

2022

REPORT ON THE **REMUNERATION POLICY AND REMUNERATION PAID**

Rome, 24 March 2022



Report on the Remuneration Policy and Remuneration Paid Terna S.p.A. and the Terna Group

Traditional management and control model

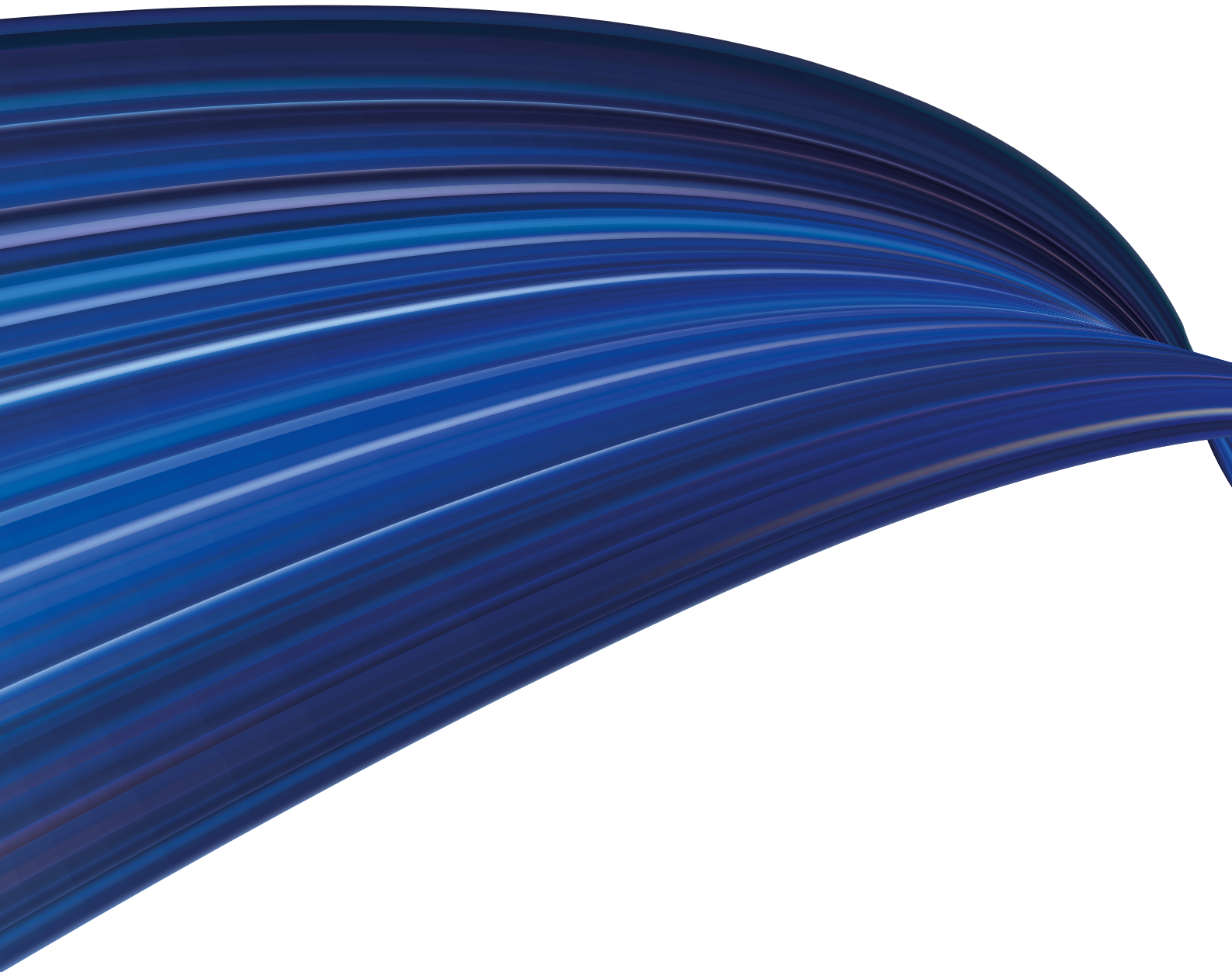
This is a translation of the original Italian text. For any difference in the meaning between the original Italian text and its translation, the Italian text prevails.

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

Website: www.terna.it

Annual reporting period to which the Report refers: 2021

Date of approval of the Report: 24 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.

Statement from the Chairman

of the Remuneration Committee

Dear Shareholders,



as Chairman of the Remuneration Committee, it is my pleasure to present the Report on the remuneration policy for 2022 and remuneration paid for 2021, drawn up according to art. 123-ter of the Consolidated Law on Finance and approved by the Board of Directors on 24 March 2022.

2021 was a year characterised by multiple challenges arising from the current Covid-19 health emergency. Despite the economic and financial tensions and the geopolitical situation at the beginning of 2022, Terna continues to confirm the solidity of its business and demonstrate a strong ability to react and adapt to even the most unpredictable of circumstances.

In line with the approach adopted in previous years and with the plan drawn up for our current term of office (2020-2022), this Report contains all the elements introduced by the Shareholders' Rights Directive II and the new Corporate Governance Code, which we had already implemented last year. The Report continues in the direction of ever-greater immediacy and effectiveness in the presentation of the information that makes up the Remuneration Policy. This is the result of the Committee's constant commitment to designing a policy that is aligned with the expectations of key shareholders and stakeholders and with market best practices and to proposing such a policy to the Board of Directors.

To ensure greater transparency towards shareholders and the market and in line with previous years, in drafting this policy, we continued to listen to and analyse the suggestions and feedback received from all stakeholders, while also identifying any areas for improvement suggested by the main proxy advisors, with whom we have maintained an open and constructive dialogue.

To complete the changes already made to this Report in earlier years to keep pace with regulatory changes, it was also decided to adjust the document to better present Terna's commitment to ESG aspects and to strengthen the link between the Group's main sustainability goals and the related remuneration strategy designed to support their achievement.

For 2022, the Company has decided to introduce a number of changes. These include:

- providing more evidence of the strategic link between the remuneration policy and the achievement of sustainability goals;
- as part of the new long-term incentive plan for 2022-2026, giving greater importance to the areas of operational performance and sustainability:
 - introducing Regulated CAPEX as a synthetic indicator of Terna's performance and its role in enabling the current ecological transition;
 - providing for the simultaneous inclusion in multiple sustainability indices instead of the relative positioning in a single index;
- expanding the description of the activities involved in monitoring the pay and working conditions of the Company's employees when designing the remuneration policy, including the specific initiatives envisaged for the entire workforce and also taking into account subsidiaries' personnel;
- providing disclosure on the number and average duration of the meetings held by Board Committees and the Board of Statutory Auditors, in line with what has already been published in the Corporate Governance Report;
- devoting a paragraph to the description of the Company's performance in 2021 and the links to remuneration paid during the year.

The Remuneration Committee also dealt with Terna's short-term incentive schemes. Among other things, the targets relating to the Terna Group's occupational safety performance have been reconfirmed for 2022, as have those for injuries to contractors' personnel operating at Terna sites (in Italy).

We are confident that, as shareholders of Terna, you will find all the information you need on the Company's remuneration policy and remuneration paid in this Report, and we trust that we will be able to count on your positive support during the Annual General Meeting.

Yours sincerely,

Fabio Corsico

Chairman of the
Remuneration Committee

Introduction

This Report summarises the principles and guidelines followed by Terna S.p.A. (hereinafter, for the sake of brevity, also “Terna” the “Company” or the “Group”) in designing and reviewing the remuneration policy and its implementation, with particular reference to members of the Management and Oversight Bodies, the General Manager and Key Management Personnel (“KMP”).

The document is divided into two sections:

- **Section I – Report on the remuneration policy for 2022** – describing the policy adopted by Terna for 2022 in respect of the remuneration of Directors, the General Manager, Key Management Personnel and members of Oversight Bodies, specifying the overall purposes pursued, the bodies involved and the procedures used in its adoption and implementation, as well as for the application of temporary exemptions;
- **Section II – Report on remuneration paid in 2021** – setting out details of the remuneration paid in 2021, by name in the case of Directors, Statutory Auditors and the General Manager and, in aggregate form, in the case of Key Management Personnel.

This Report was prepared in compliance with the current statutory requirements¹ and is consistent with the regulations established by the CONSOB².

The Policy described in Section I was also prepared in line with the recommendations on the subject of remuneration in the Corporate Governance Code for listed companies (the “Corporate Governance Code”), in its latest version³. As described in the Report on Corporate Governance and Ownership Structures, it should be noted that Terna formally signed up to the new edition of the Code at the Board of Directors meeting of 27 January 2021 and has begun the process of implementing the new recommendations in the Code.

¹ Art. 123-ter of Legislative Decree 58 of 24 February 1998 (the “Consolidated Law on Finance” or “CLF”, as amended by Legislative Decree 49 of 10 May 2019), which states that “at least twenty-one days before the date of the Annual General Meeting of shareholders [...], listed companies must provide the public with a report on the company’s remuneration policy and remuneration paid, filing such report at their registered offices, on their websites and using the other methods established in CONSOB Regulations”. The same art. 123-ter, paragraph 3-bis of the CLF states that “companies shall put their remuneration policy to a shareholder vote [...] at least every three years or when changes are made to the policy”. Paragraph 3-ter states that “the result of the vote required by paragraph 3-bis is binding” (with reference to Section I of this document), adding that “if the Annual General Meeting fails to approve the remuneration policy put to a vote in accordance with paragraph 3-bis, the company shall continue to pay remuneration in compliance with the most recent remuneration policy approved by shareholders or, failing that, may continue to pay remuneration in compliance with current practices”.

² Art. 84-quater of the Issuers’ Regulations, first added with resolution no. 18049 of 23 December 2011 and then amended with resolutions no. 18214 of 9 May 2012 and no. 21623 of 10 December 2020. In this regard, it should be noted that this Report incorporates the amendments most recently made to the Regulations for Issuers on 11 December 2020.

³ The new Corporate Governance Code was published in January 2020. Companies are required to apply the Code from the annual reporting period beginning after 31 December 2020, informing the market of such application in the corporate governance report to be published in 2022.

On 24 March 2022, Terna's Board of Directors, on the recommendation of the Remuneration Committee, approved Sections I and II of this Report. Section I, containing the "Report on the remuneration policy", is subject to a binding vote at the Annual General Meeting, whilst Section II, containing the "Report on remuneration paid" and providing detailed information on pay in 2021, is subject to a non-binding vote at the Annual General Meeting called to approve the financial statements for the year ended 31 December 2021.

The Board of Directors in office was elected by the Annual General Meeting held on 18 May 2020 and will remain in office for 3 years until the Annual General Meeting called to approve the financial statements for the year ended 31 December 2022. The pay of Directors with delegated powers and the fees payable to non-executive Directors for their participation in Board Committees, as reported in the Section I of this Report, were set by the current Board of Directors, which has in any event broadly adopted the same approach taken by the previous Board.

The text of this Report is made available to the public at the Company's head office and in the Governance section of the Company's website www.terna.it, within the twenty-first day preceding the date of the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2021, as required by the legislation in force.

The Information Circulars related to existing equity-based remuneration plans can be found in the Governance section of the Company's website.





EXECUTIVE SUMMARY

Executive summary

A summary of the remuneration policy for 2022, drawn up by the Board of Directors in office for the period 2020-2022, is provided below.

	FIXED REMUNERATION	SHORT-TERM INCENTIVES (MBO)	LONG-TERM INCENTIVES (LTI)
	<i>To recognise the level of expertise, experience and commitment required for the role.</i>	<i>To incentivise the achievement of the annual operating and financial performance targets set in the budget, and further non-financial annual targets.</i>	<i>To ensure the long-term alignment of management actions with shareholders' interests and achievement of the Industrial Plan objectives.</i>
CHAIRWOMAN	Amount		
	€ 238,000 gross per year, of which: • €50,000 pursuant to para. 1, art. 2389 of the Italian Civil Code; • €188,000 pursuant to para. 3, art. 2389 of the Italian Civil Code.	--	--
	Conditions for implementation		
	Defined using market benchmarks in relation to companies comparable on the basis of predefined criteria.	--	--
CHIEF EXECUTIVE OFFICER	Amount		
	€ 235,000 gross per year, of which: • €35,000 pursuant to para. 1, art. 2389 of the Italian Civil Code; • €200,000 pursuant to para. 3, art. 2389 of the Italian Civil Code.	€50,000 gross on achieving the minimum level of performance (an objective with a weighting of 25% ON); €200,000 gross on achieving the maximum level (all objectives ON).	--
	Conditions for implementation		
	Defined using market benchmarks in relation to companies comparable on the basis of predefined criteria.	2022 Targets: • Weighting 50%: Net profit – Terna Group; • Weighting 25%: Innovation - NexTerna programme; • Weighting 25%: Output-based incentives. Clawback provisions apply.	
GENERAL MANAGER	Amount		
	€850,000 gross per year.	€ 300,000 gross if the weighted average of the scores of the single targets meets the target (100%); € 450,000 gross if the score of all the targets is at maximum level (150%).	Award of Performance Shares equal to 123.6% of gross annual pay (GAP), based on the total amount for the three-year period of the Performance Share Plan 2022-2026, if the weighted average of the scores for the individual objectives are at target (100%) and if the value of Terna's shares is equal to the value at the grant date.
	Conditions for implementation		
	Determined on the basis of market benchmarks for a peer group selected on the basis of predefined strategic criteria.	<ul style="list-style-type: none"> • Weighting 25%: EBITDA - Terna Group; • Weighting 20%: Regulated CAPEX; • Weighting 10%: Regulated Assets entering service; • Weighting 20%: Quality of Service; • Weighting 20%: Occupational safety measures (SI) Personnel of the Terna Group belonging to the electricity sector; • Weighting 5%: Injuries among contractors in Italy. 	Performance Share Plan 2022-2026 objectives: <ul style="list-style-type: none"> • Cumulative EBITDA over the three-year period (weighting 40%); • Cumulative regulated CAPEX over the three-year period (weighting 15%); • Relative TSR: Terna's ranking in benchmark peer group (weighting 20%); • ESG indices: inclusion in Bloomberg GEI; DJSI-World; MIB® ESG over the three-year period; STOXX ESG (weighting 25%).
		Clawback provisions apply	Clawback provisions apply.

