



2021

REPORT ON
**CORPORATE GOVERNANCE
AND OWNERSHIP STRUCTURES**

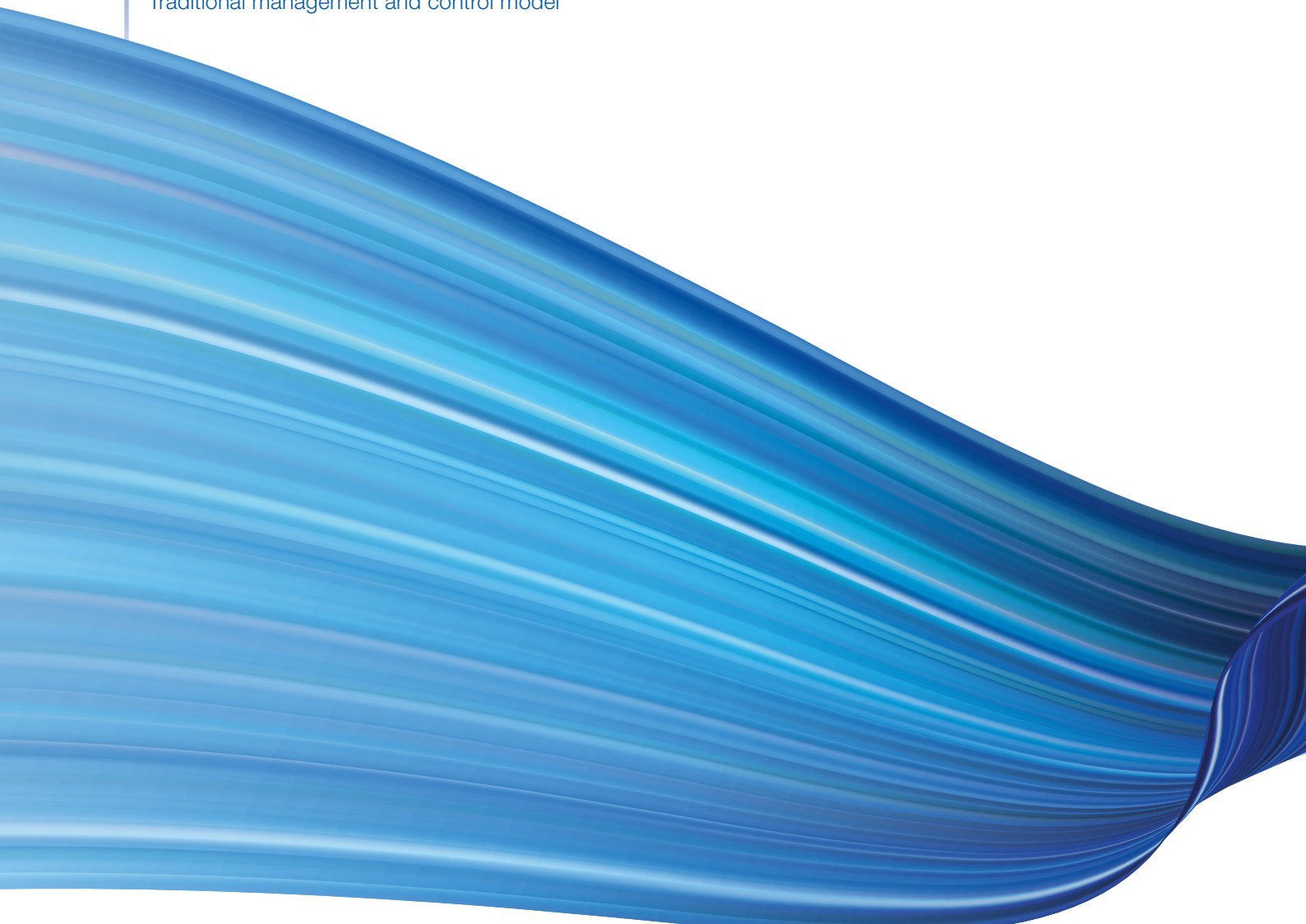
TERNA S.P.A.

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»
(abbreviated form TERNA S.p.A.)

Website: www.terna.it

Annual reporting period to which the Report refers: 2021

Date of approval of the Report: 17 March 2022

Driving Energy

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

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.

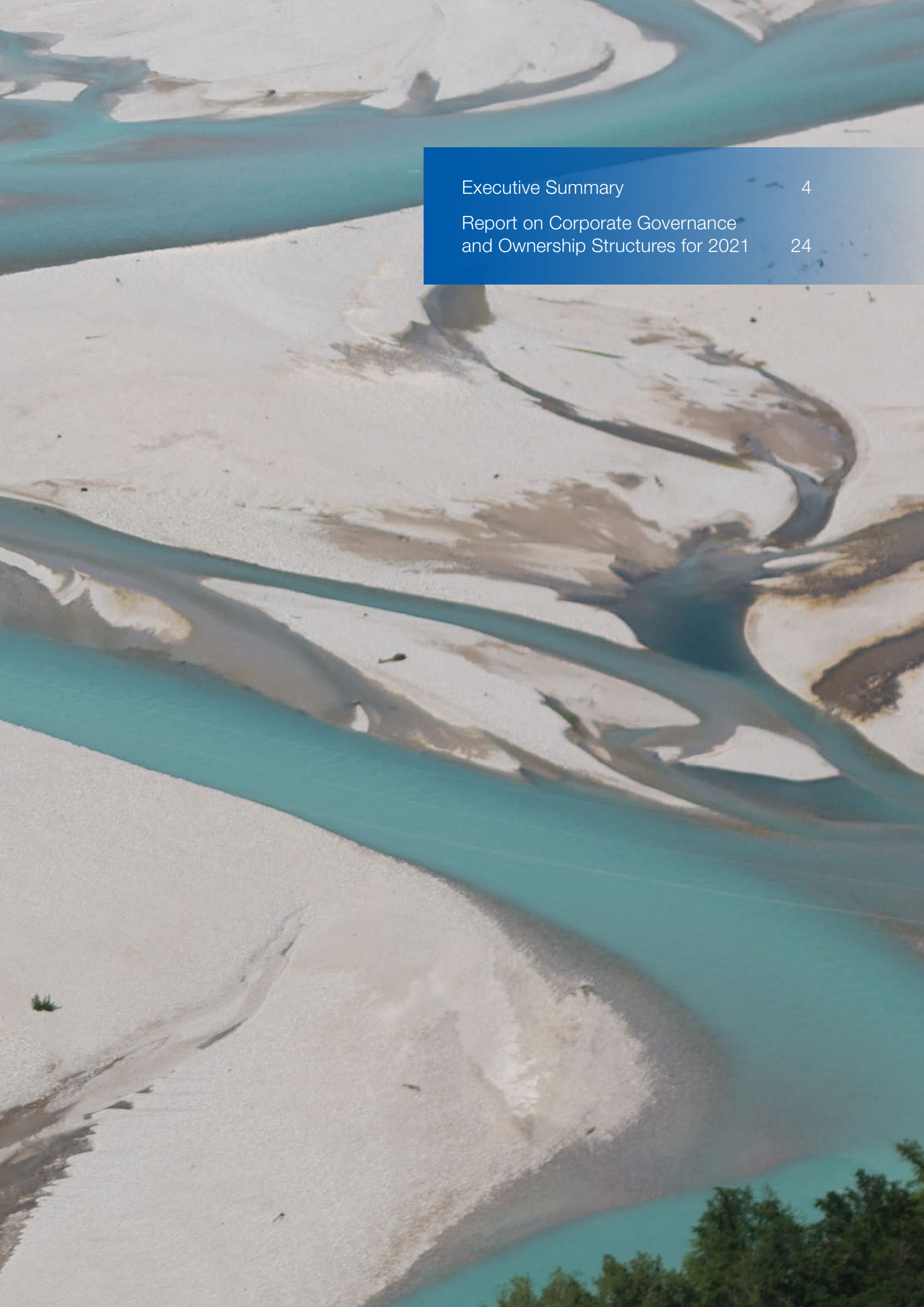
Sustainability, innovation and distinctive competencies are behind everything we do, with the aim of providing the generations to come with a clean, accessible and emission-free energy future.

We 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.





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and Ownership Structures for 2021 24

Executive Summary

Structure and composition of corporate bodies

BOARD OF DIRECTORS IN OFFICE



VALENTINA BOSETTI

Chairwoman

M

Non-executive
Independent



**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



QINJING SHEN

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-executive
Independent as
per the CLF



**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	●
Alessandra Faella	Member	●

REMUNERATION COMMITTEE

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

RELATED PARTY TRANSACTIONS COMMITTEE

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

NOMINATIONS COMMITTEE

NAME	ROLE	INDEPENDENT
Gabriella Porcelli	Chair	●
Fabio Corsico	Member	●
Jean-Michel Aubertin	Member	●
Ernesto Carbone	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 52.2% of Terna's shares are held by Italian shareholders, with the remaining 47.8% held by overseas institutional investors, primarily from the USA and Europe (ex UK).

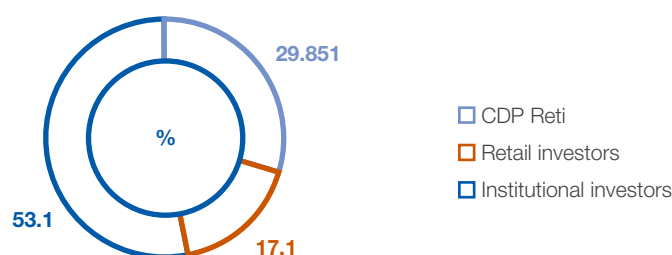
The largest shareholder is CDP Reti S.p.A. (CDP Reti), a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. (CDP).

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..

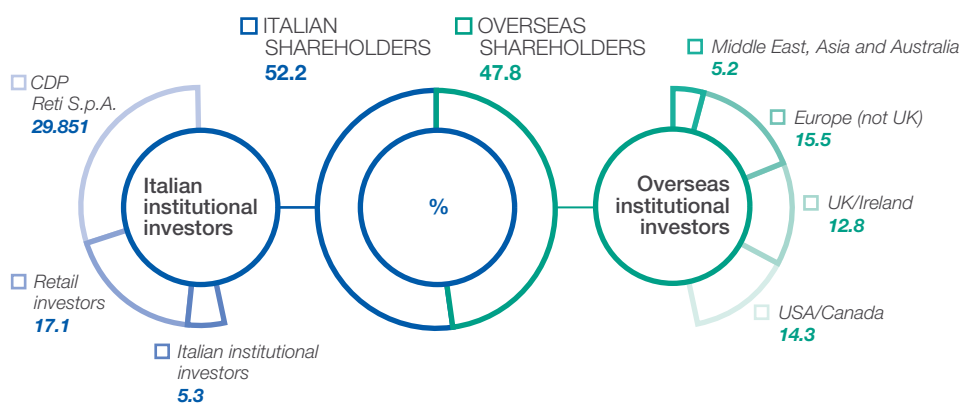
Following the transfer to CDP Reti of CDP's remaining interests in SNAM S.p.A. and Italgas S.p.A., essential information in the shareholder agreement was most recently updated on 23 May 2017 and is available on Terna's website.

Based on information from the shareholder register and other data collected as at February 2022, Terna's shareholder structure breaks down as follows.

SHAREHOLDERS BY CATEGORY

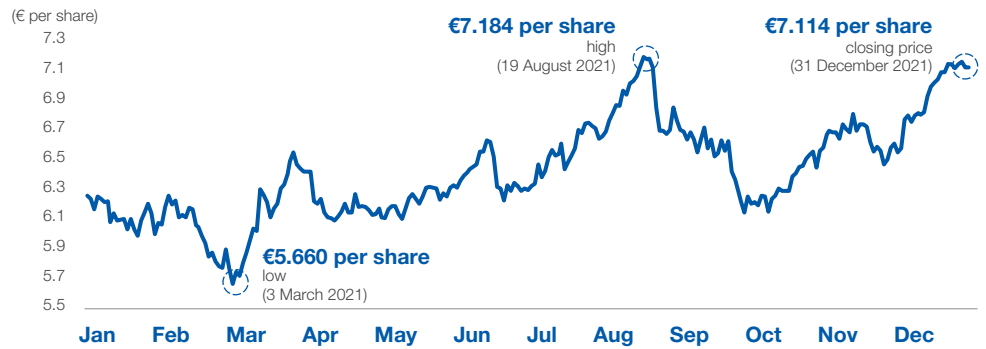


SHAREHOLDERS BY GEOGRAPHICAL AREA AND CATEGORY



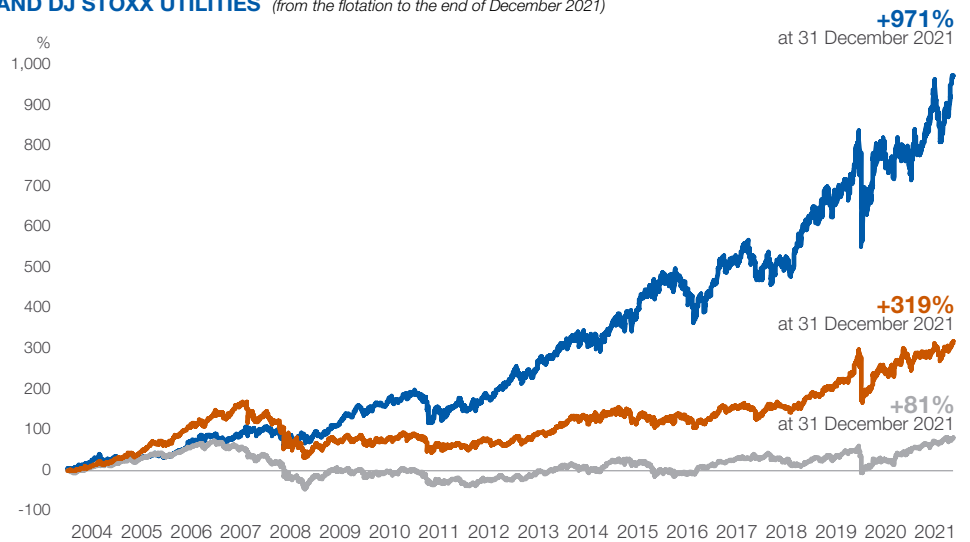
Performance of Terna's shares

PERFORMANCE OF TERNA'S SHARES (Price from 1 January to 31 December 2021)



Source: Bloomberg.

TOTAL SHAREHOLDER RETURN ON TERNA'S SHARES AND THE FTSE MIB AND DJ STOXX UTILITIES (from the flotation to the end of December 2021)



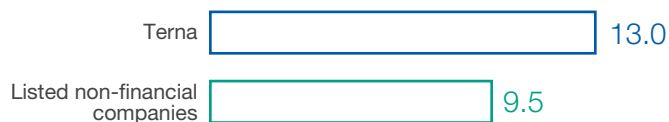
Source: Bloomberg.

— Terna — Ftse Mib — Dj Stoxx Utilities

Terna's Board of Directors

Key indicators

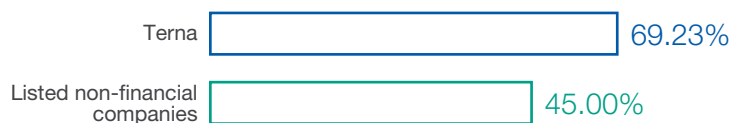
SIZE OF THE BOARD¹



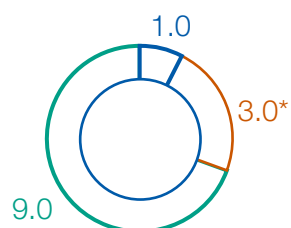
REPRESENTATION OF NON-CONTROLLING SHAREHOLDERS ON BOARD OF DIRECTORS²



PRESENCE OF INDEPENDENT DIRECTORS³



DETAILED COMPOSITION OF THE BOARD OF DIRECTORS (number and category)



■ Executive
 ■ Non-executive and non-independent
 ■ Independent**

* One Director is independent pursuant to the Consolidated Law on Finance.

** Independent pursuant to both the Consolidated Law on Finance and the Corporate Governance Code.

¹ The data relating to the size of the Board are taken from the Assonime report "Report on Corporate Governance in Italy: the implementation of the Italian Corporate Governance Code (2021)".

² The data concerning the representation of minorities on the Board of Directors are taken from the "Rapporto Fin-Gov sulla Corporate Governance in Italia" (November 2021) edited by Massimo Belcredi and Stefano Bozzi.

³ The data concerning the presence of independent directors on the Board of Directors are taken from the "Rapporto Fin-Gov sulla Corporate Governance in Italia" (November 2021) edited by Massimo Belcredi and Stefano Bozzi.

Board of Directors' competencies

RISK MANAGEMENT SUSTAINABILITY

ENGINEERING LEGAL
FINANCIAL

LEGAL UTILITIES

FINANCIAL SUSTAINABILITY
INFORMATION TECHNOLOGY

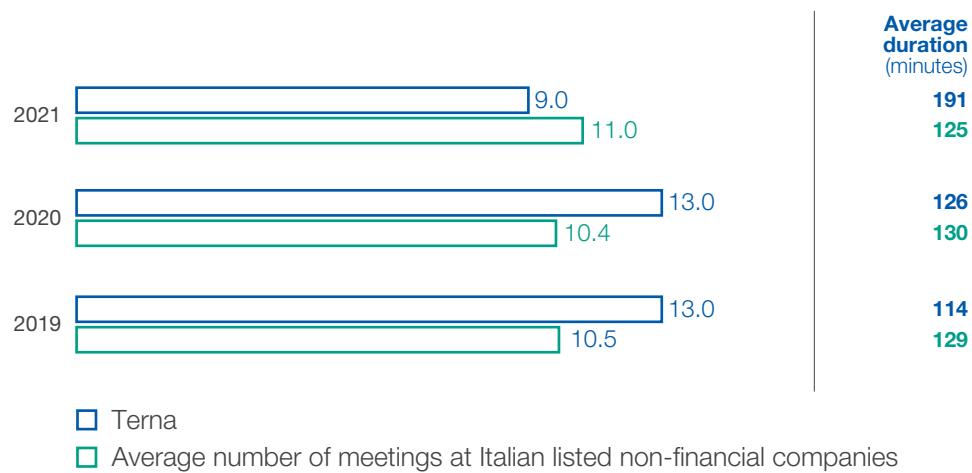
ENERGY

INTERNATIONAL
EXPERIENCE

STRATEGY RISK MANAGEMENT

Board of Directors' activities⁴

BOARD OF DIRECTORS – NUMBER OF MEETINGS



⁴ The data in this section relate to the 2021 financial year and have been taken from Assonime's "Report on Corporate Governance in Italy: the implementation of the Italian Corporate Governance Code (2021)".

Key events

MARCH

Board of Directors' meeting:

- Draft financial statements for 2020; report on corporate governance and ownership structures and NFS
- Remuneration Report
- Long-term equity-based Performance Share Plan 2021-2025
- Proposal to authorise the buyback and disposal of own shares
- Call of Annual General Meeting ("AGM")..

Induction sessions
International Operations

APRIL

ANNUAL GENERAL MEETING

- Separate financial statements for 2020; Presentation of consolidated financial statements for 2020; Presentation of consolidated non-financial statement for 2020
- Remuneration Report
- Long-term equity-based Performance Share Plan 2021-2025
- Authority to buy back own shares, subject to prior revocation of the authority granted by the AGM of 18 May 2020.

Induction sessions
Definition of an action plan based on board review findings

MAY

Board of Directors' meeting:

- 2021 Development Plan and 2021 Security Plan
- Start of the share buyback programme to service the Performance Share Plan 2021-2025, authorised by the AGM of 30 April 2021
- Update and renewal of the EMTN Programme
- ECP programme to issue euro commercial paper
- Authority to sign the new European Investment Bank (EIB) loan agreement.

On 31 May, the share buyback programme to service the Performance Share Plan 2021-2025 was launched.

Induction sessions
Technology and Innovation

JUNE

The **Board of Directors** approves the Related Party Transactions Procedure and the relevant Operating Instructions

Induction sessions
Industrial Plan Strategic Basket
In depth analysis of Sustainability

JULY

Board of Directors' meeting:

- Half-yearly Financial Report at 30 June 2021
- New composition of the Supervisory Board (SB)
- Reports from the Head of Internal Audit; Supervisory Board; Audit, Risk, Corporate Governance and Sustainability Committee.

Induction session:
Overview of regulatory situation and Capacity Market
Updates on Strategic Basket initiatives

OCTOBER

Board of Directors' meeting:

- Additions to Board Committees and appointment of relevant members
- "Policy for engagement with the generality of shareholders and other stakeholders of Terna S.p.A."

NOVEMBER

The **Board of Directors** approves the allocation of the interim dividend for 2021

Workshop:
Strategic Scenario Part I - Regulated

DECEMBER

Board of Directors' meeting:

- Terms of reference for Board Committees
- "Sustainability policy"
- Revolving Credit Facility.

Workshop:
Strategic Scenario Part II - Non-Regulated

JANUARY
2022

Board of Directors' meeting:

- Issuance of one or more non-convertible perpetual hybrid subordinated bonds
- Appointment of a new director pursuant to art. 2386, paragraph 1 of the Italian Civil Code.
- Amendments to the document "Application Criteria and Procedure for the Assessment of Independence".

Workshop:
Strategic Scenario Part III - International

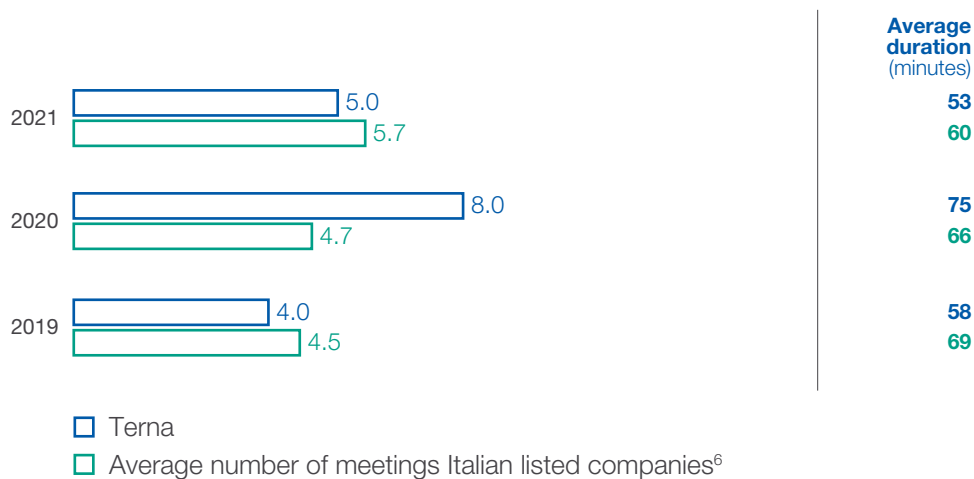
FEBRUARY
2022

Board of Directors' meeting:

- Authority to sign and execute a bilateral agreement for an "ESG linked" loan
- Approval of the Guidelines for the revision and update of the 2021-2025 Industrial Plan.

Remuneration Committee and Nominations Committee

REMUNERATION COMMITTEE - NUMBER OF MEETINGS⁵



NOMINATIONS COMMITTEE - NUMBER OF MEETINGS⁵



⁵ The figures contained in this section for the year 2021 are taken from Assonime's "Report on Corporate Governance in Italy: the implementation of the Italian Corporate Governance Code (2021)".

⁶ The figures for 2019 and 2020 refer to Italian non-financial listed companies.

