

ENERGY IS OUR RESPONSIBILITY

2019

Annual Remuneration  
Report

*Rome, 20 March 2019*

Terna S.p.A. and Terna Group





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

Traditional administration and management model

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

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

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

Financial year to which the Report refers: 2018

Date of approval: 20 March 2019

# Letter from the Chairman

## of the Remuneration Committee

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Dear Shareholders,

Together with other members of the Remuneration Committee, I am honoured to present the 2019 Remuneration Report, drawn up as provided for in Art. 123-ter of the Consolidated Law on Finance and Financial Intermediation and approved by the Board of Directors during the session on 20 March 2019.

I would like to take this opportunity to thank Director Stefano Saglia for his commitment in his capacity as member of the Remuneration Committee and to wish him all the best in his new role.

In drawing up the Remuneration Report, in 2019 we also took into account all feedback collected from stakeholders over time. Specifically, this year, there has been particular focus on market transparency by means of open, continuous and constructive dialogue, to guarantee constant alignment with the Group's strategic objectives, market best practices, the expectations of our shareholders, Italian and European legislation and regulations.

We believe that the Terna Group Remuneration Policy and the architecture of incentive systems 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.

In 2018, the Remuneration Committee focused in particular on:

- the pursuit of aligning the Terna remuneration system with international best practices, national and European regulations and legislation, while also ensuring development in line with the Company's Strategic Plan;
- guaranteeing constant alignment of the Group's economic-financial performance levels over the long term, Company stock performance and the operation of management by means of the launch of the second cycle (2018-2020) of the LTI Plan, which reinforces the link with targets established in the new Strategic Plan and provides for the use of Phantom Stock and relative TSR;
- guarantee constant monitoring of targets set in the short and long term incentive Plan;
- autonomously incorporating, in advance, the first notions of the new Shareholder Rights Directive, which was approved in 2017 and must be transposed to country level in 2019.

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The elements of the Remuneration Policy were endorsed by the Board of Directors, which, at its meeting on 20 March 2019, approved the present Report, structured as provided for in Art. 123-ter of the Consolidated Law on Finance.

Lastly, in order to improve the transparency and usability of this Policy, in addition to a review and the addition of graphic elements in the Remuneration Report, I have the pleasure of announcing that this year Terna has decided to introduce the publication of an additional ad hoc document called the “Executive Compensation Overview”. The specific objective of this document is to provide the market with a brief overview of the main elements of the Terna Group Remuneration Policy.

We trust that information contained in this Remuneration Report is exhaustive and useful to you, the Shareholders. We hope to receive your positive support during the work of the Shareholders’ Meeting.

Yours sincerely,

Fabio Corsico  
**Chairman of the  
Remuneration Committee**





Terna



The image shows a modern, dark-colored building with a facade of horizontal panels. The Terna logo is prominently displayed on the upper left corner of the building. The building has several rectangular windows and a glass entrance at the bottom right. A tree is visible on the right side of the frame.

# Introduction

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

In continuing on this path, the Company has voluntarily decided to expand the range of information it provides to enhance transparency for investors and the market.

The document is divided into two sections:

- **Section I** illustrates the Policy adopted for 2019 by Terna for the remuneration of the Directors, the General Manager and Senior Executives with Strategic Responsibilities, specifying the general purposes pursued, the bodies involved and the procedures used for its adoption and implementation;
- **Section II** presents the fees related to Financial Year 2018 by name for the Directors, the Statutory Auditors, the General Manager and in aggregate form for Senior Executives with Strategic Responsibilities.

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

The Policy described in Section I was also prepared in line with the recommendations on the subject of remuneration of the Corporate Governance Code of listed companies (hereinafter “Corporate Governance Code”), in the version most recently approved in July 2018 and endorsed by Terna.

On 20 March 2019, Terna’s Board of Directors, following the proposal of the Remuneration Committee, approved Section I of the present 2019 Remuneration Report which is submitted to a non-binding vote of the Shareholders’ Meeting called for the approval of the Separate Financial Statements at 31 December 2018. Section II will also be taken to the same Shareholders’ Meeting, only for informative purposes. As mentioned, this section provides detailed information on remuneration related to Financial Year 2018.

The text of this Report is made available to the public, at the Company’s head office and in the Investor Relations - Corporate Governance section of the Company’s website [www.terna.it](http://www.terna.it) within the twenty-first day preceding the date of the Shareholders’ Meeting called to approve the Financial Statements for Financial Year 2018, as provided for by the current law.

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

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

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









## Executive Summary

# Overview

	FIXED REMUNERATION	SHORT-TERM INCENTIVE (MBO)	LONG-TERM INCENTIVE (LTI)
	<i>Remunerates the skills, the experience and the contribution required by the role.</i>	<i>Provides an incentive to achieve the annual economic and financial targets set in the budget, and further non-economic annual targets.</i>	<i>Aims to align management action in the long term with the interests of shareholders and the achievement of Strategic Plan objectives.</i>
CHAIRWOMAN	Amount		
	€ 238,000 gross per year, of which: • € 50,000 pursuant to Art. 2389 of Italian Civil Code paragraph 1; • € 188,000 pursuant to Art. 2389 of Italian Civil Code paragraph 3.	--	--
	Conditions for implementation		
	Defined using market benchmarks in relation to companies comparable on the basis of predefined criteria.	--	--
CHIEF EXECUTIVE OFFICER	Amount		
	€ 235,000 gross per year, of which: • € 35,000 pursuant to Art. 2389 of Italian Civil Code paragraph 1; • € 200,000 pursuant to Art. 2389 of Italian Civil Code paragraph 3.	€ 200,000 gross (ON/OFF) upon achieving all targets.	--
	Conditions for implementation		
	Defined using market benchmarks in relation to companies comparable on the basis of predefined criteria .	2019 Targets: • Net Income; • IoT for the Grid: building data collection infrastructure by installing sensors distributed across assets of the Italian National Transmission Grid in the Veneto Region. In the event of achieving only one of the two targets, nothing is due. The application of claw back clauses is provided for.	--
GENERAL MANAGER	Amount		
	€ 850,000 gross per year.	€ 300,000 gross if the weighted average of the scores of the single targets meets the target (100%); € 450,000 gross if the score of all the targets is at maximum level (150%).	Award of Phantom Stock amounting to 123.6% of Gross Annual Salary (RAL), as total amount in the three years of duration of the LTI Plan Cycle, if the weighted average of the scores on the single objectives is at the target (100%) and equal to the value of Terna shares with respect to the grant date.
	Conditions for implementation		
	Defined using market benchmarks in relation to companies comparable on the basis of predefined criteria.	• Investments and Operating Revenues in the Financial Year (weight 30%); • EBITDA (weight 30%); • Quality of Service (weight 20%); • Workplace safety (weight 20%).  The application of claw back clauses is provided for.	2019-2021 Cycle Targets: • Three-year Cumulative EBITDA: compared with the Three-year Cumulative EBITDA of the Strategic Plan (weight 50%); • Relative TSR: positioning of Terna in the reference peer group (weight 30%); • Dow Jones Sustainability Index (DJSI): positioning of Terna in the three years (weight 20%). The application of claw back clauses is provided for.
SENIOR EXECUTIVES WITH STRATEGIC RESPONSIBILITIES	Amount		
	Fixed remuneration is related to the position held and the responsibilities attributed to it, as well as the experience and strategic nature of the resource.	Incentive percentages up to 50% of the Gross Annual Salary (RAL) for results at the target (100%) and up to 75% for maximum results (150%).	Award of Phantom Stocks amounting to up to 60% of Gross Annual Salary (RAL), as total amount in the three years of duration of the LTI Plan Cycle, if the weighted average of the scores on the single objectives is at the target (100%) and equal to the value of Terna shares with respect to the grant date.
	Conditions for implementation		
	Defined using market benchmarks in relation to companies comparable on the basis of predefined criteria.	The annual incentive is related: • to exceeding an Access Gate (budget EBITDA); • to Group targets (weight 30%-50%); • to transversal targets common to several units (weight 20%-30%); • to individual targets linked to the organisational role held (weight 10%-30%); • to qualitative targets related to managerial skills (weight 10%); The application of claw back clauses is provided for.	LTI Plan 2019-2021 Cycle Targets: • Three-year Cumulative EBITDA: compared with the Three-year Cumulative EBITDA of the Strategic Plan (weight 50%); • Relative TSR: positioning of Terna in the reference peer group (weight 30%); • Dow Jones Sustainability Index (DJSI): positioning of Terna in the three years (weight 20%). The application of claw back clauses is provided for.

	BENEFITS	SEVERANCE
	Complete remuneration and have mainly welfare and pension-related functions.	Severance indemnities aimed at protecting the Company's interests and at preventing any disputes.
CHAIRWOMAN	Description	
	<ul style="list-style-type: none"> <li>Insurance policy for occupational and non-occupational accidents related to the position.</li> </ul>	Termination benefits on completion of the mandate equal to 1/12 of the remuneration paid for each year in office.
	Conditions for implementation	On completion of the mandate
CHIEF EXECUTIVE OFFICER	Description	
	<ul style="list-style-type: none"> <li>Insurance policy for occupational and non-occupational accidents related to the position.</li> </ul>	
	Conditions for implementation	As resolved by the Board of Directors on 9 May 2017, without prejudice to cases of disciplinary dismissal and resignation without just cause, upon termination of employment contract due to expiry of mandate, the following is provided for (i) as General Manager, payment of indemnity amounting to 24 months of remuneration (ii) as Chief Executive Officer, mandate severance indemnity amounting to 1/12 of remuneration for the position of CEO for each year of the mandate.
GENERAL MANAGER	Description	
	<ul style="list-style-type: none"> <li>Supplementary pension;</li> <li>Supplementary health insurance;</li> <li>Cover against risk of death, permanent disability and injury;</li> <li>Company car for company/private use.</li> </ul>	
	Conditions for implementation	In Terna, the administrative role of the CEO and the management role of the GM are inseparable; therefore, the termination of one determines the termination of the other.
SENIOR EXECUTIVES WITH STRATEGIC RESPONSIBILITIES	Description	
	<ul style="list-style-type: none"> <li>Supplementary pension;</li> <li>Supplementary health insurance;</li> <li>Cover against risk of death, permanent disability and injury;</li> <li>Company car for company/private use.</li> </ul>	Exception in cases of disciplinary dismissal and resignation without just cause, for early termination of employment initiated by the Company, severance pay can be awarded within limits set forth by the Policy.
	Conditions for implementation	Early termination of employment at the company's initiative.
	Defined in accordance with the provisions of the relevant National Collective Employment Contract, and the corporate policies and practices applicable to all Terna's Management.	





# ASSEMBLEA DEGLI AZIONISTI



# Changes for 2019

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The main changes for 2019, both in terms of remuneration policy and communication with the market and investors, are as follows:

- in-depth analysis of the **pay ratio** of the Chief Executive Officer and General Manager and average remuneration of employees, with relative evidence of ratio trends over time;
- extension of the **peer group** used for the remuneration benchmark of the Chief Executive Officer and General Manager;
- launch of the **third three-year cycle of the long-term variable incentive plan 2017-2021**. It has already been established that the Plan is divided into three cycles using a rolling mechanism. The first cycle, launched in 2017, was in monetary form, the second, launched last year and the third was awarded in Phantom Stock. As a reminder, both cycles based on Phantom Stock were already approved by the Board of Directors on 2 March 2018 and by the Shareholders' Meeting on 4 May 2018, with relative Information Document. Like last year, the aim of the cycle regarding the 2019-2021 performance period is to reinforce ties between shareholders' objectives and management performance, by connecting premium value to Company share value;
- additional focus on **sustainability and innovation** issues by reinforcing specific targets in the short term incentive system.

It is also important to note that in order to improve the transparency and usability of this Policy and in addition to a review and the addition of graphic elements in the Remuneration Report, this year Terna has decided to introduce the publication of an additional ad hoc document called the **"Executive Compensation Overview"**. The specific objective of this document is to provide the market with a brief overview of the main elements of the Remuneration Policy.