	FIXED REMUNERATION	SHORT-TERM INCENTIVES (MBO)	LONG-TERM INCENTIVES (LTI)
	<i>To recognise the level of expertise, experience and commitment required for the role.</i>	<i>To incentivise the achievement of the annual operating and financial performance targets set in the budget, and further non-financial annual targets.</i>	<i>To ensure the long-term alignment of management actions with shareholders' interests and achievement of the Industrial Plan objectives.</i>
KEY MANAGEMENT PERSONNEL	Amount		
	Fixed remuneration is linked to the role held and the responsibilities assigned and the manager's experience and strategic importance.	Incentives equal to up to 50% of gross annual pay (GAP) for results at target (100%) and up to 75% for results at the maximum level (150%).	Award of Performance Shares equal to up to 60% of gross annual pay (GAP), based on the total amount for the three-year period of the Performance Share Plan 2022-2026, if the weighted average of the scores for the individual objectives is at target (100%) and based on the value of Terna's shares with respect to the grant date.
	Conditions for implementation		
	Determined on the basis of market benchmarks for a peer group selected on the basis of predefined criteria.	The annual incentive is linked to: <ul style="list-style-type: none">• to exceeding an Access Gate (budget EBITDA)• the Group's objectives (weighting 40%);• shared cross-cutting objectives common to several departments (weighting 20%);• individual objectives linked to organizational role held (weighting 30%);• qualitative objectives linked to management expertise (weighting 10%).	Performance Share Plan 2022-2026 objectives: <ul style="list-style-type: none">• Cumulative EBITDA over the three-year period (weighting 40%)• Cumulative regulated CAPEX over the three-year period (weighting 15%)• Relative TSR: Terna's ranking in benchmark peer group (weighting 20%);• ESG indices: inclusion in Bloomberg GEI; STOXX ESG; DJSI-World; MIB® ESG over the three-year period; STOXX ESG (weighting 25%).
		Clawback provisions apply.	Clawback provisions apply.
	BENEFITS		SEVERANCE
	<i>Complete remuneration packages and primarily regard aspects relating to welfare and pensions.</i>		<i>A severance payment designed to protect the Company's interests by preventing potential disputes.</i>
CHAIRWOMAN	Description		
	<ul style="list-style-type: none">• Insurance policy for occupational and non-occupational accidents related to the position.	A severance payment on completing the term of office, equal to 1/12 of remuneration paid for each year in office.	
	Conditions for implementation		
	On completion of the term of office		
CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER	Description		Description
	<ul style="list-style-type: none">• Insurance policy for occupational and non-occupational accidents related to the position;• Supplementary pension;• Supplementary health insurance;• Cover against risk of death, permanent disability and injury;• Company car for company/private use.		In line with the Board of Directors' resolution of 18 May 2020, except in the event of dismissal for disciplinary reasons and resignations without just cause, on termination of the employment relationship linked to the end of the term of office, the following applies (i) as General Manager, a severance payment equal to 24 months' pay; (ii) as Chief Executive Officer, a termination payment due at the end of the term in office (TFM) equal to 1/12 of total pay (fixed remuneration plus short-term variable incentives) for each year in office as CEO.
	Conditions for implementation		Conditions for implementation
	Defined in accordance with the provisions of the relevant National Collective Employment Contract, and the corporate policies and practices applicable to all Terna's Management.		At Terna, the administrative role of the CEO and the management role of the GM are inseparable; therefore, the termination of one determines the termination of the other.
KEY MANAGEMENT PERSONNEL	Description		
	<ul style="list-style-type: none">• Supplementary pension;• Supplementary health insurance;• Cover against risk of death, permanent disability and injury;• Company car for company/private use.		Except in the event of dismissal for disciplinary reasons and resignations without just cause, in the event of early termination of the employment relationship by the Company, a severance payment may be due within the limits set by this Policy.
	Conditions for implementation		
	Defined in accordance with the provisions of the relevant National Collective Employment Contract, and the corporate policies and practices applicable to all Terna's Management.		Early termination of the employment relationship by the Company.





Section I:
**Report on the remuneration
policy for 2022**

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1. Summary

of the main changes in this Report

The 2022 Remuneration Policy was defined in substantial **continuity** and **consolidation** with the policy of the previous year, in which all the mandatory regulatory requirements in force contained in the SHRD II and in the Regulations for Issuers had already been incorporated, and in line with the resolutions of the Board of Directors for the term of office 2020-2022.

In light of the recommendations contained in the letter from the Chairman of the Italian Committee for Corporate Governance, the requests of proxy advisors and market best practices, some changes have been made to this Report, with a view to increasing disclosure for all stakeholders.

Changes for 2022

- More evidence was provided on the Group's corporate strategy and key sustainability goals and the related remuneration strategy to support their achievement;
- as part of the new 2022-2026 long-term incentive plan, greater importance was given to the areas of operating and sustainability performance, introducing Regulated CAPEX as a synthetic indicator of Terna's performance and its role in enabling the current ecological transition, and moving from the concept of ranking in a single index to inclusion in several sustainability indices;
- the description of the activities involved in monitoring the pay and working conditions of the Company's employees when designing the remuneration policy was expanded, including the specific initiatives envisaged for the entire workforce and also taking into account subsidiaries' personnel;
- disclosure on the number and average duration of the meetings held by Board Committees and the Board of Statutory Auditors, in line with what has already been published in the Corporate Governance Report was provided;
- inclusion of a paragraph to describe the Company's performance in 2021 and the links to the remuneration paid during the year.

2. Engagement process and remuneration policies

2.1 Outcome of shareholder votes and feedback

Terna gives great importance to dialogue and continuous interaction during the year with the main beneficiaries and users of its Remuneration Policy, in order to ensure constant improvement in the adoption of best market practices and to incorporate suggestions received above all from shareholders and proxy advisors.

Terna proceeded to engage with shareholders in 2021 and in early 2022, holding a series of conference calls with a number of institutional investors and the most important proxy advisors. This was done to expand on the views expressed by these parties on key aspects of the Report on the Remuneration Policy and Remuneration Paid submitted to the Annual General Meeting on 30 April 2021.

This dialogue provided the departments responsible for Terna's remuneration policies and the Remuneration Committee with precious feedback on the views of shareholders and, more generally, on those of the market regarding the nature of the Remuneration Policy adopted by Terna. During the year, a number of surveys of common market practices were carried out with the assistance of a leading specialist consulting firm. The surveys focused on the information provided to the market in annual remuneration reports, the most commonly used forms of presentation and the main characteristics of the remuneration systems adopted by companies comparable to Terna.

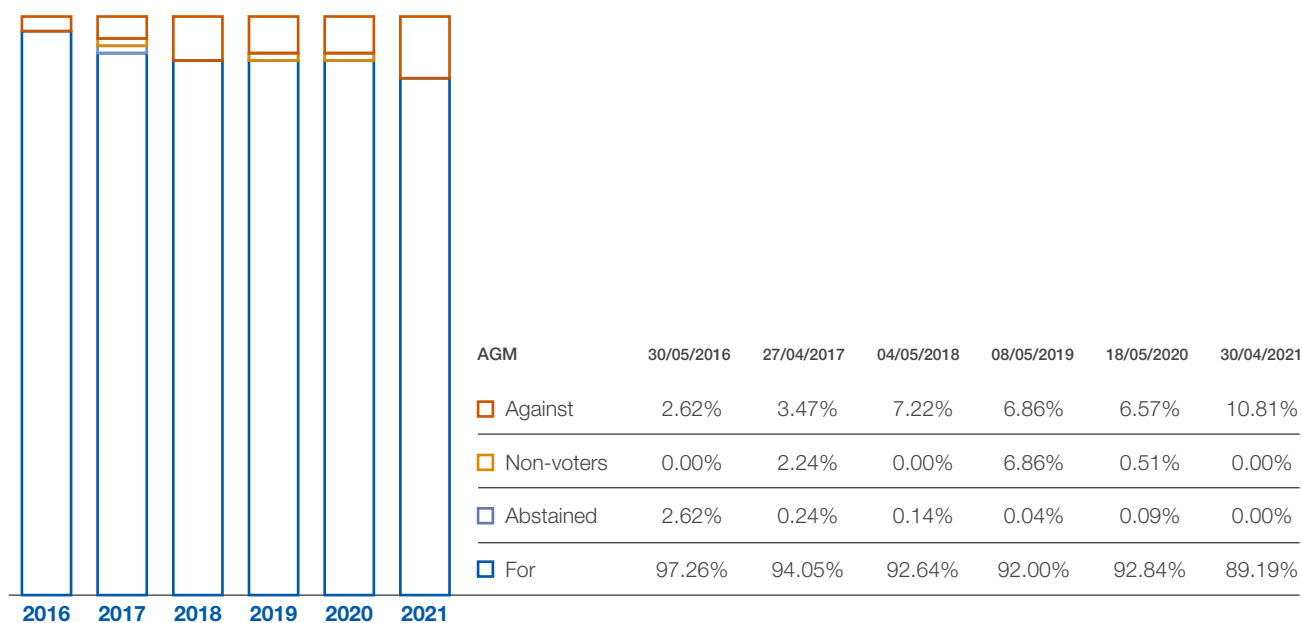
This feedback and activities conducted during the year, as well as the voting results of the Annual General Meeting on the Remuneration Report, were taken into account in the changes introduced to the Remuneration Policy, such as, for example, the expanded description of the Company's strategy and Terna's key sustainability goals and the related remuneration strategy to support their achievement, as well as a detailed description of the activities involved in monitoring the pay and working conditions of employees.

Following publication of this Report, Terna will also be available to continue this process of engagement with stakeholders, organising a new series of meetings with any interested key investors and proxy advisors, with the aim of helping them to fully understand all aspects of the Remuneration Policy for 2022.

Full disclosure regarding the remuneration of Directors and Management is also provided in the constantly updated "Remuneration" page in the "Governance" section of the Company's website.

The outcomes of shareholder votes on Remuneration Reports between 2016 and 2021 are shown below. In evaluating the difference in the percentage of votes for the Report between 2020 (92.84%) and 2021 (89.19%), the increase in votes against (from 6.57% to 10.81%) should be considered within the context of a decrease in the quorum for voting, which rose from 68.19% to 66.72% of the share capital.

OUTCOMES OF SHAREHOLDER VOTES ON THE REMUNERATION POLICY (2016-2021)



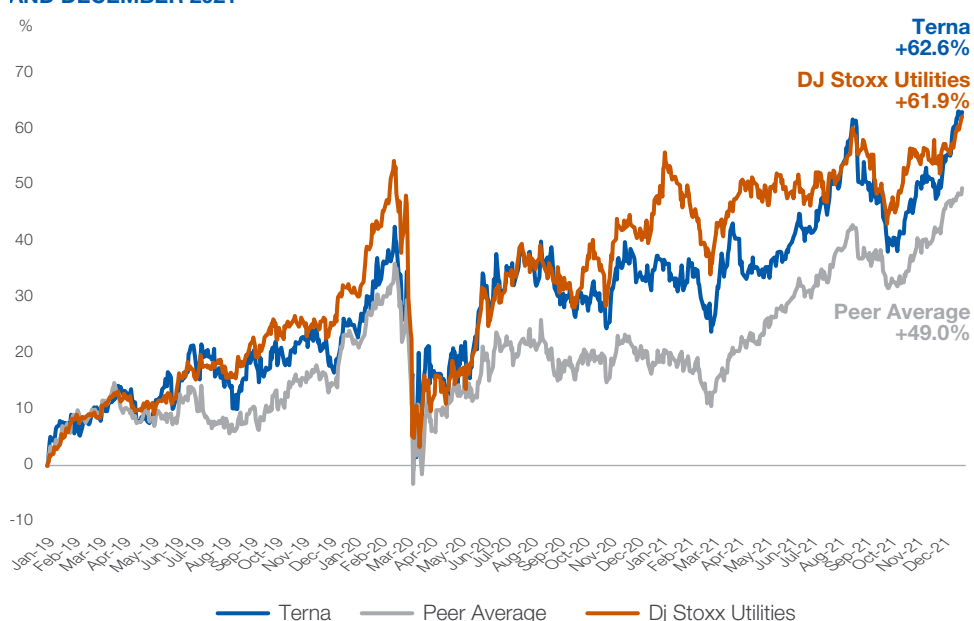
2.2 The Terna Group's Total Shareholder Return and operating performance

Terna Group Total Shareholder Return (TSR) trends are listed here below, with reference to own peers and the European sector benchmark index (DJ Stoxx Utilities) for the 2019-2021 period.

Over the three years from 2019 to 2021, Terna delivered a TSR of 62.6%, whilst the DJ Stoxx Utilities index recorded a TSR of 61.9%.

In the same period, Terna's shareholders enjoyed a return on their investment ahead of the average delivered by the peer group⁴ selected for the purposes of the LTI Plan, which stands at 49.0%.

PERFORMANCE OF THE TOTAL SHAREHOLDER RETURN BETWEEN JANUARY 2019 AND DECEMBER 2021



Operating performance 2019-2021

	2019	2020*	2021*	CHANGE 2021 VS 2019
Revenue	2,295.1	2,490.4	2,604.8	13.5%
EBITDA	1,741.2	1,811.0	1,854.8	6.5%
EBIT	1,155.1	1,176.6	1,200.4	3.9%
Net profit	757.3	785.5	789.4	4.2%

* In compliance with the requirements of IFRS 5, the overall results for the 2021 and 2020 financial years attributable to the South American subsidiaries involved in the potential sale of the Group's Latin American assets have been classified in "Profit/(Loss) from assets held for sale" in the Group's reclassified income statement.

⁴ The "peer average" relates to Snam, Red Elctrica de Espana, Enagas, National Grid, United Utilities and Severn Trent. Source: Bloomberg.

2.3 Remuneration benchmarking

Chief Executive Officer and General Manager

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

In keeping with the peer groups used in previous years, the group of companies deemed comparable with Terna was selected on the basis of the following criteria:

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

A list of the companies included in the peer group for benchmarking the remuneration of the Chief Executive Officer and General Manager is shown below:

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

The analysis conducted showed that at the Terna Group, total remuneration (Total Direct Compensation = the fixed component + MBO⁵ + LTI⁶) for the Chief Executive Officer and General Manager is between the first quartile and the median for the identified peer group.

⁵ Short-term incentive - MBO (Management by Objectives), see Glossary section.

⁶ Long-term incentive - LTI, see Glossary section.

Key management Personnel

In the case of Key Management Personnel, the Remuneration Committee periodically conducts a comparative assessment of overall remuneration for similar roles with the assistance of a specialist consulting firm. Terna bases its assessment on the total remuneration for similar roles in a peer group of 16 major Italian companies, deemed comparable to Terna in terms of business model, lead shareholder and market capitalisation.

The choice of peer group was carried out to obtain the best possible match with the characteristics of the Italian labour market, with the option of periodically revising the identified peer group.

A list of the companies included in the peer group for benchmarking the remuneration of Key Management Personnel is shown below:

<i>Atlantia</i>	<i>Gruppo Gavio</i>
<i>Brembo</i>	<i>Italgas</i>
<i>CNH Industrial</i>	<i>Maire Tecnimont</i>
<i>Enel</i>	<i>Poste Italiane</i>
<i>ENI</i>	<i>Prysmian</i>
<i>ERG</i>	<i>Saipem</i>
<i>Ferrari</i>	<i>Snam</i>
<i>Fincantieri</i>	<i>Vodafone</i>

The latest benchmarking exercise shows that the total remuneration of Key Management Personnel is thought to be around the market median.

2.4 Pay mix

Chief Executive Officer and General Manager

With reference to the Chief Executive Officer and General Manager, the pay mix represents the various components of remuneration in the potential performance scenarios.

Please note that the pay mix for the 2020-2022 term of office was defined in keeping with the approach adopted for the previous 2017-2019 term of office.

100%



Pay mix in the event of underperformance with respect to the objectives linked to variable remuneration

45.9% **18.6%** **35.5%**



Pay mix in the event of performance in line with the minimum target with respect to the objectives linked to variable remuneration

41.2% **19.0%** **39.9%**



Pay mix in the event of performance at target with respect to the objectives linked to variable remuneration

32.8% **19.6%** **47.6%**



Pay mix in the event of overperformance with respect to the objectives linked to variable remuneration

☐ Fixed remuneration

☐ Short-Term Incentive plan (MBO)

☐ Long-Term Incentive (LTI) plan

Fixed remuneration: Emoluments pursuant to Art. 2389 paragraph 1 and paragraph 3 + Gross Annual Pay (GAP).

Long-term incentive plan: referring to the potential bonus awardable under the three-year plan.