Sustainable success in the Corporate Governance Code

“Sustainable success” is the objective that guides the Board of Directors’ actions and takes shape in the **creation of long-term value for the benefit of shareholders, taking into account the interests of other stakeholders relevant to the company.**

ART. 1 ROLE OF THE BOARD OF DIRECTORS

The Board **leads** the Company by pursuing its **sustainable success**

ART. 3 FUNCTIONING OF THE BOARD OF DIRECTORS AND THE ROLE OF THE CHAIRMAN

The Chairman also promotes induction activities also **with a view** to **achieving the company’s sustainable success**

ART. 5 REMUNERATION

The **remuneration policy is key** to the **pursuit** of the **Company’s sustainable success**

ART. 6 INTERNAL CONTROL AND RISK MANAGEMENT

The internal control and risk management system is made up of the set of rules, procedures and organisational structures designed to effectively and efficiently identify, measure, manage and monitor the main risks, **to contribute to the sustainable success of the company**

OTHER ASPECTS OF THE BOARD OF DIRECTORS' ACTIVITIES

Adoption of the new Corporate Governance Code

In January 2020, the Corporate Governance Committee made significant changes to the Corporate Governance Code, (hereinafter, for brevity, also the "Code"), applicable from annual reporting periods after December 31, 2020.

Terna formally adopted the new Code at the Board of Directors' meeting of 27 January 2021.

The Company's corporate governance system was already in line with certain provisions of the new Code. During the course of 2021, the Company began the work of adapting and revising its internal governance documentation in order to fully and effectively implement the new recommendations.

Engagement Policy

One of the most significant innovations in the new Corporate Governance Code is the recommendation to the Board of Directors to promote, in the most appropriate forms, **dialogue with shareholders and other stakeholders relevant** to the Company with a view to raising the level of transparency and fostering the creation of long-term value.

In implementation of this recommendation, the Company's Board of Directors, at the proposal of the Chairwoman, Valentina Bosetti, acting in agreement with the Chief Executive Officer, adopted the **"Policy for engagement with the generality of shareholders and other stakeholders of Terna S.p.A."**.

The Policy: (i) identifies and describes the ordinary channels of direct and continuous communication and information between the Company, shareholders and other stakeholders; (ii) promotes, among the current ordinary forms of engagement, a report to the Board of Directors on the main communication and information activities with significant shareholders and Institutional Investors; (iii) introduces and regulates so-called Shareholder-Director Engagement, i.e. the dialogue that provides for direct involvement between Directors and stakeholders in the creation of such policy.

The Policy is divided into two parts. The first is dedicated to ordinary forms of dialogue, generally carried out and managed by the competent corporate departments, which represent the first point of contact between the Company and the market; within this section, an activity involving reports to the Board of Directors on the results of the dialogue conducted with the main **shareholders and institutional investors** has been introduced.

The second part of the Policy is dedicated to Shareholder-Director Engagement, which can be activated, through an escalation mechanism, only after the ordinary forms of dialogue have been tried.

The Policy entrusts the Board of Directors with the role of directing, supervising and monitoring application of the Policy, while it divides the management of Shareholder-Director Engagement between the Chief Executive Officer and the Chairwoman, according to a division of responsibilities. It is understood that the Board of Directors will be informed, at the earliest possible meeting, on the development and significant content of the dialogue taking place in implementation of the Policy.

Independence criteria

Since 2007, the Company has had a specific internal procedure that defines the **criteria for assessing the independence** of its non-executive members and for ascertaining the requirements of the Articles of Association and the Corporate Governance Code then in force.

In implementation of the new Corporate Governance Code, the Company has updated the **"Application criteria and procedure for assessing independence, pursuant to art. 2 of the Corporate Governance Code"**. The document identifies the prerequisites, objectives and conditions that may compromise independence; it devotes an article to the figure of the Chair of the Board of Directors, if qualified as independent, and an article to the Board of Statutory

Auditors, due to the extension of the independence criteria also to the members of the oversight body. It also describes the methods for assessing independence and the relevant procedure. An ad hoc article is devoted to the meetings of directors who qualify as independent.

The heart of the procedure is the description of the criteria adopted by the Company to assess the **parameter of “significance”** (pursuant to Recommendation 7(c) and (d) of the Code) the recurrence of which, in the presence of commercial, financial or professional relationships, as well as additional remuneration, may compromise the independence of the directors or statutory auditors involved in such situations.

Board committees and terms of reference

Terna's Board of Directors has established a **“Remuneration Committee”**, an **“Audit, Risk, Corporate Governance and Sustainability Committee”** and a **“Nominations Committee”**, all tasked with conducting research, making recommendations and providing advice, so as to ensure the effective performance of Board functions. A **“Related Party Transactions Committee”** has also been set up within the Board of Directors.

The good governance of Terna's Board Committees is outlined in specific **“Terms of reference”** that govern their operations, composition, tasks and responsibilities.

Adherence to the new Corporate Governance Code was an opportunity **to revise and update the Committees' terms of reference**. In making the changes, two basic guidelines were followed: on the one hand, the responsibilities of each Committee were redesigned in the light of the new recommendations in the Corporate Governance Code, as well as the best practices already adopted by the Company; on the other hand, **organisational changes** were made that affected all the Committees in an across-the-board manner, with a view to standardising their operating procedures.

During the year, the **number of members** was increased **from three to four**, in order to ensure a better proportionality with the size of the Board of Directors. The inclusion of new competences within the Board of Directors facilitates its strengthening and favours the enhancement of a constructive dialogue for the entire Board of Directors, in its effort to achieve the challenging objectives in the Industrial Plan.

Related Party Transactions procedures

In December 2020, the Company had already updated its **Procedure for Related Party Transactions** (the Guidelines on Related Party Transactions), due to the changes in the organisational structure as well as the entry into force of Legislative Decree 49/2019, which introduced, among other things, specific administrative sanctions on the matter. The Company had also adopted a second-level procedure aimed at regulating the application profiles regarding transactions with related parties in order to: (i) allow for a more rapid detection and identification of transactions with related parties; (ii) raise the awareness of corporate departments, also in view of the tightening of the sanctions regime.

On 10 December 2020, in **Resolution 21624**, the CONSOB amended Regulation 17221 of 2010 on the subject of related party transactions, providing for it to come into force from 1 July 2021.

Although the Company already had a very strict procedural package, outlining roles and responsibilities in the process of identifying transactions to be carried out with related parties, during the first half of 2021 the **Procedures were further revised** to take into account the changes introduced by the latest CONSOB intervention and the new definition of a related party, which is in line with the applicable international accounting standards.

Board Evaluation

In keeping with the past and in compliance with the new Corporate Governance Code, Terna's Board of Directors, with the support of the Nominations Committee, carries out

- on an annual basis - a **self-assessment of the size, composition and actual functioning of the Board and of Board Committees**, with reference to the activities performed since their election, also called a Board Review.

To this end, Terna used, for the second year in a row, Mercer Italia S.r.l., an independent external consultant.

After the first Board Review, which was designed to undertake an in-depth review of operating processes and concluded with a **proposed action plan**, the Board of Directors focused the second Board Review, covering 2021, on an analysis of the dynamics of the Board and the individual contribution of Directors in a **Peer-to-Peer Review**.

More specifically, the Board Review for 2021 analysed: (i) the contribution of each Director to the work of the Board as a whole, in a constructive and proactive spirit by the other Directors; (ii) Board dynamics and the way the Board of Directors works.

Gender diversity

The Corporate Governance Code highlights the issue of gender balance, recommending in particular that companies adopt **measures to promote equal treatment and opportunities** within the entire corporate organisation, monitoring their concrete implementation (Art. 2, Recommendation 8).

In 2021, the Company adopted ad hoc guidelines called the **"Diversity & Inclusion Policy"** with the aim of formalising Terna's commitment to enhancing and protecting diversity, as well as to preventing and sanctioning any discrimination and harassment based on gender, age, sexual orientation, nationality, disability, political opinions, religious beliefs and any other personal characteristic. The document was presented as part of the sustainability induction on 16 June 2021. Partly as a result of the adoption of these guidelines, Terna was included in Standard & Poor's **Gender Equality & Inclusion Index**, the new international index that measures the performance of listed companies in relation to gender equality and inclusion issues.

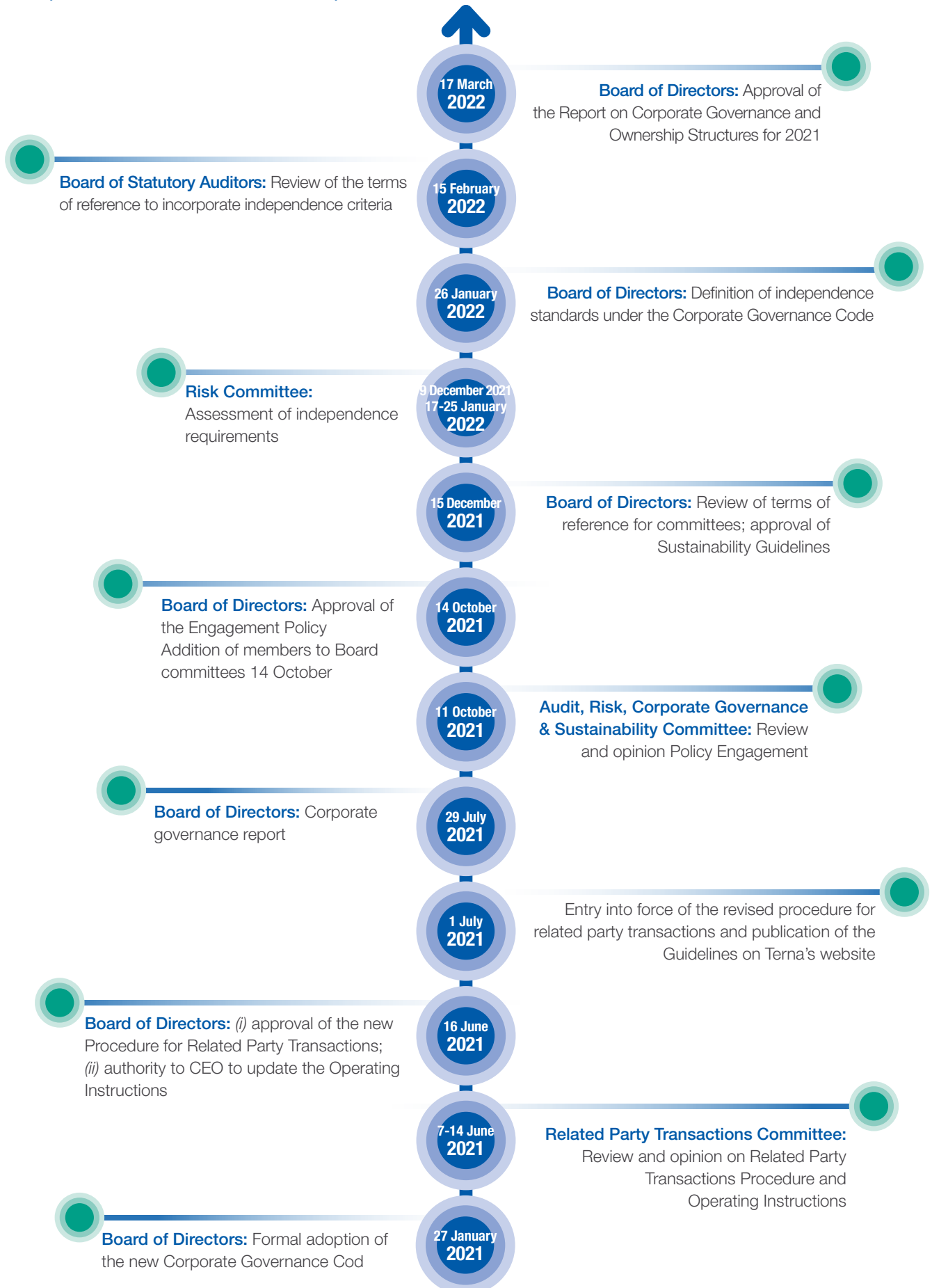
Sustainability Policy

With the Sustainability Policy, Terna is committed to **adopting and incorporating sustainability objectives into its strategy**, in line with the topics found to be relevant in the Materiality Analysis and selected from the Sustainability Goals, supporting the management and mitigation of ESG risks.

The objectives are: (i) identification of the methods used in defining the Group's sustainability strategies; (ii) increasing awareness of key topics and the expected results; (iii) dissemination of the culture of sustainability inside and outside the company.

By adopting the Policy, Terna has made a formal and public commitment to **adopting sustainable conduct and actions in relation to the main reference frameworks** (the SDGs and Italy's National Integrated Energy and Climate Plan) and to **ESG topics** considered important for the Group. Furthermore, the commitments outlined in the Policy support management and mitigation of the ESG risks to which the Terna Group is exposed.

Corporate Governance adoption timeline



Internal control and risk management system

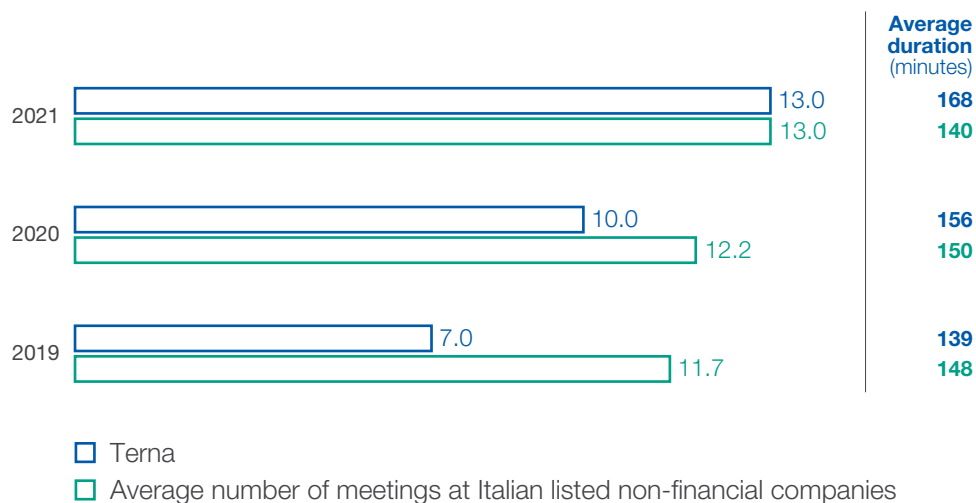
BODY/FUNCTION	NOTES	
Chief Executive Officer	Stefano Antonio Donnarumma	
Chief Risk Officer (CRO)	Enrico Farci ⁷	Head of Health, Safety and Environment
Internal Audit department	Internal to the Company	
Head of the Internal Audit department	Nicoletta Buonomo ⁸	
Manager responsible for financial reporting	Agostino Scornajenchi	Chief Financial Officer
Supervisory Board	Bruno Assumma ⁹ (Chair)	external member
	Massimo Dinoia	external member
	Nicoletta Buonomo	internal member
Independent Auditors	Deloitte & Touche S.p.A.	Nine-year period 2020-2028

⁷ Please note that Mr. Farci substituted the previous CRO, Mr. Fulvio De Luca, as of 23 February 2022.

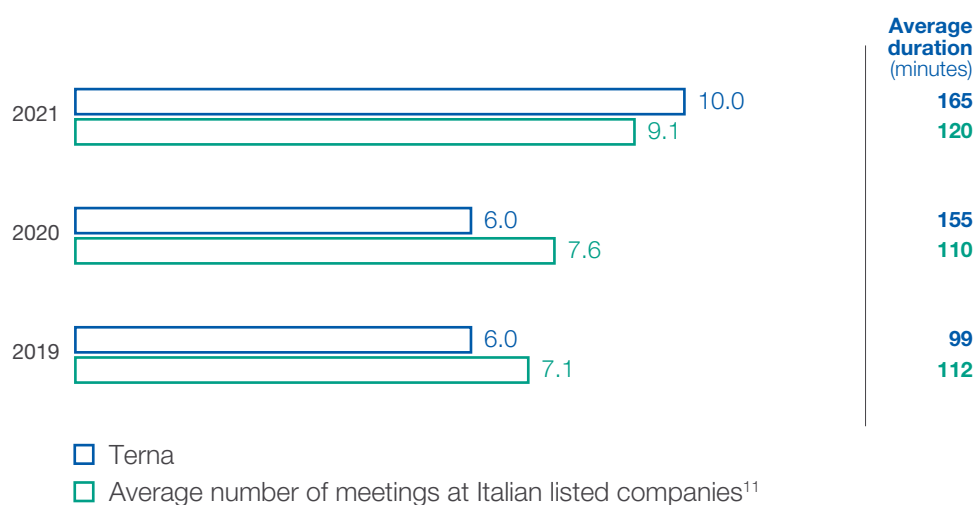
⁸ It should be noted that, following the resignation of Mr Fossataro, Prof. Valentina Bosetti, Chairwoman of the Board of Directors of Terna S.p.A., held the position of Head of the Internal Audit Department on an interim basis from 1 December 2020 to 31 March 2021. From 1 April 2021, the role of Head of Internal Audit is held by Nicoletta Buonomo, as decided by the Board of Directors on 17 February 2021.

⁹ The Supervisory Board was renewed by resolution of the Board of Directors dated 29 July 2021 following a period of extension due to the expiry of the previous term of office with the approval of the financial statements for 2020. The number of members was increased from four to three. The members of the Supervisory Board in office until 31 July were: Bruno Assumma (Chairman), Francesco De Leonardis (external member), Massimo Dinoia (external member) and Francesca Covone (internal member).

BOARD OF STATUTORY AUDITORS – NUMBER OF MEETINGS¹⁰



AUDIT, RISK, CORPORATE GOVERNANCE AND SUSTAINABILITY COMMITTEE – NUMBER OF MEETINGS¹⁰



¹⁰ The figures contained in this section for the year 2021 are taken from Assonime's "Report on Corporate Governance in Italy: the implementation of the Italian Corporate Governance Code (2021)".

¹¹ The figures contained in this section for the year 2021 are taken from Assonime's "Report on Corporate Governance in Italy: the implementation of the Italian Corporate Governance Code (2021)".

KEY ELEMENTS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

ELEMENTS

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

YES

Presence of specific organisational structures with responsibility for risk management

YES

Adoption of an Enterprise Risk Management Framework for the analysis of all types of risks

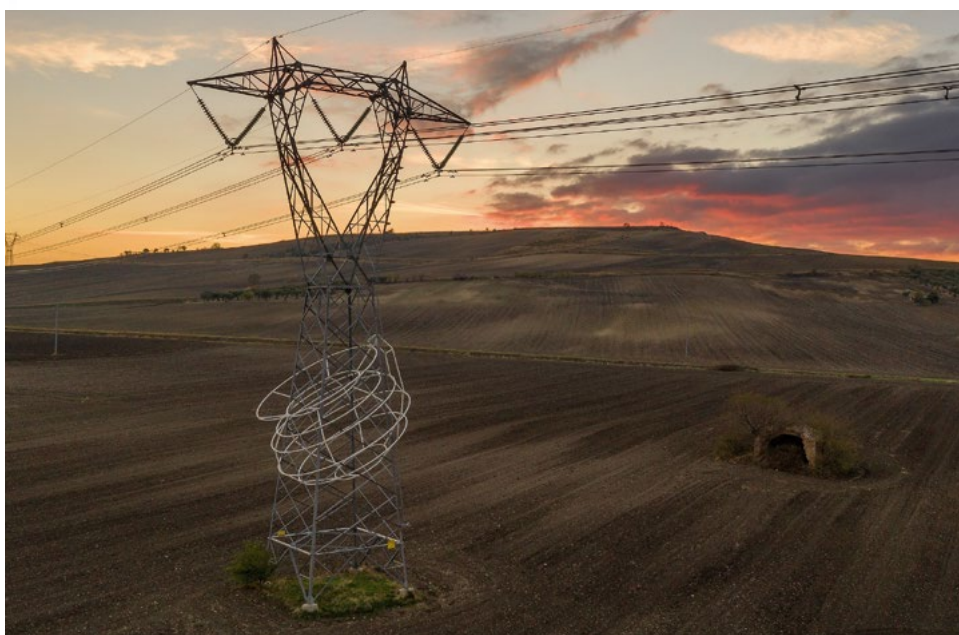
YES

Annual assessment of the compatibility of business risks with management of the Company consistent with the strategic objectives set

YES

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

YES



RELATIONS WITH KEY INSTITUTIONAL PARTNERS INVOLVED IN RISK MANAGEMENT



Emergency management



National Cyber Security



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

Operational support by the SAGF (Soccorso Alpino GdF) and the airborne fleet for actions concerning strategic infrastructures



Training of Terna personnel to adequately support the fire service, including in emergency conditions.

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 energy security



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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 (now the Euronext Milan market), TERNA S.p.A. (hereinafter also “Terna” or the “Company”) has adopted a corporate governance system in line with the recommendations contained in the Corporate Governance Code.

Since the IPO, the Company has applied the Corporate Governance Code promoted by Borsa Italiana, progressively making changes to its governance system to keep pace with the changing requirements in later editions of the Code.

In January 2020, the 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.

Even before the new edition of the Code came into force, Terna had put in place some practices in line with the new recommendations so as to enable adherence to the new governance standards. In 2021, the Company revised its internal governance documentation in order to achieve full and effective adoption of the new provisions and recommendations.

In 2022, the Company may further refine and revise the internal procedures it uses, with a view to constantly improving its governance model.

This Report on Corporate Governance and Ownership Structures therefore sets out the corporate governance practices adopted in 2021. These practices take into account the following documents: (i) the Q&As to aid with application of the Corporate Governance Code – the 2020 edition, published by the Corporate Governance Committee; (ii) the recommendations made by the Chairman of the Corporate Governance Committee in his customary Letter to Issuers and in his Report for 2021 (both published on 3 December 2021). In preparing this Report, the Company has also, as far as possible, based its approach on the Format for the Report on Corporate Governance and Ownership Structures - 9th edition, published by Borsa Italiana in January 2022.

CONSOB recommendations and, more generally, the main international best practices have also been applied.

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 with Resolution no. 11971 of 14 May 1999 (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.

As will be explained in more detail in the Report, the Board of Directors leads the Company in pursuit of sustainable success.

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 17 March 2022.

As specified in the Introduction to the Code, failure to comply with one or more of the Code’s recommendations must be explained as follows:

- (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 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

Terna plans, manages and monitors all of its activities, paying close attention to their possible economic, social and environmental impact by embedding sustainability in its approach to business.

In line with the principles of the “Corporate Governance Code”, which assigns the Board of Directors, among others, the task of promoting “in the most appropriate manner, dialogue with shareholders and other stakeholders relevant to the Company”, Terna adopts all the best tools to create, maintain and consolidate a relationship of mutual trust with its stakeholders, which is instrumental in creating value for the Company, society and the environment.

The values underpinning Terna’s approach to sustainability are set out in the Code of Ethics and in its mission and are expressed in its mission, which in turn is aligned 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”), which define responsibilities and objectives in keeping with the Terna’s role in driving and enabling the Italian energy system and the Company’s energy transition.

From the point of view of sustainability, the relationship with the environment and the resulting social consequences are particularly important. In fact, on the one hand, the physical presence of pylons, lines, and electricity substations interacts with the surrounding landscape and biodiversity, while on the other, direct CO₂ emissions (caused essentially by leaks of the SF₆ gas used as an insulator in some electrical equipment) and waste management represent the most significant impact of Terna’s activities.

The tools used by the Company to manage these aspects in the best possible way, minimising risks, including reputational ones, are, as far as its impact on the landscape and environment are concerned, governed by the adoption, since 2002, of a voluntary process of prior involvement of local institutions (regional and municipal 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 2021, Terna held a total of 476 meetings with local authorities, involving around 265 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.

With regard to CO₂ emissions, in line with national and international climate change objectives, Terna has formally set a Science Based Target (“SBT”) to reduce its emissions by 28% by 2030, based on 2019 data.