# Shareholder engagement

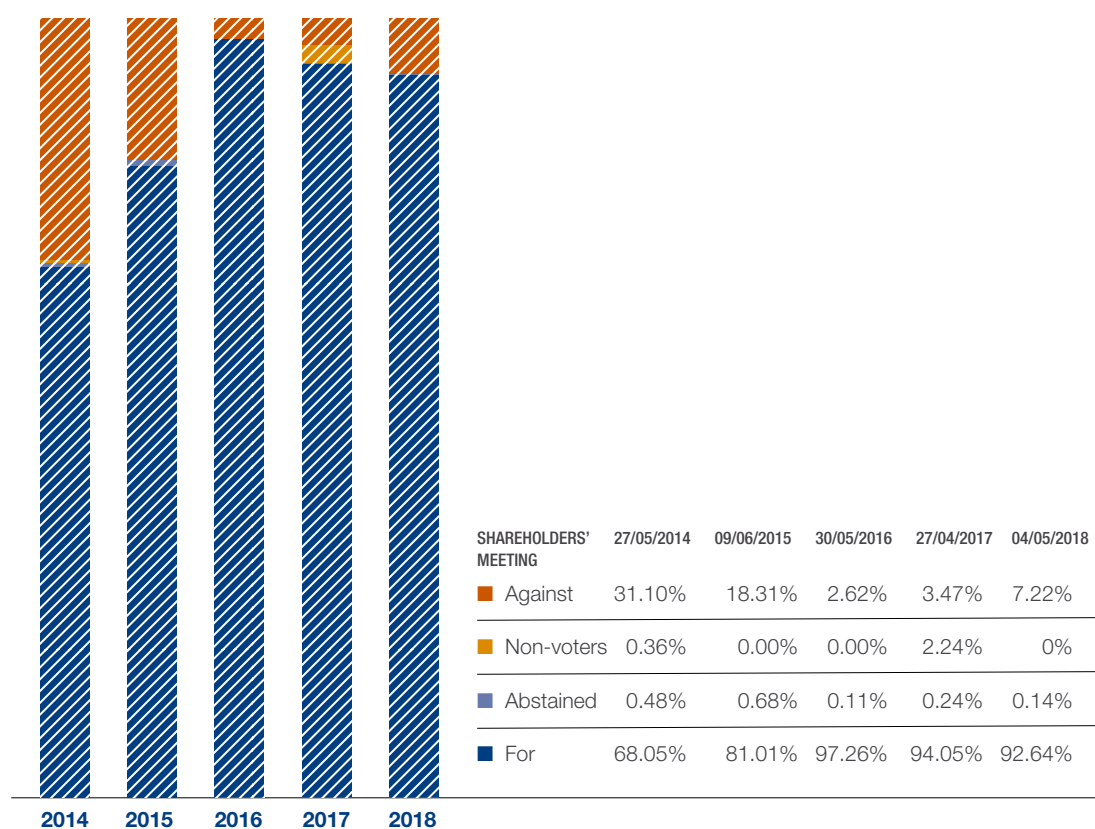
Terna gives great importance to dialogue and continuous interaction during the year with the main addressees and users of its Remuneration Policy, in order to ensure constant improvement in the adoption of the best market practices, also by incorporating ideas for development, especially if received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

In 2018 and the first few months of 2019, Terna held a series of meetings and/or conference calls with some institutional investors and major proxy advisors, to analyse considerations expressed by these parties with reference to key points of the Remuneration Policy submitted to the Shareholders' Meeting on 4 May 2018.

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

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

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





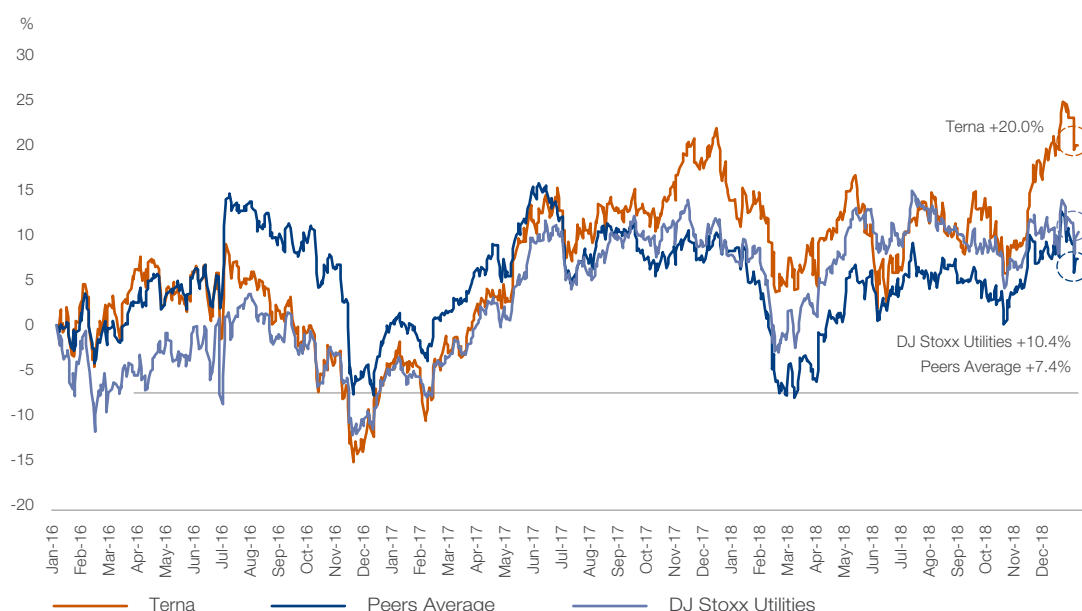
## Total Shareholder Return of the Terna Group from 2016 to 2018

Terna Group TSR trend is listed here below, with reference to own peers and the European sector benchmark index (DJ Stoxx Utilities) for the 2016-2018 period.

In the three years period 2016-2018, Terna achieved for its shareholders a Total Shareholder Return (TSR) of 20.0%, while in sector terms, DJ Stoxx Utilities recorded a lower TSR of 10.4%.

In the same period, Terna's shareholders benefited from a return on investment that was higher than the average of the peer group<sup>3</sup> identified for the purposes of the LTI Plan, which was 7.4%.

### PERFORMANCE OF TOTAL SHAREHOLDER RETURN FROM JANUARY 2016 TO DECEMBER 2018



## Economic performance from IPO to 2018

(Amounts in € millions)

	2004 (IPO)	2018	Δ 18 v. IPO	Δ 18 v. IPO
Revenue	1,023	2,197	>2X	114.8%
EBITDA	683	1,651	>2X	141.7%
EBIT	512	1,097	>2X	114.3%
Net Income	236	707	~3X	199.6%

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

# Remuneration benchmark

## CEO and General Manager

The Remuneration Committee was advised by the consultancy firm Willis Towers Watson, which carried out a comparative assessment on the total remuneration of the Chief Executive Officer and General Manager within a peer group of 14 Italian and European companies.

Continuity was ensured with peer groups used in the previous years, with the addition of the analysis of companies deemed comparable with Terna in light of one or more of the following criteria:

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

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

<i>Atlantia</i>	<i>Prysmian</i>
<i>Enagas</i>	<i>Red Electronica</i>
<i>Enel</i>	<i>Saipem</i>
<i>Italgas</i>	<i>Severn Trent</i>
<i>Leonardo</i>	<i>Snam</i>
<i>Maire Tecnimont</i>	<i>TIM</i>
<i>National Grid</i>	<i>United Utilities Group</i>

Please note that Italgas and Maire Tecnimont have been added compared to peer groups used for benchmarking last year.

The study showed that, for the Terna Group, the total remuneration (Total Direct Compensation = fixed component + MBO<sup>4</sup> + LTI<sup>5</sup>) of the CEO and GM is in line with the median of the sample identified.

## Senior Executives with Strategic Responsibilities

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

The panel is in continuity with the one used last year.

Benchmarking indicates that total remuneration of Executives with Strategic Responsibilities is generally in line with the market median.

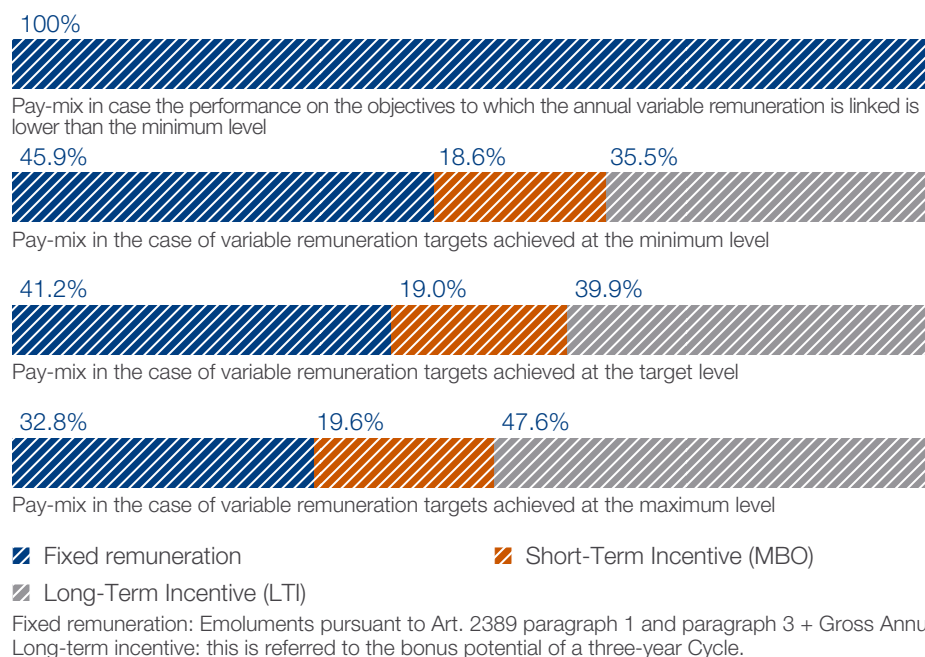
4. Short-term incentive - MBO (Management by Objectives), see Glossary section.

5. Long-term incentive - LTI, see Glossary section.

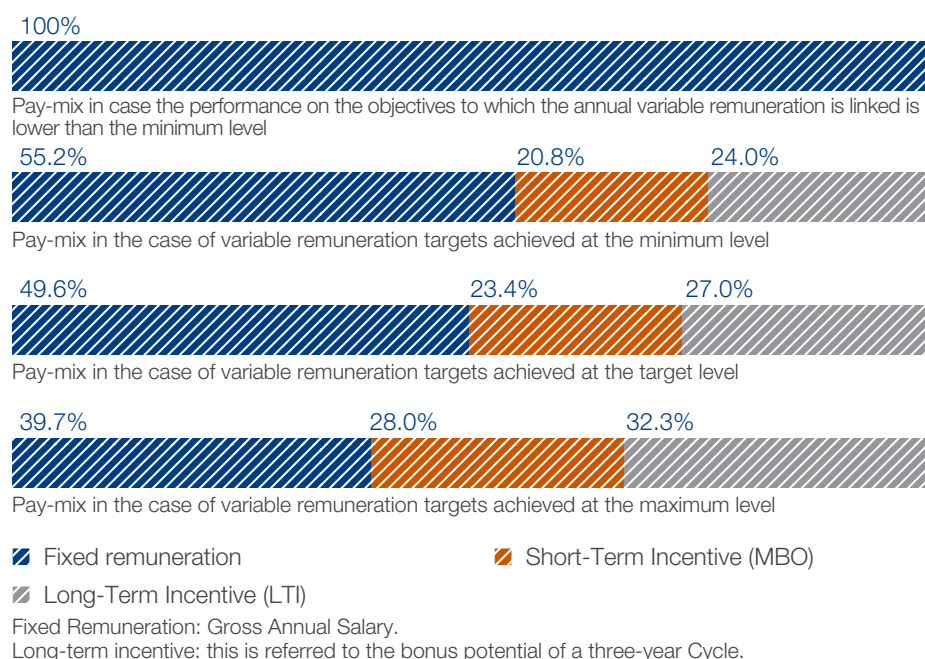
# Pay mix

## CEO and General Manager

With reference to the Chief Executive Officer and General Manager, the pay mix as shown here below, highlights the relative weight of remuneration components in the various possible performance scenarios.