Key Management Personnel

100%



Pay mix in the event of underperformance with respect to the objectives linked to variable remuneration

54.9% **21.4%** **23.6%**



Pay mix in the event of performance in line with the minimum target with respect to the objectives linked to variable remuneration

49.4% **24.1%** **26.5%**



Pay mix in the event of performance at target with respect to the objectives linked to variable remuneration

39.4% **28.8%** **31.8%**



Pay mix in the event of overperformance with respect to the objectives linked to variable remuneration

☐ Fixed remuneration

☐ Short-Term Incentive plan (MBO)

☐ Long-Term Incentive (LTI) plan

Fixed remuneration: Gross Annual Pay (GAP)

Long-term incentive plan: referring to the potential bonus awardable under the three-year plan.

It should be noted how for both the Chief Executive Officer and General Manager and for KMP, in all the potential performance scenarios, the relative weighting of the long-term incentive plan is higher than the weighting assigned to the short-term incentive plan.

3. Governance of the remuneration process

3.1 Bodies and parties involved

The Remuneration Policy for the members of Terna's Board of Directors is defined in compliance with statutory requirements and the Articles of Association, according to which:

- the Annual General Meeting of shareholders determines the remuneration payable to the Chairwoman and members of the Board of Directors at the time of their election and through their term of office;
- the Board of Directors determines the remuneration of Directors with delegated powers in compliance with the Articles of Association and the fees for participation in Board Committees, in consultation with the Board of Statutory Auditors.

In accordance with Terna's governance model, the Board of Directors is also responsible for setting the objectives and approving the corporate results for the performance-related plans to which determination of the variable remuneration of the Chief Executive Officer and General Manager is connected, in addition to defining the general criteria for the remuneration of Key Management Personnel.

In line with the recommendations contained in the Corporate Governance Code, the Board of Directors is supported, with regard to matters relating to remuneration, by a Remuneration Committee whose members are independent, non-executive Directors and who are tasked with giving assessments, making recommendations and providing advice on such matters. The following table shows a summary of the related advisory and decision-making bodies and support providers for each person covered by the Policy.

BODIES AND PERSONS INVOLVED

Individual to be remunerated	Proposal-making body	Decision-making body	Support providers	Consultants or independent experts
Chairwoman	<ul style="list-style-type: none"> • Shareholders • Remuneration Committee 	<ul style="list-style-type: none"> • AGM • Board of Directors 		
Chief Executive Officer	<ul style="list-style-type: none"> • Shareholders • Remuneration Committee 	<ul style="list-style-type: none"> • AGM • Board of Directors 	People Organization and Change	Independent consultant
Directors	<ul style="list-style-type: none"> • Shareholders 	<ul style="list-style-type: none"> • AGM 		
Board of Statutory Auditors	<ul style="list-style-type: none"> • Shareholders 	<ul style="list-style-type: none"> • AGM 		
General Manager	<ul style="list-style-type: none"> • Remuneration Committee 	<ul style="list-style-type: none"> • Board of Directors 		
Key Management Personnel	<ul style="list-style-type: none"> • Remuneration Committee 	<ul style="list-style-type: none"> • Chief Executive Officer 		

Annual General Meeting of Shareholders

In accordance with statutory requirements and the articles of association - limited to matters pertaining to this Report -, the Annual General Meeting ("AGM") is responsible for:

- electing and terminating Directors and the Chair of the Board of Directors, electing Statutory Auditors and alternates and the Chair of the Board of Statutory Auditors;
- determining the remuneration of Directors and Statutory Auditors;
- approving equity-based or performance-related incentive plans linked to the performance of the Company's shares;
- expressing an opinion on the Report on the remuneration policy and remuneration paid, with a binding vote on Section I and a non-binding vote on Section II.

Board of Directors

Terna's Board of Directors (term of office 2020-2022) was elected by the Annual General Meeting of 18 May 2020 and consists of 13 Directors.

The Board of Directors currently in office differs from the original composition following the appointment by co-option, which took place on 26 January 2022, of Qinjing Shen to replace Yunpeng He, who resigned from office on 11 January 2022, due to professional commitments and with effect from the appointment of a new Director to replace him. Qinjing Shen will remain in office as a Director until the next AGM to be held on 29 April 2022.

It should also be noted that from 14 October 2021, the number of members of each Board Committee was increased from three to four. The increased number of Committee members means that the size of Committees is more in proportion with the size of the Board of Directors. The inclusion of additional expertise reinforces and encourages the emphasis on constructive dialogue that will benefit the entire Board of Directors in its efforts to achieve the challenging objectives in the Industrial Plan.

DIRECTORS WITH DELEGATED POWERS



**VALENTINA
BOSETTI**

CHAIRWOMAN
Board of Directors



**STEFANO ANTONIO
DONNARUMMA**

CEO AND GENERAL MANAGER
Board of Directors

DIRECTORS WITHOUT DELEGATED POWERS



JEAN-MICHEL AUBERTIN

DIRECTOR

Board of Directors

MEMBER*

Remuneration Committee

MEMBER

Appointments Committee



ANTONELLA BALDINO

DIRECTOR

Board of Directors



VALENTINA CANALINI

DIRECTOR

Board of Directors



ERNESTO CARBONE

DIRECTOR

Board of Directors

MEMBER*

Appointments Committee

MEMBER

Related-Party Transactions



FABIO CORSICO

DIRECTOR

Board of Directors

CHAIRMAN

Remuneration Committee

MEMBER

Appointments Committee



ALESSANDRA FAELLA

DIRECTOR

Board of Directors

MEMBER

Remuneration Committee

MEMBER*

Audit and Risk, Corporate Governance and Sustainability Committee



GIUSEPPE FERRI

DIRECTOR

Board of Directors

MEMBER

Audit and Risk, Corporate Governance and Sustainability Committee

MEMBER*

Related-Party Transactions



PAOLA GIANNOTTI

DIRECTOR

Board of Directors

CHAIRWOMAN

Audit and Risk, Corporate Governance and Sustainability Committee

MEMBER

Related-Party Transactions



MARCO GIORGINO

DIRECTOR

Board of Directors

MEMBER

Audit and Risk, Corporate Governance and Sustainability Committee

CHAIRMAN

Related-Party Transactions



GABRIELLA PORCELLI

DIRECTOR

Board of Directors

MEMBER

Remuneration Committee

CHAIRWOMAN

Appointments Committee



QINJING SHEN

DIRECTOR**

Board of Directors

The composition of the Remuneration Committee is dealt with in the following paragraph.

* Member as of 14 October 2021

** On 26 January 2022, the Board of Directors of Terna appointed Qinjing Shen to replace Yunpeng He following his resignation.

In accordance with statutory requirements and the articles of association, the Board of Directors is vested with the following responsibilities with regard to the Remuneration Policy:

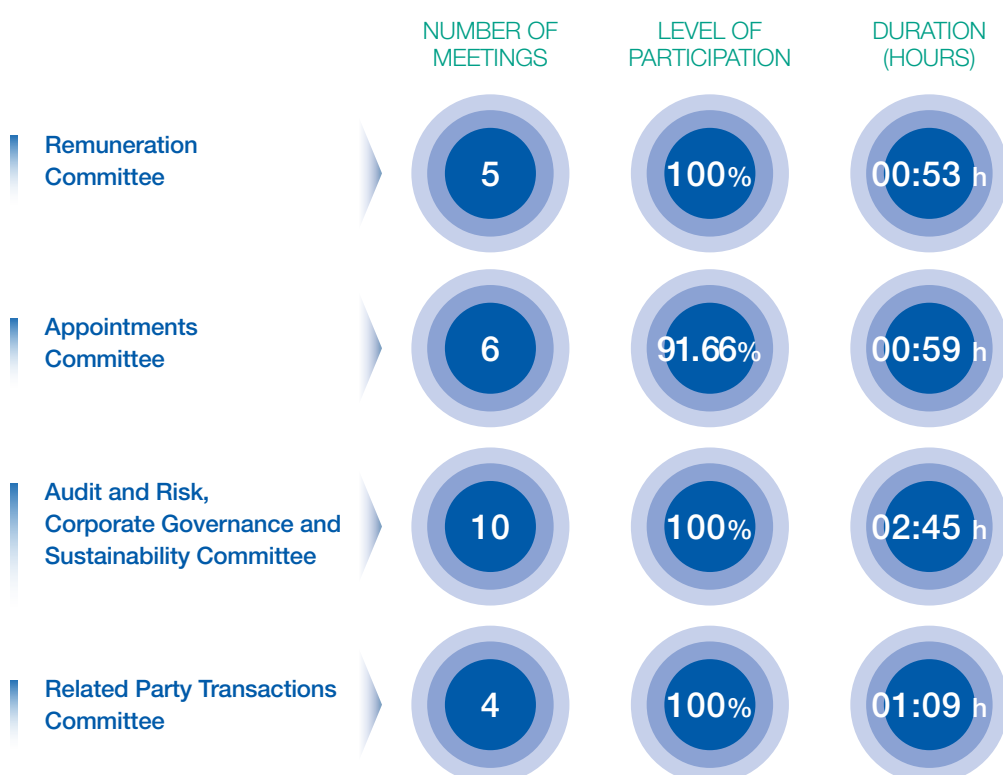
- determining the remuneration of Directors with delegated powers in compliance with the Articles of Association, in consultation with Board of Statutory Auditors;
- setting the objectives and approving the corporate results for the performance-related plans to which determination of the variable remuneration of Directors with delegated powers is connected;
- approving the general criteria for the remuneration of Key Management Personnel;
- approving the Report on the remuneration policy and remuneration paid, to be put to a vote at the Annual General Meeting, which is binding in the case of Section I and non-binding in the case of Section II.

The Board may also delegate its authority to an Executive Committee consisting of a number of Board members or one or more of its members, including the Chairwoman, determining the content, limits and procedures for exercising the delegated authority in compliance with art. 2381 of the Italian Civil Code and determining the related fees in consultation with the Board of Statutory Auditors.

All persons (including the Chief Executive Officer and General Manager) abstain during discussion of or voting on their own remuneration.

The Board of Directors held 9 meetings in 2021. All the meetings were attended by all members of the Committee (97.44%) and the average duration was approximately 3 hours and 11 minutes.

With reference to Board Committees in 2021, the number of meetings, attendance and duration are shown in the following table:







Remuneration Committee

Composition

Terna's Remuneration Committee was set up in 2004. At the date of approval of this Report, it is made up entirely of non-executive, independent Directors - in compliance with art. 147-ter, paragraph 3 of the CLF and art. 3 of the Corporate Governance Code. Two members (Gabriella Porcelli and Jean-Michel Aubertin) are Directors elected from the slates submitted by non-controlling shareholders. Moreover, in line with the Corporate Governance Code, at least one member of the Committee has suitable knowledge and experience in financial matters or remuneration policies, as assessed by the Board of Directors at the time of appointment.

Composition of the Remuneration Committee (at the date of approval of this Report):

	NAME	ROLE
	Fabio Corsico	Chairman
	Jean-Michel Aubertin	Member
	Alessandra Faella	Member
	Gabriella Porcelli	Member

Objectives, functions and activities

The Committee aims to ensure that the remuneration policies for Directors and Key Management Personnel are designed in such a way as to avoid conflicts of interest, taking into account the Company's mission and the need to comply with the provisions of the Corporate Governance Code, in particular, as regards to the contribution made by the remuneration policy to the Company's strategy, the pursuit of its long-term interests and its sustainability. To this end, the Committee has assessment, consultative and advisory functions. The authority to determine the remuneration of Directors with delegated powers remains, in any case, with the Board of Directors, after consultation with the Board of Statutory Auditors (in compliance with Article 2389, paragraph 3 of the Italian Civil Code), in compliance with the Remuneration Policy adopted by the Company and approved by the Annual General Meeting.

The Chair of the Committee, with the assistance of the Secretary of the Committee and in coordination with the Company Secretariat, may from time to time invite the Chair of the Board of Directors to the meetings of the Committee, with reference to the individual items on the agenda, the Chief Executive Officer, the members of the Control and Risks, Corporate Governance and Sustainability Committee and other members of the Board of Directors, as well as, after informing the Chief Executive Officer, other members of Terna's organisation or other persons whose presence may be helpful to the Committee in carrying out its duties.

It should be noted that all persons (including the Chief Executive Officer and General Manager) refrain from taking part in meetings of the Committee at which proposals relating to their remuneration are discussed, unless the proposals concern all Board Committee members.

Role of the Remuneration Committee



To periodically assess the adequacy and overall coherence of the remuneration policy for Directors, members of the Board of Statutory Auditors and Key Management Personnel.



To submit proposals or express opinions to the Board of Directors on the remuneration of executive Directors and other Directors with delegated powers, and to determine the performance objectives linked to the variable component of their remuneration, which also include indicators relating to ESG factors identified in agreement with the Audit, Risk, Corporate Governance and Sustainability Committee.



To monitor effective application of the remuneration policy and verify the effective achievement of performance targets.



To draw up and submit to the Board of Directors, and monitor the application of short- and long-term incentive schemes (including equity-based plans) aimed at Terna's executive Directors and/or key management personnel and/or other senior managers of the Company and/or the Group. Such schemes are intended as a means for attracting, retaining and motivating personnel with suitable experience and expertise, by fostering loyalty and ensuring a constant focus on the creation of value over time.



To assist the Board of Directors in drawing up the remuneration policy for Directors, members of the Board of Statutory Auditors and the key management personnel and in any subsequent amendments, verify, among other things, how, in determining this policy, the pay and working conditions of its employees and/or Group employees were taken into account.

To assist the Board of Directors in preparing the report on the remuneration policy and on remuneration paid pursuant to art. 123-ter of the CLF.



To verify the independence of any external consultants that the Company uses for the purpose of drawing up the remuneration policy or any subsequent amendments to it, and carry out any additional tasks assigned to it by the Board of Directors.



To propose to the Board of Directors, subject to the favourable opinion of the Related Party Transactions Committee, temporary exceptions to the remuneration policy, in accordance with the provisions of art. 123-ter, paragraph 3-bis of the CLF.

Information on the Committee's activities during the year is also included in the Report on Corporate Governance and Ownership Structures, published by the Company together with the Annual Financial Report prepared pursuant to article 154-ter of the Consolidated Law on Finance and available on the Company's website (in the section Governance-Corporate Governance System).

The Committee's activities were carried out within a complex and ongoing process leading, amongst others, to definition of the new Remuneration Policy and the related compensation tools, and the preparation of this Report.

It should be noted that the Remuneration Committee held 5 meetings in 2021. All the meetings were attended by all members (100%) of the Committee and the average duration was approximately 53 minutes.