At the end of 2021, the “Terna Group’ s Circularity Roadmap” project was launched to review the Company’s environmental impact from a life-cycle and circular economy perspective, in order to identify and launch the best initiatives to integrate circularity into its business.

All of Terna’s activities related to the increasingly sustainable development of its business are subject to monitoring and measures that, especially since last year, have attracted growing attention from the financial markets which, in line with international trends and objectives, no longer view sustainability merely as a factor reducing investment risk but as a fully integrated element in the business capable of creating new opportunities for growth and development.

In order to ensure that the Board of Directors is constantly updated on sustainability policies, activities and results, in addition to the usual communications to the “Control and Risk, Corporate Governance and Sustainability” Committee, dedicated induction sessions were organised in 2021.

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.

In 2021, Terna published the non-financial statement. Such document is available to the public on the website www.terna.it.



Pursuant to the “definitions” contained in the new Corporate Governance Code, Terna qualifies as a “large” company, as it had a capitalisation of more than €1 billion on the last trading day of each of the three calendar years prior to 31 December 2020. By assuming the status of large company, Terna has adhered to the principles and recommendations addressed to this category of company.

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 domestic and overseas subsidiaries, 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 by 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. Pursuant to article 19 of Legislative Decree 39 of 2010, the functions of the "Internal Control and Audit Committee" are attributed to the Board of Statutory Auditors, the Supervisory Board (or a committee set up within it) or the Management Control Committee, depending on the management and control model adopted by the Public Interest Entity. According to Terna's governance, therefore, the Board of Statutory Auditors acts as the "Internal Control and Audit Committee" and has oversight duties with respect to:
 - a) the financial reporting process;
 - b) the effectiveness of the internal control, internal audit, if applicable, and risk management systems;
 - c) the independent audit of the annual and consolidated accounts;
 - d) the independence of the audit firm, in particular as regards the provision of non-audit services to the audited entity.
- 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 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;
 - 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; and
 - 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 independent 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 Auditor performs 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 2021, consists of 41 subsidiaries¹² (including 14 Italian), 2 joint arrangements (overseas) and 3 associates (including 1 Italian company).

Compared with at 31 December 2020, the Company saw the following changes::

- on 26 January 2021, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of the remaining 30% of Avvenia the Energy Innovator S.r.l. from the minority shareholder, Avvenia S.r.l.. Avvenia the Energy Innovator S.r.l. has thus become a “sole shareholder” company wholly owned by Terna;
- on 1 February 2021, after APG (the Austrian TSO) became the fifth European transmission system operator to enter into partnership with Equigy, Terna S.p.A.'s interest in Equigy decreased from 25% to 20%;
- The reorganisation of the Brugg group, designed to take full advantage of the group's distinctive expertise in terrestrial cables and of synergies with the Terna Group's businesses, was completed on 31 March 2021. As a result, Terna S.p.A.'s interest in the Brugg group has increased from 90% to 92.6%;
- on 10 June 2021, Terna, acting through its subsidiaries, Terna Plus S.r.l. and Terna Chile S.p.A., completed the acquisition of the remaining 25% interest in the Brazilian-registered company, SPE Transmissora de Energia Linha Verde II S.A., held by the minority shareholder, Construtora Quebec. SPE Transmissora de Energia Linha Verde II S.A. is now 99.9999994% owned by Terna Plus S.r.l., with the remaining shares held by Terna Chile S.p.A.;
- on 3 August 2021, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the sale of 100% stakes in Rete Verde 17 S.r.l., Rete Verde 18 S.r.l., Rete Verde 19 S.r.l. and Rete Verde 20 S.r.l. to Banca del Fucino, the purchaser chosen following a competitive auction;
- on 5 August 2021, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of the remaining 30% of Tamini Transformers S.r.l., which as a result is now a sole shareholder company fully owned by Terna;
- on 16 September 2021, Terna, pursuant to Law 99/2009, completed the sale of its 100% stake in Resia Interconnector S.r.l. to Interconnector Energy Italia S.c.p.A., Consorzio Toscana Energia S.p.A. and VDP Fonderia S.p.A., entering into agreements for the construction and operation of the private part, located in Italian territory, of the alternating current power line between Italy and Austria;
- on 12 October 2021, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of a 75% stake LT S.r.l. (the LT Group), one of the leading Italian operators providing maintenance services for photovoltaic plants, and engaged in the design and implementation of revamping and repowering projects for existing plants and in the construction of new plants for third parties;
- on 26 October 2021, the return of the entire investment in PI.SA. 2 S.r.l., formerly held by Terna Interconnector S.r.l., to Terna S.p.A. was completed. On 10 December 2021, the company went into voluntary liquidation and the liquidation was completed on 27 January 2022;
- on 11 November 2021, Terna, acting through the Brugg Group, completed the acquisition of a 100% stake in Laser TLC S.r.l., a company that provides fibre telecommunications systems to Italian and international customers and that operates in the energy sector, mounting accessories on high-voltage power lines and supervision of their installation;
- the merger of EL.IT.E S.r.l. with and into Rete S.r.l. was completed on 24 December 2021. Previously, on 27 July 2021, Terna had completed the acquisition of a 100% stake in EL.IT.E S.p.A. on 27 July 2021. The acquired company was simultaneously renamed EL.IT.E S.r.l., a vehicle company that owns and manages (under a service agreement entered into with Repower) the approximately 4-km long 150kV merchant line connecting Italy and Switzerland between Tirano and Campocologno. The company also currently owns the Tirano electricity substation, in addition to the 150kV cable connection between the TIRANO ST electricity substation and the Italian border with the related tunnel section.

¹² The merger of LT Enerray S.r.l. with and into LT S.r.l. was completed on 28 March 2022. At 31 March 2022, the Terna Group therefore consists of 40 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 17 March 2022, 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 31 May 2021 and 28 June 2021, the Company purchased 1,569,292 own shares (equal to 0.078% of the share capital)¹³. In addition to the above-mentioned shares, Terna purchased a further 1,525,900 own shares in 2020. As of today, therefore, Terna holds a total of 3,095,192 treasury shares (equal to 0.154% of the share capital). The Company does not hold further treasury shares in its portfolio, including through subsidiaries; therefore, pursuant to art. 6.1 of the Articles of Association, 2,006,896,808 ordinary shares, excluding the above treasury shares, have voting rights.

Terna's shares have been listed on the Italian Stock Exchange's screen-based trading system (Euronext Milan or "EXM", formerly the *Mercato Telematico Azionario* or "MTA"), 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.

¹³ In this regard, see the press release published on 28 June 2021, available at the following link: https://download.terna.it/terna/Terna_operazioni_su_azioni_proprie_conclusione_programma_8d93a651f5f9ffb.pdf

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 17 March 2022, 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.

This shareholder structure is unchanged with respect to the information in the Company's possession at 31 December 2021.

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 class A shares, representing 100% of the category A shares in issue and 59.102% of the share capital;
- on the other hand, that *"the other data previously communicated in relation to the aforementioned shareholdings remained unchanged"*.

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").



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 three years from the date of signature and they are automatically renewable for further periods of three 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 24 March 2021, the Annual General Meeting of 30 April 2021 subject to prior revocation of the authority to purchase and sell treasury shares adopted by the Annual General Meeting of 18 May 2020, authorised the Board of Directors to (i) buy back, on one or more occasions, Terna’s ordinary shares to service the Performance Share Plan 2021-2025 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 30 April 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”) and (ii) dispose of the treasury shares held, establishing the related conditions, including the deadline to be no later than 30 October 2022.

In implementation of the authority granted by the Annual General Meeting, on 12 May 2021, 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 31 May 2021, the Company launched a share buyback programme, involving a total cost of up to €10 million and up to a maximum of 1.95 million of the Company’s ordinary shares, representing approximately 0.10% 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 28 June 2021, Terna purchased 1,569,292 own shares (equal to 0.078% of the share capital) at a total cost of €9,999,998.19. In addition to the total number of shares purchased, a further 1,525,900 treasury shares were bought by the Company in 2020. At the date of this Report, therefore, Terna holds a total of 3,095,192 treasury shares (equal to 0.154% of the share capital). Subsidiaries do not hold shares in the Parent Company, Terna.

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 2022-2026 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 authorisation.

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 17 March 2022, the Company had not received any notification of the establishment of employee shareholder groups.

Change of control clauses (as per art. 123-bis, paragraph 1(h) of the CLF) and Articles of Association provisions 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 2021, and that are subject to conditions precedent, amendments or termination 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 2021 include mandatory early repayment provisions, the triggers for which include a change of control of the Company. 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 the repeal 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 and, lastly, by Law Decree no. 82 of 14 June 2021, converted and amended by Law no. 109 of 4 August 2021.

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” (article 2, 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 article 4, paragraph 1, of 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 (article 2 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 (article 2 [paragraph 2](#)).

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 (article 2, [paragraph 2-bis](#)).

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 and provide, in addition, any information that might help to describe in general terms the acquisition plan, the acquirer and the acquirer’s business. 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 subsequently amended and supplemented, and art. 2341-*bis* of the Italian Civil Code (article 2, [paragraph 5](#)).

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”* (article 2 [paragraph 3](#)).

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 by the Prime Minister 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. Unless the act constitutes an offence (and without prejudice to the invalidity provided for by law in the cases referred to in paragraph 5), 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 (article 2, [paragraph 4](#)).

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, with the period for the exercise of such powers being 45 days from the end of the proceedings establishing the non-compliance with the obligation to notify (article 2, [paragraph 8-bis](#)).

6. The obligation to notify the Cabinet Office - within 10 days – of acquisitions, for whatever reason, by a natural or legal person from outside the European Union - (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) or has its registered office, head office or principal place of business within a Member State of the European Union or the European Economic Area, or is otherwise established in that Member State, and is controlled, directly or indirectly, by a natural person or legal person referred to in letter (a) above; or (c) has established its residence, habitual abode, registered office or head office or the main place of business in a Member State of the European Union or of the European Economic Area, or is otherwise established there, if there is evidence of conduct intended to circumvent the rules of the Golden Power Decree (Article 2, [paragraph 5-bis](#)) - controlling interests in companies holding the assets identified as strategic under points 1 and 2 above. If the above acquisition 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 acquirer'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 acquisition.

In the above case of acquisitions, 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 acquisition, 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 acquirer 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 acquirer may not exercise the voting rights, or any other non-financial rights, attaching to the shares or quotas representing the relevant investment, the acquirer must dispose of the same shares or quotas within one year. In the event of non-compliance, the court, at the request of the Government, will order the sale of such shares or quotas in accordance with the procedures laid down in Article 2359-ter of the Civil Code. Any shareholder resolutions adopted with the deciding vote of the holders of such shares or quotas are null and void.

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 (article 2, [paragraph 6](#)).

Notwithstanding the above provisions, the acquisition, for any reason whatsoever, by a non-EU party is permitted on condition of reciprocity, in compliance with international agreements signed by Italy or the European Union (article 3, paragraph 1 Golden Power Decree).

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, also taking into account the official positions of the European Union, 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;
- (iii) for the transactions referred to in paragraph 5, in addition to the threat of serious harm to the interests referred to in paragraph 3, the threat to security or public order is also considered (article 2, [paragraph 7](#)).

In the event that the activities of strategic importance relate to companies in which the Ministry of the Economy and Finance holds a direct or indirect stake, the Cabinet decides on the exercise of the special powers referred to in paragraphs 3 and 6, on the proposal of the Minister of the Economy and Finance, having consulted the Minister for Economic Development and the Minister for Infrastructure and Transport, for their respective remits. The notifications referred to in paragraphs 2 and 5 are immediately forwarded by the Presidency of the Cabinet to the Ministry of the Economy and Finances (art. 2, [paragraph 8](#)).

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, subsequently superseded by Directive (EU) 2019/944 and Legislative Decree 93/2011, as amended by Legislative Decree 210/2021, and resolutions of the Authority for Electricity, Gas and Water, or ARERA,

no. ARG/com 153/11 and 142/2013/R/EEL, whereby the Authority 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 60 of 28 January 2022, 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. 147-ter 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, including 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, subsequently superseded by Directive (EU) 2019/944, and Legislative Decree 93/2011, as amended by Legislative Decree 210/2021, and resolutions of the Authority for Electricity, Gas and Water, or ARERA, no. ARG/com 153/11 and 142/2013/R/EEL, whereby the Authority laid down the procedures for certification of the electricity transmission operator and adopted the final decision to certify Terna 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, 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 subsequently amended and supplemented.

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.

In 2007, the Company 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 was revised by the resolution dated 19 December 2012 to ensure alignment with the recommendations in the Corporate Governance Code, which called for confirmation that each Director met the requirements following their election, or every time an event took place that might compromise a Director’s independence, and in any case at least once a year. For this purpose, Directors were requested to provide the information necessary to enable the Board to conduct its assessment.

In implementation of the new Corporate Governance Code, the Company updated the procedure entitled “Application criteria and procedure for assessing independence, pursuant to art. 2 of the Corporate Governance Code”. The document consists of nine articles and identifies: the assumptions and objectives and the conditions that may compromise independence; the text dedicates an article to the figure of the Chairperson of the Board of Directors, if qualified as independent, and an article dedicated to the Board of Statutory Auditors, due to the extension of the independence criteria also to the members of the oversight body. The methods for assessing independence and the relevant assessment procedure are also described. An ad hoc article is dedicated to the meetings of directors who qualify as independent.

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)¹⁴, 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, except in the case of corporate bodies with 3 members).

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

¹⁴ Reduced to a fifth for the first term of office in which the Golfo-Mosca Law is applied.

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 and the Articles of Association;
- compliance with the gender balance legislation in force.

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 Board of Directors.

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.

In the new term of office, with the installation of the new Committee, succession planning activities began with the aim of developing long-term replacement strategies, partly in implementation of the recommendations in the *Corporate Governance Code, Recommendation 24*. As will be described in greater detail below, at the meeting held on 16 March 2022, the Nominations Committee expressed a positive opinion on the proposed revision of the *Succession Plan* for senior managers. A revised version of the *Contingency Plan* is being prepared.

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).

With regard to further corporate governance practices, it should also be noted that - following Legislative Decree 25 of 15 February 2016, which repealed the requirement for listed companies to publish interim management reports - Terna, since 2016 and in line with best practices, subject to a resolution of the Board of Directors and in continuity with the past, has published consolidated results for the three and nine months ended 31 March and 30 September.

As announced to the market on 15 December 2021 and in continuity with previous years, Terna S.p.A. will again, in 2022, 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 15 December 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.

On **18 January 2022**, the Board of Directors, with the positive opinion of the Audit, Risk, Corporate Governance and Sustainability Committee, resolved that Terna may issue, by 30 June 2022, one or more non-convertible, perpetual, subordinated hybrid bonds amounting to up to €1,250,000,000.00. On **2 February 2022**, Terna successfully launched its **first hybrid green bond for a nominal amount of €1 billion**. The green bond, which is subordinated, non-convertible, perpetual and non-callable for six years, will pay a coupon rate of 2.375% until 9 February 2028, the first reset date, followed by annual interest equal to the five-year midswap rate increased by 212.1 basis points, further increased by 25 basis points from 9 February 2033 and a further 75 basis points from 9 February 2048. The results of the transaction were presented at the Board meeting on 23 February 2022. The transaction makes Terna's financial profile even more flexible and contributes to strengthening the Group's capital structure, further diversifying the investor base. The net proceeds from the issue will be used to finance the Company's eligible green projects, identified or to be identified on the basis of Terna's Green Bond Framework, drafted in accordance with the "Green Bond Principles 2021" published by the ICMA - International Capital Market Association and with the European Union's Taxonomy, aimed at encouraging sustainable investment.

Also during the meeting of **23 February 2022**, Terna's Board of Directors resolved to approve the Guidelines for revising and updating the 2021-2025 Industrial Plan, which will be submitted for final approval during the Board meeting of **24 March 2022**.

Section III

Compliance

At the Board of Directors' meeting of 27 January 2021, the Company adopted the new Corporate Governance Code, which is available to the public on the website <https://www.borsaitaliana.it/comitato-corporate-governance/codice/2020.pdf>



In 2021, although it has a set of rules and procedures in line with the best governance standards, the Company aligned its model with the new recommendations of the Code, carrying out an in-depth review of internal governance documentation in order to fully and effectively implement the new recommendations.

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.

In particular, the Company has updated the procedure concerning the "Criteria for assessing independence", extending its application also to the members of the Board of Statutory Auditors.

The Company has had Terms of Reference for the Board of Directors since 2019. In 2021, on the other hand, the Terms of Reference for the Board Committees and the Related Party Transactions Committee were updated, also in view of the alignment with the new CONSOB regulations in force as of 1 July 2021.

Lastly, the Company has developed, on the proposal of the Chairman, in agreement with the Chief Executive Officer, an 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

Role of the Board of Directors

The Board of Directors leads the Company, pursuing its sustainable success; it defines its strategies and identifies the most suitable corporate governance system for carrying out the Company's activities and implementing its strategies.

It is responsible for execution of the strategic and organisational policies of the Company and the Group, as well as for ensuring that the necessary controls are in place to monitor the performance of the Company and its subsidiaries.

The Terna Group considers it consistent with its mission, with the values of its Code of Ethics and with its commitment to sustainable development, to adopt and embed sustainability objectives in its strategy. On 15 December 2021, the Board of Directors therefore adopted the "Sustainability Policy", i.e. the tool through which Terna identifies, manages and communicates the "pillars" of its sustainability culture. The objectives are (i) identification of the methods for defining the Group's sustainability strategies; (ii) increasing awareness of key topics and expected results; (iii) dissemination of a culture of sustainability inside and outside the Company.

The document sets out Terna's formal and public commitment to adopting sustainable conduct and actions in relation to the main sustainability frameworks (the SDGs and the National Integrated Energy and Climate Plan, or PNIEC) and to the ESG topics considered material for the Group. Furthermore, the commitments defined in the Policy support the management and mitigation of ESG risks to which the Terna Group is exposed.

In particular, with the Sustainability Policy, Terna is committed to adopting and embedding sustainability objectives in its strategy, in line with the topics found to be material in the Materiality Analysis and selected from the Sustainability Goals, supporting the management and mitigation of ESG risks. The Policy outlines Terna's main sustainability-related commitments, as follows:

- enabling the ecological transition;
- integrity, responsibility and transparency;
- the promotion of dialogue with stakeholders;
- the empowerment of people;
- inclusion, diversity and protection of human rights;
- protection of the environment and ecosystem.

The Sustainability Policy applies to all Terna Group companies, including those operating overseas, and Terna is committed to promoting awareness of the Policy among its employees and to providing public evidence of it to all interested stakeholders through dedicated tools, including the NFS included in the Integrated Report for 2021.

The Board of Directors also promotes, in the most appropriate forms, dialogue with shareholders and the Company's other significant stakeholders. As will be better described in section XV, "Investor Relations", in line with the recommendations of the Corporate Governance Code, the Board of Directors, at its meeting of 14 October 2021, adopted, on the proposal of the Chairman, a "Policy for managing dialogue with Terna S.p.A.'s shareholders and other stakeholders". (hereinafter also the "Engagement Policy").

In particular, the Engagement Policy intends to pursue the following objectives:

- to identify and describe the ordinary channels of direct and continuous communication and information between the Company, shareholders and other stakeholders, managed by the competent corporate departments or carried out during General Meetings;
- to promote, among the current ordinary forms of engagement, a report to the Board of Directors on the main communication and information activities with major shareholders and institutional investors;
- to introduce and regulate Shareholder-Director Engagement, consisting of direct dialogue between Directors and stakeholders interested in such engagement, following the introduction of procedures on how to carry it out, its scope, the criteria for assessing requests, as well as the related internal governance processes and procedures for participation and internal reporting.

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, it examines and approves the Industrial Plan of the Company and of the Group it heads, also based on an analysis of the matters relevant to the creation of long-term value. The current structure of powers within the Company (approved by resolution of 18 May 2020) provides, in particular, that the Board of Directors are responsible for approving the Company's yearly updated annual budget and long-term plans (which also include, in aggregate form, the annual budgets and long-term plans of subsidiaries). In this regard, during 2020, the Board of Directors examined and approved the 2021-2025 Industrial Plan presented to the market on 19 November 2020. The monitoring of performance against the 2021 budget targets was carried out through the periodic (quarterly) assessment of the operating performance and through specific Company Performance Management tools. In addition, at the Board of Directors' meeting to be held on 22 March 2022, the Board of Directors will examine and approve the updated Industrial Plan (Updated 2021-2025 Industrial Plan), the starting point for the monitoring activities that will be carried out during 2022. In implementation of the Code's recommendations, the Board periodically monitors implementation of the Plan and evaluates the general performance of operations, periodically comparing the results achieved with the objectives set.

With respect to the planned activities, the Board provides specific guidelines, a description of the objectives, characteristics and application methods of the monitoring of corporate processes and risk analysis, and defines the nature and level of risk compatible with the

Company's strategic objectives, including assessments of any risks that may be significant in terms of the long-term sustainability of the Company's activities. In this regard, reference should be made to Section XI.

The Board of Directors also defines the Company's corporate governance system and the structure of the Group that it manages, and assesses the adequacy of the organisational, administrative and accounting system of the Company and its strategically important subsidiaries. This is done during its review of the related internal procedures submitted to the Board and when adopting resolutions on the various matters brought to its attention, with particular reference to the internal control and risk management system.

The Board is also responsible for drawing up, on the basis of the proposals made by the Remuneration Committee, the Company's policy on the remuneration of 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. These matters are reported on annually in the first section of the "Report on remuneration policy and remuneration paid", pursuant to art. 123-ter, paragraph 3-ter of the Consolidated Law on Finance. In this regard, reference should be made to Section IX. The Board of Directors is also responsible for setting, on the basis of the proposals made by the Remuneration Committee, the general criteria for the remuneration of senior management and the incentive plans for which shareholder approval is required. With the support of the Remuneration Committee, it prepares the second section of the "Report on remuneration policy and compensation paid" pursuant to art. 123-ter, paragraph 6 of the Consolidated Law on Finance. In order to ensure the proper management of corporate information, it adopts, on the proposal of the Chair in agreement with the Chief Executive Officer, a procedure for the internal management and external communication of documents and information concerning the Company, with particular reference to inside information. In this regard, reference should be made to Section V.

With particular reference to the Internal Control and Risk Management System (as described in Section XI below), the Board defines the guidelines on the proposal of the Chief Executive Officer and subject to the opinion of the Audit, Risk, Corporate Governance and Sustainability Committee. 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 effectiveness, is carried out at least once a year, having previously consulted the Audit, Risk, Corporate Governance and Sustainability Committee. In this regard, reference should be made to Section XI.

The Board of Directors 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. 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. The Board of Directors is constantly and fully informed, together with the Board of Statutory Auditors, by the Chief Executive Officer, in accordance with art. 21.3 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. In particular, with regard to all significant transactions carried out by the Company and its subsidiaries, 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.

The Board of Directors assesses, after consulting the Board of Statutory Auditors and after hearing the opinion of the Audit, Risk, Corporate Governance and Sustainability Committee, the findings set out by the independent auditors in their letter of recommendations, if any, and in their report on key matters arising from the independent audit.

Lastly, the Board of Directors reports to the General Meeting of shareholders, as required by current legislation. In this regard, reference should be made to Section XVI.

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.

On 11 January 2022, Director Yunpeng He tendered his resignation, with effect from the date of the nomination of his replacement, due to other professional commitments. This information was disclosed to the market with a press release on the same date and promptly notified to the Board of Directors and the Board of Statutory Auditors.