## Senior Executives with Strategic Responsibilities



It should be noted how for both the Chief Executive Officer and General Manager, for SESRs, in all possible performance scenarios, the relative weight of the long-term incentive is greater than the weight of the short-term incentive.









## Section I - Remuneration Policy

# Table of contents

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1. Governance of the remuneration process	19
1.1 Corporate bodies and parties involved	19
1.2 Policy approval process	24
1.3 Independent experts and other involved parties	25
 2. Remuneration Policy	 26
2.1 Content and goals	26
2.2 Guidelines	26
2.3 Implementation	26
2.4 Remuneration of BoD members	27
2.4.1 Remuneration of Directors not holding special office	27
2.4.2 Remuneration of Directors holding special office	28
2.5 Remuneration of Senior Executives with Strategic Responsibilities	38
 3. Subject analytical index (CONSOB Resolution No. 18049, Section I)	 42
 4. Analytical Index Pursuant To Applicative Criterion of The Corporate Governance Code (July 2018 Edition)	  43

# 1. Governance

## of the remuneration process

### 1.1 Corporate bodies and parties involved

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

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

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

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

#### BODIES, PERSONS OR ENTITIES INVOLVED IN POLICY DEFINITION

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

### Shareholders' Meeting

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



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



## Board of Directors

The Board of Directors of Terna S.p.A. currently in office consists of the following nine Directors:

### DIRECTORS HOLDING SPECIAL OFFICE:

Name and surname	Board of Directors	Remuneration Committee	Further Positions
<b>Catia Bastioli</b>	 Chairwoman		
<b>Luigi Ferraris</b>	 CEO and General Manager		

### DIRECTORS NOT HOLDING SPECIAL OFFICE:

Name and surname	Board of Directors	Remuneration Committee*	Further Positions
<b>Fabio Corsico</b>		 Chairman	<ul style="list-style-type: none"> <li>• Member of Appointments Committee</li> </ul>
<b>Paolo Calcagnini</b>			
<b>Luca Dal Fabbro</b>			<ul style="list-style-type: none"> <li>• Chairman of the Audit and Risk, Corporate Governance and Sustainability Committee</li> <li>• Member of the Committee for Operations with Related Parties</li> </ul>
<b>Paola Giannotti</b>			<ul style="list-style-type: none"> <li>• Coordinator of the Committee for Operations with Related Parties</li> <li>• Member of the Internal Audit and Risks, Corporate Governance and Sustainability Committee</li> </ul>
<b>Yunpeng He</b>			<ul style="list-style-type: none"> <li>• Member of Appointments Committee</li> </ul>
<b>Gabriella Porcelli</b>			<ul style="list-style-type: none"> <li>• Chairman of Appointments Committee</li> <li>• Member of the Committee for Operations with Related Parties</li> </ul>
<b>Elena Vasco</b>			<ul style="list-style-type: none"> <li>• Member of the Internal Audit and Risks, Corporate Governance and Sustainability Committee</li> </ul>

\* For a list of Committee members refer to the paragraph below.

Pursuant to the Bylaws and within the scope of the Remuneration Policy, the Board of Directors is vested with the following responsibilities:

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

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

Please note that all persons (including the Chief Executive Officer and General Manager) abstain from board resolutions pertaining to their own remuneration.

## Remuneration Committee

### Composition

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

Members of the Remuneration Committee (on the production date of this Report):

**Fabio Corsico**  
(Chairman)

**Gabriella Porcelli**  
(Member)

**Elena Vasco**  
(Member)

Following the resignation of the Director Stefano Saglia, which came into effect on 10<sup>th</sup> August 2018, and until the appointment of the Director Elena Vasco, the Committee was made up of Fabio Corsico and Gabriella Porcelli.

### Objectives, functions and activities

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

By invitation of the Chairman/Chairwoman, the members of the Audit and Risk, Corporate Governance and Sustainability Committee and/or other members of the Board of Directors, or/and other Auditors, or other

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corporate bodies' members may participate in the meetings. The same goes for others whose presence may be helpful for the Committee's functions, including external independent consultants. Furthermore, when appropriate, the Chairman of the Board of Statutory Auditors also attends Committee meetings (and can appoint another Auditor to attend in their place), or other Auditors.

Please note that all persons (including the Chief Executive Officer and General Manager) abstain from defining Committee proposals pertaining to their own remuneration.

### *Duties of the Remuneration Committee:*

Periodically assess the adequacy, overall coherence and concrete application of the remuneration policy of Directors, the General Manager and Senior Executives with Strategic Responsibilities and with reference to the latter, using information provided by the CEO; formulates proposals on such matters and submits them to the Board of Directors.

Presents proposals and delivers opinions to the Board of Directors concerning the remuneration of the executive Directors and of the other Directors holding special office, as well as concerning the setting of performance targets linked to the variable component of the remuneration.

Monitors the application of decisions adopted by the Board, checks effective achievement of performance level objectives and the degree to which variable incentive systems are achieved.

Draws up and submits to the Board of Directors, and monitors the application of short and long term incentive schemes directed to the SESRs and also applied to Senior Executives in general. These schemes are intended as tools for attracting, retaining, and motivating professionals with suitable experience and technical skills, by developing their corporate loyalty and ensuring their constant focus on value creation over time.

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

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

During the 2018 Financial Year, the Remuneration Committee held 4 meetings in total, characterised by the regular attendance of members (92%) and an average duration of approximately 1 hour.

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

- verification of the achievement of the 2017 results, for the payment of the annual variable remuneration of the Chief Executive Officer and General Manager, both for the role of Director and for the executive employment role, as well as Senior Executives with Strategic Responsibilities;
- review of the objectives to which the 2018 annual variable remuneration of the Chief Executive Officer and General Manager is linked, both for the role of Director and for the executive employment role, as well as the Senior Executives with Strategic Responsibilities;
- with the support of the company Willis Towers Watson, preparation of the "Annual Remuneration Report", submitted to the Board of Directors for approval. This document illustrates the remuneration policy adopted by Terna for executive directors and other directors holding special office, Auditors, General Managers and

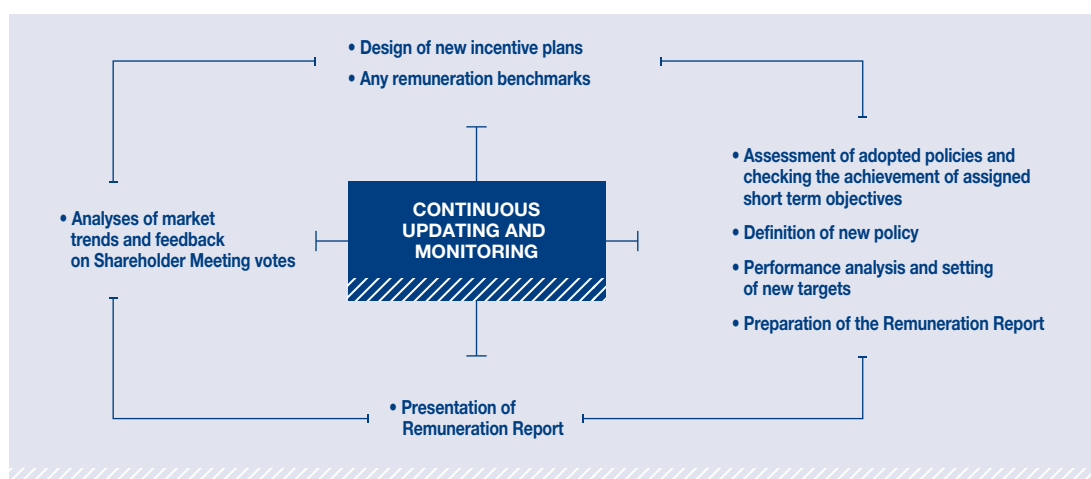
executives with strategic responsibilities submitted to the annual Meeting pursuant to Article 123-ter, paragraph 6 of the Consolidated Law on Finance and Financial Intermediation;

- preparation of the proposal for the activation of the 2018-2020 and 2019-2021 rolling equity-based cycles of the LTI Plan, approved by the Board of Directors and Shareholders' Meeting on 21 March 2018, through the appropriate Information Document;
- analysis of implementary elements of the LTI Plan, including Regulations for the Phantom Stock Plan - 2018-2020 Cycle.

Below is a summary of activities carried out by the Committee in the first few months of 2019:

- review of results of the implementation of the 2018 remuneration policy for Top Management and guidelines for remuneration measures for 2019;
- review of results of remuneration benchmarking, drawn up by the company Willis Towers Watson for the Chief Executive Officer and General Manager;
- preparation of the proposal for the "2019 Remuneration Policy summarised in the Remuneration Report, approved by the Board of Directors and which will be submitted for approval to the Meeting called to approve the 2018 Financial Statements, pursuant to Article 123-ter, paragraph 6 of the Consolidated Law on Finance and Financial Intermediation;
- examined the objectives to which the 2019 annual variable remuneration of the Chief Executive Officer is linked, both for the role of Director and for the executive employment role, as well as the Senior Executives with Strategic Responsibilities;
- verified the achievement of the 2018 results, for the payment of the annual variable remuneration of the Chief Executive Officer, both for the role of Director and for the executive employment role, as well as Senior Executives with Strategic Responsibilities.

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

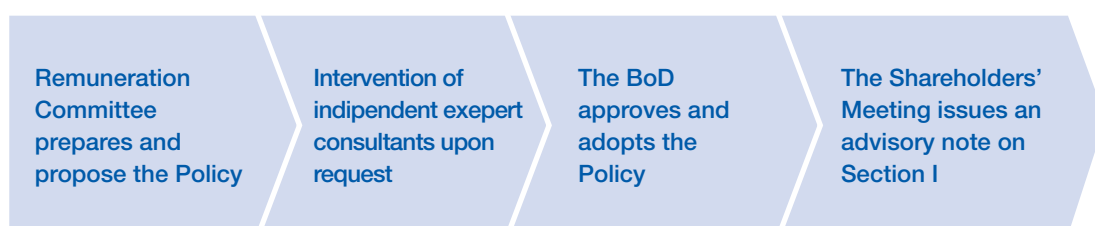




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## 1.2 Policy approval process

In line with relative legislative and regulatory provisions in force and recommendations contained in the Self-Regulatory Code, the decision-making process leading to the implementation of the Remuneration Policy and responsibility for correct implementation thereof can be broken down into the following steps involving various parties:



1. The Remuneration Committee prepares the Company's policy for the remuneration of directors, General Managers and Executives with Strategic Responsibilities by working in close contact with the Human Resources, Organisation and General Affairs function and setting its own analyses based on information and company functions required for the execution of its own duties;
2. The Remuneration Committee can utilise of the services of independent experts to this effect;
3. The Remuneration Committee submits the Policy to the Board of Directors for approval. The latter adopts contents thereof, regarding the remuneration policy for Directors, the General Manager and Executives with Strategic Responsibilities as well as long-term incentive plans. Furthermore, with reference to the determination of remuneration for the Chief Executive Officer and Directors holding special office, the Board hears the opinion of the Statutory Board of Auditors;
4. the Board of Directors, having examined and approved the Policy, submits it to the Shareholders' Meeting for an advisory vote<sup>6</sup>.

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

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

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## 1.3 Independent experts and other involved parties

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

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

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

Managers of other structures are also consulted for the definition of objectives pertaining to projects or specific issues.

# 2. Remuneration Policy

## 2.1 Content and goals

The Policy described in this Report focuses exclusively on the remuneration of Members of the Administration Bodies, the General Manager, and the Senior Executives with Strategic Responsibilities.

### POLICY PURPOSES

**Attract, retain** and **motivate** resources with the professional skills required to **successfully manage the Company**

Facilitate the **alignment** of **interests** of the **management** with the most important objective of **creating value for the shareholders** and achieving pre-established performance targets, through the use of variable short and long-term components.

