

2020

REPORT ON **CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES**

TERNA S.P.A.



Traditional management and control model



Report on Corporate Governance and Ownership Structures Terna S.p.A.

Traditional management and control model

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

Website: www.terna.it

Annual reporting period to which the Report refers: 2020

Date of approval of the Report: 24 March 2021

Driving Energy

We are engaged in driving and enabling the ecological transition in order to create a new development model based on renewable sources and respect for the environment. Sustainability, innovation and distinctive competencies are behind everything we do, with the aim of providing the generations to come with a clean, accessible and emission-free energy future.

We are Europe's largest independent electricity transmission system operator.

We have the major responsibility for providing the country with energy, ensuring **security, quality and cost-effectiveness over time**.

We manage Italy's high-voltage electricity transmission grid, one of the most modern and technologically advanced in Europe, which we are working to **develop and integrate with the European grid**, guaranteeing secure and **equal access to all grid users**.

We are developing **Non-regulated Activities** and new business opportunities, making our expertise and experience available in Italy and overseas.





Executive Summary

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Report on Corporate Governance
and Ownership Structures for 2020

20

Executive Summary

Structure and composition of corporate bodies



BOARD OF DIRECTORS IN OFFICE



VALENTINA BOSETTI

Chairwoman
M

Non-executive
Independent as
per the CLF



**STEFANO ANTONIO
DONNARUMMA**

Chief Executive Officer
M

Executive
Not independent



GIUSEPPE FERRI

Director
M

Non-executive
Independent



FABIO CORSICO

Director
M

Non-executive
Independent



PAOLA GIANNOTTI

Director
m

Non-executive
Independent



MARCO GIORGINO

Director
m

Non-executive
Independent



HE YUNPENG

Director
M

Non-executive
Independent



GABRIELLA PORCELLI

Director
m

Non-executive
Independent



ALESSANDRA FAELLA

Director
M

Non-executive
Independent



ANTONELLA BALDINO

Director
M

Non-executive
Independent



ERNESTO CARBONE

Director
M

Non-executive
Independent



VALENTINA CANALINI

Director
M

Non Esecutivo
Indipendente ai
sensi del TUF



**JEAN-MICHEL
AUBERTIN**

Director
m

Non-executive
Independent

M = Majority slate; m = Minority slate.

AUDIT, RISK, CORPORATE GOVERNANCE AND SUSTAINABILITY COMMITTEE

NAME	ROLE	INDEPENDENT
Paola Giannotti	Chair	●
Marco Giorgino	Member	●
Giuseppe Ferri	Member	●

REMUNERATION COMMITTEE

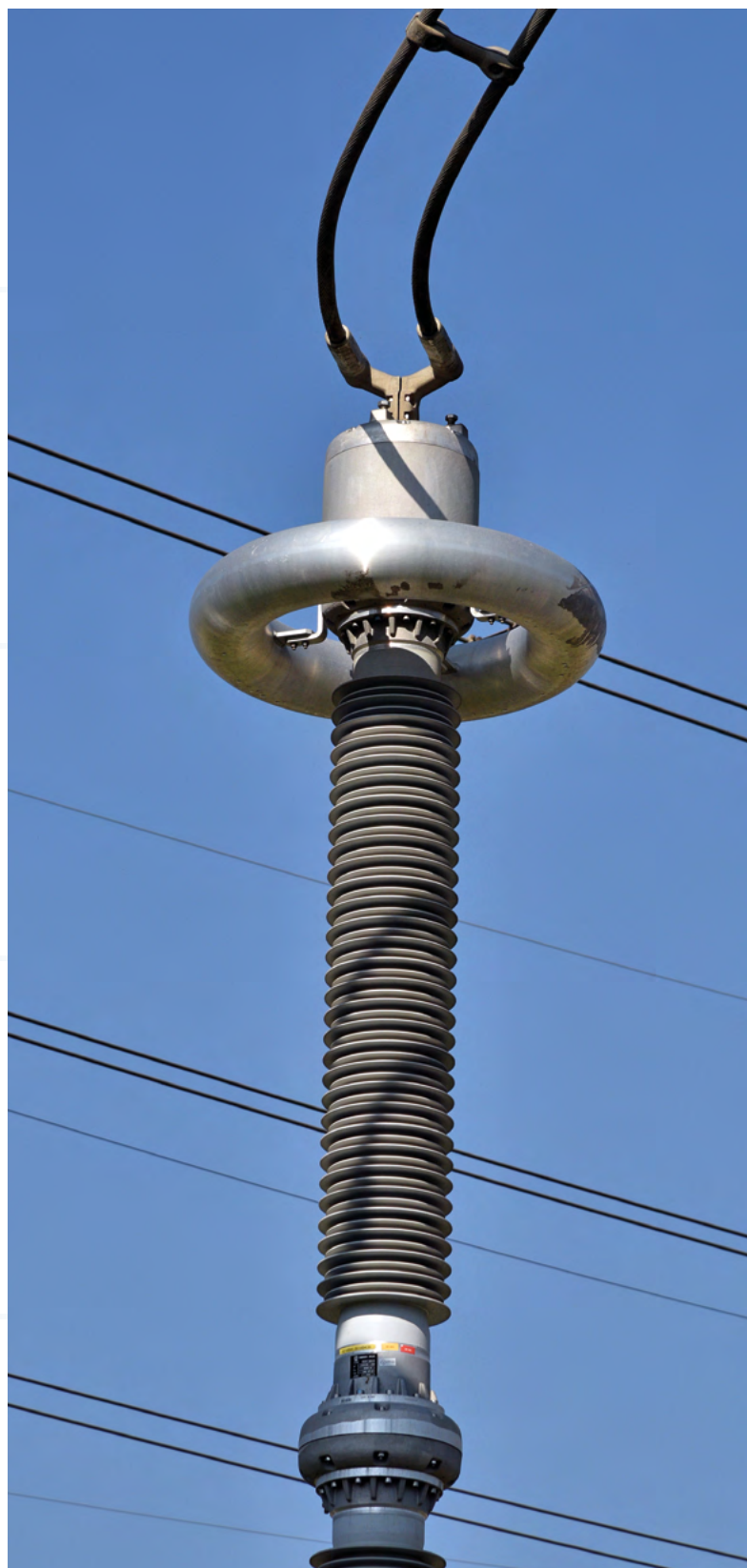
NAME	ROLE	INDEPENDENT
Fabio Corsico	Chair	●
Gabriella Porcelli	Member	●
Alessandra Faella	Member	●

RELATED PARTY TRANSACTIONS COMMITTEE

NAME	ROLE	INDEPENDENT
Marco Giorgino	Chair	●
Paola Giannotti	Member	●
Ernesto Carbone	Member	●

NOMINATIONS COMMITTEE

NAME	ROLE	INDEPENDENT
Gabriella Porcelli	Chair	●
Fabio Corsico	Member	●
Jean-Michel Aubertin	Member	●



BOARD OF STATUTORY AUDITORS IN OFFICE



**MARIO MATTEO
BUSO**
Chairman
m



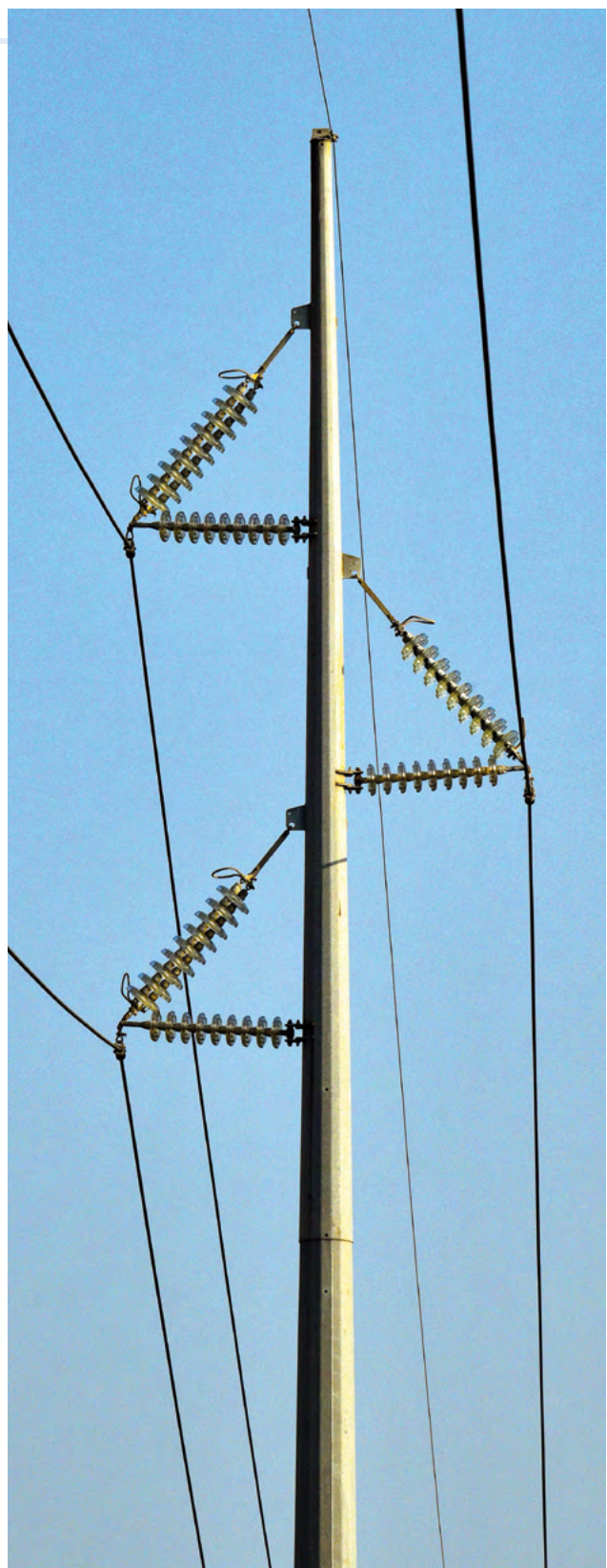
RAFFAELLA FANTINI
Standing Auditor
M



VINCENZO SIMONE
Standing Auditor
M

NAME	SLATE	ROLE
Massimiliano Ghizzi	M	Alternate Auditor
Maria Assunta Damiano	M	Alternate Auditor
Barbara Zanardi	m	Alternate Auditor

M = Majority slate; m = Minority slate



Terna's shareholders

At the date of approval of this report, **Terna's share capital amounts to €442,198,240**, comprising 2,009,992,000 fully paid-up ordinary shares with a par value of €0.22 each.

Based on periodic surveys carried out by the Company, it is estimated that 51.8% of Terna's shares are held by Italian shareholders, with the remaining 48.2% held by overseas institutional investors, primarily from the USA and Europe (formerly the UK).

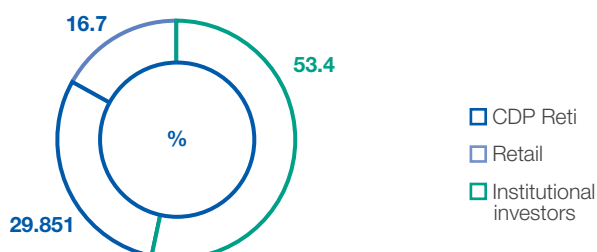
The largest shareholder is CDP Reti S.p.A. (CDP Reti), a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. (CDP).

On 27 November 2014, a shareholder agreement was entered into by Cassa Depositi e Prestiti S.p.A. (CDP), on the one hand, and State Grid Europe Limited (SGEL) and State Grid International Development Limited (SGID), on the other, in relation to CDP RETI S.p.A., SNAM S.p.A. and Terna. This was later amended and supplemented to extend the scope of the agreement to include Italgas S.p.A..

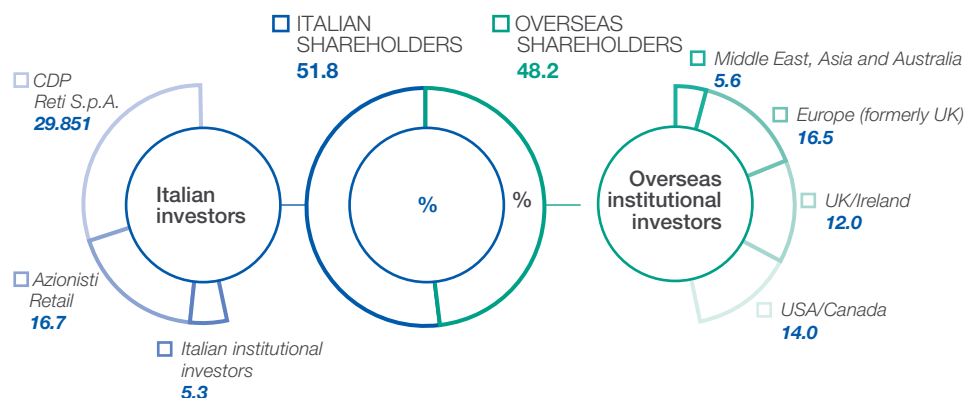
Following the transfer to CDP Reti of CDP's remaining interests in SNAM S.p.A. and Italgas S.p.A., essential information in the shareholder agreement was most recently updated on 23 May 2017 and is available on Terna's website.

Based on information from the shareholder register and other data collected as at February 2021, Terna's shareholder structure breaks down as follows.

SHAREHOLDERS BY CATEGORY



SHAREHOLDERS BY GEOGRAPHICAL AREA AND CATEGORY



Performance of Terna's shares

PERFORMANCE OF TERNA'S SHARES - (Price from 1 January to 31 December 2020)

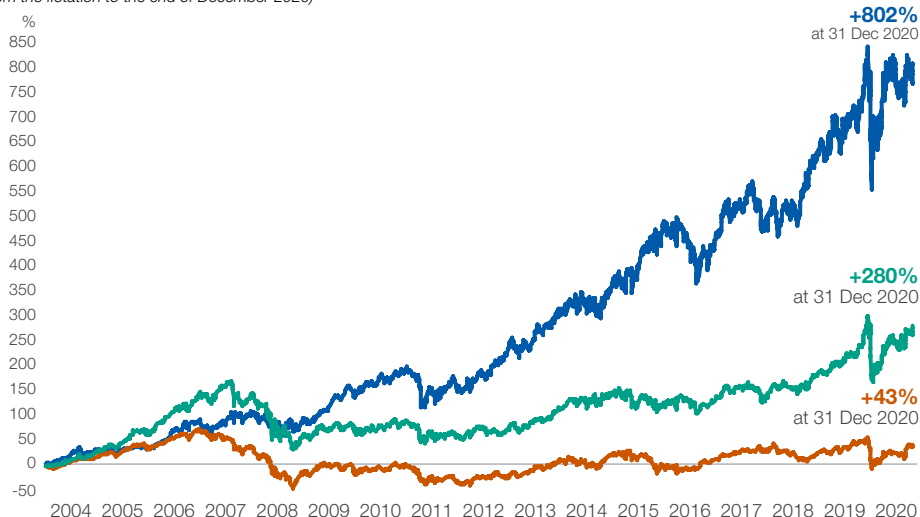
(€ per share)



Source: Bloomberg

PERFORMANCE OF TERNA'S SHARES – Total Shareholder Return

(from the flotation to the end of December 2020)



Source: Bloomberg

— Terna — Ftse Mib — Dj Stoxx Utilities

Terna's Board of Directors*

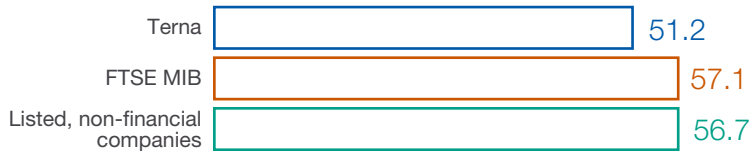


Key indicators¹

SIZE OF THE BOARD



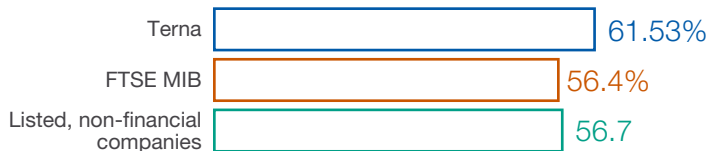
ETÀ MEDIA DEI CONSIGLIERI



REPRESENTATION OF NON-CONTROLLING SHAREHOLDERS ON BOARD OF DIRECTORS



PRESENCE OF INDEPENDENT DIRECTORS²



DETAILED COMPOSITION OF THE BOARD OF DIRECTORS (NUMBER AND CATEGORY)



■ Executive
 ■ Non- executive
 ■ Independent

⁽¹⁾ In the following charts, the data for companies listed on the FTSE MIB and for "Listed, non-financial Italian companies" have been taken from the report published by Assonime-Emittenti Titoli S.p.A., Notes and Studies 03/2021, "Corporate Governance in Italy: self-regulation, remuneration and comply-or-explain" (for the 2020 reporting period).

* Information updated to the date of approval of this Report.

⁽²⁾ Independence as defined in the Corporate Governance Code

⁽³⁾ The number of non-executive Directors includes two Directors (Valentina Bosetti and Valentina Canali) who are not independent only as defined by the Corporate Governance Code.

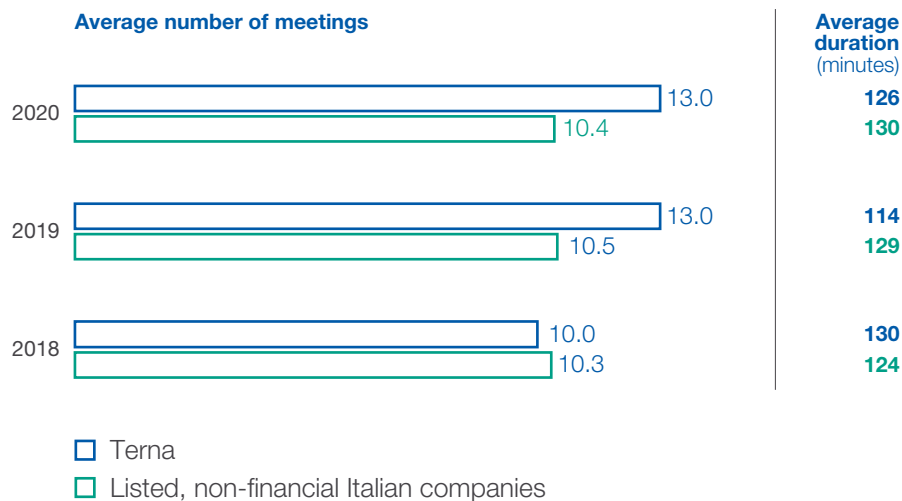
Board of Directors' competencies



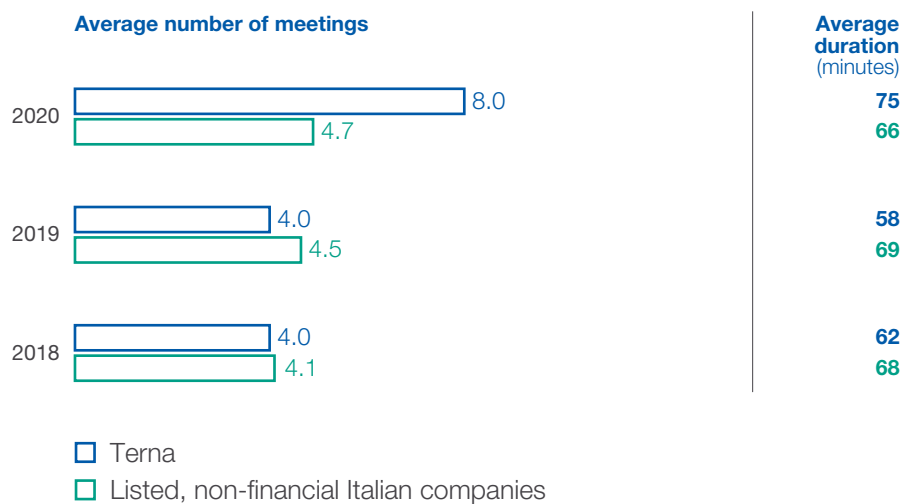
ENGINEERING
LEGAL UTILITIES
FINANCIAL SUSTAINABILITY
INFORMATION TECHNOLOGY
ENERGY
INTERNATIONAL
EXPERIENCE
STRATEGY RISK MANAGEMENT

Board of Directors' activities¹

BOARD OF DIRECTORS – NUMBER OF MEETINGS

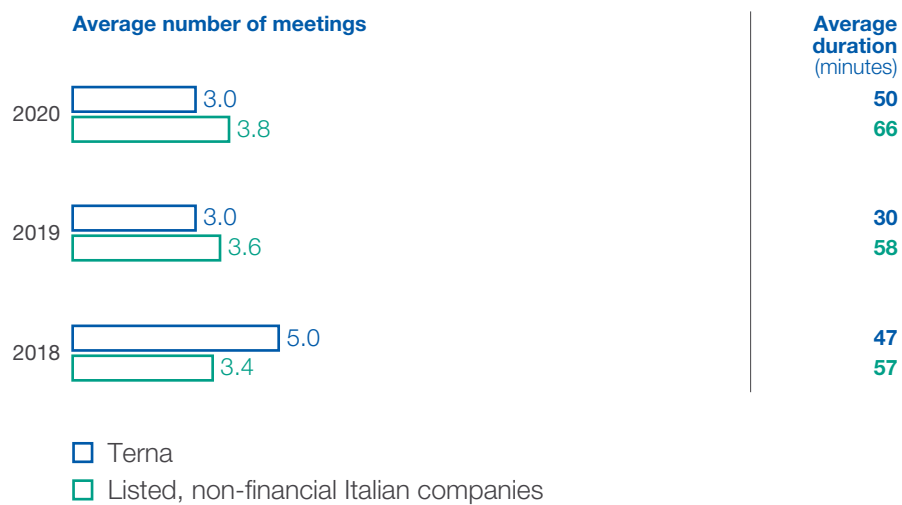


REMUNERATION COMMITTEE – NUMBER OF MEETINGS



¹ The figures refer to activities in 2020.

NOMINATIONS COMMITTEE – NUMBER OF MEETINGS



OTHER ASPECTS OF THE BOARD OF DIRECTORS' ACTIVITIES

IMPLEMENTATION OF THE NEW CORPORATE GOVERNANCE CODE

In January 2020, the Corporate Governance Committee published a new edition of the Code (the "Corporate Governance Code" or the "new Corporate Governance Code"), which is effective for annual reporting periods beginning after 31 December 2020. At the Board of Directors' meeting of 27 January 2021, the Company formally signed up to the new edition of the Code.

The Company's existing corporate governance is partially in line with the new Corporate Governance Code. The Company has begun the process of implementing the Code and reviewing its internal governance documents, with the aim of fully implementing the new recommendations. The Company has already adopted certain of the recommended practices, which are described below in this Report. Complete implementation will be described in full in the Report on Corporate Governance to be published in 2022.



Board review

In compliance with the Corporate Governance Code, Terna's Board of Directors, with the assistance of the Nominations Committee, conducts an annual review of the size, composition and performance of the Board and Board Committees.

For 2020, TERNA selected the consulting firm, Mercer, to assist with the review. The review – conducted through questionnaires and individual interviews – focused on the examination of key documents, observation of Board dynamics and an assessment of the professionalism, expertise and experience. The assessment resulted in a report summarising the qualitative and quantitative findings in terms of performance and composition of the Board of Directors and of Board Committees.



Procedures for Related Party Transactions

On 16 December 2020, the Company's Board of Directors approved a resolution revising the guidelines for related party transactions. This was done in response to changes in the organisational structure and following the entry into effect of legislative Decree 49/2019, which has among other things introduced specific administrative sanctions in this regard.

As part of the revision of the procedures for related party transactions, the Company has adopted a second-level procedure covering application of the guidelines for related party transactions. This was done: (i) to enable the Company to more quickly identify and classify related party transactions; (ii) to heighten awareness among the Company's departments, partly in view of the imposition of more punitive sanctions; and (iii) to prepare the Company for the new CONSOB regime, to come into effect from 1 July 2021, through the implementation of a more structured process.

The new guidelines thus establish the roles and responsibilities involved in the process of identifying transactions to be entered into with related parties, assessing whether or not such transactions are subject to application of the procedure and, if so, in what terms, and defining the related disclosure requirements. In the first half of 2021, the Procedures for Related Party Transactions will be further revised to take account of the changes to Regulation 17221 of 12 March 2010 introduced by the CONSOB in Resolution 21624 of 10 December 2020, which will come into effect on 1 July 2021.





Induction Programme

Conscious of the essential role carried out by the Board of Directors in defining the Company's and the Group's strategies, three induction sessions were organised during the year (on 28 July, 29 September and 11 November 2020), in order to progressively inform the Board of Directors and the Board of Statutory Auditors of the process of drawing up the strategies that the Board of Directors was then called on to approve at its meeting of 19 November 2020 in the form of a new Industrial Plan.

In addition, the Chairwoman, in accordance with the recommendations in the Corporate Governance Code, is responsible for enabling Directors and Statutory Auditors to participate, in the most suitable manner, in initiatives designed to ensure that they are kept adequately informed about the following areas, both following their election and throughout their term of office:

- (i) the sector in which the Company operates, events affecting the Company and any developments;
- (ii) correct risk management principles;
- (iii) the applicable regulatory and self-regulatory framework.

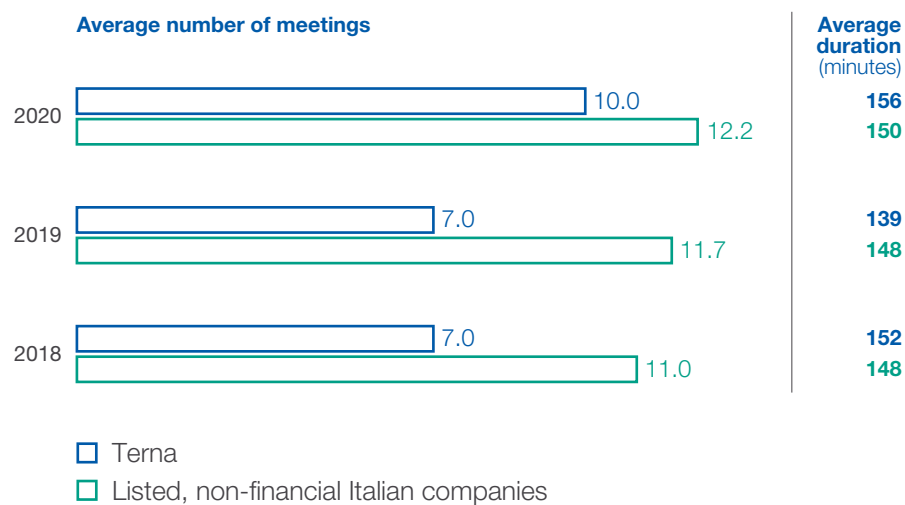
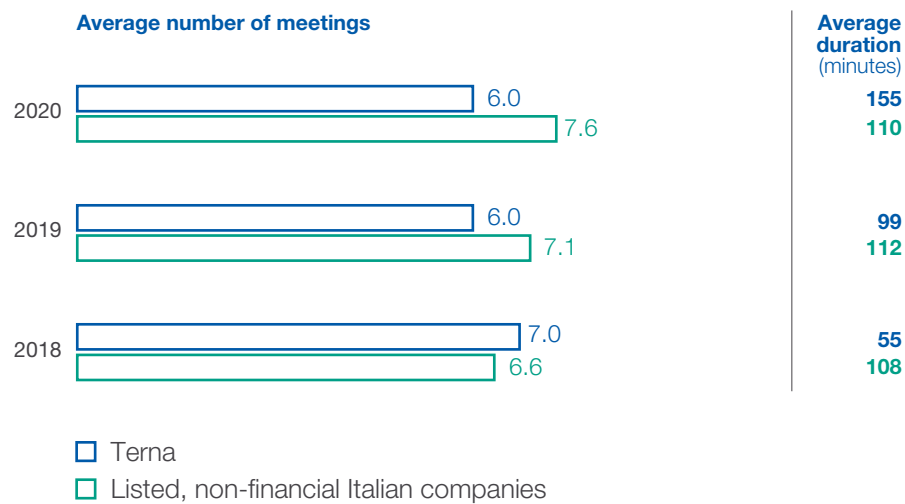
Again in view of the installation of the new Board of Directors, an induction session focusing on Terna's role in the ecological transition at national and European level was held during the year.

In order to strengthen awareness of issues relating to corporate governance, specific sessions on the new Code, on the role played by Board Committees (10 and 11 June 2020); on the role, duties and responsibilities of directors and statutory auditors in the light of the new Corporate Governance Code (26 October 2020); on the changes introduced by the CONSOB in relation to related party transactions (18 January 2021).

Internal control and risk management system

BODY/FUNCTION	NOTES	
Director responsible for Internal Control and Risk Management System	Chief Executive Officer	
Chief Risk Officer (CRO)	Fulvio de Luca	Head of the Risk Observatory
Internal Audit department	Internal to the Company	
Head of the Internal Audit department	Marco Fossataro ² Valentina Bosetti	
Manager responsible for financial reporting	Agostino Scornajenchi	Chief Financial Officer
Supervisory Board	Bruno Assumma (Chairman) Francesco De Leonardis Massimo Dinoia Francesca Covone	external member external member external member Internal member
Independent Auditors	Deloitte & Touche S.p.A.	Nine-year period 2020-2028

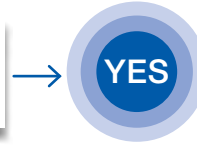
² Mr. Fossataro remained in this role until 30 November 2020. From 1 December 2020, the role was assigned, on an interim basis, to Valentina Bosetti, Chairwoman of TERNA S.p.A.'s Board of Directors. From 1 April 2021, the role of Head of Internal Audit will be held by Nicoletta Buonomo, as decided by the Board of Directors on 17 February 2021.

BOARD OF STATUTORY AUDITORS – NUMBER OF MEETINGS³**AUDIT, RISK, CORPORATE GOVERNANCE AND SUSTAINABILITY COMMITTEE – NUMBER OF MEETINGS⁴**⁽³⁾ The figures refer to activities in 2020.⁽⁴⁾ The figures refer to activities in 2020.

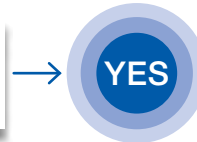
KEY ELEMENTS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

ELEMENT

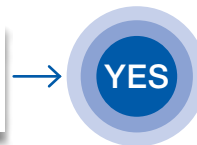
Existence of a document containing guidelines for the Internal Control and Risk Management System



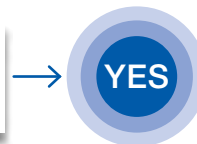
Presence of specific organisational structures with responsibility for risk management



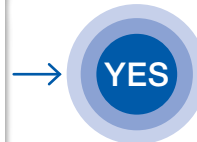
Adoption of an Enterprise Risk Management Framework to analyse all types of risk



Annual assessment of the compatibility of the risk exposure with management of the Company in line with the strategic objectives set



Preparation of specific *compliance programmes* (Model 231, Control Model 262, Integrated Management System, *Information Security Governance*, *Privacy Policy*, *Anti-fraud Policy*, *Open & Transparent Tenders*, *Sub-contractor Portal*, *Whistleblowing Policy*)



RELATIONS WITH KEY INSTITUTIONAL PARTNERS INVOLVED IN RISK MANAGEMENT



Management of emergencies



National Cyber Security



Monitoring of submarine cables with the Coast Guard and Port Authorities



Prevention of the risk of infiltration by organised crime through contractors or suppliers



Training for Terna personnel in providing appropriate support to the first service, including in emergency situations. Specific training for fire service personnel on working close to or in contact with infrastructure used to transport HV/VHV electricity



Cyber security for economic intelligence



Physical protection of vulnerable sites



Connection with the State Police's Territorial Surveillance Service



CNAIPIC: prevention and protection against attacks on or damage to Terna's critical IT infrastructure



To promote studies and research in the field of energy security



Key events in 2020

JANUARY

The Board of Directors approved the "National Transmission Grid Development Plan for 2020" and the "Improvement Plan for Systems used in Defending the National Electricity System 2020 - 2023"

ANNUAL GENERAL MEETING

The Annual General Meeting, among other things:

- approves the financial statements
- elects the Board of Directors and the Chairwoman and approves the related remuneration
- elects the Board of Statutory Auditors and approves the related remuneration
- approves the remuneration policy
- approves the amendment to the Articles of Association with regard to gender quotas
- authorises the buyback of own shares

On the same date, among other things, the new Board of Directors:

- appoints the Chief Executive Officer and General Manager
- appoints the members of the Board Committees.

MARCH

The Board of Directors, among other things:

- approves the 2020-2024 Strategic Plan; the financial statements for 2019; the report on corporate governance and ownership structures and the Non-financial Statement
- confirms that the Directors meet the related independence requirements
- calls the Annual General Meeting and approves the proposed resolutions to submit to the Meeting

MAY

JUNE

The Board of Directors approves the launch of a buyback programme of own shares to service the Performance Share Plan 2020-2023, as authorised by the Annual General Meeting of 18 May 2020.

The buyback of own shares to service the Performance Share Plan 2020-2023 begins on 29 June

JULY

The Board of Directors approves the Interim Report for the six months ended 30 June 2020

Induction session:
Guidelines in the Industrial Plan

Induction sessions:

- role and activities of Board Committees
- Terna's role in the ecological transition in Europe and Italy

SEPTEMBER

Induction session:
Guidelines in the Industrial Plan

OCTOBER

Induction session:
role, duties and responsibilities of directors and statutory auditors of listed companies and key changes introduced by the new Corporate Governance Code

NOVEMBER

Induction session:
Industrial Plan

The Board of Directors approves the 2021-2025 Industrial Plan

DECEMBER

The Board of Directors approves an initial amendment of the procedure for related party transactions

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Introduction

Since the listing of its shares on the screen-based trading system (*Mercato Telematico Azionario*) organised and managed by Borsa Italiana S.p.A. in June 2004, TERNA S.p.A. (hereinafter, “Terna” or the “Company”) has *adopted a corporate governance* system in line with the principles contained in the Corporate Governance Code promoted by Borsa Italiana and has progressively approved changes to the system required in later editions of the Corporate Governance Code for listed companies drawn up by the *Corporate Governance Committee* and promoted by Borsa Italiana.

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

This Report on Corporate Governance and Ownership Structures described the corporate governance practices adopted in 2020.

These practices are in line with the principles contained in the July 2018 edition of the Corporate Governance Code (the “Corporate Governance Code” or “Code”), and also take into account the instructions issued by Borsa Italiana, the recommendations made in the report of the Corporate Governance Committee for listed companies and the related recommendations published by the CONSOB and, more generally, with applicable international best practices.

In January 2020, Corporate Governance Committee published a new edition of the Code, which is effective for annual reporting periods beginning after 31 December 2020. At the Board of Directors’ meeting of 27 January 2021, the Company formally signed up to the new edition of the Code.

Following the decision to formally adhere to the new Code, the Company began to progressively implement the new recommendations, which will be described in full in the Report on Corporate Governance to be published in 2021.

In order to ensure prompt compliance with the new governance standards, Terna has adopted a number of practices in line with the new recommendations in the new edition of the Corporate Governance Code. *These are described in the body of this Report.*

Finally, the Report includes a specific section containing the information required by art. 123-bis of Legislative Decree 58/98 (the Consolidated Law on Finance, or “CLF”), as amended by Legislative Decree 254 of 30 December 2016 (“Implementation of Directive 2014/95/EU of the European Parliament and the Council of 22 October 2014, containing amendments to Directive 2013/34/EU relating to the disclosure of non-financial information and diversity information by certain undertakings and certain large groups”), and by art. 144-decies of the “Regulation implementing Legislative Decree 58 of 24 February 1998, concerning the regulations for issuers” adopted by CONSOB (the Regulations for Issuers). It also includes a specific annex explaining the main characteristics of the internal control and risk management systems used in relation to the financial reporting process.

The corporate governance system essentially focuses on the goal of creating shareholder value and, more generally, aims to gauge and manage the legitimate expectations of all stakeholders, aware of the social importance of the Terna Group's activities, and aware that – as stated by the CONSOB itself - “good corporate governance can lead to a virtuous circle in terms of business efficiency and integrity, such as to have a positive impact on other *stakeholders as well*”.

The corporate governance system also pays particular attention to compliance with Italian and European rules regarding the functional and/or ownership unbundling that apply to all businesses operating in the electricity and natural gas sectors (“Unbundling Legislation”). The system also takes into account the specific nature of the activities carried out by Terna and its subsidiaries, which are subject to regulation by the Regulatory Authority for Electricity, Gas and Water (the AEEGSI, now known as the Regulatory Authority for Energy, Networks and the Environment, or ARERA, under the changes introduced by art. 1, paragraph 528 of Law 205 of 27 December 2017).

Decisions regarding the Company's corporate governance rules are reserved for Terna's Board of Directors. They are to be approved on the recommendation of the Chief Executive Officer and are summarised in this Report, which was examined and approved by the Board of Directors at its meeting on 24 March 2021.

As provided for in the Corporate Governance Code guiding principles, and restated in the introduction to the new edition, an explanation must be provided for any non-compliance with one or more of the Code's recommendations, stating: (a) how the best practice recommended by the Code was not applied; (b) the reasons for this; (c) a description of how the decision not to comply was taken within the Company; (d) whether or not non-compliance is limited in time, with an indication of when future adoption is to take place; (e) any approach adopted as an alternative to the best practice not complied with and a description of how this decision contributes to good corporate governance.

Unless otherwise stated, all the information included in the Report has been updated on the basis of the information available at the date of approval of the Report.

Section I

Profile of the Issuer – Corporate structure

Profile of the Issuer

Mission

“Terna is a major operator of grids used to transport energy. It manages the high-voltage transmission of electricity in Italy, ensuring security, quality and cost-effectiveness over time and guaranteeing equal access to all grid users. Terna is developing non-regulated activities and exploiting new business opportunities building on the experience and technical expertise gained in managing complex systems. The Company creates value for shareholders, with a strong commitment to professional best practices and adopting a responsible approach to the community and the environment in which it operates”.

Sustainability

In managing all its businesses, Terna pays great attention to the possible economic, social and environmental impacts, and adopts a sustainable approach to business in order to create, maintain and consolidate relationships with its stakeholders that are based on mutual trust, with a view to creating value for the Company, society and the environment.

The guidelines underpinning Terna's approach to sustainability are set out in the Code of Ethics and in its mission and are in line with the United Nations SDGs (Sustainable Development Goals), above all Goals 7 (“Affordable and clean energy”), 9 (“Industry, innovation and infrastructure”), 13 (“Climate action”) and 17 (“Partnerships for the goals”). This has led to the definition of responsibilities and objectives in keeping with the Terna's role in driving and enabling the Italian energy system and the ecological transition.

The Group's relationship with the environment is of particular importance. The physical presence of power lines and electricity substations, interacting with the surrounding landscape and biodiversity represent the most significant impact of Terna's activities.

For this reason, Terna has, since 2002, adopted a voluntary approach designed to foster the prior involvement of local government bodies (regional and local authorities, park authorities, etc.) directly affected by implementation of the Grid Development Plan. Since 2015, Terna has adopted a further tool for engaging with local communities, called **“Terna Incontra”**. These are public events that institute a continuous communication channel with people from the communities directly affected by new electricity infrastructure, whether a power line or a substation, in order to enter into a participatory design process.

Due to the restrictions imposed as a result of the Covid-19 pandemic, in 2020, Terna devised and implemented an innovative form of engagement based on a digital format.

In terms of institutions, in 2020, Terna held a total of 388 meetings with local authorities, involving around 220 bodies.

Terna's cooperative approach has, since 2009, also involved potentially critical stakeholders, such as the main environmental associations (WWF Italia, Legambiente and Greenpeace), with which the Company has entered into and renewed partnership agreements with the aim of continuously improving the sustainability of the National Transmission Grid by taking into account environmental concerns during preparation of the Development Plan.

Finally, Terna has developed a Management System designed to control and mitigate the impact of its activities. This System has been ISO 14001 certified since 2007 and forms part of a wider Integrated Management System. This includes certified management systems covering quality and workplace safety and represents a key risk management tool.

Corporate structure

In compliance with the provisions of the Italian legislation concerning listed companies, the Company's corporate structure - based on the traditional management and control model - includes the following:

- the **Board of Directors** (art. 14.1 of the Articles of Association) with responsibility for managing the Company (art. 21.1 of the Articles of Association). For this purpose, the Board is vested with the broadest possible powers to perform all acts deemed necessary for the performance and achievement of the Company's objects, excluding only those matters reserved by law or by the Articles of Association to the General Meeting of shareholders;
- the **Board of Statutory Auditors** with responsibility for overseeing: (i) compliance with the law and the Articles of Association, and the application of correct governance principles in the conduct of the Company's business, (ii) the adequacy of the organisational structure, the internal control system and the administrative and accounting systems adopted by the Company and its overseas subsidiaries located outside the EU, as well as performing all the tasks assigned to the Board of Statutory Auditors by the law and the Corporate Governance Code.

Pursuant to the provisions of art. 19 of Legislative Decree 39/2010, the Board of Statutory Auditors is responsible for: a) informing the management body of the audited entity of the results of the statutory audit conducted and for sending this body the additional report pursuant to art. 11 of EU Regulation 537/2014, accompanied by any observations; b) monitoring the financial reporting process and presenting recommendations or proposals aimed at guaranteeing the integrity of such process; c) overseeing the efficacy of internal controls over quality and risk management and, where applicable, of internal audit procedures, as they relate to financial reporting of the audited entity, without compromising their independence; d) monitoring the statutory audit of the separate and consolidated financial statements, taking into account the eventual results or conclusions of quality controls carried out the CONSOB, where available; e) verifying and monitoring the independence of the Independent Auditors, above all with regard to the adequacy of the non-audit services provided to the audited entity, in compliance with art. 5 of EU Regulation 537/2014; f) the procedure for selecting the audit firm or Independent Auditors and for recommending the audit firm or Independent Auditors to be engaged pursuant to art. 16 of the above EU Regulation. The Board of Statutory Auditors is also responsible for the oversight tasks assigned to it by Legislative Decree 254 of 30 December 2016, which implemented Directive 2014/95/EU on non-financial and diversity disclosures;

- the **General Meeting of shareholders**, with responsibility for deliberating – in ordinary or extraordinary session – on:
 - i. the election and termination of members of the Board of Directors and Board of Statutory Auditors and the related remuneration and responsibilities;
 - ii. approval of the financial statements and the appropriation of annual profit;
 - iii. the buyback and sale of own shares;
 - iv. amendments to the Articles of Association;
 - v. the issue of convertible bonds;
 - vi. the grant of the authority necessary for Directors to authorise related party transactions for which the relevant independent body has not issued a favourable opinion, as required

by the legislation in force and the procedures adopted by the Board of Directors, and for urgent transactions submitted by the Directors to the General Meeting for a consultative vote (art. 13.3 of the Articles of Association);

- vii. pursuant to art. 123-*ter*, paragraph 3-*ter* of the CLF, the Company's policy governing the remuneration of the members of management bodies and the oversight body, general managers and key management personnel, as contained in Section I of the "Annual Remuneration Report", which is subject to a binding vote; and
 - viii. pursuant to art. 123-*ter*, paragraph 6 of the CLF, Section II of the "Annual Remuneration Report" regarding the remuneration paid, which is subject to a non-binding vote;
 - ix. share-based payment plans, pursuant to art. 114-*bis* of the CLF.
- the **Manager Responsible for Financial Reporting**, assigned the duties and responsibilities provided for in law and the applicable regulatory and internal requirements, and those provided for in the Corporate Governance Code.

The statutory audit of the Company's accounts is entrusted to a specialist audit firm enrolled on the specific register of external auditors, appointed by the General Meeting of shareholders on the recommendation of the Board of Statutory Auditors.

Terna's Independent Auditors perform the same role within the Company's main subsidiaries.