Director Yunpeng He was appointed by the Annual General Meeting of 18 May 2020 on the basis of a slate submitted by the shareholder, CDP Reti S.p.A.

On 13 January 2022, CDP Reti S.p.A. submitted the candidacy of Qinjing Shen, a director of CDP Reti S.p.A. and a representative of State Grid Europe Limited, to Terna for independent assessment. The candidate then sent his curriculum vitae and made a specific representation declaring that he met the requirements prescribed by current legislation and by the Company's Articles of Association for taking the position, and regarding the absence of any causes of ineligibility and incompatibility. The candidate also declared that he met the requirements of integrity and professionalism and did not meet the independence requirements pursuant to the law and to art. 15.4 of Terna's Articles of Association, as well as to the Corporate Governance Code for listed companies. Finally, the candidate declared a number of positions that was compatible with the relevant guidelines adopted by the Board of Directors.

At the meeting held on 26 January 2022, the Board of Directors co-opted the candidate Qinjing Shen on to the Board, pursuant to article 2386 of the Italian Civil Code, after ascertaining that he met the requirements of integrity and professionalism (articles 15.2 and 15.3) and independence (article 15.4). Again in accordance with the Articles of Association, the Board also ascertained that the Director is not a director in another company that generates or supplies electricity or gas (art. 15.5). The Board resolution was submitted for prior examination to the Nominations Committee at its meeting of 25 January, in implementation of article 3.1, paragraph d) of the Terms of Reference for the Nominations Committee, which implements article 4, recommendation 19, paragraph e) of the Corporate Governance Code. The co-option also received approval from the Board of Statutory Auditors pursuant to article 2386 of the Italian Civil Code, which met immediately after the aforementioned Committee. Both opinions were acknowledged by the Board of Directors.

Qinjing Shen will remain in office until the next Annual General Meeting, scheduled for 29 April 2022.

Also in light of this change, the composition of the Board of Directors meets the necessary requirements as set forth both by prevailing gender balance legislation and 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 these, nine qualify as independent pursuant to both the CLF and the Corporate Governance Code. Only one out of the thirteen Directors qualifies 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, principle 5 in 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.

A brief description of the professional profiles of Terna’s Board members is provided below.

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.



VALENTINA BOSETTI
Chairwoman

Born in Milan, Italy
on 25 April 1973



**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.

Since January 2022, he has been President of GO15, the association of the world's leading electricity transmission infrastructure operators.

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 2017 to 2020, he was Chief Executive Officer of the Acea SpA Group - a listed multi-utility that operates public service infrastructure nationwide.

From 2015 to 2017 he served as Director of Networks for the A2A Group, a listed multi-utility based in Milan and Brescia, managing the group's companies in the distribution of gas, electricity, water, district heating and public lighting. At A2A, he was also Chairman of Unareti SpA, A2A Calore e Servizi Srl, A2A Ciclo Idrico SpA as well as a director of the LGH S.p.A. Group.

From 2012 to 2015, he worked for the Aeroporti di Roma Group (controlled by Gemina, later merged with and into ATLANTIA) as Director of Airport Management and Accountable Manager of Fiumicino and Ciampino Airports and as a director of some of the Group's companies.

In 2007 he joined the ACEA Group where he was Executive Chairman of Acea Distribuzione (electricity networks in Rome) and director of Acea ATO2 (water networks in Rome and province).

From 1994 he worked for approximately 13 years in the field of automobile and railway component 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.



MARCO GIORGINO
Director

Born in Bari
on 11 December 1969

Mr Giorgino has been a member of the Board of Directors at Terna S.p.A. since May 2019. 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 nearly thirty years of experience in the field of research and training and has 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, ...). 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.

Mr Carbone has been a member of the Board of Directors and of the Related Party Transactions Committee of Terna S.p.A. since 18 May 2020; since 14 October 2021, he has been a member of Terna S.p.A.'s Nominations Committee.

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 has 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.



ERNESTO CARBONE
Director

Born in Cosenza
on 25 June 1974

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; since 14 October 2021, he has been a member of the Terna S.p.A. Remuneration Committee.

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.



**JEAN-MICHEL
AUBERTIN**
Director

Born in Nizza
on 16 February 1958



ALESSANDRA FAELLA
Director

Born in Vico Equense
(Naples) on 6 June 1982

Ms Faella has been a member of the Board of Directors and of the Remuneration Committee of Terna S.p.A. since 18 May 2020, and a member of the Audit, Risk, Corporate Governance and Sustainability Committee since 14 October 2021.

An 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), digital transformation (MIP Business School, Digital Transformation 2019-2021) and Governance (LUISS Business School, Board Academy 2022 and NED Community, The Effective Board, 2021). She has been a certified accountant since 2010 and Innovation Manager at the Ministry for Economic Development since 2019.

Member of the Italian Association of Chartered Accountants, part of NED Community and Federmanager.

Her corporate experience includes the role of Sales & Operations Manager at Baker Hughes (2016-2019, Italy), Corporate Executive Program (2014-14, 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 Aftermarket Sales at the energy technology multinational, Baker Hughes FPT, based in Naples.



FABIO CORSICO
Director

Born in Turin
on 20 October 1973

Mr Corsico has been a Director at Terna 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.

He 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.

Since 2017, Ms Giannotti has been a Director at Terna, 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 Committees of Terna and TIM S.p.A., and a member of the Board of Directors of FincoBank 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. In 2018 she became a Board member and the Chairwoman of the Audit, Risk, Corporate Governance and Sustainability Committee of Tim S.p.A. In 2020 she was appointed as Board member of FincoBank S.p.A. 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.



PAOLA GIANNOTTI
Director

Born in Alessandria
on 13 July 1962



QINJING SHEN
Director

Born in Haining,
Zhejiang (China)
on 22 July 1978

Mr Shen has been a member of the Board of Directors of Terna S.p.A. since 26 January 2022.

He is currently a member of the boards of directors of CDP Reti S.p.A., Snam S.p.A. and Italgas S.p.A. and head of State Grid's representative office in Italy.

From 2016 to 2021, he served as director of the Business Development & Strategy Department of State Grid International Development Co., LTD, of which he had previously been deputy director from 2013 to 2016 and project manager from 2008 to 2013.

From 2003 to 2008, he worked as an engineer at the Dispatch Communications Center of Zhejiang Electric Power Company (a subsidiary of the State Grid Corporation of China). He holds a degree in engineering and electrical systems from Zhejiang University, China.



GABRIELLA PORCELLI
Director

Non-Executive
Born in Rome on
10 March 1965

Ms Porcelli has been a Director of Terna 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 and Chief Compliance Officer for IVECO Group.

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 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, where she subsequently held the position of General Counsel, Worldwide IP, Ethics, Compliance Director, with responsibility also for the Public Affairs area.

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.

Mr Ferri has been a Director and member of the Audit, Risk, Corporate Governance and Sustainability Committee of Terna S.p.A. since 18 May 2020; since 14 October 2021, he has also been a member of the Related Party Transactions Committee.

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

He sits 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 commercial* (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.



GIUSEPPE FERRI
Director

Born in Rome on
3 March 1967

Ms 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” and visiting scholar at the University of California Berkeley. In 2021 she was named ‘Lawyer of the Year’ (overall award) at the FortyUnder 40 Legal awards and ‘Energy Innovation Lawyer of the Year’ at the Energy Awards at the Legalcommunity Energy Awards. In 2020 she received the “Thought Leadership Award” at the Legalcommunity “Fotyunder40” Legal Awards 2020 as well as “Advocacy Lawyer of the Year” at the Legalcommunity Corporate Awards. In 2019 she won international recognition as “Rising Star Italy” lawyer at the Euromoney Legal Media Group- Europe Rising Stars Awards in London.

She is a partner in the law firm Gatti Pavesi Bianchi Ludovici, as head of the energy and infrastructure department.

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 in corporate/ M&A transactions and golden power notifications. As part of these activities, she has edited publications and taken part as a speaker at conferences. 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.

She has published as author and co-author numerous articles, manuals and contributions on corporate, financial and administrative law, such as, most recently, “Manuale di diritto bancario e finanziario” (“Handbook of banking and financial law”), edited by F. Capriglione (CEDAM, 2019).



VALENTINA CANALINI
Director

Born in Chieti on
19 June 1983



ANTONELLA BALDINO
Director

Born in Rome
on 5 February 1963

Ms Baldino has been a Director of Terna 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, Istituto per il Credito Sportivo and Ansaldo Energia 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 has served as a member of the Senior Advisory Board of the Treasury Department at the Ministry of Economy and Finance (2014-2015).

She has 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 Public Sector, Infrastructures and Institutional Clients – Corporate Line – 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.



On its election, the Board of Directors confirmed that each of its members met the necessary integrity and professionalism requirements 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. 2, Recommendation 6 of the Corporate Governance Code).

The annexed Table 2 provides information on the composition of the Board of Directors at the end of the financial year (article 2 of the Corporate Governance Code and article 123-*bis*, paragraph 2(d) of the Consolidated Law on Finance).

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 are set out below:

- **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, which re-elected 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 23 February 2022, the results of which are reported in the sub-section of Section VII, “Board Review and Board Committees review”. Based on these reviews, 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 the Company’s current business and the related long-term risks and opportunities.

The Corporate Governance Code has emphasised the need to address issues around gender balance, recommending that companies adopt measures to promote equal treatment and opportunities within the entire organisation and monitor their concrete implementation (art. 2, Recommendation 8).

In 2021, the Company adopted specific guidelines in the new “Diversity & Inclusion Policy”, with the aim of formalising Terna’s commitment to promoting and protecting diversity, and to preventing and punishing any form of discrimination and harassment based on gender, age, sexual orientation, nationality, disability, political opinions, religious beliefs and any other

personal characteristic. The document was presented as part of the sustainability induction on 16 June 2021. As noted during the Board meeting of 23 February 2022, partly as a result of adoption of the above guidelines, Terna has been included in the Standard & Poor's Gender Equality & Inclusion Index, the new international index launched in August 2021 that measures the performance of listed companies in relation to gender equality and inclusion.

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 the Corporate Governance Code then 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 "Attendance Policy". 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 2.

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.

Induction Programme

The Corporate Governance Code recommends that the Chair ensure that all members of management and oversight bodies participate, after their appointment and during their term of office, in initiatives aimed at providing them with adequate knowledge of the sectors in which the company operates, of corporate dynamics and their developments. This is also done with a view to assuring the sustainable success of the company, as well as of the principles of proper risk management and of the regulatory and self-regulatory framework of reference (art. 3, Recommendation 12(d) of the Corporate Governance Code).

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

In particular, during 2021 and up to the date of approval of this Report, the following induction sessions were held:

- 29 March 2021: the topic of International Transactions in relation to the Company's current business and possible future scenarios was discussed in depth;
- on 26 April, together with the consultant Mercer S.r.l., a session was organised to examine the results of the Board Review for its first year in office in order to draw up an Action Plan to be shared with the entire Board of Directors. The document contains the issues arising from the Board Review and the agreed actions;
- 12 May 2021: the corporate strategy on innovation and technology was presented;
- 7 June 2021: a detailed analysis of strategic opportunities was carried out;
- 16 June 2021: a special meeting was dedicated to sustainability;
- 28 July 2021: in addition to an update on several international initiatives relating to strategic opportunities, an overview was provided on the regulatory framework and the Capacity Market;

From November 2021, the Company organised three workshops to explore the three operating segments that make up Terna's business (i.e. regulated; non-regulated and international). This involved sharing the views prevailing within the Company's departments with the entire Board of Directors. The considerations that emerged during the workshops formed the basis for the revision and update of the 2021-2025 Industrial Plan.

Specifically, the following workshops were held:

- 9 November 2021: an examination of the Strategic Scenario was provided with specific reference to the "Regulated" segment;
- 15 December 2021: an examination of the Strategic Scenario with specific reference to the "Non-regulated" segment was provided;
- 26 January 2022: an examination of the Strategic Scenario with specific reference to the "International" segment was provided.

Functioning of the Board of Directors

The Corporate Governance Code recommends that boards of directors draw up rules and procedures governing how they function so as to ensure effective management of pre-meeting information (art. 3, Principle IX). Subsequent recommendations also call for the adoption of rules governing the board's operating procedures and its committees, as well as for adequate disclosure in the Corporate Governance Report of the main contents and compliance with procedures relating to the timeliness and adequacy of information provided to Directors (art. 3, Recommendations 11 and 12).

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.

By adopting the Terms of Reference, the Company was a step ahead of the recommendations of the new Corporate Governance Code. In particular, the Procedure defines in a comprehensive manner the role, activities and organisation of the Board of Directors, and also provides indications to ensure the correct management of corporate information and the adequacy of information flows to the Board.

In fact, the Company intends to enhance the information provided to the Board of Directors, not only in quantitative but also in qualitative terms, in order to facilitate "informed" and "collective" participation in 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 obtaining 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. The relevant departments ensure that this timing is adhered to in making documentation available to the Directors. 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, that is 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, in addition 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; on strategic transactions, projects and initiatives and on the related progress; on meetings held with stakeholders and, on a half-yearly basis or following a particularly important meeting, on the outcome of the dialogue conducted, ordinarily, with major shareholders and institutional investors, also in implementation of the Engagement Policy. 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 indicated in the Report on Corporate Governance and Ownership Structures for 2020, the Terms of Reference are consistent with the relevant recommendations in the letters from the Chair of the Corporate Governance Committee dated December 2019 and December 2020, and with those contained in the Corporate Governance Code. In 2021, the Company did not consider revision of the document to be a priority, having preferred to make changes to the terms of reference for Board Committees. In order to align the documentation to ensure that the Board of Directors can function in the best possible way, the Company reserves the right to revise the Terms of Reference.

The Secretary to the Board of Directors is in charge of minuting meetings, by proceeding to record the minutes. To take full advantage of the role played by the minutes of Board of Directors' meetings, the Secretary to the Board of Directors draws up the minutes in such a way as to accurately describe the documentation presented and the Board's discussions, including the views expressed by individual Directors and by any heads of department involved. Following each Board meeting, to ensure that the minutes and the information they contain are complete and correct, the Secretary to the Board of Directors provides copies of the minutes relevant to each head of department who spoke at the meeting. The full text of the minutes is then provided to the Chairwoman and the Chief Executive Officer. The minutes are then submitted for approval at the next Board meeting and signed by the Chairwoman and Chief Executive Officer (or by a notary public where provided for by law). Departments wishing to reproduce the minutes or an extract thereof must provide the Secretary with a reasoned request in writing, to be presented appropriately in advance.

Any documents attached to the minutes, once reproduced in the records of General Meetings, continue to be available for consultation by Directors or members of the Board of Statutory Auditors. Documents accompanying the minutes are available to Directors and Statutory Auditors in the data room.

In 2021, the Board of Directors held 9 meetings lasting an average of approximately 191 minutes each. These meetings were duly attended by the Directors (97.44% in total) and the Board of Statutory Auditors (100%), and were also attended by Company executives, whose presence was considered to be of assistance in providing better information on the items on the agenda. The attendance of each Director at the meetings held during the year is shown in the annexed Table 2. For the current financial year, all Board meetings relating to the examination of the financial and operational data by the Board of Directors have been planned and scheduled as communicated to the market on 15 December 2021.

In the current financial year, up to the date of approval of this Report, the Board of Directors has held 4 meetings.

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 liaises 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.

At each Board meeting, the duties of the Chairwoman include an update on governance and sustainability matters.

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.

In 2021, also following the feedback from the Board Review conducted in 2020, and with a view to promoting more informed participation in board meetings, particular attention was paid to ensuring the availability of documentation within a reasonable timeframe, usually five days prior to a Board meeting.

Also in 2021, in implementation of art. 1, Recommendation 3 of the Corporate Governance Code, the Chairwoman, in agreement with the CEO, proposed that the Board of Directors adopt a “Policy for engagement with the generality of shareholders and other stakeholders of Terna S.p.A.”, which was adopted at the Board meeting of 14 October 2021.

Pursuant to this Policy, the Chairwoman, with the support of the Company Secretary:

- (i) is responsible for corporate governance matters;
- (ii) ensures that the Board of Directors is informed, at the earliest possible meeting, on developments in and the significant content of dialogue with all the stakeholders, inviting the CEO to report on the outcome of engagement activities for matters falling under his responsibility. The Chairwoman must also inform the Board of Directors of developments in and the significant content of engagement activities carried out, as well as of any new requests received.

The content and method of implementation of the above Policy are described in Section XV of this Corporate Governance Report.

The role of the Secretary

On 18 May 2020, Terna’s Board of Directors appointed Francesca Covone - the Head of Legal and Corporate Affairs - as Secretary to the Board of Directors.

Following a reorganisation of the Company and the separation of Legal Affairs from the Corporate Affairs and Corporate Governance department, on 26 January 2022, the Board of Directors appointed Emilia Pucci, previously Head of Corporate Affairs and Corporate Governance, as Secretary to Terna S.p.A.’s Board of Directors.

As the party responsible for 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).

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 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".

Executive bodies

In carrying out its functions, Terna's Board of Directors provides for one Chief Executive Officer ("CEO") to whom the Board assigned authority with a resolution dated 18 May 2020 defining the content, 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, 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 Principles V and VI 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 (Art 3, Principle X 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.

Non-executive Directors (as they do not have executive powers and/or management functions within the Company) make significant contributions to the adoption of Board resolutions and ensure effective monitoring of operations.

Independent Directors

A requisite number of non-executive Directors, with the appropriate expertise, also qualify 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 then applicable. This is described in the above Section II under "Election of Directors, related requirements and term of office".

Following adoption of the Corporate Governance Code, the Board of Directors of the Company modified the independence requirements.

As indicated in the 2020 Report, although work had begun on adapting and revising the internal governance documentation, in order to fully and effectively implement the new recommendations, the Company began to update the Terms of Reference for Board Committees and the procedures for defining independence criteria, undertaking to provide full disclosure to the market in the Corporate Governance Report for 2022.

With specific reference to independence, the new Corporate Governance Code defines as "independent" non-executive directors who do not have, or have not recently had, directly or indirectly, such relations with Terna or persons connected with Terna as would affect their current independence of judgement.

Article 2, entitled “The composition of corporate bodies” - Recommendation 7 - lists the circumstances that compromise, or appear to compromise, the independence of a director. In reviewing the conditions capable of jeopardising independence, the new text recalls the conditions contained in article 3 of the previous Corporate Governance Code. In line with the past, the new Code also includes significant commercial, financial or professional relationships (letter c) and any significant additional remuneration other than the fixed remuneration for the office and the remuneration for participation in committees recommended by the Code or provided for by current legislation (letter d). The new Code also invites the Board of Directors to predefine, at least at the beginning of the term of office, the quantitative and qualitative criteria for assessing the significance of “commercial, financial and professional relations” and “additional remuneration” (Article 2, Recommendation 7).

Recommendation 9 specifies that “All members of the oversight body must meet the independence requirements set out in Recommendation 7 for directors”.

Moreover, the independence of a director (and therefore of a statutory auditor) is jeopardised if the director is a close family member of a person who is in one of the situations referred to in Recommendation 7(a) to 7(g) of the Corporate Governance Code, including therefore the cases referred to in 7(c) and 7(d).

As described in the Corporate Governance Report for 2020, the Company decided to postpone application of art. 2, recommendation 7 in the new Corporate Governance Code until such time as the Company’s governance documentation – including the criteria for assessing independence – had been updated to fully comply with the new Code.

In 2021, the Company set up a Working Group, made up of the competent corporate departments, in order to identify the actions to be taken to ensure the correct implementation of the new Code, including with regard to independence.

In order to draw up the documentation, the appointed Working Group analysed the choices made by a sample of 12 issuers, paying particular attention to the quantitative and qualitative standards for assessing independence. The analysis was carried out on the basis of the publicly available information contained in the following documents: (i) Report on Corporate Governance and Ownership Structures; (ii) Terms of Reference of the Board of Directors; specific documents adopted on independence.

A new text was then prepared, entitled “Application criteria and procedure for assessing independence, pursuant to Article 2 of the Corporate Governance Code”.

The document was presented to the Audit, Risk, Corporate Governance and Sustainability Committee, which examined the alternatives during three meetings (9 December 2021, 17 January 2022 and 25 January 2022), also in light of the benchmarks analysed. All the Committee meetings were attended by the entire Board of Statutory Auditors. At the meeting held on 19 January, the Board of Statutory Auditors analysed the document, also in consideration of its applicability to the oversight body, incorporating its contents into its own Terms of Reference, as amended at the meeting held on 15 February 2022.

The document was approved by the Board of Directors on 26 January 2022, with the favourable opinion of the Audit, Risk, Corporate Governance and Sustainability Committee dated 25 January 2022.

The document is more detailed and comprehensive than the previous version and consists of nine articles. In addition to identifying assumptions and objectives, it lists the conditions that may jeopardise independence; the text devotes an article to the figure of the Chairperson of the Board of Directors, where he or she is qualified as independent, and an article to the Board of Statutory Auditors because of the desired extension of the criteria.

The text also describes the procedures for assessing independence and the related checks. The heart of the procedure regards to a description of the criteria adopted by the Company to assess “materiality” and the mechanism for defining and measuring the parameters adopted. This is a key point that reflects what emerged from the letter from the Chairman of Italy’s Corporate Governance Committee dated 6 December 2021. Based on an analysis of the reports published during 2021, the letter highlighted, among other things, that only a quarter of listed companies report such criteria.

In applying the conditions that may jeopardise the independence of a Director, the document has defined significant commercial, financial or professional relationships (art. 5) and significant additional remuneration (art. 6).

With regard to significant **commercial, financial or professional relationships**, the document provides that (a) with regard to prior relationships, which are as a rule classified as significant when they entail commercial, financial or professional relationships with Terna or one of its subsidiaries, or with their executive directors or senior management, and with a person that, also together with others under a shareholder agreement, controls Terna or, if the control is held by a company or entity, with its executive directors or senior management who, in at least one of the previous three financial years prior to taking up the position, individually or cumulatively, in each financial year, exceed 100% of the “Benchmark”¹⁵, and (b) during their term of office, Directors must refrain from engaging in any of the above relationships in order to qualify as independent¹⁶.

With regard to significant remuneration, the document provides that (a) as a rule, additional remuneration – meaning remuneration received from employment, directorships or the membership of oversight bodies – received by a Director from Terna or one of its parents or one of its subsidiaries is considered significant if, in the three financial years prior to taking up the position, individually or cumulatively, in each financial year, it exceeds the above Benchmark, and that (b) during their term of office, Directors must not receive from Terna, or one of its parent or subsidiaries, additional remuneration that, individually or cumulatively, is in excess of 40% of the above Benchmark¹⁷.

¹⁵ Pursuant to art. 5.1 of the Application criteria and procedure for assessing independence, pursuant to Article 2 of the Corporate Governance Code, “Benchmark” is intended to mean average compensation received by non-executive Directors for their role and for their membership of committees recommended by the Corporate Governance Code or provided for in the legislation in force in the final year of their term of office (in this case, 2019), calculated by the office of the Company Secretary. In calculating the “Benchmark”, account is not taken of the Chair of the Board of Directors either with regard to computing the number of Directors or with reference to how much they received. Pursuant to the subsequent art. 5.3 of the document, it should also be noted that, in assessing the significance of commercial, financial and professional relationships, if a Director is also a partner in a professional or consulting firm, the body conducting the assessment must assess the significance of the professional relations that may have an effect on his or her position and role within the professional or the consulting firm and in any event those pertaining to important transactions carried out by Terna or the Group it heads, regardless of the Benchmark. For the three-year period from 2017 to 2019, the benchmark was €104,562.85.