## 2.2 Guidelines

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

## 2.3 Implementation

In implementing the above principles we can note that:

- the remuneration of Directors not holding special office are commensurate to participation in Board Committees, with different fees for the Chairman/Chairwoman compared to the members of each Committee;
- the remuneration of the Chairwoman of the Board of Directors consists of a fixed amount in line with the role held;
- the remuneration of the Chief Executive Officer and, if the position exists, of the General Manager<sup>7</sup>, is adequately balanced between:
  - a fixed component, in line with the delegated powers and/or responsibilities attributed and sufficient to remunerate the services should the variable component not be paid due to failure to achieve the performance targets specified by the Board of Directors;
  - a variable component linked to the achievement of pre-established, measurable and well-defined objectives in order to remunerate the performance achieved both in the short and long term, in line with the economic and financial targets of the Company's Strategic Plan.

Severance payments for the termination of the role of Director, as well as for termination of employment as General Manager, are also provided for if employment is terminated, except in specific cases.

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

Finally, the Policy takes into account the nature and risk level compatible with the objectives of Terna's Strategic Plan, approved by the Board of Directors in its Meeting on 20 March 2019.

## 2.4 Remuneration of BoD members

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

- Directors not holding special office;
- Directors holding special office.

### 2.4.1 Remuneration of Directors not holding special office

#### *Shareholders' Meeting established remuneration*

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

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

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

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

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

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

#### Remuneration Committee

Chairman	€ 50,000
Member	€ 40,000

#### Appointments Committee

Chairman	€ 50,000
Member	€ 40,000

#### Committee for Operations with Related Parties

Coordinator	€ 50,000
Member	€ 40,000

#### Internal Audit and Risks, Corporate Governance and Sustainability Committee

Chairman	€ 60,000
Member	€ 40,000



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## 2.4.2 Remuneration of Directors holding special office

### *Chairwoman of the Board of Directors*

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

<b>Remuneration*</b> <b>Art. 2389 Italian Civil</b> <b>Code paragraph 1</b>	<b>€ 50,000</b>	<b>Remuneration**</b> <b>Art. 2389 Italian Civil</b> <b>Code paragraph 3</b>	<b>€ 188,000</b>
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\* Fixed annual amount approved by the Board of Directors on 27 April 2017 (and pursuant to article 24.1 of the Terna Bylaws).

\*\* A fixed annual amount approved by the Board of Directors on 9 May 2017, as proposed by the Remuneration Committee after consultation with the Board of Statutory Auditors.

Overall, therefore, the Chairwoman of the Board, for the current mandate, is paid a fixed remuneration component of **€ 238,000**.

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

## CEO and General Manager

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

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

### Fixed component of remuneration

#### Fixed component of remuneration - Chief Executive Officer

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

<b>Remuneration*</b> <b>Art. 2389 Italian Civil</b> <b>Code paragraph 1</b>	<b>€ 35,000</b>	<b>Remuneration**</b> <b>Art. 2389 Italian Civil</b> <b>Code paragraph 3</b>	<b>€ 200,000</b>
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\* Fixed annual amount approved by the Board of Directors on 27 April 2017 (and pursuant to article 24.1 of the Terna Bylaws).

\*\* A fixed annual amount approved by the Board of Directors on 9 May 2017, as proposed by the Remuneration Committee after consultation with the Board of Statutory Auditors.

#### Fixed component of remuneration - General Manager

Total fixed remuneration for the office of General Manager consists of gross annual remuneration (RAL), approved by the BoD on 9 May 2017, amounting to **€ 850,000**.

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

### CEO and GM PAY RATIO

Annual gross fixed remuneration for the Chief Executive Officer and General Manager, if expressed as a multiple of the average fixed remuneration of the entire Italian population of the Terna Group, corresponds to a value of 26.

The pay ratio (which stands at 26) remained stable during the three year period 2016-2018, confirming a remuneration structure, which over time continues to remunerate skills, experience and the contribution required from different roles, therefore taking into consideration assigned challenges and results achieved.

### Short-term variable incentive (MBO)

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

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

The short-term incentive system does not provide for deferral mechanisms. This choice was made in full awareness and upon taking into consideration the following elements:

- the risk profile of the company and reference sector;
- the presence of a long-term incentive system and its relative weight compared to the fixed component and short-term variable component;
- the presence of a rolling mechanism for the long-term incentive plan, which develops over a total time frame of 5 years;
- the existence of claw back clauses.

#### Short-term variable incentive (MBO) - Chief Executive Officer

The short-term incentives foreseen for the Chief Executive Officer, for the powers delegated to him, are determined by the Board of Directors, with the abstention of the Chief Executive Officer and General Manager, following the proposal of the Remuneration Committee and consultation with the Board of Statutory Auditors.

Access to the incentive is subordinated to the achievement of pre-defined corporate objectives of particular significance for the Company, proposed ex-ante by the Committee, approved by the Board of Directors and measured ex-post by the same Committee on an on/off basis.

The table below shows the targets defined for the year 2019:

#### 2019 MBO OBJECTIVES - CHIEF EXECUTIVE OFFICER

OBJECTIVES	SCORE CURVE
Terna Group - 2019 Net Income	ON/OFF (vs Budget)
<i>IoT for the Grid</i> : building data collection infrastructure by installing sensors distributed across assets of the Italian National Transmission Grid in the Veneto Region	ON/OFF

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

#### Short-term variable incentive (MBO) - General Manager

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

For the year 2019, the targets assigned to the General Manager are shown in the table below, with the related score curves.

### 2019 MBO OBJECTIVES - GENERAL MANAGER

OBJECTIVES	WEIGHT	SCORE CURVE
Investments and Operating Revenues*	30%	Delta vs budget
		Score
		< -2%
		0%
		-2% (Minimum)
		80%
		Budget (Target)
TERNA GROUP - 2019 EBITDA	30%	100%
		+1,5%
		130%
		+3% (Maximum)
		150%
		<i>Investments cap: +10%</i>
		<i>For intermediate figures linear interpolation</i>
Quality of Service (Reference Energy Not Supplied, RENS)	20%	Delta vs budget
		Score
		< -1%
		0%
		-1% (Minimum)
		80%
		Budget (Target)
Workplace safety	20%	100%
		+2% (Maximum)
		150%
		<i>For intermediate figures linear interpolation</i>
		MWh
		Score
		ARERA Target** + 300 MWh
1. Terna Group employees: Workplace safety rate (Is) - weight 70%	20%	0
		Value equal to the worst result 2015-2018 (Minimum)
		80%
		2019 ARERA Target +5% (Target)
		100%
		2019 ARERA Target (Maximum)
		150%
2. Contractors: monitoring of accidents on active contracts - weight 30%	20%	<i>For intermediate figures linear interpolation</i>
		1)
		Score
		Is > 1.6
		0%
		Is = 1.6 (Minimum)
		80%
2)	20%	Is = 1 (Target)
		100%
		Is ≤ 0.7 (Maximum)
		150%
		<i>For intermediate figures linear interpolation</i>
		2)
		Score
	20%	<0.5
		0%
		= 0.5 (Minimum)
		80%
		= 0.75 (Target)
		100%
		≥ 0.9 (Maximum)
		150%
		<i>For intermediate figures linear interpolation</i>

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

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



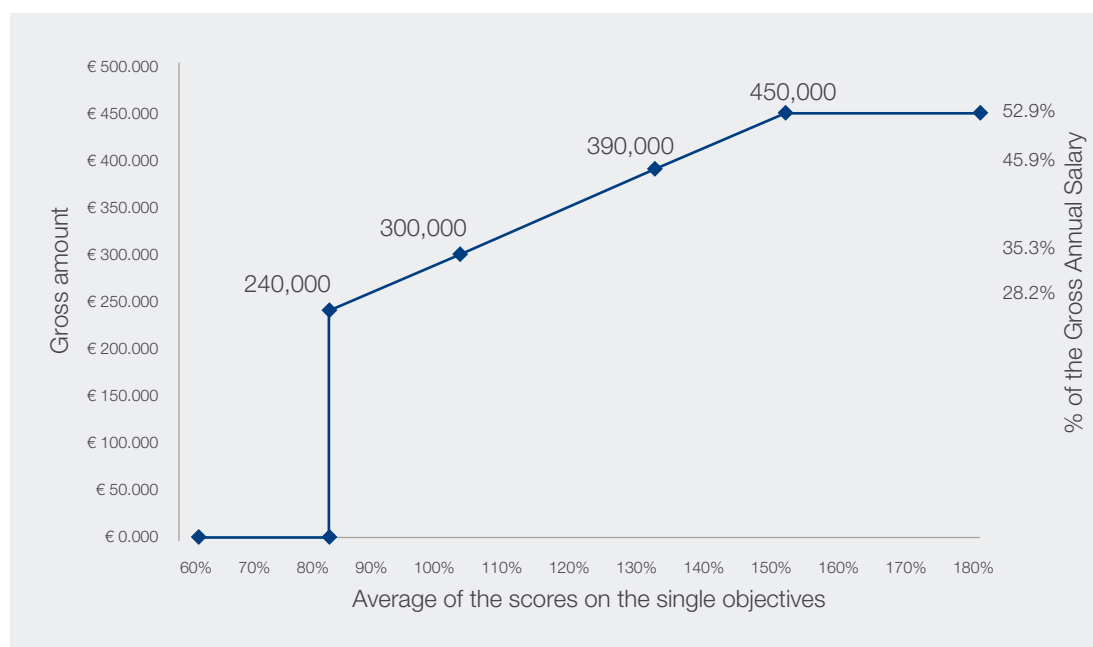
The first of the objectives assigned to the General Manager measures the value of **investments and operating revenues** budgeted for 2019 for all regulated activities of the Terna Group. “Operating revenues” refers to the value of the assets that are made available for network operation or operational use in the company during the period in question.

“**Quality of Service**” provides indications on the operating performance of the company through the measurement, in MWh, of the quantity of *Energy Not Supplied (RENS)*; therefore, the lower the value related to this parameter, the higher the score will be, up to the maximum score (150%) which corresponds to the target set, for 2019, by the Regulatory Authority for Network Energy and the Environment (ARERA).

The “**Workplace Safety**” objective consists of two sub-objectives:

- The first sub-objective is conveyed by the Workplace Safety rate (Is), calculated as the weighted arithmetic mean of the accident frequency and seriousness rates and valued by comparing current year trends with average trends of the three previous years.
- The second sub-objective consists of the ratio between:
  - the number of contracts with contractor companies operating at Terna sites (within Italy), with details of both hours worked and any accidents involving contractor company staff
  - and the number of active contracts.

The amount of the incentive actually disbursed varies according to the level of achievement of the targets assigned to the single objectives, as illustrated here below:



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

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

### Long-term variable incentive (LTI)

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

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

### *The three cycles of the long-term variable incentive plan*

The long-term variable incentive plan for the General Manager, Group managers, including Executives with Strategic Responsibilities, other executives and a selection of Middle Managers, consists of three assignment cycles with a three-year vesting period. It aims to reward the creation of values for shareholders over the long term, while also generating retention among beneficiaries.

The three cycles of the LTI Plan have the following characteristics:

- **first “Convertible” monetary three-year Cycle 2017-2019:** monetary plan which gives the Board of Directors the option to choose whether to convert the bonus into equity. The decision to implement this type of plan enabled the establishment of an approval process for Plan implementation by September 2017, in response to the requirement to fully cover mandate duration of the new Chief Executive Officer.
- **second and third three-year “equity based” Cycle 2018-2020 and 2019-2021:** plans in the form of Phantom Stock, which reward persistent, sustainable growth in value for shareholders. Following the definition of the new Strategic Plan 2018-2022, Terna decided to adopt an instrument that would allow, on the one hand, the best alignment possible with best market practices, with the provisions of the Corporate Governance Code and the objectives of the new Strategic Plan 2018-2022 (approved by the Board of Directors on 21 March 2018), and at the same time cover the current mandate period in order to guarantee lasting and sustainable growth.

For details on the first and second Cycle of the Long-Term Incentive plan 2017-2021, please refer to the 2018 Remuneration Report and relative Information Documents available on the Company's website.

