

“

We promote the energy transition and sustainable development by focusing on people and innovation. We work every day to build an atmosphere of dialogue and trust in local areas, to which we bring a vital asset for everyone's economic and social lives: electricity. This translates into choices based on respect for the environment and local communities. Our inclination to listen begins within the Company, among our people, in the awareness that the radical transformation the world is experiencing is a shared responsibility. This responsibility is our energy. ”



+559%

TOTAL SHAREHOLDER RETURN
SINCE THE IPO

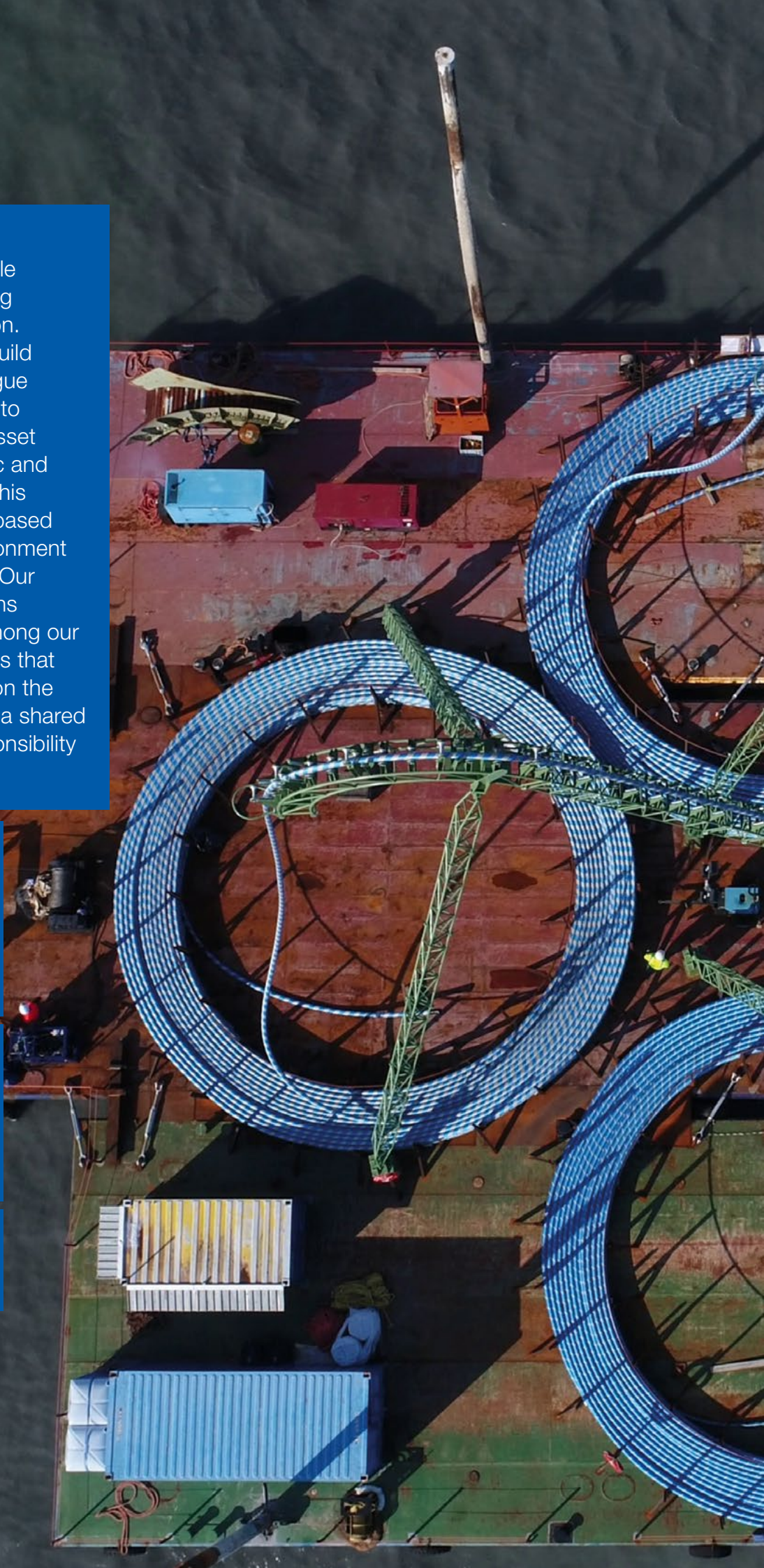


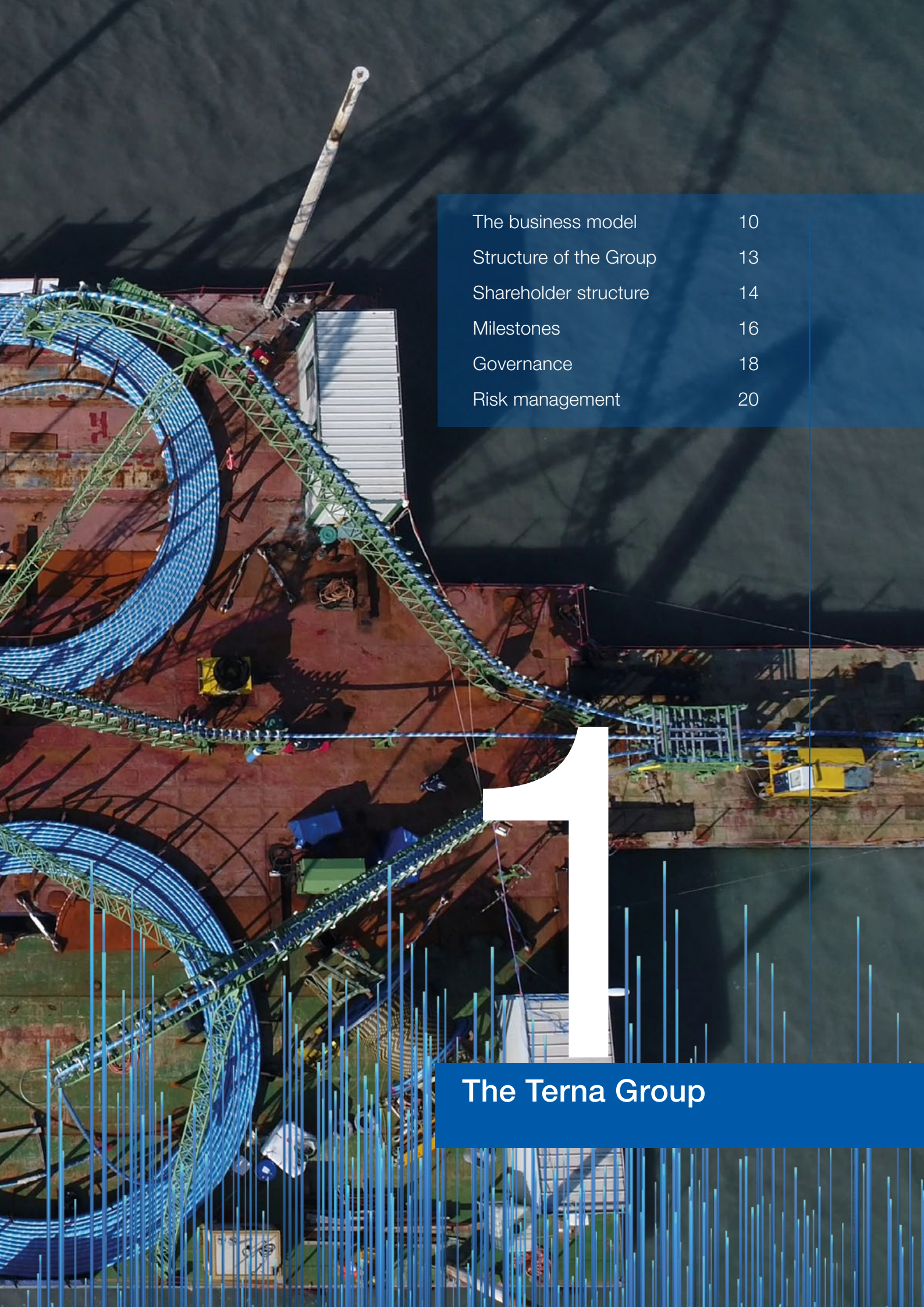
74,442km

OF HIGH VOLTAGE LINES MANAGED

4,252

WORKFORCE AT 31 DECEMBER 2018