¹⁶ Art. 5.5 of the document specifies that, in the event of commercial, financial and professional relationships involving the close family members of Directors, the Benchmark is to be applied to both their commercial, financial or professional relationships in one of the three financial years prior to taking up the position and to each year of their term of office.

¹⁷ Art. 6.3 of the document specifies that, with regard to the close family members of Directors or Statutory Auditors, the Benchmark is to be applied to both their remuneration received in one of the three financial years prior to taking up the position and to each year of their term of office. The document specifies that the Board must assess the independence of its members on the basis of substance over form. Under this principle, it should be noted that (a) this does not affect the Board’s right to conduct an objective, individual assessment of a Director’s situation and qualify them, if appropriate, as independent. In this case, the Board must provide full and transparent disclosure of the reasons for not applying one or several criteria applicable to each and every Director, ensuring that the reasons are recorded in the minutes of the meeting. The reasons for such an assessment must also be reported in the Annual Corporate Governance Report (art. 7.2); and (b) that, with specific reference to examination of significant commercial, financial and professional relationships or significant additional remuneration, the Board may judge a Director not to be independent if, despite meeting the criteria set out in the document, the overall assessment of the circumstances and any further available information, and in application of the principle of substance over form, leads the Board to conclude that the independence requirements have not been satisfied (art.7.3).

On the one hand, the diversified thresholds adopted by the Company makes it easier for candidates to stand for election as a Director or Statutory Auditors, even though it sets an objective, strict standard; on the other hand, it precludes any relationship of a financial nature during the term of office, so as to prevent any occurrence likely to jeopardise the independence of Directors and Statutory Auditors.

Mindful of the difference between the two cases and above all recognising the usefulness of having a Group statutory auditor, the Company has therefore decided to cap additional remuneration during the term of office at 40%.

Lastly, the Terms of Reference reiterate the power of the Board of Directors to assess in a concrete manner the situation of an individual Director or Statutory Auditor concerned and, if necessary, to classify him/her as independent. With specific reference to the examination of significant commercial, financial or professional relations or significant additional remuneration, the Board may assess a Director or a Statutory Auditor as non-independent if, while respecting the adopted benchmark, the overall assessment of the circumstances depicted and of the additional elements available, also in consideration of the principle of substance over form, leads to the conclusion that the independence requirement has not been met.

The new criteria are being applied for the first time in 2022.

At the meeting of 17 March 2022, the Board of Directors assessed, on the basis of the information provided by the individuals concerned, the independence of its non-executive Directors, applying the aforementioned Application Criteria and article 2, Recommendation 7 of the Corporate Governance Code, in addition to the document “Application criteria and procedure for assessing independence”, amended by the Board of Directors at the meeting of 26 January 2022.

The assessments also concerned commercial, financial and professional relations as well as additional remuneration, as defined by the aforementioned document.

Following the full adoption of the new Corporate Governance Code and, in particular, the independence requirements set forth in article 2, Recommendation 7, the Chairwoman, Valentina Bosetti, qualified as independent, in line with the past, pursuant to (i) article 148, paragraph 3 of the Consolidated Law on Finance, as required by article 147-ter, paragraph 4 of the Consolidated Law on Finance, and (ii) article 15.4 of the Articles of Association as well as (iii) art. 2, Recommendation 7 of the Corporate Governance Code, since the new Code no longer makes reference to the concept of “significant representative” which, in the past, had precluded previous chairs of the Board of Directors from qualifying as independent, even when they were without executive powers.

The Board of Directors also ascertained that the independence requirements provided for in art. 148, paragraph 3 of the Consolidated Law on Finance (as referred to in art. 147-ter, paragraph 4 of the Consolidated Law on Finance), in Terna S.p.A.’s Articles of Association and in the Corporate Governance Code had been met by the following non-executive Directors: Alessandra Faella, Ernesto Carbone, Giuseppe Ferri, Fabio Corsico, Marco Giorgino, Gabriella Porcelli, Paola Giannotti and Jean-Michel Aubertin.

The Director, Valentina Canalini, meets the independence requirements established in art. 148, paragraph 3, of the Consolidated Law on Finance (as referred to in art. 147-ter, paragraph 4 of the Consolidated Law on Finance), and in Terna S.p.A.’s Articles of Association, but not those provided for in the Corporate Governance Code.

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 in application of the new Terms of Reference, which placed again such competence under the responsibility of the oversight body in line with the Q&As of the Corporate Governance Committee.

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. Accordingly, the composition of the Board is also in line with the requirements of 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 independent Directors (art. 2, *Recommendation 4*).

The number and expertise of independent Directors are also such as to ensure the appropriate composition of the Board Committees 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, "Functioning of the Board of Directors"), 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. The new Guidelines on independence requirements devotes a specific article to "Meetings of the Independent Directors", stating that they shall meet, without the other Directors, on a periodic basis and in any event at least once a year to assess issues deemed of interest with respect to the functioning of the Board of Directors and the Company's management, with particular regard to the adequacy of dialogue and information flows between executive and non-executive Directors. The Guidelines also specify that the meetings of independent Directors do not provide for participation of the independent Chair, if appointed; however, the independent directors may, if they deem it useful for coordination purposes, invite the Chair to participate in the meeting and/or provide him/her with details of any main considerations that are relevant.

With reference to the specific provisions of Terna's Articles of Association, introduced in order to implement the unbundling legislation, it should be noted 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 recommendations of the Corporate Governance Code (art. 2, *Recommendation 13*) apply, Terna does not have a Lead Independent Director.

Section V

Management 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.

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).

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 "Questions 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 Corporate Governance Code recommends that the Board of Directors set up committees with the role of conducting research and providing recommendations and advice in the areas of nominations, remuneration, control and risks (art. 3, Recommendation 16), in line with the previous edition and, if necessary, with regard to topics considered material in relation to the creation of long-term value (article 1, Recommendation 1(a)).

In implementation of the Code's recommendations, Terna's Board of Directors has established a "Remuneration Committee", an "Audit, Risk, Corporate Governance and Sustainability Committee" and a "Nominations Committee", with the role of conducting research, making recommendations and providing advice to the Board of Directors in order to ensure it can effectively perform its duties. A further Board Committee, the "Related Party Transactions Committee", has also been set up. 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 22144 of 22 December 2021, and the "Procedure for Related Party Transactions" adopted by the Company and described in Section XII of this Report.

On taking office on 18 May 2020, the newly-elected Board of Directors adopted a resolution to set up the above-mentioned committees, providing that they would be composed of three directors, all of whom would be non-executive and independent, including the chairs.

During its term of office, in order to ensure that the size of Committees is more in proportion with the size of the Board of Directors, at its meeting of 14 October 2021, the Board of Directors resolved to increase the number of members to four. The inclusion of new competences within the Board of Directors facilitates its strengthening and favours the enhancement of a constructive dialogue for the entire Board of Directors, in its effort to achieve the challenging objectives in the Industrial Plan.

Even after the addition of a further member, the Committees are still composed only of independent non-executive directors.

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 in effect at that time).

As indicated in the Corporate Governance Report for 2020, publication of the new Corporate Governance Code provided an opportunity to review the Terms of Reference of Board Committees.

At the meeting held on 15 December 2021, the Board of Directors resolved to revise each of the four existing sets of Terms of Reference, subject to the favourable opinion of the relevant Committee.

Two basic guidelines were followed in making the changes to the Terms of Reference: on the one hand, the responsibilities of each Committee were redesigned in the light of the new recommendations in the Corporate Governance Code, the most recent market guidelines and the best practices already adopted by the Company; on the other hand, organisational changes were made that affect all the Committees, with a view to standardising their operating procedures.

In essence, the main changes made to the texts of the Terms of Reference concern:

- i. the possibility of appointing the Chair of the Board of Directors as a member of a Committee, if such Chair has been previously assessed as independent and provided that the majority of the members of the Committee are other independent Directors. It was also reiterated that the Chair of the Board of Directors cannot be appointed Chair of the Audit, Risk, Corporate Governance and Sustainability Committee or of the Remuneration Committee;
- ii. adaptation of the expertise of the Committees based on the recommendations in the Corporate Governance Code; it should be noted that, with specific reference to the Committee for Related Party Transactions, alignment of the skills reflects first and foremost the provisions of the related CONSOB Regulation, as well as the Guidelines and related Operating Instructions for Related Parties;
- iii. the availability of financial resources to the Committees, with the exception of the Related Party Transactions Committee, whose terms of reference provide that "the Committee may use, without cost limits, independent experts external to the Company, selected and appointed independently by the Committee";
- iv. reports to the Board of Directors on the activities carried out by Committees at the time of approval of the annual financial report and the half-year financial report, in accordance with the recommendations in the Corporate Governance Code, as well as following each meeting held by the Committees at the earliest possible meeting of the Board of Directors;
- v. annual approval of a calendar of Committee meetings, with the sole exception of the Related Party Transactions Committee, whose meetings are held when any such transaction is to be considered;
- vi. explicit arrangements for making supporting documentation for Committee meetings available in the data room and the related timings;
- vii. the possibility for the Chair, the Chief Executive Officer, other Directors and, after informing the CEO, other members of departments to attend Committee meetings. With reference to the Audit, Risk, Corporate Governance and Sustainability Committee, the Head of the Audit department may be invited to participate in meetings;
- viii. in the event of a tie, the introduction - in compliance with the resolution passed by the Board of Directors at the meeting held on 14 October 2021 - of a casting vote for the chair of each Committee, with the sole exception of material transactions subject to prior examination by the Related Party Transactions Committee;
- ix. the definition of the professional requirements for the Secretary of each Committee, to be chosen from among the Company's managers with adequate expertise and experience in corporate law and corporate governance. These requirements must in any case be met even if the role of Secretary is entrusted to a person external to the Company.

In keeping with the past, at least one member of the “Remuneration Committee” must possess adequate knowledge and experience in financial and remuneration policy matters, and at least one member of the “Audit, Risk, Corporate Governance and Sustainability Committee” must possess adequate expertise in matters relating to accounting and finance or risk management.

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.

During the year, the chair of each Committee reports to the earliest possible Board of Directors’ meeting on the Committee’s activities, in accordance with the recommendations of the Corporate Governance Code.

All the Committees reported to the Board of Directors on 17 March 2022.

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.

Committee meetings are minuted. The minutes are signed by the chair of the meeting and the Secretary to the Committee and filed in chronological order by the Secretary. The minutes are prepared in analytical form to provide a full description of the matters dealt with and the contributions from those present. In preparation for approval of the minutes, which as a rule takes place at the Committee’s next meeting, the draft prepared by the Secretary to the meeting, with the support of the Company Secretary, who is also responsible for providing a copy to the person chair of the meeting, is made available to members of the relevant Committee and the Board of Statutory Auditors in the Data Room.

The Secretary makes available documentation relating to the agenda items for each Committee meeting to members of the Committee and of the Board of Statutory Auditors via a dedicated Data Room with restricted access. This is done according to the same timing as applied to the notice of call, being at least three days prior to the date of the meeting, to be sent by e-mail to the interested parties. In urgent cases, the period of notice may be shorter, provided that members of the Committee and of the Board of Statutory Auditors are given reasonable, albeit reduced, notice, also in view of the need to ensure that any material situations of interest pursuant to LG006 are identified and communicated in time.

Where, in specific cases, it is not possible to provide the necessary information sufficiently in advance of the meeting, the Chair of each Committee ensures that full and accurate information is provided during the relevant Committee meetings. Each Committee may 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. All members of the Board of Statutory Auditors may take part in any Committee meeting.

In implementation of the recommendations of the Corporate Governance Code and the related terms of reference, at its meeting of 17 March 2022, the Board of Directors resolved to establish a budget to ensure adequate financial resources for the fulfilment of the tasks of each of the Committees set up. Exception is made for the Related Party Transactions Committee, which may, without any cap on expenditure, avail itself of independent advisors external to the Company, to be selected and appointed independently by the Committee.

Section VII

Nominations Committee

Board Review and Board Committees review

In keeping with the past and in compliance with the new 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 functioning of the Board itself and of its committees, with reference to the activity performed since the election. This is also called a Board Review.

For this purpose, Terna availed itself of the assistance of a specialist external consultant, Mercer Italia S.r.l., a third and independent company, confirmed after the selection made last year. The consulting firm's analysis was set up with a three-year time horizon, so as to be able to examine various aspects in depth during the course of the Board's term of office, also using different methods and tools, as allowed by the Corporate Governance Code.

The Company's current Board of Directors came into office during the pandemic, which affected the possibility of meeting in person for a large part of the year. Gradually, Board members were able to get acquainted with each other and discuss both strategic and operational matters. The 2021 financial year was therefore also the year in which they consolidated their collective working methods. For this reason, after the first Board Review, which aimed to carry out an in-depth examination of operating processes and ended with a proposal for an action plan, the Board of Directors focused the second Board Review, covering the 2021 financial year, on analysing the collective dynamics and the individual contributions of Board members. This is a best practice that is still not widespread among Italian boards of directors, but which forms the basis of effective decision-making.

More specifically, the activities that characterised the Board Review covering the 2021 financial year were designed to analyse:

- i) the contribution of each Director to the collective work assessed in a constructive and proactive spirit by other Directors (i. e. a peer-to-peer review);
- ii) the dynamics and way of working of the Board of Directors.

The first activity was carried out by means of structured individual interviews with Directors, the second by means of an online questionnaire filled in by Directors. The results of the two activities were presented to the Directors during the Board meeting held on 1 February 2022. This was followed by broad discussion and useful indications were given in order to improve further the overall effectiveness of the Board.

In addition, a review was conducted of the progress made in carrying out planned actions, contained in the document "Update on implementation of the action plan drawn up by Mercer as a result of the 2020 Board Review", presented to the Board of Directors at the meeting of 10 November 2021.

The Board was also able to analyse the recommendations made by the Italian Corporate Governance Committee sent to the chairs of Italian listed companies, for which specific reference is made to Section XVII, “Considerations on the letter dated 3 December 2021 from the Chair of the Corporate Governance Committee”.





All the work was summarised by Mercer in a report, which was illustrated to the Nominations Committee in the meeting of 21 February 2022 and, subsequently, during the meeting of Terna’s Board of Directors held on 23 February 2022.

The Board of Directors’ self-assessment of its size, composition and functioning was positive. All the Directors interviewed acknowledged the progress achieved by the Board. According to the answers and comments provided by Directors, the way the Board works and its decision-making is based on commitment, the search for shared decisions through careful preparatory work, open discussion and debate. In particular, the strengths that emerged from the analyses can be attributed to: active listening to the proposals of management and other Directors, a spirit of teamwork marked by mutual respect, clear and effective communication, active participation in the work of the Board and Committees, and widespread commitment. A number of areas for further improvement of the Board’s effectiveness also were brought to light, including the need to continue with in-depth examination of the more technical issues of a regulated and complex business, and the advisability of perfecting the manner in which Directors challenge each other, so that it is carried out in a constructive and proactive way. The Chairwoman, on the basis of the detailed documentation prepared by the consulting firm, then proceeded to give feedback to each Director on the basis of their specific characteristics, experience and expertise.

With a view to increasing further the quality of Terna’s governance processes, the Directors, with the support of the consulting firm, shared the suggestions that emerged during the Board Review. These concern, among other things:

- (i) the planning of further induction activities, in addition to those already scheduled, also through off-site meetings, to be held as soon as the health emergency is over;
- (ii) continuation of the in-depth examination of strategic issues, through workshops and dedicated sessions at Board meetings;
- (iii) the distribution to Directors of the brokers’ research reports and material on external industry events;
- (iv) an assessment of the best way for non-executive, non-independent Directors to participate in Committee meetings (with the exception of the Related Party Transactions Committee).

NOMINATIONS COMMITTEE

	NAME	RULE	INDEPENDENCE	
			CLF	CGC
	Gabriella Porcelli	Chairwoman	●	●
	Jean-Michel Aubertin	Member	●	●
	Fabio Corsico	Member	●	●
	Ernesto Carbone	Member	●	●

Composition

The Board of Directors set up the Nominations Committee at its meeting held on 27 May 2014, at the time of its first re-election following the entry into force of the provisions contained in art. 5.P.1 of the Corporate Governance Code.

Upon taking office, the Board of Directors confirmed the presence of a Nominations Committee which, as of 18 May 2020, was composed of the following three non-executive and independent Directors: Gabriella Porcelli (acting as Chairman), Jean-Michel Aubertin and Fabio Corsico.

During its tenure, in order to ensure a better proportionality of the committees with its size, the Board of Directors, in its meeting of 14 October 2021, resolved to extend the number of members to four; the independent director Ernesto Carbone was therefore appointed, thus joining directors Jean-Michel Aubertin and Fabio Corsico, while Gabriella Porcelli retained the chairmanship. Currently, two members are Directors elected from minority lists.

Duties of the Nomination Committee

The Committee's duties have been determined in line with the Corporate Governance Code and the procedures for holding meetings are governed by 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"), updated by the Board of Directors on 23 June 2015 and, lastly, on 15 December 2021, with the adjustments necessary to align with the provisions in the new Corporate Governance Code.

The Chair of the Committee may invite the Chair of the Board of Directors, the Chief Executive Officer, other Directors and, informing the Chief Executive Officer, the representatives of relevant corporate departments to single meetings (art. 3, recommendation 17, paragraph 3 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.

In performing its duties, the Nominations Committee has access to the 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. 3, recommendation 17, last paragraph).

The Committee has access to adequate financial resources. At the meeting of 17 March 2022, the Board of Directors decided to assign the Committee a specific budget in accordance with the Committee's Terms of Reference.

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.

In particular, the Committee's duties include assisting the Board of Directors in the following activities: (a) self-assessment of the Board of Directors and Board Committees; (b) definition of the optimal composition of the Board of Directors and the Committees; (c) identification of candidates for the office of Director in the event of co-option; (d) possible submission of a slate by the outgoing Board of Directors, to be implemented in a manner that ensures its transparent formation and presentation; (e) preparation, update and implementation of succession plans for the Chief Executive Officer and the other executive Directors; (f) 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.

In 2021, the Nominations Committee held 6 meetings, which were attended by almost all its members (91.66%) and lasted an average of about 59 minutes. Minutes of all meetings of the Committee were duly minuted.

The Chairwoman informed the Board of the Committee's meetings at the earliest possible date (art. 3, recommendation 17, second paragraph of the Corporate Governance Code). For the current financial year, sufficient Committee meetings are scheduled to carry out the assigned tasks. In the current financial year up to the date of approval of this Report, the Committee has held 3 meetings.

The meetings of the Nominations Committee were attended by the Board of Statutory Auditors, mostly in its entirety.

In 2021, the Committee carried out the preparatory work for the 2020 Board Review, dedicating the meetings of 11 January 2021, 21 January 2021 and 22 March 2021 to this exercise. The meetings dedicated to the Board Review were attended by consultants from Mercer.

At its meeting of 12 October 2021, the Nominations Committee issued a positive opinion on the increase in the number of members of Board Committees.

At the meetings held on 9 November 2021 and 29 November 2021, the Nominations Committee (i) supported the Board of Directors in reviewing the action plan relating to the results of the 2020 Board Review and (ii) carried out preliminary activities in preparation for the 2021 Board Review. Mercer's consultants participated in the meetings focused on preparations for the Board Review. The meetings of 9 November and 29 November 2021 were also attended by the Chairwoman, Valentina Bosetti. At the meeting held on 21 February 2022, the Committee examined the results of the 2021 Board Review.

Furthermore, in 2022, at its meeting of 25 January, the Committee issued a positive opinion on the appointment of Qinjing Shen as a Director, nominated by the Board of Directors on 26 January to replace Yunpeng He.

The Committee was involved in the review of Succession Planning by holding three meetings on 25 January, 21 February and, most recently, on 16 March 2022. The last two meetings were attended by advisors from Egon Zehnder, in addition to Emilia Rio, Head of People, Organization and Performance. The meeting of 16 March 2022 was attended by the Chief Executive Officer.





The attendance of each member of the Committee in office at the meetings held during 2021 is shown in the annexed Table 3 (article 123-bis, paragraph 2(d) of the CLF). The information regarding the number of meetings and the activities carried out refers to the overall activity carried out by the Committee in 2021. The Board of Directors, at its meeting on 23 February 2022, verified the tasks and the functioning of the Committee.

At the final meeting, the Committee issued a positive opinion on the proposed revision to the Succession Plan for senior management. In 2022, the Committee will also be involved in issuing an opinion on the revised Contingency Plan.

Section VIII

Remuneration Committee

REMUNERATION COMMITTEE

	NAME	RULE	INDEPENDENCE	
			CLF	CGC
	Fabio Corsico	Chairman	●	●
	Gabriella Porcelli	Member	●	●
	Alessandra Faella	Member	●	●
	Jean-Michel Aubertin	Member	●	●

Composition

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, then on 19 December 2012 and most recently on 19 December 2021, in order to comply with the new provisions 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: Fabio Corsico (in the role of Chairman), Gabriella Porcelli and Alessandra Faella. During its tenure, in order to ensure that the size of Committees is more in proportion with the size of the Board of Directors, at its meeting of 14 October 2021, the Board of Directors resolved to increase the number of members to four; therefore, the independent Director Jean-Michel Aubertin was appointed as a member in addition to Gabriella Porcelli and Alessandra Faella, while Director Fabio Corsico retained the chairmanship. Currently, two out of four members of the Committee are Directors elected from minority slates.

The Corporate Governance Code recommends that “At least one member has appropriate knowledge and experience of financial or remuneration-policy matters” (art. 5, recommendation 26 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.

Duties of the Remuneration Committee

The Committee’s duties include, among other things: (i) assisting the Board of Directors in the drafting of the remuneration policy; (ii) submitting proposals or expressing opinions on the remuneration of executive directors and other directors with delegated powers, as well as on the setting of performance objectives related to the variable component of such remuneration; (iii) monitoring the concrete application of the remuneration policy and verifying, in particular, the effective achievement of performance objectives; (iv) periodically assessing the adequacy and overall consistency of the remuneration policy for Directors and senior management (art. 5, recommendation 25, paragraph one of the Corporate Governance Code).

Directors may not take part in meetings of the Remuneration Committee at which proposals regarding their remuneration is discussed (art. 5, recommendation 26, paragraph two of the Corporate Governance Code).

The Chairman of the Committee may, from time to time, invite the Chairwoman of the Board of Directors, the Chief Executive Officer, other Directors, members of the Audit, Risk, Corporate Governance and Sustainability Committee and, informing the Chief Executive Officer, representatives of the competent corporate departments to the meetings of the Committee, with reference to individual items on the agenda (article 3, recommendation 17 in the Corporate Governance Code).

In performing its duties, the Remuneration Committee has the right to access the information and company departments necessary to carry out its tasks and may make use of external consultants, within the limits approved by the Board of Directors and as provided for in the Corporate Governance Code (art. 3, recommendation 17, last paragraph).

The Remuneration Committee held 5 meetings in 2021. All of the meetings were attended by all members of the Committee (100%) and the average duration was approximately 53 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-mentioned meetings, which also saw the participation of the Board of Statutory Auditors, 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 duties of the Committee.

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. 3, recommendation 17, last paragraph 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 4 meetings.

The participation of each member of the current Committee at meetings held during 2021 is shown in the attached Table 3 (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 2021. The Committee has access to adequate financial resources. At the meeting of 17 March 2022, the Board of Directors decided to assign the Committee a specific budget in accordance with the Committee's Terms of Reference.