### Third cycle of the LTI Plan: Phantom Stocks Plan 2019-2021

The third cycle of the LTI Plan provides for the use of Phantom Stock and the measurement of objectives over a three-year vesting period 2019-2021.

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

To this end, the performance indicators that will determine the number of Phantom Stocks to be attributed at the end of the vesting period are in line with the objectives defined in the new Strategic Plan 2019-2023, approved by the Board of Directors on 20 March 2019, and in particular:

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

#### THIRD CYCLE OF THE LTI PLAN 2019-2021

OBJECTIVES	WEIGHT	SCORE CURVE
<b>Three-year cumulative EBITDA at 2021 compared with the Strategic Plan three-year cumulative EBITDA</b>	50%	<b>Delta vs Strategic Plan target</b>
		-1%
		Target
		+2%
		For negative delta greater than 1% the score is zero (for intermediate figures linear interpolation is carried out)
<b>Relative Total Shareholder Return 2019-2021<sup>8</sup></b> Terna positioning in the reference "Peer Group" <sup>9</sup> reference	30%	<b>Positioning in the peer group</b>
		7 <sup>th</sup> , 6 <sup>th</sup> or 5 <sup>th</sup> place
		4 <sup>th</sup> place
		3 <sup>rd</sup> place
		1 <sup>st</sup> or 2 <sup>nd</sup> place
<b>Dow Jones Sustainability Index (DJSI)</b> Annual positioning of Terna in the years 2019, 2020, 2021	20%	If, although positioned in 1 <sup>st</sup> or 2 <sup>nd</sup> place, the TSR of Terna is negative in the period of reference, overperformance will not be recognised: the associated score will therefore be 100% (so-called "negative TSR threshold")
		• in the event of non-inclusion in the index for all three years of the Cycle period -> 0%
		• in the event of inclusion in the index for all three years of the Cycle period -> 80% (Minimum level);
		• in the event of inclusion in the index for all three years and positioning among the top 7 companies, in at least 1 of the 3 years of the Cycle period -> 100% (Target level);
		• in the event of inclusion in the index for all three years and positioning among the top 7 companies, in at least 2 of the 3 years of the Cycle period -> 130%;
		• in the event of inclusion in the index for all three years and positioning among the top 7 companies, in at least 2 of the 3 years of the Cycle period and in the first decile <sup>10</sup> in 1 year out of 3 -> 150% (Maximum level)

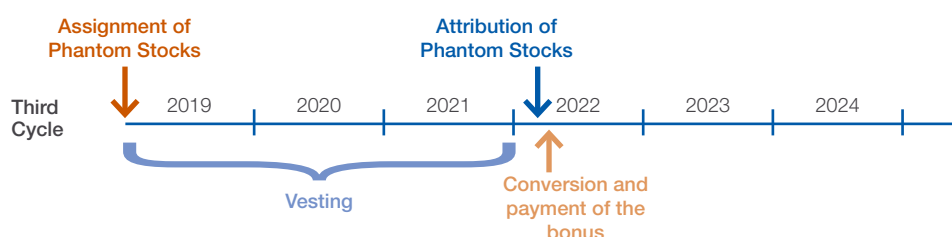
8. The TSR for Terna and for the peers is calculated over a time period of three years, using, for the third Cycle, the average of the closing values of the share price in 2019 and the same average for 2021. The data source for the TSR is Bloomberg.
9. The companies belonging to the Peer Group (Snam, Red Electrica, Enagas, National Grid, Severn Trent, United Utilities) are major European utilities companies listed on the stock exchange. They are part of the regulated utilities sub-sector and therefore implement a business model that, although related to different sectors, presents elements of uniformity and comparability with Terna's. The selection of the peer group was therefore guided towards the identification of stocks that reflect the characteristics of Terna's stock, with reference to the business cycle as well as with reference to external elements that may affect their performance, so much so that at the time of drafting this Report, the same stocks were examined by financial analysts for the purposes of evaluating and comparing them with Terna's stock. Equities that are subject to extraordinary operations that entail their delisting or a significant reduction in the floating capital, will be replaced (up to a maximum of two) by the following stock, listed in order: Elia, REN.
10. Placement in the 1<sup>st</sup> decile means inclusion in the 10% of companies valued as best performers by RobecoSam for inclusion in DJSI World.

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

The Board of Directors ascertains achievement of Plan objectives, for determining the amount of Phantom Stock to be awarded, based on instructions from the Remuneration Committee, on occasion of the approval of Financial Statements for the Financial Year which closed on 31 December 2021.

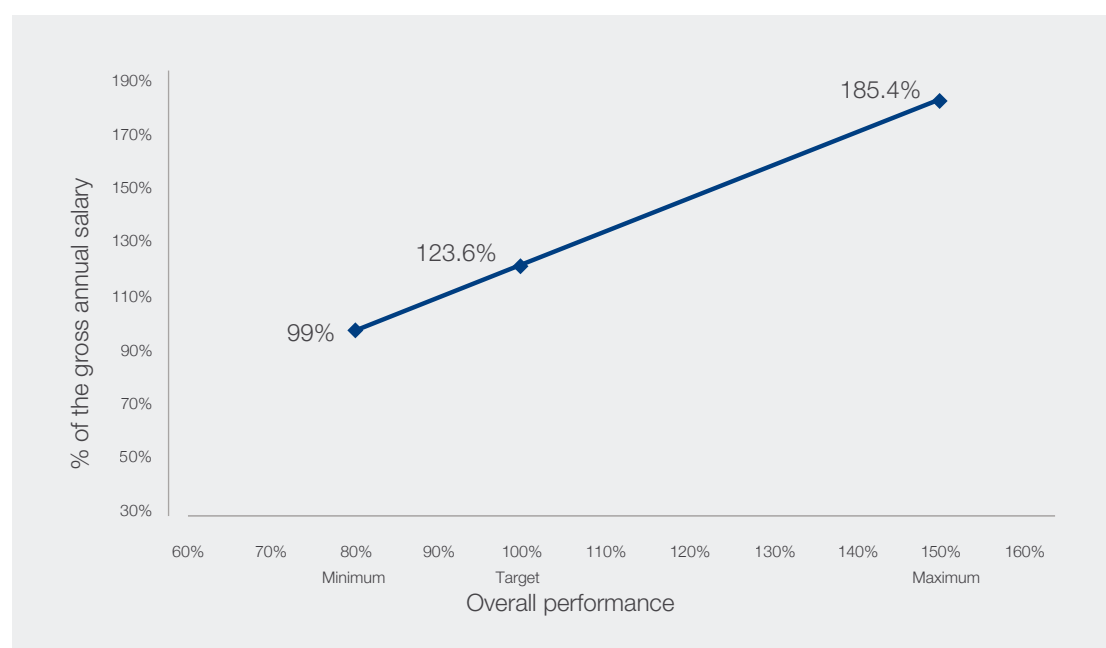
Following approval of the Financial statements, the conversion of these Phantom Stocks into cash premiums will take place at the average closing price of Terna's ordinary shares over the last 30 working days of the stock market from the reference date.

The image below shows the timeline of the third cycle of the 2019-2021 LTI Plan:



#### Third cycle of the LTI Plan: Phantom Stocks Plan 2019-2021 - General Manager

Variable remuneration of the General Manager linked to the third Cycle of the LTI Plan provides for the awarding Phantom stock - corresponding to percentages of Gross Annual Remuneration of the General Manager - upon the achievement of different performance (Minimum, Target and Maximum), as illustrated here below:





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

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

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

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

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

#### **Benefits**

Similarly to the case of the Senior Executives of the Group, in line with the Policy implemented in 2018, the benefits package for the General Manager is defined in accordance with the provisions of the applicable National Collective Employment Contract as well as that governed by the corporate policies and practices applicable to all Senior Executives:

- complementary pension fund (FONDENEL);
- supplementary healthcare (ASEM);
- cover against risk of death and permanent disability;
- company car for company/private use.
- insurance policy for occupational and non-occupational accidents.

#### **Non-competition agreements**

With reference to Directors and the General Manager, Terna does not currently have non-competition agreements in place that provide compensation of a fixed amount or an amount referable to the fixed remuneration in relation to the duration and scope of the obligation deriving from the agreement itself. However, Terna reserves the right to assess the opportunity of any specific clauses to this effect, within the limit of the Company Policy, which refers to an annuity based on agreements normally of annual duration.

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## Severance

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

In accordance with 9 May 2017 Board of Directors resolution and as previously illustrated in the policy presented in 2018 and except for in cases of disciplinary dismissal and resignation not for just cause, the following are provided for on termination of the employment relationship associated with expiry of the mandate: (i) as General Manager, payment of an indemnity equal to 24 months of all-inclusive remuneration, plus an amount equal to the indemnity for lack of notice pursuant to Art. 2121 of the Italian Civil Code (ii) as Chief Executive Officer, a severance indemnity (TFM - Trattamento di Fine Mandato) of an amount equal to 1/12 of the fee determined overall for the position of CEO, for each year of mandate.

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## 2.5 Remuneration of Senior Executives with Strategic Responsibilities

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

Senior Executives with Strategic Responsibilities, whose scope reflects the new organisational procedures of the Group, have responsibilities in the following positions:

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

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

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

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

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

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

- Gross Annual Salary (RAL), defined in relation to the role held, the responsibilities assigned to them and the strategic nature of the resource;
- short-term incentives (MBO) that can be attained upon achievement of predefined company objectives, which at target level represent up to 50% of Gross Annual Salary (RAL);
- long-term incentives that can be attained upon achievement of pre-established multi-year objectives, which taken as an overall value over the three-year Cycle period, at target level represent a pre-established share of up to 60% of Gross Annual Salary (RAL);
- benefits recognised by the applicable National Collective Employment Contract and company policies and practices;
- severance pay on the Company's initiative, defined in line with market *best practices* as described in the paragraph "Severance" here below.

### Short-term variable incentive (MBO)

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

The MBO objectives of the Senior Executives with Strategic Responsibilities are defined by the Chief Executive Officer, in line with the Remuneration Policy and the general criteria defined by the Remuneration Committee.

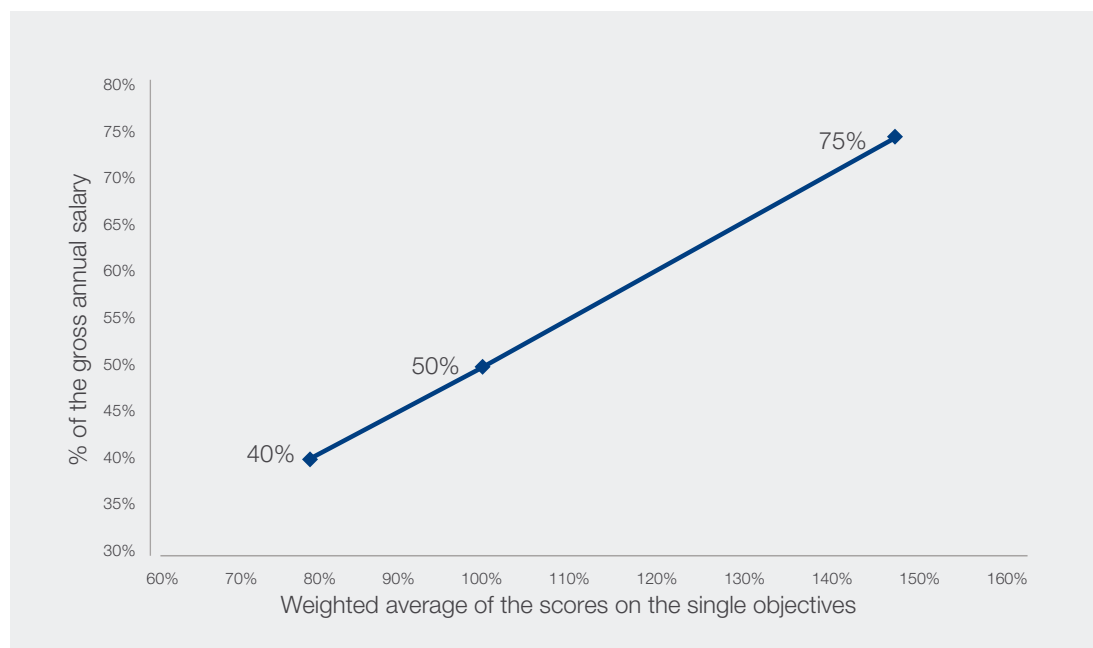
The objectives structure for Senior Executives with Strategic Responsibilities is composed as follows:

Access gate: **budget EBITDA**

Weight		Weight		Weight		Weight	
Group objectives	30%-50%	Transversal objectives	20%-30%	Individual objectives	10%-30%	Qualitative objective	10%
Objectives common to all beneficiaries		Objectives common to several departments with reference to particular priorities or company initiatives		Role-specific objectives		Evaluation relating to the managerial behaviour of the Leadership Model	

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

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



\* The percentages in the graph are the maximum premium opportunities for each level of target achievement.