INCLUDING 468 NEW HIRES IN 2018





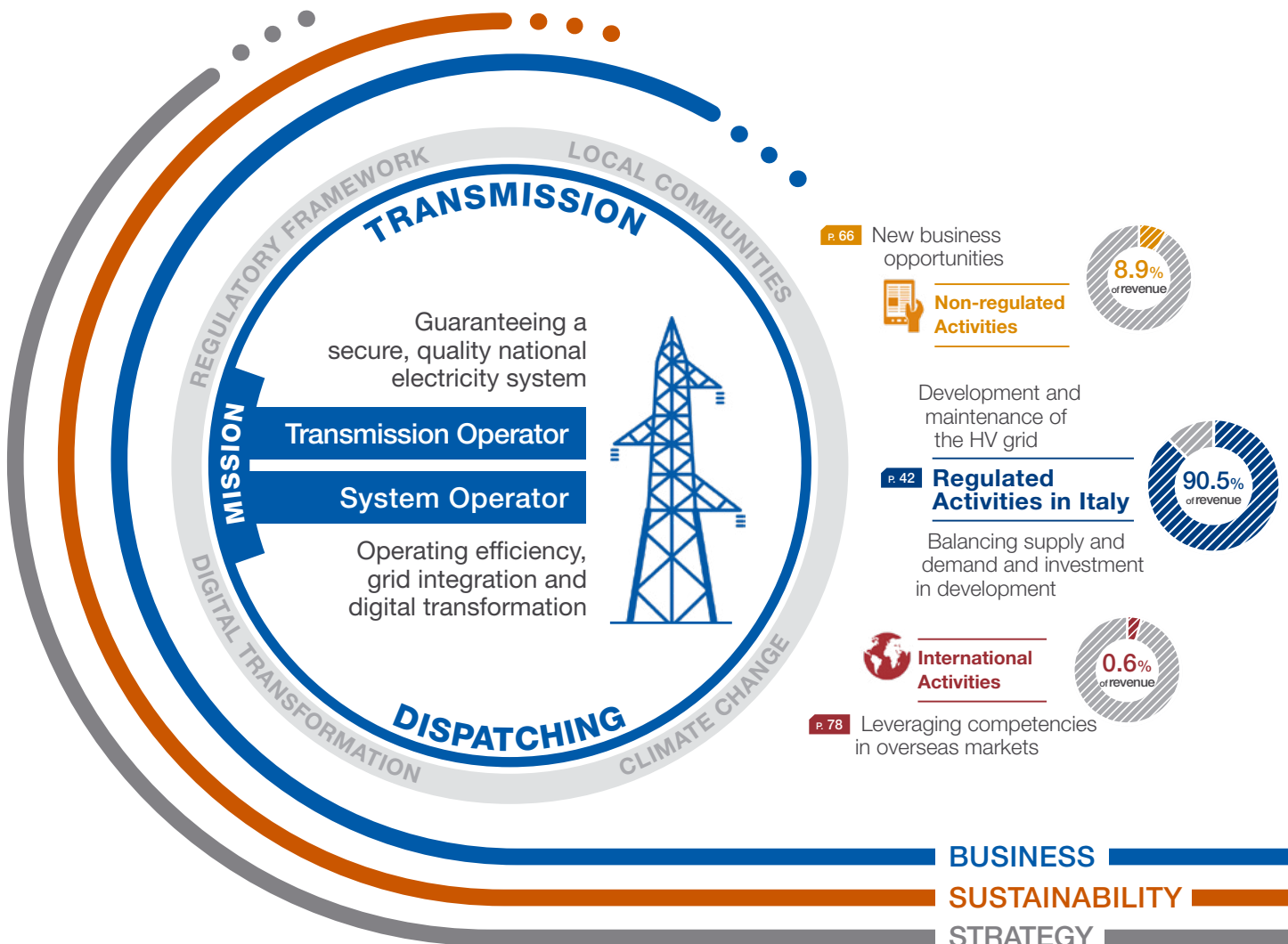
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The Terna Group

The business model

ROLE

ACTIVITIES



Terna plays a central role in the energy transition process underway: in a context of radical change with decarbonisation emerging as a global objective, the electricity grid is one of the main enabling factors.