In order to ensure the independence of the audit firm and of the senior in charge of the audit, the engagement of independent auditors to audit the financial statements of the Company and those of any other Group company, and of the consolidated financial statements, is not in any event given to audit firms falling within the definition of incompatibility pursuant to art. 17 of Legislative Decree 39/2010 and Part III, Title VI, paragraph I-*bis* of the Regulations for Issuers.

Terna S.p.A.'s Annual General Meeting of 27 May 2014 approved amendments to articles 4.1, 10, 14.3, 15.5 and 26.2 of the Articles of Association. This was in response to resolutions ARG/com 153/11 e 142/2013/R/EEL issued by the Regulatory Authority for Electricity, Gas and Water (the AEEGSI, now known as the Regulatory Authority for Energy, Networks and the Environment, or ARERA, under the changes introduced by art. 1, paragraph 528 of Law 205 of 27 December 2017). In these resolutions, the regulator laid down the procedures for certification of the electricity transmission operator and adopted the final decision to certify Terna as the electricity "transmission operator" according to the ownership unbundling model.

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

On 23 March 2017, a General Meeting of Terna S.p.A.'s shareholders approved the Board of Directors' proposal to expand on the rules governing slate voting during the election of the Board of Directors and the Board of Statutory Auditors, in cases where the slate obtaining a majority of the votes does not contain a sufficient number of candidates to ensure the election of the required number of Directors (art. 14.3 and art. 26.2 of the Articles of Association).

Finally, on 18 May 2020, a General Meeting of Terna's shareholders approved the Board of Directors' proposal to align the Articles of Association with the current legislation governing gender quotas. The General Meeting cancelled art. 31 of the Articles of Association, referred to as the "Transitional provision", in its entirety, maintaining – within the other articles governing the composition of the Company's Board of Directors and Board of Statutory Auditors – the reference to the legislation from time to time in force.

The Terna Group, including direct and indirect investments at 31 December 2020, consists of 32 subsidiaries (including 15 Italian), 3 joint arrangements (overseas) and 3 associates (including 1 Italian company).

Compared with 31 December 2019:

- on 29 February 2020 Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of a 90% interest in Brugg Kabel AG (a Brugg group company), one of the leading European operators in the terrestrial cable sector, specialising in the design, development, construction, installation and maintenance of electrical cables of all voltages and accessories for high-voltage cables. Completion of the transaction means that, in addition to Brugg Kabel AG, the Terna Group has acquired indirect control of six of the acquired entity's subsidiaries (five overseas and one Italian);
- on 22 May 2020, the Company established SEleNe CC S.A., a joint venture owned by Terna and three other European TSOs. The company will operate as a Regional Security Coordinator, in accordance with European Regulation 2017/1485, for the TSOs who own shares in it;
- on 11 August 2020, Terna, acting through its subsidiary, Terna Plus S.r.l., completed the transaction with Construtora Quebec that has led to the acquisition of a majority interest in the Brazilian-registered company, SPE Transmissora de Energia Linha Verde I S.A., which was further increased on 9 September 2020;
- on 20 November 2020, Terna Terna and the joint venture, SEleNe CC S.A., established ESPERIA-CC S.r.l., a wholly owned subsidiary as a result of its corporate governance structure;
- on 1 December 2020, Terna S.p.A. acquired a 25% interest in Equigy B.V., a limited liability company registered in the Netherlands and controlled by Terna.

During the first quarter of 2021, the Brugg group was restructured, resulting in the demerger of the parent, Brugg Kabel AG, into 3 separate entities and the resulting reorganisation of the related subsidiaries.

Section II

Information on ownership structures (as per art. 123-bis, paragraph 1 of the CLF)

Structure of the share capital

(as per art. 123-bis, paragraph 1(a) of the CLF)

At 24 March 2021, the Company's share capital amounts to €442,198,240.00 and solely comprises a total of 2,009,992,000 fully paid-up nominative ordinary shares with a par value of €0.22 each.

Each share carries the right to one vote at both ordinary and extraordinary General Meetings, in accordance with the limits set by current legislation and by the Articles of Association. The ordinary shares grant the further voting and ownership rights provided for by the laws governing voting shares.

In the period between 29 June 2020 and 6 August 2020, the Company purchased 1,525,900 own shares (equal to 0.076% of the share capital)⁵. The Company does not hold any additional treasury shares, including through subsidiaries, and therefore, pursuant to art. 6.1 of the Articles of Association, a total of 2,008,466.100 ordinary shares carry voting rights, after excluding the above treasury shares.

Terna's shares have been listed on the Italian Stock Exchange's screen-based trading system (*Mercato Telematico Azionario*), organised and managed by Borsa Italiana S.p.A., since 23 June 2004. This index includes mid- and large-cap aligned with international best practices and belonging to the Financial Times Stock Exchange - Milano Indice di Borsa (FTSE MIB).

Pursuant to art. 5.2 of the Company's Articles of Association, the General Meeting of shareholders can approve capital increases through the issue of new shares, including those belonging to special categories, to be allotted free of charge pursuant to art. 2349 of the Italian Civil Code to employees, or for consideration, and with the exclusion of pre-emption rights pursuant to art. 2441 of the Civil Code, to persons to be identified by shareholder resolution.

The Company has not issued other financial instruments granting holders the right to subscribe for newly issued shares.

Terna has not issued shares that are not traded on regulated markets in an EU state.

Significant shareholdings in the Company and shareholder agreements (as per art. 123-bis, paragraph 1(c) and (g) of the CLF)

Based on information from the shareholder register, notifications received in accordance with the applicable legislation and other available information, at 24 March 2021, the following shareholders hold interests in the Company's share capital, amounting to €442,198,240.00 and comprising a total of 2,009,992,000 fully paid-up nominative ordinary shares with a par value of €0.22 each, in excess of the 3% notification threshold established by art. 120 of the CLF:

- CDP Reti S.p.A. (a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A., itself in turn 82.77% owned by Italy's Ministry of the Economy and Finance), which holds a 29.851% interest;

⁵ In this regard, see the press release published on 10 August 2020, available at the following link: https://download.terna.it/terna/2020.08.10_CS%20TERNA%20operazioni%20su%20azioni%20proprie%20CHIUSURA%20ITA%208d83d42cfd43cb6.pdf

- Lazard Asset Management LLC, which, as a discretionary asset manager, holds a 5.122% interest.

This shareholder structure is unchanged with respect to the information in the Company's possession at 31 December 2020.

In 2020, in response to the Covid-19 health emergency, the CONSOB introduced a transitional regime for enhanced transparency regarding changes in major shareholdings, most recently extended by [Resolution 21672 of 13 January 2021](#)⁶. Until 13 April 2021, unless revoked, the holders of any investments in a large-cap listed company above the 1% threshold must notify the investee company and the market through the CONSOB.

In compliance with the above resolutions, at this time, TERNA has notified the following investments in implementation of the new transparency regime, as they are in excess of 1% of the share capital:

- Norges Bank, a 1.643% interest;
- Inarcassa, a 1.11% interest;
- Bank of Italy, a 1.017% interest.

There are no other interests in the Company above the notification threshold established by the CONSOB.

In terms of the situation of control, in a letter dated 30 October 2014, Cassa Depositi e Prestiti S.p.A. ("CDP") declared that it had transferred its entire 29.851% interest in Terna to CDP Reti S.p.A. ("CDP Reti"), a wholly owned subsidiary of CDP. The letter represented the fact that *"the de facto relationship of control between CDP and Terna, as notified on 19 April 2007, is unchanged"*.

In a subsequent letter dated 2 December 2014, CDP announced that:

- on the one hand, on 27 November 2014, it had sold a total interest of 40.898% in CDP Reti to State Grid Europe Limited ("SGEL" or "the Investor") - a company wholly controlled by State Grid International Development Limited ("SGID"), a member of the State Grid Corporation of China Group - and to a group of Italian institutional investors and that, as a result of the sale, CDP's controlling interest in CDP Reti consisted of 95,458 category A shares, representing 100% of the category A shares in issue and 59.102% of the share capital;
- on the other, there had, however, been *"no change in the other information previously communicated in relation to the above investment"*.

In this regard, it should also be noted that, within the context of the shareholder agreements entered into by CDP, SGEL and SGID on 27 November 2014, and in relation to CDP Reti, Snam S.p.A. and Terna as below, CDP has confirmed that it has sole de jure control over CDP Reti.

As regards shareholder agreements, it should be noted that the only current shareholder agreement of which the Company is aware, and that can be classed as relevant for the purposes of art. 122 of the CLF, is the shareholder agreement between CDP, SGEL and SGID signed on 27 November 2014. This was registered with the Rome Companies Register on 1 December 2014 and announced in a notice published in the newspaper, "Il Sole 24 Ore", on 2 December 2014. An extract is published on the websites of the CONSOB and the Company (www.terna.it), in the Investor Relations section, under "Ownership structure and shareholder agreements").



⁶ See [Resolution 21672 of 13 January 2021](#), containing the extension of the provisions relating to the identification of further notifiable thresholds for shareholdings and the declaration of investment objectives, as required by CONSOB resolutions [21326](#) and [21327](#) of 9 April 2020, adopted in accordance with article 120, paragraphs 2-bis and 4-bis, Legislative Decree 58 of 1998, as previously extended by resolutions [21434](#) of 8 July 2020 and [21525](#) of 7 October 2020.

In this regard, it should be noted that, on 5 August 2014, CDP - in view of the above sale of its interest in CDP Reti - provided the Company with the essential information required under the terms of art. 122 of the CLF and of articles 127 and 130 of the Regulations for Issuers. This information was taken from the sale contract entered into for the above purpose on 31 July 2014 and published on the Company's website.

Following the sale of the interest, CDP notified the Company that, on the same date as the sale, it had entered into a shareholder agreement with SGEL and SGID. This agreement was a replacement for the previous agreements of 31 July 2014 with the same parties and regarded the signatories' investments in CDP Reti, Snam S.p.A. and Terna, giving SGEL governance rights. At the same time, CDP provided the necessary essential information on this agreement.

In a letter dated 11 November 2016, CDP informed the Company of further changes to the agreement made on 7 November 2016. The changes extended the scope of the agreement to include Italgas S.p.A. and coordinated its content with that of the shareholder agreement dated 20 October 2016, which came into force on 7 November 2016, regarding all the interests held by CDP Reti, CDP GAS and SNAM in Italgas. The amended agreement was filed with the Rome Companies Register on 11 November 2016 (registration date: 17 November 2016), as per the notice published on the same date in the newspaper, "Il Sole 24 Ore". The essential information on this agreement, to which the reader should make reference, has been published on the websites of the CONSOB and the Company (www.terna.it, in the Investor Relations section, under "Ownership structure and shareholder agreements"). Lastly, following the transfer to CDP Reti of the remaining investments held by CDP in SNAM S.p.A. and Italgas S.p.A., the essential information in the shareholder agreement was last updated on 23 May 2017. This last update only concerned the voting rights attaching to the above investments and not the shares in Terna held by CDP Reti. Based on the provisions of art. 131, paragraphs 2 and 5 of the Regulations for Issuers, at CDP's request, Terna proceeded to publish and store this update, which is also available in the appropriate section of the Company's website.



The Shareholder Agreement contains (i) provisions regarding the exercise of voting rights in Terna and in CDP Reti pursuant to art. 122, paragraph 1 of the CLF; and (ii) provisions placing limits on the transfer of the shares pursuant to art. 122, paragraph 5(b) of the CLF.

The duration of these agreements is 3 years from the date of signature and they are automatically renewable for further periods of 3 years, subject to withdrawal. Should CDP inform the Investor of its intention not to renew the agreement at least six months before the next expiry, the Investor will have the right to withdraw from CDP Reti.

For the present purposes, the aforementioned agreement grants the Investor the following:

- with regard to CDP Reti
 - the right to nominate two of the five members of the Board of Directors of CDP Reti provided that the Investor continues to hold an interest equal to at least 20% of the share capital of CDP Reti, while CDP retains the right to designate the other Directors (including the Chair of the Board of Directors and the Chief Executive Officer;
 - the right to nominate one standing auditor and one alternate auditor provided that the Investor continues to hold an interest equal to at least 20% of the share capital of CDP Reti, whilst the Chair of the Board of Statutory Auditors will in any event continue to be chosen from among the standing auditors nominated by CDP;
 - certain matters reserved to the Board of Directors, relating, among other things, to (i) the budget and business plan, (ii) proposals/recommendations for amendments to CDP Reti's article of association, (iii) decisions concerning the slate of candidates to be presented for the purpose of electing Terna's Board of Directors, (iv) decisions on exercising CDP Reti's voting rights at Terna's extraordinary General Meetings, and, for the present purposes,

(viii) the transfer, wholly or in part of the 29.851% interest held by CDP Reti in Terna and the purchase of any further Terna shares, if and to the extent to which this purchase gives rise to the obligation for CDP Reti to launch a mandatory takeover bid for Terna, (ix) the assumption of debt (in addition to existing debt at the time the agreement was signed) above certain thresholds and amendments to key terms and conditions in the loan agreements entered into by CDP Reti before the agreement was signed, (x) proposals to distribute dividends and/or reserves and/or other distributions on the part of CDP Reti, (xi) transactions with CDP Reti's related parties that are not conducted on an arm's length basis, and (xii) decisions on the acceptance of possible assignees of any investment in CDP Reti;

- the Investor's right to veto resolutions regarding the matters regarding (viii), (ix), (xi) and (x) in the above point, in the latter case when not compliant with the profit distribution policy provided for in the agreement, and which may not be adopted without the favourable vote of at least one of the directors nominated by the Investor;
- specific quorums for Board of Directors' resolutions that provide for the necessary participation of at least 1 member of CDP Reti's Board of Directors nominated by the Investor, unless a new meeting of the Board is convened with the same agenda;
- specific quorums for resolutions to be passed by CDP Reti's extraordinary general meetings, provided that the Investor continues to hold an interest equal to at least 20% of the share capital of CDP Reti, in relation to specific matters, such as: capital increases that exclude or limit the exercise of shareholders' pre-emption rights, non-proportional demergers, mergers that do not regard companies wholly owned or 90%-owned, changes to provisions in the articles of association that provide for rights protecting non-controlling shareholders, including through the issue of new categories of share;
- the right to withdraw from CDP Reti if, among other things specified in the essential information in the shareholders' agreement, for any reason CDP's sole de jure control over CDP Reti should cease (a Change of Control provisions);
- with regard to Terna and provided that the Investor continues to hold an interest equal to at least 20% of the share capital of CDP Reti
 - the right to nominate a candidate to be included in the slate of candidates for election Terna's Board of Directors, assigning the candidate a position in the slate such as to guarantee their election should the slate receive a majority of the votes at Terna's General Meeting.

Under the legislation governing mandatory tender offers, within the context of the agreement described, it is forbidden for either the Investor or CDP, by reason of their direct or indirect investment in CDP Reti, to directly or indirectly purchase shares in Terna.

With regard to certain agreements relating to intragroup transfers and those relating to the lock-up of investments in CDP Reti held by the parties to such agreements (the "Lock-up Period"), it should be noted that the specific provision relating to the non-transferability of such investments to "a direct competitor of Snam and/or Italgas and/or Terna - meaning by this any industrial entity whose core business consists of the management of natural gas and/or electricity transmission systems within the territory of the European Union, and any person who exercises control, directly or indirectly, including jointly, over such industrial entity" (the "Lock-up Period for Transfers to a Direct Competitor").

In the event of a transfer of an interest to third parties, if one of the parties, following the transfer, holds an interest of less than 20% in CDP Reti, the parties have given a mutual undertaking to ensure that the Directors of CDP RETI and/or Terna nominated by such party will resign. The same commitment to ensure the resignation of the Directors nominated by the Investor in Terna applies when the Investor is no longer wholly owned, directly and/or indirectly, by SGID.

Within the context of the above agreements, specific provisions have also been introduced to take account of the provisions in the Unbundling Legislation and of the rules included in Terna's corporate governance system, as a company operating in the electricity sector. Such provisions are designed to ensure the observance of unbundling requirements.

In particular, the Investor has undertaken to ensure that the Director it has nominated to be a member of Terna's Board of Directors (if, and to the extent to which, this Director is not independent under the terms of art. 148 of the CLF) shall abstain, to the extent permitted by law, from the receipt of information and/or documentation from Terna relating to certain matters. This relates to matters where the Director has a conflict of interest on behalf of the Investor and/or of any subject affiliated thereto, and relating to commercial opportunities in which both Terna and the Investor, and/or a subject affiliated thereto, have an interest and where there may be competition ("Matters Involving Conflict"). In addition, the Director may not take part in discussions of Matters Involving Conflict by Terna's Board of Directors.

Moreover, in order to resolve any breaches of the legislation on ownership unbundling, wherein the Investor does not intend to comply with any of the requirements or measures imposed by the competent authorities, a specific exception to the rules in the agreement relating to the Lock-up Period has been provided for.

Authority to increase the share capital and to purchase own shares (as per art. 123-bis, paragraph 1(m) of the CLF)

At the date of this Report, the Board of Directors has no authority pursuant to art. 2443 of the Italian Civil Code to increase the share capital, nor does it possess the authority to issue equity instruments.

Based on the Board of Directors' proposal of 10 March 2020, the Annual General Meeting of 18 May 2020 authorised the Board of Directors to buy back, on one or more occasions, Terna's ordinary shares to service the Performance Share Plan 2020-2023 for for the management of Terna and/or its subsidiaries pursuant to art. 2359 of the Italian Civil Code, approved by the same Annual General Meeting of 18 May 2020, and/or other share-based incentive plans for Terna's Directors and/or employees and/or those of subsidiaries and/or associates (the "Programme").

In implementation of the authority granted by the Annual General Meeting, on 17 June 2020, the Board of Directors approved the launch of the Programme and authorized the Chief Executive Officer to take all the necessary steps in order to exercise such authority.

In execution of the above resolutions, on 29 June 2020, the Company launched the Programme, involving a total cost of up to €9.5 million and up to a maximum of 1.77 million of the Company's ordinary shares, representing approximately 0.09% of Terna's share capital.

In order to carry out the Programme, Terna also specifically appointed Exane BNP Paribas, an authorised intermediary that will take all the decisions regarding the purchases. The intermediary was to act on a fully independent basis, including with regard to the timing of transactions, and in conformity with the daily price and volume limits in keeping with both the authority granted by the above Annual General Meeting of shareholders and the provisions of art. 5 of Regulation (EU) 596/2014 on market abuse and art. 3 of Delegated Regulation (EU) 2016/1052.

Under the Programme, which came to an end on 10 August 2020, Terna purchased 1,525,900 own shares (equal to 0.076% of the share capital) at a total cost of €9,499,998.75. The Company does not hold any additional treasury shares with respect to those purchased under the above Programme, including through subsidiaries.

In addition, it should be noted that the Board of Directors' meeting that approved this Report decided to ask the Annual General Meeting to approve a further motion granting it the authority to purchase and dispose of the Company's own shares, in compliance with the legislation in force. Such shares will be used to service the new Long-term Incentive Plan based on Performance Shares for the period 2021-2025 for the management of Terna S.p.A. and/or its subsidiaries pursuant to art. 2359 of the Italian Civil Code. The new Plan is also to be submitted for approval by shareholders, which will at the same time be asked to revoke the previous authority.

Employee share ownership: procedure for exercising voting rights (as per art. 123-bis, paragraph 1(e) of the CLF)

The procedure for exercising the right to vote at General Meetings through shareholder associations, including groups of employee shareholders, is governed by the specific legislation in force.

Under special legislation for listed companies, Terna's Articles of Association contain a special provision designed to facilitate the collection of proxy votes from groups representing employee shareholders at both the Company and subsidiaries, thereby encouraging their involvement in shareholder decision-making (art. 11.1 of the Articles of Association).

At 24 March 2021, the Company had not received any notification of the establishment employee shareholder groups.

Change of control provisions (as per art. 123-bis, paragraph 1(h) of the CLF) and Articles of Association relating to takeovers (as per art. 104, paragraph 1-ter and art. 104-bis, paragraph 1 of the CLF)

With regard to significant agreements that Terna or any of its subsidiaries are parties to at 31 December 2020, and that will come into effect, be amended or expire in the event of a change of control of Terna, the following should be noted.

Within the context of such matters, it should be noted that outstanding loan agreements with the European Investment Bank (EIB) at 31 December 2020 include mandatory early repayment provisions, the triggers for which include a change of control of the Company is involved in a transfer of a Company branch. Should a change of control occur, the EIB will have the right to consult the Company. Should the bank decide, based on a reasonable and justified assessment of the situation, that the related transactions may have a negative impact on the Company's ability to meet its financial obligations to the bank, following prior notification of the Company containing the reasons for its decision, the EIB will have the right to cancel the credit facilities and request early repayment of any outstanding amounts, together with any interest accrued on the amounts in question and any other sum payable under the related agreements.

With regard to takeover bids and public tender offers to exchange, the Articles of Association do not provide for any exemptions from the provisions of the CFL on the passivity rule provided for in art. 104, paragraphs 1 and 1-bis, of the CLF, nor are the neutralisation rules contained in art. 104-bis of the CLF provided for. This is without prejudice - under the terms of art. 104-bis, paragraph 7 of the CLF - to the rules in the Articles of Association and legislation putting limits on share ownership and voting rights, as per art. 3 of Law Decree 332 of 31 May 1994, converted with amendments into Law 474 of 30 July 1994, as amended (the "Privatisation Law").

Restrictions on the transfer of shares and shares carrying special rights (as per art. 123-bis, paragraph 1(b) and (d) of the CLF)

The Articles of Association do not place limits on the free disposal of shares, except as already described in the previous section under “Significant shareholdings in the Company and shareholder agreements” in relation to the existing shareholder agreement between CDP, SGEL and SGID and to the provisions in the Articles of Association regarding the rules on privatisations in Law Decree 332 of 31 May 1994 converted with amendments into Law 474 of 30 July 1994, as amended (the “Privatisation Law”).

In particular, pursuant to Italian legislation concerning privatisations, Terna’s Articles of Association put a “cap on shareholdings”, with no shareholder permitted to hold a direct and/or indirect interest in Terna’s shares of more than 5%, unless they are the Italian government, a public body and entities under the control of such entities. Application of these provisions, under certain circumstances required by the Articles of Association, also affects voting rights.

The “cap on shareholdings” (provided for in art. 6.3 of the Articles of Association and in accordance with art. 3 of the “Privatisation Law”) is also calculated taking into account the total interests held by the parent, a natural or a legal person or a company; all direct and indirect subsidiaries, as well as subsidiaries under the control of the same controlling entity; associates and natural persons connected by family relationships up to second degree and by marriage, providing the spouse is not legally separated. Control occurs, including with reference to persons other than companies, in the circumstances provided for in art. 2359, paragraphs 1 and 2 of the Italian Civil Code. Association occurs in the circumstances provided for in art. 2359, paragraph 3 of the Civil Code, as well as between persons who, directly or indirectly, through subsidiaries other than those managing mutual investment funds, enter into, including those with third parties, agreements related to the exercise of voting rights or to the transfer of shares or quotas in third-party companies or, in any event, agreements as per art. 122 of the CLF, with reference to third-party companies, if such agreements regard at least 10% of the voting shares, in the case of listed companies, or 20% in the case of unlisted companies. With reference to calculation of the above-mentioned cap on shareholdings (5%), shares owned through trustees and/or proxies and, generally, through an intermediary, are also taken into account.

This cap on shareholdings - in accordance with the provisions of art. 3, paragraph 3 of the “Privatisation Law” - no longer applies where it has been exceeded as the result of a public tender offer, provided that, following the offer, the bidder holds an interest equal to at least 75% of the voting shares granting the right to elect or terminate directors.

Voting rights attaching to shareholdings in excess of the above-mentioned cap may not be exercised and the voting rights attributable to each of the persons to which the cap applies are proportionally reduced, except in the event of joint prior notice given by the relevant shareholders. In the event of non-compliance, the shareholder resolution may be challenged under art. 2377 of the Italian Civil Code if the required majority would not have been achieved without the votes attaching to the shareholdings in excess of the above cap. Shares for which the right to vote cannot be exercised are nevertheless included in computation of the quorum for General Meetings.

As a result of abrogation of the provisions contained in art. 2, paragraph 1 of the Privatisation Law relating to “special powers” granted to the Italian State (represented for this purpose by the Ministry of the Economy and Finance, irrespective of the quantity of any Terna shares held by the Ministry), which took place following the entry into force, from 7 June 2014, of both Presidential Decree 85 of 25 March 2014 (published in the Official Gazette of 6 June 2014 and containing “Regulations governing the identification of strategic assets in the energy, transport and communications sectors, pursuant to art. 2, paragraph 1 of Law Decree 21 of 15 March 2012”) and the provisions of Law Decree 21 of 15 March 2012, converted into law by art. 1,

paragraph 1 of Law 56 of 11 May 2012 (the so-called “Golden Power Decree”, governing the Italian State’s golden shares in companies in certain sectors considered to be of strategic importance), the provisions regarding “special powers” in Terna’s Articles of Association ceased to have effect. Such powers were then eliminated by resolution of the Company’s Board of Directors on 18 December 2014 (as described above, under “Corporate structure”).

Under the “Golden Power Decree”, lawmakers introduced new legislation regarding the government’s “special powers” relating to “*strategic assets in the energy, transport and communications sectors*” in order to bring Italian legislation into line with EU legislation. The Decree assigns the government the power to intervene to protect the country’s lawful, essential and strategic interests. The “Golden Power Decree” was later amended by Legislative Decree 148 of 16 October 2017 (the so-called “Fiscal Decree”), converted with amendments into Law 172 of 4 December 2017, by Law Decree 105 of 21 September 2019, converted with amendments into Law 133 of 18 November 2019, and latterly by law Decree 23 of 8 April 2020 (the so-called “Liquidity Decree”, converted with amendments into law 40 of 5 June 2020).

The provisions of art. 2 of the “Golden Power Decree” essentially provide for the following.

1. The issue of specific decrees by the Cabinet Office, on the recommendation of the Minister for the Economy and Finance, the Minister for Economic Development and the Minister for Infrastructure and Transport, in agreement with the Minister for Internal Affairs, the Minister for Foreign Affairs and International Cooperation and the ministries with responsibility for the various sectors, to be adopted following prior receipt of an opinion from the competent EU Parliamentary committees, to be updated at least every three years, with the aim of identifying “*networks and infrastructure, including those necessary in order to ensure minimum levels of supply and the provision of essential public services, goods and relationships of strategic national interest in the energy, transport and communications sectors, and the same types of action and transaction within the same group to which this article does not apply*” (paragraph 1).

As required by article 2, paragraph 1 of the Golden Power Decree, the Cabinet Office Decree 180 of 23 December 2020 approved the regulation for identifying strategic assets in the *energy, transport and communications sectors*. In art. 1, with specific reference to the energy sector, the Decree identifies the following energy networks of national interest and the related contractual relations as being strategic assets: a) the national natural gas network and the related compression stations and dispatching centres, as identified pursuant to article 9 of Legislative Decree 164 of 23 May 2000, and gas storage units; b) the infrastructure used to import electricity and gas from other countries, including onshore and offshore LNG regasification plants; c) the national electricity transmission grid and the related control and dispatching infrastructure; d) the assets used in managing the grids and the infrastructure referred to under letters a), b) and c) and key property assets relating to their use.

Where the strategic assets identified by Cabinet Office Decree 180 of 23 December 2020 refer to direct or indirect investees of the Ministry for the Economy and Finance, the Cabinet Office must decide, in exercising the special powers, on the recommendation of the Minister for the Economy and Finance, in consultation with the Minister for Economic Development and the Minister for Infrastructure and Transport, as per their respective areas of responsibility.

2. Based on the amendments introduced by the above Fiscal Decree, as amended by Law Decree 105 of 21 September 2019, converted into law with amendments by Law 133 of 18 November 2019, with the issue of one or more decrees by the Cabinet Office, on the recommendation of the Minister for the Economy and Finance, the Minister for Economic

Development and the Minister for Infrastructure and Transport, in agreement with the Minister for Internal Affairs, the Minister for Defence, the Minister for Foreign Affairs and International Cooperation and with the ministries with responsibility for the various sectors, to be adopted following prior receipt of an opinion from the competent EU Parliamentary committees, the identification, for the purposes of assessing the presence of threats to the country's security and to public order, including the potential to compromise the security and operation of networks and infrastructure and the continuity of supplies, goods and relationships of strategic national interest, of further critical assets and activities with respect to those indicated in the Cabinet Office decrees referred to in point 1 above. The scope of the legislation now covers all the areas identified in EU Regulation 2019/452 (critical infrastructure, whether physical or virtual, including energy, transport, water, health, communications, media, data processing and storage, aerospace, defence, electoral or financial infrastructure, sensitive assets, and investments in land and buildings that are key to the use of such infrastructure; critical technologies and products with dual uses, such as artificial intelligence, robotics, semi-conductors, cyber-security, aerospace, defence, quantum and nuclear energy storage, and nanotechnologies and biotechnologies; the security of supply of critical factors of production, including energy and raw materials, as well as food security; access to confidential information, including personal data, or the ability to control such information; media freedom and pluralism), in addition to the type of action and transaction within the same group to which the provisions of art. 2 of the Golden Power Decree do not apply (paragraph 1-ter).

As required by article 2, paragraph 1-ter of the Golden Power Decree, the Cabinet Office Decree 180 of 23 December 2020 approved the regulation for identifying goods and relationships of strategic national interest, in addition to those identified in the decrees referred to in article 1, paragraph 1, and article 2, paragraph 1 of the Golden Power Decree, in the sectors referred to in article 4, paragraph 1 of Regulation (EU) 2019/452 of the European Parliament and Council of 19 March 2019, and the types of *action and transaction within the same group to which article 2, paragraph 1-ter of the Golden Power Decree does not apply*. Art. 3 of the above Cabinet Office Decree thus identifies the following goods and relationships in the energy sector: a) critical infrastructure storing or to be used to store nuclear fuel and materials or radioactive waste, and the technologies and infrastructure used in the treatment, management and transport of such fuel, materials and waste; b) property assets that play a key role in use of the critical infrastructure referred to in this article; c) coastal deposits of oil and oil products with a capacity equal to or in excess of 100,000 cubic metres used for the national market, LNG storage infrastructure with a capacity equal to or in excess of 10,000 cubic metres, oil pipelines used in the importation of oil from overseas, including for transfer to other countries, and oil pipelines supply intercontinental airports; d) critical technologies, including the platforms used in managing the wholesale markets for natural gas and electricity; e) the strategic economic activities carried out by the sector referred to in this article, carried out by companies that report annual net turnover of no less than €300 million and having an annual average number of employees of no less than 250.

3. The obligation to notify the Cabinet Office - within 10 days and in any event prior to implementation – of resolutions, actions and transactions decided on by a company that owns one or more of the assets identified in accordance with point 1 above, resulting in:

- changes to the ownership, control or disposability of the assets or a change in their use, including shareholder or board of directors' resolutions relating to a merger or demerger of the company, the transfer of the registered office overseas, changes in the object, the winding up of the company, amendments to articles of association decided on pursuant to art. 2351, paragraph three of the Italian Civil Code, or introduced in accordance with art. 3, paragraph 1 of Law Decree 332 of 31 May 1994, converted into law with amendments

by the “Privatisation Law”, as recently amended by art. 3 of the Golden Power Decree, the transfer of the company or of business units thereof that include the above assets or their assignment in the form of guarantees. Shareholder and Board of Directors’ resolutions concerning the transfer of subsidiaries owning the above assets must also be notified within the same deadlines.

4. The obligation to give notice of resolutions, actions and transactions decided on by a company that owns one or more of the assets identified in accordance with point 2 above, resulting in:

- changes to the ownership, control or disposability of such assets for the benefit of an entity outside the European Union, as per paragraph 5-*bis* of the Golden Power Decree, including shareholder or board of directors’ resolutions relating to a merger or demerger of the company, the transfer of the company or business units thereof that include the above assets or their assignment in the form of guarantees, the transfer of subsidiaries that own the above assets or that have as a result transferred their registered office to a country that does not belong to the European Union. On the same terms, any resolution, action or transaction decided on by a company that owns one or more of the assets identified in accordance with point 2 above, resulting in a change in their use, and any resolution regarding a change of object, the winding up of the company, amendments to articles of association decided on pursuant to art. 2351, paragraph three of the Italian Civil Code, or introduced in accordance with art. 3, paragraph 1 of Law Decree 332 of 31 May 1994, converted into law with amendments by the “Privatisation Law”, as recently amended by art. 3 of the Golden Power Decree, are also notifiable.

In the case of purchases, for whatever reason, by an entity from outside the European Union of investments in companies that own the assets identified as strategic in points 1 and 2 above, of such significance to result in the acquirer having a permanent establishment following the assumption of control of the company it has invested in, pursuant to article 2359 of the Italian Civil Code and the CLF, the acquirer must notify the Cabinet Office within 10 days. In computing the size of the relevant investment, the acquirer must take into account the investment held by non-controlling shareholders with whom the acquirer has entered into one of the agreements provided for in art. 122 of the CLF, as amended, and art. 2341-*bis* of the Italian Civil Code.

5. The Prime Minister’s power of veto to be exercised by Cabinet Office Decree – following the Cabinet’s approval to be communicated, promptly and in abbreviated form, to the competent Parliamentary committees – and covering notified resolutions, actions or transactions that result in *“an exceptional situation, not governed by Italian or European law in relation to the sector, involving the threat of serious damage to public interests concerning the security and operation of networks and infrastructure and continuity of supply”*.

The power of veto may also be exercised in the form of the imposition of specific requirements or conditions, where such is sufficient to ensure protection of the public interest in relation to the security and operation of networks and infrastructure and continuity of supply. The Government may also order the company and any counterparty to restore the previous situation at their own expense.

Any veto must be announced within 45 days of notification. This deadline may be suspended once only in the event of a request for information from the company and until receipt of such information, which must be provided within 10 days of the request. When it is necessary to request an investigation by third parties, the above deadline of 45 days is suspended, once only, until receipt of the requested information, which must be provided within 20 days. Requests for information and for investigations by third parties subsequent to the former do not lead to a suspension of the deadline.

Should the notification be incomplete, the 45-day deadline provided for in this paragraph starts from receipt of the missing information or elements. Until notification and, in any event, until the above deadline has passed, effectiveness of the relevant resolution, action or transaction is put on hold. Once the deadline has passed, the transaction may be carried out.

Resolutions, actions or transactions decided on and implemented in breach of the notification requirements or in breach of the conditions, requirements or the veto imposed by the government are null and void. The government may also order the company and any counterparty to restore the previous situation at their own expense. Whoever fails to observe the notification requirements, unless such failure constitutes a criminal offence, is liable to an administrative fine of up to double the value of the transaction and, in any event, of not less than 1% of the company's total turnover in the last financial year for which financial statements have been approved. If the notification requirements provided for in art. 2 of the Golden Power Decree are not complied with, the Cabinet Office may in any event act ex officio in order to proceed with the exercise of the special powers.

6. The obligation to notify the Cabinet Office - within 10 days - of purchases, for whatever reason, by a natural or legal person from outside the European Union, or (a) "who is not resident in or whose usual place of domicile, registered or administrative office or main place of business is not in a European Union member state or a state forming part of the European Economic Area, or which is not in any case established therein", (b) who, whilst meeting such a definition, is controlled by a natural or legal person as defined in letter (a) above, or (c) whose conduct has aroused suspicion regarding their intention to circumvent the laws contained in the Golden Power Decree - of a controlling interest in companies owning assets identified as strategic in points 1 and 2 above. If the above purchase constitutes a serious threat to the essential interests of the State, or a threat to security or public order, effectiveness of the purchase is subject to the purchaser's assumption, within 45 days of notification, of commitments designed to safeguard such interests. In exceptional cases that put such interests at risk, and where such risk cannot be eliminated by the above commitments, the government may oppose the purchase.

In the above case of purchases, for whatever reason, by a person from outside the European Union, until the notification and until the deadline for the government to exercise its right of opposition or impose commitments, the voting rights and other non-financial rights attaching to the shares or quotas representing the relevant investment are suspended, as they are if the purchaser fails to respect the commitments imposed on them as a condition for consent for the purchase, throughout the period in which such failure continues. Any resolutions adopted with the deciding vote of the holders of such shares or quotas, or resolutions or actions decided on in violation or breach of the conditions imposed, are null and void. Should the purchaser fail to respect the commitments imposed, they are also liable, unless such failure constitutes a criminal offence, to an administrative fine of up to double the value of the transaction and, in any event, of not less than 1% of the company's total turnover in the last financial year for which financial statements have been approved.

In the event that the right of opposition is exercised, the purchaser may not exercise the voting rights, or any other non-financial rights, attaching to the shares or quotas representing the relevant investment. Any shareholder resolutions adopted with the deciding vote of the holders of such shares or quotas are null and void. The shares and quotas must be sold within 1 years and, failing this, at the request of the government, the court will order to sale of such shares or quotas in accordance with the procedures set out in art. 2359-ter of the Italian Civil Code.

Without prejudice to the above, the purchase, for whatever reason, by a person from outside the European Union is permitted subject to reciprocity, in compliance with international agreements entered into by Italy or the European Union.

In determining whether or not a foreign investment may constitute a threat to security or public order, the following elements must be taken into account: a) if the acquirer is directly or indirectly controlled by the public administration, including state entities or armed forces, of country that is not a member state of the European Union, including through the ownership structure or significant loans; b) if the acquirer is already engaged in activities that constitute a threat to security or public order in a member state of the European Union; c) if there is a serious risk that the acquirer may engage in illegal or criminal activity.

The special powers of veto and opposition referred to above may be exercised on the basis of objective and non-discriminatory criteria, such as, with regard to the nature of the transaction:

- (i) the existence of objective evidence raising concerns about the potential presence of links between the parties involved and (a) third countries who do not recognise democratic principles or the rule of law, who do not respect international law or who have engaged in conduct that has put the international community at risk, as borne out by the nature of their alliances; or (b) criminal or terrorist organisations or persons linked thereto;
- (ii) the ability of the structure resulting from the legal deed or transaction, taking into account the method of financing the purchase and the economic, financial, technical and organizational capabilities of the purchaser, to guarantee: (a) security and continuity of supply; (b) maintenance, security or operation of the networks and infrastructure.

The procedures involved in activating the “special powers” are governed by Presidential Decree 86 of 25 March 2014, published in the Official Gazette on 6 June 2014 (the “Procedure”) and by the Cabinet Office Decree *“of 6 August 2014, registered by the Court of Auditors on 26 September 2014, containing rules on the coordination process to be followed by the Cabinet Office in preparation for exercise of the special powers on corporate structures in the defence and national security sectors, and on activities of strategic importance in the energy, transport and telecommunications sectors”* pursuant to the notice of publication that appeared in Official Gazette no. 229 of 2 October 2014, implementing the rules in the Procedure identifying the competent offices involved (the “implementing Cabinet Office Decree”).

Under art. 2-ter of the Golden Power Decree, bringing Italian legislation into line with the provisions of Regulation (EU) 2019/452 and the deadline for the exercise of special powers, it is, finally, required that if a member state or the Commission should notify, pursuant to article 6, paragraph 6 of Regulation (EU) 2019/452 of the European Parliament and Council of 19 March 2019, the intention to provide observations or issue opinions on a foreign direct investment involved in an ongoing procedure, the deadline for the exercise of the special powers indicated in articles 1 and 2 of the Golden Power Decree is suspended until receipt of the observations of the member state or of the opinion from the European Commission. If the opinion of the European Commission is received after the observations of the member state, the deadline for the exercise of the special powers the deadline shall be established with reference to the date of receipt of the Commission’s opinion. The deadline for exercising the special powers is also suspended if the Government, pursuant to article 6, paragraph 4 of the above Regulation (EU) 2019/452, requests the Commission to issue an opinion or other member states to make provide observations on the procedure in progress pursuant to this article. This is without prejudice to the option of exercising the special powers prior to receipt of the Commission’s opinion or of member states’ observations, where the need to protect national security or public order requires an immediate decision pursuant to article 6, paragraph 8 of the same Regulation (EU) 2019/452.

The Articles of Association do not provide for multiple-vote shares (pursuant to art. 127-sexies of the CLF) or shares with enhanced voting rights (pursuant to art. 127-quinquies of the CLF).

Restrictions on voting rights (as per art. 123-bis, paragraph 1(f) of the CLF)

In implementation of the legislation regarding privatisations, a number of restrictions on voting rights linked to the cap on shareholdings referred to above are provided for (in art. 6.3 of the Articles of Association). Further restrictions are provided for under the provisions of the Golden Power Decree, as indicated above, in connection with the process in preparation for exercise of the special powers relating to the purchase, for whatever reason, by a natural or legal person from outside the European Union, or, among other things, “who is not resident in or whose usual place of domicile, registered or administrative office or main place of business is not in a European Union member state or a state forming part of the European Economic Area, or which is not in any case established therein”, of controlling interests in Terna and, also, in the event that the right of opposition is exercised.

Finally, further restrictions apply to operators in the electricity sector (as provided for in art. 3 of the Cabinet Office Decree of 11 May 2004 concerning “criteria, methods and conditions for the unification of ownership and management of the National Transmission Grid”). This has capped the exercise of voting rights when electing Directors at 5% of the share capital (art. 14.3(e) of the Articles of Association).

With regard to the expression of voting rights at General Meetings, reference should be made to “Section XVI: General Meetings”, regarding the related provisions in the Articles of Association (specifically art. 10.2, art. 14.3(f) and art. 26.2) introduced by the General Meeting held on 27 May 2014 (as described in the previous section “Corporate Structure”). These articles regard potential conflicts of interest for the purposes of art. 2373 of the Italian Civil Code, in compliance with the provisions of Directive 2009/72/EC and Legislative Decree 93/2011 and resolutions ARG/com 153/11 and 142/2013/R/EEL issued by the Regulatory Authority for Electricity, Gas and Water (the AEEGSI, now known as the Regulatory Authority for Energy, Networks and the Environment, or ARERA, under the changes introduced by art. 1, paragraph 528 of Law 205 of 27 December 2017), in which the regulator laid down the procedures for certification of the electricity transmission operator and adopted the final decision to certify Terna as the electricity “transmission operator” according to the ownership unbundling model.

Election and replacement of Directors and amendments to the Articles of Association (as per art. 123-bis, paragraph 1(l) of the CLF)

Election of Directors, related requirements and term of office

The procedure for electing members of the Board of Directors are governed by art. 14 of the Articles of Association.

The number of members of the Board of Directors is determined by the General Meeting and is between seven and thirteen (art. 14.1 of the Articles of Association), elected for a period of no more than three financial years and eligible for re-election at the end of their term of office (art. 14.2 of the Articles of Association).

The Chair is elected by the General Meeting from among Board members (art. 16.1 of the Articles of Association and art. 2380-bis, paragraph 5 of the Italian Civil Code) or, failing this, by the Board itself. If the General Meeting fails to elect the Chair, the Board of Directors will do so and also has the authority to elect a Deputy Chair.

Election of the entire Board of Directors takes place - in implementation of the legislation concerning privatisations and in compliance with Italian laws relating to listed companies - on the basis of slates, as governed by art. 14.3 of the Articles of Association. This aims to ensure that non-controlling shareholders are represented on the Board, with their representatives accounting for three-tenths of the Directors to be elected after rounding up to the nearest whole number in the event of a fractional number.

Slates of candidates may be submitted by the outgoing Board of Directors or by shareholders who, either on their own or together with other shareholders, hold an interest of at least 1% of the voting shares in accordance with the terms and conditions provided for by law, or of the lower percentage provided for by the CONSOB in implementation of art. 147-*ter* of the CLF and art. 144-septies of the Regulations for Issuers. In Executive Determination 44 of 29 January 2021, the CONSOB set the threshold at 1%.

