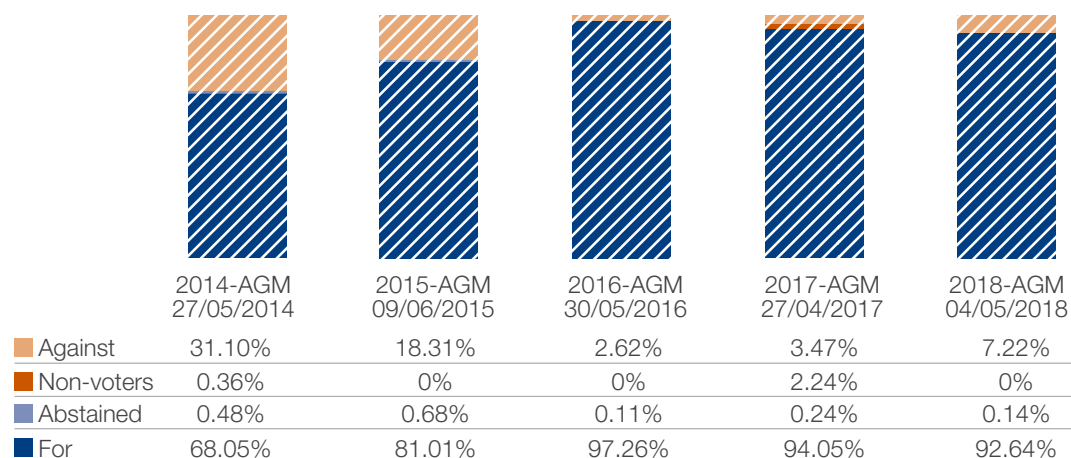
As part of the activities carried out in preparation for the Annual Shareholders' Meeting, Terna completed an off-season engagement in January and February 2019 involving the main **Proxy Advisor (Frontis Governance, ISS and Glass Lewis)** operating in the Italian market and major **Institutional Investors**.

**Institutional Investors** active in corporate governance, remuneration and sustainability issues were contacted.

**These investors were selected having regard to:**

- position held in the share capital of Terna;
- intensity of participation in shareholders' meetings;
- vote expressed or potential criticality with respect to remuneration issues;
- propensity to engage.

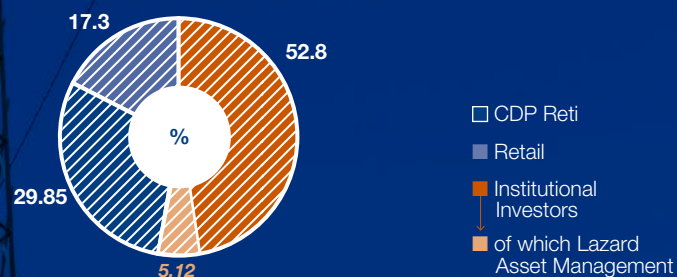
### TREND OF THE VOTING RESULTS ON THE ANNUAL REMUNERATION REPORT (2014-2018)



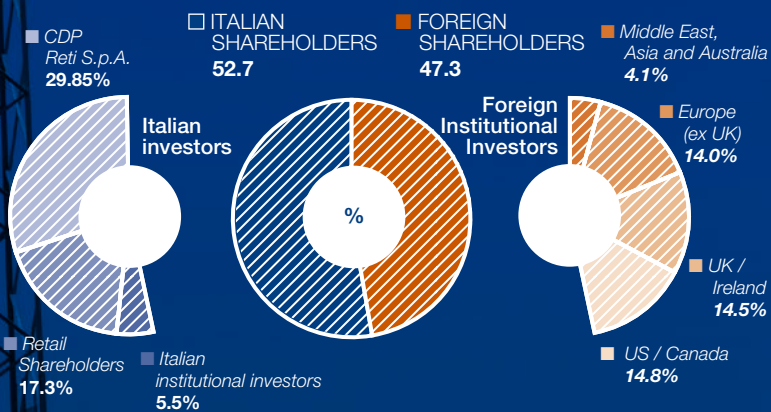


## Shareholders (February 2019)

### SHAREHOLDING STRUCTURE BY TYPE



### SHAREHOLDING STRUCTURE BY GEOGRAPHICAL AREA AND TYPE







This document is an overview of the  
2019 Remuneration Policy.

The full document, the “Annual Remuneration Report”,  
prepared in accordance with the Issuers Regulations  
for Listed Companies, is available in PDF format  
on the Company’s website.

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

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