ENABLERS

VALUE CREATION

SYSTEM EFFECTS

P. 82 PEOPLE



at the centre of our business

- Competencies
- Integrity and Values
- Safety

P. 90 INNOVATION



in response to the growing complexity of the system

- Digital solutions
- New technologies
- Open innovation

P. 112 **Shareholder value with constant**, predictable growth in returns over a five-year period

P. 20 **Risk control** through prevention and real-time response

P. 60 **Value for money** of the prices charged to end users

P. 56 **Quality of service** to provide the community with a reliable electricity supply, minimising outages

P. 48 **Resilience** in the face of the increasingly complex challenges posed by climate change

P. 46 **Checks on the impact of our activities** in our approach to every stakeholder

P. 48 **Grid development and maintenance** to maximise the reliability of the service



P. 27

PROGRESSIVE DECARBONISATION



P. 31

GROWING INTEGRATION OF RENEWABLES



P. 28

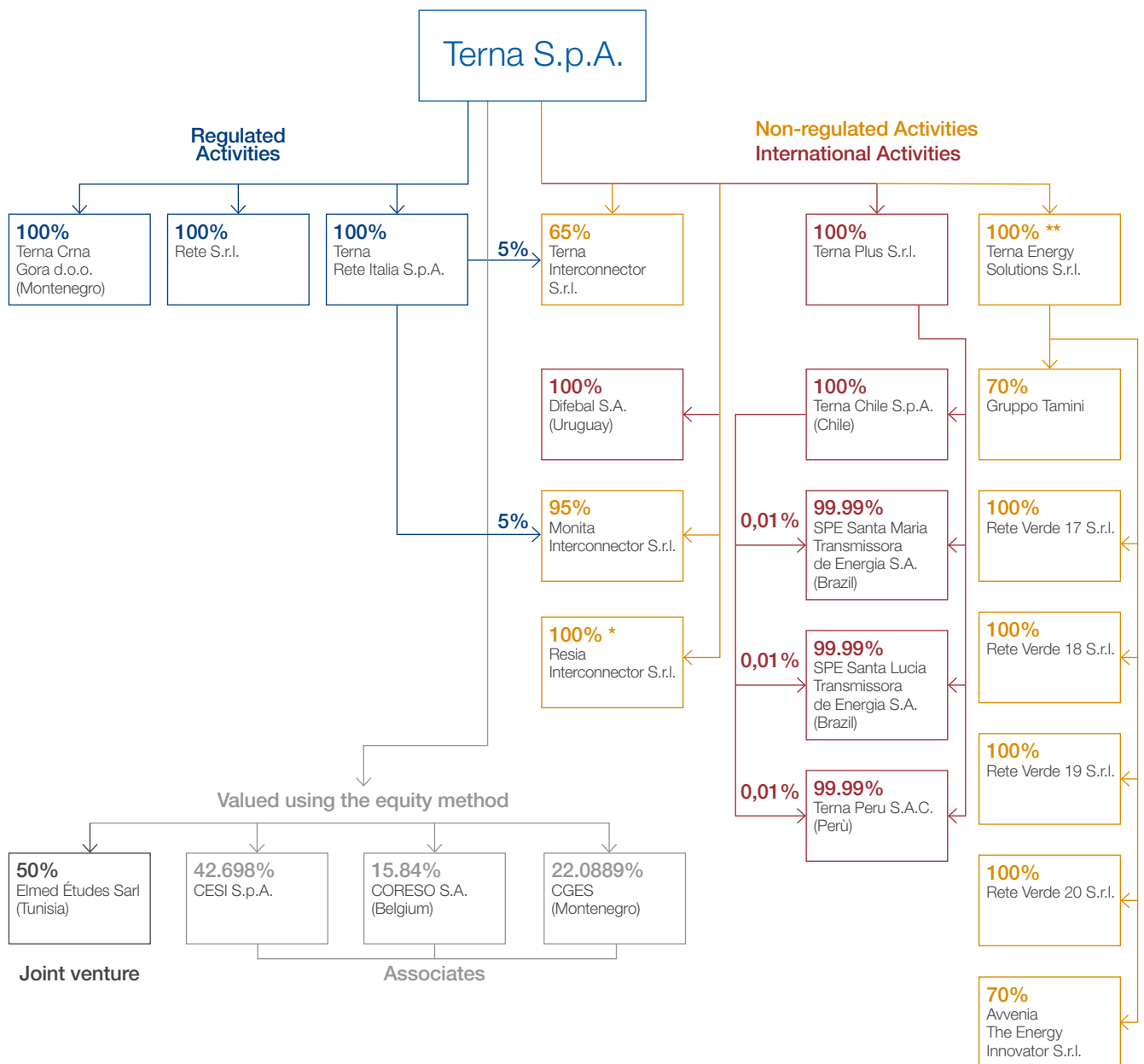
CONTRIBUTION TO ACHIEVING THE UN'S SDGs

A key role in
ENERGY TRANSITION

P. 26



Structure of the Group



Compared with 31 December 2017:

* On 16 July 2018, Resia Interconnector S.r.l. was incorporated. This company will be involved in construction of the private Italy-Austria interconnector, for which the process of obtaining the necessary consents for the Passo Resia - Glorenza cable section is currently underway.

** On 2 August 2018, the partial demerger of Terna Plus S.r.l. (a wholly-owned subsidiary of the parent, Terna S.p.A.), and the transfer of the demerged assets to a newly established company named Terna Energy Solutions S.r.l., came into effect. The demerged business is focused on Non-regulated Activities and on the energy solutions activities already carried out by Terna Plus which, following the demerger, is responsible for the Group's South American activities. The transaction also resulted in the transfer of equity interests in the companies that carry out Non-regulated Activities in Italy: Tamini Trasformatori S.r.l., Rete Verde 17 S.r.l., Rete Verde 18 S.r.l., Rete Verde 19 S.r.l., Rete Verde 20 S.r.l. and Avenia The Energy Innovator S.r.l. (acquired on 15 February 2018).

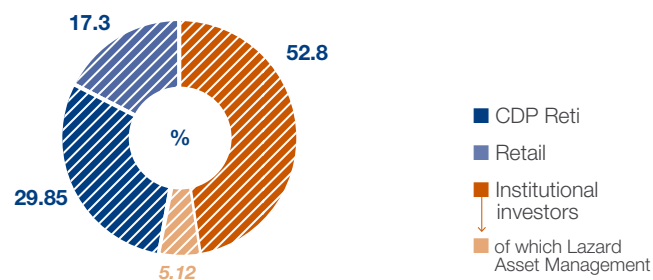
Shareholder structure

At the date of preparation 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.