The submission, filing and publication of slates is governed, in accordance with the Articles of Association, by the applicable legislation and regulations and, where required by the Articles of Association, by the rules established by the Company in the notice of call to the General Meeting.

In particular, the submission and filing of slates must take place – in accordance with art. 147-*ter*, paragraph 1-*bis* of the CLF – at least 25 days before the scheduled date of the General Meeting called to deliberate on the election of members of the Board of Directors.

Ownership of the minimum percentage interest required in order to submit slates is determined – in accordance with the provisions of art. 147-*ter*, paragraph 1-*bis* of the CLF – on the basis of the shares registered as belonging to the shareholder or shareholders on the date on which the slates are filed with the Company. In order to prove title to the number of shares required in order to submit slates, shareholders with voting rights must present and/or deliver the relevant documentation, issued in accordance with art. 43 of the Single Measure on post-trading issued by the CONSOB and the Bank of Italy on 13 August 2018. This may occur after the slate has been filed, provided that it takes place within the deadline for publication of the slates (being at least 21 days prior to the scheduled date of the General Meeting called to deliberate on the election of the Board of Directors).

Each shareholder may submit or participate in the submission of one slate only and each candidate may be on one slate only or will be considered ineligible.

The slates must list candidates by assigning them a progressive number (art. 14.3 of the Articles of Association).

Slates containing three or more candidates must include candidates from both genders, in accordance with the notice of call to the General Meeting. This is to ensure that the composition of the Board of Directors complies with existing legislation concerning the gender balance among the members of the management and oversight bodies of listed companies, as per art. 147-*ter*, paragraph 1-*ter* of the CLF. This legislation was recently amended by Law 160 of 27 December 2019 (the “Budget Law”), which requires that two-fifths of the total seats on the Board must be reserved for the least represented gender (after rounding up in the event of fractional numbers).

The slates indicate which of the candidates meet the independence requirements established by law and in the Articles of Association (art. 148, paragraph 3 of the CLF, as referred to in art. 147-*ter*, paragraph 4 of the CLF and art. 15.4 of the Articles of Association) and any other information or representation required by the applicable legislation and regulations and the Articles of Association for the respective positions.

As concerns the personal characteristics of candidates, when drawing up the slates, shareholders are invited to assess candidates’ details, including their professional backgrounds, experience, including management experience, and gender, with regard to the size of the Company and the specific nature of the sector in which it operates. Shareholders should also bear in mind the guidance published by the outgoing Board of Directors and the diversity policies adopted by the Company regarding aspects such as age, seniority, gender, geographical origin, qualifications and professional and managerial experience of members of the Board of Directors (see below Section IV: “Board of Directors - Composition – Diversity policies”). The aim of the above policies is to ensure the qualitative and quantitative composition of the Board of Directors is such as to enable Directors to effectively carry out the duties and responsibilities assigned to the management body, partly by ensuring the presence

of people with sufficiently divergent points of view and with the expertise necessary in order to understand the current state of the business, the long-term risks and opportunities to which the Company is exposed and the medium- to long-term sustainability of the Company's activities. These policies are referred to when nominating and electing Board members and may be published on the Company's website.

Slates of candidates must be accompanied by an indication of their suitability to qualify as independent pursuant to the law and/or the Corporate Governance Code. In this regard, together with the slates and as specifically requested in a section of the notice of call to the General Meeting, each candidate must file a declaration, under their own responsibility, certifying their suitability to qualify as independent pursuant to the above Code.

The slates must also be accompanied by declarations in which each candidate accepts their candidacy and declares, under their own responsibility, the absence of any reason for their ineligibility or incompatibility (including those provided for in art. 15.5 of the Articles of Association introduced by the General Meeting of 27 May 2014 for all the Company's Directors, in implementation of the provisions of Directive 2009/72/EC, Legislative Decree 93/2011 and resolutions ARG/com 153/11 and 142/2013/R/EEL issued by the Regulatory Authority for Electricity, Gas and Water, now known as the Regulatory Authority for Energy, Networks and the Environment, or ARERA, in which the regulator laid down the procedures for certification of the electricity transmission operator and adopted the final decision to certify Terna as the electricity "transmission operator" according to the ownership unbundling model), and provide the information required by art. 144-octies, paragraph 1(b) of the Regulations for Issuers and any further information required by the applicable legislation and regulations and the Articles of Association.

Shareholders submitting a "minority slate" must comply with CONSOB Communication DEM/9017893 of 26 February 2009 (regarding the "Election of members of management and oversight bodies"), which recommends that, together with the slate, they file a declaration attesting to the absence of any of the connections referred to in art. 147-ter, paragraph 3 of the CLF, containing the information listed in the communication with regard to the election of the management body.

The slates, accompanied by information on the characteristics of each candidate and the additional declarations and information required by CONSOB Communication DEM/9017893 of 26 February 2009, which also applies the requirements for election of the oversight body in art. 144-octies, paragraph 1 of the Regulations for Issuers to the election of the management body, are made available for consultation by the public - in accordance with art. 147-ter, paragraph 1-bis of the CLF - at the registered office, on the Company's website and in accordance with the procedures established by the CONSOB, at least 21 days prior to the General Meeting called to deliberate on the election of members of the Board of Directors.

Assumption of the position of Director is subject to meeting the integrity, professionalism and independence requirements provided for in the Articles of Association and the applicable legislation.

In particular, the Company's Directors must meet **integrity requirements** similar to those that apply to the statutory auditors of listed companies (art. 15.2 of the Articles of Association and art. 147-quinquies of the CLF). The elected Directors must immediately inform the Board of Directors if the subsequently fail to meet the requirements established by law and the Articles of Association, and the occurrence of any reason for their ineligibility or incompatibility (art. 14.3 of the Articles of Association).

With regard to **professionalism requirements**, the Articles of Association (art. 15.3) state that no person may be elected a Director of the Company and, if elected, their position must be terminated, if they have not acquired at least three years' experience in the following:

- management, oversight or executive roles at a company with share capital of no less than €2 million; or
- professional roles or permanent university teaching positions relating to legal, economic, financial and technical-scientific matters closely related to the Company's activities, as defined by art. 26.1 of the Articles of Association; or
- managerial roles at public entities or bodies operating in the credit, financial or insurance sectors or, in any event, in sectors closely related to the Company's activities, as defined by art. 26.1 of the Articles of Association (matters considered to be closely related to the Company's activities include those regarding commercial and tax law, business economics and corporate finance, and matters and sectors related to the energy sector in general, communications and network infrastructure).

With stricter application of the rules with respect to the provisions of art. 147-ter, paragraph 4 of the CLF, at least a third of the Directors in office must also meet the specific **independence requirements** provided for in art.15.4 of the Articles of Association, which makes reference to the requirements for statutory auditors indicated in art. 148, paragraph 3 of the CLF. In addition, executive Directors, given the specific activities conducted by the Company, are subject to the independence requirements referred to in art. 15.5 of the Articles of Association.

The presence of Directors qualifying as "independent", in accordance with the recommendations in the Corporate Governance Code, is important in relation to the composition of the Board Committees provided for in the Code itself and of the Related Party Transactions Committee established by Terna in compliance with the CONSOB Regulation regarding measures relating to related party transactions and contained in Resolution 17221 of 12 March 2010, as amended.

The Board of Directors must confirm that each member of the Board meets the integrity, professionalism and independence requirements, and periodically assess whether or not its non-executive members continue to meet the independence requirements, taking into account the information provided by each of the interested parties.

The Company has adopted a specific internal procedure, setting out the criteria for assessing the independence of its non-executive Directors and confirming the requirements referred to in the Articles of Association and the Corporate Governance Code ("Application criteria and procedure for assessing the independence of Directors pursuant to art. 3 of the Corporate Governance Code"). This procedure, which was revised by the resolution dated 19 December 2012 to ensure alignment with the recommendations in the Corporate Governance Code, calls for confirmation that each Director meets the requirements following their election, or every time an event takes place that might compromise a Director's independence, and in any case at least once a year. For this purpose, Directors are requested to provide the information necessary to enable the Board to conduct its assessment. In addition, taking into account the related recommendations contained in the Notes to art. 5 of the Corporate Governance Code, non-executive Directors who have declared their independence must undertake to continue to meet such requirements throughout their term of office. This may be confirmed by a new assessment by the Board of Directors which, in this case, can be conducted on the basis of slightly different criteria compared with those used previously and disclosed in accordance with the requirements of the Corporate Governance Code (art. 3.C.4).

In implementation of the new *Corporate Governance Code* of January 2020, the Company has begun the process of revising the procedure in order to align the content and the independence requirements with the content of art. 2, Recommendation 7.

With regard to the procedure for electing Directors using a slate vote procedure, governed by art. 14.3 of the Articles of Association, the extraordinary session of the General Meeting of Terna's shareholders held on 23 March 2017 approved a number of amendments to the Articles of Association. These concerned articles 14.3 and 26.2 and were designed to supplement the rules for electing the Board of Directors and Board of Statutory Auditors by slate vote. The new provisions were applied for the first time when re-electing the Directors on 27 April 2017. In this regard, the procedure for electing Directors using a slate vote procedure, as governed by art. 14.3 of the Articles of Association, is described below.

The procedure for electing Directors using a slate vote procedure, as governed by art. 14.3 of the Articles of Association, establishes that each holder of voting rights may vote for one slate alone at the General Meeting. Seven-tenths of the Directors to be elected (after rounding down any fractional numbers) must be elected from the slate that obtains the greatest number of shareholder votes (the majority slate). The remaining Directors (equal to three-tenths of the remaining total) are elected from the other slates (the minority slates), applying the specific rules indicated in letters b) and c) of art. 14.3.

In addition to the above provisions, in the event that, following the vote, the majority slate does not contain a sufficient number of candidates to ensure that the required number of Directors has been elected, the General Meeting shall proceed, without holding a further vote, to elect all the candidates listed on the slate, in the progressive order with which they are listed and – having filled all the positions reserved for minority slates, as indicated under letter b) of the above art. 14.3 – to elect the remaining Directors from the slate that obtained a majority of the votes among the minority slates (the “First Minority Slate”) based on the number of candidates on such slate. If there are not sufficient candidates on the slate, the remaining Directors are elected, according to the same procedure, from the following slate (the “Second Minority Slate”) or from subsequent slates, based on the number of votes and the number of candidates on the slates. Finally, if the total number of candidates included in the slates submitted, including both majority and minority slates, is below the number of Directors to be elected, the remaining Directors are elected by the General Meeting based on the majority required by law and without following the procedure for slate voting, so as to ensure the presence of the necessary number of Directors in possession of the independence requirements established by law and by art. 15.4 of the Articles of Association, and in compliance with the gender balance legislation in force.

The remainder of the slate vote procedure is governed by further articles (art.14.3(c) and (c-bis)) designed to guarantee gender balance and minimum number of independent Directors required by law and the Articles of Association. These articles provide that, should the outcome of the vote not result in compliance with gender balance legislation, it is necessary to form a new list, in descending order, of the candidates elected from the various slates (including the slate receiving the highest number of votes) and replace the candidate from the most represented gender with the lowest quotient in the ranking with the first of the candidates from the least represented gender to not be elected and belonging to the same slate as the candidate replaced. This must be done whilst ensuring the minimum number of independent Directors required by the Articles of Association. The same procedure is to be adopted if it is necessary to replace an elected Director in accordance with art. 14.3(c) of the Articles of Association, when the outcome of the vote does not result in the election of the minimum number of independent Directors required by law and the Articles of Association.

Where quotients are equal, whilst ensuring the minimum number of independent Directors required by the Articles of Association, the replacement must be taken from the slate that received the greatest number of votes (being the slate from which the largest number of candidates has been taken under the above procedure). If the number of candidates on that slate is not sufficient, in accordance with art. 14.3.c-bis) of the Articles of Association, the procedure is based on the majority required by law, respecting the proportionate representation of non-controlling shareholders on the Board of Directors. Where it is necessary to elect more than one candidate of a gender different from that of the other elected candidates, the replacement process described is conducted by moving up the rankings until the related legislation has been complied with.

Provisions in the Articles of Association designed to ensure compliance with gender balance legislation were first introduced into the Articles of Association by the Extraordinary General Meeting of 16 May 2012, in implementation of the provisions of Law 120 of 12 July 2011 (the “Golfo-Mosca Law”). These provisions, which require that at least a third of the total seats on the Board of Directors must be reserved for the least represented gender (after rounding up in the event of fractional numbers)⁷, were already applied, in line with the provisions of the Golfo-Mosca Law itself, when (i) re-electing the Board of Directors at the Annual General Meeting of 27 May 2014, and (ii) at the time of the subsequent election of the Board by the Annual General Meeting of 27 April 2017.

The Budget Law amending art. 147-ter, paragraph 1-ter of the CLF came into effect on 1 January 2020. As a result, at least two-fifths of the seats on a board of directors must be reserved for the least represented gender (after rounding up in the event of fractional numbers).

In accordance with the provisions of the Budget Law, the new two-fifths requirement is applicable for six consecutive terms of office “from the first re-election of the management and oversight bodies of companies listed on regulated markets following the date of entry into force” of the Budget Law (i.e., the first re-elections to take place after 1 January 2020). This new criterion was thus applied for the first time on the occasion of the re-election of the Board of Directors by the Annual General Meeting of 18 May 2020.

In implementation of the above provisions, the extraordinary session of the Annual General Meeting of 18 May 2020 also approved an amendment to the Articles of Association, cancelling art. 31 of the Articles of Association, referred to as the “Transitional provision”, in its entirety, maintaining – within the other articles governing the composition of the Company’s Board of Directors and Board of Statutory Auditors – the reference to the legislation regarding gender quotas on corporate bodies from time to time in force.

In addition to the above, under the provisions of art. 147-ter, paragraph 3 of the CLF, at least one member of the Board of Directors must be elected from the minority slate that has obtained the highest number of votes and is not connected in any way, including indirectly, with shareholders who have submitted or voted for the slate winning a majority of the votes.

For the election of Directors who, for any reason, are not elected at the same time as the re-election of the entire Board, as well as in all other cases in which, for any reason, it is not possible to follow the slate vote procedure, the General Meeting must adopt resolutions with the majority required by law and in such a way as to, in any event, ensure:

- the presence of the necessary number of directors in possession of the independence requirements established by law (meaning at least one director if the board has no more than seven members, or two directors if the board has more than seven members);
- compliance with the gender balance legislation in force.

⁷ Reduced to a fifth for the first term of office in which the Golfo-Mosca Law is applied.

Finally, with regard to operators in the electricity sector, the Articles of Association have capped the exercise of voting rights when electing Directors at 5% of the share capital, as mentioned above. These restrictions are in line with the others more generally applicable to the exercise of voting rights at general meetings in implementation of the privatisation laws from time to time in force and linked to the cap on shareholders governed by art. 6.3 in the Articles of Association. Further details are provided above in the sub-section, "Restrictions on the transfer of shares and shares carrying special rights".

If required, the replacement of Directors must take place in accordance with art. 2386 of the Italian Civil Code.

In any event, any Directors standing down are replaced by the Board of Directors, ensuring the presence of the necessary number of directors in possession of the independence requirements established by law and by art. 15.4 of the Articles of Association, and compliance with gender balance legislation in force.

If a majority of the Directors elected by General Meeting should stand down, the entire Board is deemed to have resigned and a new General Meeting must be called without delay by the remaining Directors in order to re-elect the Board.

When Directors are elected, according to any of the procedures provided for in the Article of Association, the specific provisions of the Articles of Association (specifically art. 14.3(f)) regarding conflicts of interest also apply for the purposes of art. 2373 of the Italian Civil Code, introduced under the terms of Directive 2009/72/EC of 13 July 2009, and Italian Legislative Decree 93 of 1 June 2011, as described in greater detail below in Section XVI: "*General Meetings*".

The ordinary session of the Annual General Meeting of shareholders held on 18 May 2020 approved the new composition of TERNA's management body, as described in detail in the specific section.

Succession planning

In view of the ownership structure and the concentration of ownership, Terna S.p.A.'s Board of Directors has in the past opted not to proceed with an assessment of succession plans for executive Directors.

The definition of specific procedures for the early replacement of executive Directors has assumed growing importance in recent years from the view point of corporate governance. In this sense, at a meeting on 23 June 2015, the then Board of Directors extended the scope of the recommendations to be made by the Nominations Committee, assigning it responsibility for ensuring business continuity in the event of the need to replace Terna S.p.A.'s Chair or Chief Executive Officer.

Subsequently, with the aim of improving the Company's governance practices, in line with the recommendations of Borsa Italiana S.p.A.'s Corporate Governance Committee in its "*Fifth Report on application of the Corporate Governance Code*", dated November 2017, and in view of the findings of the first board review, following the re-election of the Board in April 2017, in 2018, the Nominations Committee began looking into the potential for devising a succession process and the related procedures, thus responding to the recommendation from the Corporate Governance Committee.

At the end of the assessment and following a positive opinion from the Nominations Committee, on 8 May 2019, the Board of Directors approved an initial plan consisting of two levels: on the one hand, a *Contingency Plan* for the replacement of the Chief Executive Officer, the Chair and other Board members in an emergency; on the other, a Succession Plan for senior management positions. The Company was advised by external consultants in drawing up the plans.

Following the Board's re-election, the new Nominations Committee began the process of drawing up succession plans, with the aim of developing long-term replacement strategies, partly in implementation of the recommendations in the Corporate Governance Code, Recommendation 24.

Amendments to the Articles of Association

In terms of the rules governing amendments to the Articles of Association, any changes must be approved by an extraordinary General Meeting with the majority required by law.

As permitted by law, the Articles of Association (art. 21.2) assign the Board of Directors the authority to adopt certain resolutions reserved for shareholders that may involve amendments to the Articles, such as:

- a) mergers and demergers, in the instances permitted by law;
- b) the establishment or closure of secondary offices;
- c) decisions on which of the Directors may act as representatives of the Company;
- d) reductions in the share capital following the withdrawal of one or more shareholders;
- e) amendment of the Articles of Association to comply with legislation;
- f) the transfer of the registered office within Italy.

The provisions of the "Golden Power Decree" and the related restrictions are covered in the previous sub-section, "Restrictions on the transfer of shares and shares carrying special rights".

In addition, in accordance with the provisions of art. 3, paragraph 3 of the "Privatisation Law", Terna's Articles of Association state that the provisions of art. 6.3 of the Articles of Association, regarding the "cap on shareholdings" described above in the sub-section, "Restrictions on the transfer of shares and shares carrying special rights", may not be amended.

Termination payments to Directors in the event of resignation, dismissal or termination of the relationship following a public tender offer for the Company

(as per art. 123-*bis*, paragraph 1(i) of the CLF)

The disclosures required by art. 123-*bis*, paragraph 1(i) of the CLF regarding agreements between the Company and Directors, involving payments in the event of resignation or dismissal/termination without just cause, or if the relationship is terminated following a public tender offer, are provided in the "Report on the Remuneration Policy and Remuneration Paid", published by Terna in compliance with the provisions of art. 123-*ter* of the CLF.

Management and coordination

Terna is subject to the de facto control of Cassa Depositi e Prestiti S.p.A., currently exercised through CDP Reti S.p.A. (a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A.), which holds a 29.851% interest in the Company. The checks, providing confirmation of the above situation of control, were conducted by Cassa Depositi e Prestiti and notified to the Company and the CONSOB with effect from 19 April 2007 and, subsequently, as described in greater detail above in the sub-section, *“Significant shareholdings in the Company and shareholder agreements”*, by letter dated 30 October 2014 and 2 December 2014.

At this time, there are no formal arrangements for the management and coordination of the Company. Terna conducts its business either directly or through its subsidiaries in conditions of operational and contractual independence.

Further information and corporate governance practices

(as per art. 123-bis, paragraph 2(a) of the CLF)

The further information on the Company's corporate governance required by art. 123-bis, paragraph 2 of the CLF and art. 144-decies of the Regulations for Issuers, with regard to:

- compliance (as per art. 123-bis, paragraph 2(a) of the CLF) is provided in a specific section of the Report (section III);
- the main characteristics of existing risk management systems and internal controls over financial reporting, including the consolidated accounts (as per art. 123-bis, paragraph 2(b) of the CLF), and further material information on corporate governance practices (as per art. 123-bis, paragraph 2(a) of the CLF) are described in the section of the Report dealing with the internal control and risk management system (section XI) and in Annex 1;
- General Meeting procedures (as per art. 123-bis, paragraph 2(c) of the CLF) is provided in the section of the Report dealing with General Meetings (section XVI);
- the composition of the Board of Directors and the role of its members, as well as information on the election and composition of the Board of Statutory Auditors and the application of diversity policies to the composition of the Board of Directors and Board of Statutory Auditors (as per art. 123-bis, paragraph 2(a), d) and d-bis) of the CLF and 144-decies of the Regulations for Issuers), is provided in the section of the Report dealing with the Board of Directors (section IV) and in subsequent sections dealing with Board Committees (sections VI, VII, VIII and X) and in the sections on the election and composition of the Board of Statutory Auditors (sections XIII and XIV).

In terms of further corporate governance practices, it should be noted that – following the enactment of Legislative Decree 25 of 15 February 2016, which abolished the requirement for listed companies to publish interim financial statements – Terna has, since 2016, continued to publish its consolidated results for the three and nine months ended 31 March and 30 September. This approach, which was decided on by the Board of Directors, is in line with the best practices adopted by other companies and in keeping with the past.

As announced to the market on 30 January 2021 and in continuity with previous years, Terna S.p.A. will again, in 2021, publish its consolidated results for the three and nine months ended 31 March and 30 September, following their approval by the Board of Directors.

The figures contained in the interim reports will be approved and published on a voluntary basis, according to the financial calendar published in the market announcement dated 30 January 2021. This practice is in implementation of the provisions of art. 82-ter of the CONSOB's Regulations for Issuers, as amended by CONSOB Resolution 19770 of 26 October 2016. The publication of quarterly results guarantees the consistency and fairness of additional interim financial reporting and the comparability of the related disclosures with the matching disclosures in previously published interim reports.



Section III

Compliance

The Corporate Governance system adopted by the Company, as explained in the introduction, is in line with the principles contained in the July 2018 edition of the Corporate Governance Code in effect until 31 December 2020.

The current Corporate Governance system is for the most part also in line with the new Corporate Governance Code, which, as stated above, the Company signed up to during the Board of Directors' meeting of 27 January 2021. This marked the start of work on adjusting and revising internal governance documents in order to ensure full and effective implementation of the new recommendations. The Company will provide a full report to the market in the report on corporate governance to be published in 2022.

The Company has set up a working group, consisting of the relevant departments, in order to identify the steps to be taken in order to ensure correct implementation of the Code.

The terms of reference for the various Board Committees are also being updated, as are the procedures involved in defining the independence criteria.

Finally, the Company has also embarked on preparation of a new engagement policy to establish the procedures, timings and roles involved in dialogue with shareholders and other key stakeholders.

The Company is not subject to non-Italian legislation influencing its corporate governance structure.

Section IV

Board of Directors

Composition

In accordance with the resolution passed by the Annual General Meeting on 18 May 2020, the Board of Directors consists of thirteen members, whose terms of office will end with approval of the financial statements for the year ended 31 December 2022.

Based on that resolution and the two slates submitted, the Board of Directors consisted of the following members: Valentina Bosetti (Chairwoman), Stefano Antonio Donnarumma (Chief Executive Officer), Alessandra Faella, Antonella Baldino, Ernesto Carbone, Valentina Canalini, Yunpeng He, Fabio Corsico, Giuseppe Ferri (Directors elected from the majority slate submitted by CDP Reti S.p.A.), Giorgino Marco, Gabriella Porcelli, Jean-Michel Aubertin and Paola Giannotti (Directors elected from the minority slate submitted by a group of shareholders comprising asset management companies and other institutional investors, as disclosed in a special [press release](#) issued by the Company relating to publication of the slates on 23 April 2020).

Additional information on the slates of candidates submitted and the results of the vote is available on the Company's website at www.terna.it in the section *Governance* – [General Meetings](#).



No changes regarding the Board's original composition have taken place during the term in office.

The composition of the Board meets the necessary requirements as set forth both by prevailing gender balance legislation and the independence requirements.

Six members of the Board are women and the remaining seven are men.

As to the independence requirements, ten Directors qualify as such pursuant to the CLF, of whom eight qualify pursuant to both the CLF and the Corporate Governance Code. Only two out of the thirteen Directors qualify as independent pursuant to the CLF alone.

The Board of Directors provides for the presence of a Chair, elected by shareholder resolution adopted at the Annual General Meeting of 18 May 2020 pursuant to art. 16 of the Articles of Association. The Board also consists of a sole executive Director, the Chief Executive Officer, appointed by the Board of Directors on 18 May 2020 pursuant to art. 22 of the Articles of Association, as more thoroughly specified below in the section "Executive Bodies".

TERNA's Directors are suitably competent and professional (art. 2.P.1. of the Corporate Governance Code). Specifically, alongside professionals operating in the legal and financial field, there are Directors experienced in the sectors of engineering, energy, sustainability and risk management. The international scope is ensured, as is the presence of non-Italian nationals, as well as members who have garnered solid experience in international contexts. Moreover, some have specialised e-skills, which have become essential during the emergency brought about by the Covid-19 pandemic.

The Board of Directors is assisted by a Secretary, Francesca Covone. A brief description of the professional profiles of Terna's Board members is provided below.

**VALENTINA BOSETTI***Chairwoman*Born in Milan, Italy
on 25 April 1973

As of 18 May 2020, Valentina Bosetti is the Chairwoman of the Board of TERNA S.p.A.

She is a full professor in the Department of Economics at Bocconi University and a senior researcher at the RFF-CMCC European Institute on Economics and the Environment.

Ms Bosetti holds a PhD in Computational Mathematics and Operation Research from the State University of Milan and a Master's Degree in Environmental Resources Economics from University College London. She worked at the Eni Enrico Mattei Foundation from 2003 to 2018 and has collaborated with the Euro-Mediterranean Centre on Climate Change (CMCC) since 2006.

She has been a member of the European Association of Environmental and Resource Economists Council and Chairwoman of the Italian Association of Environmental Economists and has published numerous papers in the field of climate change economics and innovations in clean energy technologies.

She has received two prestigious European Research Council grants, the first on innovation in clean energy technologies, and the second to research the uncertainties and risks related to climate change. She was one of the authors of the Fifth Report of the IPCC, and she will be one of authors of the upcoming Sixth Report of the IPCC. In 2014/2015 she was a Fellow at the Centre for Advanced Study in the Behavioural Sciences (CASBS) at Stanford University.

She has three children.

**STEFANO ANTONIO DONNARUMMA***Chief Executive Officer*Born in Milan
on 29 October 1967

Mr Donnarumma has been the Chief Executive Officer of TERNA S.p.A. since 18 May 2020.

He graduated with a first-class degree in Mechanical Engineering in 1993 and has been enrolled on the Register of Chartered Engineers since 1994.

Married with three children, he has extensive and consolidated experience in industrial management, as regards both production and infrastructure, working on national as well as international projects.

From 1994 he worked for approximately 13 years in the field of automobile and railway components production and the development of rolling stock on behalf of four foreign multinationals (Rutgers Automotive, TMD Friction, Bombardier and Alstom), also running leading railway vehicle manufacturing plants in Italy. In 2007 he moved to the public service infrastructure management sector, joining the Acea Group, where he was Chief Operating Officer of Acea Distribuzione (Rome electricity network) and Director at ATO2 (water networks for Rome and province).

In September 2012 he joined the Aeroporti di Roma Group (controlled by Gemina and later merged into ATLANTIA) as Director of Airport Management and Accountable Manager for Fiumicino and Ciampino Airports and Director of some of the Group's companies. In May 2015 he was appointed Director of Networks for the A2A Group, a listed multi-utility based in Milan and Brescia, managing the Group's companies responsible for the distribution of gas, electricity, water, district heating and public lighting. On behalf of A2A, he is also Chairman of the companies Unareti SpA, A2A Calore e Servizi Srl and A2A Ciclo Idrico SpA as well as a director of the LGH SpA Group.

From May 2017 to May 2020, he was the Chief Executive Officer of Acea.

Since 2019 he has been a member of the Board of Directors at TERNA S.p.A., where he is also Chairman of the Related Party Transactions Committee and a member of the Audit, Risk, Corporate Governance and Sustainability Committee.

Holding a cum laude Degree in Business Administration received in 1991 from Bocconi University, he has been a Full Professor at the Polytechnic Institute in Milan since 2004, where he holds the Chair of Financial Risk Management and Financial Markets and Institutions for the Master's Degree in Management Engineering.

He has garnered nearly thirty years of experience in the field of research and training and has coordinated numerous projects leading to more than 120 publications at national and international level on banking and finance topics. Most recently, he has published articles on matters relating to governance and risk management, both for industrial companies and investment firms, and on topics relating to digital innovation in banking and financial services.

He has headed and continues to head numerous master programmes including: MBA Program, Master in Financial Risk Management, Master in Private Equity in partnership with Borsa Italiana and Master in Corporate and Investment Banking. He is the Scientific Director of the Finance Department of the MIP Graduate School of Business.

He carries out numerous management-level training seminars for Italian and international banking groups, institutional investors and industrial groups and provides consultancy in the areas of corporate financial analysis, extraordinary financial operations and governance and risk management systems. He is the Scientific Director of the Fintech & Insurtech Observatory and of the Corporate Governance Observatory of the Polytechnic Institute in Milan. He sits on the Scientific Committee of the Advanced Training School "Luigi Martino", is a member of the Milan Board of Certified Accountants and a member of the Board of the Association of Members of Supervisory Bodies as per Legislative Decree 231/01 (AODV 231).

Mr Giorgino has served and still serves as a director and statutory auditor in listed and non-listed banking and industrial companies as well as a member of oversight bodies. He is currently an independent Director and Chairman of the Risk Committee of Banca Monte dei Paschi di Siena, included on the slate proposed by Generali, and an independent Director of Terna, included on the slate put forward by Assogestioni. In the past he served as an independent Director of the Luxottica Group, GE Capital Interbanca and Mediolanum Gestione Fondi SGR.

He has written articles for the Italian business daily, Il Sole 24 Ore, and been a guest columnist and speaker for television channels (RAI, SKY, La7, CLASS CNBC, etc.). He has been a speaker at more than one hundred and fifty conferences and seminars on corporate finance and financial markets, corporate governance, risk management and digital innovation in banking and financial services.



MARCO GIORGINO

Director

Born in Bari
on 11 December 1969

**ERNESTO CARBONE***Director*Born in Cosenza
on 25 June 1974

Since 18 May 2020 he has been a member of the Board of Directors and of the Related Party Transactions Committee of TERNA S.p.A.

He earned a degree in law in 1998 from the University of Bologna and has been a lawyer since 2002. In March 2013 he was elected to the Chamber of Deputies and became a member of the Sixth Finance Committee (2013-2015); member of the First Committee on Constitutional Affairs, the Presidency of the Council and the Interior (2015-2018), member of the bicameral anti-mafia committee and member of the judicial protection committee of the Chamber (independent administrative body).

Moreover, he is an advisor for the legislative decree on tax simplification, for the public administration reform decree law and for the legislative decree on bank crisis management.

He worked for many years in Italian and European institutions.

He has been a Director in various companies including Agecontrol S.p.A., Ismea and SIN S.p.A., as well as the Head of Legal and Corporate Affairs for Nomisma S.p.A.

**JEAN MICHEL AUBERTIN***Director*Born in Nice
on 16 February 1958

Mr Aubertin has been a member of the Board of Directors and of the Nominations Committee of TERNA S.p.A. since 18 May 2020.

With a degree in engineering from the Ecole Nationale Supérieure de l'Aéronautique et de l'Espace (National Higher French Institute of Aeronautics and Space), he boasts extensive experience in business transformation, international business development, and global operations management (Europe, Asia, US).

He has held the office of Operating Advisor at Clayton, Dubilier & Rice, a leading US private equity firm, since July 2018.

From 1994 to present, his experience includes Chief Executive Officer of CG Power Systems in Belgium and Doosan Power Systems Ltd. In the UK; Executive Director of the Alstom Energy & Environment Systems Group in Switzerland and Chairman of the Telecommunications Satellite Division at EADS Astrium in the UK.

**ALESSANDRA FAELLA***Director*Born in Vico Equense
(Naples)
on 6 June 1982

Alessandra Faella has been a member of the Board of Directors and of the Remuneration Committee of TERNA S.p.A. since 18 May 2020. Industrial manager, she holds a cum laude Economics Degree specialising in innovative and technological markets and a Master's Degree in General Management from Bocconi University in Milan, with experience at ESADE Barcelona (Spain) and Chalmers University of Technology (Sweden). She subsequently completed various international executive programmes in business management (General Electric, Corporate Executive Development Program 2014-2016) and digital transformation (MIP Business School, Digital Transformation 2019-2021). She has been a certified accountant since 2010 and Innovation Manager at the Ministry of Economic Development since 2019.

Representative of young entrepreneurs in Federmanager and enrolled in the Italian Association of Chartered Accountants, she is active in the field of diversity and inclusion.

Her corporate experience includes the role of Sales & Operations Manager at Baker Hughes (2016-2019, Italy), Corporate Executive Program (2014, USA), Marketing & Strategy Manager at General Electric (2011-14, Italy). She has gained professional experience in her role as international strategic consultant at Bain & Company (2007-2011), where she was involved in turnaround, M&A, reorganisation and internationalisation operations for corporate clients in Italy, Germany, Spain, Mexico and the UK. She was also an analyst at Accenture, and has worked in marketing and sales for leading multinationals such as Henkel, L'Oreal and the Richemont Group.

She is currently the Global Director of Services Sales at the energy technology multinational, Baker Hughes FPT, based in Naples.

He has been a Director at TERN A S.p.A. since 2014, where he is also Chairman of the Remuneration Committee and a member of the Nominations Committee.

After completing his classical studies, he earned a degree in Political Science (cum laude). In 1997, he was in charge of preparing international reports carried out within the Ministry of Defence at the Office of the Diplomatic Advisor to the Minister and at the Military Strategic Studies Centre.

From 1998 to 2001, he worked for Olivetti/Mannesmann, first in Ivrea and then in Rome, where he worked in communications and human resources at Infostrada, before heading Public Affairs. In the same period, he represented the company within Assinform and AIP. In 2001 he moved to the Italian Ministry of Economy and Finance where he headed the Technical Secretariat of the Treasury Minister, Giulio Tremonti. During that same period, he was a member of the Committee for the Introduction of the Euro.

In the autumn of 2003, he was hired by Enel to head its Public Affairs Office, overseeing relations nationwide and with Confindustria. Since February 2005, he has been Head of External Relations, Public Affairs and Development at the Caltagirone Group. For the Caltagirone Holding, he also is also responsible for regulatory matters regarding Group companies and overseeing various industrial and financial investments.

Fabio Corsico is a member of the Board of Directors of Cementir Holding, "Il Gazzettino", Terna and Europe Assistance. Since 2009 he has been a Senior Advisor of Credit Suisse AG and a member of the International Advisory Board of Afiniti. He is also a Senior Advisor of Tikheau Capital. He was a member of the Board of Directors of Avio from 2009 to 2010, of Biverbanca and of Consum.it from 2008 to 2012, of Alleanza Assicurazioni from 2009 to 2011, of Alleanza Toro Assicurazioni from 2011 to 2013, of Cueim CRT from 2010 to 2013, Chairman of Orione Investimenti from 2010 to 2012 and Director of the Teatro Regio di Torino (Royal Theatre of Turin) from 2010 to 2013. He was a member of the Board of Energia from 2012 to 2014 and of Perseo from 2013 to 2014. From 2007 to 2016 he was a member of the Board of Directors of Grandi Stazioni and, on behalf of Eurostazioni (Pirelli, Benetton, Caltagirone), he worked jointly with the Chief Executive Officer of FS to lead the development of the company's business and subsequent privatisation. From 2005 to 2017 he was a Director of the CRT Foundation, where he chaired the Investments Committee and Nominations Committee and, from 2007 to 2017, he was the Deputy Chairman of Fondazione Sviluppo & Crescita (Development & Growth Foundation). He has been a Director of NTV (Italo), where he represented equity partners in the development and sale of the company and Deputy Chairman of Equiter (2014-2018). He was a founding member of Aspen Junior Fellows, the Council for the United States and Italy Juniors and is on the Board of two magazines (Zero and Formiche). He is currently a member of the Board of Centro Studi Americani and of Fondazione per l'Arte CRT.

In 1998 for the Franco Angeli publishing house, he edited the volume entitled "Interessi nazionali e Identità italiana" (National Interest and Italian Identity) forming part of the Strategic Studies series. In 2011, together with Paolo Messa, he co-authored the book "Da Frankenstein a Principe Azzurro, breve storia delle fondazioni bancarie" (From Frankenstein to Prince Charming, a short history of banking foundations) for Marsilio, with a preface written by Carlo Azeglio Ciampi. In December 2015, together with Bernardo Bertoldi, he published a book entitled "Manager di famiglia" for Sole 24 Ore. Together with Prof. Gros Pietro, he directs the Master in Family Business Management programme at the Luiss University in Rome, where he is also an adjunct professor in Family Business.



FABIO CORSICO

Director

Born in Turin

on 20 October 1973



**PAOLA GIANNOTTI
DE PONTI**

Director

Born in Alessandria
on 13 July 1962

Since 2017, she has been a Director at TERNÀ, where she is also Chairwoman of the Audit, Risk, Corporate Governance and Sustainability Committee as well as a member of the Related Party Transactions Committee.

Married, with two children, Paola Giannotti DePonti holds an Honours Degree in Political Economics from Bocconi University in Milan. She also studied finance at Universität zu Köln (Cologne, Germany) and at New

York University. She is a Board member and Chairwoman of the Audit and Risk Committee of Terna and of TIM S.p.A.; member of the Board of Directors of FinecoBank S.p.A., where she is also a member of the Risk Committee and the Remuneration Committee. She boasts more than 30 years of international experience in the financial sector, and specifically in Corporate and Investment Banking where, between New York, London, Milan, Rome, Frankfurt and Paris, she has held various roles in leading worldwide institutions such as Morgan Stanley, Citigroup, Dresdner Bank and BNP Paribas. She began her professional career in 1986 as a financial analyst at Montedison S.p.A. (1986-1987) and then at Sviluppo Finanziaria S.p.A. in Milan (1988-1989). She was also a business analyst at the Mac Group providing strategic consulting (1987-1988). From 1989 to 1998 she worked for Morgan Stanley at its London office, initially as a corporate finance analyst and thereafter as head of operations in Portugal. In New York she worked in the equity capital markets department, before moving to Milan to focus on developing the Italian customer base at the Milan office and taking charge of the financial institutions department. From 1998 to 2003 she worked in London as the Managing Director responsible for the Italian investment banking business in Italy first for Citigroup and then for Dresdner Kleinwort Wasserstein, where she was a member of the Committee of European Managing Directors and the European Board of Country Heads as well as a member of the Board of Directors of Dresdner Kleinwort Wasserstein SGR. From 2003 to 2013, she was the Managing Director at BNP Paribas in Milan, responsible for managing and developing the strategic client portfolio (Enel, ENI, Terna, Poste, Ferrovie, Leonardo, Telecom Italia, MEF) as well as managing clients in the energy, gas and oil sectors. She has also been a member of the European Senior Banker Committee and the Italian Executive Committee. In 2015 she became a Board member of Ansaldo STS S.p.A. and in 2016 a member of the Supervisory Board of UBI Banca S.p.A., where she also served Chairwoman of the Risk Committee. Other companies in which she has been a Board member include: ICF Group S.p.A., ESP Equita PEP SPAC S.p.A., EPS Equita PEP SPAC2 S.p.A. and Illimity SGR S.p.A. In 2002 she received the Bellisario Foundation award as Manager of the Year. From 2000 to 2012 she was a member of the Council for the United States and Italy, under the honorary chairmanship of David Rockefeller.

In 2019 Forbes magazine included her on the list of the 100 most powerful women in Italy. She is fluent in Italian, English and French and has a good command of Spanish.

Mr He has been a member of the Board of Directors of TERN A S.p.A. since 21 January 2015.

He holds an undergraduate degree and a Master's Degree in Electrical and Automation Systems from the University of Tianjin and a Master's Degree in Technology Management from Rensselaer Polytechnic Institute (RPI).

He is currently a member of the Boards of CDP Reti S.p.A., Snam S.p.A., Italgas S.p.A. and IPTO S.A.

He served as Deputy General Manager of the European Representative Office of the State Grid Corporation of China from January 2013 to December 2014. He has also held the following key positions in the State Grid Tianjin Electric Power Company: Vice Chief Technical Officer (CTO) from December 2008 to September 2012, Manager of the economic and legal department from June 2011 to September 2012, Manager of the planning and development department from October 2005 to December 2008, and Manager of the planning and design department from January 2002 to October 2005. He was also the Head of Tianjin Binhai Power Company from December 2008 to March 2010 and Chairman of the Tianjin Electric Power Design Institute from June 2000 to January 2002.



YUNPENG HE

Director

Born in Baotou City
(Inner Mongolia, China)
on 6 February 1965

She has been a Director of TERN A S.p.A. since 27 May 2014 and is Chairwoman of the Nominations Committee as well as a member of the Remuneration Committee.

A lawyer and business manager, Ms Porcelli currently holds the position of General Counsel, Worldwide IP, Ethics, Compliance Director for FENDI, where she is also responsible for the Public Affairs department.

Gabriella Porcelli has a cum laude Degree in Law from "La Sapienza" University in Rome, and has been a member of the Italian Bar Association since 1991. She also has a Master's in Common Law (European Young Lawyers Scheme) promoted by the British Council and has attended advanced international courses on business and corporate law, including at INSEAD (France). She has developed her professional experience in international trade and corporate law as well as in antitrust and corporate criminal law, advocating compliance, anticorruption and antitrust programmes also as a member of supervisory bodies pursuant to Italian Legislative Decree 231/2001.

In past years she successfully focused on furthering and enhancing her experience in the field of Corporate Governance and has practiced at law firms in both Italy and the UK (1991-1994). She was also an Official of Confcommercio (1989-1991) in the area of Public Affairs and Relations with the EU, with her efforts focusing on structural funds for the tourism industry. Her experience in companies includes: Senior Legal Advisor at ENI-Agip S.p.A. and, afterwards, at Agip Petroli S.p.A. (1994-1998); Associate Director Pfizer Italia S.r.l. (1998-2008) and from 2009 to 2017 in Philip Morris Italia S.r.l. as Legal Affairs Manager. In 2018 she took on the role of Global General Counsel in the Trans Adriatic Pipeline – an international consortium of gas operators headquartered in Switzerland with operations in Italy, Albania and Greece – before taking charge in May 2019 of the Legal, IP, Compliance & Public Affairs Department at FENDI.

She is committed to promoting the role of women managers in companies, as borne out by her three years as Deputy Chairwoman of ValoreD, established in 2009 as the first association of Italian companies with the goal of promoting gender balance and a culture of inclusiveness in organisations. She is a member of the teaching staff for the Master in Fashion Law at the LUISS University, a contributor to the Masters in Compliance offered by the LUISS Business School and General Counsel to AIGI, Italian Association of Corporate Lawyers.



GABRIELLA PORCELLI

Director

Born in Rome
on 10 March 1965

**GIUSEPPE FERRI***Director*Born in Rome
on 3 March 1967

Since 18 May 2020 Giuseppe Ferri has been a Director and member of the Audit, Risk, Corporate Governance and Sustainability Committee of TERN A S.p.A.

Giuseppe Ferri is a tenured professor of Business Law at the Law Department of “Tor Vergata” University in Rome.

He is on the editorial boards of the following Law Reviews and publications: *Rivista del diritto societario* (Corporate Law Journal), *Il diritto fallimentare e delle società commerciali* (Bankruptcy and Public Company Law), *Osservatorio di diritto civile e commerciale* (Civil and Business Law) and *Rivista di Diritto Bancario* (Banking Law Journal).