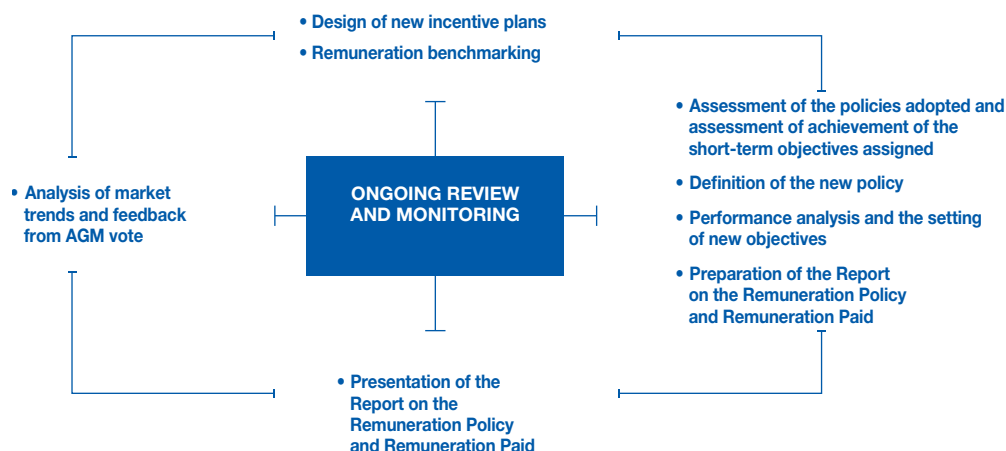
In 2021, the Committee dealt with the following matters, among others:

- examination of the results of the assessment of performance measures for short- and long-term incentive plans carried out by Willis Towers Watson;
- examination of the results of the remuneration benchmarking, carried out by Willis Towers Watson, in relation to the Board of Directors and the Board of Statutory Auditors;
- preparation of the proposed Remuneration Policy for 2021, described in the Report on the Remuneration Policy and Remuneration Paid, as approved by the Board of Directors, submitted to a binding vote at the Annual General Meeting called to approve the financial statements for the year ended 31 December 2020 in accordance with article 123-ter, paragraphs 3-bis and 3-ter of the CLF;
- support for the Board of Directors in preparing Section II of the Report on the Remuneration Policy and Remuneration Paid, as approved by the Board of Directors and submitted, pursuant to art. 123-ter, paragraph 6 of the CLF, to a non-binding vote at the Annual General Meeting called to approve the financial statements for the year ended 31 December 2020;
- examination of the objectives for 2021 to which the variable remuneration of the Chief Executive Officer, in his role as both a Director and as a manager employed by the Company, and Key Management Personnel is linked;
- assessment of achievement of the results for 2020 in respect of payment of the annual variable remuneration due to the Chief Executive Officer, in his role as both a Director and as a manager employed by the Company, and to Key Management Personnel;
- assessment of achievement of the objectives linked to payments under the LTI Cycle 2018-2020;
- approval of details of the structure of the Performance Share Plan 2021-2025 and the related Information Circular, examination of elements involved in implementation of the Plan and approval of the Terms and Conditions and the instruments to be granted;
- examination of the proposed amendments to the Terms of Reference of the Committee itself in order to implement the Recommendations of the Corporate Governance Code and the best practices already adopted by the Company, as well as to implement the organisational changes that have affected all the Committees in order to standardise how they operate. The proposed amendments to the Committee's terms of reference were approved by the Board of Directors on 15 December 2021.

A summary of the Committee's activities in early 2022 is provided below:

- review of results of remuneration benchmarking, drawn up by Willis Towers Watson for the Chief Executive Officer and General Manager;
- preparation of the proposed Remuneration Policy for 2022, described in the Report on the Remuneration Policy and Remuneration Paid, as approved by the Board of Directors, which will be submitted to a binding vote at the Annual General Meeting called to approve the financial statements for the year ended 31 December 2021 in accordance with article 123-ter, paragraphs 3-bis and 3-ter of the CLF;
- support for the Board of Directors in preparing the Section II of the Report on the Remuneration Policy and Remuneration Paid, as approved by the Board of Directors and to be submitted, pursuant to art. 123-ter, paragraph 6 of the CLF, to a non-binding vote at the Annual General Meeting called 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 due to the Chief Executive Officer, in his role as both a Director and as a manager employed by the Company, and to 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 REMUNERATION COMMITTEE'S CYCLE OF ACTIVITY



Board of Statutory Auditors

With regard to remuneration, the Board of Statutory Auditors expresses the opinions required by the regulations in force with reference, in particular, to the remuneration of Directors with delegated powers pursuant to Article 2389 of the Italian Civil Code, verifying their coherence with the Company's remuneration policy. The Board of Statutory Auditors regularly participates in the meetings of the Remuneration Committee, and is made up of the following three statutory auditors:

- Mario Matteo Busso – Chairman
- Vincenzo Simone – Auditor
- Raffaella Fantini – Auditor

In 2021, the Board of Statutory Auditors met 13 times, with all members in attendance and meetings lasting 2 hours and 48 minutes. The Board of Statutory Auditors participated in all the meetings of the Board of Directors. Furthermore, through its members, the Board participated in all the meetings of the Remuneration Committee (5 meetings), the Audit and Risk, Corporate Governance and Sustainability Committee (10 meetings), the Appointments Committee (6 meetings) and the Related Party Transactions Committee (4 meetings).

3.2 Policy approval process

In line with the related statutory and regulatory requirements in force and the recommendations in the Corporate Governance Code, the decision-making process leading to implementation of the Remuneration Policy and responsibility for its correct application may be broken down into the following steps involving a number of parties:



1. the Remuneration Committee prepares the Company's Remuneration Policy for Directors (including the General Manager), Key Management Personnel and the Board of Statutory Auditors, working closely with the People Organization and Change department and basing its analyses on the information and the work of the departments needed in order to carry out its role;

2. the Remuneration Committee may avail itself of the support of independent experts in such matters;
3. the Remuneration Committee submits the Policy for approval by the Board of Directors, which adopts the content thereof in relation to the Remuneration Policy for Directors (including the General Manager) and Key Management Personnel and long-term incentive plans. Furthermore, with reference to the determination of remuneration for the Chief Executive Officer and Directors holding special office, the Board hears the opinion of the Statutory Board of Auditors;
4. the Board of Directors, having examined and approved the Policy, puts it to the vote at the Annual General Meeting, which holds a binding vote on Section I and a non-binding vote on Section II⁷.

Should the Annual General Meeting not approve the Remuneration Policy following the vote held in accordance with paragraph 3-*bis*, Terna may continue to pay remuneration on the basis of the most recent Remuneration Policy approved by Annual General Meeting or, failing this, will continue to pay remuneration in line with current practice. In this case, Terna will put a new Remuneration Policy to a shareholder vote at the latest on the occasion of the next General Meeting of shareholders provided for in article 2364, paragraph 2 of the Italian Civil Code, or of the General Meeting of shareholders provided for in article 2364-*bis*, paragraph 2 of the Code.

In exceptional circumstances, Terna may temporarily derogate from its remuneration policies, as permitted by art.123-*ter*, paragraph 3-*bis* of the CLF and art. 84-*quater*, paragraph 2-*bis*, lett. c) of the Regulations for Issuers. Exceptional circumstances shall be understood to mean situations in which derogation from the Remuneration Policy is necessary in order to pursue the long-term interests and sustainability of the Company as a whole or to ensure its ability to compete in the market.

These exceptional circumstances may include, but are not limited to, the following:

- a need to operate retention policies in favour of personnel considered strategic for the Group;
- the implementation of policies designed to attract people capable of making a contribution to the growth and development of the business;
- the recognition of individual and/or collective performances considered important and highly positive for the Group;
- discontinuity in the organisation of the business, both linked to extraordinary operations, such as mergers and disposals, including of companies/business units, and linked to significant changes in the composition of senior management;

⁷ It should be noted that the Procedure for Related Party Transactions, adopted by the Board of Directors on 12 November 2010, as subsequently amended (lastly by the Board of Directors on 16 December 2020) excludes the following from the scope of the Procedure: shareholder resolutions pursuant to article 2389, paragraph one of the Italian Civil Code, regarding the remuneration of members of the Board of Directors and the Executive Committee and resolutions on the remuneration for Directors with delegated powers falling within the total amount previously approved by Annual General Meeting in accordance with article 2389, paragraph three of the Italian Civil Code, and shareholder resolutions pursuant to article 2402 of the Italian Civil Code regarding the remuneration of members of the Board of Statutory Auditors. Furthermore, resolutions on the following matters are excluded from the scope of the Procedure for Related Party Transactions:

- 1) equity-based plans approved by Annual General Meeting of Terna's shareholders in accordance with article 114-*bis* of the CLF, and the related executive actions;
- 2) deliberations regarding the remuneration of Directors with delegated powers and Key Management Personnel, computed on an individual basis, provided that i) the Company has adopted a remuneration policy; ii) the process of drawing up the remuneration policy involved a committee consisting solely of non-executive directors, a majority of whom are independent, corresponding with, where established, the Remuneration Committee; iii) the remuneration awarded is defined in accordance with this policy and quantified on the basis of criteria that do not involve discretionary judgements.

- external changes of a socio-economic nature or the occurrence of extraordinary and unforeseeable events that – by changing the relevant market scenario – could have a significant impact on the Group's results.

Should such exceptional circumstances occur, the Board of Directors, on the recommendation of the Remuneration Committee and where envisaged, having previously activated the Procedure for Related Party Transactions adopted by the Company, may approve specific temporary derogations from the Remuneration Policy described in this Report and with particular reference to:

- the fixed component of remuneration;
- the short-term variable component, with reference to the level of achievement of the objectives, the criteria used to assess the achievement of performance objectives, the introduction of any deferred payment systems, the *ex-post* correction mechanisms for the variable component (malus and clawback provisions);
- the long-term variable component, with reference to the level of achievement of the objectives, the criteria used to assess the achievement of the performance objectives, remodelling of the provisions requiring the retention of financial instruments following their award, the *ex-post* correction mechanisms for the variable component (malus and clawback provisions);
- benefits in kind;
- the provision, payment and/or amount of severance indemnity;
- entry bonuses;
- one-off bonuses linked to exceptional performance, not linked to short-term objectives;
- additional insurance, welfare and pension benefits.

3.3 Independent experts and other parties involved

Terna has opted to avail itself of the support provided by the consulting firm, Willis Towers Watson, to provide assistance with regard to the conduct of specific surveys of remuneration practices and to assist in preparing this Report.

The People Organization and Change department draws up the guidelines, accompanied by all the technical aspects required in order to prepare the Remuneration Policy. This department also acts as an internal technical body supporting the Remuneration Committee, for which it prepares the material for use by the Committee.

The Administration, Finance and Control department contributes to identification and achievement of the operating and financial objectives underlying short- and long-term incentive schemes.

The Heads of other departments are also consulted when defining objectives pertaining to projects or specific issues.

People Organization and Change, External Relations, Institutional Affairs and Sustainability, Legal and Corporate Affairs and Administration, Finance and Control departments support the process of preparing this Report, which is subsequently submitted to the Remuneration Committee.

4. Remuneration Policy

4.1 Content, purposes and links with the Group's strategy

The Policy described in this Report focuses exclusively on the pay of members of management bodies, the General Manager, Key Management Personnel and the members of oversight bodies.

PURPOSES OF THE POLICY AND LINKS WITH THE GROUP'S STRATEGY

The Policy described in this Report, of annual duration, has the following purposes:



Attract, retain and motivate personnel with the professional skills required in order to successfully manage the Company



Facilitate alignment of the interests of management with pursuit of the priority goal of creating shareholder value through the use of short- and long-term variable components of pay



Support delivery of the objectives included in the Company's five-year Industrial Plan

The key aspects of the Group's strategic vision are:

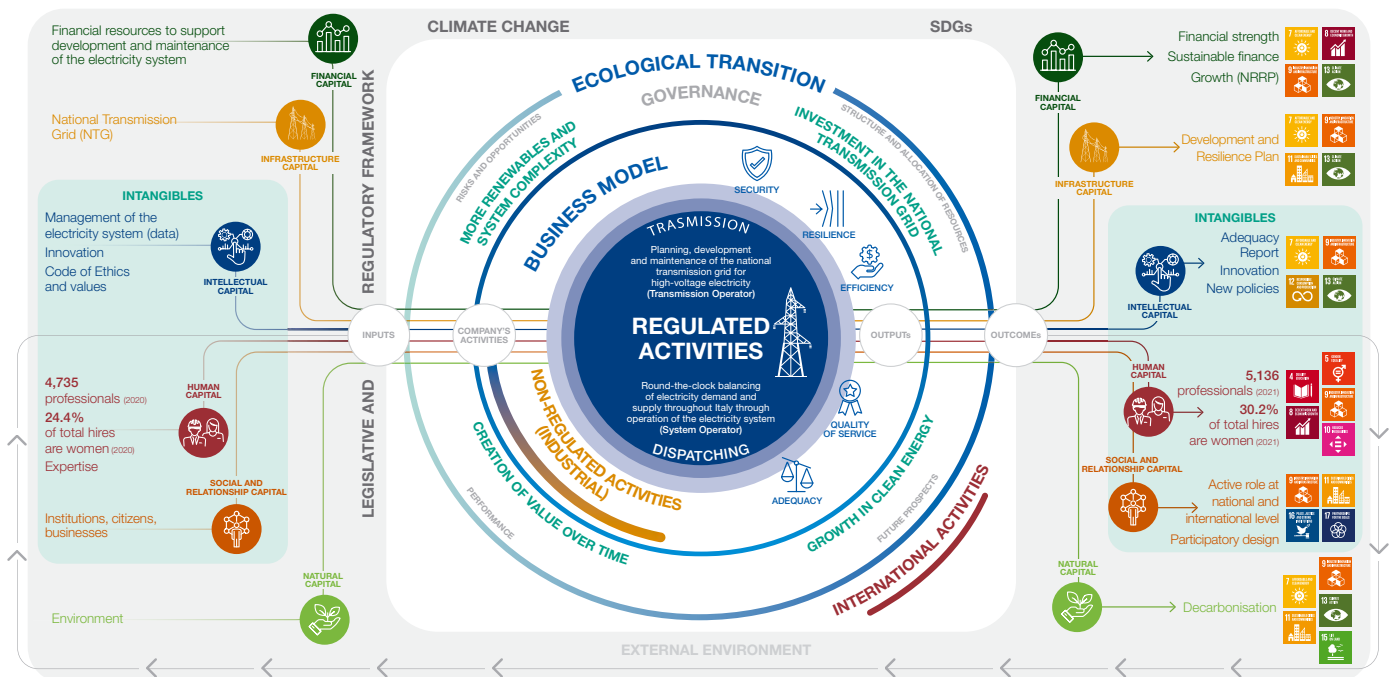
- **Regulated Activities:** an acceleration of investment in infrastructure and digitalisation and the reinforcement of core activities in Italy through the direct involvement of territories and dialogue with all stakeholders and local communities, enabling it to play a leading role in the ecological transition.
- **Non-regulated activities:** Terna will continue to consolidate its role both in the field of connectivity, where opportunities based on the enhancement of its fibre optic infrastructures will be pursued, and in the field of energy solutions, developing high value-added services for businesses and also taking advantage of market opportunities for traditional and renewable customers, including through the recent acquisition of the LT Group. In the industrial area, the Company aims to consolidate Tamini's results and, in relation to Brugg, take advantage of the subsidiary's distinctive skills underground cables and exploit synergies with the Terna Group's other businesses.
- **International Activities:** play a leading role in governance at EU level; complete existing projects in Brazil in the context of the due diligence underway for the sale of the activities in Latin America; strategic evaluation of new growth opportunities overseas by leveraging the Group's distinctive industrial know-how.

The value creation process and the business model

Terna's process for creating value over time is based on shaping a medium- to long-term strategy focusing on delivery of the energy transition, the essential foundation on which to build a new decarbonised, sustainable economic model. This means making the best possible use of all the capitals at the Company's disposal, beginning with the external environment in which we operate and the potential economic, financial and ESG risks and opportunities, in order to develop a sustainable business model.

Starting from the available capitals, this model brings together the external scenario, the Group's strategy, its governance, risk management and the related potential opportunities, and future prospects to shape our performance, which in turn drives further development of the different capitals.