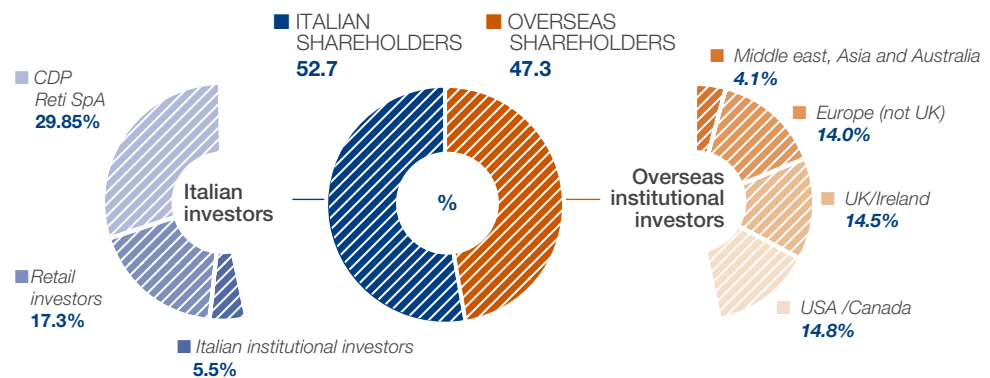
Based on periodic surveys carried out by the Company, it is estimated that 52.7% of Terna's shares are held by Italian shareholders, with the remaining 47.3% held by overseas institutional investors, primarily from the USA and Europe.

Based on information from the shareholder register and other data collected as at February 2019, Terna's shareholder structure breaks down as follows.

SHAREHOLDERS BY CATEGORY



SHAREHOLDERS BY GEOGRAPHICAL AREA AND CATEGORY



Major shareholders¹

CDP RETI SpA²

(a company controlled by Cassa Depositi e Prestiti S.p.A.): _____ **29.851%**

LAZARD ASSET MANAGEMENT LLC

(as a discretionary asset manager): _____ **5.122%**

At the end of 2018, 109 socially responsible investors (SRIs) had invested in Terna's shares in application of an approach that takes into account ESG (Environmental, Social, Governance) aspects.

Overall, **at the end of 2018, SRIs represented 9.52% of Terna's free float** (8.32% at the end of 2017) and 12.86% of the capital held by identifiable institutional investors (approximately 11% at the end of 2017).

Information on the ownership structure, restrictions on the transfer of shares, securities that grant special rights, and restrictions on voting rights, as well as on shareholder agreements, is provided in the "Report on Corporate Governance and Ownership Structures" for 2018. This is available in the Investor Relations section of Terna's website (www.terna.it).

Socially Responsible Investors

¹ Shareholders who, based on the available information and notifications received from the CONSOB, own interests in Terna S.p.A. that are above the notifiable threshold established by CONSOB Resolution 11971/99.

² 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 S.p.A.. This was later amended and supplemented to extend the scope of the agreement to include Italgas S.p.A..

Milestones

ORIGINS THE NEW TERNA

1962
1999

From a Monopoly to an Independent System Operator

Terna's principal activities are rooted in Italy's history: in 1962, Law 1943 paves the way for nationalisation of the electricity industry, handing ENEL responsibility for all the stages of the electricity supply chain, previously in private hands.

The monopoly operator is able to complete electrification of the Italian Peninsula, but the driving force behind the changes that have led to the current operating environment is the process of deregulation promoted by the European Union aimed at making grid management independent.

In implementation of Decree 79 of 16 March 1999, focused on separation of ownership the National Transmission Grid from management of the grid itself (involving transmission and dispatching) along the lines of the so-called "Independent System Operator" model, two new companies are established: Terna, owner of the Italian transmission grid, and GRTN (the National Transmission Grid Operator).

2004
2008

Terna's Initial Public Offering

A Cabinet Office Decree gives the Group a new corporate governance system, designed to guarantee the neutrality and impartiality of Terna's management.

In June 2004, 50% of the Company's share capital is floated on the Italian Stock Exchange (in the Blue Chip segment).

Unification of the roles of Transmission Operator and System Operator: Terna's new mission to serve the country

In 2005, ownership and management of the grid are combined. This marks the culmination of a process that began in 1999 and the start of a new stage in Terna's mission to serve the country.

In this period, the Company records continuous growth, acquiring many portions of the grid from other operators. To safeguard Terna's independence as the National Transmission Grid Operator, the Ministry of the Economy and Finance acquires a 29.99% stake in Terna through CDP (Cassa Depositi e Prestiti).

2009
2013

Terna becomes the largest TSO in Europe

Terna acquires 18,600 km of high-voltage lines from Enel, thereby becoming the leading independent grid operator in Europe and the seventh largest in the world. Terna now owns 98.6% of Italy's national grid.

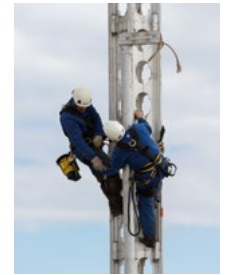
Shareholder value grows

In 2009, Terna sells 66% of the Brazilian subsidiary, Terna Participações, to Cemig, recording a gain of over €400 million, some of which is invested in development of the Italian electricity network and some is returned cash to shareholders.

New infrastructure projects and growing success of Non-Regulated activities

In 2011, Terna develops infrastructure of international excellence. The SA.PE.I. line (Sardinia to the mainland) starts operating, as does the Chignolo Po-Maleo line in Lombardy. Work begins on the Sorgente-Rizziconi line (linking Sicily and Calabria).