He is a member of the Business Studies Committee set up by the Italian National Council of Notaries (CNN).

He carries out research in the fields of corporate law and bankruptcy and insolvency law, areas in which his professional activities are concentrated.

**VALENTINA CANALINI***Director*Born in Chieti
on 19 June 1983

Valentina Canalini has been a Director of Terna S.p.A. since 18 May 2020.

A lawyer specialised in the energy sector, she has an Honours Degree in Law from the University of Milan and a PhD in “Corporate and Financial Market Law” from the University of Bologna “Alma Mater Studiorum”. She received the Rising Star Lawyer of the Year award in the energy sector at the Legal community Energy

Awards 2016 and the Rising Star Italy award for the sector “Energy & Natural Resources” at the Euromoney Legal Media Group - Europe Rising Stars Awards.

She is a partner at the associated law firm, Gatti Pavesi e Bianchi, and Chairwoman of the Supervisory Board of Cap Holding S.p.A. as well as an advisor to the Municipality of Milan for monitoring and analysis of the regulatory framework at national level for the areas of interest to the municipality.

Her professional experience includes the role of Counsel at Gianni Origoni Grippo Cappelli & Partners law firm, Rome (2018-2020), as well as that of Legal Advisor to the Cabinet Office (2017-2018), where she collaborated on the analysis of the main dossiers and the drafting and revision of several legislative provisions and government acts, playing a coordinating role between the various ministries and the Cabinet Office.

During her professional activity, working in several leading Italian and international law firms, she has acquired an in-depth experience in regulatory, corporate, administrative and financial law among the energy, infrastructure and transport sectors, and in all strategic regulated sectors, both in project finance and finance operations as well as in the M&A and corporate sector. As part of these activities, she has edited publications and taken part as a speaker at conferences. Moreover, since July 2020, she has taken on the role of expert at the civil service department of the Cabinet Office for the Social Innovation Fund. She is a recognised expert in the energy, infrastructure and project finance sectors and she has repeatedly ranked at the highest levels of the most reputed Italian legal leagues tables.

Antonella Baldino has been a Director of TERN S.p.A. since 18 May 2020.

She holds an Honours Degree in Economics from the Sapienza University in Rome and a Master's Degree in International Economics from the Graduate Institute of International Studies (Geneva).

Since 2018 she has been the Chief International Development Finance Officer at Cassa Depositi e Prestiti S.p.A. and a Board member of The Marguerite Fund, Credito Sportivo and Fintecna S.p.A. She joined Cassa Depositi e Prestiti in 2015, where she held the position of Chief Business Officer until 2018. Previously, she had worked for key international financial institutions in the corporate, investment banking and research sectors, focusing on infrastructure, as well as public and development finance. Ms Baldino has held board positions as non-executive Director for SACE and Simest, independent, non-executive Director for Generali Real Estate S.p.A. and Generali Investment Europe SGR (2014-2016), and Deputy Chairwoman of the European Long Term Investors Association (2016-2019).

She served as a member of the Senior Advisory Board of the Treasury Department at the Ministry of Economy and Finance from 2014 to 2015. She was the Head of Finance for Development for Banca del Mezzogiorno - MedioCredito Centrale S.p.A. (2008-2013), Head of Public sector – Corporate & Investment Banking of the UniCredit Group (2007-2011) and Head of Institutional Functions – Corporate Pipeline – of Capitalia S.p.A. (2005-2007).

Previously, she headed the Research and Strategic Analysis Department at Cassa Depositi e Prestiti S.p.A. (2004 – 2005) and the Research Department at Mediocredito Centrale S.p.A. (1995-2004).

At the beginning of her career, she served as an economist at the World Bank in the department devoted to central west Africa and at the United Nations Conference on Trade and Development.



**ANTONELLA
BALDINO**

Director

Born in Rome
on 5 February 1963

On its election, the Board of Directors confirmed that each of its members met the necessary integrity and professionalism requirements (art. 2.P.1 of the Corporate Governance Code) and those provided for under art.15.5 of the Articles of Association in relation to the provisions of unbundling legislation.

The evaluation regarding independence requirements for each of the non-executive members was carried out taking into account the information provided by each individual, at the time of their election and, later, during the meeting held on 24 March 2021, in compliance with the terms illustrated below in the sub-section, “Independent Directors” (art. 3.P.2 of the Corporate Governance Code).

Table 1 provides information on the Board of Directors at 24 March 2021 (articles 1.C.1(i)-(1) of the Corporate Governance Code and 123-*bis*, paragraph 2(d) of the CLF).

Diversity policies

Terna manages all its activities with a sustainable approach, having its cornerstones in the Company's mission and Code of Ethics. In concrete application of the guidelines set out in the Code of Ethics, Terna adopts recruitment, development and remuneration systems for personnel that recognise and reward merit and performance. Any and all forms of discrimination starting from the Company's recruitment process, are expressly prohibited.

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

With this in mind, as set out in the above sub-section of Section II “Election of Directors, related requirements and terms of office” – Terna's Board of Directors, at its meeting on 20 February 2018, on the recommendation of the Nominations Committee and the Audit, Risk, Corporate Governance and Sustainability Committee, and in agreement with the Board of Statutory Auditors, resolved to adopt diversity policies with reference to the composition of the Board of Directors, considering aspects such as age, seniority, gender, geographical origin and professional and management training.

The “Diversity policies” are aimed at:

- shareholders, who, pursuant to the law and the Articles of Association, wish to submit slates of candidates for election to the Board of Directors;
- the Annual General Meeting called to elect the Board of Directors;
- the Company's outgoing Board of Directors, in the event that – when re-electing the Board of Directors - it should wish to submit its own slate of candidates, as permitted by art.14.3 of the Articles of Association;
- the Company's Board of Directors, as well as its shareholders, in the event that – during their term of office – a member of the Board of Directors has to be replaced pursuant to art. 2386 of the Italian Civil Code.

In drawing up these policies, Terna has taken into account: (i) the nature and complexity of the Company's activities, the social and environmental context in which the Company operates, the experience gained by the Board with regard to the way the Board and its Committees operate; (ii) the results of the self-assessments carried out in recent years; (iii) the provisions of art.123-*bis* of the Alfas amended by Legislative Decree 254, published in the Official Gazette on 10 January 2017; and (iv) the “Guidelines on non-financial reporting (Methodology for reporting non-financial information)” published by the European Commission on 5 July 2017 (Communication 2017/C 215/01).

The objective of the approved policies (described in the document *"Policy on diversity in the management and oversight bodies of Terna S.p.A."*, hereinafter also referred to as the **"Policy"** or **"Diversity Policy"**) is to ensure that the qualitative and quantitative composition of the Board of Directors is such as to enable Directors to effectively carry out the duties and responsibilities assigned to the management body. This is to be done by ensuring the presence of people with sufficiently divergent points of view and with the expertise necessary to understand the current state of the business, and the long-term risks and opportunities to which the Company is exposed.

The main provisions of the Policy relating to the diversity aspects considered by the Board of Directors

- **Professionalism/management skills, independence, competence and experience**

The Policy invokes application of provisions concerning the requisites of professionalism and management skills already adopted in the Articles of Association (specifically in art. 15.3), as well as provisions in the Articles of Association regarding the independence of Directors and the principles of management neutrality and impartiality (articles 15.4 and 15.5). The Policy also expressly refers to recommendations set forth in the Corporate Governance Code, to which Terna has already adhered, relating to both independence requirements and the skills and experience required of members of boards of directors and board committees. In addition to the foregoing, it is hoped that the Board of Directors will ensure a combination of diversified skills and experience in the following sectors: energy/network infrastructure/public services; finance, administration and control; legal; strategy; engineering and sustainability. It is likewise hoped that all Directors will have adequate knowledge of the English language, sufficient to correctly understand written texts and, at any rate, to ensure the possibility of deliberating resolutions on the basis of documents written in English.

- **Age and seniority in office**

The presence of people of different ages and seniority on the Board of Directors is deemed useful in helping to ensure the right balance of experience, continuity, innovation and risk appetite.

- **Geographical origin and international experience**

The presence of Directors with training and professional experience in international contexts is recommended in order to further enhance the quality of board discussions, also considering the Group's international presence.

The Nominations Committee and the Audit, Risk, Corporate Governance and Sustainability Committee support the Board of Directors in monitoring implementation of the Policy.

To ensure implementation, the Policy adopted was referred to in the guidelines issued to shareholders before the General Meeting on 18 May 2020, called to re-elect the Board of Directors.

Policy choices also concerning the size of the Board of Directors were reviewed and positively assessed during the annual Board review carried out at the meeting held on 24 March 2021, the results of which are reported in the sub-section of Section IV, **"Board review"**. Based on this review, the current composition of the Board of Directors was deemed adequate in terms of its possession of the diversity and expertise required for a thorough understanding of current business needs and long-term risks and opportunities relating to the Company's activities.

In 2021, Terna will update its diversity policy so as to bring it even further into line with the new Corporate Governance Code, especially as regards art. 2, Recommendation 8, which asks issuers to define the diversity criteria for their boards of directors and statutory auditors, also taking account their specific ownership structures, identifying the most suitable way for implementation. Issuers are also invited to adopt measures designed to promote equal treatment and opportunity between the genders inside the company's organisation and to oversee their concrete application.

Maximum number of positions in other companies

All Directors accept their appointment when they deem that they can devote enough time to discharge their duties diligently – also in view of the number and type of positions held outside the Company in other companies listed on regulated markets (also foreign), in financial, banking, insurance or other large companies. The Directors also take account of the commitment required of them by other work, professional activities and positions held and undertake to devote the time needed to diligently perform their duties, being well-aware of the inherent responsibility attaching to the position held.

To this end, in February 2007, pursuant to art. 1.C.3 of the Corporate Governance Code from time to time in force, Terna's Board of Directors approved its own guidelines regarding the maximum number of positions that can be held as director or auditor in significantly large companies that still enable the efficient performance of duties as a Director of Terna S.p.A.. These guidelines are presented in the in-house document "Guidelines on the maximum number of positions that can be held by Directors of Terna S.p.A.", requiring the Directors of Terna to consider these before accepting office.

More than 4 years after adoption, following ongoing monitoring of the governance choices made by the Company and in line with the practices of Terna's counterparts, at the meeting held on 7 October 2011, the Board of Directors reviewed these guidelines. Consequently, taking account of the clarifications provided by the December 2011 edition of the Corporate Governance Code, the guidelines were further revised with the resolution of 19 December 2012, as referred to in the "Attendance policy" approved by the Board of Directors on 20 February 2018. The same guidelines were further amended on 1 March 2019, as described below, within the scope of this section, in the paragraph, "Board meetings and the role of the Chair". To this end, "large companies" were defined as:

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

The Board has identified different general criteria for the commitments required for each role (Chief Executive Officer, executive Director – e.g. executive Chair or Director with delegated powers - non –executive and/or independent Directors and Statutory Auditors). Consideration

is also given to the nature and size of the company in which the positions are held, and whether they form part of the Terna Group or are companies in which Terna has a shareholding (which, resulting from the Director's election, are not included in the calculation of the total number of positions held). The assignment of powers to act as a deputy, or of limited powers in the event of urgency, to Directors without delegated powers does not, in and of itself, make them executive Directors, except where such powers are, de facto, used with significant frequency. In order to determine the commitment required, a "weighting" has been assigned to each position, and it was established that the role of Chief Executive Officer at Terna is incompatible with the same role in other large companies.

When more than one office is held within the same group, including a role in a company belonging to the group, only the office with the greatest "weighting" is considered.

In application of these criteria and with regard to listed companies, Terna's Chief Executive Officer, as an executive Director, may hold only 1 position as an executive director (none as chief executive officer) and - in the absence of executive positions - may hold up to a maximum of 4 independent directorships.

A non-executive Director of Terna may hold up to a maximum of 3 positions as an executive director.

All Directors in office, appointed by the Annual General Meeting held on 18 May 2020, hold a number of positions compatible with the guidelines established by the Board.

The short biographies for each Director indicate all the positions they hold. The number of positions held as a director or statutory auditor in other large companies is provided in the annexed Table 1.

There have been no exemptions granted by Terna's shareholders to the non-competition obligations undertaken by Terna's Directors, as provided for in art. 2390 of the Italian Civil Code (art. 1.C.4 of the Corporate Governance Code).

Induction Programme

With a view to fostering informed participation and in line with its Code of Conduct, Terna S.p.A. organises an induction programme for Directors and Statutory Auditors. This is to provide them with guidance regarding the particularly complex sector in which the Company operates.

Taking account of the new appointments, training days focusing on the regulatory framework for listed companies and the role of TERNA in this context were organised in 2020.

Due to the Covid-19 emergency, the vast majority of induction sessions were carried out remotely.

Corporate Governance

Specifically, induction sessions were held on 10 and 11 June 2020 that focused on the role of Board committees pursuant to existing regulations and best practices and the main activities carried out by Terna's Committees, also with a view to facilitating the entrance of the new Directors who are members of the Committees.

Subsequently, an induction was held on 26 October 2020 that centred on the role, tasks and responsibilities assigned to directors and statutory auditors of listed companies in the light of existing legislation and the Corporate Governance Code and the most significant changes introduced by the Corporate Governance Code, the contents of which were explained by external experts.

On 18 January 2021, an induction session was held that focused on changes to the regulations governing transactions carried out with related parties introduced by Consob Resolution 21624 of 10 December 2020, which will come into effect on 1 July 2021.

Role of TERN and strategies

Considering the essential role played by the Board of Directors in defining both the Company's and the Group's strategies, three induction sessions were organised (28 July, 29 September and 11 November 2020) in order to gradually and thoroughly share with the Directors and Statutory Auditors the drafting of strategies that the Board itself was called upon to approve in the meeting held on 19 November 2020, through the definition of a new Industrial Plan. As further underlined by the new Corporate Governance Code, these sessions were also aimed at generating value in the long-term and the definition of the nature and risk appetite compatible with Terna's strategic objectives.

Moreover, on 17 June 2020 offered participants an induction course on Terna's role at both national and European level within the context of the ecological transition.

Finally, new induction activities have been planned also in application of the new recommendations set forth in the Code of Corporate Governance, which invites the Chair to ensure that all Directors and Statutory Auditors can, following their appointment and during their term in office, take part in such activities. These initiatives are specifically designed to provide them with an adequate knowledge of the Company's sector of operations, corporate dynamics and their evolution, also with a view to the Company's sustainable success, as well as of the principle of correct risk management and the regulatory and self-regulatory framework.

During the Board meeting on 27 January 2021, new induction initiatives were planned to provide more in-depth knowledge regarding: (i) overseas activities; (ii) sustainability issues, in order to outline a comprehensive profile of the Company's position and course, also in terms of disclosures to investors; (iii) the outcomes of activities carried out by the steering committee, the internal body set up by the CEO in order to assess the actions taken regarding health and safety at the workplace and to study new initiatives to be implemented.

Role of Board of Directors

The Board of Directors guides the Company in the pursuit of sustainable success; it defines the strategies and identifies the system of corporate governance best suited to carrying out the Company's activities and implementing its strategies.

The Board has strategic and organisational functions and responsibilities with respect to the Company and the Group, and is also responsible for ensuring that the necessary controls are in place to monitor the performance of the Company and its subsidiaries.

The Board also promotes the most opportune forms of dialogue with shareholders and relevant stakeholders.

In addition to exercising the powers granted to it by law, the Company's Articles of Association (art. 21.2), as permitted by law, grant the Board the authority to adopt resolutions otherwise reserved for the General Meetings of shareholders. These include resolutions amending the Articles of Association, as previously described in the sub-section, "Amendments to the Articles of Association".

Within the limits of art. 2381 of the Italian Civil Code, the Board of Directors may delegate its duties to an executive committee and/or to one or more of its members (art. 22.1 of the Articles of Association).

In this context, in compliance with the law and the provisions of specific resolutions, and taking into account the provisions of art. 1 of the Corporate Governance Code, the Board of Directors has assumed responsibility for a series of decisions that are necessary or useful to pursue the corporate purpose. In particular, the Board of Directors:

- examines and approves the strategic, business and financial plans of the Company and the Group it heads, regularly monitoring their implementation (art. 1.C.1 (a) of the Corporate Governance Code). In particular, the current corporate governance structure (approved by resolution on 18 May 2020) provides for the Board of Directors to approve the Company's annual budget and annually updated long-term plans, which also include the combined yearly budgets and long-term plans of subsidiaries). Monitoring is carried out via regular, quarterly assessment of the operating performance and specific company performance management tools. In 2020, the Board of Directors examined and approved the strategic, business and financial plan for Terna and the Terna Group. This was released to the market on 10 March 2020 (the 2020 – 2024 Strategic Plan). Moreover, on 19 November 2020, the Board of Directors examined and approved the new 2021-2025 Industrial Plan, the starting point for monitoring activities to be carried out in 2021. With respect to planned activities, the Board provides appropriate guidelines and a description of the objectives, the nature and method of application of the procedures involved in monitoring business processes and risk analysis. It also defines the nature and level of risk in keeping with the strategic objectives set in order to fulfil the Company's mission, including assessments of any risks that may be significant in terms of the long-term sustainability of the Company's activities (articles 1.P.2 and 1.C.1(b) of the Corporate Governance Code). In this regard, reference should be made to Section XI;
- defines the Company's Corporate Governance system and provides for the appointment and definition of the terms of reference of Board Committees, as established by the current corporate governance structure and described in this Report (articles 1.C.1(d), 7.P.3 and 7.C.1(d) of the Corporate Governance Code);
- with regard to the Group structure, in relation to the incorporation of new companies, decides upon the purchase and transfer of equity interests in companies or business units with a value of more than €30,000, as provided for by the current corporate governance structure (art. 1.C.1(a) of the Corporate Governance Code);
- on the basis of recommendations from the Remunerations Committee, approves the Company's remuneration policy for the members of management and oversight bodies, general managers and key management personnel, which is then put to a binding vote by the Annual General Meeting of shareholders, and determines, on the basis of recommendations from the Remuneration Committee and/or in consultation with the Board of Statutory Auditors, where provided for, the remuneration of the Chief Executive Officer and other Directors with delegated powers (art. 6.P.4 of the Corporate Governance Code), which is described annually in the first section of the *"Report on the remuneration policy and remuneration paid"* pursuant to art. 123 *ter*, paragraph 3 *ter*, of the CLF. In this regard, reference should be made to Section XI.

On the basis of recommendations put forward by the Remuneration Committee, the Board of Directors also determines the general criteria for the remuneration of senior management and the incentive plans for which approval by the Annual General Meeting is required;

- with support from the appropriate Committee, draws up the second section of the “Report on the remuneration policy and remuneration paid” pursuant to art. 123 *ter*, paragraph 4 of the CLF, which is put to the Annual General Meeting for a consultative vote pursuant to paragraph 6 of art. 123 *ter* of the CLF;
- continuously assesses the adequacy of the organisational, administrative and accounting structure, as defined by the Chief Executive Officer on the basis of the authority assigned to him, of the Company and its strategically important subsidiaries (namely, in accordance with the resolution of the Company's Board of Directors of 22 February 2007: a) subsidiaries listed on regulated markets, and b) subsidiaries that have a significant market share of the Group's core business overseas), and during examination of relevant internal procedures submitted to the Board, and the resolutions passed on the various matters submitted to it, as also occurred in 2020 (art. 1.C.1(c) of the Corporate Governance Code). With specific reference to the Internal Control and Risk Management System (as described in Section XI), the Board defines the guidelines as recommended by the “Executive Director responsible for the Internal Control and Risk Management System”, having previously consulted the appropriate Committee (art. 7.C.1(b) of the Corporate Governance Code). An assessment of the adequacy of the Terna Group's Internal Control and Risk Management System, in terms of the Company's nature and risk profile, as well as its efficiency, is carried out at least once a year, having previously consulted the Audit, Risk, Corporate Governance and Sustainability Committee (art. 7.C.1(a) of the Corporate Governance Code). In this regard, reference should be made to Section XI;
- examines and approves transactions that have a significant impact on the Company's financial position and results, especially if they are related party transactions or could otherwise give rise to a potential conflict of interest. This is without prejudice to the powers assigned to the Chief Executive Officer for particularly urgent matters. In particular, in addition to the specific provisions of the special procedure regarding related party transactions and the steps taken to identify and manage situations in which Directors have their own interests or third-party interests regarding a transaction submitted to them (reference should be made to Section XII relating to Directors' interests and related party transactions), “significant transactions”, including those concluded through subsidiaries identified via an appropriate internal Board procedure - (“Approval of significant transactions and management of conflict of interest situations”, updated on 31 March 2011 and, specifically with regard to the management of conflict of interest situations, latterly on 23 June 2015) following approval by the former Audit, Risk and Corporate Governance Committee – now called the Audit, Risk, Corporate Governance and Sustainability Committee) – are subject to prior approval by the Board of Directors. Such transactions include: (i) transactions which, due to their purpose, amount and terms and conditions may have an impact on the Company's ability to safeguard the value of its assets or the completeness and accuracy of Terna's disclosures, including accounting information, and as such oblige Terna to publish information in compliance with the requirements of financial market regulators; and/or (ii) transactions with a value of more than €50 million, except for those provided for in previously approved budgets or financial plans, as well as those regarding dispatching and all the related services (art. 1.C.1(f) of the Corporate Governance Code). In this regard, there is a specific requirement for the Board of Directors to be duly informed about the procedures for implementing significant transactions, the related financial terms and conditions and assessment procedures, the underlying interests and rationale and any risks to which Terna and its subsidiaries may be exposed as a result of the transactions. The Board may also seek advice from one or more independent

experts regarding the financial conditions and/or the related implementing and technical procedures. Board resolutions regarding intra-group transactions should be based on an assessment of the appropriate grounds for and benefits of a transaction. In accordance with the current corporate governance structure, the Board of Directors is also entitled to pass resolutions regarding the following matters: the agreement of any form of medium- to long-term loan or borrowing with a value of more than €100 million, when not already approved as part of a budget or financial plan, and not to be used to finance initiatives already approved by the Board in relation to the National Transmission Grid Development Plan and/or the Strategic Plan; and the provision by the Company of sureties and real security amounting to more than €30 million per transaction, when not already approved as part of a budget or financial plan;

- is constantly and fully informed, together with the Board of Statutory Auditors, by the Chief Executive Officer, in accordance with art. 21 of the Articles of Association, regarding the activities carried out in exercising the authority granted to him, and with regard to the Company's operating performance, outlook and significant transactions, summarised in a specific quarterly report (art. 1.C.1(d) of the Corporate Governance Code). In particular, with regard to all significant transactions carried out by the Company and its subsidiaries (including any less significant transactions identified in the specific procedure adopted by Terna that are not exempt from its application, which do not require approval by the Board of Directors) the Chief Executive Officer reports to the Board of Directors on (i) the nature of the transaction and (ii) the parties involved and any relations they may have with the Company or its subsidiaries;
- assesses the overall performance of the Company's management, with specific reference to conflict-of-interest situations, on the basis of the information received from the Chief Executive Officer and the Audit, Risk, Corporate Governance and Sustainability Committee, periodically checking that targets have been achieved (art. 1.C.1(e) of the Corporate Governance Code);
- at least once a year, carries out a review of the performance of the Board and Board Committees including their size and composition, and, partly on the basis of this review, briefs shareholders, prior to re-election of the Board, on the managers and professionals whose presence on the Board is deemed to be advisable. This was the case at the time of the last re-election of the Board by the Annual General Meeting of 18 May 2020. For further details, reference should be made to the subsequent sub-section, *Board review* (art. 1.C.1(g) and (h) of the Corporate Governance Code);
- having consulted the Board of Statutory Auditors and sought the opinion of the Audit, Risk, Corporate Governance and Sustainability Committee, assesses the results included by the Independent Auditors in their letter of suggestions and in the report on key issues emerging during the audit (art. 7.C.1(e) of the Corporate Governance Code);
- reports to the General Meeting of shareholders, as required by current legislation. In this regard, reference should be made to Section XVI.

Though substantially already in line with the new Corporate Governance Code, the duties and functions entrusted to the Board of Directors will be further reviewed during 2021 so as to render them fully compliant with the new outlooks.

Board meetings and the role of the Chair

The Directors meet regularly and perform tasks in an independent and fully informed manner, pursuing the objective of creating shareholder value, whilst being aware of the social importance of the Group's activities and the consequent need to adequately take into account all the stakeholders involved when carrying them out (articles 1.P.1 and 1.P.2 of the Corporate Governance Code).

During 2020, the Board of Directors held 13 meetings- including those held prior to re-election of the Board- each lasting an average of 2 hours and 6 minutes, which were regularly attended by the Directors (98% overall) and Statutory Auditors (100%). In accordance with art.1.C.1 of the Corporate Governance Code, the meetings were also attended by the Company's senior managers, whose presence was deemed useful to ensuring that Directors were fully informed with regard to agenda items. Each Director's attendance at the meetings held in 2020 is shown in Table 1 (art. 1.C.1(i)-2 of the Corporate Governance Code and art. 123-bis, paragraph 2(d) of the CLF) in the Annex.

For the current year, all of the meetings of the Board of Directors to examine operational and financial data have been scheduled, as reported to the market on 29 January 2021.

During the current year, through to the date of approval of this Report, the Board of Directors has held 3 meetings.

On 18 December 2019, Terna's Board of Directors adopted the "Terms of Reference for Terna S.p.A.'s Board of Directors" (the "Terms of Reference"), designed to govern the Board itself, ensuring that corporate data and information flows are correctly managed. The adoption of these Terms of Reference complies with that recommended in the new Corporate Governance Code of January 2020, calling for the Board to adopt a system that defines the rules governing the functioning of the Board and its committees, including the drafting of minutes of the meetings and procedures to manage information provided to the Directors (art. 3, Recommendation 11).

In particular, the Terms of Reference organically define the role, activities and organisation of the Board of Directors and provide guidelines to ensure the correct management of corporate information and the adequacy of the information provided to the Board.

The Company intends to enhance the information provided to the Board of Directors, in qualitative as well as quantitative terms, in order to facilitate "informed" and "collective" participation at Board meetings.

In line with the recommendations set forth in the Corporate Governance Code, the Terms of Reference provide the Board with the option of availing of the support provided by managers with expertise in the matters under consideration and describe procedures and tools designed to ensure Directors' active participation in meetings (a virtual data-room, tablet devices, audio or video conference calls, interpreters).

The Terms of Reference regulate the organisation of Board meetings, the provision of information and related documentation to Directors and the management of information flows to the Board of Directors.

In particular, with a view to facilitating "informed", "collective" participation in decision-making, the above Terms of Reference set out specific deadlines for the proposal and receipt of agenda items to be discussed by the Board in order to ensure that all the necessary information is collected in a timely and clear manner, also taking into account the Company's need for confidentiality.

The supporting documentation for the items on the agenda is exclusively made available to the Directors in a dedicated data room with confidential access, at least five days before the

date scheduled for the meeting. Such access is not permitted for Directors who have declared the existence of a conflict of interest, to the extent that the issue at hand relates to the conflict.

Should the documentation contain information deemed potentially confidential or confidential pursuant to legislation in force, then the head of Legal and Corporate Affairs, in their role as the individual in charge of the register, enters the names of the Directors in the specific section of the register (Insider List or Relevant Information List), noting the related requirements and restrictions. This way, information is provided in a timely manner, whilst safeguarding the Company's interest in preventing potential instances of market abuse.

During meetings, each Director is provided with a tablet computer containing all necessary and appropriate documentation relating to discussions.

Moreover, in order to facilitate comprehension of the documentation and optimise the participation of all Directors, including those who are not Italian nationals, Terna provides interpreters to offer real-time translations during Board meetings.

At the request of the Chair or the Chief Executive Officer, senior managers from Group companies are invited to participate in meetings, so that they may comment on agenda items and provide any in-depth analysis or clarification requested.

In line with current regulations and best practices, Terna ensures that specific information flows are provided to the Board of Directors and its Committees by the heads of the relevant Company departments.

In detail, without prejudice to the information flows provided for by regulation and Company procedures, the Board of Directors receives periodic reports relating to the possible evolution of the energy system (so-called summer and winter outlook) as well as to any meetings held with stakeholders regarding strategically important transactions, projects and initiatives and the related state of progress. In any event, the Board of Directors may decide to request information from Company departments also in relation to other matters deemed to be particularly important.

As stated above, the Terms of Reference are already in line both with the recommendations contained in the letters written by the Chairman of the Corporate Governance Committee in December 2019 and December 2020 and with the recommendations set out in the new Corporate Governance Code. They will, at any rate, be reviewed during the general overhaul and update to ensure full compliance with the new Code of Governance.

Role of the Chair of the Board of Directors

In order to avoid a concentration of responsibilities and to allow the Chair of the Board of Directors to perform their role of organising, managing and coordinating the Board in the best way possible, the Chair of the Board of Directors (hereinafter also the "Chair") is not usually granted executive powers.

The Chair plays a liaison role between executive and non-executive Directors and ensures that the Board committees function smoothly.

On 18 May 2020, a resolution of the Board of Directors allocated specific corporate duties to the Chairwoman, Valentina Bosetti, in line with the approach adopted during the previous board meeting. To that end, the Chair is entrusted with representing the Company, leading and directing the work of the Board, performing a promotional and advisory role with regard to Corporate Social Responsibility, and overseeing activities relating to the investment in the company "CESI - Centro Elettrotecnico Sperimentale Italiano Giacinto Motta S.p.A.", in coordination with the Chief Executive Officer. Terna's Audit department also reports to the Chairwoman of the Board of Directors.

Pursuant to art. 25 of the Articles of Association, the Chairwoman is the legal representative of the Company, chairs General Meetings, convenes and chairs the Board of Directors, sets the agenda, coordinates its work and ensures that adequate information regarding agenda items is provided to all Directors. The Chairwoman also oversees the implementation of Board resolutions.

In particular, in agreement and in coordination with the Chief Executive Officer and with support from the Secretary, the Chairwoman ensures that sufficient time is allocated to items on the agenda to allow for constructive discussion, and also encourages contributions from Directors during the course of meetings.

The Chairwoman, always in agreement with the Chief Executive Officer, encourages senior managers of Terna and Group companies and the heads of the relevant company departments to take part in Board meetings, so that they can provide expertise and clarifications regarding items on the agenda.

In order to facilitate the flow of information within the Board and to guarantee the “collective” nature of decisions, the Chairwoman also ensures - including through the Secretary - that documentation relating to the Board’s activities is made available to the Directors in a timely manner. If, in specific cases it is impossible to provide the necessary information well in advance, then the Chairwoman must in any event ensure that adequate and detailed information is provided during Board meetings.

The role of the Secretary

On 18 May 2020, a resolution of the Board of Directors assigned Francesca Covone – Head of Legal and Corporate Affairs – the role of Secretary to the Board.

As “guarantor” of the correct management of information flows and with the support of the relevant Company department, the Secretary seeks to ensure that the relevant Company departments transmit information promptly, in order to facilitate discussion.

Likewise - in agreement with the Chairwoman - the Secretary ensures that the Directors are informed of any legislative or regulatory changes relevant to the Company, such as, for example, those directly or indirectly regarding Terna and its activities as Transmission System Operator (TSO), and those regarding listed companies.

During Board meetings, the Secretary assists the Chairwoman with the organisation and management of the meetings, providing legal and corporate governance support if necessary.

In order to enhance the reporting function of the Board of Directors, the Secretary draws up the minutes in such a way as to accurately describe the illustrated documentation and represent the Board’s discussions, as well as the speeches made by individual Directors and any managers involved.

In line with the recommendations of the new Corporate Governance Code, the Secretary provides impartial assistance and consultancy to the Board regarding any aspect that is relevant to the correct functioning of the corporate governance system (art. 3, recommendation 18).

Emilia Pucci – Head of Corporate Affairs and Corporate Governance - has been appointed as Secretary to the Board Committees.

In order to facilitate the sharing of information on Committee investigations and the subsequent discussion by the Board of Directors, as well as to expedite the taking of minutes, both secretaries participate in all the meetings of the Board of Directors and of the various Board Committees.

Attendance policy

With regard to the task of organising the work of the Board assigned to the Chairwoman, taking into account international best practices, as disseminated among companies listed on the Dow Jones Sustainability Index (including Terna), at a meeting on 20 February 2018, on the recommendation by the Audit, Risk, Corporate Governance and Sustainability Committee, the Board of Directors approved a “Policy regarding participation at meetings of the Board of Directors” (“Attendance policy”) aimed at facilitating the broadest possible participation of Directors at Board meetings. The policy specifies that, in addition to the procedures for participation, including teleconferencing, as provided for in the Articles of Association, the scheduling of meetings should as far as possible be notified in advance, with the Board of Statutory Auditors also to be informed.

In order to improve compliance with best practices, and also to accommodate any requests from Robeco Sam, the firm that carries out an annual assessment relating to Terna's inclusion in the Dow Jones Sustainability Index, at a meeting on 1 March 2019, with prior approval from the Audit, Risk, Corporate Governance and Sustainability Committee, the Board of Directors of Terna S.p.A. further refined the “Attendance policy”, specifying that the average attendance at meetings by members of the Board of Directors should be no less than 75% of the meetings held during the year.

Since 18 December 2019, in the interests of rationalisation, the attendance policy has been included in the “Terms of Reference for Terna S.p.A.'s Board of Directors”,

Board review and Board Committees review

In compliance with the Corporate Governance Code, Terna's Board of Directors, with the support of the Nominations Committee, carries out an annual self-assessment regarding the size, composition and actual performance of the Board and its Committees, covering the activities carried out since its election.

This approach is in line with the recommendations in the Corporate Governance Code.

For the purposes of the review, Terna availed itself of the assistance of an independent specialist consulting firm, Mercer Italia Srl, selected following a beauty contest and after taking into account the recommendations of the Nominations Committee.

In view of the election of the Board of Directors at the Annual General Meeting of 18 May 2020, the review conducted by the consulting firm, during the first year in office, focused on an assessment of the overall performance and activities of the Board and Board Committees, in addition to an evaluation of their size and composition.

The review identified strengths and any areas for improvement, also in light of the recommendations for listed Italian companies from the Italian Corporate Governance Committee. Further information on this aspect is provided in Section XVII, “Considerations on the letter dated 22 December 2020 from the Chair of the Corporate Governance Committee”.

The Board Review began with a preliminary assessment, during which the consulting firm appointed to conduct the review examined the Company's corporate governance documentation and the minutes of Board meetings, of Board Committee meetings and of Board of Statutory Auditors' meetings. In addition, meetings were held with the Chairwoman of the Board of Directors, the Nominations Committee and the Secretary to the Board of Directors, who are responsible for the review process, in order to gather their views.

Following the preliminary assessment, the consulting firm drew up an online questionnaire, containing the various aspects to be covered by the Board Review. This was then passed on to the Directors, whose responses were then expanded on in the course of interviews, conducted individually with all the members of the Board of Directors. In addition, the consulting firm benchmarked the quantitative data and qualitative operating processes and practices adopted by other boards of directors considered best in class at national and international level, both from the Company's sector and outside it, against Terna's performance. This was done to identify any potential aspects to bring to the attention of the Board of Directors for their consideration.

The work carried out was summarised in a report produced by Mercer, which was then presented to the Nominations Committee and, subsequently, to Terna's Board of Directors at the Board meeting held on 24 March 2021. In acknowledging the findings of the Board Review, the Chairwoman of the Board of Directors proposed, with the agreement of her fellow Directors, to postpone an in-depth analysis of the results of the Board Review until a later meeting to be held on 26 April 2021. At the end of this meeting, the Board intends to approve an action plan with a view to implementing the necessary improvements.

The Board of Directors' review of its size, composition and performance came to a positive conclusion, revealing a number of key strengths highlighted by the Directors. This was despite the fact that the new Board took office during the health emergency, which has prevented, and continues to prevent, the Directors from meeting in person and the rapid installation of the new Directors. The significant changes among the Board's members, which also included the Chairwoman and Chief Executive Officer, was well-managed under the guidance of the Chief Executive Officer himself, who is very familiar with the sector. The most experienced Directors assisted with the transition, as did all the Company's departments through a series of induction sessions.

Other strengths highlighted by the Directors were:

- 1) the accessibility, openness to dialogue and exceptional long-term vision of the Chairwoman;
- 2) appreciation for the leadership and knowledge of the business shown by the Chief Executive Officer, who was able to quickly establish positive relationships with everyone;
- 3) the involvement of the Board of Directors in the assessment, discussion and approval of the Industrial Plan, which can be considered an example of best practice in terms of ongoing involvement of the Board through informal (induction) and formal meetings, which allowed the Directors to progressively acquire a grasp of the issues and management to listen to Directors' comments;
- 4) the clarity and timeliness of the information provide to Directors prior to their meetings;
- 5) the adequate frequency and length of both Board and Committee meetings;
- 6) the quality of the minutes taken and the support provided by the Company's secretariat;
- 7) the quality and unity shown by the Company's management which, under the Chief Executive Officer's leadership, demonstrated in-depth knowledge of the business and corporate processes.

With a view to further improving Terna's governance processes, the Directors have reviewed, with the support of the appointed consulting firm, the suggestions that arose during the Board Review. Among other things, these regard:

- (i) the planning of further induction initiatives, in addition to those already scheduled, including off-site events once the health emergency has come to an end, to gain further knowledge

of the related legislation and the related developments, ESG topics, the related strategies and risks, including through the planning of an annual strategy meeting, the organisational structure and the operations of subsidiaries, with the aim of keeping Directors fully updated on the sector and the Company for the benefit of all members of the Board;

- (ii) a review of the succession plan, on an emergency basis, for the role of Chair and Chief Executive Officer and a presentation to the Board of Directors on the succession process for key management personnel;
- (iii) the opportunity to take better advantage of the expertise offered by the Board of Directors through more intensive and broader participation in the work of Board Committees, ranging from the potential establishment of a further committee dedicated to sustainability, increasing the size of the Committees and making Committee documents and minutes available to all the Directors.

Executive bodies

In carrying out its functions, Terna's Board of Directors provides for one Chief Executive Officer to whom the Board assigned authority with a resolution dated 18 May 2020 defining the contents, limits and procedures for exercising such authority.

No Executive Committee has been set up.

The CEO has the authority to act as the Company's legal representative and is vested with the broadest possible powers for management of the Company, pursuant to the above Board resolution, excluding only those matters reserved by law or by the Articles of Association to the Board of Directors, as described in this section under "Role of the Board of Directors".

The CEO reports to the Board of Directors and the Board of Statutory Auditors, on at least a quarterly basis and on the occasion of Board of Directors' meetings, on the Company's activities and performance, as well as on the decisions taken in exercising his authority pursuant to art. 21.3 of the Articles of Association.

As of the date of this Report and under the terms of art. 2.C.6 of the Corporate Governance Code, we can specify that there are no instances of cross directorship: Terna's CEO does not hold any directorships in companies outside the Terna Group, of which another Director of Terna is Chief Executive Officer.

Other executive Directors

With the exception of the Chief Executive Officer, Stefano Antonio Donnarumma, the other members of the Board of Directors are non-executive (art. 2.C.1 of the Corporate Governance Code).

The Chairwoman, Valentina Bosetti, likewise does not hold an executive position, as she has not been assigned individual authority for executive decisions nor does she have a specific role in determining corporate strategy (articles 2.P.1 and 2.C.1 of the Corporate Governance Code).

In this context, the separation of roles between Terna's Chair and the Chief Executive Officer strengthens the impartiality and fairness required of the Chair of the Board of Directors, as recommended by the Corporate Governance Code (Notes to art. 2 of the Corporate Governance Code).

Non-executive Directors (as they do not have executive powers and/or management functions within the Company):

- contribute their specialist knowledge to Board discussions, aiding examination of the matters under discussion from different points of view and helping to ensure that the decisions taken are well thought-through, informed and in keeping with the Company's interests (art. 2.P.2 of the Corporate Governance Code); and
- are, in terms of number, expertise, authority and availability of time, capable of guaranteeing that their judgement can have a significant weight in the Board's decisions, in line with the recommendations of the Corporate Governance Code (art. 2.P.3).

Independent Directors

A requisite number of non-executive Directors, with the appropriate expertise, also quality as independent.

Whilst independence characterises the activity of all the Directors, whether executive or non-executive, the presence of Directors qualifying as "independent" in compliance with the independence requirements set out by the law, the Articles of Association and the Corporate Governance Code to which Terna adheres, and whose role is significant both within the Board itself and Board Committees, suitably ensures adequate consideration of all shareholders' interests.

In February 2007, the Company therefore adopted a specific internal procedure, setting out the criteria for assessing the independence of its non-executive Directors and confirming the requirements referred to in the Articles of Association and the Corporate Governance Code ("Application criteria and procedure for assessing the independence of Directors pursuant to art. 3 of the Corporate Governance Code"), in keeping with the provisions of the Corporate Governance Code. This is described in the above Section II under "Election of Directors, related requirements and term of office".

With reference to these criteria, and on the basis of the information supplied by the individual parties concerned, the Board of Directors assesses each Director's compliance with the independence requirements set out by law, the Articles of Association and the Corporate Governance Code at the first opportunity following their election (articles 3.P.2 of the Corporate Governance Code and 144-*novies*, paragraph 1-*bis* of the Regulations for Issuers) and, subsequently, once a year on the occasion of the board review (articles 3.P.2 and 3.C.4 of the Corporate Governance Code). The assessment, as expressly required by the Corporate Governance Code, has more regard to substantive aspects than to those of a formal nature, recognising an individual's merit rather than the value of the office held.

Subsequently, in the meeting held on 24 March 2021, based on the information provided by the individual parties concerned, the Board of Directors newly assessed continued compliance with the independence requirements of its non-executive Directors, as set out by the aforementioned application criteria and procedures pursuant to art. 3.C.1 et seq. of the Corporate Governance Code. The Company decided to postpone application of the new art. 2, recommendation 7, of the new Corporate Governance Code until such time as the Company's governance documentation – including the criteria to assess independence – is updated to full compliance with the new Code.

On the basis of the Company's assessments, which also took account of any commercial, financial and professional relations directly or indirectly entered into by Directors with Terna that could be, or might appear to be, such as to compromise the Director's independence by virtue of their significance, both in absolute terms and with regard to the financial position of the party concerned, the Board confirmed that the independence criteria required by law, by art. 148, paragraph 3 of the CLF (and referred to in art. 147-ter, paragraph 4 of the CLF) by the Articles of Association of TERNA S.p.A. and by the Corporate Governance Code were met by the following non-executive Directors: Alessandra Faella, Ernesto Carbone, Giuseppe Ferri, Fabio Corsico, Marco Giorgino, Gabriella Porcelli, Paola Giannotti e Jean-Michel Aubertin (articles 3.C.1, 3.C.2 and 3.C.4 of the Corporate Governance Code and art. 147-ter of the CLF).

The Director, Valentina Canalini, was shown to possess the requisites of independence required by law, by art. 148, paragraph 3 of the CLF (and referred to in art. 147-ter, paragraph 4 of the CLF) and by the Articles of Association of TERNA S.p.A. and not those required by the Corporate Governance Code.

The Board also acknowledged that the Chairwoman, Valentina Bosetti, met the independence requirements provided for in art. 148, paragraph 3 of the CLF (and referred to in art. 147-ter, paragraph 4 of the CLF), although she does not qualify as independent pursuant to the Corporate Governance Code in that she is a "significant representative" of Terna pursuant to art. 3.C.2 of the Code. It should be noted that this situation will change following adoption of the new independent criteria pursuant to art. 2, recommendation 7 of the Corporate Governance Code, which, if the conditions for doing so are met, allows for the possibility to qualify as independent even if holding the position of Chair of the Board.

Correct application of the criteria and procedures adopted by the Board of Directors was, at the same time, verified by the Board of Statutory Auditors (art. 3.C.5 of the Corporate Governance Code).