As part of its duties, and with respect to the remuneration of the Chief Executive Officer and other Directors with delegated powers, in 2021 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:

- review of the results of the analysis of the performance indicators of the short- and long-term incentive plans, prepared by Willis Towers Watson;
- examination of the results of the remuneration benchmark, prepared by Willis Towers Watson, for 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", 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 2020, 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 an advisory vote at the Annual General Meeting held to approve the financial statements for the year ended 31 December 2020;
- review of the objectives to which the annual variable remuneration for 2021 of the Chief Executive Officer, both for the directorship and the executive position, and of the Key Management Personnel is linked;
- assessment of the achievement of the 2020 results for the payment of the annual variable remuneration of the Chief Executive Officer, both for the directorship and the executive position, and of the Key Executives;
- assessment of achievement of the objectives linked to payments under the LTI 2018-2020;
- approval of details of the structure of the Performance Share Plan 2021-2025 and the related Information; examination of the implementation elements and approval of the Terms of Reference and instruments to be allocated;
- examination of the proposed amendments to the Committee's Terms of Reference in order to implement the Recommendations of the Corporate Governance Code and the best practices already adopted by the Company, as well as to include the organisational changes affecting all the Committees with a view to standardising their operating procedures. The proposed amendments to the Committee's terms of reference were approved by the Board of Directors on 15 December 2021.

The Committee's activities in early 2022 have included:

- examination of the results of the remuneration benchmarking, carried out by Willis Towers Watson in relation to the Chief Executive Officer and General Manager;
- preparation of a proposal for the Remuneration Policy for 2022, 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 2021 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 an advisory vote at the Annual General Meeting held to approve the financial statements for the year ended 31 December 2021;
- examination of the objectives for 2022 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 2021 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 2019-2021;
- approval of details of the structure of the Performance Share Plan 2022-2026 and the related information Circular.

The Committee Chairman informed the Board at the earliest possible time of the Committee's meetings (art. 3, recommendation 17, paragraph two of the Corporate Governance Code).

At its meeting of 23 February 2022, 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 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 an advisory, non-binding vote (until the amendments introduced by law as below indicated) 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 an advisory 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 Shareholders' Meeting of 30 April 2021 approved the first section of the "Report on the remuneration policy and the remuneration paid" and voted in favour of the second section.

The "Report on the remuneration policy and remuneration paid", which will be submitted to the next Annual 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 should be made, was approved by the Board of Directors – on the 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 2021, in compliance with the provisions of art. 123-*ter* of the CLF, as recently amended.

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	CGC
	Paola Giannotti	Chairwoman	●	●
	Marco Giorgino	Member	●	●
	Giuseppe Ferri	Member	●	●
	Alessandra Faella	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 applicable 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 then applicable, which invited 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 (art. 1, recommendation 1a). The Committee’s terms of reference were last updated on 15 December 2021 with the changes required by the provisions of the Corporate Governance Code.

Composition

Following the renewal of the entire Board of Directors on 18 May 2020, the Committee was composed of three non-executive and independent Directors: Paola Giannotti (Chairman) Marco Giorgino and Giuseppe Ferri. Two Directors were drawn from the minority slate.

During its tenure, in order to ensure better proportionality of the committees with its size, the Board of Directors, in its meeting of 14 October 2021, resolved to extend the number of members to four; therefore, independent Director Alessandra Faella was appointed as an additional member, thus joining Directors Marco Giorgino and Giuseppe Ferri. Director Paola Giannotti retained her role as Chairwoman of the Committee.

The Corporate Governance Code recommends that “At least one member has appropriate knowledge and experience of accounting, financial or risk management matters” (art. 6, recommendation 35, paragraph two). In addition to the Chairwoman, who possesses over 30 years of experience in the financial sector, the composition of the Committee is such as to fully comply with this recommendation.

The Committee may instruct the Audit department to review specific operational areas, notifying the chairman of the oversight body (article 6, recommendation 35(g) of the Corporate Governance Code).

The Chairman of the Board of Statutory Auditors (or another Statutory Auditor designated by him) attends the Committee’s meetings in accordance with the provisions of article 6, recommendation 37, paragraph two of the Corporate Governance Code, and the other Statutory Auditors may also attend.

The Chair of the Committee may from time to time invite to meetings, with reference to individual items on the agenda, the Chairman of the Board of Directors, the Chief Executive Officer (in his capacity as the Director in charge of setting up and maintaining the Internal Control and Risk Management System, as defined by the previous Corporate Governance Code), the members of the Remuneration Committee, other members of the Board of Directors, the Head of the Audit department and, after informing the Chief Executive Officer, representatives of the competent company departments (article 3, recommendation 17 of the Corporate Governance Code).

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

The “Audit, Risk, Corporate Governance and Sustainability Committee” has, among other things, 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 periodic financial and non-financial reports (article 6, recommendation 32(c) of the Corporate Governance Code). In this context, in assisting the Board of Directors, the Committee:

- reviews, after consulting the Manager Responsible for Financial Reporting, the independent auditors and the Board of Statutory Auditors, the correct use of accounting standards and their consistent application in preparation of the consolidated financial statements;
- assesses the suitability of periodic financial and non-financial information to correctly represent the Company's business model, strategies, the impact of its activities and the performance achieved, in coordination with the committee, if established, provided for by recommendation 1(a) of the Corporate Governance Code;
- examines the content of periodic non-financial information relevant to the internal control and risk management system;
- expresses opinions on specific aspects relating to the identification of the main corporate risks and supports the assessments and decisions of the Board of Directors relating to the management of risks arising from prejudicial events of which the latter has become aware;
- reviews periodic reports and reports of particular relevance prepared by the Audit department;
- monitors the autonomy, adequacy, effectiveness and efficiency of the Audit department. In this respect, reference is made to " Head of the Audit department " in section XI below;
- reports to the Board of Directors, at least when the annual and half-yearly financial reports are approved, on the activities carried out and on the adequacy of the internal control and risk management system;
- supports the Board of Directors in performing the tasks entrusted to it by the Corporate Governance Code in the field of internal control and risk management with regard to the:
 - (i) setting of guidelines for the internal control and risk management system in line with the company's strategies and the assessment, at least once a year, of the adequacy of the system in relation to the characteristics of the company and the risk profile assumed, as well as its effectiveness;
 - (ii) appointment and termination of the head of the Audit department, defining remuneration in line with company policies, and ensuring that such manager has adequate resources to perform his/her duties;
 - (iii) approval, at least once a year, of the work plan prepared by the head of the Audit department, in consultation with the oversight body and the chief executive officer;
 - (iv) possible adoption of measures to ensure the effectiveness and impartiality of judgement of other corporate departments involved in the internal control and risk management system, verifying that they have adequate expertise and resources;
 - (v) attribution to the Board of Statutory Auditors or to a specially constituted body of the supervisory functions under article 6(1)(b) of Legislative Decree 231/2001;
 - (vi) assessment, in consultation with the Board of Statutory Auditors, of the findings set out by the independent auditors in their letter of recommendations, if any, and in the additional report to the Board of Statutory Auditors;
 - (vii) description, in the corporate governance report, of the main features of the internal control and risk management system and of the methods of coordination among the parties involved in it, indicating the national and international reference frameworks and best practices, expressing its overall opinion on the adequacy of the system and explaining the choices made with regard to the composition of the supervisory board.
- supports 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 and (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;
- carries 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 and in accordance with the Corporate Governance Code (art. 3, recommendation 17, last paragraph).

More specifically, during 2021, the Audit, Risk, Corporate Governance and Sustainability Committee held a total of 10 meetings which 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 and (art. 6, Recommendation 32(f) and art. 6, Recommendation 37, paragraph two) and the Rules of Conduct for the boards of statutory auditors of listed companies. The Chairwoman of the Board of Directors, Valentina Bosetti, attended nine meetings of the Audit, Risk, Corporate Governance and Sustainability Committee in 2021, during which the Committee dealt with matters relating to sustainability and governance. The Chief executive Officer, on the other hand, attended two meetings: the first, held on 18 March 2021, discussed the Company's share price performance and analysts' reports, whilst the second examined potential financial transactions involving the Company.

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 head of the HSE Quality and Risks department.

The average duration of the meetings was approximately 165 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 2021. 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, in accordance with the schedule drawn up and approved by the Committee at a meeting on 17 January 2022.

During the current year, up to the date of approval of this Report, the Committee has held 4 meetings. The meeting held on 15 March 2022, in preparation for the Board of Directors' approval of the financial statements, was also attended by the Chairwoman of the Board of Directors, Valentina Bosetti.

The participation of each member of the current Committee at meetings held during 2021 is shown in the attached Table 3 (art. 123-*bis*, paragraph 2(d) of the CLF).

As regards the activities carried out during 2021, 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 2021, 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;
- analysed the contents of the letter from the Chairman of the Corporate Governance Committee and the 2020 Report. In particular, the Committee discussed: (i) the state of corporate governance of listed companies; (ii) the effects of the recommendations sent in 2019; (iii) the main areas of improvement identified in 2020; and (iv) the recommendations for 2021;

- the Committee was kept constantly informed of financial transactions, both before and after they have taken place, in order to provide an opinion;
- 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 and 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 2020 and the first half of 2021;
- 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 as well as a constant update on the activities to adapt the Company to the new Corporate Governance Code;
- since the resignation of the Head of Internal Audit, has been kept about informed of the process for selecting a replacement 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 Audit department;
- received extensive information on Terna’s share performance and analyst reports;
- reviewed risk management profiles with particular reference to cyber security;
- examined the proposed amendments to the Committee’s Terms of Reference in order to implement the Recommendations of the Corporate Governance Code and the best practices already adopted by the Company, as well as to include the organisational changes affecting all the Committees with a view to standardising their operating procedures. The proposed amendments to the Committee’s Terms of Reference were approved by the Board of Directors on 15 December 2021;
- received extensive information on the assessments regarding the adequacy of the Italian electricity system in the winter of 2021-2022;
- examined the process regarding the drafting of Terna’s Engagement Policy and expressed its positive opinion on its adoption;
- received information regarding the increase in the membership of Terna’s Board Committees and the appointment of new members, subject to approval by the Board of Directors;
- analysed the content of the Audit department’s mission as presented by the Head of the Audit department, expressing a positive opinion on it;
- examined the draft Sustainability Policy prepared by the Company, expressing a positive opinion on it;
- received information on the main recommendations contained in the letter from the Chairman of the Corporate Governance Committee, Professor Lucia Calvosa, sent annually to the chairs of boards of directors together with the “Report on the evolution of corporate governance in listed companies for 2021”; and

- lastly, it examined the draft document containing proposals for defining the quantitative and qualitative criteria for assessing the independence of directors, statutory auditors and their close family members pursuant to article 2, recommendation 7 of the Corporate Governance Code”.

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.

On the occasion of approval of the financial reports as at 31 December 2020 and 30 June 2021, the Committee reported to the Board on its activities and the adequacy of the internal control and risk management system.

In 2022, the Committee has:

- obtained and examined the report of Terna’s Supervisory Board pursuant to Legislative Decree 231/01 regarding the activities carried out in the second half of 2021;
- 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;
- received extensive information on the activities involved in updating the materiality matrix and in preparing the consolidated non-financial statement, including for the purposes of the internal control and risk management system;
- examined and discussed the contents of the document containing the quantitative and qualitative criteria for assessing the independence of Directors, Statutory Auditors and their close family members, pursuant to Recommendation 7 of the Corporate Governance Code, issuing a favourable opinion;
- following the retirement of the Chief Risk Officer, was kept constantly informed on the selection process for a replacement and expressed its opinion on the appointment of the candidate proposed by the Chief Executive Officer as Director with responsibility for the Internal Control and Risk Management System, as defined by the previous Corporate Governance Code;
- examined the 2022-2024 Audit Plan and received an illustration of the final report on the 2021-2022 Audit Plan;
- 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 17 March 2022, on the occasion of the approval of the financial report for the year ended 31 December 2021, the Committee reported to the Board of Directors on its activities and the adequacy of the internal control and risk management system.

At its meeting of 23 February 2022, 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. At the meeting of 17 March 2022, the Board of Directors decided to assign the Committee a specific budget in accordance with the Committee’s Terms of Reference.

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 then applicable);
- 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 then applicable 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. In 2021, the Company began updating the guidelines in the “Terna Group’s Internal Control and Risk Management System” in order to align the provisions contained therein with the recommendations of the Corporate Governance Code.

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 Director with responsibility 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, the pursuit of sustainable success 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, on September 23, 2021, the “Risk Management in Terna” procedure was adopted, which defines Terna’s risk management model and its functioning. Such 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 ICRMS 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. 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 and, more recently, on 23 February 2022), 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:

- a Cyber Security Governance model that has made it possible to identify and keep Top Cyber Risks under control, paying constant attention to new cyber threats with Threat Modeling activities and adhering to sector regulatory compliance (Network & Information Security - NIS, National Cyber Security Perimeter - PSNC, Privacy with the General Data Protection Regulation - GDPR). This model is based on a constantly evolving risk analysis methodology, guidelines and operating procedures, based on national and international standards (including: NIST, National Framework for Cybersecurity and Data Protection, ISO 27001) and Security by Design principles (Defence in Depth, Need to Know, etc.);
- a nerve center of cyber event management with the Computer Emergency Readiness Team (“Terna-CERT”), which as of January 1, 2021 operates within Terna’s newly established Cyber Defense Center. This structure ensures the management of Cyber Security platforms, the centralised real-time monitoring of the Group’s security and the preventive and reactive monitoring of potential cyber threats. It is also focused on Info Sharing and Threat Intelligence processes in line with the provisions of Directive (EU) 2016/1148 on the security of networks and information systems in the Union (“NIS Directive”), specifically in collaboration primarily with the Agency for National Cybersecurity (ACN), the Computer Security Incident Response Team (CSIRT) Italy and the National Anti-Cyber Crime Center for the Protection of Critical Infrastructure (CNAIPIC);
- 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. A further element of control developed relates to the risk-based analysis of the third parties with which Terna interfaces, with a view to curbing reputational risks arising from purchasing and selling transactions with them, by monitoring their reliability from an operating and financial point of view, international restrictive measures and morality, and paying special attention to anti-money laundering and anti-corruption indicators. Moreover, as confirmation of the continuous commitment to the fight against corruption, in 2016 Terna adhered on a voluntary basis to the international standard ISO 37001:2016 - “Anti-bribery management systems” certifying its Anti-Corruption Management System in January 2017 and becoming the first Group in Italy to have received this certification. 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. In addition, a specific guideline was published on 10 March 2022, entitled “Conflict of interest” and addressed to all Terna Group personnel, designed to define and regulate situations of actual or potential conflict of interest in order to guarantee the highest standards of transparency, loyalty and integrity in the application and implementation of Terna’s Code of Ethics. In fact, from a compliance point of view, situations of conflict of interest may well facilitate or encourage the commission of crimes that are relevant for the purposes of the entity’s administrative liability for crimes pursuant to Legislative Decree 231/2001, first and foremost corruption. The document regulates, by means of guiding principles and practical examples, all those typical situations in which the actions or the judgement of employees may be improperly influenced, thus compromising the objective fulfilment of their duties and professional responsibilities towards the Company. On the basis of the Parent Company’s guidelines, the foreign subsidiaries have also adopted: a “Global Compliance Program”, recently updated on 18 December 2019 – which 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. This Policy, adopted in 2016 and updated in December 2018, 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, from the investigation conducted by the Audit department to the final decision on the management and filing of the reports by the Ethics Committee. During these phases, 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 17 March 2022, in accordance with the opinion provided by the Audit, Risk, Corporate Governance and Sustainability Committee on the basis of the analyses carried out during 2021 and on approving the financial statements for 2021, the Board of Directors 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 (art. 6, Recommendation 33(a) 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).

Chief Executive Officer

Terna’s Chief Executive Officer, in his role as “Director with responsibility for the Internal Control and Risk Management System” following his appointment to this role by the Board of Directors on May 18, 2020 pursuant to the Corporate Governance Code in force at the time, is responsible for establishing and maintaining the “Terna Group’s Internal Control and Risk Management System”. In particular, as provided for by the Corporate Governance Code, the Chief Executive Officer:

- a) identifies the main corporate risks, taking into account the nature of the activities carried out by the Company and its subsidiaries, and periodically submits them to the Board of Directors for its review (article 6, Recommendation 34(a) of the Corporate Governance Code);
- b) follows the guidelines set out by the Board of Directors, overseeing the design, implementation and management of the internal control and risk management system and constantly checking its adequacy and effectiveness, as well as adapting it to the dynamics of the operating conditions and the legislative and regulatory framework (article 6, Recommendation 34(b) of the Corporate Governance Code);
- c) may instruct the 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 (article 6, Recommendation 34(c) of the Corporate Governance Code);
- d) reports promptly to the Audit, Risk, Corporate Governance and Sustainability Committee on any problems or critical issues that have emerged, or of which he has become aware in discharging his duties, enabling the committee to take any necessary action (article 6, Recommendation 34(d) 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.

More specifically, in performing these activities during 2021, 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 Company’s operating environment.

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 with the prior approval of the Audit, Risk, Corporate Governance and Sustainability Committee (article 7, Recommendation 33 of the *Corporate Governance Code*).

The Head of Internal Audit is assigned the tasks indicated in the Corporate Governance Code (article 6 recommendation 36 of the Corporate Governance Code) and is not assigned any operational areas; he reports hierarchically to the Board of Directors (article 7, recommendation 36 of the Corporate Governance Code), as represented by the Chairwoman of the Board of Directors, and functionally to the Chief Executive Officer, who is responsible for establishing and maintaining 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 (article 6, recommendation 33 letter b 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.

In the first quarter of 2021, following the resignation of the former Head of Internal Audit, the Company entrusted the role of Head of Internal Audit to the Chairwoman of the Board of Directors of Terna S.p.A., Prof. 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. She remained in the position until 31 March 2021.

In a resolution dated 17 February 2021, and with effect from 1 April 2021, Terna S.p.A.’s Board of Directors appointed Nicoletta Buonomo, a Terna S.p.A. executive who until then was Head of Administration, Financial Reporting and Tax, as Head of Internal Audit for the Terna Group.

In implementation of the Corporate Governance Code (art. 6, Recommendation 33), the Board has also tasked the Chairwoman and the Chief Executive Officer with ensuring that the Head of Internal Audit is provided with adequate resources to carry out her duties.

The Head of Internal Audit has direct access to all information relevant to the performance of her duties (article 7, Recommendation 36 of the Corporate Governance Code).

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 (article 6, Recommendation 36(a) 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 (article 6, Recommendation 36(b) of the Corporate Governance Code);
- promptly reports on particularly important events (article 6, Recommendation 36(d) 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 "Director with responsibility for the Internal Control and Risk Management System" (article 6, Recommendation 36(d) of the Corporate Governance Code);
- oversees, as part of the audit plan, the reliability of information systems, including accounting systems (article 6, Recommendation 36(e) 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 "Director with responsibility for the Internal Control and Risk Management System" (article 6, Recommendation 33(c) of the Corporate Governance Code). For the year April 2021 – March 2022, the work plan was approved by the Board of Directors on 24 March 2021, with the approval of the Audit, Risk, Corporate Governance and Sustainability Committee, after consultation with the Board of Statutory Auditors and the "Director with responsibility for the Internal Control and Risk Management System". On 23 February 2022, Terna's Board of Directors, after consultation with the Audit, Risk, Corporate Governance and Sustainability Committee, approved the Group's 2022-2024 Audit Plan, which outlines the audit activities that will be carried out by the Audit department over the three-year period 2022-2024.

The document, drafted by the Audit department, was developed on the basis of a new three-year methodological assessment and prioritisation approach (Audit Universe 2022/2024), starting from a systematic analysis of the results of the Risk Assessment, associated with the related operational processes and taking into account external sources (e.g., ARERA's regulatory framework) and internal sources (e.g., the results of previous audits). The Plan also takes into account the results of the Survey on the Internal Control System, requests from senior management and the results of the induction sessions carried out by the Board of Directors.

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 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 (article 6, Recommendation 34(c) 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 and the Chief Executive Officer.

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 2021, 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: investment activities, construction site safety and compliance, Tamini service process, Innovation process analysis, insurance, GDPR implementation, Global Compact, Brugg non-financial statement, the management of temporary consortia, generation plant availability.

Continuous auditing activities included: the award of contracts and consultancy services, checks on the Impartiality Model, quality of service, compliance with Renewal Plans, administrative and accounting analyses, the physical security of stations, connections to the National Transmission Grid, and human rights due diligence.

Activities were also carried out to monitor the implementation of Covid-19 protocols at the Company. 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 public and private tenders, management of relations with the Public Administration, staff training under Consolidated Law 81/08, expropriations and easements, audits by the Public Administration, accounting and tax filings, personnel selection and recruiting and intercompany transactions.

In 2020, the Audit department implemented a system (Power BI) to more accurately monitor improvement actions that emerge during audit activities, monitoring their progress through meetings with departmental focal points, the periodic sending of reminders and specific meetings with issue owners, and active management of changes in ownership following organisational changes.

Analysis of reports on the Code of Ethics received through the Whistleblowing portal and by e-mail or post has been carried out to support the Ethics Committee.

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 Enterprise Development Committee, the Ethics Committee and the meetings of the Top Program Steering Committee.

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 Code of Ethics, which was approved by the Board of Directors on 21 December 2006, is Terna's constitutional charter, which 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. In this sense, the Code of Ethics explicitly recalls the 10 principles on human rights, labour, the environment and the fight against corruption of the Global Compact, the United Nations multi-stakeholder network, which represents the most prestigious expression of this vision, which Terna has embraced 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 Non-financial statement.

The Code of Ethics is addressed to directors, employees and all those who collaborate and work in the name and on behalf of Terna or who in any way contribute to creating value for the Group, and its contents are promoted throughout the company, including through specific training activities.

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, and currently are 5.



Terna's Code of Ethics is available on the Terna website: <https://www.terna.it/it/Governance/etica-impresa/codice-etico>, sub: <https://download.terna.it/terna/0000/0063/62.pdf> e, nella traduzione inglese, sub <http://download.terna.it/terna/0000/0054/05.pdf>.

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.

Eventually, 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 157 of 19 December 2019 relating to the "Conversion into law, with amendments, of Law Decree 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-*quinesdecies*, 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 constant maintenance of the 231 Model saw, during 2021, its overall revision from an approach based on categories of offence to one based on processes. This change is designed to ensure greater efficiency for the second and third level checks carried out on behalf of the Supervisory Board by the Group's departments. Moreover, this approach allows a greater understanding of the 231 Model by employees, consistent with a corporate organisation naturally structured according to processes and not by categories of offence.

In addition, the current 231 Model, approved on 30 November 2021, has been adapted to the recent regulatory changes introduced by Legislative Decree 75/2020, enacted to implement Directive (EU) 2017/1371 Protection of Financial Interests (i. e., the PIF Directive), as well as Law Decree 105 of 21 September 2019 on the subject of the national cyber security perimeter, converted with amendments by Law 133 of 18 November 2019, and the related Cabinet Office implementing decree dated 15 June 2021, which identified the categories of ICT goods, systems and services to be used in the national cyber security perimeter. In particular, after the usual risk assessment and gap analysis activities, the update concerned the predicate offences introduced into the 231 Decree:

- by Legislative Decree 75/2020, which came into force on 30 July 2020, such as: false declaration (article 4 of Legislative Decree 74/2000) as part of cross-border VAT fraud exceeding €10 million; omitted declaration (article 5 of Legislative Decree 74/2000) as part of cross-border VAT fraud exceeding €10 million; undue set-off (article 10-*quater* of Legislative Decree 74/2000) as part of cross-border VAT fraud exceeding €10 million; fraud in public supply contracts (article 356 of the Criminal Code); fraud to the detriment of the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development (article 2 of Law 898/1986); smuggling (Presidential Decree 436/1986); embezzlement (article 314, paragraph 1 of the Criminal Code); embezzlement determined by the error of others (article 316 of the Criminal Code) and abuse of office (article 323 of the Criminal Code), if committed to the detriment of the financial interests of the European Union.
- by Law Decree 105 of 21 September 2019 (converted by Law 133/2019) in particular in the context of article 24-*bis*, para. 3 of Decree 231 (Computer crimes and unlawful processing of data) concerning the violation of the new rules and procedures introduced. In this regard, an ad hoc risk area has been set up within the ICT process.