VALUE CREATION PROCESS OVER TIME



The creation of value over time looks to the United Nations' Sustainable Development Goals ("SDGs"), which represent a benchmark for Terna closely linked to the strategic objective of fully implementing the ecological transition, further strengthened by close alignment with the Company's mission and activities.

TERNA'S BENCHMARK SDGs



Ensure access to affordable, reliable, sustainable and modern energy for all.



Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.



Take urgent action to combat climate change and its impacts.



Strengthen the means of implementation and revitalise the global partnership for sustainable development.

Taken as a whole and including general sustainability considerations able to create value in the medium- to long-term, the SDGs are also a clear benchmark from an operational standpoint to which Terna refers in carrying out its activities. These SDGs steer Terna towards achieving environmental, social and sound governance objectives.

The Remuneration Policy, with particular regard to the choice of indicators underlying incentive schemes, has been drawn up with the aim of guiding management towards strategic objectives in full consistency with the Group's model of creating value over time.

In particular, the short-term incentive scheme involves the deployment of objectives to be cascaded down through the organisation as follows:

- for the Chief Executive Officer and General Manager, the principal drivers of the Industrial Plan have been selected and shaped into annual objectives;
- Key Management Personnel have been assigned a number of the objectives set for the Chief Executive Officer and General Manager in the form of Group objectives for all beneficiaries; the other objectives assigned to the Chief Executive Officer and General Manager or, in any event deriving from the Industrial Plan, have been assigned to Key Management Personnel based on their area of responsibility. In addition, where the achievement of particularly important strategic objectives requires the joint involvement of several areas of the Company, objectives have been assigned to Key Management Personnel across various departments;
- all the other beneficiaries have been similarly assigned Group objectives linked to the principal drivers of the Industrial Plan, with the other objectives cascaded down on the basis of the area of responsibility assigned, either individually or across departments, in order to ensure the maximum contribution of everyone to deliver of the overall strategy.

For 2022, the following objectives set in relation to short-term incentives have been confirmed:

- in terms of Regulated Activities, "CAPEX", "Assets Entering Service" and "Quality of Service", as defined by ARERA, in order to support the major commitment to the National Transmission Grid (NTG) in terms of both CAPEX and service to the community;
- with regard to human resources and, in general, ESG issues, the NexTerna Project and the Terna Group's Occupational Safety and injuries to personnel of contractors, so as to ensure Terna's continued focus on issues relating to sustainability.

Further information is provided in paragraph 4.7, "Remuneration of Key Management Personnel – short-term variable component (MBO)".

Medium/long-term objectives are set for the long-term incentive scheme so as to ensure the sustainability of the business and align Terna's management with the Company's risk profile, as communicated to shareholders and stakeholders in the Industrial Plan.

In particular, for the new 2022-2026 long-term incentive plan, it was decided to:

- reduce the weighting assigned to market performance and increase the weighting assigned to the operating and sustainability performances, in view of the incentive mechanism used (equity) and the strong connection with sustainability under the adopted approach;
- add, in the context of operational performance, Regulated CAPEX as a synthetic indicator for Terna's performance and its role in enabling the current ecological transition;
- switch from the concept of ranking in a single index to inclusion in a range of indices (including the previously used DJSI-World index), including those established by the leading ESG rating agencies. The inclusion of Terna over time in these indices represents the Group's ability to guarantee all-round sustainability in line with priorities and trends identified by a series of stakeholders, as well as to attract a potentially greater number of investors. Furthermore, specific indices (e.g., Bloomberg GEI) are more appreciated by the market (proxy advisors) as they provide the option of focusing on specific strategic priorities.

Further confirmation of the close link between the Company's medium/long-term strategic vision and the Remuneration Policy is provided by the fact that for the Chief Executive Officer and General Manager, as well as Key Management Personnel, the weighting assigned to long-term incentives is greater than the weighting assigned to short-term incentives in relation to overall remuneration.

WORKING CONDITIONS AND EMPLOYEES COMPENSATION

The Company annually monitors working conditions and pay in order to promote a Remuneration Policy that is consistent for employees as a whole. The most important commitments with regard to human resources include training in digital skills, the initiatives with a focus on “agile” and innovative methodologies provided for under the “Ongoing improvements in Occupational Safety”, aimed at putting in place continuous safeguards for the health and safety of employees, and “NexTerna”, the cultural transformation programme to transform ways of working so as to boost responsibility for and involvement in meeting the objectives and challenges set forth in the Industrial Plan. Challenges and objectives are divided into seven topic areas, in order to define, among other things, a new leadership model, a new model for “hybrid” spaces, aimed at rethinking physical spaces in workplaces, Sustainability and Communication initiatives, aimed at consolidating the culture of sustainability within Terna and promoting communication as a model of “best practice”. The programme also launched a “People Care and Skills” model, which aims to define a new company mindset focused on the well-being of our people, implemented through the launch of the “Wellbeing In Action” project and the launch of new welfare initiatives tailored to the needs of employees with particular reference to improving a healthy work-life balance (for example, by introducing the possibility of converting the performance bonuses into tax-free fringe benefits). There are also several welfare projects in the pipeline, such as the revision of special agreements with providers of goods and services and the expansion of healthcare to cover all the country.

The Company has also developed a new metric for measuring the dialogue and engagement among people within the Company, through the introduction of the Employee Net Promoter System (e-NPS). In this regard, three e-NPS ® surveys were carried out in 2021, which involved the entire workforce, with the aim of measuring the degree of satisfaction of people with respect to working at Terna and to working within their own organisational structure. The survey also analysed the ability to put into practice some fundamental aspects such as, for example, teamwork, mutual trust and a sense of belonging. Finally, specific issues such as Leadership, Welfare and Training were analysed.

Furthermore, Terna has been recognised as one of the world's most inclusive companies committed to achieving gender equality. This is demonstrated by the inclusion of our Company in the Standard & Poor's Gender Equality & Inclusion index, the new international ranking launched in August 2021 that measures the performance of listed companies in terms of gender equality and inclusion.

Among the concrete measures in this area, the adoption of a “Diversity & Inclusion” policy which, together with the Group's Code of Ethics, commits the Company to pursuing gender inclusion and equality, and to promoting female talent and leadership through dedicated projects.

4.2 Guidelines

In defining the Policy, the Board took into consideration the principles and criteria set out in the Corporate Governance Code and, in particular, verified that the performance objectives, to which payment of the variable components are linked, are predetermined, measurable and to a significant extent linked to long-term performance and consistent with the Company's strategic objectives and aimed at promoting its sustainable success, while also including non-financial measures (e.g., sustainability indicators).

4.3 Implementation

In implementation of the above principles, it should be noted that:

- the remuneration of Directors without delegated powers is aligned with their expertise, professionalism and commitment required in order to perform the tasks assigned to them and is linked to their participation in Board Committees, with differences between the amount paid to Chairs as opposed to the members of each Committee;
- the pay of the Chairwoman of the Board of Directors consists of fixed pay in keeping with the role held;
- the pay of the Chief Executive Officer and, if appointed, the General Manager⁸, is designed to ensure a balance that is appropriate and consistent with the Company's strategic objectives and risk management policy, bearing in mind the nature of the business and the sector in which terna operates, whilst ensuring that the variable component represents a significant part of the overall remuneration package.

In implementation of art. 5, Recommendation 27(f) of the Corporate Governance Code, a severance payment is also provided for in the event termination of the Chief Executive Officer's directorship and his employment as General Manager in the event termination of the employment relationship, unless in specific cases.

4.4 Elements of the remuneration policy

Terna's Remuneration Policy for 2022 consists, in principle, of the following elements:

- a fixed component of remuneration;
- a short-term variable component;
- a long-term variable component;
- benefits;
- severance payments.

A detailed description of each element of the Policy, based on the specific characteristics of each beneficiary, is provided below.

⁸ The Policy is applied to Key Management Personnel in the same way as it is applied to the role of General Manager.

4.5 Remuneration of Board of Directors members

This section sets out the key aspects of the Remuneration Policy for the following groups of people identified according to internal rules:

- Directors without delegated powers;
- Directors with delegated powers.

4.5.1 Remuneration of Directors not holding special office

Remuneration determined by the Annual General Meeting

The annual remuneration of the Directors not holding special office is composed solely by the fixed component, considered sufficient to attract, retain and motivate directors endowed with the professional qualities required to successfully manage the Company. This component is linked to the commitment required for each of them. For the 2020-2022 term of office, this remuneration, as determined by the Annual General Meeting of 18 May 2020, based on the recommendations put forward by shareholders, is €35,000 gross per year, in continuity with the previous term of office.

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

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

Fees payable for participation in Board Committees

Additional fees payable to the members of Board Committees are determined by the Board of Directors, in consultation with the Board of Statutory Auditors.

For the 2020-2022 term of office, the annual fee payable to Directors for participation in Board Committees was determined by the Board of Directors on 18 May 2020, in consultation with the Board of Statutory Auditors, elected by the Annual General Meeting held on 18 May 2020. In continuity with the previous Board, the fees are as follows:

Remuneration Committee		Appointments Committee	
Chair	€50,000	Chair	€50,000
Member	€40,000	Member	€40,000
Related Party Transactions Committee		Audit and Risk, Corporate Governance and Sustainability Committee	
Coordinator	€50,000	Chair	€60,000
Member	€40,000	Member	€40,000

4.5.2 Remuneration of Directors with delegated powers

Chairwoman of the Board of Directors

In continuity with the previous term of office, for the 2020-2022 term of office, the total remuneration for the role of Chairwoman of the Board of Directors, as determined by the Annual General Meeting and the Board of Directors on 18 May 2020, consists solely of the fixed component, broken down as follows:

**Pay* art. 2389,
para. 1 of the
Italian Civil Code**



€50,000

Pay art. 2389,
para. 3 of the
Italian Civil Code**



€188,000

* Annual pay approved by the Annual General Meeting held on 18 May 2020 (and in accordance with article 24.1 of Terna's Articles of Association).

** Annual pay approved by the Board of Directors on 18 May 2020, on the recommendation of the Remuneration Committee and in consultation with the Board of Statutory Auditors..

The Chairwoman of the Board of Directors thus earns fixed remuneration of **€238,000** for the 2020-2022 term of office.

Generally, in the case of other Directors with delegated powers and with whom the Company does not have an employment relationship, the Company does not provide severance payments or compensation of an extraordinary nature on termination of the term in office, with the exception of the Chairwoman, who is due a payment on completing her term in office equal to 1/12 of total annual remuneration for each year in office.

CEO and General Manager

At Terna, the Chief Executive Officer's position as a Director and the General Manager's employment relationship are connected, so that when one is terminated so is the other.

The General Manager's employment relationship is governed by the existing National Collective Employment Contract for manufacturing and service companies. In addition to the forms of remuneration described below, the policy applied to the General Manager is the same as that applied to management personnel in general.

Fixed component of remuneration

Fixed component of remuneration - Chief Executive Officer

In continuity with the previous term of office, for the 2020-2022 term of office, total fixed remuneration for the role of Chief Executive Officer breaks down as follows:

**Pay* art. 2389,
para. 1 of the
Italian Civil Code**



€35,000

Pay art. 2389,
para. 3 of the
Italian Civil Code**



€200,000

* Annual pay approved by the Annual General Meeting held on 18 May 2020 (and in accordance with article 24.1 of Terna's Articles of Association).

** Annual pay approved by the Board of Directors on 18 May 2020, on the recommendation of the Remuneration Committee and in consultation with the Board of Statutory Auditors.

Fixed component of remuneration - General Manager

In continuity with the previous term of office, the General Manager's total fixed remuneration for the 2020-2022 term of office consists of a gross annual fixed component (gross annual pay or GAP), approved by the Board of Directors on 18 May 2020, totalling **€850,000**.

In total, therefore, the CEO and GM earns total gross annual fixed remuneration of **€1,085,000** for the 2020-2022 term of office.

PAY RATIO for the CEO and GM

In order to monitor the ratio between the pay of the Chief Executive Officer and General Manager and the remuneration of the Group's entire workforce, we have again in 2021 calculated the ratio between the gross annual fixed remuneration of the Chief Executive Officer and General Manager and the median fixed remuneration of the Terna Groups Italian workforce, which results in a ratio of 25.

The pay ratio remained stable from 2016 to 2020 (26), decreasing slightly in 2021 (25), confirming the fact that the pay structure continues to appropriately reward the level of expertise, experience and contribution required for the various roles.

Short-term variable component (MBO)

The short-term incentive scheme (MBO) rewards the annual contribution of each beneficiary to Terna's performance and aligns management actions with strategic objectives in line with business priorities.

The Board of Directors, on the recommendation of the Remuneration Committee, sets the MBO objectives for Directors with delegated powers and the General Manager, with the Chief Executive Officer and General Manager abstaining from the process as it applies to his interests.

The short-term incentive scheme is not subject to deferral mechanisms. This decision was taken in view of the following elements:

- the Company's risk profile and the sector in which it operates;
- the presence of a long-term incentive scheme and its relative weighting with respect to the fixed component and the short-term variable component;
- the use of a rolling long-term incentive scheme that takes the form of annual awards, with a three-year vesting period and a two-year lock-up period;
- the existence of clawback provisions.

Finally, it should be noted that, in recent years, the objectives underlying the short- and long-term incentive schemes for both the Chief Executive Officer and General Manager and Key Management Personnel have become ever more demanding in order to support delivery of the increasingly challenging strategic plans, above all in terms of the objectives linked to investment and operating and financial performance. This trend has been confirmed for 2022, a particularly challenging year in view of the current Covid-19 pandemic and the resulting developments in the macroeconomic and geopolitical environment.

Short-term variable component (MBO) - Chief Executive Officer

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

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

The annual value of the incentive, approved by the Board of Directors, is €50,000 gross on achievement of the minimum level of performance (an objective with a weighting of 25% ON) and €200,000 gross on achievement of the maximum level (all objectives ON).

The table below shows the targets defined for the year 2022:

2022 MBO OBJECTIVES - CHIEF EXECUTIVE OFFICER

GOALS	WEIGHT	SCORE CURVE
Net profit - Terna Group	50%	ON/OFF (vs 2022 profit of the updated 2021-2025 Plan)
Innovation - NexTerna programme Launch of the Terna Academy; Employee satisfaction; Hybrid model of workspaces.	25%	ON/OFF
Output-based incentives For the overall calculation of the incentives, all the resolutions adopted in 2022 are considered (including the resolution on interzonal bonuses), as well as the elements contained in the reports sent to ARERA by Terna for the purpose of recognising output-based incentives relating to intrazonal incentives (pursuant to resolution 699/18), as well as the quantifying incentives for MSD efficiency (pursuant to resolution 597/21) through internal calculation tools.	25%	ON/OFF

NexTerna represents the cultural change programme launched in the early months of 2021 aimed at defining new ways of working that accompany all Group employees towards greater responsibility and involvement with respect to the objectives and challenges set in the Terna Group's Industrial Plan, but which are also focus on wellbeing and engagement. The programme requires a profound rethink of how of how people work and a structural, all-encompassing process of change management that will require courage and commitment.

The programme was divided into 7 topic areas listed below:

- 1) Inclusive Leadership
- 2) People care and skills
- 3) Agile Solutions applied to processes
- 4) Sustainability and communication
- 5) Technology and digitalisation
- 6) Virtual and physical spaces
- 7) A new approach to industrial relations

Responsibility for the NexTerna programme lies with a Steering Committee chaired by the Chief Executive Officer and consisting of the executives who report directly to him, whilst coordination has been assigned to the “People Organization & Change” and “Innovation & Market Solutions” departments.