The Board of Directors also verified the existence of the independence requirements pursuant to art. 148, paragraph 3 of the CLF (art. 147-ter, paragraph 4 of the CLF), as required by art. 15.4 of the Articles of Association for at least one-third of the Directors in office, after rounding down in the case of fractions.

The number of independent directors is, therefore, more than in line with the requirements for members of the Board as set out in the Corporate Governance Code for issuers belonging to the FTSE-MIB index (art. 3.C.3 of the Corporate Governance Code). Although the assessment was carried out on the basis of previous recommendations regarding self-assessment, it can be said that the composition of the Board is in line also with that set forth in the new Corporate Governance Code, which recommends that, in large companies other than those with a concentrated ownership, at least half of the Board of Directors should be comprised of independent directors.

The number and expertise of independent directors are also such as to ensure the appropriate composition of the Board Committees indicated in the Corporate Governance Code and established by Terna in accordance with the Corporate Governance Code.

Given the composition of the Board of Directors, marked by a high number of independent Directors, and its working methods (described in the above sub-section, “*Board meetings and the role of the Chair*”), and the significant participation of independent Directors in Board Committees, the Company has set up a system providing for a constant exchange of information among the independent Directors, both on the occasion of Board Committee meetings and full Board meetings. This means that it is not necessary to hold specific meetings reserved only for them.

With reference to the specific provisions of Terna’s Articles of Association, introduced in order to implement the unbundling legislation, we note that, as part of the periodic board review, it was confirmed that all the Company’s elected Directors meet the independence requirements provided for in art. 15.5 of the Articles of Association. This article states that “*the Company’s Directors may not hold, on penalty of disqualification, positions as a director, member of the supervisory board or of other bodies that legally represent a company whose business is the production or supply of electricity or gas*”.

Lead Independent Director

The working methods and composition of the Board of Directors has assured the suitable coordination of the contributions and requirements of non-executive Directors and, in particular, of the independent Directors. It has also guaranteed the prior exchange of information, thus allowing the Board to work in an effective and productive manner and to focus on the real needs of the Company. On this basis, as none of the conditions specified in the provisions of the Corporate Governance Code (art. 2.C.4 of the Corporate Governance Code) apply, Terna does not have a Lead Independent Director (art. 2.C.5 of the Corporate Governance Code).

Section V

The processing of corporate information

In accordance with the provisions of the Corporate Governance Code in force at that time, in April 2004, the Company's Board of Directors adopted specific regulations for the internal management and processing of confidential information. The regulations also set out procedures for the disclosure of documents and information concerning the Company and its subsidiaries, aimed at protecting confidential information, whilst also assuring that the market disclosure of information on the Company is fair, complete, appropriate, timely and not selective.

The regulations were then supplemented and amended on various occasions to take account of changes in the applicable regulatory framework occurring from time to time and changes in the Group's organisational and governance structure as per the Corporate Governance Code, subsequently confirmed by art. 1, Recommendation 1(f).

In particular, specific procedures have been established in relation to the disclosure of corporate documents and information to the public - especially regarding the disclosure of insider information - and to the methods used by people representing the Company in order to contact the press and other forms of mass media (or financial analysts and institutional investors) (Notes to art. 1 of the Corporate Governance Code).

Subsequently, on the entry into force of new European market abuse regulations on 3 July 2016 (EU Regulation 596/2014, Delegated Regulation (EU) 2016/522, Implementing Regulation (EU) 2016/1055 and further implementing provisions), the Board of Directors of Terna S.p.A. replaced the aforementioned regulations, adopting a new "Procedure for the management, processing and disclosure of corporate information relating to Terna S.p.A. and its subsidiaries" (also referred to in this section as the "Procedure for Managing Corporate Information"). The Procedure updated the notion of insider information and strengthened the rules governing cases in which the disclosure of inside information is delayed, as required by art. 17, paragraph 4.3 of Regulation (EU) 596/2014 and the above Implementing Regulation. The Procedure for Managing Corporate Information, which, like the previous regulations, also establishes official guidelines for subsidiaries so as to ensure the coordinated management of information flows within the Group, regulates the related responsibilities and obligations for reporting to the CONSOB. It also connects such activities with those involved in the establishment and update of the list of individuals with access to inside information (the Insider List), as governed by a specific, separate procedure (see below). The Procedure was last revised on 18 December 2019 following the entry into force of Legislative Decree 107 of 2018 and changes to Terna S.p.A.'s organisational structure.

The Directors and Statutory Auditors of Terna and its subsidiaries are required to comply with the rules set out in the Corporate Information Procedure and to ensure that all documents and information acquired in the performance of their duties remains confidential. This requirement also extends to the content of any discussions during Board of Directors' meetings.

This Procedure - available on the Company's website at, www.terna.it, in the *Governance* section - assigns, on a general basis, the Company's Chief Executive Officer and the respective heads (sole director, executive chairperson, chief executive officer and/or general manager, as applicable) of subsidiaries responsibility for managing the relevant confidential information.



The Procedure also requires that the disclosure of information on individual subsidiaries must, in any event, receive prior authorisation from Terna's Chief Executive Officer.

Lastly, the Procedure also includes specific "Measures applicable to persons responsible for breaches of the Procedure".



Again, with regard to the management of corporate information, and in particular inside information, in compliance with the aforementioned European legislation on market abuse (in particular EU Regulation 596/2014 and Implementing Regulation (EU) 2016/347) and existing best practices, on 8 May 2018, Terna's Board of Directors adopted a specific Procedure for drawing up and updating the Insider List of persons with access to inside or potentially inside information, a document available on the Company's website at www.terna.it, in the *Governance* section. The procedure was last revised on 18 December 2019 following the entry into force of Legislative Decree 107 of 2018 and changes to Terna S.p.A.'s organisational structure.

The Company – in implementation of the operational instructions contained in the CONSOB guidelines on "Managing Inside Information" (the "CONSOB Guidelines") - has drawn up and updated the lists of persons with access to inside or potentially inside information in carrying out certain responsibilities or by virtue of the professional relationship with Terna and/or a subsidiary.

Finally, in order to guarantee market transparency relating to significant transactions involving the purchase, sale, subscription for or exchange of Terna's shares, or of financial instruments connected with the Company, carried out - directly or indirectly - by individuals with significant decision-making powers within the Company, and with access to price sensitive information ("relevant persons"), in April 2004, the Company's Board of Directors approved a code of conduct for internal dealing, in compliance with the regulations issued by Borsa Italiana S.p.A..

In this context, Terna introduced an obligation for these individuals to abstain from executing - directly or indirectly - transactions subject to internal dealing rules during two blocking periods. These periods specifically concern the periods around the time of approval of the separate (and consolidated) financial statements and the interim half-year report by Terna's Board of Directors. These obligations were also retained in the "Procedure for the management, processing and disclosure to the market of information on transactions in financial instruments undertaken by relevant persons", adopted by the Company's Board of Directors following the entry into force of the provisions on internal dealing introduced in the CLF (Law 62 of 18 April 2005) and the related implementing regulations issued by the CONSOB (articles 152-sexies to 152-octies and Annex 6 in the Regulations for Issuers).

Disclosure and transparency obligations concerning internal dealing were then further revised to comply with the aforementioned European market abuse regulations, in effect from 3 July 2016 (and, in particular, EU Regulation 596/2014 or "MAR", Delegated Regulation (EU) 2016/522 and Implementing Regulation (EU) 2016/523). This was done within the context of the Internal Dealing Procedure (referred in this section as the "Internal Dealing Procedure"), adopted by Terna's Board of Directors and updated on 27 July 2017, in compliance with the provisions of CONSOB Resolution 19925 of 22 March 2017, containing *"Amendments to the regulations implementing Legislative Decree 58 of 24 February 1998, concerning the regulation of issuers and markets, as well as related party transactions, in implementation of EU Regulation 596/2014"*

on market abuse” and also taking into account the guidelines received from ESMA within the context of the “Question and Answers on the Market Abuse Regulation”.

The Internal Dealing Procedure was last revised on 18 December 2019 following the entry into force of Legislative Decree 107 of 2018 and changes to Terna S.p.A.’s organisational structure.

The Internal Dealing Procedure applies to transactions conducted on behalf of the persons described in art. 19 of the MAR (“relevant persons”) and persons closely associated with them, as identified pursuant to art. 3, paragraph 1(26) of the MAR and taking into consideration the clarifications provided by ESMA in this respect. In accordance with art. 19, paragraphs 8 and 9 of the MAR and art. 152-*quinquies*.1 of the Regulations for Issuers, all subsequent transactions, as identified in the regulations, are to be disclosed once they have reached or exceeded €20,000 in a calendar year. The €20,000 threshold is calculated by adding together all transactions completed during a calendar year, without any offset. It is understood that, after exceeding this threshold, all transactions (including those involving smaller amounts) must be disclosed. The disclosure obligations relating to significant transactions provided for in art. 114, paragraph 7 of the CLF, and articles 152-*sexies* et seq. of the Regulations for Issuers therefore remain in force. These obligations regard (i) shareholders who hold an equity investment equal to at least 10% of the share capital and to persons who in any case control the issuer, and (ii) persons closely associated with them, as defined within the scope of art. 152-*sexies*, paragraph 1(d) of the Regulations for Issuers.

The current Internal Dealing Procedure is available on the Company’s website (www.terna.it – *Governance* section). This serves to identify “relevant persons” at Terna and “persons closely associated” with them, and governs the management, processing and disclosure to the market of information on transactions in financial instruments undertaken by these individuals, the drawing up and updating of the list of relevant persons, as established pursuant to the regulations in effect, and the authorisation of relevant persons, where necessary, to carry out transactions during blocking periods.



Section VI

Board Committees

The “Remuneration Committee”, the “Audit, Risk, Corporate Governance and Sustainability Committee” and the “Nominations Committee” are Board Committees with the role of making recommendations and providing advice to the Board of Directors in order to ensure it can effectively perform its duties. The Committees consist of at least three Directors, as provided for in the Corporate Governance Code, in order to guarantee the effective fulfilment of its duties. The criteria regarding the composition, duties and responsibilities of these Committees were identified in line with the provisions of the Corporate Governance Code in force at that time and the procedures for holding the related meetings are governed by specific terms of reference adopted by the Board of Directors on 24 January 2007. These were later updated on 19 December 2012, in line with the provisions in the Corporate Governance Code in effect at that time and, subsequently, on 27 May 2014, in order to regulate the activities of the newly established “Nominations Committee” (further updated on 23 June 2015) and update the duties assigned to the Audit, Risk and Corporate Governance Committee. The terms for this latter Committee were further added to on 15 December 2016 in relation to sustainability issues, as a result of which the Committee was renamed the “Audit, Risk, Corporate Governance and Sustainability Committee” (art. 4.P.1 and 4.C.1(a) and (b) of the Corporate Governance Code). Publication of the new Corporate Governance Code provided an opportunity to review the Organisational Regulations, the contents of which are currently being revised to ensure full compliance with the new recommendations.

All the current members of the “Remuneration Committee” and the “Audit, Risk, Corporate Governance and Sustainability Committee” are independent Directors, including the chairs, whilst a majority of the members of the “Nominations Committee” are independent Directors, including the Committee’s Chairwoman. At least one member of the “Remuneration Committee” possesses adequate knowledge and experience in financial and remuneration policy matters, and at least one member of the “Audit, Risk, Corporate Governance and Sustainability Committee” possesses adequate expertise in matters relating to accounting and finance or risk management. The composition of these Committees is therefore in line with the recommendations in the Corporate Governance Code.

Additionally, under their respective terms of reference, the “Remuneration Committee” reports to the Board of Directors, at least annually, on its activities, whilst the “Audit, Risk, Corporate Governance and Sustainability Committee” reports at least every six months at the time of approval of the annual report and the half-year report, including on matters concerning the Internal Control and Risk Management System.

The chair of each Committee reports to the earliest possible Board of Directors’ meeting on the meetings held by their Committee (art. 4.C.1(d) of the Corporate Governance Code).

All the Committees reported to the Board of Directors on 24 March 2021.

The information provided in this Report on the activities carried out during the year, on the number and average duration of the meetings held, and the related percentage attendance of each member of the Committees, takes into account the minutes drawn up by the Committees and the support provided by the respective chairs or other members, as far as

their respective duties are concerned, as set forth in the related terms of reference (art. 4.C.(g) of the Corporate Governance Code).

A further Board Committee has been set up (the “Related Party Transactions Committee”). This carries out the role required by the “Regulation containing measures concerning related party transactions” issued by the CONSOB with Resolution 17221 of 12 March 2010, most recently amended by CONSOB Resolution 21624 of 10 December 2020, and on the basis of the “Procedure for Related Party Transactions” adopted by the Company and described in Section XII of this Report.

The Committee has been assigned the role of conducting reviews, making recommendations and providing advice in relation to assessment and approval of the above related party transactions, covering the approval of both transactions of greater significance and those of lesser significance, as indicated in Terna’s procedure. The Committee’s role also extends to recommendations for amendments to the procedure adopted by Terna. This Committee consists of at least three Directors, all independent, according to the provisions of the Corporate Governance Code.




Committee meetings are minuted (art. 4.C.1(d) of the Corporate Governance Code). Each Committee is also allowed to hold their meetings using video or telephone services, as is the case for the Board of Directors. Each Committee has the right to access the necessary information and corporate departments to carry out its tasks and may avail itself of external advisers within the limits provided for by the Board of Directors (art. 4.C.1(e) of the Corporate Governance Code). All members of the Board of Statutory Auditors may take part in any Committee meeting.

The Company’s budget provides adequate financial resources to fund the work of each Committee (art. 4.C.1(e) of the Corporate Governance Code). At the invitation of the chair/coordinator of each Committee, meetings may be attended by other members of the Board of Directors or other people whose presence may prove helpful in ensuring the best possible fulfilment of the functions of the Committee, with reference to the items on the agenda and in accordance with the information provided below with reference to each of the Committees established (art. 4.C.1(f) of the Corporate Governance Code).

Section VII

Nominations Committee

NOMINATIONS COMMITTEE

	NAME	ROLE	INDEPENDENCE	
			CLF	CORPORATE GOVERNANCE CODE
	Gabriella Porcelli	Chairwoman	●	●
	Jean-Michel Aubertin	Member	●	●
	Fabio Corsico	Member	●	●

At the time of the first re-election of the Board of Directors following the entry into force of the provisions contained in art. 5.P.1 of the Corporate Governance Code, the Board of Directors set up the Nominations Committee at its meeting held on 27 May 2014. The Committee's duties were assigned in keeping with the provisions of the Corporate Governance Code and the procedures for the conduct of meetings set out in specific terms of reference adopted by the Board of Directors on the same date ("*Terms of reference for Terna S.p.A.'s Nominations Committee*"). These were then updated on 23 June 2015 (art. 4.C.1(b) of the Corporate Governance Code). The Nominations Committee supports the Board of Directors by conducting reviews, making recommendations and providing advice in relation to assessments and decisions regarding the size and composition of the Board.

The Committee's responsibilities include: a) providing opinions or making recommendations to the Board of Directors regarding: (i) the size and composition of the Board and the type of person it would be most appropriate for the Board to have as a member; (ii) the guidance to be adopted by the Board with regard to the maximum number of appointments as a director or statutory auditor in other companies listed on regulated markets (including overseas), in financial, banking and insurance undertakings or in large companies; (iii) the annual board review of the Board of Directors and its Committees; and (iv) any particular issues related to application of the prohibition on competition imposed on Directors by art. 2390 of the Italian Civil Code, where the shareholders, for organisational reasons, have authorised general, prior exemptions from such prohibition (art. 5.C.1(a) of the Corporate Governance Code); (b) recommending candidates for the role of Director to the Board of Directors in the event of the

need to co-opt a replacement Director and where the Board decides to make use of such an option permitted by the Articles of Association and submit its own slate (art. 5.C.1(b) of the Corporate Governance Code and the Notes to art. 5 of the Corporate Governance Code); (c) making recommendations to the Board on the appropriate means of ensuring continuity in cases where, in the course of the Board's term of office, it is necessary to replace the Chair or executive Directors of Terna; and (d) performing any further tasks assigned by the Board of Directors.

The Chairman of the Committee, with the assistance of the Secretary to the Board of Directors, may from time to time invite other members of the Board of Directors, or other personnel from departments within Terna or other persons whose presence could be helpful in improving the Committee's effectiveness, to participate in Committee meetings (art. 4.C.1(f) of the Corporate Governance Code).

Under the Committee's terms of reference, no Director may take part in meetings of the Nominations Committee at which proposals regarding his or her own candidature as a Director or position as a member of the Board or its Committees is discussed, unless the proposals regard all the members of the various Board Committees.

In performing its duties, the Nominations Committee has the option of requesting access, through the Secretary to the Board of Directors, to any information and company departments it deems necessary in order to perform its duties. It may also make use of external consultants, within the limits approved by the Board of Directors and in accordance with the provisions of the Corporate Governance Code (art. 4.C.1(e) of the Corporate Governance Code).

During 2020, the Nominations Committee held 3 meetings – including those held prior to re-election of the Board – which were all fully attended (100%) and lasted an average of approximately 50 minutes. All of the Committee's meetings were minuted (art. 4.C.1(d) of the Corporate Governance Code).

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

The participation of each member of the current Committee at meetings held during 2020 is shown in the attached Table 1 (art. 123-bis, paragraph 2(d) of the CLF).

Information on the number of meetings and activities refers to the overall activities carried out by the Committee in 2020.

In the course of both 2020 and 2021, up to the date of this Report and with reference to its specific role in making recommendations and providing advice, the Nominations Committee has dealt with the support for the Board in conducting its annual board review, with regard to the choice of procedures to follow and selection of the external expert (as discussed in the sub-section of Section IV, "Board review").

As regards the *Contingency Plan*, the Committee expressed a positive opinion on the Plan and on the succession plan for the Company's senior management.




At its meeting on 24 March 2021, the Board of Directors assessed the Committee's duties and performance. The generally positive evaluation of the composition, size and performance of the Committee was confirmed by the Board of Directors as part of the annual review of the Board itself and its Committees.

The Committee has access to adequate financial resources, if needed.

Section VIII

Remuneration Committee

REMUNERATION COMMITTEE

	NAME	ROLE	INDEPENDENCE	
			CLF	CORPORATE GOVERNANCE CODE
	Fabio Corsico	Chairman	●	●
	Gabriella Porcelli	Member	●	●
	Alessandra Faella	Member	●	●

The Board of Directors set up the Remuneration Committee in 2004. The Committee's duties were established in line with the provisions of the Corporate Governance Code, and the procedures for holding meetings are governed by specific terms of reference adopted by the Board of Directors on 24 January 2007 ("Terms of reference for Terna S.p.A.'s Remuneration Committee), which were updated on 9 November 2011 and most recently on 19 December 2012, in order to comply with the new provisions of the Corporate Governance Code (art.6).

In particular, the following fall within the remit of the Committee: (i) the remuneration policy for Directors and Key Management Personnel (articles 6.P.4 and 6.C.5 of the Corporate Governance Code); (ii) recommendations and opinions on the remuneration of executive Directors and other Directors with delegated powers; (iii) setting performance objectives linked to the variable part of this remuneration; (iv) monitoring application of the decisions taken by the Board; and (v) assessing the effective achievement of performance objectives (art. 6.C.5 of the Corporate Governance Code).

Following re-election of the entire Board of Directors on 18 May 2020, the Remuneration Committee had the following three members, all non-executive and independent, with one member elected from the minority slate: Fabio Corsico (in the role of Chairman), Gabriella Porcelli and Alessandra Faella.

The Corporate Governance Code recommends that "At least one member has appropriate knowledge and experience of financial or remuneration-policy matters (art. 6.P.3 of the Corporate

Governance Code)". In addition to the Chairman, who possesses extensive experience in such matters, the composition of the Committee is such as to fully comply with this recommendation.

The Committee Chairman or another member of the Committee reports to shareholders on how the Committee's duties have been performed. To this end, the Committee Chairman or another member of the Committee must attend the Annual General Meeting (Notes to art. 6 of the Corporate Governance Code).

No Director may take part in meetings of the Remuneration Committee at which proposals regarding his or her own remuneration is discussed, unless the proposals regard all the members of the various Board Committees (art. 6.C.6 of the Corporate Governance Code).

At the request of the Committee Chairman, meetings may be attended by members of the Audit, Risk, Corporate Governance and Sustainability Committee and/or other members of the Board of Directors, the Chairman of the Board of Statutory Auditors or another Statutory Auditor nominated by the Chairman, and by other executive within Terna or other persons whose presence may prove helpful in ensuring the best possible fulfilment of the functions of the Committee (art. 4.C.1(f) and the Notes to art. 6 of the Corporate Governance Code).

The Remuneration Committee held 8 meetings in 2020, including those held before the re-election of the Board of Directors. All of the meetings were attended by all members of the Committee (100%) and the average duration was approximately 1 hour and 15 minutes. None of the Directors attended Committee meetings at which proposals regarding their remuneration were discussed, except in the case of the discussion of guidelines for the remuneration payable generally to the members of Board Committees. This is in line with the Remuneration Policy referred to in the "Annual Remuneration Report", submitted to the Board of Directors and which also received the prior opinion of the Board of Statutory Auditors.

The above meetings, which the Chairman of the Board of Statutory Auditors also attended (100%) by invitation, were also attended by senior executives of the Company and by persons whose presence was deemed helpful in providing greater information on agenda items and in ensuring the best possible fulfilment of the functions of the Committee.

The entire Board of Statutory Auditors took part in the meetings held following the establishment of the new corporate bodies.

Minutes were duly taken of all Committee meetings and the Committee had the chance to access any information and company departments it deemed necessary in order to perform its duties, and to use external consultants in accordance with the terms of reference established by the Board (art. 4.C.1(e) of the Corporate Governance Code). In this latter regard, the Committee confirmed that the independence requirement had been met by the consultants used (art. 6.C.7 of the Corporate Governance Code).

For the current year, a number of Committee meetings have been scheduled that should be sufficient for the performance of the tasks entrusted to it.

During the current year, up to the date of approval of this Report, the Committee has held 3 meetings.

All of the members of the Board of Statutory Auditors were invited to and attended all of the meetings.

The participation of each member of the current Committee at meetings held during 2020 is shown in the attached Table 1 (art. 123-bis, paragraph 2(d) of the CLF).

Information on the number of meetings and activities refers to the overall activities carried out by the Committee in 2020 up to the date of this Report.

As part of its duties, and with respect to the remuneration of the Chief Executive Officer and other Directors with delegated powers, in 2020 the Remuneration Committee, meeting with the related departments within the Company, obtained additional information about the remuneration criteria used and the salary structure for management, and carried out all the activities associated with the role attributed to it by the Board of Directors in order to formulate recommendations regarding the remuneration of senior management. The Committee dealt with the following matters, among others:

- examination of changes in the compensation systems and the results of application of the remuneration policy for senior management in office from 2017 to 2020;
- assessment of achievement of the results for 2019 in respect of payment of the annual variable remuneration due to the Chief Executive Officer and General Manager, in his role as both a Director and as a manager employed by the Company, and to Key Management Personnel;
- examination of the objectives for 2020 to which the variable remuneration of the Chief Executive Officer and General Manager, in his role as both a Director and as a manager employed by the Company, and Key Management Personnel is linked;
- examination of the results of the remuneration benchmarking, carried out by Willis Towers Watson, in relation to the Chief Executive Officer and General Manager, the Chairwoman and non-executive Directors of the Board;
- preparation of a proposal for the Remuneration Policy for 2020, described in the Report on the remuneration policy and remuneration paid, as approved by the Board of Directors, which will be submitted for approval by the Annual General Meeting called to approve the financial statements for the year ended 31 December 2019 in accordance with article 123-ter of the CLF;
- support to the Board of Directors in preparing the second section of the “Report on the remuneration policy and remuneration paid”, approved by the Board of Directors and submitted, pursuant to art. 123-ter, paragraph 6 of the CLF, to a consultative vote at the Annual General Meeting held to approve the financial statements for the year ended 31 December 2019;
- definition of the proposed remuneration to the new Chairperson and the new Chief Executive Officer and General Manager and definition of the proposed remuneration for members of Committees;
- assessment of achievement of the objectives linked to payments under the LTI 2017-2019;
- approval of details of the structure of the Performance Share Plan 2020-2023 and the related Information Circular, examination of the elements involved in implementation and approval of the regulations and tools to be assigned;
- examination of the results of assessments regarding the Remuneration Report 2020, with special attention to the remuneration policy for the CEO, prepared by Willis Towers Watson.

The Committee's activities in early 2021 have included:

- examination of the results of assessments regarding performance indicators in short-term and long-term incentive plans, drawn up by Willis Towers Watson;
- examination of the results of the remuneration benchmarking, carried out by Willis Towers Watson, in relation to the Board of Directors and the Board of Statutory Auditors;

- preparation of a proposal for the Remuneration Policy for 2021, described in the Report on the remuneration policy and remuneration paid, approved by the Board of Directors, and which will be submitted to a binding vote by Annual General Meeting called to approve the financial statements for the year ended 31 December 2020, pursuant to art. 123ter, paragraphs 3-bis and 3-ter, of the CLF;
- support to the Board of Directors in preparing the second section of the Report on the remuneration policy and remuneration paid, approved by the Board of Directors, and which will be submitted, pursuant to art. 123 ter, paragraph 6 of the CLF, to a consultative vote at the Annual General Meeting held to approve the financial statements for the year ended 31 December 2020;
- examination of the objectives for 2021 to which the variable remuneration of the Chief Executive Officer, in his role as both a Director and as a manager employed by the Company, and Key Management Personnel is linked;
- assessment of achievement of the results for 2020 in respect of payment of the annual variable remuneration of the Chief Executive Officer, in his role as both a Director and as a manager employed by the Company, and Key Management Personnel;
- assessment of achievement of the objectives linked to payments under the LTI Cycle 2018-2020;
- approval of details of the structure of the Performance Share Plan 2021-2025 and the related information Circular.

The Committee Chairman reported to the earliest possible Board of Directors' meeting on the meetings held by the Committee (art. 4.C.1 (d) of the Corporate Governance Code).

At its meeting of 24 March 2021, the Board of Directors assessed the Committee's duties and performance. The generally positive evaluation of the composition, size and performance of the Committee was confirmed by the Board of Directors as part of the annual review of the Board itself and its Committees.

The Committee has access to adequate financial resources, if needed.

Section IX

Directors' remuneration

As of December 2011, Terna's Board of Directors adopted the "Remuneration Policy" in implementation of the recommendations in the Corporate Governance Code from time to time in force, as recommended by the "Remuneration Committee".

Following the entry into force of CONSOB regulations implementing art. 123-*ter* of the CLF (CONSOB Resolution 18049 of 23 December 2011, published in Official Gazette no. 303 of 30 December 2011), which, among other things, introduced art. 84-*quater* into the Regulations for Issuers, Terna's Board of Directors, on the recommendation of the "Remuneration Committee", has each year approved updates to the Policy adopted, as described in the "Annual Remuneration Report". This report, published annually, is made available for consultation by the public at the Company's registered office and on its website (www.terna.it), and on the authorised storage device. The report is also put to a consultative, non-binding vote at the Annual General Meeting of shareholders, in accordance with art. 123-*ter*, paragraph 6 of the CLF. The Annual General Meeting has always voted in favour of the report.



Legislative Decree 49 of 10 May 2019, transposing Directive 2017/828 of the European Parliament and of the Council of 17 May 2017 ("Shareholders' rights directive II" or "SRD II") and amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement, has introduced a number of amendments to art. 123-*ter* of the CLF. Specifically, it has introduced a binding vote by the General Meeting of shareholders for the first section of the Report and a consultative vote by the same General Meeting regarding the second section of the Report. These modifications were applied for the first time during the General Meeting of shareholders held on 18 May 2020, which approved the first section of the Report on the remuneration policy and remuneration paid and expressed a favourable opinion as regards the second section. The report was made available to the public as described above.

Thus the process of bringing the regulatory framework governing the transparency of remuneration into line with the SRD II has come to a close, at the level of secondary legislation, with the amendment of art. 84-*quater* of the Regulations for Issuers and the relative Table 7-*bis* in Annex 3A of said Regulations from Consob Resolution 21623 of 10 December 2020.

The Report on the remuneration policy and remuneration paid, which will be submitted to the next General Meeting of shareholders called to approve the financial statements, has been prepared by the Company in compliance with the new first and second level regulatory provisions and takes account of the new recommendations set forth in the new Corporate Governance Code.

The report, to which reference is made, was approved by the Board of Directors – on a proposal from the Remuneration Committee – on 24 March 2021, and will be published by Terna in accordance with that set forth in art. 123-*ter*, of the recently amended CLF.

It should be noted that the remuneration payable to each Director is determined by the Annual General Meeting (art. 24.1 of the Articles of Association).

Additional fees payable to the members of Board Committees set up in compliance with the Corporate Governance Code are determined by the Board of Directors itself, in consultation with the Board of Statutory Auditors, as required by art. 2389, paragraph 3 of the Italian Civil Code and art. 24.2 of the Articles of Association. The overall remuneration for the Chairwoman and the Chief Executive Officer is also determined by the Board of Directors, based on the recommendation provided by the Remuneration Committee and in consultation with the Board of Statutory Auditors.




For a full description of the remuneration paid by the Company and its subsidiaries or associates during the reporting period, for any reason and in any form, to the members of Terna's management body and key management personnel for 2020, reference should be made to the "Report on the remuneration policy and remuneration paid", to be published by Terna and submitted for approval at the forthcoming Annual General Meeting called to approve the financial statements for the year ended 31 December 2020, in compliance with the provisions of art. 123-*ter* of the CLF, as recently amended. This Report also includes a description of each of the forms of remuneration used, the provision of any severance or termination payments due in the event of leaving office or termination of employment, clawback provisions applied in accordance with art. 6.C.1(f) of the Corporate Governance Code, and an opinion on consistency with the Company's Remuneration Policy approved the previous year.

The "Report on the remuneration policy and remuneration paid" also includes the information required by art. 84-*quater*, paragraph 4 of the Regulations for Issuers, concerning the remuneration plans provided for in art. 114-*bis* of the CLF and shareholdings in Terna and its subsidiaries held by members of management and oversight bodies, general managers and other key management personnel, and by spouses who are not legally separated and minor children, either directly or through subsidiaries, trust companies or proxies.

Section X

Audit, Risk, Corporate Governance and Sustainability Committee

AUDIT, RISK, CORPORATE GOVERNANCE AND SUSTAINABILITY COMMITTEE

	NAME	ROLE	INDEPENDENCE	
			CLF	CORPORATE GOVERNANCE CODE
	Paola Giannotti	Chairwoman	●	●
	Marco Giorgino	Member	●	●
	Giuseppe Ferri	Member	●	●

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

In 2004, the Board of Directors set up a specific Board Committee named the Internal Audit Committee. This Committee had the task of performing research and analyses to advise the Board in its assessments and decisions relating to the "Internal Control System" and the regular monitoring of the adequacy of such system. The Internal Audit Committee was also responsible for studying specific aspects relating to the identification of the main business risks (for example, operational risk, financial risk, market risk, and compliance risk, in addition to accounting compliance risks), reporting periodically to the Board on the suitability of the system and the activities performed.

The duties of the Committee were identified in keeping with the Corporate Governance Code and the methods of conducting the meetings are governed by specific terms of reference adopted by the Board of Directors on 24 January 2007.

In the meeting held on 19 December 2012, the Board of Directors approved the necessary adjustments to the composition and duties of the existing Committee, in order to ensure that it would be fully aligned with the provisions of the Corporate Governance Code relating to internal control and risk management systems (articles 7.P.3(a-ii), 7.C.1 and 7.C.2 of the Corporate Governance Code), making a number of changes to the terms of reference. Following re-election of the entire Board of Directors, at the meeting of 27 May 2014, with a view to continuous improvement of the corporate governance system, the Board of Directors expanded the duties of the Audit and Risk Committee, adding to the latter's duties those related to the corporate governance system,

making the consequent changes to the terms of reference and appointing its members in keeping with the recommendations in the Corporate Governance Code, as accordingly communicated to the market on the same date. Consequently, the “Audit and Risk Committee” was renamed the “Audit, Risk and Corporate Governance Committee”. The responsibilities indicated were subsequently expanded and the Committee was also assigned tasks relating to Sustainability. The resolution of 15 December 2016 thus made the consequent amendments to the Committee’s terms of reference (now known as “Terms of reference for TERNA S.p.A.’s Audit, Risk, Corporate Governance and Sustainability Committee”). Responsibility for sustainability has been assigned to the internal board committee in response to the recommendation contained in the notes to art. 4 of the Corporate Governance Code, which invites the Board to assess the appropriateness of setting up a special committee to oversee sustainability matters, as well as the provisions of the new Corporate Governance Code (recommendation no. 1a).

More specifically, the “Audit, Risk, Corporate Governance and Sustainability Committee” has the task of supporting the Board of Directors, with suitable research and analysis activities, in the assessments and decisions relating to the “Internal Control and Risk Management System” (the “System”, as detailed in Section XI below), to Corporate Governance, to approval of the annual financial report and the interim half-year report and to relations between the Company and the independent auditors (art. 7.P.3(a-ii) of the Corporate Governance Code). In this regard, the Committee is specifically assigned the following tasks:

- to support the Board of Directors in fulfilling the duties assigned in the Corporate Governance Code relating to internal control and risk management, and preparing specific opinions regarding:
 - i. definition of the System guidelines and the extent to which the risk exposure is compatible with management of the Company in line with the strategic objectives set by the Board of Directors (art. 7.C.1(b) of the Corporate Governance Code);
 - ii. the regular review of the adequacy of the System with respect to the nature of the business and the risk appetite and its effectiveness (art. 7.C.1(a) of the Corporate Governance Code);
 - iii. approval of the work plan prepared by the Head of Internal Audit (art. 7.C.1(c) of the Corporate Governance Code);
 - iv. the description of the main characteristics of the System in the Annual Report on Corporate Governance and Ownership Structures and in the assessment of the adequacy of the System (art. 7.C.1(d) of the Corporate Governance Code);
 - v. the assessment of the findings presented by the independent auditors and in the report on the key issues emerging during the independent audit;
- to assess, together with the Manager Responsible for Financial Reporting, having consulted the independent auditors and the Board of Statutory Auditors, the correct application of accounting standards and their consistent application in preparation of the consolidated financial statements (art. 7.C.2(a) of the Corporate Governance Code);
- to provide opinions at the request of the Chief Executive Officer, on specific aspects concerning identification of the main business risks (art. 7.C.2(b) of the Corporate Governance Code);
- to examine the regular reports concerning assessment of the System and the reports of particular relevance prepared by the Audit department (art. 7.C.2(c) of the Corporate Governance Code);
- to monitor the independence, adequacy, efficacy and efficiency of the Audit department (art. 7.C.2(d) of the Corporate Governance Code). Reference should be made to the following subsection, “Head of Internal Audit”;
- to support the Board of Directors in performing its tasks relating to the general policies included in the corporate governance system adopted by the Company and the Group by: (i)

monitoring legal and regulatory developments as well as Italian and international best practices on corporate governance and informing the Board of Directors of significant changes; (ii) ensuring that the Company's and the Group's corporate governance system is aligned with the related legislation, the recommendations of the Corporate Governance Code and national and international best practices, submitting to the Board of Directors any opinions or proposals on such corporate governance system, when necessary or appropriate;

- to report to the Board of Directors on the meetings held and, at least once every six months, when the annual financial report and the interim half-year report are approved, on the activities carried out and on the adequacy of the System (art. 7.C.2(f) of the Corporate Governance Code);
- to support, through appropriate research, the assessments and decisions of the Board of Directors relative to risk management deriving from any prejudicial events that the Board of Directors may become aware of (art. 7.C.2(g) of the Corporate Governance Code);
- to support the Board of Directors: (i) in examining and assessing sustainability policies aimed at ensuring the creation of value over time for the majority of shareholders and for all other stakeholders over a medium/long-term horizon; (ii) in examining sustainability guidelines and plans, issues of sustainability associated with the interaction of the Company's business and stakeholders and sustainability reporting submitted annually to the Board of Directors; (iii) in monitoring the inclusion of the Company in sustainability indexes (Notes to art. 4 of the Corporate Governance Code);
- to carry out any additional duties as may be assigned by the Board of Directors.

The Committee, through the Secretary to the Board of Directors, may have access to any information and company departments it deems necessary in order to perform its duties. It may also make use of external consultants, within the limits approved by the Board of Directors (art. 4.C.1(e) of the Corporate Governance Code).

Following the re-election of the entire Board of Directors on 18 May 2020, the Committee's members were the following three non-executive, independent Directors: Paola Giannotti (in the role of Chairwoman), Marco Giorgini and Giuseppe Ferri. Two Directors were selected from the slate submitted by non-controlling shareholders.

The Corporate Governance Code recommends that "At least one member has appropriate knowledge and experience of matters relating to accounting and finance or risk management (art. 7.P.4 of the Corporate Governance Code)". In addition to the Chairman, who possesses extensive experience acquired in over 30 years in the financial sector, the composition of the Committee is such as to fully comply with this recommendation.

The composition of the Committee is also in line with the recommendations of the new Corporate Governance Code.

The Committee may request the Internal Audit department and the Chief Risk Officer to carry out checks on specific operational areas, notifying the Chairman of the Board of Statutory Auditors at the same time (art. 7.C.2 (e) of the Corporate Governance Code).

The Chairman of the Board of Statutory Auditors (or another Statutory Auditor designated by him) attends the Committee meetings, and the other Statutory Auditors may also attend (art. 7.C.3 of the Corporate Governance Code). Upon request of the Committee Chair, meetings may also be attended by the Head of Internal Audit and, with reference to individual items on the agenda, by the Chief Executive Officer (in his capacity as Executive Director responsible for overseeing the functioning of the Internal Control and Risk Management System), members of

the Remuneration Committee and/or other members of the Board of Directors or such persons whose presence may prove helpful in ensuring the best possible fulfilment of the functions of the Committee (art. 4.C.1(f) of the Corporate Governance Code).

The Committee reported to the Board of Directors at the time of approval of the annual and interim half-year financial reports on the activities carried out and the adequacy of the Internal Control and Risk Management System (art. 7.C.2 (c) and (f) of the Corporate Governance Code). The Committee also reported to the Board on its activities during the period.

More specifically, during 2020, the Audit, Risk, Corporate Governance and Sustainability Committee held a total of 6 meetings, including those held by the Committee with its previous composition, which throughout 2020 were regularly attended by all its members (100%), the Chairman of the Board of Statutory Auditors and the other Statutory Auditors (100%), in view of the specific responsibilities for oversight of the System assigned to the Board of Statutory Auditors by current legislation governing listed companies and by the Corporate Governance Code (articles 7.P.3(d) and 7.C.3 of the Corporate Governance Code). At the invitation of the Committee Chairman, all the meeting were attended by the Head of Internal Audit. In this regard, it should be noted that, following the resignation of the Head of Internal Audit, the meetings were attended by the Chairman of the Board of Directors, Valentina Bosetti, who acted as interim Group Head of Internal Audit. As will be explained in more detail, by a Board resolution of 17 February 2021, this role was assigned to Nicoletta Buonomo, with effect from 1 April 2021.

Moreover, also at the invitation of the Chairman, depending on the matters to be discussed, the meetings were attended by the Manager Responsible for Financial Reporting and representatives of the auditing firm, as well as Company managers, including the Chief Risk Officer and the heads of the Sustainability, Health, Safety and Environment and Compliance departments.

The average duration of the meetings was approximately 1 hour and 30 minutes each. The duration of the meetings enabled thorough discussion of the matters brought to the Committee's attention. For the same reason, the Chairwoman's distribution of the matters to be dealt with was based on a balanced approach in consideration of the schedule of meetings approved by the Committee in January 2020.

All Committee meetings were duly minuted and the Committee was able to access information and company departments as required in the execution of its tasks.

For the current year (2021), a number of Committee meetings have been scheduled that should be sufficient for the performance of the tasks entrusted to it, in accordance with the schedule drawn up and approved by the Committee at a meeting on 18 January 2021. During the current year, up to the date of approval of this Report, the Committee has held 3 meetings.

The participation of each member of the current Committee at meetings held during 2020 is shown in the attached Table 1 (art. 123-bis, paragraph 2(d) of the CLF).

Information on the number of meetings and activities refers to the overall activities carried out by the Committee in 2020.

As regards the activities carried out during 2020, the Committee, in accordance with the provisions of the Corporate Governance Code:

- in view of the Covid-19 health emergency, was constantly updated on the measures the Company put in place to prevent and contain risks relating to the pandemic;
- received extensive reports on periodic financial disclosures, including those of an additional nature, and on the proposed interim dividend for 2020, including through interviews with the

Manager Responsible for Financial Reporting and, where necessary, with representatives of the independent auditors. The Committee did not identify any critical issues and verified the proper use of accounting standards;

- obtained and reviewed documents on the checks performed during the period pursuant to Law 262/2005;
- received extensive information on the process involved in preparation of the “Consolidated Non-Financial Statement” in compliance with Legislative Decree 254/2016, examining in particular the preparation of the materiality matrix;
- obtained and reviewed the “Annual report on Terna’s risk management”, the content of which was illustrated by the Chief Risk Officer, and expressed its positive opinion on the adequacy of the Internal Control and Risk Management System, with respect to the nature of Company and its risk appetite, and on its effectiveness;
- expressed a positive opinion on the decision made by the Board of Directors regarding the compatibility of the risk exposure of Terna and its subsidiaries with management of the Company in line with the strategic objectives set;
- obtained and reviewed the Audit Plan, the content of which was illustrated by the Head of Internal Audit, as well as the periodic reports prepared by the Head of Internal Audit;
- obtained and reviewed the report on the activities of the Supervisory Board set up in accordance with Legislative Decree 231/01 during the second half of 2019 and the first half of 2020;
- met with the Chairman of Terna’s Supervisory Board, partly to be informed about the adequacy of the Model pursuant to Legislative Decree 231/01 adopted by the Company and its effective implementation;
- in connection with analysis of the risks to which the Company is exposed, the Committee explored the issues related to occupational health and safety. In particular, the Committee obtained and reviewed the Health and Safety Plan, investigating the injuries occurring to employees of the Group and its contractors, as well as the initiatives implemented by the Steering Committee set up on the initiative of the Chief Executive Officer;
- received extensive information on revision of the internal procedures regarding related party transactions;
- received extensive information on the adoption of new trade compliance and antitrust procedures;
- received updates on legal and regulatory developments occurring during the period with an impact on listed companies, including in particular the new Corporate Governance Code and the regulations regarding related party transactions;
- since the resignation of the Head of Internal Audit, has been kept about informed of the process for selecting a new Head of Internal Audit.

From January 2021, and in view of the entry into force of the new Corporate Governance Code, an item dedicated to the theme of sustainability will be dealt with at the beginning at each of the Committee’s meetings, in order to highlight the Committee’s focus on issues relating to the sustainable success of the Company.

The Board of Statutory Auditors and the Committee promptly exchange information relevant to the performance of their respective tasks, which is also facilitated by the constant participation of the Board of Statutory Auditors at the Committee’s meetings. Moreover, in 2020, the Committee Chair was invited to attend a meeting of the Board of Statutory Auditors with the express intention of acquiring and exchanging relevant information on a timely basis within the framework of the internal control and risk management system.

On the occasion of approval of the financial reports as at 31 December 2019 and 30 June 2020, the Committee reported to the Board on its activities and the adequacy of the internal control and risk management system.