The Model is currently organised into:

- a "General Part", which, among other things, describes the content of the 231 Decree, the objectives and functioning of the 231 Model, the tasks of the Supervisory Board (the body appointed by the Board of Directors pursuant to article 6 of Decree 231 and called upon to supervise the functioning of and compliance with the Model, its actual effectiveness and the need for updating it), information flows and the related sanctions;
- a special section in which the following sensitive processes have been identified:
 1. Human Resources
 2. Legal and Corporate Affairs
 3. Administration, Budget and Tax
 4. Finance and M&A
 5. ICT
 6. Purchasing and Procurement
 7. Dispatching and Conduction
 8. Commercial
 9. Network Planning, Design and Development
 10. Plant Construction and Asset Management
 11. Regulatory Affairs
 12. Communication and Institutional Relations
 13. HSE
 14. Security and General Services.

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.



Reports of violations of Model 231 may be sent to the Supervisory Board directly from the website www.terna.it or by e-mail to OdV_Terna@terna.it or by post.

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, an ad hoc process-based training campaign was conducted on tax fraud in 2021, 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 memoranda on the main developments 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 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 by resolution of the Board of Directors of Terna S.p.A. on 29 July 2021, has a collegial form and is composed of the following three members, two of whom are external: Bruno Assumma, who acts as Chairman, Massimo Dinoia, and an internal member identified as the Head of Audit, Nicoletta Buonomo, in order to ensure coordination between the various parties involved in the internal control and risk management system (article 6, Recommendation 33(e) of the Corporate Governance Code).

In this regard, it is noted that the Board of Directors, in its meeting of 19 December 2012, taking into account the current legislative and regulatory framework concerning the appointments and powers of the Board of Statutory Auditors, decided not to transfer the functions of the Supervisory Board to this body and to assign these functions to a body specifically set up for this purpose.



For more information, reference should be made to the website www.terna.it – “Business ethics and compliance” section. Terna’s Model 231 can be viewed on the Terna website page <https://www.terna.it/it/Governance/etica-impresa/responsabilita-amministrativa>, in: https://download.terna.it/terna/MOG_Terna_8d9e4df8e67f0f7.pdf while the English version is available at https://download.terna.it/terna/MOG_Terna_8d9e4df8e67f0f7.pdf.

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.

Deloitte & Touche S.p.A. is responsible for auditing Terna S.p.A.'s separate financial statements and the Group's consolidated financial statements as of 31 December 2021, as well as for reviewing the consolidated non-financial statement pursuant to Legislative Decree 254/2016 relating to 2021.

After consulting the Board of Statutory Auditors, the Board of Directors examined the results presented on 8 April 2021 by the independent auditors in the additional report addressed to the Board of Statutory Auditors, as provided for in art. 6, Recommendation 33 of the Corporate Governance Code.

In 2021, 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 Deloitte & Touche S.p.A. and its associates were subjected to prior approval by the Board of Statutory Auditors in its capacity as the Internal Control and Audit Committee.

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 "Director with responsibility for the Internal Control and Risk Management System", governed by the Corporate Governance Code then applicable, 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 “Director with responsibility 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 2021, in continuity with the activities carried out in previous years, the Manager Responsible for Financial Reporting revised:

- the reporting scope;
- 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 and attested, with a specific report on the separate financial statements, the consolidated financial statements and the condensed half-year financial statements, the adequacy and effective application of administrative and accounting procedures, as well as the consistency of the documents with the accounting records and their suitability to provide a true and fair view of the financial condition, results of operations and cash flows of Terna and the companies included in the scope of consolidation.

In order to support the Manager Responsible for Financial Reporting and the administrative bodies delegated to issue the attestation, the internal “chain” attestation process was followed for the assessments of the in-scope control system.

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 and their homogeneity for the purposes of preparing the consolidated financial statements (article 6, Recommendation 35(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 (“ICRMS”), 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 (Principle XX). In accordance with art. 6, Recommendation 37 of the Corporate Governance Code and as provided for in the Terms of Reference of the Board of Statutory Auditors (approved by the Board of Statutory Auditors in its meeting of 26 July 2021 and amended in the subsequent meeting of 15 February 2021), the Board of Statutory Auditors and the Audit, Risk, Corporate Governance and Sustainability Committee promptly exchange information relevant to the performance of their respective duties. The Chairman of the Board of Statutory Auditors, or another member designated by him, takes part in the meetings of the Audit, Risk, Corporate Governance and Sustainability Committee.

The Chairman of the Board of Statutory Auditors, or another member designated by him, also attends the meetings of Terna’s Remuneration Committee, Nominations Committee and Related Party Transactions Committee. In any case, all members of the Board of Statutory Auditors may attend the meetings of the aforementioned Committees.

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.

Terna has established a Compliance department. This department, which from 1 January 2022 reports directly to the Head of Corporate Affairs, supports the corporate departments in ensuring that the Company’s activities comply with current legislation on the administrative liability of entities, compliance, antitrust, anti-corruption, anti-money laundering, whistleblowing, privacy and trade compliance, health and safety at work, and environmental protection, and provides assistance and advice to the corporate departments responsible for the proper interpretation of these regulations; it supports the activities of the Ethics Committee, with which Group companies and business partners must comply; it promotes the adoption of Compliance Programmes and verifies, within the scope of its responsibilities, the consistency in terms of regulatory compliance and the applicability of the set of internal procedures to Group companies.

In particular, compliance refers to the following obligations:

Legislative Decree 231 of 8 June 2001 (the “231 Decree”), laying down the “Rules on the administrative liability of legal persons, companies and associations, including those without legal personality, pursuant to article 11 of Law 300 of 29 September 2000”, which introduces into Italian law the administrative liability of entities for certain types of offences committed in the interest or for the benefit of the entity by natural persons qualified by the position held within the Company;

rules of competition within the Group, in compliance with (i) Law 287 of 10 October 1990 - article 2 (prohibition of unlawful agreements between competing companies); article 3 (prohibition of abusive conduct of a dominant position); article 8, paragraphs 2, 2-bis, 2-ter and 2-quater (regulation of activities carried out by companies operating under a legal monopoly and the obligation of corporate separation between activities carried out exclusively and activities performed in competition); (ii) Presidential Decree 217 of 30 April 1998 - Regulation on the preliminary investigation procedures of the Competition and Markets Authority; (iii) the Treaty on the Functioning of the European Union - 2012/C 326/01 - article 101 (prohibition of unlawful agreements between competitors of European relevance) and article 102 (prohibition of abuse of dominant position of European relevance);

anti-money laundering legislation with Legislative Decree 231/2007, recently updated with the introduction of Legislative Decree 125/2019 which aligns the legislation with the provisions of the European Directive;

whistleblowing regulations: Law 179/2017 and the monitoring of the implementation activities by national legislation of the provisions contained in Directive No. 2019/1937;

foreign compliance programmes: Global Compliance Program and Local Compliance Program (prevention in the area of corporate liability adapted to local foreign regulations).

Compliance with the main national and international regulations in question is also ensured by setting up interdepartmental working groups in the following areas: (i) **Anti-corruption**; (ii) **Trade Compliance & Export Control**; (iii) **Ownership Unbundling** (also for the purposes of Terna's certification process as a TSO); (iv) **Conflict of Interest** within the Group.

In order to prevent the risk of corruption in the company, an Anti-Bribery Management System was implemented and certified according to ISO 37001:2016 in January 2017, which includes within its scope the activities carried out in Italy for the following companies: Terna, Terna Rete Italia S.p.A., TES S.r.l. and Terna Plus S.r.l..

The main activities conducted for the above-mentioned Management System are: analysis of anti-corruption risk in company processes, internal anti-corruption audits, reporting on System KPIs and external audits by the Certification Body.

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 then applicable. 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 Procedure.

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.

On 15 December 2016, the Board of Directors, based on the positive opinion of the Related Party Transactions Committee, unanimously 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”.

Subsequently, on 26 January 2017, 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 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 the abovementioned Shareholder Rights II Directive.

Therefore, instead of the three-year revision of the document, 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, at its meeting of 9 December 2019, the Committee decided to carry out limited revisions, proposing, in particular, to include a paragraph on administrative sanctions regarding related party transactions. These include art. 192-*quinquies*, introduced by Legislative Decree 49/2019 and amended by Legislative Decree 84 of 14 July 2020 (implementing art. 7 of Law 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. At its meeting of 16 December 2020, the Board of Directors therefore resolved on the amendments to the Procedure, undertaking also to implement a more systematic review of it, in view of the entry into force, on 1 July 2021, of the amendments made by CONSOB to Regulation 17221/2010 by the above Resolution 21624 of 10 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 were also revised in the light of the above-mentioned regulatory changes.

On 10 December 2020, with Resolution 21624, CONSOB amended Regulation 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 included:

- (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.

In view of the entry into force of the new regulations (1 July 2021), the Company has initiated a new process for reviewing the procedural framework.

It should be remembered that, within the current Procedure for Related Party Transactions, pursuant to art. 4 of the 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 the 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 on 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 already regulated 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 provided 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 the Company's Board of Statutory Auditors.

Following the introduction of the new procedures by the CONSOB, the main changes introduced to the Guidelines and to the Operating Instructions concerned:

- the introduction of a subdivision by thresholds, differentiated by the nature of the counterparty, relating to exempt transactions;
- extension of the list of excluded transactions to include transactions decided on by the Company and involving all shareholders on equal terms (including rights issues, full or partial demergers with proportional share allocation, share capital reductions through share redemptions);
- the possibility to make use - without any expense limit - of independent experts, including those appointed by Terna, subject to verification of the related independence and provided that the appointment expressly envisages that the expert also specifically assist the Related Party Transactions Committee in the performance of its duties pursuant to the Guidelines;

- as regards the Directors involved, their obligation to inform the Chairwoman of the Board of Directors and the Chairman of the Board of Statutory Auditors, and through them the respective Boards, within two days of receipt of the notice of call of their involvement and refrain from voting on the transaction;
- with regard to information flows, the establishment, on a quarterly basis, of a report on: (i) the application of all cases of exclusion, with the sole exception of low value transactions; (ii) the correct application of the conditions for exemption with reference to material transactions classified as ordinary transactions carried out at arm's length; (iii) the checks and assessments regarding transactions carried out and excluded transactions (except for low value transactions) made to the Chief Executive Officer, the Related Party Transactions Committee and Terna's Board of Statutory Auditors;
- with regard to the mapping of related parties, the provision that such map should be made by using the boundaries drawn by the Administration, Finance and Control department, which already has it available for accounting purposes; a specific IT tool has been implemented in collaboration with Computershare S.p.A., a single shareholder company.

With specific reference to the Operating Instructions, the necessary changes have been made to adapt them to the new version of the Guidelines. The document is designed to ensure that transactions with related parties within the Company can be rapidly identified and then submitted to the Related Party Transactions Committee. In this sense, the role of the Advisory Board, already indicated in the previous version as a body supporting the Related Party Transactions Committee, has been specified. In the Operating Instructions, in paragraph 3 entitled "Preliminary and research role of the Advisory Board", the activity of the Advisory Board was defined as "functional to ensuring the adequate and timely involvement of the Committee".

Both documents were submitted to the Related Party Transactions Committee for its prior review. The Committee held a meeting on 7 June 2021 and one on 14 June 2021, issuing on the latter date a positive opinion (on the procedure and on the operating instructions) in view of the Board of Directors' meeting of 16 June 2021, where the new Guidelines, "Procedure for Related Party Transactions", were approved and the Chief Executive Officer was instructed, with the express authority to sub-delegate, to update the related Operating Instructions.



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

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 and its membership was subsequently increased, as specified in the following notes, by the Board of Directors on 14 October 2021.

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 of both material and less material transactions, 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, as well as in relation to any proposals to amend the Procedure adopted by Terna. Moreover, by virtue of the new application procedure adopted on the matter, the Committee receives periodic reports also on excluded or less material transactions.

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 terms of reference, the Related Party Transactions Committee's terms of reference underwent a specific review in 2021, during the Company's process of adaptation to the new recommendations of the Corporate Governance Code.

On 15 December 2021, the Board of Directors therefore resolved on the revision of the Terms of Reference. The draft terms of reference for the Related Party Transactions Committee were submitted for examination in advance by the Committee, which, at the meeting held on 9 December 2021, expressed a favourable opinion on the proposed amendments.

The Company's budget provides adequate financial resources to fund the work of the Related Party Transactions Committee. The Chairperson of the Committee, with the assistance of the Secretary of the Committee and in coordination with the Secretariat of the Board of Directors, may from time to time invite to the meetings, with reference to the Transactions on the agenda, the Chairwoman of the Board of Directors, the Chief Executive Officer, other members of the Board of Directors as well as other members of Terna's organisation or other persons whose presence may be useful for the better performance of the Committee's functions. At the invitation of the Chairman, 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. On 14 October 2021, the Board of Directors resolved to increase the number of members of each Board committee to four. As of the aforementioned date of 14 October 2021, Prof. Giuseppe Ferri became a member of the Related Party Transactions Committee. The Committee therefore consists of 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	CGC
	Marco Giorgino	Chairman	●	●
	Paola Giannotti	Member	●	●
	Ernesto Carbone	Member	●	●
	Giuseppe Ferri	Member	●	●

During 2021, the Related Party Transactions Committee held 4 meetings, with an average duration of approximately 69 minutes, characterised by the regular participation of all members (100%).

The participation of each member of the Committee at meetings held during 2021 is shown in Table 3 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 2021.

Up to the date of approval of this Report, the Committee has not held any meeting. 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 (article 1, recommendation 1, paragraph e 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 provisions of the previous and the current Corporate Governance Code, as well as 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 replacement of 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 oversight bodies of listed companies, as per art. 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, 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 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 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.

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 then applicable, 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)¹⁸ 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 less represented gender.

¹⁸ 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 [Governance – 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.

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, Italy's National Academy of Accountants and the Turin branch of the Institute of Chartered 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.



**MARIO MATTEO
BUSSO**

**Chairman of the Board
of Statutory Auditors**

Born in Turin
on 1 March 1951

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 a member of the Potenza branch of the Institute of Chartered Accountants and enrolled on 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, based in Rome, and, since January 2022, a member of the Board of Auditors of ASL ROMA1. 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).



VINCENZO SIMONE
Standing Auditors

Born in Padula (SA) on
20 November 1960



RAFFAELLA FANTINI
Standing Auditor

Born in Florence
on 20 February 1969

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 on 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 the boards of statutory auditors of social security institutions. She has served as a statutory auditor at banks. During her career, she has gained experience in the supervision and audit of companies; she has prepared expert reports and valuations of companies and business units, and has gained experience of corporate actions (transformations, mergers, demergers, contributions and liquidations).

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.

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-*quinqüesdecies* 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 2021, the Board of Statutory Auditors held a total of 13 meetings - including those held before the re-election of the Board of Statutory Auditors - lasting on average approximately 2 hours and 48 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 to the Board of Statutory Auditors.

In the current year (2022), 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 statement.

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 then applicable). The outcome of this assessment was communicated in a press release on 18 May 2020.

This assessment was confirmed recently at the meeting of 15 March 2022. As for the Board of Directors, the continued state of independence of the auditors was verified in light of the Corporate Governance Code.

Overall, in 2021 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 Deloitte & Touche S.p.A. and its associates.

In 2021, the Board of Statutory Auditors adopted Terms of Reference to govern its functioning and activities. These Terms of Reference were subsequently updated at the meeting of 15 February 2022 to incorporate the qualitative and quantitative criteria of independence pursuant to art. 2, Recommendation 7 of the Corporate Governance Code, adopted by Terna in the Board of Directors' meeting of 26 January 2022.

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 2021, 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 the meetings of the Nominations Committee, the Remuneration Committee and the Related Party Transactions Committee. As anticipated, the Board of Statutory Auditors and the Audit, Risk, Corporate Governance and Sustainability Committee also exchange information on a timely basis in order to carry out their respective tasks.

In carrying out its activity, the Board of Statutory Auditors worked closely with the 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" (article 6, recommendation 36(d)) and 37 of the Corporate Governance Code), as well as 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 Warning Notice 8/20 of 16 July 2020 on financial reporting, the Board of Statutory Auditors verified the completeness of the disclosures provided by the Company in its financial reports.

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 article 3, Recommendation 12(d) of the Corporate Governance Code, reference should be made to the description provided above in the subsection of Section IV, "Composition", in the paragraph on the "Induction programme".

Review of the Board of Statutory Auditors

Terna's Board of Statutory Auditors, assisted by the consulting firm, Mercer, carried out its second annual board review for 2021, as recommended by the Corporate Governance Code 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 held on 15 February 2022. 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.

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 on 23 February 2022.

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 the members of the Board of Statutory Auditors, insofar as they are compatible, in particular with regard to age, gender, seniority and professional experience.

To ensure implementation, the Policy was adopted during the nomination of the oversight body, which took place on 18 May 2020, and will be applied during the upcoming nomination and re-election processes. It is published on the Company's website www.terna.it, all'interno della Section *Governance*.



Independence

Article 2, Recommendation 9 of the Corporate Governance Code recommends that all members of the oversight body meet the requirements of independence envisaged for Directors pursuant to art. 2, *Recommendation 7* of the same Code.

As noted above in Section IV, in 2021, the Company updated its "Application criteria and procedure for assessing independence", broadening its application to include members of the oversight body.

In the meeting on 15 February 2022, the Board of Statutory Auditors thus adopted the procedure and included it in the "Terms of Reference of the Board of Statutory Auditors of Terna S.p.A.". In the same meeting, the Board of Statutory Auditors assessed the existence of the independence requirements for each of its members, also in light of the new criteria. In carrying out the assessment, the Board considered all the information provided by each member, examining all the circumstances that could appear to compromise the independence called for by the CLF and by the Code and applied all of the criteria provided for by the Code regarding the independence of Directors (art. 2, *Recommendation 9*).

Remuneration

Remuneration paid to the Chairman and members of the Board of Statutory Auditors was determined by the General Shareholders' Meeting of 18 May 2020.

Partly in consideration of the constant commitment shown by the entire Board of Statutory Auditors and its members' work on Board committees, the Company initiated a benchmarking activity in order to determine the average remuneration received by statutory auditors and chairs at peer companies.

Management of interests

The Corporate Governance Code recommends that any member of the oversight body who, either on his/her own behalf or on behalf of third parties, has an interest in a specific company transaction, promptly and fully inform the other members of the same body and the chair of the management body regarding the nature, terms, origin and extent of the interest.

In order to reinforce and consolidate this principle, the Board of Statutory Auditors has enshrined it in the above cited "Terms of Reference of the Board of Statutory Auditors of Terna S.p.A.", amended during the meeting held on 15 February 2022.

In 2021 and up to the date of approval of this Report, there have been no instances of interest on the part of any member of the Board of Statutory Auditors with respect to transactions carried out by Terna or its subsidiaries.

Section XV

Investor relations

Since its listing on the stock exchange, the Company has deemed that it 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 out 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 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, headed by Emilia Pucci (Viale Egidio Galbani, 70, 00156 Rome - tel. 06 +39 06 8313 8573- e-mail: azionisti.retail@terna.it) - (art. 1, Principle IV 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 adopted an Engagement Policy in order to reinforce dialogue with its shareholders and stakeholders, in line with that recommended by art. 1, Principle IV of the Corporate Governance Code.

One of the most important developments in the new Corporate Governance Code is the recommendation to the Board of Directors to promote, by taking appropriate measures, dialogue with the Company’s shareholders and other significant stakeholders in order to help raise the level of transparency and encourage the creation of long-term value.

In implementation of this policy, at the meeting held on 14 October 2021, the Company’s Board of Directors adopted, at the proposal of the Chairwoman, Valentina Bosetti, the “*Policy for engagement with the generality of shareholders and other stakeholders of Terna S.p.A.*”, available on the company website www.terna.it in the Governance Section.



The Policy has been drawn up taking into account the guidelines published both by Assonime, in the document “*Principles for Listed Companies’ Dialogue with Investors*”, and by Assogestioni, in the document “*ITALIAN Shareholder Director Exchange – Italian Principles of S-D engagement*”, as well as assessments of the policies adopted by other issuers.

The “Policy for engagement with the generality of shareholders and other stakeholders of Terna S.p.A.” (hereinafter also the “Policy” or “Engagement Policy”) pursues the following objectives:

- to identify and describe the ordinary channels of direct and continuous communication and information between the Company, shareholders and other stakeholders, managed by the competent corporate departments or carried out during General Meetings;
- to promote, among the current ordinary forms of engagement, a report to the Board of Directors on the main communication and information activities with major shareholders and institutional investors;
- to introduce and regulate Shareholder-Director Engagement, consisting of direct dialogue between Directors and Interested Stakeholders (i.e. shareholders, current and potential Institutional the Company’s shareholders, current and potential Institutional Investors, as well as other persons who have an interest in the shares issued by the Company), interested in such engagement, following the introduction of procedures on how to carry it out, its scope, the criteria for assessing requests, as well as the related internal governance processes and procedures for participation and internal reporting.

The Policy is divided into two parts. The first is dedicated to ordinary forms of dialogue, generally carried out and managed by the competent corporate departments, which represent the first point of contact between the Company and the market; within this section, an activity involving reports to the Board of Directors on the results of the dialogue conducted with the main shareholders and institutional investors has been introduced. The second part of the Policy is dedicated to Shareholder-Director Engagement, which can be activated, through an escalation mechanism, designed to to promote the earlier ordinary forms of dialogue have been tried (i.e., conference calls, road shows, other forms of contact with the financial community, the possibility of submitting questions during General Meetings or usual points of contact with the Company).

Subjects **entitled to** activate the Policy include current and potential shareholders and institutional investors, as well as other stakeholders with interests in the shares issued by the Company.

As regards identification of the parties involved and their respective corporate roles, the Policy assigns the **Board of Directors** the role of guiding, overseeing and monitoring application of the Policy. The task of managing engagement is split between the Chief Executive Officer and the Chairwoman, in accordance with their respective roles.

The **Chief Executive Officer**, with the support of the CFO and the IR Department, guarantees the dialogue with the Interested Stakeholders as well as the application of the Policy, and is responsible for matters falling within the scope of the executive powers entrusted to him or her, and, more generally, for the Company’s business and sustainability; the **Chairwoman**, with the support of the Company Secretariat, is responsible for matters of corporate governance.

In order to ensure dialogue with stakeholders, the Policy envisages the potential involvement of one or more Directors who have the most appropriate knowledge and expertise to provide information on matters relating to *Shareholder-Director Engagement*. Moreover, it is possible to ask the Board of Directors to assess whether or not it is in the Company’s interest to engage with one or more stakeholders.