Two new operating companies are established in 2012: Terna Rete Italia S.p.A., responsible for regulated activities, and Terna Plus S.r.l., with responsibility for expanding the Non-regulated services.



THE PRESENT DAY

2014
2017

European leadership consolidated with new investments

In 2015, Terna acquires the Ferrovie dello Stato group's high-voltage grid for €757 million, consolidating its leadership in Europe with approximately 72,600 km of grid managed. Terna's value has more than doubled since its IPO.

In 2016, Terna focuses on strategic power lines. The Villanova-Gissi and Sorgente-Rizziconi lines enter service. The latter is a record-breaking power line, connecting Sicily and Calabria and the Italian Peninsula with the rest of Europe via the country's high-voltage electricity system.

Change of management

In 2017 a new Board of Directors is elected, with Luigi Ferraris appointed as the new Chief Executive Officer and General Manager, new managers appointed to key roles, and Catia Bastioli re-appointed as Chairwoman.

2018

The "Grids and Values" Strategic Plan

In line with the guidance provided by the United Nations (COP21), EU guidelines and the objectives set out in the National Energy Strategy (*Strategia Energetica Nazionale* or "SEN"), Terna has stepped up the pace of investment, focusing on development of the national transmission grid in order to facilitate the integration of renewable sources and improve the system's security. At the same time, it intends to renew the Group's asset base in order to mitigate the risk of interruptions to supply, boost environmental sustainability, and improve the performance of maintenance activities through the use of digital grid technologies, all to the benefit of the quality of the electricity service. The new corporate strategies, presented for the first time in March 2018 by the CEO and General Manager, Luigi Ferraris, are revised at the meeting with investors held on 21 March 2019.

A new organisational structure and the Transmission Operator-System Operator logic

In order to optimise and integrate dispatching and long-term planning activities, on the one hand, and maximise the operational efficiency of design, implementation, operations and maintenance, on the other, two key organisational structures, reporting directly to the Chief Executive Officer, have been redesigned. Terna thus plays two core roles: as System Operator, embodied in the "Strategy, Development and Dispatching" structure, and as Transmission Operator of the "National Transmission Grid".

The new Terna Plus and Terna Energy Solutions

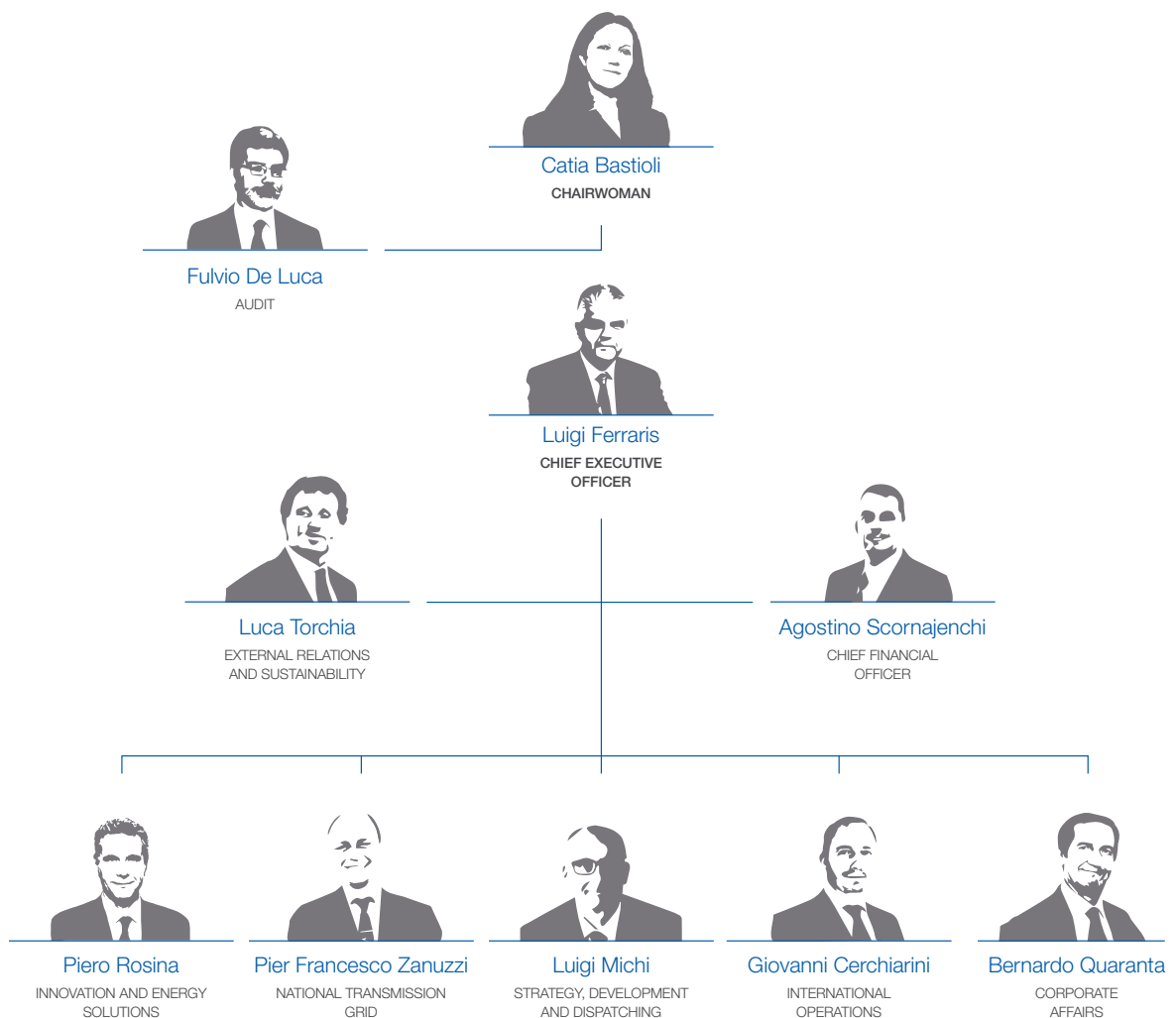
In August 2018, the partial demerger of Terna Plus S.r.l. (a wholly-owned subsidiary of the Parent Company, Terna S.p.A.), and the transfer of the demerged assets to a newly established company named Terna Energy Solutions S.r.l., came into effect. The latter's business is focused on non-regulated activities and energy solutions activities. Terna Plus will now be responsible for the Group's development and plant construction activities in South America, and more generally for the development of new businesses around the world.