In 2021, the Committee:

- analysed the contents of the letter to the Chairman of the Corporate Governance Committee and of the 2020 Report. In particular, the Committee discussed (i) the state of corporate governance for listed companies; (ii) the effects of the recommendations sent in 2019; (iii) the main areas of improvement identified in 2020; and (iv) recommendations for 2021;
- discussed in detail the new regulations regarding related party transactions introduced by CONSOB with Resolution 21624 of 10 December 2020;
- acquired and examined the report of Terna's Supervisory Board pursuant to Legislative Decree no. 231/01 regarding the activities carried out in the second half of 2020;
- met the Chairman of the Supervisory Board set up by Terna in accordance with Legislative Decree 231/01 to be informed about the adequacy of the Model pursuant to Legislative Decree 231/01 adopted by the Company and its effective implementation, as well as the supervisory activities carried out by the Supervisory Board with regard to the health emergency;
- was kept constantly informed about the selection process for the Head of Internal Audit and expressed its opinion on the appointment of the candidate proposed by the Chief Executive Officer, and verified the autonomy, adequacy, effectiveness and efficiency of the Internal Audit function;
- received extensive information on the activities involved in updating the materiality matrix and in preparing the consolidated non-financial statements, including for the purposes of the internal control and risk management system;
- met the Chief Risk Officer, partly to discuss the contents of the annual risk management report;
- received extensive information on the activities involved in preparing the report on corporate governance and the ownership structures;
- received extensive information on the activities involved in preparing the annual financial report and expressed its opinion on the correct use of the accounting standards and their consistency for the purposes of preparing the consolidated financial statements;
- assessed the suitability of periodic financial and non-financial information for providing an accurate picture of the Company's business model and strategies, as well as the impact of its activities and the performances achieved.

At its meeting of 24 March 2021, on the occasion of the approval of the financial report as at 31 December 2020, the Committee reported to the Board of Directors on its activities and the adequacy of the internal control and risk management system.

At this meeting, the Board of Directors assessed the Committee's duties and performance. The generally positive evaluation of the composition, size and performance of the Committee was confirmed by the Board of Directors as part of the annual review of the Board itself and its Committees.

The Committee has access to adequate financial resources, if needed.

Section XI

Internal Control and Risk Management System

With regard to internal control, back in December 2006, following prior research by the Internal Audit Committee (now the Audit, Risk, Corporate Governance and Sustainability Committee), the Board of Directors:

- drew up the “Terna Group Internal Control System” (now the “Terna Group Internal Control and Risk Management System” or the “ICRMS”), taking its inspiration from national and international best practices. The System provides a set of rules, procedures and organisational structures that - through a suitable process of identifying, measuring, managing and monitoring the main risks - enables sound management of the business in keeping with the objectives established by the Company (articles 7.P.1 and 7.P.2 of the Corporate Governance Code);
- established the guidelines in the “Terna Group Internal Control and Risk Management System” (ICRMS) envisaged by the new Corporate Governance Code (adopted by resolution on 19 December 2012, and still in force in 2020). These guidelines set out the rules, procedures and organisational structures necessary to ensure that the main risks faced by Terna and its subsidiaries are correctly identified and suitably measured, managed and monitored, in accordance with criteria compatible with sound and proper management and in line with the strategic objectives set (art. 7.C.1(a) of the Corporate Governance Code). On the same occasion and based on the above guidelines, the Board of Directors, after prior consultation with the then Audit and Risk Committee, defined the nature and level of risk compatible with Terna’s and its subsidiaries’ strategic objectives. The Board of Directors verifies this definition each year when assessing the adequacy of the Internal Control and Risk Management System with respect to the nature of the company and its risk appetite. The above-mentioned guidelines in the “Terna Group Internal Control and Risk Management System” were subsequently updated by the Board of Directors in the resolution of 15 December 2016, after prior consultation with the Audit, Risk, Corporate Governance and Sustainability Committee, taking into account the new provisions in the Corporate Governance Code relating to, among other things, the assessment of all risks that may be of relevance to the medium/long-term sustainability of Terna’s business.

Lastly, Terna has adopted a specific procedure for the management and communication of critical events to top management. In fact, when events classified as “critical” occur, this procedure requires, among other things, the convocation of a Strategic Crisis Committee, consisting of managers from the Group and the Chief Executive Officer, in his role as the Executive Director responsible for the Internal Control and Risk Management System, to define guidelines for managing and resolving critical issues. Furthermore, in order to monitor critical environmental, social, political, authorisation, implementation and legal issues connected with the Group’s planned and ongoing capital expenditure and infrastructure in service, Terna has set up a Territorial and Consents Committee. This consists of Group managers, who meet periodically to analyse the critical issues identified and to decide on how to respond.

The “Terna Group Internal Control and Risk Management System” helps, with reasonable certainty, to safeguard the Company’s assets, the efficiency and effectiveness of business processes, the reliability of financial transactions, compliance with the law, regulations, the Articles of Association and internal procedures, and the reliability of the Company’s reporting

and the information released to corporate bodies and the market. Moreover, the Internal Control and Risk Management System is constructed considering the specific nature and type of activities carried out by Terna and the connected risks and corporate interests, with special attention paid to the part of the ICRMS that aims to safeguard the continuity of the electricity service and guarantee impartial conduct in carrying out activities under concession.

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

- the “control environment”, the basis for all other components, consists of the set of ethical and cultural values, the governance and organisational model, the leadership style exercised by the company’s senior and middle management and staff management policies. With that in mind, the Code of Ethics has been adopted. This document stresses, also from a moral point of view, Terna’s unique position. It refers to the need to comply with generally accepted ethical standards that are immediately recognisable to everyone, and to adapt them to the nature of the Group. It confirms legality, integrity and responsibility as being its general ethical principles and acknowledges that standards of good governance, respect in the broadest sense of the term, fairness as a basis for loyal, impartial behaviour, and transparency in conduct and communication are particularly important. These ethical standards apply to all Group companies and employees are duly made aware of them. Disciplinary procedures apply in the case of breaches. Lastly, the Company has adopted an organisational structure that clearly assigns roles and responsibilities and operational limits, aligned with the appropriate expertise required for the roles assigned;
- the “risk management system” implemented by the company’s Board of Directors and senior management starts from the definition of business objectives (strategic plans, budgets, key performance measures, the risk appetite) and enables the various levels of the organisation to identify the main risks to which individual processes are exposed and the related action plans. These action plans are to prevent and manage risk in order to keep it within acceptable limits, monitoring the results over time. The risk management models and methods adopted (inspired by leading national and international best practices), and the roles and responsibilities within the organisation, are defined in specific corporate procedures and policies. In particular, the model provides a management tool to support decision-making processes by clarifying elements of risk and uncertainty and defining aware responses, in order to manage the Company in line with the corporate objectives defined by the Board of Directors. Risk management is applied throughout the Company in accordance with a cyclical process involving systematic and repeated identification, assessment, processing and monitoring of risks. It is also broken down into three levels, each with different objectives and associated responsibilities, which are coordinated in order to ensure the consistency, effectiveness and efficiency of the controls for monitoring and assessing the adequacy of the functioning of the ICMRS as a whole, and also ensuring unambiguous and consistent reporting to senior management and the corporate bodies of the risks to which the Company and its subsidiaries are exposed. Moreover, in accordance with the provisions of the guidelines in the “Terna Group Internal Control and Risk Management System”, the role of the Chief Risk Officer (CRO) has been introduced (Notes to art. 7 of the Corporate Governance Code). This role is filled by a manager appointed by the Director Responsible for the Internal Control and Risk Management System since May 2013 (later, on 20 February 2018, and finally on 30 January 2019), whose main responsibility is to support senior management in effectively implementing and managing the Group Risk Management process, with reference to all financial, operational and business risk.

The CRO reports to the Audit, Risk, Corporate Governance and Sustainability Committee once a year on the activities carried out in relation to risk management, highlighting any major problems faced and the methods used to resolve them:

- “control activities” carried out by the management and staff of the Terna Group in order to achieve the specific business objectives, based on basic principles such as self-control, hierarchical control, accountability, traceability and the simple reconstruction of the actions performed, the establishment of checkpoints, with the potential for blocks halting subsequent steps in the process, checks and balances and the segregation of duties. This is to ensure with reasonable certainty that the Company’s objectives are achieved and responses to identified risks are implemented properly and on time;
- the “information and communication” processes ensure that the Company’s objectives, culture, values, roles, responsibilities and expected conduct are clearly communicated internally, while guaranteeing that disclosures to stakeholders outside the Company are correct and transparent. More specifically, internal communication is implemented clearly and directly by management with regard to: business objectives, culture, values, roles and responsibilities, conduct and sanctions. In managing information, a suitable level of security must be guaranteed in relation to the nature of the data. Open communication channels between management and personnel are promoted, as well as informational channels outside of the normal hierarchical structure, when appropriate (e.g. notifications of breaches of the Code of Ethics, or of Model 231). An intranet site exists to make internal communication easier, allowing for prompt and widespread notification of company events and procedures. External communication is then regulated by procedures and organisational systems that are able to guarantee the transparency and correctness of corporate communications and prevent corporate crime. To that end, the “Procedure for the management, processing and disclosure of corporate information relating to Terna S.p.A. and its subsidiaries” has been adopted (for which reference is made to Section V, “The processing of corporate information”);
- “monitoring”, which guarantees the effectiveness of the “Terna Group Internal Control and Risk Management System”, through recurring activities carried out by personnel in the performance of their duties, and through non-recurring (or “offline”) assessments, often via sample tests, which are typical of, but not exclusive to, the Internal Audit department.

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

- an “Information Security Governance” model, based on a regulatory framework of policies and procedures and an Information Risk Management (IRM) operational programme coordinated by the Group’s Chief Information Security Officer (“CISO”). A new organisation was set up at the Company in 2017 with the creation of a Computer Emergency Readiness Team (“CERT”) focused on the cyber processes involved in Security Monitoring & Response and Info Sharing and Threat Intelligence, in line with the provisions of Directive (EU) 2016/1148 on the security of networks and information systems within the EU (the “NIS Directive”);
- a specific department dedicated to the prevention and management of corporate fraud, also aimed at developing a culture of legality and compliance with corporate rules. In order to identify potential vulnerabilities in its control system, in addition to working with institutional partners (such as the Italian finance police, the Carabinieri, the State Police, the Civil Protection Agency, CNAIPIC - the National Centre for Combating Cyber Crime and for the Protection of Critical Infrastructure, and the fire service), Terna has over time developed a methodological model based on the systematic analysis of conditions that may generate fraud events, identifying “critical areas” and potentially critical organisational and operational situations that may give rise to such phenomena, and adopting measures to prevent their occurrence. Efforts to combat fraud are therefore implemented through a process of continuous monitoring of the degree of exposure to the risk of fraud and of the related risk factors. This is done by collecting and analysing reports and indications of potential offences, the examination of processes, and the

adoption of adequate and increasingly rigorous governance and control measures for the prevention of fraud. To achieve this objective, Terna has equipped itself with specialist software and databases capable of processing the related checks, both in terms of aggregate and statistical data and with a specific focus on suppliers, contracts, projects and departments. Another element of control that has been developed concerns the analysis of stakeholders with whom Terna interfaces, aimed at containing the risks deriving from transactions with third parties, and monitoring “critical” customers, in order to minimise losses deriving from uncollectible receivables. Additionally, confirming its commitment to fighting corruption, in 2016 Terna voluntarily adhered to international standard ISO 37001:2016 “Anti-bribery management systems”, becoming the first Group in Italy to certify its anti-bribery management system. In this regard, since 2017, with the consent of the Audit, Risk, Corporate Governance and Sustainability Committee, the Terna Group has adopted specific “Global Anti-Bribery Guidelines” as an overall program to prevent corruption in the public and private sectors, in activities carried out by the companies of the Terna Group or by parties who operate in the name and/or on behalf of such Group companies in Italy and abroad, thus laying down rules and guidelines in compliance with the Terna Group’s anti-corruption program that support the respect and dissemination of the programme. On the basis of the Parent Company’s guidelines, overseas companies have also adopted a “Global Compliance Program”, recently updated on 18 December 2019. This was drawn up in the light of the principles contained in the most relevant international regulations and generally applied best practices, so as to ensure adequate controls designed to prevent criminal conduct at international level; a trade compliance policy (adopted on 13 May 2020) aimed at establishing effective oversight of export control issues:

- an (Enterprise Governance, Risk and Compliance) system, an information tool that enables structured management of the operational risk management process, via a workflow system that manages the transmission of requests, their compilation, approval and review. It also provides an access point for the collection and extraction of information, data and reports relating to risk management in various areas;
- a “Whistleblowing Policy” for managing disclosures of breaches of the Terna Group Internal Control and Risk Management System (Notes to art. 7 of the Corporate Governance Code). This Policy, adopted following the resolutions passed by the Board of Directors on 21 March 2016, outlines the organisational model for managing such disclosures and defines the roles and responsibilities involved at the various stages of the process and guaranteeing security in all its aspects, above all by protecting the anonymity of the whistleblower, as well as that of the individual reported on. Furthermore, in line with best practices at national and international level and with current legislation (Law 179/2017), Terna has set up reporting channels, including an electronic channel, the ‘Disclosure Procedure’ web portal. Through this portal anyone (the “whistleblower”) can report any irregularities or unlawful conduct pursuant to Legislative Decree 231/2001. Verification of the truthfulness and accuracy of disclosures is carried out through various stages of investigation, during which, at all times, thanks to the adoption of “IT security” protocols and the use of tools to encrypt the content of the disclosure and any attachments, Terna guarantees confidentiality and
- security in the protection of personal data and the processing of information (for more information, reference should be made to <https://whistleblowing.terna.it/>).



On approval of the resolutions regarding the above ICRMS, and on the basis of the positive opinion issued by the Audit and Risk Committee (now the Audit, Risk, Corporate Governance and Sustainability Committee), during the meeting of 19 December 2012, the Board of Directors

expressed a positive opinion on the adequacy of the Internal Control and Risk Management System with respect to the nature of the business and the type of risks assumed, as well as on its effectiveness. This assessment, supported by the annual report of the Audit, Risk, Corporate Governance and Sustainability Committee, was also confirmed by the Board of Directors during 2018 and 2019.

Subsequently, on 24 March 2021, a meeting of Terna's Board of Directors, in accordance with the opinion provided by the Audit, Risk, Corporate Governance and Sustainability Committee on the basis of the analyses carried out during 2020 and on approving the financial statements for 2020, confirmed the positive assessment given and judged the Internal Control and Risk Management System of the Terna Group adequate for the purposes of achieving an acceptable risk profile, in consideration of the industry in which Terna operates, its size and organisational and corporate structure (articles 1.C.1(c) and 7.C.1(b) of the Corporate Governance Code).

In its report, the Audit, Risk, Corporate Governance and Sustainability Committee also referred to the report of the Supervisory Board, appointed pursuant to Legislative Decree 231/01, on implementation of the resulting Organisational Model at Terna and at other Group companies, as well as referring to the report produced by the Chief Risk Officer (CRO) on the risk management methods employed by Terna.

Annex 1 to this Report includes the principal characteristics of existing risk management and Internal Control systems with respect to the financial reporting process, including at consolidated level (pursuant to art. 123-*bis*, paragraph 2(b) of the CLF).

Executive Director responsible for the Internal Control and Risk Management System

The CEO of Terna, in his role as the "Executive Director responsible for the Internal Control and Risk Management System" appointed by the Board of Directors on 18 May 2020, is responsible for establishing and maintaining the "Terna Group Internal Control and Risk Management System". In particular, he follows the guidelines set out by the Board of Directors, by planning, implementing and managing the Internal Control and Risk Management System, continuously monitoring its adequacy and efficiency, adapting it to changes in the operating environment and in the legislative and regulatory framework. He also identifies the principal corporate risks, considering the key features of the business carried out by the Company and its subsidiaries, reporting regularly on them to the Board of Directors (art. 7.P.3(a)-(i) and 7.C.4(a), (b) and (c) of the Corporate Governance Code).

He carries out the duties assigned by the Corporate Governance Code (art. 7.C.4(c), (d) and (e) of the Corporate Governance Code). He is also responsible for appointing and removing the Chief Risk Officer (CRO), after consultation with the Audit, Risk, Corporate Governance and Sustainability Committee, ensuring that this Officer has the resources necessary to fulfil his duties.

He may also ask the Internal Audit department to audit specific areas of operation and review compliance with internal rules and procedures applicable to the conduct of business. In such cases, he simultaneously informs the Chairwoman of the Board of Directors, the Chairman of the Audit, Risk, Corporate Governance and Sustainability Committee and the Chairman of the Board of Statutory Auditors, reporting promptly to the Audit, Risk, Corporate Governance and Sustainability Committee (or the Board of Directors) on any problems or critical issues that have emerged, or of which he has become aware in discharging his duties. This enables the Committee (or the Board of Directors) to take any necessary action (art. 7.C.4(d) and (e) of the Corporate Governance Code).

More specifically, in performing these activities during 2020, the Chief Executive Officer implemented the guidelines for the "Terna Group Internal Control and Risk Management System" drawn up by the Board of Directors - as explained in the sub-section of Section XI,

“Internal Control and Risk Management System” - and monitored changes in the operating environment as a result of the Group’s reorganisation. He reported on these activities, through the Company’s relevant departments, to the Audit, Risk, Corporate Governance and Sustainability Committee.

Therefore, it should be noted, that TERNA S.p.A.’s Chief Executive Officer is already the person in charge of setting up and maintaining the internal control and risk management system, in line with the recommendations of the Corporate Governance Code.

Head of Internal Audit

According to the “Terna Group Internal Control and Risk Management System” guidelines adopted on 19 December 2012, and most recently revised on 15 December 2016, and previously referred to in this section, the “Terna Group Internal Control and Risk Management System” provides for an Internal Audit department, with the Head of Internal Audit appointed by the Board of Directors on the recommendation of the “Executive Director responsible for the Internal Control and Risk Management System”, with the prior approval of the Audit, Risk, Corporate Governance and Sustainability Committee and in consultation with the Board of Statutory Auditors (art. 7.C.1 of the Corporate Governance Code).

The Head of Internal Audit is assigned the tasks indicated in the Corporate Governance Code (art. 7.C.5 of the Corporate Governance Code) and does not have an operational role. He or she reports to the Board of Directors (art. 7.C.5(b) of the Corporate Governance Code) and, consequently, to the Chairwoman of the Board of Directors, as well as to the Chief Executive Officer in his capacity as “Executive Director responsible for the Internal Control and Risk Management System”.

To this end, Terna’s organisation has long had a specific Internal Audit department, appointing as its head a Company manager meeting the appropriate professionalism requirements and not having any operational role or responsibilities. The appointed person, who reports to the Board of Directors, is assigned sufficient resources and means to enable them to oversee the adequacy, performance and functionality of the ICRMS, as well as being awarded remuneration in keeping with the Company’s policies (art. 7.C.1 of the Corporate Governance Code). This arrangement has guaranteed the effectiveness of the Internal Audit department in pursuing its mission and in ensuring the compliance of its activities with the Standard for the practice of Internal Auditing issued by the IIA.

On 30 January 2019, Terna’s Board of Directors, following consultation with the Audit, Risk, Corporate Governance and Sustainability Committee and the Board of Statutory Auditors, appointed Marco Fossataro as the Head of Internal Audit, who remained in office until November 2020.

Therefore, the Company began the process of selecting the new Head of Internal Audit in line with corporate procedures for the selection of senior roles and the “Terna Group’s Internal Control and Risk Management System” guidelines, as well as with the Corporate Governance Code.

In the meantime, as of 1 December, the Company entrusted the role of Head of Internal Audit to the Chairwoman of the Board of Directors of Terna S.p.A., Valentina Bosetti, on an interim basis, which is also in line with her task of overseeing audit activities, assigned to her by a resolution of the Board of Directors on 18 May 2020.

It should be noted that, during the completion of the selection process of the new Head of Internal Audit, the new Corporate Governance Code - to which the Company has adhered - came into force, which, in recommendation no. 33, establishes, among other things, that *“the Board of Directors, with the support of the Control and Risk Committee, appoints and revokes the Head of Internal Audit, defining his/her remuneration in line with Company policies, and ensuring that he/she is provided with adequate resources to carry out his/her tasks”*.

Therefore, in line with the new Code, and also with the above-mentioned “Terna Group’s Internal Control and Risk Management System” guidelines, the Control and Risk, Corporate Governance and Sustainability Committee followed the entire candidate selection process, supporting the Board of Directors in its choice of a candidate who, in terms of competence and experience, was suitable for this role, partly in consideration of the complex nature of the Terna Group.

The correctness of the method applied by the Company was also verified by the Board of Statutory Auditors, which took part in all the meetings of the above-mentioned Committee and acquired the relevant documentation, and acknowledged it in its own meetings.

In light of the profiles examined, the recommendations of the Control and Risk, Corporate Governance and Sustainability Committee and the assessments carried out, with a resolution on 17 February 2021, and with effect from 1 April 2021, Terna S.p.A.’s Board of Directors appointed Nicoletta Buonomo as Head of Internal Audit of the Terna Group, a Terna S.p.A. executive who is currently Head of Administration, Financial Reporting and Tax.

In implementation of the Corporate Governance Code (art. 6, recommendation no. 33), the Board has also tasked the Chairwoman and the Executive Director with ensuring that the Head of Internal Audit is provided with adequate resources to carry out her duties.

Terna’s Head of Internal Audit:

- oversees, both continuously and in relation to specific needs and in compliance with international standards, the performance and adequacy of the Internal Control and Risk Management System through the audit plan based on a structured process of analysis and prioritisation of the main risks (art. 7.C.5(a) of the Corporate Governance Code);
- has direct access to all the information need in order to fulfil his duties. More specifically, in order to perform its role, the Internal Audit department may freely access all company information systems, and all documents and information held by the Company (art. 7.C.5(c) of the Corporate Governance Code);
- prepares regular reports containing suitable information on their work, on the way in which risks are managed and on compliance with the plans designed to mitigate the related exposures. These regular reports contain an assessment of the adequacy of the Internal Control and Risk Management System (art. 7.C.5(d) of the Corporate Governance Code);
- promptly reports on particularly important events (art. 7.C.1(e) of the Corporate Governance Code);
- sends the reports referred to above to the chairs of the Board of Statutory Auditors and the Audit, Risk, Corporate Governance and Sustainability Committee, and to the Chairwoman of the Board of Directors, as well as to the “Executive Director responsible for the Internal Control and Risk Management System” (art. 7.C.5(f) of the Corporate Governance Code);
- oversees, as part of the audit plan, the reliability of information systems, including accounting systems (art. 7.C.5(g) of the Corporate Governance Code).

The work plan prepared by the Head of Internal Audit is approved by the Board of Directors at least once a year, based on the opinion of the Audit, Risk, Corporate Governance and Sustainability Committee, and after consultation with the Board of Statutory Auditors and the “Executive Director responsible for the Internal Control and Risk Management System” (art. 7.C.1(c) of the Corporate Governance Code). For the year April 2020 – March 2021, the work plan was approved by the Board of Directors on 10 March 2020, with the approval of the Audit, Risk, Corporate Governance and Sustainability Committee, after consultation with the Board of Statutory Auditors and the “Executive Director responsible for the Internal Control and Risk Management System”.

The activities of the Head of Internal Audit take the form of audits whose scope extends to Terna and its subsidiaries. Audit activities are performed according to the annual audit plan and may be carried out in cooperation with the departments that perform audits within subsidiaries.

The Chief Executive Officer, as the “Executive Director responsible for the Internal Control and Risk Management System”, may request the Internal Audit department to audit specific areas of operation and verify compliance with the internal rules and procedures applicable to the conduct of business, reporting its findings to the Chairwoman of the Board of Directors, the Chairman of the Audit, Risk, Corporate Governance and Sustainability Committee and the Chairman of the Board of Statutory Auditors (art. 7.C.4(d) of the Corporate Governance Code).

The Audit, Risk, Corporate Governance and Sustainability Committee may request the Internal Audit department to audit specific areas of operation, and to report its findings to the Chairman of the Board of Statutory Auditors (art. 7.C.2(e) of the Corporate Governance Code) and the “Executive Director responsible for the Internal Control and Risk Management System”.

In performing its activities, the Board of Statutory Auditors may request the Internal Audit department to audit specific areas of operation or operations (art. 8.C.6 of the Corporate Governance Code).

The Head of Internal Audit informs the “Executive Director responsible for the Internal Control and Risk Management System” of any requests for audits received from the Audit, Risk, Corporate Governance and Sustainability Committee and the Board of Statutory Auditors.

The Board of Statutory Auditors and the Audit, Risk, Corporate Governance and Sustainability Committee promptly exchange any material information relating to fulfilment of their duties (art. 8.C.7 of the Corporate Governance Code).

The performance of Terna’s Internal Audit department, which is subjected to a “Full External Quality Assessment” by qualified external experts every five years, was awarded the highest possible rating in relation to the “International Standards for the Professional Practice of Internal Audits” in 2019. More specifically, Audit activities were found to be “generally compliant with the definition of Internal Auditing, the Profession’s Code of Ethics, the Standards regarding Auditors and Standards of Performance; adequate in relation to internal processes and procedures; designed to facilitate control, risk management and control governance processes; focused on continuous improvement; and designed to add value and improve the organisation’s operational processes”.

During 2020, the Internal Audit department followed up on the activities envisaged in the plan and also carried out activities outside the plan. Several significant areas of the Company were audited, including, among other things: the sustainability of underground cables, construction site safety and compliance, Brugg’s commercial process and customs procedures, analysis of the Peru project, impartiality towards National Grid users, cyber security and Terna’s data centre.

Continuous auditing activities focused on: appointments and consultancy, corporate giving, administrative and accounting analyses, service quality, and connections.

Activities were also carried out to monitor the implementation of Covid-19 protocols at the Company. The Head of Internal Audit attended all the meetings of the Crisis Committee.

Audits were carried out on the protocols and the internal control system relating to the 231 Organisational Model at the request of the Terna Group’s 231 Supervisory Bodies regarding such areas as: participation in tenders called by the Public Administration, soft loans, expropriations and compulsory purchase orders, inspections by the Public Administration, tax offences, procurement and intercompany contracts.

In 2020, the Audit department implemented a system (Power BI) to more accurately monitor improvement actions that emerge during audit activities, and also identified focal points in Company departments to facilitate implementation of the actions.

The Audit department regularly attended the coordination meetings of the second-level control departments in order to boost information sharing during the planning and execution of activities. The department also attended the meetings of the Investment Committee, the ICT Committee, the Committee for the Development of Activities Overseas, and the meetings of the Steering Top Program.

Code of Ethics

In May 2002, mindful of the moral aspects involved in its core activities, Terna's Board of Directors resolved to adopt a Code of Ethics (later revised in March 2004), allowing employees and everyone entering into relations with Terna to act in such a way as to engender trust, strengthen the Company's positive reputation and create value.

In 2006, following the transformation of Terna into an independent operator in the electricity transmission market, the Code of Ethics underwent a review with the aim of providing Terna with a set of rules and principles in keeping with its new operating environment.

The new Code of Ethics, which was approved by the Board of Directors on 21 December 2006, stresses Terna's unique nature, including from a moral viewpoint. It underlines the need to respect universal ethical principles, which can be immediately recognised by everybody, as adopted by the Group. It is not a coincidence that the Code of Ethics makes specific reference to the 10 Global Compact principles, representing the most prestigious expression of this vision and of which Terna has been a member since 2009.

Terna's Code of Ethics consists of five sections, which reflect, in this order:

- Terna's fundamental ethical principles, organised into general ethical principles (legality, honesty and accountability), considered universal and therefore recognisable and acceptable to all, and into four principles that Terna believes are particularly important in view its activities and nature (sound management, respect, fairness and transparency);
- the conduct required, especially from employees, based on three important elements: loyalty to the Company, conflicts of interest and the integrity of the Company's assets;
- guidance on conduct in relations with stakeholders, made up of eight groups to which Terna wishes to maintain a consistent approach;
- Terna's commitment to comply with the Code and the conduct required in relation to certain stakeholders;
- the policies implementing the Code and the persons responsible for revising the Code and receiving disclosures, and who should be contacted for clarifications.

The Code of Ethics was approved in December 2006. It applies to all of the Terna Group's subsidiaries, which must comply with sections 1 (Principles), 2 (Conflicts of interest, company loyalty and the integrity of the Company's assets) and 3 (Stakeholder relations), but limited to the initial guidelines on the conduct to be adopted in relations with individual categories of stakeholder. In addition, considering changes in the Terna Group's organisational structure over time, in February 2015, specific guidelines were drawn up for the adoption of the Code of Ethics by the Terna Group's subsidiaries. These contain interpretative guidance on the connection between specific aspects of the Code and the operating environments of the Terna Group's Parent Company and its subsidiaries.

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

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

231 Organisational Model pursuant to Legislative Decree 231/2001

In December 2002, Terna's Board of Directors approved adoption of an Organisational and Management Model that met the requirements of Legislative Decree 231 of 8 June 2001 (the "231 Model"). This legislation introduced into Italian Law a system of administrative (and criminal) liability for companies with respect to certain types of offences committed by their Directors, statutory Auditors, managers or employees in the companies' interests or for their benefit. The Model was revised in June 2004, in the light of the Company's listing, and subsequently adapted following organisational changes and the development of the business, as well as in response to the continuous addition of further categories of predicate offence.

In particular, in 2010, the 231 Model was amended following changes to art. 24-*ter* regarding "organised crime offences" and art. 25-*bis*, 25-*novies* and 25-*novies (bis)* regarding "industrial and trade fraud", "breaches of copyright" and "inducement of others to withhold evidence or commit perjury in legal proceedings", respectively, introducing the new Special Part I, related to organised crime offences and revising the General Part and the Special Parts "A", "B", "G" and "H" for other types of offence.

In addition to identifying areas deemed to be most at-risk for the commission of offences (so called "At-risk Areas"), the process also involved defining a code of conduct that all representatives of the Company must comply with in order to prevent such offences, supplementing the provisions already included in existing internal procedures.

This initiative goes hand-in-hand with the Code of Ethics, as the Company believes that adoption of the 231 Model – which, under the legislation, is optional and not mandatory – is an effective tool for raising awareness among persons who operate in the name and on behalf of Terna and its Group of the need to carry out their roles in a fair and transparent manner, so as to prevent commission of the offences covered by the Decree.

In 2011, following the addition of further categories of predicate offence relating to environmental crimes, pursuant to art. 25-*undecies* of Legislative Decree 231/2001, an assessment was carried out and the relevant areas of the Company, roles and responsibilities were mapped to as to identify "At-Risk Areas". This process also defined the code of conduct that all representatives of the Company must comply with in order to prevent such offences. Therefore, following this activity, the 231 Model was further expanded through the introduction of Special Part "L" regarding "Environmental offences".

In 2012, following a reorganisation of the Terna Group, the 231 Model was completely revised and updated and specific Organisational Models were prepared for the subsidiaries that took into account their specific activities.

Within the scope of the new Special Part "D", the new 231 Model also considers the extension of the list of predicate offences to include the crimes referred to in art. 25-*duodecies* of Legislative Decree 109 of 16 July 2012. This extended the definition of administrative liability to include entities that breach the minimum rules relating to the employment of third-country nationals who are illegally resident, as established in Legislative Decree 286 of 25 July 1998 (the Consolidated Law on Immigration).

With the subsequent expansion of the list of offences, also in 2013, following the enactment of Law 190/2012 on anti-corruption, the Company proceeded to carry out the relevant assessment and to map the relevant areas of the Company, roles and responsibilities so as to identify "At-Risk Areas".

It proceeded to define the standards of conduct that corporate officers must comply with in order to prevent commission of the new predicate offences. Therefore, following this

activity, the 231 Model was further amended, updating Special Parts “A” and “B” to take into account the changes made to the crimes of “unlawful inducement to give or promise benefits”, “extortion”, “corruption in performing a duty” and the introduction of the crime of “private-to-private corruption”. In relation to organised crime, the new category of “influence peddling” was added to “Special Part I” of the Model. This crime, although not included among the new predicate offences in relation to the application of Legislative Decree 231/01, does concern conduct resembling corruption, and as such it was considered best to include it in the map and in the Model under racketeering.

Similarly, during 2015 - following the entry into force of Law 186 of 15 December 2014, which introduced the crime of self-laundering into the Italian legal system, by providing that such offence could determine the administrative liability of the entity in whose interest or to whose advantage it was committed - there was an additional update of the 231 Model. In this regard, following the usual risk assessment and gap analysis, the need to include tax crimes in the map of at-risk areas emerged. The 231 Organisational Model was thus amended by making some changes of a formal nature to Special Part “F”, dealing with money laundering and the handling of stolen goods, to add the offence of self-laundering. The 231 Model was also updated to align it with recent theory and case-law regarding the crime of “Illegal burning of waste”.

During 2016, the 231 Model was then revised on the basis of the changes introduced by Laws 68/2015 and 69/2015, relating to environmental offences, offences against the public administration, mafia-related criminal conspiracy and false accounting. The most significant amendments involved Special Part “L” of the 231 Model, which was updated to take into account the new types of environmental offence. These specifically regard: environmental pollution, environmental disaster, environmental negligence and the trafficking and dumping of highly radioactive material. Additional amendments affected Special Part “B”, updated to include the new types of offence regarding false accounting (articles 2621, 2621-*bis* and 2622 of the Italian Civil Code), Special Part “C”, updated to include the new types of offence relating to terrorism, and Special Part “D”, which was amended to include the crimes of child grooming and virtual pornography, introduced by articles 609-*undecies* and 600-*quater*1 of the Italian Criminal Code.

In 2017, the 231 Model was subjected to an overall revision:

- following adoption of the regulatory amendments related to the cases already described and the related organisational controls concerning market abuse (Special Part “E”), anti-money laundering (Special Part “F”) and crimes against the individual (Special Part “D”), as well as;
- the introduction of the controls regarding new offences, such as human trafficking and labour exploitation, i.e. modern slavery (described in the new Special Part “D”) and inducement to private-to-private corruption (described in the new Special Part “B”), and
- to set up so-called whistleblowing systems (the “General Part”) as provided for in Law 179/2017, which amended art. 6 of Legislative Decree 231/2001.

In 2018, partly in view of minimal regulatory changes, no formal changes were made to the model. However, a general review of the Model was conducted in light of the Group’s organisational changes and, in January 2019, the General Section and Special Sections of the Model were updated. The most important innovation was amendment of the Whistleblowing Policy to redefine the roles and responsibilities involved in handling disclosures.

In 2020, following the introduction of Law no. 157 of 19 December 2019 relating to the “Conversion into law, with amendments, of Law Decree no. 124 of 26 October 2019,

containing urgent provisions relating to tax matters and requirements that cannot be deferred”, which provided, among other things, for the inclusion in the Decree of art. 25-quinquiesdecies, regarding tax offences, the update of the Terna Group’s 231 Organisational Models was approved. In particular, following this amendment, a new Special Section on tax offences was introduced (Special Section M). Moreover, during the update process, in view of the Group’s business activities in the area of innovation, an additional Special Section on industrial and trade offences (Special Section I) was introduced. Finally, organised crime offences, provided for in art 24-ter of Legislative Decree 231/2001, have been included in the General Section as well as in the individual Special Sections. This is in line with best practices for the preparation of 231 Organisational Models, which rather than providing for a specific section devoted to criminal conspiracy, recommend covering this type of offence in all parts of the Model.

The Model is currently organised into twelve sections:

- a “General Part”, which, among other things, describes the content of Legislative Decree 231/2001, the aims of the Model and how it functions, the duties of the Supervisory Board - structured as a collective body - required to monitor the functioning of and compliance with the Model, information flows and the related sanctions. In this regard, at the meeting held on 19 December 2012, and considering current legislation and regulations concerning the election and duties of the Board of Statutory Auditors, the Board of Directors chose not to transfer the functions of the Supervisory Board to this body (Notes to art. 7 of the Corporate Governance Code);
- a “Special Part A” concerning offences committed in transactions with the public administration and the offence of inducing others to withhold evidence or commit perjury in legal proceedings;
- a “Special Part B”, which deals with corporate crimes;
- a “Special Part C”, which deals with crimes of terrorism or subversion of democratic institutions;
- a “Special Part D”, relating to crimes against the individual, against equality and in breach of the Consolidated Law on Immigration;
- a “Special Part E”, concerning market abuse offences, with the addition of a specific “Compliance regulation for the prevention of market abuse offences and administrative offences”, aimed at providing the persons to whom the 231 Model applies with an additional operational tool to help them assess their attitude to committing market abuse and administrative offences and, as a result, prevent conduct that could potentially give rise to administrative liability for the Company;
- a “Special Part F”, concerning offences relating to the receipt of stolen goods, money-laundering, benefits deriving from ill-gotten monies, property or gains, and self-laundering introduced into Decree 231/01 as a result of the entry into force of Legislative Decree 231/07;
- a “Special Part G”, regarding manslaughter and serious or very serious injuries caused in violation of occupational health and safety legislation;
- a “Special Part H” relating to cyber-crime and breaches of copyright;
- a “Special Part I” relating to industrial and trade offences;
- a “Special Part L”, concerning environmental offences;
- a “Special Part M” relating to tax offences.

The content of this Model is consistent with the guidelines prepared for this purpose by trade associations. It is also in line with best practices, and represents a key element within the integrated security system adopted by Terna, testifying to the rigour, transparency and sense of responsibility that mark internal and external relations, and offering shareholders a guarantee of efficient and correct management.

To disseminate the Model adopted, since 2010, the Company has been running a widespread, customised training and information campaign involving all employees. This involves classroom sessions, as well as e-learning modules, with content that differentiated according to the target group and based on real-life situations. In particular, a process-based awareness raising campaign was conducted in 2019, focusing on the various “At-risk areas” in which personnel operate. Other initiatives were also undertaken to ensure that all employees are familiar with the regulations and the conduct to be observed.

Specifically, significant efforts were put into informing personnel through circulation of the Compliance Newsletter which, on a quarterly basis, provides updates on important news regarding Legislative Decree 231 and the related legislation.

Moreover, an Intranet portal has been set up, with a specific section dedicated to matters relating to Legislative Decree 231/01, in which all the Models used by the Group can be accessed, along with detailed information on the latest theories and case-law and a manual on the “Model for the Organisation and Management of Procedures”. The latter is aimed at Terna’s personnel involved in implementation of the Model, in order to provide a simplified interpretation of the Model, but one that is complete in terms of clearly indicating the proper conduct to be adopted and the sort of conduct not to engage in in order to avoid exposure to potential liability.

In compliance with the provisions of art. 6 of Legislative Decree 231/01, the Parent Company and its Italian subsidiaries have entrusted the task of supervising the functionality and compliance with the respective Models, and any subsequent revisions, to a Supervisory Board with autonomous powers of initiative and control. The Supervisory Board is a collective body whose members, appointed by the Board of Directors of the Parent Company, must meet the related requirements relating to autonomy, independence, professionalism, continuity of action, integrity and absence of conflicts of interest.

The Parent Company’s current Supervisory Board, appointed on 20 June 2018 and whose term will expire with approval of the financial statements for the year ended 31 December 2020, has the following four members, three of whom are external: Bruno Assumma, who holds the role of Chairman, Massimo Dinoia and Francesco De Leonardis, as external members, and Francesca Covone, Terna S.p.A.’s Head of Legal and Corporate Affairs, as an internal member. For more information, reference should be made to the website – www.terna.it “Business ethics and compliance” section.



Independent Auditors

Following the outcome of the single European tender process launched by the shareholder, Cassa Depositi e Prestiti S.p.A., with a view to selecting a single audit firm for all its subsidiaries, and based on a reasoned proposal from the Board of Statutory Auditors, the Annual General Meeting of 8 May 2019 voted to engage Deloitte & Touche S.p.A. to audit the Company’s accounts for the period 2020-2028, thereby replacing the outgoing audit firm, PricewaterhouseCoopers S.p.A..

In drafting its recommendation regarding the engagement, which was submitted to the Annual General Meeting of 8 May 2019, the Board of Statutory Auditors conducted a preliminary assessment of the independence of this firm with reference to Terna and the Group.

In 2020, in accordance with the provisions of art. 5, paragraph 4 of Regulation (EU) 537/2014, all other contracts, other than the independent audit engagement, awarded to PricewaterhouseCoopers S.p.A. and its associates were subjected to pre-approval by the Board of Statutory Auditors in its capacity as the Internal Control and Audit Committee. In this context, PricewaterhouseCoopers S.p.A. was also retained to provide external assurance with regard to the Consolidated Non-Financial Statement, required by Legislative Decree

254/2016 and published as part of the Sustainability Report, as well as limited assurance of the Green Bond Report form 2019.

With regard to the 2020 financial year, Deloitte & Touche S.p.A. and its associates are in charge of audit activities which thus also include TERNA S.p.A.'s financial statements and the Group's consolidated financial statements for the year ended 31 December 2020, in addition to the external assurance of the Consolidated Non-Financial Statement, required by Legislative Decree 254/2016, for 2020.

Manager Responsible for Financial Reporting and other roles and functions

In implementation of art. 154-*bis* of the CLF - introduced by Law 262 of 28 December 2005 and subsequently amended by Legislative Decree 303 of 29 December 2006 -, the Annual General Meeting of Terna's shareholders held on 24 May 2007 amended the Articles of Association (art. 21.4) to create the position of Manager Responsible for Financial Reporting. The article delegates authority for appointing the Manager to the Board of Directors, based on a prior opinion from the Board of Statutory Auditors and meeting specific professionalism requirements.

The decision to assign the Board of Directors responsibility for appointing and removing the Manager Responsible for Financial Reporting was taken in line with the legislation that directly gives the Board of Directors the specific task of oversight (art. 154-*bis*, paragraph 4 of the CLF). In this regard, within the scope of the "Terna Group Internal Control and Risk Management System" guidelines, as most recently revised on 15 December 2016 and previously described in this section, the Board has specifically assigned the "Executive Director responsible for the Internal Control and Risk Management System", governed by the Corporate Governance Code, the task of nominating the manager concerned, after consultation with the Board of Statutory Auditors.

The Manager Responsible for Financial Reporting must also meet the integrity requirements provided for by law and the professional requirements indicated in the Articles of Association (art. 21.4).

In particular, the Manager Responsible for Financial Reporting must have at least three years' experience in:

- a) a management role related to administration, finance and control activities and/or the preparation and/or analysis and/or audit and/or review of company accounts where the degree of complexity is comparable to that of the Company's accounts; or
- b) auditing the accounts of companies listed in Italian regulated markets or in markets of other countries of the European Union; or
- c) practicing as an accountant or as a university teacher of financial or accounting subjects.

The figure of the Manager Responsible for Financial Reporting is subject to specific "Terms of reference for the Manager Responsible for Financial Reporting", a document that defines the tasks and associated responsibilities, and the related powers and resources attributed. The document was prepared by Terna back in 2007 and subsequently revised in agreement with the "Executive Director responsible for the Internal Control and Risk Management System".

In accordance with the relevant legislation, the Board of Directors promptly appointed a Manager Responsible for Financial Reporting. This position is held by Agostino Scornajenchi, who was appointed by the Board of Directors after receiving confirmation that he met the related integrity and professional requirements. This appointment is in line with changes in the Company's organisational structure and the functions assigned to Mr Scornajenchi as the Chief Financial Officer, reporting directly to the Chief Executive Officer.

The Manager Responsible for Financial Reporting carries out all the activities necessary to allow the Board of Directors to carry out its oversight role as per art. 154-*bis*, paragraph 4 of the CLF.

Pursuant to art. 154-*bis*, paragraph 2 of the CLF, the Manager Responsible for Financial Reporting issues an attestation on the consistency of the Company's published documents and announcements, whether provided for by law or disclosed to the market, relating to its annual and interim accounts with its internal documents, accounting books and records. These statements have been made since the interim half-year report for 2007.