The 2022 goal for the Chief Executive Officer focuses on extending the results of the various pilot projects launched in 2021 to include new organisational perimeters, with particular attention to the new Terna Academy, the hybrid space model and employee satisfaction.

In relation to the last objective, it should be noted that the 2022 budget provides for determining – with reference to the scope of regulated activities (transmission and dispatching) – a significant amount of revenues linked to output-based incentives, or relating to additional remuneration that the regulator would pay Terna following the achievement of certain objectives, in addition to the revenue already recognised in the form of Weighted Average Cost of Capital (WACC), depreciation and operating costs.

The goal is consistent with forecast revenue in the 2022 budget and with the effort that the Company will have to make to achieve the objectives identified by the regulator.

The output-based incentives include those linked to the increase in transmission capacity between market areas, those linked to the solution of problems relating to voltage regulation and the presence of network congestion within the areas (pursuant to resolution 699/18), as well as incentives to reduce costs for procuring of resources for dispatching (pursuant to resolution 597/21).

For the overall calculation of the incentives, all the resolutions adopted in 2022 (including the resolution on interzonal bonuses) will be considered, as well as the elements contained in reports sent to ARERA by Terna for the purpose of recognising output-based incentives relating to intrazonal incentives (pursuant to resolution 699/18), as well as quantifying incentives for MSD efficiency (pursuant to resolution 597/21) through internal calculation tools. Any amount ascertained for 2021 will be deducted from quantification of the total amounts.

Short-term variable component (MBO) - General Manager

The payment of short-term incentives (MBO) to the General Manager is subject to confirmation of the achievement of the performance objectives assigned annually by the Board of Directors, on the recommendation of the Remuneration Committee, with the Chief Executive Officer and General Manager abstaining from the process as it applies to his interests.

For the year 2022, the targets assigned to the General Manager are shown in the table below, with the related score curves.

MBO OBJECTIVES FOR 2022 - GENERAL MANAGER

GOALS	WEIGHT	SCORE CURVE
EBITDA - Terna Group	25%	Change vs budget
		Score
		< -2%
		0%
		-2% (Minimum)
		80%
CAPEX*	20%	Budget (Target)
		100%
		+2% (Maximum)
		150%
		For intermediate figures linear interpolation
		Score
Assets entering service*	10%	Change vs budget
		Score
		< -5% compared to Target
		0%
		-5% compared to Target (Minimum)
		80%
Quality of Service (Regulated Energy Not Supplied, RENS)	20%	Budget net of the Pl.SA. quote** (Target)
		100%
		Budget (Maximum)
		150%
		For intermediate figures linear interpolation
		Score
Workplace safety (SI) Terna Group personnel working in the electricity sector	20%	MWh
		Score
		Target 2022 ARERA*** + 300 MWh
		0%
		Target 2022 ARERA +5% (Minimum)
		80%
Injuries among contractors in Italy	5%	Target 2022 ARERA (Target)
		100%
		Target 2022 ARERA -15% (Maximum)
		150%
		For intermediate figures linear interpolation
		Score
		Number of injuries at contractors in 2022 ≥ Highest number of injuries that occurred in the three-year period 2019-2021
		0%
		Number of injuries at contractors in 2022 = average number of injuries in the three-year period 2019-2021 (Target)
		100%
		Number of injuries at contractors in 2022 ≤ Minor injuries that occurred in the three-year period 2019-2021) (Maximum)
		150%

* Both the measures refer to the Terna Group's regulated activities. Data net of financial expense and IFRS16.

** Public hub of the Italy-France connection.

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

The first of the objectives assigned to the General Manager measures the value of EBITDA for 2022 in the updated 2021-2025 Plan.

The second of the objectives assigned to the General Manager measures the value of CAPEX in 2022 in the updated 2021-2025 Plan for all the Terna Group's regulated activities.

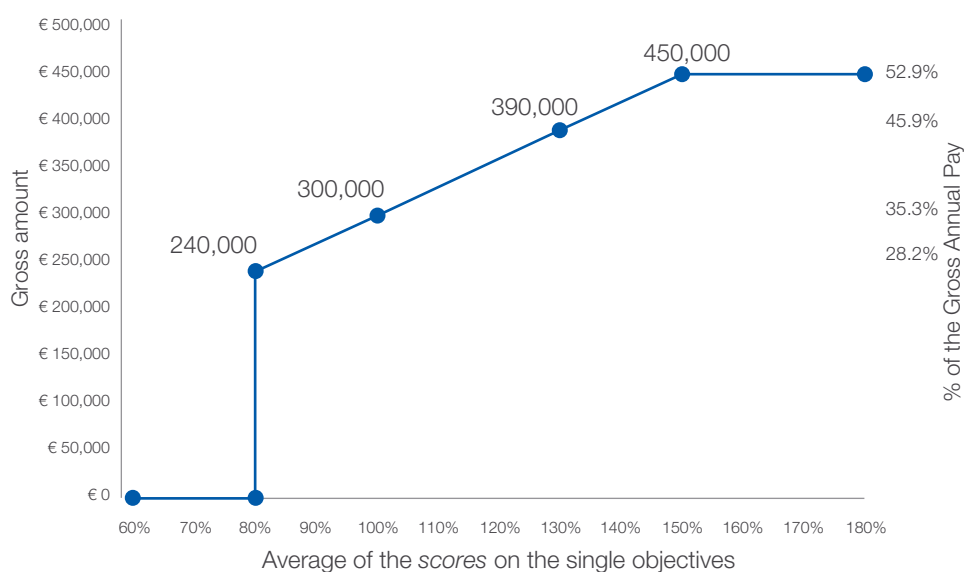
The third objective measures the Assets entering service for 2022 in the updated 2021-2025 Plan, indicating the value of assets ready to enter service as part of the grid and as operating assets in the relevant period for all the Terna Group's regulated activities.

The "Quality of Service" objective refers to the Group's operating performance by measuring, in MWh, the quantity of energy not supplied (RENS, Regulated Energy Not Supplied). As a result, the lower the figure for this indicator, the higher the score, up to a maximum of (150%).

The "Workplace safety" objective is represented by the safety indicator (SI), calculated as the weighted average of the Injury Rate and the Lost Day Rate and assessed by comparing the performance during the year with the average performance of the last three years.

The final objective assigned to the General Manager is represented by the number of injuries to the personnel of contractors working at Terna's sites (within Italy).

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



If the average of the scores of the single targets is less than 80%, nothing is due. In the event of overperformance, the bonus is capped (150%).

On the whole, therefore, for 2022, the CEO and GM will receive short-term variable remuneration amounting, **at target**, to **€500,000** gross per year and, in the case of overperformance, to €650,000 gross per year.

Long-term variable component (LTI)

In order to contribute to the achievement of long-term strategic objectives, the Company uses a long-term incentive scheme with the aim of:

- ensuring that management's interests are aligned with the creation of long-term value for shareholders, by introducing a financial incentive into the remuneration structure of beneficiaries linked to the achievement of challenging multi-year performance objectives for the company, directly connected with share price performance and also with non-financial indicators;
- rewarding long-term performance through rolling, annual awards linked to strategic objectives;
- foster loyalty among beneficiaries, over the period covered by the Plan, by making the incentive provided by the Plan conditional on their continuing employment by the Group throughout such period.

In continuity with the approach used in previous years, for 2022, Terna has adopted a new rolling long-term equity-based incentive scheme. Specifically, in 2022 the Company will operate the Performance Share Plan 2021-2025 (the "Performance Share Plan 2022-2026").

This Plan, described in detail in the specific Information Circular prepared in accordance with art. 114-*bis* of the CLF and art. 84-*bis* of the Regulations for Issuers, marks a further step in the ongoing process of improving Terna's remuneration policy, with a view to more closely aligning the interests of management with those of shareholders, also reflected in the extended duration of the new Plan.

Key aspects of the Performance Share Plan 2022-2026 are described below.

Long-term incentive plan based on Performance Shares for 2022-2026

The Performance Share Plan 2022-2026 is intended for the General Manager, Key Management Personnel and other managers selected from the Terna Group's senior and middle managers. The Plan is based on Terna S.p.A.'s ordinary shares (Performance Shares) and rolling annual awards, with a three-year vesting period (2022-2024) and a two-year lock-up period.

The Plan envisages the grant of the right to receive free of charge a given number of Terna S.p.A.'s ordinary shares at the end of a vesting period and on the achievement of the performance objectives to which the Plan is linked. In this way, the interests of management are systematically linked to those of shareholders.

The performance indicators used to determine the number of Performance Shares to be awarded at the end of the vesting period are:

- Three-year cumulative **EBITDA** and regulated **CAPEX** reflecting the level of operating performance achieved;
- **relative TSR** versus a peer group, reflecting the level of share price performance delivered;
- **Inclusion in the ESG indices (Bloomberg GEI; DJSI-World; MIB® ESG; STOXX ESG)** to measure the performance linked to the sustainability of Terna's business.

Details of the individual objectives and the related performance curves are provided below:

LONG-TERM INCENTIVE PLAN BASED ON PERFORMANCE SHARES FOR 2022-2026

GOALS	WEIGHTING	SCORE CURVE
Cumulative EBITDA over the three-year period to 2024 compared with the cumulative value of EBITDA 2022-2024 in the updated 2021-2025 Plan	40%	Change vs value of EBITDA 22-24 in the 21-25 updated Plan
		Score
		-2%
		Target
		+2%
Cumulative regulated CAPEX over the three-year period to 2024 compared with the cumulative regulated CAPEX value 2022-2024 in the updated 2021-2025 Plan*	15%	Change vs Regulated CAPEX value 22-24 in the 21-25 updated Plan
		Score
		-2%
		Target
		+3%
Relative Total Shareholder Return 2022-2024⁹ Terna's positioning in the reference peer group ¹⁰	20%	Ranking in the peer group
		Score
		7 th , 6 th or 5 th place
		4 th place
		3 rd place
ESG indices (Inclusion in Bloomberg GEI; DJSI-World; MIB® ESG; STOXX ESG)	25%	1 st or 2 nd place
		If, although positioned in 1st or 2nd place, the TSR of Terna is negative in the period of reference, overperformance will not be recognised: the associated score will therefore be 100% (so-called "negative TSR threshold")
		Ranking
		Score
		Failure to achieve at least 6 inclusions over the three years
		0%
		6 inclusions over the three years
		80%
		7 inclusions over the three years
		100%
		8 inclusions over the three years
		110%
		9 inclusions over the three years
		120%
		10 inclusions over the three years
		130%
		11 inclusions over the three years
		140%
		12 inclusions over the three years
		150%
		In the event of the termination of one of the selected indices (Bloomberg GEI; DJSI-World; MIB® ESG; STOXX ESG) or of a significant change in the underlying criteria, this will be automatically replaced with the FTSE4GOOD index.

* Data net of financial expense and IFRS16.

The overall performance is measured as the weighted average of the scores achieved for each of the three Plan targets, according to the respective performance curves presented above. For the incentive scheme to be activated and, therefore, for the right to the award of Performance Shares to be attained, an overall performance of at least 80% must be achieved, below which nothing is due. In the event of overperformance, the bonus is capped at the maximum attainable level (150%).

⁹ Terna's TSR and that of its peers is calculated over a period of three years, using the average of closing share prices in 2022 and the same average for 2024. The source of the data for TSR is Bloomberg.

¹⁰ The companies in the peer group (Snam, Red Electrica, Enagas, National Grid, Severn Trent and United Utilities) are all major listed European utilities. They are part of the regulated utilities sub-sector and therefore implement a business model that, although related to different sectors, presents elements of uniformity and comparability with Terna's. The selection of the peer group was therefore guided towards the identification of stocks that reflect the characteristics of Terna's stock, with reference to the business cycle as well as with reference to external elements that may affect their performance, so much so that at the time of drafting this Report, the same stocks were examined by financial analysts for the purposes of evaluating and comparing them with Terna's stock. Equities that are subject to extraordinary operations that entail their delisting or a significant reduction in the floating capital, will be replaced (up to a maximum of two) by the following stock, listed in order: Elia, REN.

Assessment of achievement of the Plan objectives will be conducted by the Board of Directors in order to determine the number of Performance Shares to be awarded on the basis of the indications of the Remuneration Committee, during approval of the financial statements for the year ended 31 December 2024.

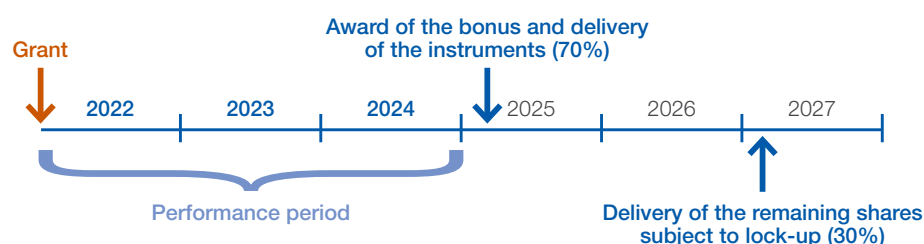
At the end of the vesting period, an additional number of Performance Shares may be awarded (the dividend equivalent). These additional Shares correspond with the value of any dividends not received on the Shares effectively awarded, with the aim of achieving an increased alignment between the interests of management and those of investors.

The final bonus payable under the Plan thus depends on:

- the number of Shares awarded (based on the Terna Group's performance);
- the value of the Shares, based on the share price performance.

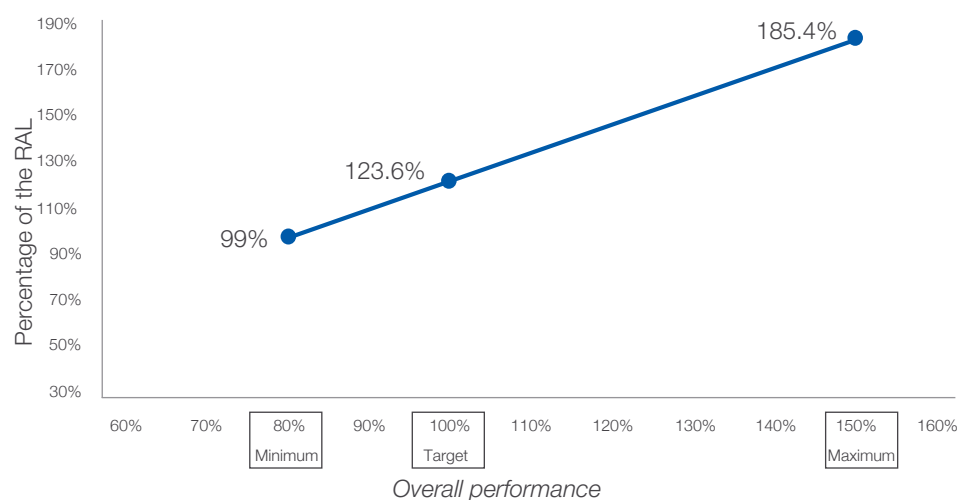
At the end of the vesting period, 30% of the Shares awarded, including those awarded as dividend equivalents, will be subject to a further lock-up period of two years, which will end in 2027. During this period, the Shares are non-transferable (meaning that they may not be transferred and/or sold for a period of 24 months).