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

The short-term incentive system does not provide for deferral mechanisms. This choice was made in full awareness and upon taking into consideration the following elements:

- the risk profile of the company and reference sector;
- the presence of a long-term incentive system and its relative weight compared to the fixed component and short-term variable component;
- the presence of a rolling-type mechanism of the long-term incentive plan which provides for a total timeframe of 5 years;
- the existence of claw back clauses.

### Long-term variable incentive (LTI)

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

The third equity-based Cycle for the 2019-2021 LTI Plan for Senior Executives with Strategic Responsibilities, provides for the same performance objectives (three-year cumulative EBITDA, Relative TSR, DJSI) as the General Manager, with the same weights and score curves, as well as the same vesting period and delivery mechanisms.

Therefore everything previously described for the General Manager is fully referred to herein, except for the premium opportunity and aspects pertaining to remuneration in case of early termination of employment, for which specific provisions are provided here below.

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

INSTRUMENT	PHANTOM STOCK PLAN
Vesting Period	2019-2021
Objectives	<b>50%</b> Cumulative EBITDA
	<b>30%</b> Relative TSR
	<b>20%</b> DJSI
Premium opportunities	Incentive percentages to be converted into Phantom Stocks up to 60% of Gross Annual Salary (RAL), as an overall value over the three-year period of the LTI Plan Cycle, if the weighted average of the single targets is at target (100%) and at the same value of Terna's share with respect to the allocation date.

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

- disciplinary dismissal;
- resignation without just cause

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

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

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

### **Entry bonus**

Under exceptional circumstances, for SESRs the Company can provide the possibility of Entry bonuses to favour the acquisition of resources with specific skills deemed necessary for the achievement of targets.

### **Benefits**

In line with the current Policy, the benefits package for Senior Executives with Strategic Responsibilities is defined in accordance with the provisions of the applicable National Collective Employment Contract as well as that governed by the corporate policies and practices applicable to all Senior Executives:

- complementary pension fund (FONDENEL);
- supplementary healthcare (ASEM);
- cover against risk of death and permanent disability;
- company car for company/private use;
- insurance policy for occupational and non-occupational accidents.

### **Non-competition agreements**

At present, if Executives with Strategic Responsibilities have a degree of professionalism and are skilled to the extent that their resignation could determine risks for the company, the Company can apply non-competition clauses and remuneration to this effect is defined within the limit of one annuity of Gross Annual Pay, insofar as the duration of such clauses is normally one year.

### **Severance**

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

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

# 3. Analytical Index

(CONSOB Resolution No. 18049, Section I)

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

CONSOB RESOLUTION	REQUIRED INFORMATION	REFERENCES
A	Bodies or persons involved in the preparation and approval of the remuneration policy, specifying their respective roles, as well as the bodies or individuals responsible for the proper implementation of this policy;	Pages 19 to 25
B	the possible scope of action of a remuneration committee or other relevant committee, describing its composition (with distinction between non-executive and independent directors), its competences and operating methods;	Pages 19 to 23
C	the names of any independent experts that contributed to the formulation of the remuneration policy;	Page 25
D	the objectives pursued through the remuneration policy, its underlying principles, and any changes to the remuneration policy with respect to the previous financial year;	Pages 11; 26
E	description of the policies regarding fixed and variable components of remuneration, particularly with regard to the relative weightings within the overall remuneration, distinguishing between short and long term variable components	Pages 8; 9; 15; 27 to 41
F	the policy adopted with respect to non-monetary benefits;	Pages 9; 36; 41
G	a description of performance objectives, according to which variable components of the remuneration are assigned, distinguishing between short and long term variable components, and information on the connection between changes in results and changes in remuneration;	Pages 8; 30 to 41
H	the criteria used to evaluate performance objectives forming the basis of the allocation of shares, options, other financial instruments or other variable components of remuneration;	Pages 8; 30 to 41
I	information intended to demonstrate that the remuneration policy is consistent with pursuing the company's long-term interests and with its risk management policy, where formalised;	Pages 33 to 36; 40-41
J	the vesting period, any deferred payment systems, with indications of the periods of deferment and the criteria used to determine these periods and ex-post correction mechanisms, if applicable;	Pages 33 to 36; 40-41
K	information on the presence of clauses for the retention of financial instruments in the portfolio after acquisition, with an indication of the retention period and the criteria used to determine these periods;	Not applicable
L	policy on compensation envisaged in case of termination of office or termination of the employment contract, specifying the circumstances determining the right to the compensation and any link between these payments and the company's performance;	Pages 9; 37; 41
M	information on any insurance, social security or pension plans, other than the obligatory schemes;	Pages 9; 36; 41
N (i)	the remuneration policy possibly implemented with reference to the independent directors;	The Company does not provide for specific remuneration policies for Independent Directors
N (ii)	the remuneration policy possibly implemented with reference to participation in committees;	Page 27
N (iii)	the remuneration policy possibly implemented with reference to the performance of particular tasks (Chairman/Chairwoman, Deputy Chairman/Chairwoman, etc.);	Pages 8; 28
O	information regarding the use of remuneration policies of other reference companies and, if used, the criteria chosen for the selection of these companies.	In developing its policy, the company did not take the remuneration policies of other companies as a reference. However a remuneration benchmark was made with a peer group (page 14)

# 4. Analytical Index

## Pursuant To Applicative Criterion of The Corporate Governance Code (July 2018 Edition)

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

APPLICATIVE CRITERIA	REFERENCES
a) fixed and variable components are adequately balanced depending on the Issuer's strategic objectives and risk management policy, also taking into account the business sector in which it operates and the nature of business it actually performs;	Pages 15; 26
b) maximum limits for the variable components shall be established;	Pages 8; 30; 32; 35; 39-40
c) the fixed component shall be adequate to remunerate the services of the Director, should the variable component not be paid because of failure to achieve the performance objectives specified by the Board of Directors;	Pages da 26 a 29
d) the performance objectives - i.e. the economic results and any other specific objectives linked to the payment of variable components (including the objectives defined for the share-based compensation plans) - are predetermined, measurable and linked to the creation of value for the shareholders in the long term;	Pages 8; 30; 32; 34; 39-40
e) the payment of a significant portion of the variable component of remuneration shall be deferred for an appropriate period of time with respect to the moment of its accrual; the amount of that portion and the period of deferral shall be consistent with the characteristics of the business carried out and the associated risk profiles;	Pages 15; 30; 33 to 36; 40-41
f) contractual mechanisms are foreseen to allow the company to request the return, in whole or in part, of the variable components of remuneration paid (or to withhold sums that have been deferred), that were calculated based on data that later turned out to be clearly wrong;	Pages 36; 41
g) any severance payment, established on the termination of the directorship, is defined in such a way that its total amount does not exceed a certain amount or a certain number of years of remuneration. This indemnity is not paid if the termination of the relationship is due to the achievement of objectively inadequate results.	Pages 9; 37









## Section II: Implementation of the 2018 Remuneration Policies

# Contents

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Introduction	47
 Part One	
Fixed amounts	48
Variable amounts	48
Fees for participating in Board Committees	51
Benefits	51
Severance	51
 Part Two	
Table 1	52
Table 3A	58
Table 3B	60
Scheme 7-ter - Table 1	61
 Glossary	63

# Introduction

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This section consists of two parts which respectively illustrate:

- in the **Part One**, different elements of remuneration (including payment provided for in case of termination of employment or resignation), demonstrating coherence with the reference remuneration policy;
- in the **Part Two**, with annexed tables, remuneration of administration and control bodies, of the General Manager and information regarding Company shares held by them, as well as remuneration for Executives with Strategic Responsibilities.

Remuneration of members of administration and control bodies and of the General Manager are illustrated on a nominative basis. Remuneration for Executives with Strategic Responsibilities<sup>11</sup> is disclosed in aggregated form.

The implementation of the Policy, as verified by the Remuneration Committee during its regular assessment as foreseen by the Corporate Governance Code, remained in line with the general principles indicated in the resolutions adopted by the Board of Directors. See Section I for the detailed description of each component part of the remuneration, including treatments foreseen in the case of termination of office or termination of the employment contract.

The compensation items listed are consistent with the Policy established in 2018 by the Board of Directors and submitted for the advisory and non-binding vote of the Shareholders' Meeting of 4 May 2018, pursuant to Art. 123-ter, paragraph 6, of the Consolidated Law on Finance, which was favourable.

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11. Pursuant to Consob Resolution 18049, for SESRs which were not awarded total remuneration in excess of highest total remuneration awarded to members of administration and control bodies and the General Manager.

# Part One

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## Fixed amounts

### Non-executive Directors

Non-executive Directors were paid the fixed amounts, where appropriate *pro rata temporis*, established by the Shareholders' Meeting of 27 April 2017 (€ 35,000 per year for each Director).

### Chairwoman

The Chairwoman was paid the fixed amounts, established by the Shareholders' Meeting of 27 April 2017 (€ 50,000 per year) and established by the Board of Directors on 9 May 2017 (€ 188,000 per year). Therefore, the overall annual remuneration package for the Chairwoman, in terms of fixed remuneration, amounted to € 238,000.

### CEO and General Manager

The Chief Executive Officer and General Manager were paid:

- the fixed amount as Director, established by the Shareholders' Meeting of 27 April 2017 (€ 35,000 per year);
- the fixed amount, established by the Board of Directors on 9 May 2017, for assigned powers and duties (€ 200,000 per year);
- the fixed component of remuneration as General Manager (€ 850,000 per year).

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

## Variable amounts

### Short-term variable incentive

#### CEO and General Manager

In 2018, the Chief Executive Officer and General Manager received the short-term incentive remuneration (MBO), based on the performance achieved in achieving the targets foreseen for the two roles, as reported in the draft Financial Statements for 2018, which shall be submitted for approval by the Shareholders' Meeting, which approved Section I of this Report<sup>12</sup>.

Specifically, variable annual remuneration for 2018 will be awarded as follows:

- 200,000 euro gross for the office of Chief Executive Officer. With reference to the aforementioned, it is important to note that the MBO premium for the Chief Executive Officer is of an on/off nature and both objectives have been achieved;
- 444,300 euro gross, based on a target achievement level of 148.1%.

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12. Remuneration is paid pursuant to the principles indicated in the Remuneration Policy submitted for the advisory vote of the ordinary Shareholders' Meeting held on 04 May 2018.

Evidence for the degree of assigned target achievement is summarised in the following prospectus.

#### 2018 MBO OBJECTIVES - CHIEF EXECUTIVE OFFICER

OBJECTIVES	LEVEL OF ACHIEVEMENT
Terna Group - 2018 Net Income	ON
Plan for the implementation of the new monitoring system for predictive maintenance of cable infrastructures and insourcing of related duties	ON

#### 2018 MBO OBJECTIVES - GENERAL MANAGER

OBJECTIVES	WEIGHT	LEVEL OF ACHIEVEMENT
Investments and Operating Revenues	40%	145.3%
Terna Group - 2018 EBITDA	35%	150.0%
Quality of Service (Reference Energy Not Supplied, RENS)	15%	150.0%
Innovation Factory: Establishment of the structure and innovation projects ("Smart Tower" and innovative Storage projects)	10%	150.0%
WEIGHTED AVERAGE OF THE SCORES		148.1%

The total short-term variable remuneration for the CEO and GM, relating to the 2018 performance period, was equal to € 644,300 gross.