Pursuant to art. 154-*bis*, paragraph 3 of the CLF, the Manager Responsible for Financial Reporting designs suitable administrative and accounting procedures for use in preparation of the separate and consolidated financial statements and any other financial disclosures requiring his attestation. In this regard, the Manager Responsible for Financial Reporting, together with the Chief Executive Officer, issues a specific report on the separate financial statements, the condensed interim financial statements and the consolidated financial statements, attesting to the adequacy and effective application of these procedures, in accordance with paragraph 5 of the above article, in keeping with the format established in the Regulations for Issuers. These attestations have been provided since the financial statements for the year ended 31 December 2007.

During 2020, in continuity with the activities carried out in previous years, the Manager Responsible for Financial Reporting revised:

- the administrative and accounting procedures;
- the assessment of the entity-level Internal Control and Risk Management System.

Upon completion of these revisions and also for the purposes of art. 154-*bis* of the CLF, the Manager Responsible for Financial Reporting carried out a specific review aimed at verifying the correct application of the procedures.

In accordance with the provisions of the Corporate Governance Code, the Manager Responsible for Financial Reporting has, together with the Audit, Risk, Corporate Governance and Sustainability Committee, evaluated the proper use of accounting standards (art. 7.C.2(a) of the Corporate Governance Code).

Coordination of the persons involved in the Internal Control and Risk Management System

The "Terna Group Internal Control and Risk Management System" involves, each within the scope of their responsibilities, the Board of Directors, the Chief Executive Officer assigned the role of "Executive Director responsible for the Internal Control and Risk Management System" by the Board of Directors, the Audit, Risk, Corporate Governance and Sustainability Committee, the Board of Statutory Auditors, the Internal Audit department and its Head, the Supervisory Board set up in accordance with Legislative Decree 231 of 8 June 2001, the Manager Responsible for Financial Reporting appointed in accordance with art. 154-*bis* of the CLF and the Chief Risk Officer (CRO). In line with the recommendations of the new Corporate Governance Code, the System sets out the ways in which these persons are to coordinate their activities, describing their roles and duties within the Internal Control and Risk Management System, in order to maximise the overall efficiency of the ICRMS. This is done in keeping with the respective roles and responsibilities and in order to reduce the duplication of activities (art. 7.C.1(d) of the Corporate Governance Code).

In order to guarantee suitable coordination between the parties involved in the ICRMS, Terna arranges for:

- suitable, continuous flows of information between the parties involved in the ICRMS;
- *ad hoc* meetings in order to manage specific situations or events, needed to ensure the prompt control of any exposure to risks and the identification of operational issues;
- regular meetings to communicate the status of the risk management system and to plan tests;
- systematic reporting on the exposure to risks, with different information levels according to the person reported to.

Section XII

Directors' interests and related party transactions

Even before listing its shares, Terna and its subsidiaries decided to lay the foundations for ensuring that related party transactions were carried out in compliance with the principles of procedural and substantive fairness, both in its own interests and as a duty to the market.

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

Following the publication of the "Regulations for Related Party Transactions" issued by CONSOB with Resolution 17221 dated 12 March 2010, subsequently amended by Resolution 17389 dated 23 June 2010 ("CONSOB Related Party Regulations"), Terna's Board of Directors - as announced to the market on 12 November 2010 - drew up these conditions within a new Procedure (the "Procedure for Related Party Transactions"), effective as of 1 January 2011. The Procedure takes into account the new regulations, as well as the requirements of the Italian Civil Code and those of the Corporate Governance Code. The resolution was passed unanimously following a positive opinion from the Committee established for this purpose and made up of independent Directors only (as established by art. 4, paragraph 3 of the CONSOB Related Party Regulations), whose members were chosen from among the members of the Remuneration Committee at that time. Since 2011, an annual survey of related parties has been carried out, as per art. 4 of the resolution.

The amendments to the Articles of Association required by the Procedure for Related Party Transactions were approved in the resolution passed by the Annual General Meeting of 13 May 2011.

Therefore, the Procedure for Related Party Transactions has been progressively updated to take account of changes in the regulatory context and the relevant best practices.

According to the document prepared on first-time adoption, the Procedure for Related Party Transactions underwent a preliminary review by Terna's Board of Directors which, based on the favourable opinion of the specific Committee and considering the lack of critical issues, deemed the Procedure on the whole to be valid and effective, and did not find it necessary to make any changes to it.

Subsequently, on 26 January 2016, proceeding with the planned three-year audit of the document, the Board of Directors unanimously, and after obtaining the approval of the Related Party Transactions Committee, resolved to make a few, mainly formal, changes to the Procedure for Related Party Transactions. These consisted of reformulations and clarifications, designed to make it easier for all company departments and the various parties concerned to use the document. Additional reviews of the Procedure for Related Party Transactions will be carried out whenever deemed appropriate, but at least every three years, also in consideration of the organisational structures of the Company and the Group, the ownership structure and the Procedure's effectiveness when applied.

On 15 December 2016, the Board of Directors, unanimously, based on the positive opinion of the Related Party Transactions Committee, resolved to extend the scope of the Procedure for Related Party Transactions to include the Terna Group's key management personnel, as identified by the Chief Executive Officer of the Company and included in the specific "Related Parties List".

On 31 October 2019, the CONSOB published a consultation document containing amendments to the Regulations for Related Party Transactions, the Markets Regulation and the Regulations for Issuers. These regarded the transparency of remuneration, asset management and proxy advisors, following the transposition of Directive (EU) 2017/828 (Shareholder Rights II).

Therefore, it was deemed appropriate to postpone the update of the Procedure for Related Party Transactions until the regulatory framework had been consolidated.

Subsequently, due to the evolution of the Company's organisational structure as well as the entry into force of stricter sanctioning provisions, it was decided to carry out a limited revision, including a paragraph on administrative sanctions regarding related party transactions. In particular, these include art. 192-*quinquies*, introduced by Legislative Decree no. 49/2019 and amended by Legislative Decree no. 84 of 14 July 2020 (implementing art. 7 of Law no. 117 of 4 October 2019, the "European delegation law" relating to encouragement of long-term shareholder engagement and regulation of the corporate governance system), which raised the sanctioning system's maximum penalties regarding remuneration and related party transactions. The Procedure will be revised again in view of the entry into force, on 1 July 2021, of the amendments made by CONSOB to Regulation no. 17221/2010 by the Resolution no. 21624 of December 2020.

At the same time, the Company decided to implement operating instructions that regulate the Guidelines' application profiles, in order to facilitate prompt identification of related party transactions from the earliest stages and ensure their correct classification. The operating instructions thus define roles and responsibilities in the process of identifying and managing transactions to be carried out with related parties and envisaged specific information flows. The operating instructions may also be revised in the light of the above-mentioned regulatory changes.



The Procedure for Related Party Transactions adopted by the Company is available for consultation by the public on Terna's website (www.terna.it), in the section on Governance.

On 10 December 2020, with Resolution no. 21624, CONSOB amended Regulation no. 17221 of 2010 regarding related party transactions.

The Italian regulations for related party transactions were already largely consistent with the Shareholders' Rights Directive 2 with regard to approval procedures, transparency requirements for transactions and certain identified cases of exemption.

The principal changes include:

- (i) a new definition of related party, which refers to the definition of related party contained in current international accounting standards;
- (ii) definition of the directors involved in a transaction with a related party who are required to abstain from voting, referring to those who have an interest, on their own behalf or on behalf of third parties, which conflicts with that of the listed company in relation to such transaction;
- (iii) the obligation to verify that the most significant exempted transactions are ordinary and carried out at arm's length.

Regarding application of the amended Regulation, a transition period has been foreseen so that companies can adapt their procedures to the new provisions, which they will then have to apply from 1 July 2021.

Therefore, the procedural framework adopted by the Company will undergo a further review process in view of the entry into force of the new regulations, issuers must comply by 30 June 2021.

Within the current Procedure for Related Party Transactions, pursuant to art. 4 of CONSOB's Regulations for Related Party Transactions, the Company has:

- identified Related Parties, defined Related Party Transactions and laid down the new methods for identifying, approving and executing the various categories of Related Party Transaction;
- defined low-value transactions and the cases in which the Procedure should not be applied (in line with the provisions of articles 13 and 14 of CONSOB's Regulations for Related Party Transactions), taking into account the size of the Company and the sector in which it operates, as well as its ownership structure;
- defined the procedures for appointing the Board Committee called upon to express its opinion individual transactions of lesser or greater significance, as well as the content of this opinion and the independence requirements for Committee members. Furthermore, specific measures have been identified should at least 3 independent, non-related Directors not be present;
- established the rules regarding cases where Terna has to examine or approve transactions carried out by Italian or foreign subsidiaries;
- established the procedures and time frames within which Directors and the Related Party Transaction Committee should be provided with information on Related Party Transactions and the related documentation;
- taken decisions in connection with the options granted by the CONSOB's Regulations for Related Party Transactions.

In order to facilitate review by the Related Party Transactions Committee, the Related Party Operating Instructions also regulate the phases of (i) ascertaining the nature of the related party relationship; (ii) determining that one of the hypotheses of exclusion from application of the procedure applies; and (iii) classifying a transaction as of either "greater" or "lesser" significance.

The Instructions also provide for periodic reporting on the checks and assessments carried out during the reference period on Related Party Transactions and excluded transactions to the Chief Executive Officer, the Related Party Transactions Committee and Terna S.p.A.'s Board of Statutory Auditors.

In accordance with the provisions of the Procedure for Related Party Transactions and since its adoption, a specific Related Party Transactions Committee has been set up within Terna's Board of Directors, consisting of at least three independent Directors. The Committee's current composition was approved by the Board of Directors on 18 May 2020.

The Board assigned this Committee the role required by the CONSOB's Regulations for Related Party Transactions (Resolution 17221 of 12 March 2010), relating to approval for transactions of both greater and lesser significance, as indicated in Terna's procedure for Related Party Transactions. The Committee has been assigned the role of conducting reviews, making recommendations and providing advice in relation to the assessment and approval of the above related party transactions, and any recommendations for amendments to the procedure adopted by Terna.




Moreover, by virtue of the new application procedure adopted, the Committee receives periodic reports on transactions concluded even if they have been excluded, or are of lesser significance.

Specific “Terms of reference for Terna S.p.A.’s Related Party Transactions Committee”, approved in a resolution dated 12 December 2010 and effective from 1 January 2011, govern the Committee’s composition, duties and operations. As is the case with other committee organisational regulations, the Related Party Transactions Committee regulations will undergo a specific review in 2021, during the Company’s process of adaptation to the new recommendations of the Corporate Governance Code.

The Company’s budget provides adequate financial resources to fund the work of the Related Party Transactions Committee. Moreover, in conducting its assessments, the Committee may request the Company to engage specialist independent experts external to the Company, to be chosen by the Committee. The costs for services rendered by consultants are met by the Company. At the invitation of the Coordinator, other people whose presence could be helpful in improving the Committee’s effectiveness may attend meetings of the Related Party Transactions Committee.

Following the re-election of the entire Board of Directors on 18 May 2020, the members of the Related Party Transactions Committee were Marco Giorgino (Chairman), Paola Giannotti and Ernesto Carbone, all non-executive, independent Directors and representatives of non-controlling shareholders. At least one member is also in possession of appropriate experience in accounting and finance.

RELATED PARTY TRANSACTIONS COMMITTEE

	NAME	ROLE	INDEPENDENCE	
			CLF	CORPORATE GOVERNANCE CODE
	Marco Giorgino	Chairman	●	●
	Paola Giannotti	Member	●	●
	Ernesto Carbone	Member	●	●

During 2020, the Related Party Transactions Committee held 1 meeting, with a duration of approximately 30 minutes, characterized by the regular participation of all members (100%), during which the Committee expressed its opinion on the review of the Procedure for Related Party transactions adopted by the Company ("Related Party Transactions Guidelines"). At the same meeting, the Committee also acquired and examined a second-level procedure aimed at regulating the application profiles of the Guidelines, and shared its rationale and contents.

The participation of each member of the Committee at meetings held during 2020 is shown in Table 1 attached (art. 123-bis, paragraph 2(d) of the CLF). Information on the number of meetings and activities refers to the overall activities carried out by the Committee in 2020.

During the year, the Committee - together with the Control, Risk, Corporate Governance and Sustainability Committee - received extensive information on the regulatory changes introduced by CONSOB resolution no. 21624 of 10 December 2020.

Up to the date of approval of this Report, the Committee has held 2 meetings, which, at the invitation of the Committee, were attended by senior managers of the Company, whose presence was deemed helpful in providing greater information on the subjects on the agenda.

All meetings of the Committee were duly minuted and the Committee had the opportunity to access information and company departments as required in the execution of its duties.

Terna has also identified specific methods for the approval of transactions of greater significance entered into by the Company, also through its subsidiaries (art. 1.C.1(f) of the Corporate Governance Code), as explained in the sub-section of Section IV, "Role of the Board of Directors". The Board has also put in place methods for identifying and managing situations in which a Director has a direct interest or represents third-party interests in a transaction submitted for evaluation by the Director, in compliance with the regulations in the previous edition of the Corporate Governance Code and in accordance with the provisions of art. 2391 of the Italian Civil Code. These methods are included in a specific internal procedure adopted in 2007 and subsequently revised (on 31 March 2011 and, with particular regard to managing situations of interest, most recently on 23 June 2015, following a favourable opinion from the Audit, Risk and Corporate Governance Committee [now called the Audit, Risk, Corporate Governance and Sustainability Committee]: *"Approval of transactions of greater significance and management of situations of interest"*), thereby ensuring the application of a procedure even in cases where the provisions on related party transactions do not apply.

In this regard, Directors who have an interest (including potential or indirect) in the transaction must:

- promptly inform the Board of Directors and the Board of Statutory Auditors of the existence of any such interest, specifying the nature, timing, origin and scope. This is also in order not to receive information on topics where there is a conflict of interest, with these Directors being absent during the Board's discussions of how to deal with the Director who has a contrasting or conflicting interest, unless the Board specifically authorises their participation in the discussion and without prejudice to the obligation to abstain from voting;
- inform the Board of Directors of any positions they hold at the time of their appointment, and regularly update the Board on the existence of any employment relationships or engagements as a contractor with competing companies, even though these do not warrant application of the prohibition referred to in art. 2390 of the Italian Civil Code.

Section XIII

Election and requirements for Statutory Auditors

The procedure for electing the members of the Board of Statutory Auditors is governed by art. 26 of the Articles of Association.

In accordance with the Company's Articles of Association, the Board of Statutory Auditors consists of three Standing Auditors and three Alternate Auditors, who are appointed by Annual General Meeting for a period of three years and may be re-elected at the end of their term of office.

All members of the Board of Statutory Auditors must meet the integrity and professionalism requirements as per art. 148, paragraph 4 of the CLF, as defined in Ministry of Justice Decree 162 of 30 March 2000, as supplemented by appropriate provisions in the Articles of Association (art. 26.1 of the Articles of Association).

Each Standing Auditor may not be a Statutory Auditor of five or more issuers and can hold other management and oversight positions in joint-stock companies according to Book V, Title V, Chapters V, VI and VII of the Italian Civil Code, within the limits established by art. 144-*terdecies* of the Regulations for Issuers, implementing the provisions of art. 148-*bis* of the CLF.

All members of the Board of Statutory Auditors must also meet the independence requirements provided for in art. 148, paragraph 3 of the CLF.

Election of the entire Board of Statutory Auditors takes place, in application of the legislation on privatisations and in compliance with the provisions in Italian legislation concerning listed companies, according to a slate vote procedure. This is governed by art. 26.2 of the Articles of Association and aims to guarantee the presence on the Board of Statutory Auditors of one Standing Auditor and one Alternate Auditor nominated by non-controlling shareholders. This procedure also aims to establish – in accordance with the provisions of art. 144-*sexies*, paragraph 9 of the Regulations for Issuers - the criteria for identifying the candidate to be elected if various slates receive the same number of votes, by referring to the procedure used in electing the Board of Directors.

Pursuant to art. 26.2 of the Articles of Association, slates of candidates may be submitted by shareholders who, either on their own or together with other shareholders, hold an interest of at least 1% of the voting shares in accordance with the terms and conditions provided for by law, or a lower percentage where provided for by law or regulations, in line with the rules governing the submission of slates of candidates for election to the Board of Directors.

The submission, filing and publication of slates is subject to the same provisions of the Articles of Association governing the election of the Board of Directors, since they are consistent with the relevant laws and regulations and with art. 26 of the Articles of Association relating to the election of the Board of Statutory Auditors.

In particular, the submission and filing of slates must take place – in accordance with art. 148, paragraph 2 and 147-*ter*, paragraph 1-*bis* of the CLF and 144-*sexies*, paragraph 4 of the Regulations for Issuers - at least 25 days before the scheduled date of the General Meeting called to deliberate on the election of members of the Board of Statutory Auditors.

The minimum holdings required to submit slates is determined - in accordance with the provisions of Article 147-ter, paragraph 1-bis of the CLF - by taking into account the shares that are registered in the name of the Shareholder(s) on the day on which the slates are filed with the Company. In order to prove title to the number of shares required in order to submit slates, shareholders with voting rights must present and/or deliver the relevant documentation, issued in accordance with art. 144-sexies, paragraph 4-quarter of the Regulations for Issuers and art. 43 of the Single Measure on post-trading issued by the CONSOB and the Bank of Italy on 13 August 2018. This may occur after the slate has been filed, provided that it takes place within the deadline for publication of the slates (being at least 21 days prior to the scheduled date of the General Meeting called to deliberate on the election of the Board of Statutory Auditors).

Pursuant to art. 144-sexies, paragraph 5 of the Regulations for Issuers, in the event that on the date due for the submission of slates for the Board of Statutory Auditors only one slate has been filed, or only slates submitted by members who are connected to each other pursuant to the applicable legislation, slates may be submitted up to the third day following this date; in this case, the thresholds set forth above are reduced by half.

In accordance with the provisions in the Articles of Association and art. 144-sexies, paragraph 6 of the Regulations for Issuers, shareholders may not submit or vote for more than one slate, including through proxies and/or trust companies. Shareholders that belong to the same group and shareholders that are parties to a shareholder agreement may not submit or vote for more than one slate, including through proxies and/or trust companies. Candidates may be on one slate only or will be considered ineligible.

Slates must not include more candidates than the number to be elected. The slates must list candidates by assigning them a progressive number (art. 26.2 of the Articles of Association) and the lists must be divided into two sections, one for candidates for the position of Standing Auditor, and the other for candidates for the position of Alternate Auditor. The first of the candidates in each section of the slates must be entered in the register of auditors and must have practiced as a professional auditor for a period of at least three years.

Both the provisions of art. 26.2 on the gender balance among the Statutory Auditors to be elected, and the provisions of the Articles of Association on the integrity and professionalism requirements for Statutory Auditors, indicated under art. 26.1, apply.

In this regard, slates that, considering both sections, have three or more candidates must include, both in the first two places of the section of the slate relating to Standing Auditors and in the first two places on the slate relating to Alternate Auditors, candidates of different genders. This is to ensure that the composition of the Board of Statutory Auditors complies with existing legislation concerning the gender balance among the members of the management and oversight bodies of listed companies, as per Law 120 of July 12, 2011 and articles 147-ter, paragraph 1-ter and 148, paragraph 1-bis of the CLF, as recently amended by the Budget Law, which requires that two-fifths of the total seats on the Board must be reserved for the least represented gender. To that end, CONSOB Communication 1/2020 of 30 January 2020 clarified that *“with reference to the cases where corporate bodies are made up of three members and, in particular, cases where the Board of Statutory Auditors consists of three standing members”* – where application of the two-fifths requirement, after rounding up, would be arithmetically impossible, rounding must be to the lower whole number.

As concerns the personal characteristics of candidates and on the basis of the independence criteria contained in the Corporate Governance Code (and for the next elections, in the new Corporate Governance Code), when drawing up the slates, shareholders are invited to assess candidates' details, including on the basis of art. 19 of Legislative Decree 39/2010, according to which the members of the Board of Statutory Auditors, overall, must be familiar with the sector in which Terna operates.

In order to ensure a transparent procedure for the election of the Board of Statutory Auditors, the slates must, in accordance with art. 144-*sexies*, paragraph 4 of the Regulations for Issuers, be accompanied by:

- a) details of the identities of the shareholders who have submitted the slates, indicating the total equity interest held;
- b) a statement from shareholders other than those who hold, also as part of a group, a controlling or relative majority interest, indicating the absence of the connections referred to in art. 144-*quinquies* of the Regulations for Issuers with the latter. In this regard, CONSOB, in Communication DEM/9017893 of 26 February 2009 (concerning the "Election of the members of management and oversight bodies"), recommends that shareholders presenting a "minority slate" provide the information required with regard to the election of the Board of Statutory Auditors in this statement;
- c) exhaustive information on the personal and professional characteristics of the candidates, accompanied - pursuant to art. 2400, last paragraph of the Italian Civil Code - by a list of directorships and positions as statutory auditor held within other companies, as well as a declaration from candidates certifying that they meet the requirements set by law (including the independence requirements pursuant to art. 148, paragraph 3 of the CLF) and their acceptance of the candidacy.

The slates - complete with all the information required by art. 144-*octies*, paragraph 1 of the Regulations for Issuers and CONSOB Communication DEM/9017893 of 16 February 2009 - are therefore made available to the public - in accordance with art. 148, paragraph 2 of the CLF and with art. 144-*octies*, paragraph 1 of the Regulations for Issuers - at the Company's registered office, on the Company's website and in the manner established by CONSOB, at least 21 days prior to the date of the specified General Meeting.

Pursuant to art. 148, paragraph 2 of the CLF, at least one standing auditor must be elected by non-controlling shareholders who are not connected, even indirectly, with the shareholders who have submitted or voted for the slate that obtains the highest number of votes.

In this regard, on the basis of the procedure for appointing Statutory Auditors under the slate vote procedure governed by art. 26.2 of the Articles of Association and art. 144-*sexies* of the Regulations for Issuers, each holder of voting rights may vote for one slate alone at the specified General Meeting.

With regard to the procedure for electing Statutory Auditors using a slate vote procedure, governed by art. 26.2 of the Articles of Association, the extraordinary session of the General Meeting of Terna's shareholders held on 23 March 2017 approved a number of amendments to the Articles of Association. These concerned articles 14.3 and 26.2 and were designed to supplement the rules for electing the Board of Directors and Board of Statutory Auditors by slate vote. The new provisions were applied for the first time when re-electing the members of corporate bodies on 27 April 2017. In this regard, the procedure for electing Statutory Auditors using a slate vote procedure, as governed by art. 26.2 of the Articles of Association, is described below.

The procedure for electing Statutory Auditors using a slate vote procedure, as governed by art. 26.2 of the Articles of Association establishes that, in the progressive order in which they appear in the slate, two Standing Auditors and two Alternate Auditors are to be taken from

the slate that has obtained the greatest number of shareholder votes (the “majority slate”). The remaining Standing Auditor and the remaining Alternate Auditor are instead taken from the other slates (the “minority slates”), based on whichever obtained the most votes, according to the rules described in paragraph b) of art. 14.3 relating to the election of Directors. This is to be applied separately to each of the sections into which the slates are divided and that has been submitted and voted on by shareholders who are not directly or indirectly connected, in accordance with art. 144-*quinquies* of the Regulations for Issuers, with the shareholders who submitted or voted for the majority list.

In accordance with Italian legislation on listed companies, the Articles of Association (art. 26.2) attribute the role of Chair of the Board of Statutory Auditors to the Auditor elected from the minority slate (i.e. on the basis of the resolution passed by the General Meeting of 23 March 2017, as the candidate appointed using the methods provided for in art. 14.3, paragraph b) of the Articles of Association).

For the election of Statutory Auditors who, for any reason, are not elected at the same time as the re-election of the entire Board of Statutory Auditors, as well as in all other cases in which, for any reason, it is not possible to follow the slate vote procedure, the General Meeting must adopt resolutions with the majority required by law and in such a way as to, in any event, ensure that the composition of the Board of Statutory Auditors complies with the integrity and professionalism requirements provided for in the law and the Articles of Association, as well as with the gender balance legislation in force. The slate vote procedure is therefore only applied in the event of re-election of the entire Board of Statutory Auditors. This principle, already implicit in the legislation and in art. 26.2 of the Articles of Association, has been expressly clarified by the amendments to the Articles of Association approved by the General Meeting of 23 March 2017, which expressly provided that - for the election of Statutory Auditors who, for whatever reason, are not elected according to the slate vote procedure described above - the General Meeting must resolve according to the majority required by law and without observing the above procedure so as to ensure that the composition of the Board of Statutory Auditors complies with current legislation, including that concerning gender balance.

In the event of the need to replace a Statutory Auditor, the terms of art. 26.2 of the Articles of Association must be applied. If one of the Statutory Auditors is replaced, without prejudice to meeting the legal requirements, the position must be filled by an Alternate Auditor from the same slate. If the replacement so effected does not restore the gender balance of the Board of Statutory Auditors required by the legislation in force, the second of the Alternate Auditors on the same slate must be appointed. If, subsequently, it is necessary to replace the other Statutory Auditor taken from the slate that obtained the greatest number of votes, the position must be filled by the additional Alternate Auditor taken from the same slate.

In addition to the provisions indicated and on the basis of the resolutions passed by the Extraordinary General Meeting of 23 March 2017, in cases in which, after voting, there is, *mutatis mutandis*, a situation similar to that foreseen in the proposed amendments to art. 14.3, paragraph b)-*bis* of the Articles of Association – i.e. the majority slate lacked a sufficient number of candidates to ensure that the number of candidates to be elected would be reached - the procedures pursuant to the same paragraph b)-*bis* apply, both for standing and alternate auditors, to the extent that they are compatible with the legislation in force and with the above article.

If the Chair of the Board of Statutory Auditors is replaced, the position must be filled by the Alternate Auditor taken from the same slate.

When the Statutory Auditors are elected, in any of the ways provided for by the Articles of Association, the specific provisions of the Articles of Association (specifically art. 14.3 paragraph f), as referred to in art. 26.2 of the Articles of Association) on the subject of conflicts of interest also apply for the purposes of art. 2373 of the Italian Civil Code, introduced pursuant to EU Directive 2009/72/EC of 13 July 2009, and of Legislative Decree 93 of 1 June 2011, as described in more detail in Section XVI: “*General Meetings*” below.

In terms of recommendations regarding the remuneration of the Statutory Auditors, and taking into account art. 8.C.3 of the Corporate Governance Code, at the Annual General Meeting called to re-elect the Board of Statutory Auditors whose term of office expires with approval of the financial statements for the year ended 31 December 2019, the shareholders will be asked to formulate proposals for remuneration commensurate with the commitment required, the significance of the position held, Terna's size and the sector in which it operates.

Lastly, regarding the provisions of the Articles of Association designed to ensure that the Board of Statutory Auditors is compliant with the laws on gender balance, as indicated above in the sub-section, *"Election and replacement of Directors and amendments to the Articles of Association"*, it should be noted that such provisions were first introduced into the Articles of Association by the Extraordinary General Meeting of 16 May 2012, in implementation of the provisions of the Golfo-Mosca Law. These provisions, which require that at least a third of the total seats on the Board of Statutory Auditors must be reserved for the least represented gender (after rounding up in the event of fractional numbers)⁸ were already applied, in line with the provisions of the Golfo-Mosca Law itself, when (i) re-electing the Board of Statutory Auditors at the Annual General Meeting of 27 May 2014, and (ii) at the time of the subsequent election of the Board by the Annual General Meeting of 27 April 2017.

As described in the section on the election of the Board of Directors, the Budget Law amending art. 147-ter, paragraph 1-ter of the CLF came into effect on 1 January 2020. As a result, at least two-fifths of the seats on the oversight body must be reserved for the least represented gender. However, as already noted, CONSOB Communication 1/2020 of 30 January 2020, clarified that *"in cases where corporate bodies consist of three members and, in particular, in cases where the Board of Statutory Auditors consists of three standing members"* – where the two-fifths criterion, after rounding up, would be arithmetically impossible to apply – rounding must be to the lower whole number.

The new provisions on gender balance were applied for the first time at the Annual General Meeting of 18 May 2020, called to re-elect the Board of Statutory Auditors. The share provided for by these provisions, amounting to one-third of the total number of standing members, was reserved for the least represented gender.

⁸ Reduced to a fifth for the first term of office in which the Golfo-Mosca is applied.

Section XIV

Composition and activities of the Board of Statutory Auditors

The term of office of the current Board of Statutory Auditors, elected by the Annual General Meeting of 18 May 2020, will expire on the date of the Annual General Meeting held to approve the financial statements for the year ended 31 December 2022.

In accordance with the resolutions of the Annual General Meeting of 18 May 2020, the members of the Board of Statutory Auditors are Mario Matteo Busso (Chairman of the Board of Statutory Auditors elected from the minority slate submitted by a group of shareholders made up of asset management companies and other institutional investors, as listed in the Company's specific press release relating to publication of the Slates on 27 April 2020), Vincenzo Simone and Raffaella Fantini (Standing Auditors elected from the majority slate submitted by CDP Reti S.p.A.).

The following were elected as Alternate Auditors: Barbara Zanardi (elected from the minority slate submitted by a group of shareholders made up of asset management companies and other institutional investors, as listed in the Company's specific press release relating to publication of the Slates on 27 April 2020), Massimiliano Ghizzi and Maria Assunta Damiano (elected from the majority slate submitted by CDP Reti S.p.A.).

The Statutory Auditors elected represent both slates submitted for the aforesaid Annual General Meeting. Further information regarding the slates of candidates submitted and on the results of the vote is available on the Company's website at www.terna.it in the section <https://www.terna.it/it/general-archive#Governance/2017/General-Meetings>. Following the declarations made for the election, the vote count and after completion of the vote, a standing auditor was elected by non-controlling shareholders not connected, directly or indirectly, with the shareholders who submitted or voted for the slate that obtained the greatest number of votes.



Since the election, at the Annual General Meeting of 18 May 2020, the composition of the Board of Statutory Auditors has remained unchanged.

Summaries of the professional backgrounds of the Standing Auditors are provided below.



MARIO MATTEO BUSO

Chairman of the Board of Statutory Auditors

Born in Turin
on 1 March 1951

Mr Busso has been Chairman of the Board of Statutory Auditors of Terna S.p.A since 18 May 2020.

Born in Turin on 1 March 1951, Mario Matteo Busso is a chartered accountant, a statutory auditor and an independent director. He graduated in Economics and Business and has a Master in Business Administration. He began his career at Industrial National Bank in the United States, was a partner at Arthur Andersen and a member of the Andersen Worldwide Advisory Council and the Italian Partner Affairs Group. Whilst working with the Deloitte network, he was the Partner responsible for the FSI Audit Division and a member of the Audit Management Team. He has significant experience in conducting audit engagements and the certification of financial statements for multinational companies listed on major stock exchanges in Italy, the USA, the UK and Spain.

He is a director and auditor at public interest at public interest entities, including listed and regulated companies. In this role, he has wide experience in corporate governance, having in-depth knowledge of the relevant legislation and of the Corporate Governance Code adopted by Borsa Italiana.

As a board member, he has held a range of key governance roles: partner at and audit firm, chairman of boards of statutory auditors, independent director and the chair of board committees.

He holds the following positions: Chairman of the Board of Statutory Auditors of Terna, CEPAV 1 and CEPAV2, Consorzio ENI per l'Alta Velocità, International Energy Services; Statutory Auditor of Avio, Liftt, Way and Quasare Compagnia Sanpaolo; independent director at Circolo Stampa and Italy's National Academy of Accountants.

He has held the following positions: Chairman of the Board of Statutory Auditors of Saipem, Ersel Sim and IOR; a Statutory Auditor at Ersel Investimenti, Banca di Azzoaglio, Fondamenta SGR, permico; and an independent director at FCA Bank.



VINCENZO SIMONE

Standing Auditor

Born in Padula (SA)
on 20 November 1960

Mr Simone has been a Standing Auditor of Terna S.p.A. since May 2014.

A graduate in Economics from Salerno University, Mr Simone is a practising chartered accountant with an office in Potenza. He is also enrolled in the Order of Chartered Accountants of Potenza and the Register of Auditors.

He began his professional career in 1990 and, since 2002, has been the majority shareholder and a consultant for a firm that provides corporate, financial and tax consultancy services. Since May 2017, he has been a member of the Board of Statutory Auditors, responsible for auditing the accounts of the Federation of Cooperative Credit Banks of Puglia and Basilicata and, since December 2019, a member of the Board of Auditors of the Italian Medicines Agency - AIFA - and, since December 2019, a member of the Committee of Supporting Bodies of the Organismo Confidi Minori and, since December 2019, a member of the Committee of Supporting Entities of the Organisation of Smaller Credit Guarantee Consortia, based in Rome.

As part of his professional activities he has held directorships at commercial companies, also in the role of executive director, and has been a member of the boards of statutory auditors in companies, public entities, economic public entities and banks. He has acted as a management consultant for Collective Loan Guarantee Consortia, and has been an official receiver, a liquidator, and a technical expert appointed by the Court of Potenza and the Consortium for Industrial Development. He has also been a member of the Technical Committee set up by the loan consortium, Consorzio FIDI. He has prepared expert opinions and valuations of companies and business units also in connection with corporate actions (transformations, mergers, demergers - including banks - contributions and liquidations).

Ms Fantini has been a member of the Board of Statutory Auditors of Terna S.p.A. since 18 May 2020. A graduate in Economics from Florence University, she is a practising chartered accountant with an office in Florence and is enrolled in the Register of Auditors. She has been working in the field of tax, financial and business consulting since 1999. She is a member of Boards of Statutory Auditors of companies operating in the industrial/commercial, hotel and real estate sectors, and also a member of Boards of Statutory Auditors of banks and social security institutions. During her career, she has prepared expert reports and valuations of companies and business units, and has gained experience of extraordinary corporate transactions (transformations, mergers, demergers, contributions and liquidations).



RAFFAELLA FANTINI

Standing Auditor

Born in Florence
on 20 February 1969

As reported in the press release of 18 May 2020, based on the information provided by candidates and in accordance with the applicable laws, the Board of Directors confirmed that the members of the Board of Statutory Auditors elected by the Annual General Meeting held on 18 May 2020 met the related integrity, professionalism and independence requirements, and that the Board of Statutory Auditors as a whole met the competence requirements pursuant to art. 19, paragraph 3 of Legislative Decree 39/2010.

The attached Table 2 provides information on the composition of the Board of Statutory Auditors as of 24 March 2021.

All Standing Auditors in office comply with the provisions regarding limits on the accumulation of positions provided for in art. 148-*bis* of the CLF.

The total number of positions as director or statutory auditor in other companies according to Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the Italian Civil Code, relevant for the purposes of art. 148-*bis* of the CLF, is indicated in the attached Table 2. The total number of positions relevant for the purposes of art. 144-*quinqüiesdecies* of the above-mentioned Regulations for Issuers, as amended by CONSOB Resolution 17326 of 13 May 2010, is published by CONSOB and is available on its website (www.CONSOB.it). In this regard, it should be noted that, following the amendments to articles 144-*terdecies* and 144-*quaterdecies* of the Regulations for Issuers introduced by CONSOB Resolution 18079 of 20 January 2012 (published in the Official Gazette on 7 February 2012), the limits on the total number of positions and the consequent obligation to notify the CONSOB are not applicable to standing members of board of statutory auditors who hold the position of standing member of the board of statutory auditors “in one issuer alone”.



During 2020, the Board of Statutory Auditors held a total of 10 meetings - including those held before the re-election of the Board of Statutory Auditors - lasting on average approximately 2 hours and 36 minutes each, with the regular participation of all the Standing Auditors (100%).

The activities of the Board of Statutory Auditors are coordinated by an administrative office, which is managed by the Corporate Affairs and Corporate Governance department. On 18 May 2020, the Board appointed Emilia Pucci as Secretary of the Board of Statutory Auditors.

In the current year (2021), the Board plans to hold all the meetings necessary prior to the review of financial and operational data by the Board of Directors, as well as the non-financial statements.

In the current year, up to the date of this Report, the Board of Statutory Auditors has held 4 meetings.

After its re-election, the Board of Statutory Auditors - with reference to the provisions of art. 148, paragraph 3 of the CLF, and on the basis of the criteria envisaged for assessing the independence of non-executive members of the Board of Directors, pursuant to art. 3 of the Corporate Governance Code and under a procedure similar to that used for the Directors - has certified that the independence requirements are met by all Standing Auditors (art. 8.C.1 of the Corporate Governance Code). The outcome of this assessment was communicated in a press release on 18 May 2020.

This assessment was confirmed recently at the meeting of 17 March 2021. As for the Board of Directors, the continued state of independence of the auditors were verified in light of the previous provisions of the Corporate Governance Code. Also, with regard to the Board of Statutory Auditors, the Company has decided to postpone application of art. 2, recommendation 7, of the new Corporate Governance Code until the Company's governance documentation - including the aforementioned Criteria for assessing independence - has been fully adapted to the new Code.

On 16 March 2007, Terna's Board of Statutory Auditors decided to voluntarily adopt a system of transparency similar to that adopted by the Directors (explained in Section XII), in the event of transactions in which they have a personal or third-party interest (art. 8.C.4 of the Corporate Governance Code). This approach was also confirmed by the Board of Statutory Auditors in office.

Overall, in 2020 the Board of Statutory Auditors carried out its typical oversight duties as established by Italian legislation for boards of statutory auditors. These regarded (i) observance of the law and of the Memorandum of Association, including observance of best administrative practices in managing the Company; (ii) the adequacy of the organisational structure; (iii) the adequacy and effectiveness of the Internal Control and Risk Management System; (iv) the adequacy of the Company's administrative and accounting systems; (v) the methods used in effectively implementing the corporate governance rules set out in the code of conduct that the Company has committed to applying; (vi) the financial reporting process and the independent audit of the annual separate and consolidated financial statements; and (vii), in this context, compliance with the provisions of Legislative Decree 254 of 30 December 2016, implementing Directive 2014/95/EU as regards non-financial and diversity disclosures (art. 7.P.3 and the Notes to art. 8 of the Corporate Governance Code). It also verified implementation of the provisions of art. 114, paragraph 2 of the CLF relating to disclosure requirements. The Board of Statutory Auditors also monitored the independence of the Independent Auditors, verifying both observance of the applicable provisions, and the nature and quantity of the non-audit services provided to Terna and its subsidiaries by PricewaterhouseCoopers S.p.A. and its associates.

The Board of Statutory Auditors verified the proper application of the criteria and procedures adopted by the Board of Directors in assessing the independence of its members. It also analysed implementation of the regulations pursuant to Legislative Decree 231/01 and the tasks performed by the Manager Responsible for Financial Reporting pursuant to Law 262/05.

In 2020, the Board of Statutory Auditors, through its Chairman, received the results of the findings of the audits conducted by the Head of Internal Audit. The Board of Statutory Auditors regularly attended meetings of the Board of Directors and the Audit, Risk, Corporate Governance and Sustainability Committee, as well as – through its Chairman - meetings of the Remuneration Committee, thereby ensuring its involvement in many internal procedures.

It should also be noted that the entire Board of Statutory Auditors, in its current composition as resolved by the Annual General Meeting of 18 May 2020, took part in the meetings of the internal board committees.

In carrying out its activity, the Board of Statutory Auditors worked closely with Internal Audit department and with the Audit, Risk, Corporate Governance and Sustainability Committee

in the manner illustrated in the previous “Section XI: Internal Control and Risk Management System” (articles 8.C.6 and 8.C.7 of the Corporate Governance Code), with the Supervisory Board established pursuant to Legislative Decree 231/01, with the Manager Responsible for Financial Reporting pursuant to Law 262/05, as well as with the boards of statutory auditors of subsidiaries and with their independent auditors, exchanging relevant information enabling them to perform their respective duties.

In particular, the Board of Statutory Auditors, in carrying out its oversight activities, pursuant to art. 2403 *bis* of the Italian Civil Code and articles 149 and 151, paragraphs 1 and 2, of the CLF, and also in line with the provisions of the rules of conduct of the Board of Statutory Auditors drawn up by the National Council of Chartered Accountants (see *Rule Q.3.10 Oversight of the adequacy of instructions given by a company to its subsidiaries*, and *Rule Q.5.6. Relations with the supervisory bodies of subsidiaries*), obtained information from the supervisory bodies of subsidiaries on the progress of company operations and specific matters, as well as on administration and control systems and the general performance of the company's business.

It should also be noted that in view of the Covid-19 health emergency, the Board of Statutory Auditors monitored the measures adopted by the Company in response to current government provisions in force, as well as the impact of the pandemic on the Company.

In this regard, in implementation of the recommendations of CONSOB Reminder no. 8/20 of 16 July 2020 on financial reporting, the Board of Statutory Auditors verified the comprehensiveness of the information provided by the Company in its accounting disclosures.

In addition, during the current year, the Board of Statutory Auditors examined in more detail CONSOB Reminder no. 1 of 16 February 2021, especially with reference to the disclosures to be made in non-financial statements.

As regards the participation of the Board of Statutory Auditors in initiatives aimed at providing the Directors and Statutory Auditors with adequate knowledge of the sector in which the Company operates, its performance and development, and the related legislative and self-regulatory framework, as provided for in art. 2.C.2 of the Corporate Governance Code, reference should be made to the description provided above in the sub-section of Section IV, “Composition”, in the paragraph on the “Induction programme”.

Review of the Board of Statutory Auditors

As noted above, in 2021, Terna S.p.A.'s Board of Statutory Auditors, assisted by the consulting firm, Mercer, conducted a board review for 2020, as recommended by the Corporate Governance Code for listed companies and as required by Standard Q.1.1. contained in the Standards of Conduct for the Boards of Statutory Auditors of Listed Companies, published by the Italian Association of Chartered Accountants (CNDCEC) in April 2018. The review process primarily focused on the Board's composition, the exercise of its powers and its performance.

The review was conducted in the form of a specific questionnaire, prepared by the consulting firm, to be completed by the Statutory Auditors. The responses provided were then expanded on in the course of interviews with individual members in order to further examine the various issues and obtain comments and opinions.

The process was documented in a report prepared by the consulting firm and presented to the Board of Statutory Auditors at the meeting of 17 March 2021. The report contains a positive assessment of the Board of Statutory Auditors, without identifying any specific shortcomings, either individually or with regard to the Board as a whole, requiring attention in accordance with the above Standards of Conduct. The Board of Statutory Auditors also believes it would be useful to participate in further induction sessions, organised by the Company, in order to

examine ongoing developments in the following priority areas: (i) regulation of the sector in Italy and internationally; (ii) the businesses in which the Company operates; (iii) subsidiaries.

As required by the above Standards of Conduct, the Board of Statutory Auditors endorsed the report and passed it on to the Board of Directors for their information. The above activity was also reported on during the Board of Directors' meeting of 24 March 2021.

Diversity policies

Terna's Board of Directors has adopted diversity policies relating to age and seniority, gender, geographical origin and professional and management training. The policies are partly designed to assist shareholders when choosing candidates in preparation for re-election of the entire Board of Directors or when electing replacements.

To this end, the "*Policy on the diversity of management, the board of directors and the board of statutory auditors of Terna S.p.A.*" (hereinafter also the "Policy" or "Diversity Policy") was approved by Terna's Board of Directors at its meeting of 20 February 2018, on the recommendation of the Nominations Committee and the Audit, Risk, Corporate Governance and Sustainability Committee, and after consulting the Board of Statutory Auditors. In line with the provisions of art. 123-bis of the CLF, as amended by Legislative Decree 254 of 30 December 2016, published in the Official Gazette of 10 January 2017 and the "Guidelines on non-financial reporting (Methodology for reporting non-financial information)" published by the European Commission on 5 July 2017 (Communication 2017/C 215/01), the Policy contains a number of provisions concerning the composition of the Board of Statutory Auditors, referring first of all to the laws and regulations in force regarding the professionalism, integrity and independence requirements for statutory auditors. In addition to the above, the Policy provides that:

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

To ensure implementation, the adopted Policy will be applied during the upcoming nomination and re-election processes and is published on the Company's website in the section <https://www.terna.it>.