The following chart shows the timing of the Performance Share Plan 2022-2026:



New LTI Plan: Performance Share Plan 2022-2026 - General Manager

The General Manager's variable remuneration linked to the Performance Share Plan 2022-2026 involves the grant of the right to a given number of Shares corresponding with a percentage of the General Manager's Gross Annual Pay (overall three-year values). This amount varies in relation to the achievement of different levels of performance (Minimum, Target and Maximum), as shown below:



At the end of the vesting period, an additional number of Shares is awarded as dividend equivalents, corresponding with the value of any dividends not received on the Shares effectively awarded.

The final bonus payable to the General Manager under the Plan thus depends on:

- the number of Shares awarded (based on the Terna Group's performance);
- the value of the Shares, based on the share price performance.

At the end of the vesting period, 30% of the Shares awarded, including those awarded as dividend equivalents, will be subject to a further lock-up period of two years. During this period, the Shares are non-transferable (meaning that they may not be transferred and/or sold for a period of 24 months).

In the event of termination of the relationship prior to award of the Shares for reasons other than the following:

- dismissal for disciplinary reasons;
- resignation without just cause;
- termination of a directorship for just cause;
- resignation of a director without just cause;

and, therefore, also in the event of termination of the relationship by mutual consent, the right to the award of a portion of the Shares on a prorated basis will be maintained (for the beneficiary or their heirs or successors), based on an assessment of the performance achieved at the date of termination.

Other long-term incentive plans

It should be noted that Terna currently has rolling equity-based incentive plans in place awarded annually.

After the switch from closed cash plans to equity-based plans with annual award cycles (Phantom Stock Plan 2018-2020 and 2019-2021 cycles), the 2020-2023 and 2021-2025 Performance Share Plans are in place today.

These share plans make it possible to reward long-term, sustainable growth in shareholder value and more closely align the Company's remuneration with market practices, the recommendations in the Corporate Governance Code and the objectives in the Industrial Plan.

Details of the Long-term Performance Share Plan 2020-2023 and the Long-term Incentive Plan based on Performance Shares covering the period 2021-2025 are provided in the Remuneration Reports for 2020 and 2021 and the related Information Circulars, all of which are available on the Company's website.

CLAWBACK AND MALUS PROVISIONS

The variable portion of the remuneration paid to the Chief Executive Officer and General Manager is subject to clawback provisions, requiring the repayment of any amounts already paid within the statute of limitations envisaged by current legislation and whether or not the relationship is still in place or has been terminated. Malus provisions also apply, giving the Company the right to withhold any part of the incentive subject to deferral, where applicable, if there is evidence that payment of the bonus was made on the basis of information that is manifestly inaccurate or misleading, in the event of serious and intentional breaches of the law, the Code of Ethics or company regulations, in the event of fraudulent conduct or gross negligence on the part of the beneficiary to the detriment of the Company or one of the Group Companies. The application of these provisions is nevertheless without prejudice to any other action permitted by the law in order to protect the interests of the Company.

Benefits

As is the case with the Group's management personnel and in keeping with the Policy implemented in the previous years, the General Manager's benefits package has been determined in accordance with the terms of the related National Collective Employment Contract and of the company policies and practices applicable to management personnel in general:

- contributions to a supplementary pension fund (FONDENEL);
- enrolment in a supplementary medical insurance scheme (ASEM);
- life and permanent disability insurance;
- a company car for personal use;
- occupational and non-occupational accident insurance.

Non-competition agreements

Terna has not currently entered into non-competition agreements with Directors and the General Manager, involving payment of a fixed amount or a proportion of fixed remuneration based on the duration and scope of the restrictions resulting from the agreement. However, Terna reserves the right to assess the potential introduction of specific provisions in this regard, within the limits set by company policy, which makes reference to the disbursement of one year's pay under agreements with a duration of one year.

Severance

In line with market practices and in order to protect the Company's interests by preventing potential disputes, on termination, the Chief Executive Officer and General Manager has the right to receive termination and severance payments. It should be noted that, at Terna, the Chief Executive Officer's position as a Director and the General Manager's employment relationship are connected, so that when one is terminated so is the other.

In line with the Board of Directors' resolution of 18 May 2020, except in the event of dismissal for disciplinary reasons and resignations without just cause, on termination of the employment relationship linked to the end of the term of office, the following applies: (i) as General Manager, an all-inclusive severance payment equal to 24 months' pay (being fixed and short- and long-term variable remuneration calculated in accordance with the Policy), in addition to a payment in lieu of notice (fixed and short- and long-term variable remuneration calculated in accordance with the Policy) pursuant to art. 2121 of the Italian Civil Code; (ii) as Chief Executive Officer, a termination payment due at the end of the term in office (TFM) equal to 1/12 of remuneration as CEO (fixed and short-term variable remuneration) paid for each year in office. These severance payments are not linked to performance.

It should be noted that, under the same conditions, the Chief Executive Officer and General Manager retains the rights awarded under the incentive schemes and that, in the event of termination prior to the end of their term of office, the rights will be calculated on a prorated basis. In any event, bonuses are awarded when the plans mature.

4.6 Remuneration of members of the Board of Statutory Auditors

This section describes key aspects of the Remuneration Policy for members of the Board of Statutory Auditors.

The annual remuneration of members of the Board of Statutory Auditors consists solely of a fixed component. This component is determined on the basis of the commitment required in order to carry out their duties.

For the 2020-2022 term of office, the Board of Statutory Auditors received the following remuneration, set by the Annual General Meeting of 18 May 2020:

Board of Statutory Auditors (remuneration for the 2020-2022 term of office)

Chairman of the Board of Statutory Auditors	€55,000
Standing Auditor	€45,000

4.7 Remuneration of Key Management Personnel

Key Management Personnel (KMP) refers to persons who, directly or indirectly, have the power and responsibility for the planning, management and control of the Company's operations. At the date of this Report, Key Management Personnel, as reflected in the Group's new organisational structure, hold the following positions:

- Chief Financial Officer;
- Head of Corporate Affairs;
- Head of Innovation & Market Solutions;
- Head of Major Projects and International Development;
- Head of External Relations, Institutional Affairs and Sustainability;
- Head of the National Transmission Grid;
- Head of People Organization and Change;
- Head of Grid Development Strategies and Dispatching.

The list of Key Management Personnel has been drawn up by interpreting article 152-sexies, paragraph 1(c) of the Regulations for Issuers in its widest sense, in order to ensure maximum transparency of the information provided to shareholders on transactions carried out by the Company's Key Management Personnel, albeit within their specific areas of responsibility. In drawing up the Remuneration Policy for Key Management Personnel, account was taken of the need to link a portion of their remuneration to the achievement of specific performance objectives, including some of a non-financial nature, linked to the Group's sustainable success (principle XV in the Corporate Governance Code now in force) and in line with the overall remuneration policy drawn up by the Board of Directors.

Recommendations 27 and 28 in the Corporate Governance Code also apply, where compatible, to determination of the remuneration for Key Management Personnel.

The employment relationship with Key Management Personnel is governed by the existing National Collective Employment Contract for manufacturing and service companies. In addition to the forms of remuneration described below, the policy applied to the Key Management Personnel is the same as that applied to management personnel in general.

The remuneration of Key Management Personnel consists of the following elements:

- Gross Annual Pay (GAP), determined on the basis of the role held, the responsibilities assigned and the strategic nature of the manager;
- short-term incentives (MBO), with access subject to the achievement of predetermined business objectives, which at target represent up to 50% of Gross Annual Pay (GAP);
- long-term incentives, with access subject to the achievement of predetermined multi-year objectives, and which, in terms of the total amount payable at target over the three-year duration of the Plan, is equal to a pre-established percentage of up to 60% of Gross Annual Pay (GAP);
- benefits granted under the applicable National Collective Employment Contract and company policies and practices;
- severance payments in the event of early termination by the Company, determined in line with best market practices, as described in more detail in the paragraph, "Severance".

Short-term variable component (MBO)

The short-term incentive scheme (MBO) rewards the annual contribution of each beneficiary to Terna's performance and aligns management actions with strategic objectives in line with business priorities.

MBO objectives for Key Management Personnel are set by the Chief Executive Officer, in line with the Remuneration Policy and with the general criteria set by the Remuneration Committee.

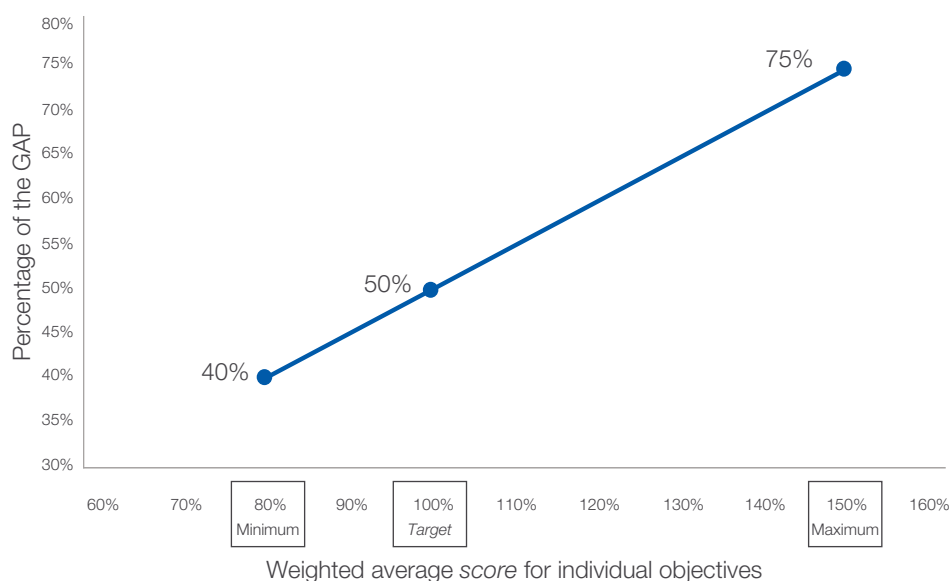
Access to the MBO scheme is subject to a performance gate (budgeted EBITDA curve) and is structured according to the following format:

Performance gate: budgeted EBITDA curve

Weighting	Weight	Weight	Weight
Group objectives	40%	Cross-cutting objectives	20%
Objectives common to all beneficiaries		Individual objectives	30%
		Qualitative objective	10%
	Objectives common to several departments based on particular business priorities or initiatives	Specific objectives tied to the role	Assessed on the basis of management behaviours in the Leadership Framework

Payment of the short-term incentive (MBO) to Key Management Personnel follows the Remuneration Committee's assessment, with the support of the People Organization and Change department, of achievement of the performance objectives assigned annually.

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



* The percentages of GAP shown in the graph refer to the maximum bonus obtainable for each level of overall achievement of the objectives.

If the weighted average score for the individual objectives is below 80%, nothing is due. In the event of overperformance, the bonus is capped at the maximum attainable level (150%).

The short-term incentive scheme is not subject to deferral mechanisms. This decision was taken in view of the following elements:

- the Company's risk profile and the sector in which it operates;
- the presence of a long-term incentive scheme and its relative weighting with respect to the fixed component and the short-term variable component;
- the use of a rolling long-term incentive scheme that takes the form of annual awards, with a three-year vesting period and a two-year lock-up period;
- the existence of clawback provisions.

The Company may recognize extraordinary bonuses - also by providing retention mechanisms and alignment with the interests of shareholders - in order to remunerate the value created for the shareholders in the context of transactions and projects of an extraordinary nature or with reference to transactions of an extraordinary nature and with a significant impact on the business, subject to the approval of the Board of Directors and at the proposal of the Remuneration Committee, having consulted the Board of Statutory Auditors, without prejudice to the controls on transactions with related parties pursuant to the Procedure for Related Party Transactions, where applicable. This provision can also be extended to the Chief Executive Officer and General Manager.

Long-term variable component (LTI)

In line with the terms applicable to the General Manager, Key Management Personnel may also participate in the long-term Performance Share Plan 2022-2026.

The new Performance Share Plan 2022-2026 for Key Management Personnel involves the same performance objectives as assigned to the General Manager, with the same weightings and the same score curves, as well as the same vesting and lock-up periods and settlement procedures.

The above description of the Plan for the General Manager also applies in its entirety to key Management Personnel, with the exception of the bonus achievable and aspects relating to payment in the event of early termination of the relationship, which are governed by the specific provisions described below.

A summary of the characteristics and bonuses achievable at target for KMP is provided below:

INSTRUMENT	PERFORMANCE SHARE
Vesting period	2022-2024
Objectives	40% Cumulative EBITDA
	15% Cumulative regulated CAPEX
	20% Relative TSR
	25% ESG Indices (Inclusion in Bloomberg GEI; DJSI-World; MIB® ESG; STOXX ESG)
Bonus achievable	Percentages of the incentive to be converted into Performance Shares of up to 60% of Gross Annual Pay (GAP), based on the total amount over the three-years covered by the LTI Plan, if the weighted average of the scores for the individual objectives is at target (100%) and based on the value of Terna's shares with respect to the grant date.

In the event of termination of the relationship with KMP prior to award of the Shares for reasons other than the following:

- dismissal for disciplinary reasons;
- resignation without just cause;

and, therefore, also in the event of termination of the relationship by mutual consent, the right to the award of a portion of the Shares on a prorated basis will be maintained (for the beneficiary or their heirs or successors), based on an assessment of the performance achieved at the date of termination.

CLAWBACK AND MALUS PROVISIONS

The variable portion of the remuneration paid to the Key Management Personnel is also subject to clawback provisions, requiring the repayment of any amounts already paid within the statute of limitations envisaged by current legislation and whether or not the relationship is still in place or has been terminated. Malus provisions also apply, giving the Company the right to withhold any part of the incentive subject to deferral, where applicable, if there is evidence that payment of the bonus was made on the basis of information that is manifestly inaccurate or misleading, in the event of serious and intentional breaches of the law, the Code of Ethics or company regulations, in the event of fraudulent conduct or gross negligence on the part of the beneficiary to the detriment of the Company or one of the Group Companies. The application of these provisions is nevertheless without prejudice to any other action permitted by the law in order to protect the interests of the Company.

Signing bonuses

Signing bonuses are payable, in exceptional circumstances, to newly hired KMP on entry. This is done solely in order to attract very senior management personnel with areas of expertise that are critical for Ambientes the business.

Benefits

In keeping with the Policy implemented, the benefits package for Key Management Personnel has been determined in accordance with the terms of the related National Collective Employment Contract and of the company policies and practices applicable to management personnel in general:

- contributions to a supplementary pension fund (FONDENEL);
- enrolment in a supplementary medical insurance scheme (ASEM);
- life and permanent disability insurance;
- a company car for personal use;
- occupational and non-occupational accident insurance.

Non-competition agreements

Where the termination of the relationship with Key Management Personnel in possession of particularly important expertise and skills may expose the Company to risk, the Company may apply non-competition agreements. The related payment must remain within the limits set by company policy, which makes reference to the disbursement of one year's pay under agreements with a duration of one year.

Severance

In the event of early termination of the employment relationship by the Company, payments may be made on the basis of ex-ante agreements or as agreed on termination, taking into account the degree of responsibility assigned and the service provided.

In particular, other than in the case of dismissal for disciplinary reasons or resignation without just cause, KMP may receive an all-inclusive severance payment amounting to up to 24 months' pay (being fixed and short- and long-term variable remuneration calculated in accordance with the Policy), in addition to a payment in lieu of notice (fixed and short- and long-term variable remuneration calculated in accordance with the Policy) pursuant to art. 2121 of the Italian Civil Code. These severance payments are not linked to performance.