Governance

Our corporate governance system has been designed with the aim of creating value for shareholders, based on an awareness of the social significance of our activities.

Promoting collaboration and dialogue in order to tackle future challenges and apply a culture of responsibility are the underlying principles that underpin our approach.

Our management team



These objectives are pursued taking into account the social and environmental importance of the Group's operations and the resulting need to adequately consider all stakeholders in conducting our business.

In this regard, the ultimate guide relating to matters of sustainability is the **Code of Ethics**³, which references the ten principles regarding human rights, labour, the environment and corruption covered by the Global Compact, the *multi-stakeholder network* set up by the United Nations and which Terna has been a member of since 2009. The Code of Ethics also requires the Group to publish an annual Sustainability Report, which in the Group's case also includes the non-financial statement required by art. 4 of Legislative Decree 254/2016. The Sustainability Report contains disclosures on fulfilment of our environmental and social commitments and on the consistency of the results achieved with the targets set.

<p>Chairwoman Catia Bastioli</p> <p>Chief Executive Officer Luigi Ferraris</p>	<p>Directors Fabio Corsico Luca Dal Fabbro Paola Giannotti Yunpeng He</p> <p>Gabriella Porcelli Paolo Calcagnini⁴ Elena Vasco</p>	<p>Board of Directors</p>
<p>Chairman Riccardo Enrico Maria Schioppo</p> <p>Standing Auditors Vincenzo Simone Maria Alessandra Zunino de Pignier</p>	<p>Alternates Davide Attilio Rossetti Cesare Felice Mantegazza Renata Maria Ricotti</p>	<p>Board of Statutory Auditors</p>
<p>Audit, Risk, Corporate Governance and Sustainability Committee Luca Dal Fabbro⁵ (Chairman, independent) Elena Vasco (independent) Paola Giannotti (independent)</p> <p>Remuneration Committee Fabio Corsico (Chairman, independent) Gabriella Porcelli (independent)</p>	<p>Nominations Committee Luca Dal Fabbro (Chairman, independent) Yunpeng He Fabio Corsico (independent)</p> <p>Related Party Transactions Committee Gabriella Porcelli (Coordinator, independent) Luca Dal Fabbro (independent) Paola Giannotti (independent)</p>	<p>Board committees⁶</p>
<p>Manager responsible for Terna S.p.A.'s financial reporting Agostino Scornajenchi</p>		<p>Manager responsible for Terna S.p.A.'s financial reporting</p>
<p>PricewaterhouseCoopers S.p.A.</p>		<p>Independent auditors</p>

³ Available on Terna's website at <http://www.terna.it/it-it/investorrelations/corporategovernance/eticadimpresa/codiceetico.aspx>, sub: <http://download.terna.it/terna/0000/0063/62.pdf> e sub <http://download.terna.it/terna/0000/0054/05.pdf>

⁴ On 15 February 2019, after the resignation of Director, Stefano Saglia, from the positions he held on the Board of Directors of Terna S.p.A., as reported to the market on 31 July and 10 August 2018, the Board of Directors co-opted Paolo Calcagnini as a new non-executive Director, subject to the opinion of the Nominations Committee and with the approval of the Board of Statutory Auditors, thereby accepting the invitation made by the Cassa Depositi e Prestiti Group in a letter dated 6 February 2019. The new Director, who does not meet the independence requirements pursuant to art. 3 of the Code of Conduct and pursuant to art. 147 ter, paragraph 4, and art 148, paragraph 3, of Legislative Decree 58/2008, will remain in office until the next Shareholders' Meeting.