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

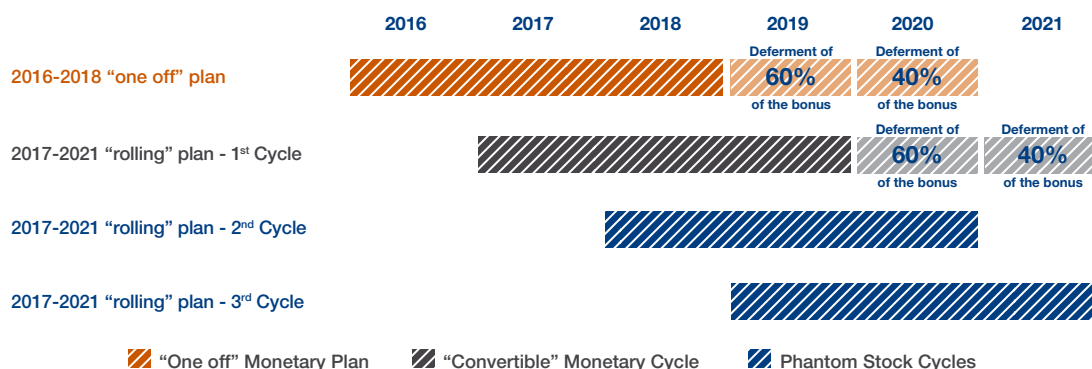
#### Senior Executives with Strategic Responsibilities

Senior Executives with Strategic Responsibilities received - on the basis of the draft Financial Statements for 2018 - a short-term annual variable total amount, equal to € 1,128,911. The overall average achievement of objectives was approximately 140%.



## Long-term variable incentive

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



In 2018 the "one off" 2016-2018 monetary plan was accrued. To this effect, on 20<sup>th</sup> March 2019 the Board of Directors, upon Remuneration Committee verification and proposal, resolved as follows:

- gross cumulative profit value 2016-2018 which determined an achievement level of 150% (weight 50%);
- total Shareholder Return 2016-2018 positioning of Terna in reference "Peer Group" which determined an achievement level of 150% (weight 40%);
- an average of scores regarding Terna annual positioning in the years 2016-2017-2018, with reference to the Dow Jones Sustainability Index (DJSI) which determined an achievement level of 150% (weight 10%).

Having regard to the aforementioned, the overall achievement level with reference to the "one off" monetary plan 2016-2018 stands at 150%, determining the accrual of an incentive for the General Manager of € 1,100,000 and at aggregate level, for Executives with Strategic Responsibilities to the value of € 2,483,418.

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

Table 3B provides the pertinent values of monetary plans.

It is also important to note that in light of what is described in Section I of the 2018 Remuneration Report, during 2018 the first cycle in *Phantom Stock* (2018-2020) was awarded, as part of the variable long-term incentive plan 2017-2021. Information on said plan is provided in table 3A.

## Fees for participating in Board Committees

Details on remuneration for offices held in committees can be found here below, also awarded on a *pro rata temporis* basis.

For details on amounts paid to Directors and for participating in Committees, refer to Table 1.

### *Chairmen of the Appointments Committee, Remuneration Committee and Coordinator of the Committee for Operations with Related Parties*

The Chairmen of the Appointments Committee, Remuneration Committee and the Coordinator of the Committee for Operations with Related Parties were awarded remuneration amounting to € 50,000 per year (in addition to what they received in their capacity as Directors - € 35,000 year).

### *Chairman of the Audit and Risk, Corporate Governance and Sustainability Committee*

The Chairman of the Internal Audit and Risks, Corporate Governance and Sustainability Committee was awarded remuneration amounting to € 60,000 per year (in addition to what they received in their capacity as Director - € 35,000 year).

### *Committee Members*

All committee members were awarded remuneration amounting to € 40,000 per year (in addition to what they received in their capacity as Director - € 35,000 year).

## Benefits

In line with the Policy, during 2018, the Chairwoman, the CEO, as General Manager, and Senior Executives with Strategic Responsibilities were granted benefits as listed in Table 1.

## Severance

In 2018 no amounts were paid for severance to Executives with Strategic Responsibilities.

# Part Two

**Table 1 - Fees paid to Directors, Statutory Auditors, General Managers and other Senior Executives with Strategic Responsibilities**

A	B	C	D	1	2
NAME AND SURNAME	OFFICE	PERIOD IN WHICH OFFICE WAS HELD	END OF TERM OF OFFICE	FIXED REMUNERATION	FEES FOR PARTICIPATION IN COMMITTEES
<b>Catia Bastioli</b>	<b>Chairwoman of the Board of Directors</b>	01/01/2018-31/12/2018	Approval of 2019 Financial Statements		
(I) Remuneration in company which draws up the financial statements				50,000.00 €	
				188,000.00 €	
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>238,000.00 €</b>	
<b>Luigi Ferraris</b>	<b>CEO and General Manager</b>	01/01/2018-31/12/2018	Approval of 2019 Financial Statements		
				35,000.00 €	
(I) Remuneration in company which draws up the financial statements				200,000.00 €	
				850,000.00 €	
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>1,085,000.00 €</b>	
<b>Fabio Corsico</b>	<b>Director</b>	01/01/2018-31/12/2018	Approval of 2019 Financial Statements		
(I) Remuneration in company which draws up the financial statements				35,000.00 €	90,000.00 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>35,000.00 €</b>	<b>90,000.00 €</b>
<b>Luca Dal Fabbro</b>	<b>Director</b>	01/01/2018-31/12/2018	Approval of 2019 Financial Statements		
(I) Remuneration in company which draws up the financial statements				35,000.00 €	98,541.98 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>35,000.00 €</b>	<b>98,541.98 €</b>
<b>Paola Giannotti</b>	<b>Director</b>	01/01/2018-31/12/2018	Approval of 2019 Financial Statements		
(I) Remuneration in company which draws up the financial statements				35,000.00 €	80,000.00 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>35,000.00 €</b>	<b>80,000.00 €</b>
<b>Yunpeng He</b>	<b>Director</b>	01/01/2018-31/12/2018	Approval of 2019 Financial Statements		
(I) Remuneration in company which draws up the financial statements				35,000.00 €	40,000.00 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>35,000.00 €</b>	<b>40,000.00 €</b>
<b>Gabriella Porcelli</b>	<b>Director</b>	01/01/2018-31/12/2018	Approval of 2019 Financial Statements		
(I) Remuneration in company which draws up the financial statements				35,000.00 €	90,000.00 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>35,000.00 €</b>	<b>90,000.00 €</b>
<b>Stefano Saglia</b>	<b>Director</b>	01/01/2018-10/08/2018	Approval of 2019 Financial Statements		
(I) Remuneration in company which draws up the financial statements				21,375.59 €	61,073.11 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>21,375.59 €</b>	<b>61,073.11 €</b>
<b>Elena Vasco</b>	<b>Director</b>	01/01/2018-31/12/2018	Approval of 2019 Financial Statements		
(I) Remuneration in company which draws up the financial statements				35,000.00 €	40,000.00 €
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>35,000.00 €</b>	<b>40,000.00 €</b>

3		4	5	6	7	8
VARIABLE NON EQUITY REMUNERATION		NON-MONETARY BENEFITS	OTHER REMUNERATION	TOTAL	FAIR VALUE OF EQUITY REMUNERATION	SEVERANCE INDEMNITIES FOR END OF OFFICE OR TERMINATION OF EMPLOYMENT
BONUSES AND OTHER INCENTIVES	PROFIT SHARING					
		698,44 €		50,698,44 €		
				188,000,00 €		
		698,44 €		238,698,44 €		
				35,000.00 €		
200,000.00 €				400,000.00 €		
1,544,300.00 €		50,837.16 €		2,445,137.16 €	387,826.63 €	
1,744,300.00 €		50,837.16 €		2,880,137.16 €	387,826.63 €	
		545.39 €		125,545.39 €		
		545.39 €		125,545.39 €		
		582.66 €		134,124.64 €		
		582.66 €		134,124.64 €		
		501.76 €		115,501.76 €		
		501.76 €		115,501.76 €		
		327.23 €		75,327.23 €		
		327.23 €		75,327.23 €		
		545.39 €		125,545.39 €		
		545.39 €		125,545.39 €		
		359.73 €		82,808.43 €		
		359.73 €		82,808.43 €		
		327.23 €		75,327.23 €		
		327.23 €		75,327.23 €		

A	B	C	D	1	2
NAME AND SURNAME	OFFICE	PERIOD IN WHICH OFFICE WAS HELD	END OF TERM OF OFFICE	FIXED REMUNERATION	FEES FOR PARTICIPATION IN COMMITTEES
<b>Riccardo Schioppo</b>	<b>Standing Auditor</b>	01/01/2018-31/12/2018	Approval of 2019 Financial Statements		
(I) Remuneration in company which draws up the financial statements				55,000.00 €	
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>55,000.00 €</b>	
<b>Vincenzo Simone</b>	<b>Standing Auditor</b>	01/01/2018-31/12/2018	Approval of 2019 Financial Statements		
(I) Remuneration in company which draws up the financial statements				45,000.00 €	
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>45,000.00 €</b>	
<b>M. Alessandra Zunino de Pignier</b>	<b>Standing Auditor</b>	01/01/2018-31/12/2018	Approval of 2019 Financial Statements		
(I) Remuneration in company which draws up the financial statements				45,000.00 €	
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>45,000.00 €</b>	
<b>Senior Executives with Strategic Responsibilities (6)</b>					
(I) Remuneration in company which draws up the financial statements				1,669,500.00 €	
(II) Remuneration from subsidiaries and associates					
<b>(III) Total</b>				<b>1,669,500.00 €</b>	



3		4	5	6	7	8
VARIABLE NON EQUITY REMUNERATION		NON-MONETARY BENEFITS	OTHER REMUNERATION	TOTAL	FAIR VALUE OF EQUITY REMUNERATION	SEVERANCE INDEMNITIES FOR END OF OFFICE OR TERMINATION OF EMPLOYMENT
BONUSES AND OTHER INCENTIVES	PROFIT SHARING					
		239.97 €		55,239.97 €		
		239.97 €		55,239.97 €		
		196.34 €		45,196.34 €		
		196.34 €		45,196.34 €		
		196.34 €		45,196.34 €		
		196.34 €		45,196.34 €		
		196.34 €		45,196.34 €		
		196.34 €		45,196.34 €		
3,612,329.22 €		121,989.62 €		5,403,818.84 €	350,846.43 €	
3,612,329.22 €		121,989.62 €		5,403,818.84 €	350,846.43 €	

## Notes

<b>Catia Bastioli</b>	<b>Col.1</b>	<p>The amount includes:</p> <ul style="list-style-type: none"> <li>- fixed annual remuneration established pursuant to art. 2389 of the Civil Code paragraph 1 for the office of Chairwoman of the BoD (€50,000);</li> <li>- fixed annual remuneration established pursuant to 2389 of the Civil Code paragraph 3 for the office of Chairwoman of the BoD (€188,000).</li> </ul>
<b>Luigi Ferraris</b>	<b>Col.1</b>	<p>The amount includes:</p> <ul style="list-style-type: none"> <li>- fixed annual remuneration established pursuant to art. 2389 of the Civil Code paragraph 1 for the office of Director (€35,000);</li> <li>- fixed annual remuneration established pursuant to 2389 of the Civil Code paragraph 3 for the office of Chief Executive Officer (€200,000);</li> <li>- gross annual remuneration (€850,000) in the capacity of General Manager.</li> </ul>
	<b>Col.3</b>	<p>The amount includes:</p> <ul style="list-style-type: none"> <li>- remuneration for the 2018 MBO, to be paid in own capacity as Chief Executive Officer (€ 200,000);</li> <li>- remuneration for the 2018 MBO, to be paid in own capacity as General Manager (€ 444,300);</li> <li>- remuneration for LTI plan 2016-2018, to be paid in own capacity as General Manager (€ 1,100,000).</li> </ul>
<b>Fabio Corsico</b>	<b>Col. 2</b>	<p>The amount includes:</p> <ul style="list-style-type: none"> <li>- remuneration for the office of Chairman of the Remuneration Committee (€50,000);</li> <li>- remuneration for the office of Member of the Appointments Committee (€40,000).</li> </ul>
<b>Luca Dal Fabbro</b>	<b>Col. 2</b>	<p>The amount includes:</p> <ul style="list-style-type: none"> <li>- remuneration for the office of Chairman of the Appointments Committee (€50,000);</li> <li>- remuneration for the office of Member of the Committee for Operations with Related Parties (€40,000);</li> <li>- the pro-rata amount for the period spanning 9 November to 31 December 2018, of remuneration for the office of Chairman of the Internal Audit and Risks, Corporate Governance and Sustainability Committee (€60,000).</li> </ul>
<b>Paola Giannotti</b>	<b>Col. 2</b>	<p>The amount includes:</p> <ul style="list-style-type: none"> <li>- remuneration for the office of Member of the Internal Audit and Risks, Corporate Governance and Sustainability Committee (€40,000);</li> <li>- remuneration for the office of Member of the Committee for Operations with Related Parties (€40,000).</li> </ul>
<b>Yunpeng He</b>	<b>Col. 2</b>	<p>The amount consists of remuneration for the office of Member of the Appointments Committee (€40,000).</p>