Section XV

Investor relations

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

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

Accordingly, the Company set up the (i) Investor Relations unit, headed by Omar Al Bayaty, which is responsible for managing relations with institutional investors, within the External Relations, Government Affairs and Sustainability department (Viale Egidio Galbani, 70, 00156 Rome - tel. +39 06 8313 8282 - fax +39 06 8313 9312 - e-mail: investor.relations@terna.it), and (ii) a unit responsible for relations with all shareholders within the Corporate and Legal Affairs department, under the management of Francesca Covone (Viale Egidio Galbani, 70, 00156 Rome - tel. +39 06 8313 8136 - fax +39 06 8313 8218 - e-mail: azionisti.retail@terna.it) - (articles 9.P.1, 9.P.2, and 9.C.1 of the Corporate Governance Code).

Moreover, the Company has further encouraged dialogue with investors by creating a specific section of its website (www.terna.it), where they can find both financial information (financial statements, half-year and quarterly reports and presentations for the financial community) and updated information and documents of interest to all shareholders (press releases, the Company’s management, the Articles of Association and the General Meetings Regulations, Corporate Governance information and documents, the Code of Ethics and the 231 Organisational and Management Model established pursuant to Legislative Decree 231/2001, the dividend history, etc.).



In 2021, the Company intends to adopt an Engagement Policy, with the aim of reinforcing dialogue with its shareholders and stakeholders, as recommended in art. 1, Principle IV of the new *Corporate Governance Code*.

Dates for future events in the Company’s financial calendar can be saved on the Company’s website.

Section XVI

General Meetings

The Corporate Governance Code recommends that General Meetings should be considered a key opportunity to initiate fruitful dialogue between shareholders and the Board of Directors (despite the wide range of methods used by listed companies to communicate with their shareholders, institutional investors and the market). This recommendation was carefully evaluated and fully adhered to by the Company, which believes it necessary to adopt specific measures designed to take full advantage of General Meetings, in addition to guaranteeing the participation of its Directors (art. 9.C.2 of the Corporate Governance Code).

Also, on the basis of special legislation applicable to listed companies, Terna introduced into its Articles of Association a specific regulation aimed at facilitating the collection of proxy votes for shareholders who are employees of the Company and its subsidiaries, so as to involve them in the decision-making process at General Meetings.

Pursuant to art. 11.1 of the Articles of Association, every shareholder that has the right to attend the General Meeting has the legal right to be represented by a proxy.

In order to facilitate the notification of proxies to the Company, on 18 October 2010, Terna's Board of Directors approved amendments to the Articles of Association taking into account the changes introduced by legislation regarding the rights of shareholders of listed companies, with the aim of encouraging shareholders to take an active interest in the life of the Company (Directive 2007/36/EC and the related implementing Legislative Decree 27 dated 27 January 2010). The changes included the possibility to notify the use of proxies by electronic means and, in accordance with art. 125-*bis* of the CLF, reference to such procedure in notices of call. On such occasion, the Board of Directors deemed it appropriate to allow shareholders to appoint a Representative designated by the Company to act as their proxy and to give the Representative specific voting instructions, in accordance with art. 135-*undecies* of the CLF, without exercising the "opt-out" provided for in the CLF (art. 9.P.1 of the Corporate Governance Code). Additionally, the Annual General Meeting of 13 May 2011 responded to current legislation designed to encourage the participation of shareholders in company life by granting the Company the option of holding General Meetings in single call. This was done by appropriately amending the Articles of Association, with a view to providing shareholders and the market with a firm date for General Meetings.

In order to facilitate the collection of proxy votes from employee shareholders of the Company and its subsidiaries, and who are members of shareholders' associations that meet the requirements of existing legislation, space to be used for communication and in the collection of proxies has been made available to these associations, according to the terms and conditions from time to time agreed on with their authorised representatives.

With regard to the right to speak at General Meetings, the Articles of Association (art. 10.1) - as amended by the Board of Directors on 18 October 2010 implementing Legislative Decree 27 of 27 January 2010 - provide that only those who have the rights - pursuant to the legal and regulatory provisions in force - to attend the General Meetings and vote at such General Meetings, are entitled to exercise such rights.

On the basis of this provision, and in accordance with the current art. 83-*sexies* of the CLF, the right to speak and vote at General Meetings must be certified by a notice to be sent to the

Company by the relevant financial intermediary. The intermediary, based on its records, must indicate the name of the person entitled to vote, as shown in the records referred to in art. 83-*quater*, paragraph 3 of the CLF as of the close of business on the seventh trading day prior to the date set for the General Meeting to be held in first (or single) call (i.e., the “record date”).

These provisions do not entail any block on subsequent trading in the Company's shares. The credit and debit registrations recorded subsequent to the above term are not relevant for the purposes of certifying the exercise of the right to vote at General Meetings. Therefore, anyone registered as an owner of the Company's shares after such date will not be allowed to attend or vote at the General Meeting.

Notices from intermediaries relating to participation must be received by the Company by the end of the third trading day prior to the date set for the General Meeting to be held in first (or single) call. Shareholders will be entitled to attend and vote, even if the Company has received notification after the above term, provided that they are received by the time the General Meeting begins in single call (art. 83-*sexies*, paragraph 4 of the CLF).

The Articles of Association do not permit participation at General Meetings using video or telephone services, nor through the use of postal voting or voting by electronic means.

The right for shareholders to add agenda items and to submit new proposals for resolutions, as permitted by art. 30 of the Articles of Association, applies to shareholders who, also jointly, represent at least one fortieth of the share capital, as directly provided for by law (art. 126-*bis* of the CLF). On the basis of this provision, shareholders may submit a written application, including by mail or electronically, in compliance with the requirements strictly necessary to identify the applicants and as indicated by the Company, within ten days of publication of the notice of call to the Meeting, to add additional items to the agenda. Applications must specify what additional agenda items or what additional resolutions relating to existing agenda items are being proposed, by the same deadline filing a report giving the reasons behind the proposed resolutions on the new agenda items for discussion or those behind the additional resolutions relating to existing agenda items. This must be accompanied by documentation certifying ownership of the shares in accordance with the “Single Measure on post-trading issued by the CONSOB and the Bank of Italy on 13 August 2018”.

Shareholders with voting rights may individually submit proposed resolutions for General Meetings.

Additions to the agenda items to be discussed are allowed only for topics on which the General Meeting is authorised by law to deliberate. These topics exclude those for which the law requires the related resolution to be based on a proposal from the Directors or on a plan put forward by them or on a report they have prepared, other than resolutions on agenda items.

In the event of additional agenda items or the submission of additional proposals, the modified agenda for the General Meeting and the new proposals must be published within the same deadline as for the notice of call, being at least fifteen days prior to the scheduled date for the Meeting. At the same time - using the same procedure envisaged for the Directors' Report on agenda items - the report submitted by the shareholders must be made available to the public, accompanied by any observations from the Board of Directors.

Pursuant to art. 127-*ter* of the CLF, shareholders with voting rights at General Meeting may ask questions on agenda items, including prior to the Meeting. The notice of call to the General Meeting must specify the procedure and the deadline for any questions to be submitted to the Company prior to the Meeting.

Questions must be submitted by the fifth trading prior to the General Meeting or the day indicated in art. 83-sexies, paragraph 2 of the CLF (i.e., the “record date”), if the notice of call to the Meeting requires the Company to reply to the questions received before the General Meeting.

Since 3 March 2004, under a special shareholder resolution, the Company has adopted a specific set of regulations for General Meetings. These ensure the orderly and smooth conduct of General Meetings, with detailed rules for the various phases, in keeping with each shareholder’s fundamental right to request clarification on the various matters being discussed, to express an opinion and to submit proposals (art. 9.C.3 of the Corporate Governance Code). With the shareholder resolution of 13 May 2011, the text of the adopted “Regulations for Terna S.p.A.’s General Meetings” was amended in such a way as to be consistent with the provisions of Legislative Decree 27 of 27 January 2010 with regard to the exercise of certain rights by the shareholders of listed companies. On that occasion, further amendments were introduced in order to better define the scope of certain provisions of the Regulations in light of the experience gained in applying them and to further ensure the smooth conduct of General Meetings. The main amendments, which were illustrated in detail to shareholders in a specific report to the General Meeting, regarded provisions concerning rules on the right to attend and vote in General Meetings and provisions concerning the right to put questions on agenda items, including prior to the General Meeting.

In particular, with respect to the right of each shareholder to speak regarding agenda items, art. 6 of the Regulations provides that those entitled to exercise the right to vote may ask for the floor only once for the matters being discussed, presenting observations, requesting information and formulating proposals. The request to speak may be submitted at the time the General Meeting is held and - unless otherwise stated by the Chair - until the Chair has declared the discussion on the matter closed. The procedures for such requests and for discussing matters, and the order in which matters are discussed, are established by the Chair. Considering the matter under discussion and the importance of each item discussed, as well as the number of those requesting the floor and possible questions posed by shareholders before the General Meeting that were not answered by the Company, the Chair predetermines the duration of any interventions and the related replies - usually not to exceed ten minutes for interventions and five minutes for replies - in order to guarantee that the General Meeting can be completed in a single session. The Chair and, by his or her invitation, all those who assist him or her, reply to speakers after they have finished speaking, or after each intervention, also taking into consideration potential questions to be posed by shareholders before the General Meeting that were not answered by the Company. Those that have asked to speak may briefly reply.



Although the above Regulations are not considered akin to the Articles of Association, they are approved by the Ordinary General Meeting under the specific powers given to shareholders by the Articles of Association (art. 11.2). The contents of the Regulations are aligned with the latest templates drawn up by trade associations (Assonime and ABI), for listed companies. The “Regulations for Terna S.p.A.’s General Meetings” can be found on the Company’s website in the section: “<https://www.terna.it/it/Governance/assemblea-azionisti>”.

The Board of Directors reports to the Annual General Meeting on the activities carried out and those planned for the future on the occasion of approval of the annual financial statements and in the report on operations and, in specific reports, provides shareholders with adequate information in a timely manner, so that they may vote on resolutions with full knowledge of the facts. Further clarification, where required, is also provided in response to queries raised by shareholders during the Meeting (art. 9.C.2 of the Corporate Governance Code).

With reference to the recommendation expressed in the Notes to art. 9 of the Corporate Governance Code, it should be noted that, in the case of resolutions submitted to the General Meeting for which the Board of Directors has not formulated a proposal of its own, controlling shareholders provided their proposals for the General Meeting with sufficient advance notice.

General Meetings are chaired by the Chair of the Board of Directors, or, in the event of their absence or inability to attend, by the Deputy Chair, if appointed, or, in the absence of both, by another person designated by the Board of Directors; failing all of the above, the General Meeting appoints its own Chair (art. 12.1 of the Articles of Association).

The Chair of the General Meeting is assisted by a secretary, who does not necessarily have to be a shareholder, designated by those in attendance at the request of the Chair, and may appoint one or more tellers (art. 12.2 of the Articles of Association and art. 4 of the Regulations for Terna S.p.A.'s General Meetings). The assistance of the secretary, under the law, is not necessary if the Chair waives this assistance or when the minutes of the General Meeting are prepared by a notary public, even in cases in which it is not mandatory by law (art. 4 of the Regulations for Terna S.p.A.'s General Meetings).

Unless otherwise required by art. 21.2 of the Articles of Association, which assigns the Board of Directors, under the law, the power to adopt certain resolutions that fall within the purview of the General Meetings that may amend the Articles of Association, the General Meeting resolves on all the matters established by law or the Articles of Association (art. 13.1 of the Articles of Association), as indicated in the foregoing sub-section of Section I, "Corporate structure".

Shareholder resolutions subject to exercise of the "special powers" granted to the Italian State *"in relation to strategic assets in the energy, transport and communications sectors"* and indicated in the *"Golden Power Decree"* (as described in the sub-section of Section II, "Restrictions on the transfer of shares and shares carrying special rights") must be adopted and implemented in accordance with the provisions of this Decree. Where not otherwise established by the Articles of Association, resolutions adopted by both Ordinary and Extraordinary General Meetings must be passed with the majorities required by the law and applicable in individual cases (art. 13.2 of the Articles of Association). In particular, the Articles of Association provide that: (i) in the case of related party transactions that have not received a favourable opinion from the competent body, the General Meeting shall resolve, in addition to by the majority required by law, in the presence of unrelated shareholders, as defined by the applicable legislation and regulations, representing at least 10% of the share capital with voting rights and with a favourable vote by the majority of said unrelated shareholders; (ii) in the case of urgent related party transactions that have been submitted by the Directors for a consultative vote, the General Meeting shall adopt resolutions with the majority required by law (art. 13.3 of the Articles of Association).

As regards exercise of the right to vote at General Meetings (as described in the sub-section of Section II, "Restrictions on voting rights"), the Articles of Association identify (specifically in articles 10.2, 14.3(f) and 26.2) a number of instances of conflict of interest for the purposes of art. 2373 of the Italian Civil Code under the terms of Directive 2009/72/EC of 13 July 2009 and of Legislative Decree 93 of 1 June 2011, and subject to assessment by ARERA as part of the process of certifying the Company as an electricity transmission operator according to the ownership unbundling model. In particular, for the purposes of art. 2373 of the Italian Civil Code, the following are considered as having a conflict of interest:

- a) anyone who, directly or indirectly exercising control of the Company or holding a significant equity interest in it under the terms of art. 120 of Legislative Decree 58 of 24 February 1998, operates in the sector of electricity or gas production or distribution sector or who, directly

or indirectly, controls a business operating in the electricity or gas production or distribution sector (art. 10.2 of the Articles of Association);

- b) anyone who at the time of election of the Directors, in any of the ways provided for in the Articles of Association, operates in the electricity or gas production or distribution sector or who, directly or indirectly, controls a business operating in the electricity or gas production or distribution sector or holds a significant equity interest in the such a business under the terms of art. 120 of Legislative Decree 58 of 24 February 1998. (art. 14.3(f) of the Articles of Association). The same rule is applied at the time of the election of the Statutory Auditors (art. 26.2 of the Articles of Association).

To this end, each participant in the General Meeting must declare, under his/her own responsibility, the existence of any conflict of interest.

There is no provision for electronic and/or postal voting.

In 2020, the Annual General Meeting of 18 May 2020 was held in ordinary and extraordinary session. The outcomes of the General Meetings were promptly communicated to the market (see, in this regard, the [press release](#) dated 18 May 2020).

With regard to the General Meeting held in 2020, it should be noted that, in view of the **health emergency** linked to the **Covid-19 pandemic** and in response to the legislation enacted in order to contain the spread of the disease, the Company elected to take advantage of the option provided by art. 106, paragraph 4 of Law Decree 18 of 17 March 2020. This meant that attendance at the Annual General Meeting by those with the right to do so could only take place through the representative designed by the Company pursuant to art. 135-*undecies* of the CLF, i.e., Computershare S.p.A. (the "Sole Representative").

Therefore, pursuant to art. 106, paragraph 4 of the above Law Decree 18 of 17 March 2020, attendance at the Annual General Meeting was only permitted through the representative, having appropriately nominated the Sole Representative, Computershare S.p.A., to act as proxy pursuant to art. 135-*novies* of the CLF, or art. 135-*undecies* of the CLF.

In 2020 - with reference to the regulations governing minority rights and in compliance with the above legislation and regulations applicable to the Company - no significant changes took place in the Company's market capitalisation or in the composition of its shareholder base, for which the Board of Directors had to consider whether a proposal should be made to the General Meeting to amend the Articles of Association regarding the percentages established for the exercise of the rights and prerogatives designed to safeguard the interests of non-controlling shareholders (art. 9.C.4 of the Corporate Governance Code).

Section XVII

Considerations on the letter dated 22 December 2020 from the Chair of the Corporate Governance Committee

In December 2020, Terna received the annual letter from the Chair of the Italian Corporate Governance Committee to the chairs of boards of directors, CEOs and chairs of boards of statutory auditors of listed Italian companies, aimed at driving developments in corporate governance at all listed Italian companies. The letter is accompanied by the Committee's Annual Report on application of the Corporate Governance Code (2020), which is also made available on Borsa Italiana's website.

The Annual Report (2020) of the Italian Corporate Governance Committee, providing details of the review carried out by the Committee concerning application of the main recommendations in the Corporate Governance Code, included, on the one hand, an appreciation of the average level of transparency provided in corporate governance reports and, on the other, reference to a number of key critical issues concerning application of the main recommendations and possible areas for improvement.

As requested by the above Committee, the findings in the report and the recommendations made were brought to the attention of Terna's Board of Directors, Board of Statutory Auditors and Audit, Risk, *Corporate Governance and Sustainability Committee through their chairs* on 22 December 2020.

Subsequently, during the meetings of the Audit, Risk, *Corporate Governance and Sustainability Committee* held on 18 January 2021 and of the Board of Directors held on 27 January 2021 – in which the Board of Statutory Auditors also took part – the contents of the letter and the Report were examined in further detail and, focusing above all on the recommendations for 2021.

Finally, at the Board of Statutory Auditors' meeting of 12 February 2021, a number of aspects relating to this body were examined, above all in relation to remuneration.

The letter contains (i) a summary of the assessment of the state of *corporate Governance* at listed companies; (ii) the impact of the recommendations for 2020, and (iii) recommendations for 2021.

In the letter, the Chairwoman referred to the fact that, from 1 January 2021, the new Corporate Governance Code has come into effect, noting the key principles. She took the opportunity to encourage issuers to apply the recommendations in the new Code as soon as possible, above all with regard to sustainability.

In the light of the findings in the Report for 2020 and the analysis of the conduct of issuers in relation to the issues raised in the accompanying letter, and in view of the fact that 2021 is the first year of application of the new edition of the Code, the Committee deemed it useful to review all the recommendations made in the last four years. Following its review, the Committee made a number of specific points relating to the areas where significant weaknesses remain, noting that overcoming such weaknesses also had an important role to play in ensuring full application of the more innovative aspects of the latest edition of the Code.

An initial area for improvement regards **corporate sustainability**, which the Committee hopes can be incorporated into strategic planning, internal control and risk management systems and remuneration policies, following a materiality analysis of the factors having an impact on the creation of value over the long term.

The second area for improvement regards the **information provided to directors prior to board meetings**, with the Committee inviting boards of directors to set appropriate deadlines for the provision of documentation, clearly disclosing such deadlines and their effective application in corporate governance reports. The Committee also requests that board do not provide for exemptions to such deadlines merely for reasons of confidentiality.

A further area for improvement regards **independence criteria**, in relation to which the Committee invited board of directors to always justify any disapplication of the criteria on an individual basis and to define in advance the quantitative and/or qualitative criteria to use in assessing the materiality of the relationships under review.

A fourth area for improvement regards **board reviews**. Here, the Committee advises boards of directors to evaluate the board's contribution to strategic planning and to oversee the board review process.

Areas for improvement also include **nomination and succession**, with regard to which, among other things, the Committee recommends that boards of directors ensure that shareholders are fully and promptly informed about proposed resolutions relating to the election of corporate bodies and expresses, at least in companies with widespread ownership, guidance on the optimal composition of such bodies. The Committee also recommends that, at least in large companies, boards of directors should put in place a succession plan for executive directors, setting out at least the procedures to be followed in the event of early termination.

Finally, areas for improvement also include **remuneration policies**, with regard to which the Committee invites board of directors to:

- (i) provide clear indications regarding the weight given to the variable component, distinguishing between components linked to annual and multi-annual performance;
- (ii) strengthen the link between variable remuneration and long-term performance targets, including, where material, non-financial targets;
- (iii) limit the payment of one-off bonuses not linked to predetermined objectives to exceptional cases, providing a full explanation for such payments;
- (iv) define criteria and procedures for the payment of severance pay;
- (v) ensure that the remuneration paid to non-executive directors and members of the oversight body is appropriate in terms of their responsibilities and the expertise and commitment required.

In this regard, with reference to the main areas identified by the Committee for 2021, the Board of Directors found that:

- (i) the Company provides timely reports to the Board of Directors;
- (ii) independent Directors were suitably qualified as such in accordance with the applicable regulations and internal rules of the Company and the proper application of the defined independence criteria and procedures adopted by the Board of Directors was verified by the Board of Statutory Auditors;
- (iii) as already described in detail, with reference to the board review, the Company employs the services of an external consulting firm that guarantees a transparent and structured process. In this regard, it is noted that the early involvement of the Nominations Committee meets the Committee's recommendation to ensure that a Board member oversees the board review process. In addition, assessment of the individual contribution of each director is assured through the use of questionnaires, administered in confidence by the consulting firm;
- (iv) as regards the remuneration of executive Directors, Terna S.p.A.'s policy focuses on the sustainability of the company's businesses over the medium to long term.

The two tables below summarise some of the most significant information included in the fourth, eighth, tenth, twelfth and fourteenth sections of the document. "Annex 1" is also attached, providing the description of the "Main characteristics of existing risk management systems with regard to the financial disclosure process" (pursuant to art. 123-bis, paragraph 2(b) of the CLF).

Table 1

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

BOARD OF DIRECTORS

POSITION	Member	Date of birth	Date of first election *	Start date	Expiry of term of office (approval of financial statements for)	Slate **
CHAIRWOMAN	Valentina Bosetti	25/04/1973	18/05/2020	18/05/2020	2022	M
CHIEF EXECUTIVE OFFICER • ◇	Stefano Antonio Donnarumma	29/10/1967	18/05/2020	18/05/2020	2022	M
DIRECTOR	Giuseppe Ferri	03/03/1967	18/05/2020	18/05/2020	2022	M
DIRECTOR	Corsico Fabio	20/10/1973	27/05/2014	18/05/2020	2022	M
DIRECTOR	Giannotti Paola	13/07/1962	27/04/2017	18/05/2020	2022	m
DIRECTOR	Giorgino Marco	11/12/1969	08/05/2019	18/05/2020	2022	m
DIRECTOR	He Yunpeng ¹	06/02/1965	21/01/2015	18/05/2020	2022	M
DIRECTOR	Porcelli Gabriella	10/03/1965	27/05/2014	18/05/2020	2022	m
DIRECTOR	Alessandra Faella	06/06/1982	18/05/2020	18/05/2020	2022	M
DIRECTOR	Antonella Baldino	05/02/1963	18/05/2020	18/05/2020	2022	M
DIRECTOR	Ernesto Carbone	25/06/1974	18/05/2020	18/05/2020	2022	M
DIRECTOR	Valentina Canalini	19/06/1983	18/05/2020	18/05/2020	2022	M
DIRECTOR	Jean-Michel Aubertin	16/02/1958	18/05/2020	18/05/2020	2022	m
DIRECTORS WHO HAVE CEASED TO HOLD OFFICE DURING THE FINANCIAL YEAR						
CHAIRWOMAN OF THE BOARD OF DIRECTORS	Catia Bastioli	03/10/1957	27/05/2014	27/04/2017	2022	M
CHIEF EXECUTIVE OFFICER	Luigi Ferraris	23/02/1962	27/04/2017	27/04/2017	2022	M
DIRECTOR	Paolo Calcagnini ¹	12/06/1979	15/02/2019	15/02/2019	2022	M
DIRECTOR	Elena Vasco	13/12/1964	27/04/2017	27/04/2017	2022	M

Number of meetings held during the year under review:²

13

Key:

BoD: Board of Directors of Terna S.p.A.

A.R.C.G.S.: Audit, Risk, Corporate Governance and Sustainability Committee. The "Audit and Risk Committee", previously established by Terna S.p.A. in accordance with the provisions of the Corporate Governance Code, with a resolution of the Board of Directors of 27 May 2014, was later renamed "Audit, Risk and Corporate Governance Committee", with its previous duties relating to Corporate Governance being extended. Subsequently, on 15 December 2016, the Board of Directors added responsibilities relating to sustainability, renaming the Committee the Audit, Risk, Corporate Governance and Sustainability Committee. This was confirmed by the Board of Directors on 27 April 2017, when the Board Committees were reconstituted following the re-election of the Board of Directors by the Annual General Meeting of 27 April 2017.

R.C.: Terna S.p.A.'s Remuneration Committee.**N.C.:** Terna S.p.A.'s Nominations Committee established on 27 May 2014.

RPT Committee: Terna S.p.A.'s Related Party Transactions Committee, responsible for approving the Procedure for Related Party Transactions as indicated by the "Regulations for Related Party Transactions" issued by the CONSOB with Resolution 17221 dated 12 March 2010, as subsequently amended by Resolution 17389 dated 23 June 2010 (the "CONSOB Regulations for Related Party Transactions"). The Committee is made up of at least three directors who meet the independence requirements provided for by the Procedure, of whom one acting as Coordinator.

Position: indicates whether Chair of the Board, Deputy Chair, CEO, etc.**Date of first election:** this refers to the date on which the Director was elected for the first time (ever) to the Board of Directors of Terna S.p.A..**Start date:** this refers to the date on which the Director was elected to the Board of Directors of Terna S.p.A. for the first time for the related three-year term.**Expiry of term of office (approval of financial statements for):** this refers to the date on which the current term of office expires.**Slate:** indicates M/m based on whether the Director was appointed from the majority slate ("M") or from the minority slate ("m") or otherwise appointed following co-optation.**Exec.:** this is ticked "✓" if the Director can be qualified as executive.**Non-exec.:** this is ticked "✓" if the Director can be qualified as non-executive.**Position:** indicates whether Chair of the Board, Deputy Chair, CEO, etc..**Independent as per Code:** this is ticked "✓" if the Director can be qualified as independent according to the criteria in the Corporate Governance Code.**Independent as per CLF:** this is ticked "✓" if the Director meets the independence requirements as per art. 148, paragraph 3 of the CLF, as indicated in art. 147-ter, paragraph 4 of the same Law.

Exec.	Non-exec.	Independent as per Code	Independent per CLF	No. of other positions***	(*)	A.R.C.G.S.		R.C.		N.C.		RPT Committee	
						(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
√	√		√	0	7/7								
				0	7/7								
	√	√	√	0	7/7	3/3	M						
	√	√	√	3	12/13			8/8	P	3/3	M		
	√	√	√	2	12/13	6/6	P					1/1	M
	√	√	√	1	13/13	6/6	M					1/1	M - P
	√			4	13/13					2/2	M - N/A		
	√	√	√	0	13/13	3/3	M - N/A	8/8	M	3/3	P		
	√	√	√	0	7/7			5/5	M				
	√			3	7/7								
	√	√	√	0	7/7							1/1	M
	√	√	√	0	7/7								
	√	√	√	0	7/7					1/1	M		
√	√		√	--	6/6								
				--	6/6								
	√			--	5/6								
	√	√	√	--	5/6			3/3	M			0/0	M
Audit and Risk Committee ²					Remuneration Committee ²					Nominations Committee ²			
6					8					3			

Attendance at Board meetings: This column indicates the Director's attendance at Board of Directors' meetings during the year under review (indicates the number of meetings attended with respect to the total number of meetings that he or she could have attended since assuming office; e.g. 6/8; 8/8 etc.).

No. of other positions: indicates the total number of positions as a director or statutory auditor held by the Director in other companies listed in regulated markets (also foreign markets), in financial, banking and insurance companies or in large companies, identified on the basis of criteria defined by the Board. For the positions indicated, any positions held in direct or indirect subsidiaries, or in companies in which Terna S.p.A. holds an interest are not taken into account. When more than one position is held within the same group, also for a role with a company belonging to the group itself, only the most important position is considered. For the list of positions held by each Director, please see the professional profiles included in this Report.

The following symbols are used in the "Position" column:

- This symbol indicates the Director with responsibility for the internal control and risk management system.

◊ This symbol indicates the person responsible for the management of Terna S.p.A.' business (Chief Executive Officer or CEO (Chief Executive Officer))

[•] This symbol indicates to Lead Independent Director (LID).

* Date of first election refers to the date on which the Director was elected for the first time (ever) to the issuer's Board of Directors.

** This column indicates the slate from which each Director was elected ("M": majority slate; "m": minority slate; "Board": list submitted by the Board of Directors).

*** This column indicates the number of positions as a director or statutory auditor held by the Director in other companies listed in regulated markets (also foreign markets), in financial, banking and insurance companies or in large companies. In the Report on Corporate Governance, the positions are indicated in full.

(*) This column indicates the Director's attendance at meetings of the Committee during the year under review (indicates the number of meetings attended with respect to the total number of meetings at which he or she could have attended; e.g., 6/8; 8/8 etc.). (**) This column indicates the Director's role in the Committee: "C": Chair; "M": member.

1 The Director, Yunpeng He, was co-opted on to the Board of Directors on 21 January 2015 and then elected by the following AGM of 9 June 2015. The Director, Paolo Calcagnini, was co-opted on to the Board of Directors on 15 February 2019 and then elected by the following AGM on 8 May 2019.

2 In 2020, the Board of Directors in office until 18 May 2020 held a total of 6 Board of Directors' meetings; 3 meetings of the Audit, Risk, Corporate Governance and Sustainability Committee; 3 meetings of the Remuneration Committee; 2 meetings of the Nominations Committee and 0 meetings of the Related Party Transactions Committee. The remaining meetings held during 2020 were conducted by the Board of Directors elected by the Annual General Meeting of 18 May 2020 and by the related Board Committees.

Table 2

Composition of the Board of Statutory Auditors

BOARD OF STATUTORY AUDITORS

POSITION	MEMBERS	DATE OF BIRTH	DATE OF FIRST ELECTION *	START DATE SINCE	EXPIRY OF TERM OF OFFICE (approval of financial statements for)	SLATE **	INDEPENDENT	PARTICIPATION IN MEETINGS ***	NUMBER OF OTHER POSITIONS ****
CHAIRMAN	Mario Matteo Busso	1/3/1951	18/05/2020	18/05/2020	2022	m	√	7/7	1
STANDING AUDITOR	Vincenzo Simone	20/11/1960	27/05/2014	18/05/2020	2022	M	√	10/10	0
STANDING AUDITOR	Raffaella Fantini	20/2/1969	18/05/2020	18/05/2020	2022	M	√	7/7	5
ALTERNATE AUDITOR	Barbara Zanardi	3/3/1977	18/05/2020	18/05/2020	2022	m	–	–	5
ALTERNATE AUDITOR	Massimiliano Ghizzi	15/07/1966	18/05/2020	18/05/2020	2022	M	–	–	0
ALTERNATE AUDITOR	Maria Assunta Damiano	16/08/1966	18/05/2020	18/05/2020	2022	M	–	–	1
Auditors who have ceased to hold office during the year									
CHAIRMAN	Riccardo Enrico Maria Schioppa	20/07/1950	27/05/2014	27/04/2017	2022	m	√	3/3	–
STANDING AUDITOR	Zunino de Pignier Maria Alessandra	01/05/1952	27/05/2014	27/04/2017	2022	M	√	3/3	–
ALTERNATE AUDITOR	Davide Attilio Rossetti	31/10/1971	27/04/2017	27/04/2017	2022	m	–	–	–
ALTERNATE AUDITOR	Mantegazza Cesare Felice	12/03/1954	27/04/2017	27/04/2017	2022	M	–	–	–
ALTERNATE AUDITOR	Ricotti Renata Maria	28/09/1960	27/04/2017	27/04/2017	2022	M	–	–	–
Number of meetings held during the year under review: ¹								10	
Quorum required for the submission of slates by non-controlling shareholders to elect one or more members (under article 148 of the CLF):							1% of share capital		

Notes:

* Date of first election refers to the date on which the Auditor was elected for the first time (ever) to the issuer's Board of Statutory Auditors.

** This column indicates the slate from which each Auditor was elected ("M": majority slate; "m": minority slate).

*** This column indicates the Auditor's attendance at meetings of the Board of Statutory Auditors during the year under review (indicates the number of meetings attended with respect to the total number of meetings at which he or she could have attended; e.g., 6/8; 8/8 etc.).

**** This column indicates the number of positions held by the person concerned as a director or statutory auditor pursuant to art. 148-bis of the CLF and the relevant implementing provisions contained in the CONSOB Regulations for Issuers. The full list of positions is published by the CONSOB on its website pursuant to art. 144-*quinqüesdecies* of the CONSOB Regulations for Issuers.

1 In 2020, the oversight body in office until 18 May 2020 held a total of 3 meetings. The remaining 7 meetings were held by the Board of Statutory Auditors elected by the AGM of 18 May 2020.

Key:

Position: indicates the Chair of the Board of Statutory Auditors, Standing Auditor, Alternate Auditor.

Date of first election: this is the date on which the Statutory Auditor was elected for the first time ever to Terna S.p.A.'s Board of Statutory Auditors.

Start date: this means the date on which the Auditor was elected to Terna S.p.A. Board of Statutory Auditors for the three-year period.

Expiry of term of office (approval of financial statements for): this is the date on which the term of office expires.

Slate: indicates M/m based on whether the Statutory Auditor was elected from the majority slate ("M") or from the minority slate ("m").

Independent as per Code: this is ticked "√" if the Statutory Auditor can be qualified as independent according to the criteria in the Corporate Governance Code.

Attendance at meetings of the Board of Statutory Auditors: this column indicates the Statutory Auditor's attendance at meetings of the Board of Statutory Auditors during the year under review (indicates the number of meetings attended with respect to the total number of meetings that he or she could have attended).

Number of other positions: indicates the total number of positions as a director or statutory auditor held by the statutory auditor as at 31 December 2020 in companies as per Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the Italian Civil Code, that are significant according to art. 148-bis of the CLF. The total number of assignments, where provided for by art. 144-*quinqüesdecies* of the above-mentioned Regulations for Issuers, based on CONSOB resolution 17326 dated 13 May 2010, is published by the CONSOB and is available on its website (www.CONSOB.it)

Annex I

Main characteristics of existing risk management and internal control systems with regard to the financial reporting process (pursuant to art. 123-*bis*, paragraph 2(b) of the CLF)

Introduction

The Terna Group has prepared the “262 Control Model”, governing preparation of the financial statements in terms of the attestations required by paragraphs 2 and 5 of art. 154-*bis* of the CLF, with the aim of contributing towards assessment of the “Internal Control and Risk Management System” (the “ICRMS”).

The “262 Control Model” must be considered together with the “Internal Control and Risk Management System”, insofar as they are elements of the same “system” described in the “Terna Group Internal Control and Risk Management System” guidelines approved by the Board of Directors (last updated on 19 December 2012). In these guidelines, the ICRMS is recognised as the “set of rules, procedures and organisational structures that, through a suitable process of identifying, measuring, managing and monitoring the main risks, enables sound management of the business in keeping with the objectives established by the Board of Directors, thereby facilitating informed decision-making”.

The provisions of Law 262 (dated 28 December 2005, as amended by Legislative Decree 303 dated 29 December 2006) relating to the ICRMS, which oversees preparation of the financial statements, have the main objective of ensuring that financial reports provide a true and fair view of the company’s financial condition, operating results and cash flows in accordance with generally accepted accounting standards.

On the basis of the provisions of art. 154-*bis* of the CLF, the ICRMS, which governs preparation of the financial statements, actively involving all the corporate departments, focuses on the reliability of financial reporting. This is pursued by establishing adequate “accounting and administrative procedures” and by verifying their effective implementation.

Definition of the scope and of the processes to be analysed (scoping activity) is updated by the Manager Responsible for Financial Reporting at least once a year in order to assess, identify and consider the changes that have impacted the ICRMS and supplement/amend the administrative and accounting procedures accordingly.

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

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

The analytical approach of the ICRMS overseeing preparation of the financial statements adopted by Terna is based on a twofold method of assessment:

Entity-level assessment

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

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

The objective of the entity-level assessment is to identify any shortcomings in the entity's general controls that could potentially render even the best process control structures ineffective.

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

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

Controls are assessed on the basis of the following requirements, where applicable:

- existence of the control tool (organisational structure, rules, process);
- adequate communication of the existence of the control tool identified to the relevant audience;
- understanding on the part of the Company's employees of their role and responsibility in implementing the identified control tool;
- appropriate and effective monitoring of the control tool;
- management support in implementing the control tool;
- application, or action undertaken by the management aimed at ensuring compliance with the implemented control tool.

Process-level assessment

Assessment of the relevant processes by establishing guidelines that define, for each activity, the principal risks for financial reporting and the related controls aimed at mitigating them.

The process-level assessment makes it possible to assess the design and performance of controls on the corporate processes and sub-processes involved in financial reporting.

The grounds on which this assessment is based are the administrative and accounting procedures used in preparing the separate financial statements/consolidated financial statements/condensed interim financial statements. These include the execution of specific control activities aimed at preventing the occurrence of risks of significant accounting errors in carrying out the processes.

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

The significance of financial reports is assessed with reference to the possible outcome that the omission or misrepresentation of information could determine in decisions made by the users of financial statements. To that end, quantitative parameters are identified; these are normally defined as a percentage of the average pre-tax profit for the last five financial years, a method which successfully normalises the parameter. Qualitative parameters are also identified, including a risk-based approach, capable of rendering information significant, even if the amount is lower than the materiality threshold identified.

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

Identifying quality parameters involves considering potential “factors” making certain companies, and therefore their accounts, significant, even if these do not on their own exceed the materiality threshold. Investors could demonstrate considerable interest in certain financial statement items that represent an important performance indicator or an important indicator for the sector in which the company operates.

The association of information identified as being significant, due to the related input processes, makes it possible to focus on processes that can determine significant errors in financial reporting.

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

After defining the significant information and selecting the relevant processes on the basis of qualitative and quantitative parameters, the Manager Responsible for Financial Reporting establishes the guidelines for “risk activities and controls” that represent administrative and accounting procedures, and assesses their adequacy and effective implementation (assessment of their design and performance).

To that end, the analysis of significant processes occurs through the following operational steps:

- definition and analysis of activities that make up the processes (“mapping”);
- identification and assessment of risks for each activity and association of such risks with the control objectives;
- identification and assessment of existing controls;
- assessment of the performance of existing controls.

Assessment of the activities that form the processes (“mapping”) is aimed at clearly identifying the process that gives rise to the data or the note to be presented in the financial statements, from identifying the initial event that originates it up to its being included in the financial statements or in the notes.

Mapping the activities that make up the processes is conducive to the final objective of implementing checks at all stages of the preparation of the data and notes in the financial statements, ensuring that information with an impact on the accounts is collected, processed and transmitted correctly and in a timely manner.

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

The effectiveness and design of “key” controls is tested. This involves a dedicated unit in performing monitoring activities for the purposes of art. 154-*bis* of the CLF, using testing and sampling techniques based on international best practices.

Control assessment, where deemed necessary, can involve identifying compensating controls, corrective actions and improvement plans. The results of these activities are submitted for assessment by the Manager Responsible for Financial Reporting, who in turn reports to senior management.

Roles and departments involved

Manager Responsible for Financial Reporting

The Manager Responsible for Financial Reporting is responsible for:

- each year revising the scope and the assessment of significant processes, considering the change/risk factors communicated by Terna S.p.A.’s senior managers and by the management of individually significant companies;
- preparing revisions of the “262 Control Model” and the “Terms of reference for the Manager Responsible for Financial Reporting”, in agreement with the “Executive Director responsible for the Internal Control and Risk Management System”;
- preparing and revising adequate administrative and accounting procedures for preparation of the separate financial statements, the consolidated financial statements and the condensed interim financial statements;
- reporting regularly to the Chief Executive Officer, also in his or her capacity as “Executive Director responsible for the Internal Control and Risk Management System”, on:
 - a) the activities carried out in order to monitor effective application of administrative and accounting procedures and the critical issues that have emerged,
 - b) the Corrective Action Plans drawn up in order to overcome critical issues that have emerged and the related outcomes,
 - c) the suitability of the means and resources made available to the Manager Responsible for Financial Reporting and the methods used;
- ensuring, in collaboration with all senior managers, the implementation of Corrective Action Plans and the dissemination administrative and accounting procedures;
- supporting the Chief Executive Officer and the management of individually significant companies in executing the operational, control and reporting activities that are part of their specific duties.

The Manager Responsible for Financial Reporting may make use of qualified external companies with specialist professional staff in assessing the design and performance of controls over administrative and accounting procedures.

Internal Audit and Risk Management

These departments are responsible for:

- providing the Manager Responsible for Financial Reporting with regular reports and reports prepared in light of specific needs, regarding the performance and adequacy of the ICRMS, and supporting the Manager Responsible for Financial Reporting in assessing the correct functioning of the internal control system and the related risk management procedures, including any IT systems;
- coordinating with the Manager Responsible for Financial Reporting in defining the annual audit plan, as regards the part relating to administrative and accounting processes;
- providing the Manager Responsible for Financial Reporting with a suitable flow of information in relation to the results of the activities connected with the respective controls relating to the responsibilities of the Manager Responsible for Financial Reporting, following agreed methods;
- in the event of the involvement of specific testing activities, ensuring the necessary collaboration and changes to the audit plan and in defining priorities also, if necessary, with the assistance of the delegated corporate body.

Terna S.p.A.'s senior managers

They are responsible for:

- coordinating the persons in charge of individual controls, including in subsidiaries, in the performance of their duties;
- coordinating the persons in charge of individual controls, including in subsidiaries, in establishing and implementing Action Plans;
- supporting the activities of the Manager Responsible for Financial Reporting and ensuring access to all documents/information useful for the relevant activities;
- preparing and forwarding, in the time frames established by the reporting calendar, the attestations regarding the design and performance of controls.

The management of individually significant companies

These persons are responsible for:

- coordinating the persons in charge of individual controls in executing the controls they are responsible for;
- assessing, in collaboration with the Manager Responsible for Financial Reporting, the ICRMS over the financial reporting of individually significant companies;
- preparing and forwarding, in the time frame established by the reporting calendar, the attestations regarding the ICRMS of individually significant companies.

To enable the Manager Responsible for Financial Reporting and the Chief Executive Officer to issue the attestations required by art. 154-*bis* of the CLF, a system of internal “chain” attestations has been created, with the objective of making process owners and departmental heads accountable for the purposes of ensuring the adequacy and effective implementation of the administrative and accounting procedures drawn up as part of the “262 Control Model”.

The attestation, issued to the market on the basis of the template provided by the CONSOB, is based on a complex assessment process that includes:

- collecting internal “chain” attestations issued both by senior managers within Terna S.p.A. and by the chief executive officers of individually significant companies. The existence of a periodic reporting flow makes it possible to certify:
 - the design of existing controls identified in the guidelines for “risk activities and controls”;
 - the performance of existing controls and the effective implementation of administrative and accounting procedures;
 - the absence of material aspects and/or change/risk factors that could require the revision of administrative and accounting procedures;

- assessment of the performance of administrative and accounting procedures carried out by the Manager Responsible for Financial Reporting;
- the final overall assessment of the adequacy and effective application of administrative and accounting procedures by the Chief Executive Officer and the Manager Responsible for Financial Reporting. This activity is supported by an assessment of the design and performance of specific controls. As such, it is carried out overall with reference to the probability that, following one or more significant deficiencies, a misstatement in the financial statements could occur and with reference to the risk that this misstatement may have been material. To support the Chief Executive Officer and the Manager Responsible for Financial Reporting in their final assessments of the concrete possibility that there is a material misstatement in the financial statements, where one or more significant deficiencies are identified, compensating controls may be introduced. If such controls are successful in compensating for the one or more significant deficiencies identified, this will in any event enable the Chief Executive Officer and Manager Responsible for Financial Reporting to issue unqualified opinions. Any significant deficiencies must be notified promptly, together with the results of the compensating controls performed by the Chief Executive Officer and the Manager Responsible for Financial Reporting, to Terna S.p.A.'s Audit, Risk, Corporate Governance and Sustainability Committee, the Supervisory Board and the Board of Statutory Auditors.

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www.terna.it

Mercurio GP
Milan

Strategic advisory

Creative concept

Graphic design

Layout

Editing

www.mercuriogp.eu

Password Language Services S.r.l.
Rome

Translation