⁵ Following the resignation of the Director, Stefano Saglia, from the positions he held on the Board of Directors of Terna S.p.A. - as reported to the market on 31 July, 10 August and 9 November 2018 - the Board of Directors appointed the independent, non-executive Director, Luca Dal Fabbro, representing minority shareholders, as Chairman of the Audit, Risk, Corporate Governance and Sustainability Committee.

⁶ Following the previously mentioned resignation of Stefano Saglia as a Director, changes were made to the composition of Board Committees, including the appointment of a new member of the Remuneration Committee. Further details are provided in the sections on events after 31 December 2018 in the consolidated and separate financial statements.

Risk management

We closely monitor all types of risk and identify the most appropriate sustainability initiatives to mitigate their impact. For this purpose, we have put in place specific safeguards, tools and organisational structures.

In view of the distinctive and specific nature of the core business, regulated primarily through a government concession arrangement and by the Regulatory Authority for Energy, Networks and the Environment (ARERA, or the *Autorità di Regolazione per Energia reti e Ambiente*), Terna is exposed not to the usual price- and market-related risks (or is so only to a limited extent with regard to its non-regulated and overseas operations), but to regulatory and legislative risk, as well as the traditional operational risks which have become increasingly critical with the energy transition in progress.

Regulatory risk derives from potential changes in the criteria used to determine regulated revenue, particularly following a multi-year review of the regulatory framework. Legislative risk relates to potential changes in Italian and European laws governing matters relating to the environment, energy, tax and social aspects (above all labour and tenders).



From an organisational point of view, the key players in the risk management process are:

- **Audit, Risk, Corporate Governance and Sustainability Committee:** this committee consists of independent members of the Board of Directors and supports the Board of Directors in making assessments and decisions regarding the Internal Control and Risk Management System (ICRMS). Periodically, it is called on to assess the adequacy and efficacy of this system with respect to the nature of the Company and its risk profile;
- **Chief Risk Officer (CRO):** the CRO has two main tasks: to define the Company's risk assessment, management and control policies and coordinate all the entities involved in the ICRMS, to maximise efficiency and minimise the duplication of work.
- **Security and Services department:** through its Risk Management unit, this department guarantees effective oversight and coordination of the various risk management processes used by the Group.

Risk management actors

Risk management methodology

The Terna Group has used **Enterprise Risk Management (ERM) methodology** for some time, appropriately tailored to its own situation as grid operator, to identify, assess, control and monitor its risks. ERM analysis has enabled the Group to create a detailed map of its operations and their inter-relations, which are associated with a catalogue of over a thousand operational risks of differing importance in terms of critical nature and impact. This has provided a significant body of information for use when assessing critical areas.

Alongside the adoption and application of an integrated risk management model, Terna has also developed an enterprise Governance, Risk and Compliance (eGRC) IT tool, allowing it to simplify and classify information to obtain a standardised and comparable representation of the Group's risks and produce an integrated report for senior management.

The risks to which the Terna Group is exposed may therefore be grouped into three macro-categories: **Governance & Compliance** (described below), **Operations and Strategy & Financial** (details are provided below in line with the corresponding activities).

Over
1,000
operational risks

GOVERNANCE AND COMPLIANCE RISK MANAGEMENT

By continuously monitoring Governance, Integrity Compliance risks, and based on **best governance and compliance practices**, Terna:

- has adopted a *Code of Ethics*;
- has implemented an *Organisational and Management Model, as provided for in Legislative Decree 231 of 2001, as amended*;
- has approved "*Compliance rules for the prevention of administrative offences and violations relating to market abuse*" and adopted *Anti-corruption Guidelines*";
- has adopted the "*Global Compliance Program*";
- has appointed a "*Manager responsible for financial reporting*";
- has adopted an Integrated Management System, laying down the criteria for the management of Quality, the Environment, Occupational Health and Safety, Energy, Anti-corruption efforts, Information Security, Multi-site Test Lab Security, Live-Line Working and the Calibration Centre;
- has developed an *Information Security Governance Model*;
- has implemented a *Privacy Model* in compliance with EU Regulation 2016/679;

The Group has also adopted a "*Trade Compliance Policy*" on overseas trade and established a *Fraud Management team*, accompanied by an *Anti-Fraud Model*.



Governance and Compliance models

The approach to combating fraud is based on the **continuous monitoring of processes, in order to determine the level of exposure to the risk of fraud and the related risk factors**.

The aim is to adopt suitable governance measures and increasingly rigorous controls, such as, for example, the definition of new internal rules and procedures.

Adhering to the principle of **integrated security**, the implementation of which requires a constant commitment to identifying potential internal vulnerabilities, assessment and control of the causes and preparation of appropriate measures designed to resolve and prevent their occurrence.

For this purpose, **Terna** has developed a model for identifying critical areas and monitoring potential organisational and operational issues that might give rise to the occurrence of fraud.

Fraud management