<b>Gabriella Porcelli</b>	<b>Col. 2</b>	The amount includes: - remuneration for the office of Member of the Remuneration Committee (€40,000); - remuneration for the office of Coordinator of the Committee for Operations with Related Parties (€50,000).
<b>Stefano Saglia</b>	<b>Col. 1</b>	The amount consists of the pro-rata amount, for the period spanning 1 January 2018 to 10 August 2018, for fixed annual remuneration established pursuant to art. 2389 of the Civil Code paragraph 1 for the office of CEO (€35,000).
	<b>Col. 2</b>	The amount includes the pro-rata amount, for the period spanning 1 January 2018 to 10th August 2018: - of remuneration for the office of Chairman of the Internal Audit and Risks, Corporate Governance and Sustainability Committee (€60,000); - remuneration for the office of Member of the Remuneration Committee (€40,000).
<b>Elena Vasco</b>	<b>Col. 2</b>	The amount consists of remuneration for the office of Member of the Internal Audit and Risks, Corporate Governance and Sustainability Committee (€40,000).
<b>Riccardo Schioppo</b>	<b>Col. 1</b>	The amount consists of fixed annual remuneration established pursuant to art. 2389 of the Civil Code paragraph 1 for the office of Chairman of the Statutory Board of Auditors (€55,000).
<b>Vincenzo Simone</b>	<b>Col. 1</b>	The amount consists of fixed annual remuneration established pursuant to art. 2389 of the Italian Civil Code paragraph 1 for the office of Auditor (€45,000).
<b>M. Alessandra Zunino de Pignier</b>	<b>Col. 1</b>	The amount consists of fixed annual remuneration established pursuant to art. 2389 of the Civil Code paragraph 1 for the office of Auditor (€45,000).
<b>Senior Executives with Strategic Responsibilities</b>	<b>Col.3</b>	The amount includes: - total remuneration for the 2018 MBO (€ 1,128,911); - total remuneration for the 2016-2018 LTI plan (€ 2,483,418).

## Table 3A

Incentive plans based on financial instruments, other than stock-options, payable to the members of the management board, general managers and other executives with strategic responsibilities

			FINANCIAL INSTRUMENTS ASSIGNED IN PREVIOUS YEARS AND NOT VESTED DURING THE FINANCIAL YEAR	
A	B	1	2	3
NAME AND SURNAME	OFFICE	PLAN	NUMBER AND TYPE OF FINANCIAL INSTRUMENTS	VESTING PERIOD
<b>Luigi Ferraris</b>	<b>CEO and General Manager</b>			
(I) Remuneration in company which draws up the financial statements		2018-2020 Cycle (Shareholders' Meeting on 4 May 2018)		
(II) Remuneration from subsidiaries and associates				
<b>(III) Total</b>				
<b>Senior Executives with Strategic Responsibilities (6)</b>				
(I) Remuneration in company which draws up the financial statements		2018-2020 Cycle (Shareholders' Meeting on 4 May 2018)		
(II) Remuneration from subsidiaries and associates				
<b>(III) Total</b>				

\* Market price upon assignment: average closing price of share in the thirty working days on the Stock Market prior to assignment date.

FINANCIAL INSTRUMENTS ASSIGNED DURING THE YEAR					FINANCIAL INSTRUMENTS VESTED DURING THE YEAR AND NOT ATTRIBUTED	FINANCIAL INSTRUMENTS ASSIGNED DURING THE YEAR AND ATTRIBUTABLE		FINANCIAL INSTRUMENTS FOR THE YEAR
4	5	6	7	8	9	10	11	12
NUMBER AND TYPE OF FINANCIAL INSTRUMENTS	FAIR VALUE ON DATE OF ALLOCATION	VESTING PERIOD	DATE OF ALLOCATION	MARKET PRICE AT THE TIME OF ASSIGNMENT*	NUMBER AND TYPE OF FINANCIAL INSTRUMENTS	NUMBER AND TYPE OF FINANCIAL INSTRUMENTS	DATE OF VESTING	FAIR VALUE
337,452	1,163,479.9	3 years	20/06/18	4.67				387,826.6
	<b>1,163,479.9</b>							<b>387,826.6</b>
306,295	1,052,539.3	3 years	20/06/18	4.67				350,846.4
	<b>1,052,539.3</b>							<b>350,846.4</b>



# Table 3B

Monetary incentive plans for directors,  
general managers and other Senior executives  
with strategic responsibilities

A	B	1	2			3			4
SURNAME AND NAME	OFFICE	PLAN	YEARLY BONUSES			BONUS DI ANNI PRECEDENTI			OTHER BONUSES
			(A) DISBURSABLE/ DISBURSED	(B) DEFERRED	(C) DEFERRAL PERIOD	(A) NO LONGER PAYABLE	(B) DISBURSABLE/ DISBURSED	(C) STILL DEFERRED	
Luigi Ferraris	CEO and General Manager								
(I) Remuneration in company which draws up the financial statements		2018 MBO (CEO)	€ 200,000.00						
		2018 MBO (GM)	€ 444,300.00						
		2016-2018 LTI Plan (GM)	€ 550,000.00				€ 550,000.00		
		2017-2019 LTI Plan (GM)		€ 525,300.00 (*)				€ 525,300.00 (**)	
(II) Remuneration from subsidiaries and associates									
(III) Total			€ 1,194,300.00	€ 525,300.00			€ 550,000.00	€ 525,300.00	
Senior Executives with Strategic Responsibilities (6)									
(I) Remuneration in company which draws up the financial statements		MBO 2018	€ 1,128,911.38						
		2016-2018 LTI Plan	€ 1,066,583.91				€ 1,416,833.93		
		2017-2019 LTI Plan		€ 477,040.52 (*)				€ 455,730.02 (**)	
(II) Remuneration from subsidiaries and associates									
(III) Total			€ 2,195,495.29	€ 477,040.52			€ 1,416,833.93	€ 455,730.02	

(\*) The achievement of reference targets for determining the incentive will be checked by the Board of Directors, based on information provided by the Remuneration Committee, upon the approval of Financial Statements on 31.12.2019. The amount entered in column 2B is the amount disburseable for the year 2018 upon achievement of maximum level of targets defined for the 2017-2019 LTI Plan.

(\*\*) The achievement of reference targets for determining the incentive will be checked by the Board of Directors, based on information provided by the Remuneration Committee, upon the approval of Financial Statements on 31.12.2019. The amount entered in column 3C is the amount disburseable for the year 2017 upon achievement of maximum level of targets defined for the 2017-2019 LTI Plan.

## Scheme 7-ter Annex 3A

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

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

Pursuant to the provisions of Art. 84-*quater*, paragraph 4, of CONSOB Resolution No. 11971/99, in the tables below, the shares of TERN S.p.A. and its subsidiaries are listed held by Directors, Auditors, General Managers (table 1), and by Senior Executives with Strategic Responsibilities (table 2), as well as by not legally separated spouses and under-age children, directly or through subsidiaries, trust companies or third parties, as indicated in the company's shareholder books, in notices received and other information obtained by the members of administration and audit bodies, general managers and Senior Executives with Strategic Responsibilities themselves. Therefore, all those who, in 2018, held positions as Directors, Auditors, General Managers or Senior Executives with Strategic Responsibilities are included. The number of shares is indicated by name for the members of administration and audit bodies and for General Managers, and cumulatively, for the other Senior Executives with Strategic Responsibilities.

**Table 1**

NAME AND SURNAME	OFFICE	SHAREHOLDING IN COMPANY <sup>1</sup>	NUMBER OF SHARES HELD AT THE END OF THE PREVIOUS YEAR (2017)	NUMBER OF SHARES PURCHASED (IN 2018)	NUMBER OF SHARES SOLD (IN 2018)	NUMBER OF SHARES HELD AT THE END OF FINANCIAL YEAR 2018	OWNERSHIP <sup>2</sup>
<b>Bastoli Catia</b>	Chairwoman of the Board of Directors	TERNA S.p.A.	2,100	0	0	2,100 <sup>3</sup>	owner
<b>Luigi Ferraris</b>	CEO and General Manager	-	0	10,000	0	10,000	owner
<b>Corsico Fabio</b>	Director	-	0	0	0	0	-
<b>Dal Fabbro Luca</b>	Director	-	0	0	0	0	-
<b>Giannotti Paola</b>	Director	-	0	0	0	0	-
<b>He Yunpeng</b>	Director	-	0	0	0	0	-
<b>Porcelli Gabriella</b>	Director	-	0	0	0	0	-
<b>Saglia Stefano</b>	Director	-	0	0	0	0	-
<b>Vasco Elena</b>	Director	-	0	0	0	0	-
<b>Schioppo Riccardo Enrico Maria</b>	Chairman of the Board of Statutory Auditors	-	0	0	0	0	-
<b>Simone Vincenzo</b>	Standing Auditor	-	0	0	0	0	-
<b>Zunino de Pignier Maria Alessandra</b>	Standing Auditor	-	0	0	0	0	-
<b>Davide Attilio Rossetti</b>	Alternate Auditor	-	0	0	0	0	-
<b>Mantegazza Cesare Felice</b>	Alternate Auditor	-	0	0	0	0	-
<b>Ricotti Renata Maria</b>	Alternate Auditor	-	0	0	0	0	-

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

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

3. Of which 2,100 TERN S.p.A. shares held by cohabitant.

**Table 2**

NUMBER OF SENIOR EXECUTIVES WITH STRATEGIC RESPONSIBILITIES	SHAREHOLDING IN COMPANY <sup>1</sup>	NUMBER OF SHARES HELD AT THE END OF THE PREVIOUS YEAR (2017)	NUMBER OF SHARES PURCHASED (IN 2018)	NUMBER OF SHARES SOLD (IN 2018)	NUMBER OF SHARES HELD AT THE END OF FINANCIAL YEAR 2018	OWNERSHIP <sup>2</sup>
6	-	0	4,850	0	4,850	

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

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

# Glossary

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

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

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

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

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

**Corporate Governance Code:** as defined by Borsa Italiana in July 2018, this is the “Self-regulatory Code for Listed Companies in Relation to Corporate Governance”. The document embodies a number of details about best practices on the organisation and operation of listed companies in Italy. These recommendations are not binding, even if listed companies should “keep the market and its shareholders informed about its governance structure and the degree of adherence to the Code”.

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

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

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

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

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

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

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

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

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

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

**Key Performance Indicator (KPI):** indicator identified by the measurement of performance levels and achievement levels of set targets.

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

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

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

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

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



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

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

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

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

**Senior Executives with Strategic Responsibilities:** have responsibility, directly or indirectly, for planning, management and control of the activities of the company”. For the definition of “Senior Executives with Strategic Responsibilities”, please refer to Annex 1 of the Regulations on Related-Party Transactions No. 17221 of 12 March 2010.

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

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

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

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

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

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









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