The **matters** relating to *Shareholder-Director Engagement* correspond to those falling within the scope of responsibility entrusted to the Board of Directors and/or Board Committees. A request for Shareholder-Director Engagement on the part of a stakeholder must be submitted in writing to the IR Department at investor.relations@terna.it. The request must include the specific issues to be raised, the reasons for which activation of the *Shareholder-Director Engagement* is deemed necessary, the manner in which the engagement is to be conducted, the parties who, on behalf of the applicant, would take part and the relative timing. The IR Department, together with the Company Secretariat and any other corporate departments involved, determine whether or not the request is relevant in terms of the application of the Policy. Should the request be deemed relevant, it is then submitted to the Chief Executive Officer. In accordance with the provisions of the Policy, the Chief Executive Officer, with the support of the CFO, the IR Department and possibly other competent departments, therein including the Company Secretariat, assesses whether to accept the request for *Shareholder-Director Engagement*. If so, then the CEO decides on the related procedures (i.e., *one-way*, *two-way*, bilateral or collective) and the conditions for conducting the engagement, taking into account several factors, including, but not limited to:

- a. compliance with any relevant statutory, regulatory and/or self-regulatory limitations;
- b. the appropriateness and relevance of the issues to be dealt with;
- c. previous activation, regarding the same issues, of other forms of engagement;
- d. the potential interest in dealing with the issue for a large number of stakeholders;
- e. the nature of the stakeholders involved in the engagement;
- f. the size and nature of the investment in the Company;
- g. the outcome of previous voting at General Meetings;
- h. any activism undertaken by stakeholders involved in the engagement and/or the presence of any actual or potential conflicts of interest;
- i. the actual relevance of the engagement and its foreseeable usefulness, including within a long-term value creation perspective;
- j. the foreseeable approach of stakeholders to the matters relating to the engagement;
- k. the potential exposure of the Company to any forms of activism.

The Chief Executive Officer may decide to involve other departments with the knowledge and expertise best suited to providing information on the matter forming the focus of the Shareholder-Director Engagement.

The Policy provides that, when engagement meetings are held, the IR Department or the Company Secretariat, with regard to the meetings in which they are respectively involved, and with support from the heads of the competent corporate departments present, are responsible for preparing brief reports on the participants, the issues raised, the answers given and any proposals and/or initiatives put forward.

The Chairwoman ensures that the Board of Directors is informed, by the first useful meeting, as to the development and significant content of the engagement activities conducted with all stakeholders, inviting the Chief Executive Officer to report on the outcomes of any engagement activities falling within his or her purview. The Chief Executive Officer, with the support of the CFO and the IR Function as well as other functions from time to time competent, may also propose to one or more stakeholders, engagement meetings, also electronically, about one or more topics of interest for the Company.

Section XVI

General Meetings

Pursuant to art. 11.1 of the Articles of Association, every shareholder having the right to attend a General Meeting has a 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 that 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 designated Representative specific voting instructions, in accordance with art. 135-*undecies* of the CLF, without exercising the "opt-out" provided for in the CLF. Additionally, the Annual General Meeting of 13 May 2011 responded to legislation in force 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.

Pursuant to the last paragraph of art. 11.1 of the Articles of Association, in order to facilitate the collection of proxy votes from shareholders who are employees of the Company and its subsidiaries and who are members of shareholders' associations meeting relative legislative requirements, space to be used for the purposes of communication and the collection of proxies has been made available to these associations, according to the terms and conditions from time to time agreed with their authorised representatives. 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.

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 in implementation of Legislative Decree 27 of 27 January 2010 - provide that only those having the right - pursuant to the legal and regulatory provisions in force – to attend and vote at 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 vote and speak 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 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 of 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.

The Company must receive notices regarding participation from intermediaries 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 a 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 or via postal voting or voting by electronic means.

The right of 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, to add additional items to the agenda, 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. Applicants 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 CONSOB and the Bank of Italy on 13 August 2018".

Shareholders with voting rights may individually submit proposed resolutions for General Meetings.

Additions to 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 by the same deadline as that 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 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 Meetings 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 day 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 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. With the shareholder resolution of 13 May 2011, the text of the adopted "Regulations for Terna S.p.A.'s General Meetings" was amended so 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, additional amendments were introduced in order to better define the scope of certain provisions of the Regulations in the light of experience gained in applying them and to

further ensure the smooth running of General Meetings. The main amendments, which were thoroughly illustrated 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 pose questions regarding agenda items, including prior to the General Meeting.

Specifically, 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 determines beforehand 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 ensure 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 posed by shareholders before the Meeting that were not answered by the Company. Those that have asked to speak may briefly reply.

Though not considered akin to the Articles of Association, the above Regulations are approved by the Ordinary General Meeting under the specific power given to shareholders by said Articles (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”](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. Moreover, in specific reports, the Board provides shareholders with adequate information in a timely manner, so that they can 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.

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 provide their proposal 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 his or her 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 need not be a shareholder, designated by those in attendance at the Chair’s behest 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). Under the law, assistance from the secretary is not necessary if the Chair waives this assistance and the minutes of the General Meeting are prepared by a notary public, even in cases when such it is not required 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, in compliance with the law, assigns the Board of Directors the power to adopt certain resolutions falling 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** “Restriction 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 established by law and applicable in individual cases (art. 13.2 of the Articles of Association). Specifically, 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 the majority required by law, in the presence of unrelated shareholders, as defined by 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 submitted by 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 the exercise of voting rights at General Meetings (as described in the subsection 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 (subsequently amended by Directive (EU) 2019/944) and of Legislative Decree 93 of 1 June 2011, and subject to assessment by ARERA as part of the process 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, or who, directly or indirectly, controls a business 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 set forth 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 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 during 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 2021, the Annual General Meeting was held on 30 April. In view of the ongoing health emergency linked to the Covid-19 pandemic and in response to legislation enacted in order to contain the spread of the disease, the Company elected to take advantage of the option provided for in art. 106, paragraph 4 of Law Decree 18 of 17 March 2020. This meant that attendance of the Annual General Meeting by those with the right to do so could only take place through the representative designated 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, having appropriately nominated the Sole Representative, *Computershare S.p.A.*, to act as its proxy pursuant to art. 135-*novies* of the CLF, or art. 135-*undecies* of the CLF, attendance at the Annual General Meeting was only permitted via the representative.

The outcomes of the General Meetings were promptly communicated to the market (see, in this regard, the press release dated 30 April 2021).

Participants who were present in person at the General Meeting included the Chairwoman, Valentina Bosetti, and the Chief Executive Officer, Stefano Antonio Donnarumma. Other participants who took part via electronic means that ensured identification included the Directors, Alessandra Faella, Valentina Canalini, Giuseppe Ferri, Jean Michel Aubertin, Yunpeng He, Paola Giannotti and Marco Giorgino and the Statutory Auditors, Mario Matteo Busso (Chairman), Raffaella Fantini and Vincenzo Simone.

With reference to regulations governing minority rights and in compliance with the above legislation and regulations applicable to the Company, in 2021, 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 to exercise the rights and prerogatives designed to safeguard the interests of non-controlling shareholders.

Section XVIII

Considerations on the letter dated 3 December 2021 from the Chair of the Corporate Governance Committee

On 6 December 2021, Terna received the customary letter from the Chair of the Italian Corporate Governance Committee therein containing: (i) a summary of the assessments of information disclosed by companies in relation to corporate governance and remuneration published in 2021 and regarding 2020; (ii) the impact of recommendations provided for 2021; (iii) recommendations for reports to be published in 2022.

In addition to providing a snapshot of the governance of issuers in light of the old code, the “Ninth Report on Application of the Corporate Governance Code” offers a first glimpse of the process of alignment with the new recommendations in the Corporate Governance Code.

As is customary, the letter contains recommendations for reports to be published in 2022 and regarding 2021. In line with previous years, it invites issuers to submit the «Committee’s Recommendations for 2022» to examination by the Board of Directors and the competent Board committees and to thoroughly discuss and consider the recommendations during their reviews in order to resolve any shortcomings and pinpoint possible changes to governance arrangements. Finally, it is asked that the letter be forwarded to the chair of the oversight body so that he or she can oversee the concrete application of the recommendations.

In implementation of the recommendations from the Chair of the Corporate Governance Committee, the letter and the “Ninth Report on Application of the Corporate Governance Code” were submitted to the Directors and Statutory Auditors via the Company Secretary on 10 December 2021.

Both documents were previously examined by the Audit, Risk, Corporate Governance and Sustainability Committee on 9 December 2021 and by the Board of Statutory Auditors on the same date.

The documents were analysed during the Board of Directors’ meeting of 15 December 2021 by means of an informative report on governance by Chairwoman. During this meeting, particularly close attention was paid to the Recommendations regarding reports to be published in 2022 and regarding the 2021 financial year.

Based on the Corporate Governance Reports published in 2021, it was shown that almost all of the companies adhering to the Code (89%) had considered the instructions from the Committee in its previous annual letter, declaring that they had taken the Committee’s instructions into account when assessing their degree of compliance. The documentation revealed that approximately half of those companies that published the outcomes of their reviews deemed themselves to be in line with the recommendations set forth in the new Code, though still recognising areas for possible improvement, described below:

- (i) sustainability: companies underlined the need to (a) amend the board’s duties; (b) assign duties to a committee; (c) include sustainability objectives in remuneration policies;
- (ii) the adoption of qualitative and quantitative criteria to assess the significance of relations between a company and its directors: an assessment of the reports published in 2021 found that only one fourth of listed companies report such criteria;
- (iii) information flows;
- (iv) the nomination process for members of the Board of Directors: emphasis was given to the need to set up a nominations committee and for the outgoing board to provide guidance on the most suitable professional profiles for the new board. The importance of board reviews was also highlighted.

The Board meeting also took the opportunity to illustrate the Recommendations for Reports to be published in 2022 and regarding 2021. These included:

- sustainable success: the Committee asks that the Report on Corporate Governance present adequate and concise information on the means employed to pursue sustainable success and the approach adopted to promote dialogue with key stakeholders. The Committee likewise requests the inclusion of concise information regarding a company's engagement policy, whilst still recognising that its publication in full would be opportune;
- the assessment of independence: the Committee requests that corporate governance reports include the criteria utilised to assess the significance of professional, commercial and financial relationships and of supplemental remuneration including with regard to the chair of the board, if this has been assessed independently;
- information provided prior to board meetings: the Committee invites boards and committees to set clear and appropriate deadlines for the provision of documentation, clearly disclosing such deadlines and their effective application in corporate governance reports. The Committee also requests that boards not provide for exemptions merely for reasons of confidentiality;
- the nomination and succession of directors: the Committee invites outgoing board of directors to express, with a view to their re-election, guidance on the optimal composition of the board, bearing in mind review findings. Moreover, the Committee also asks that those presenting a slate provide adequate information on how well the slate matches the criteria given by the outgoing board and to indicate the individual proposed as chair. This last recommendation is applicable only to persons presenting a list with a number of candidates that exceeds half of the members to be elected;
- gender equality: the Committee asks that corporate governance reports provide suitable information regarding the concrete identification and application of such measures;
- remuneration policies: the Committee calls for adequate consideration regarding coherence between the parameters used for variable remuneration with strategic business objectives and the pursuit of sustainable success.

In that regard, the Board of Directors found that:

- (i) the Company adopts methods that ensure the pursuit of sustainable success and the promotion of dialogue with key stakeholders;
- (ii) the Company pays particular attention to the independence criteria and to the criteria used to assess materiality;
- (iii) relevant documentation is provided sufficiently in advance of board meetings and, in any case, at least 3 days prior to committee meetings and 5 days prior to board meetings, as per established company procedures;
- (iv) the Company regularly publishes a document for shareholders containing guidance;
- (v) during the year measures were put in place to ensure gender equality;
- (vi) as regards the remuneration of executive directors, Terna S.p.A.'s policies are geared towards the pursuit of sustainable success.

In implementation of the Committee's recommendations, the Company carefully and thoroughly lists each of the issues, offering a complete presentation of them during the preparation of this Report on Corporate Governance.

The three 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 a 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

Information on the ownership structure as at 17 March 2022

SHARE CAPITAL STRUCTURE

	NUMBER OF SHARES	NUMBER OF VOTING RIGHTS	LISTED (INDICATE MARKET) / UNLISTED	RIGHTS AND OBLIGATIONS
Ordinary shares (specifying if it is possible to have enhanced voting rights)	2,009,992,000	2,009,992,000	Euronext Milan market organized and managed by Borsa Italiana S.p.A.	Ordinary shares with enhanced voting and dividend rights provided for by law for voting shares
Preferred shares	-	-	-	-
Multiple voting shares	-	-	-	-
Other categories of shares with voting rights	-	-	-	-
Savings shares	-	-	-	-
Convertible savings shares	-	-	-	-
Other categories of shares without voting rights	-	-	-	-
Other	-	-	-	-

MAJORITY SHAREHOLDERS

REGISTERED SHAREHOLDER	DIRECT SHAREHOLDER	% OF ORDINARY CAPITAL	% OF VOTING CAPITAL
CDP Reti S.p.A.	CDP Reti S.p.A.	29.851%	29.851%

Table 2

Composition of the Board of Directors at the close of the financial year

BOARD OF DIRECTORS

Position	Member	Date of birth	Date of first election (*)	Start date	Expiry of term of office	Slate (**)	Slate (M/m) (***)	Exec.	Non-exec.	Independent as per Code	Independent as per CLF	No. of other positions (****)	Attendance (*****)
CHAIRWOMAN	Valentina Bosetti ¹⁹	25/04/73	18/05/20	18/05/20	Approval of financial statements as of 31/12/2022	SH	M		√		√	0	9/9
CHIEF EXECUTIVE OFFICER	Stefano Antonio Donnarumma	29/10/67	18/05/20	18/05/20	Approval of financial statements as of 31/12/2022	SH	M	√				0	9/9
DIRECTOR	Giuseppe Ferri	03/03/67	18/05/20	18/05/20	Approval of financial statements as of 31/12/2022	SH	M		√	√	√	0	9/9
DIRECTOR	Fabio Corsico	20/10/73	27/05/14	18/05/20	Approval of financial statements as of 31/12/2022	SH	M		√	√	√	3	6/9
DIRECTOR	Paola Giannotti	13/07/62	27/04/17	18/05/20	Approval of financial statements as of 31/12/2022	SH	m		√	√	√	1	9/9
DIRECTOR	Marco Giorgino	11/12/69	08/05/19	18/05/20	Approval of financial statements as of 31/12/2022	SH	m		√	√	√	1	9/9
DIRECTOR	Yunpeng He ²⁰	06/02/65	21/01/15	18/05/20	26/01/22	SH	M		√			4	9/9
DIRECTOR	Gabriella Porcelli	10/03/65	27/05/14	18/05/20	Approval of financial statements as of 31/12/2022	SH	m		√	√	√	1	9/9
DIRECTOR	Alessandra Faella	06/06/82	18/05/20	18/05/20	Approval of financial statements as of 31/12/2022	SH	M		√	√	√	0	9/9
DIRECTOR	Antonella Baldino	05/02/63	18/05/20	18/05/20	Approval of financial statements as of 31/12/2022	SH	M		√			3	9/9
DIRECTOR	Ernesto Carbone	25/06/74	18/05/20	18/05/20	Approval of financial statements as of 31/12/2022	SH	M		√	√	√	0	9/9
DIRECTOR	Valentina Canalini	19/06/83	18/05/20	18/05/20	Approval of financial statements as of 31/12/2022	SH	M		√		√	0	9/9
DIRECTOR	Jean-Michel Aubertin	16/02/58	18/05/20	18/05/20	Approval of financial statements as of 31/12/2022	SH	m		√	√	√	0	9/9

DIRECTORS WHO HAVE CEASED TO HOLD OFFICE DURING THE FINANCIAL YEAR

DIRECTOR

Indicates the number of meetings held during the financial year: 9

Indicates the quorum required for presentation of the minority slate to appoint one or more directors (pursuant to art. 147-ter CLF): 1%

Key:

BoD: Board of Directors of Terna S.p.A.

Position: Indicates the Chair of the BoD, Deputy Chair, Chief Executive Officer, etc.

Date of first election: 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.

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.

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 the CLF: this is ticked "√" if Director can be qualified as independent pursuant to art. 148, paragraph 3, of the CLF as set forth in art. 147 ter, paragraph 4 of the CLF

Notes:

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 Lead Independent Director (LID).

(*) Date of first election of each Director refers to the date on which the Director was elected for the first time (ever) to Terna S.p.A.'s BoD.

(**) This column indicates the slate from which each Director was presented - by shareholders (indicating "SH"-Shareholders) or by the BoD (indicating "BoD").

(***) This column indicates the slate from which each Director was elected - by the majority slates ("M"), or by the minority slate ("m") or appointed by cooption.

(****) This column indicates the number of positions as a director or statutory auditor held by the Director in other listed 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 BoD meetings (indicates the number of meetings attended with respect to the total number of meetings at which he or she could have attended; e.g. 6/9; 9/9 etc.).

¹⁹ As at the date of approval of this Report, the Chairwoman, Valentina Bosetti, qualifies as independent as per 148 (j), paragraph 3 of the CLF as indicated in art. 147-ter, paragraph 4 of the CLF and art. 2 (ii) of Recommendation 7 of the Corporate Governance Code.

²⁰ Following the resignation, due to other professional commitments, of Yunpeng He, elected by the General Meeting 18 May 2020 and taken from the slate proposed by the shareholder CDP Reti S.p.A., on 26 January 2022 the Board of Directors co-opted Mr Qinjing Shen on to the Board as Mr He's replacement. The Annual General Meeting to be held on 29 April 2022 will be asked to elect Qinjing Shen or to appoint a new director.

Table 3

Composition of Board Committees at the close of the financial year

BOARD COMMITTEES

BOARD OF DIRECTORS		OPC		AUDIT, RISK, CORPORATE GOVERNANCE AND SUSTAINABILITY COMMITTEE		REMUNERATION COMMITTEE		NOMINATIONS COMMITTEE	
POSITION /QUALIFICATION	MEMBERS	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
CHAIRWOMAN OF THE BOD. NON-EXECUTIVE – INDEPENDENT AS PER THE CLF AND THE CODE	Valentina Bosetti	-		-		-		-	
AMMINISTRATORE DELEGATO	Stefano Antonio Donnarumma	-		-		-		-	
NON-EXECUTIVE DIRECTOR INDEPENDENT AS PER CLF AND CODE	Giuseppe Ferri	1/1	M ¹	10/10	M	-		-	
NON-EXECUTIVE DIRECTOR INDEPENDENT AS PER CLF AND CODE	Fabio Corsico	-		-		5/5	P	4/6	M
NON-EXECUTIVE DIRECTOR INDEPENDENT AS PER CLF AND CODE	Paola Giannotti	4/4	M	10/10	P	-		-	
NON-EXECUTIVE DIRECTOR INDEPENDENT AS PER CLF AND CODE	Marco Giorgino	4/4	P	10/10	M	-		-	
NON-EXECUTIVE DIRECTOR NON-INDEPENDENT	Yunpeng He	-		-		-		-	
NON-EXECUTIVE DIRECTOR INDEPENDENT AS PER CLF AND CODE	Gabriella Porcelli	-		-		5/5	M	6/6	P
NON-EXECUTIVE DIRECTOR INDEPENDENT AS PER CLF AND CODE	Alessandra Faella	-		2/2	M ²¹	5/5	M	-	
NON-EXECUTIVE DIRECTOR NON-INDEPENDENT	Antonella Baldino	-		-		-		-	
NON-EXECUTIVE DIRECTOR INDEPENDENT AS PER CLF AND CODE	Ernesto Carbone	4/4	M	-		-		2/2	M ¹
NON-EXECUTIVE DIRECTOR NON-INDEPENDENT	Valentina Canalini	-		-		-		-	
NON-EXECUTIVE DIRECTOR INDEPENDENT AS PER CLF AND CODE	Jean-Michel Aubertin	-		-		1/1	M ¹	6/6	M
DIRECTORS WHO HAVE CEASED TO HOLD OFFICE DURING THE YEAR									
MEMBERS WHO ARE NOT DIRECTORS									
DIRECTORS OF THE ISSUER/OTHER									
NUMBER OF MEETINGS HELD DURING THE YEAR:		4		10		5		6	

Key:

A.R.C.: Audit, Risk, Corporate Governance and Sustainability Committee in Terna S.p.A.

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

N.C.: Nominations Committee set up in Terna S.p.A.

R.T.P. Committee: Related Party Transactions Committee in Terna S.p.A.

Notes:

(*) This column indicates the Director's attendance at meetings (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 position in the committee: "C": Chairperson; "M": Member.

²¹ Director appointed as a member of the Committee as resolved by Terna S.p.A.'s Board of Directors on 14 October 2021, which increased the number of members of Terna S.p.A.'s committees to four.

Table 4

Composition of the Board of Statutory Auditors at close of the financial year

BOARD OF STATUTORY AUDITORS

POSITION	MEMBERS	DATE OF BIRTH	DATE OF FIRST ELECTION (*)	START DATE SINCE	EXPIRY OF TERM OF OFFICE	SLATE. (M/M) (**)	INDEPENDENT CODE	PARTICIPATION IN MEETINGS (***)	NUMBER OF OTHER POSITIONS (****)
CHAIRMAN	Busso Mario Matteo	01/03/1951	18/05/2020	18/05/2020	Approval of financial statements as of 31/12/2022	m	√	13/13	1
STANDING AUDITOR	Simone Vincenzo	20/11/1960	27/05/2014	18/05/2020	Approval of financial statements as of 31/12/2022	M	√	13/13	0
STANDING AUDITOR	Fantini Raffaella	20/2/1969	18/05/2020	18/05/2020	Approval of financial statements as of 31/12/2022	M	√	13/13	1
ALTERNATE AUDITOR	Zanardi Barbara	03/03/1977	18/05/2020	18/05/2020	Approval of financial statements as of 31/12/2022	m	√		5
ALTERNATE AUDITOR	Ghizzi Massimiliano	15/07/1966	18/05/2020	18/05/2020	Approval of financial statements as of 31/12/2022	M	√		1
ALTERNATE AUDITOR	Damiano Maria Assunta	16/08/1966	18/05/2020	18/05/2020	Approval of financial statements as of 31/12/2022	M	√		1

AUDITORS WHO HAVE CEASED TO HOLD OFFICE DURING THE YEAR

Number of meetings held during the year: 13

Quorum required for the submission of slates by non-controlling shareholders to elect one of more members (as per art. 148 CLF): 1%

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 of 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 issued by CONSOB on its website pursuant to art. 144-*quinquiesdecies* of the CONSOB Regulations for Issuers.

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 the assessment of the “Internal Control and Risk Management System” (hereinafter also 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 defined 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 of 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 practices.

On the basis of the provisions set forth in art. 154-*bis* of the CLF, the ICRMS, which governs preparation of the financial statements, actively involving all of 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 accordingly supplement/amend the administrative and accounting procedures.

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, i.e. Control Environment, Risk Assessment, Control Activity, Information System, Communication Flows and Monitoring, specifically focuses on the adequacy of financial reporting. This is essentially 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 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 in a checklist based on the five components of the control system, 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, processes);
- 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.

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 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 by the users of financial statements. To that end, quantitative parameters are identified; these are normally identified 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 for the related sector of operation.

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 updates and/or 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 forming the processes (“mapping”) is aimed at clearly identifying the process that gives rise to the data or 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.

Mapping of the activities that make up the processes is conducive to the final objective of implementing checks at all stages of preparation of the data and notes in the financial statements, ensuring that information impacting on the accounts is collected, processed and transmitted in a correct and 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.

Where deemed necessary, control assessment 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 Director, 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,
 - 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 of 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 the qualified external companies with specialist professional staff in assessing the design and performance of controls over administrative and accounting procedures.

Audit department and Chief Risk Officer

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 the administrative and accounting processes;
- providing the Manager Responsible for Financial Reporting with a suitable flow of information in relation to the results of activities connected with the respective controls relating to the responsibilities of the Manager Responsible for Financial Reporting, following agreed methods;
- in the event of 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 activities carried out by 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 individuals are responsible for:

- coordinating those in charge of individual controls in executing the controls entrusted to them;
- 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 delegated administrative bodies 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 CONSOB, is the result of a complex assessment procedure 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 promptly reported, 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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