It should be noted that, under the same conditions, the manager retains the rights awarded under the incentive schemes and that, in the event of termination prior to the end of their term of office, the rights will be calculated on a prorated basis and awarded on the basis of the assessment of performance at the end of the vesting period. In any event, bonuses are awarded when the plans mature.

5. Detailed index

of topics (CONSOB Resolution 18049 and subsequent revisions, Section I)

In order to aid the reader, a detailed index of topics is provided below, with references to the paragraphs that contain information on the individual items referred to in CONSOB Resolution 18049, revised, Section I.

CONSOB RESOLUTION	DISCLOSURE REQUIRED	REFERENCES
A	Bodies or persons involved in the preparation and approval of the remuneration policy, specifying their respective roles, as well as the bodies or individuals responsible for the correct implementation of this policy;	Paragraph 3 (pages 20 to 29)
B	the potential establishment of a remuneration committee or other relevant committee, describing its composition (with distinction between non-executive and independent directors), its responsibilities and operating procedures, and any further measures designed to avoid or handle conflicts of interest;	Paragraph 3.1 (pages 20 to 27)
C	how the company has taken into account the compensation and working conditions of its employees in drawing up the remuneration policy;	Paragraph 4.1 (page 33)
D	the names of any independent experts that contributed to the formulation of the remuneration policy;	Paragraph 3.3 (page 29)
E	the purposes of the remuneration policy, its underlying principles, duration and, in the event of revision, a description of the changes to the remuneration policy with respect to the last policy submitted for approval by the Annual General Meeting and how this revision takes into account the votes held and opinions expressed during such meeting or subsequently;	Paragraph 1 (page 13), Paragraph 2 (pages 14 and 15), Paragraph 4.1 (pages 30 to 33)
F	a description of the policies regarding fixed and variable components of remuneration, particularly with regard to their relative proportion within overall remuneration, distinguishing between short- and medium/long-term variable components;	Executive summary (pages 8 and 9), Paragraph 2.4 (page 19), Paragraph 4.5 (pages 35 to 46), Paragraph 4.6 (page 47) and Paragraph 4.7 (pages 47 to 51)
G	the policy adopted with respect to benefits in kind;	Executive summary (page 9), Paragraph 4.5.2 (page 46) and Paragraph 4.7 (page 51)
H	a description of the financial and non-financial performance objectives, including any criteria relating to corporate social responsibility, on the basis of which the variable components are awarded, distinguishing between short- and medium/long-term variable components, and information on the link between changes in results and the change in remuneration;	Executive summary (pages 8 and 9), Paragraph 4.5.2 (pages 36 to 45), Paragraph 4.7 (pages 47 and 50)
I	the criteria used to evaluate performance objectives forming the basis of the grant of shares, options, other financial instruments or other variable components of remuneration, specifying the measure of the variable component to be awarded on the basis of the level of achievement of the objectives;	Executive summary (pages 8 and 9), Paragraph 4.5.2 (pages 36 to 45), Paragraph 4.7 (pages 47 and 50)
J	Information designed to show the contribution made by the remuneration policy, and in particular the variable components of remuneration, to the company's strategy, the pursuit of its long-term interests and its sustainability;	Paragraph 4.1 (pages 30 to 33), Paragraph 4.5.2 (pages 36 to 45) and Paragraph 4.7 (pages 47 to 50)
K	the vesting period, any deferral mechanisms, with indications of the periods of deferral and the criteria used to determine these periods and ex-post correction mechanisms for the variable component (malus or clawback provisions);	Paragraph 4.5.2 (pages 36 to 45) and Paragraph 4.7 (pages 47 to 50)
L	information on the use of provisions requiring the retention of financial instruments after their purchase, with an indication of the retention period and the criteria used to determine these periods;	Paragraph 1 (page 13), Paragraph 4.5.2 (pages 36 to 45) and Paragraph 4.7 (pages 47 to 50)
M	the policy on compensation envisaged in case of termination of office or termination of employment (and the related details);	Executive summary (page 9), Paragraph 4.5.2 (page 46) and Paragraph 4.7 (page 51)
N	information on any insurance, social security or pension plans, other than the obligatory schemes;	Executive summary (page 9), Paragraph 4.5.2 (page 46) and Paragraph 4.7 (page 51)
O (i)	if present, the remuneration policy for independent directors;	The Company does not use specific remuneration policies for independent directors.
O (ii)	if present, the remuneration policy for participation in board committees;	Paragraph 4.5.1 (page 35)
O (iii)	if present, the remuneration policy for directors with delegated powers (chair, deputy chair, etc.);	Executive summary (page 8) and Paragraph 4.5.2 (page 36)
P	if the remuneration policy was drawn up on the basis of the remuneration policies of other companies and, if so, the criteria used in choosing such companies and which companies were used;	In drawing up its policy, the Company has not made reference to the remuneration policies of other companies. Remuneration has, however, been benchmarked against a peer group (pages 17 and 18)
Q	elements of the remuneration policy to which, under exceptional circumstances, exemptions apply and, with prejudice to the requirements of Regulation 17221 of 12 March 2010, any other procedural conditions on the basis of which the exemption may be applied.	Paragraph 3.1 (pages 28 and 29)

6. Detailed index

in accordance with recommendation 27 of art. 5 of the Corporate Governance Code (January 2020 edition)

In order to aid the reader, a detailed index of topics is provided below, with references to the paragraphs that contain information on the individual items referred to in recommendation 27 in art. 5 of the Corporate Governance Code.

The remuneration policy for executive directors and senior management defines:

POINT	DISCLOSURE REQUIRED	REFERENCES
a)	a balance between the fixed and variable components that is appropriate and consistent with the company's strategic objectives and risk management policy, bearing in mind the nature of the business and the sector in which terna operates, whilst ensuring that the variable component represents a significant part of the overall remuneration package;	Paragraph 2.4 (page 19) and Paragraph 4.1 (pages 30 to 32)
b)	any caps on variable components;	Executive summary (pages 8 and 9), Paragraph 2.4 (page 19), Paragraph 4.5.2 (pages 38 to 45) and Paragraph 4.7 (pages 47 to 50)
c)	performance objectives, to which payment of the variable components are linked, predetermined, measurable and to a significant extent linked to long-term performance. These are consistent with the company's strategic objectives and aim to drive sustainable success, including, where material, non-financial measures;	Executive summary (pages 8 and 9), Paragraph 4.5.2 (pages 36 to 45), Paragraph 4.7 (pages 47 and 50)
d)	an appropriate deferral period – with respect to the vesting condition – for a significant part of the variable component, in line with the nature of the business and the risk profile;	Paragraph 2.4 (page 19), Paragraph 4.5.2 (pages 36 to 45) and Paragraph 4.7 (page 50)
e)	contract provisions are used to enable the company to request the return, in whole or in part, of the variable components of remuneration paid (or to withhold sums that have been deferred), that were calculated on the basis of information that later turned out to be manifestly inaccurate or under other circumstances that may be identified by the company;	Paragraph 4.5.2 (page 45) and Paragraph 4.7 (page 50)
f)	clear and pre-established rules governing severance payments made on termination of the directorship is determined in such a way that its total amount does not exceed a certain amount or a certain number of years of remuneration. This indemnity is not paid if the termination of the relationship is due to the achievement of objectively inadequate results.	Executive summary (page 9) and Paragraph 4.5.2 (page 46)





Section II: Report on remuneration paid in 2021

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Introduction

This section is divided into two parts covering the following aspects:

- **Part one:** the different elements that make up remuneration (including severance and termination payments), indicating consistency with the related remuneration policy;
- **Part two:** table showing the remuneration paid to members of management and oversight bodies, the General Manager and information on shareholdings in the Company held by such persons and the remuneration paid to Key Management Personnel.

This section is put to a non-binding vote by the Annual General Meeting, as required by Art. 123-ter of Legislative Decree 58 of 24 February 1998 (the “*Consolidated Law on Finance*” or CLF, as amended by Legislative Decree 49 of 10 May 2019), which states in paragraph 6: “*Without prejudice to the provisions [...] the annual general meeting called [...] shall vote for or against section two of the report provided for in paragraph 4. The result of the vote is not binding*”.

In addition, the Independent Auditors engaged to audit the accounts verifies that this Section of the Report has been prepared by the Directors, as required by Art.123-ter of the CLF (as amended by the Legislative Decree of 10 May 2019).

The remuneration paid to the members of management and oversight bodies and to the General Manager is described by name; the remuneration paid to Key Management Personnel¹¹ is, in contrast, reported in aggregate form.

Implementation of the Policy, to the extent verified by the Remuneration Committee when conducting the periodic assessment required by the Corporate Governance Code, has remained in line with the general principles established in Board of Directors’ resolutions. Detailed information on each component of remuneration, including severance or termination payments, is provided in Section I.

The separate components of remuneration are in keeping with the Policy approved by the Board of Directors in 2021 and put to a binding vote by the Annual General Meeting held on 30 April 2021, in accordance with art. 123-ter, paragraph 6 of the CLF, which voted in favour of the Policy.

¹¹ In accordance with CONSOB Resolution 18049 of 23 December 2011, KMP who during the year did not receive remuneration that was higher in value than the total pay received by the members of management and oversight bodies or by the General Manager.

Part one

1. Corporate performance 2021

2021 continued to be marked by continual upheaval. Despite the resulting economic and financial tensions, Terna's performance was in line with expectations, confirming the strength of the business and showing further proof of the organisation's ability to react and adapt to unforeseen circumstances.

In particular, the Group's net profit recorded an improvement of €3.9 million compared to last year, whilst EBITDA amounted to €43.8 million. CAPEX amounted to €1,520.7 million, with an increase of €169.6 million.

On 31 December 2021, Terna's Total Shareholder Return was 18.78%, with an increase of approximately 9.42 percentage points compared to the previous year.

Furthermore, Terna guaranteed a good level of service, also in terms of regulated energy not supplied, with a final balance of 380 MWh against a target set by Arera of 820 MWh. With regard to output-based incentives, Arera resolution 23 of 25 January 2022 determined the reward for building interzonal transmission capacity in 2020 as €143.6 million, relating to the period 2021-2023.

Terna has always paid great attention to the issue of occupational safety; in fact, compared to the previous year, there was a decrease in the total number of injuries to Terna personnel, which remains clearly below the average number of injuries in the last 3 years, with the safety index significantly improving compared with 2020, having declined from 1.09 to 0.48.

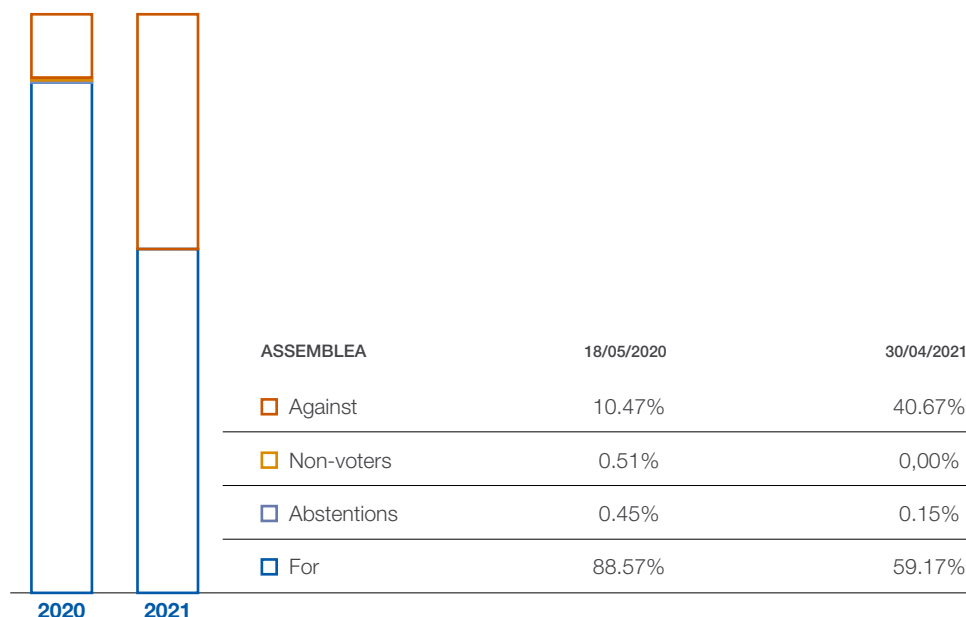
Finally, also in 2021, Terna was included in the Dow Jones Sustainability World Index, confirming its position in the leading group that only includes seven electric utilities worldwide and in the top decile among the companies analysed by Standard & Poors in its Corporate Sustainability Assessment.

Please refer to the Annual Financial Report for the year ended 31 December 2021 for a description of the main factors that characterised the operating performance in 2021.

2. Outcome of shareholder votes and feedback

As required by art. 123-ter of the CLF (as amended by the Legislative Decree of 10 May 2019), the Annual General Meeting of 18 May 2020 was invited for the first time to hold an advisory vote on Section II of the Report on the Remuneration Policy and Remuneration Paid. The following chart shows the outcome of the non-binding vote at the Annual General Meeting, which overall voted in favour.

OUTCOME OF VOTES ON REMUNERATION PAID (2020-2021)

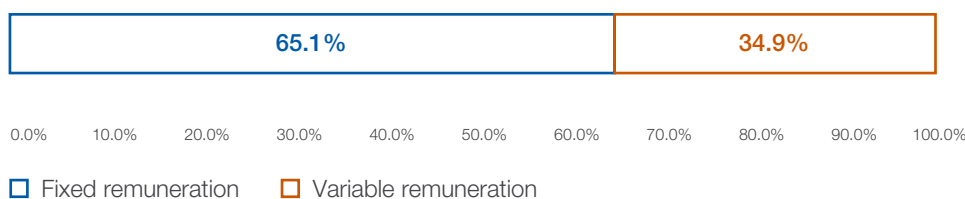


The outcome of this vote and feedback from investors on the remuneration paid in 2020 was analysed by Terna in 2021, together with observations received on Section I of the Report. Terna thus took the views and opinions expressed into account in preparing this Report on the Remuneration Policy and Remuneration Paid, without prejudice to existing contractual commitments and the labour law restrictions of the Italian Civil Code.

3. Ratio of fixed to variable remuneration paid

In compliance with the requirements introduced in the revised Regulations for Issuers, this paragraph provides details of the ratio of fixed to variable remuneration paid to the Chief Executive Officer and General Manager in 2021. Specifically, the computation took into account the fixed remuneration shown in column 1 of Table 1 and the variable non-equity remuneration shown in column 3 of the same table.

ACTUAL PAY MIX 2021 - CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER



The following paragraphs include a detailed description of the single components of pay taken into account.

It should be noted that there are no variable components of pay linked to the Company's or the Group's financial performance in the case of other members of the Board of Directors and the Board of Statutory Auditors.

4. Fixed remuneration

Non-executive Directors

In 2021, the non-executive Directors were paid the fixed remuneration established by the Annual General Meeting of 18 May 2020 (€35,000 annual gross for each Director).

Chairwoman

In 2021, the Chairwoman, elected by the Board of Directors on 18 May 2020, was paid the fixed remuneration approved by the Annual General Meeting of 18 May 2020 (€50,000 annual gross) and by the Board of Directors on 18 May 2020 (€188,000 annual gross). Therefore, the overall remuneration package for the Chairwoman, in terms of fixed remuneration, amounted to €238,000 annual gross.

Chief Executive Officer and General Manager

In 2021, the Chief Executive Officer and General Manager, elected by the Board of Directors on 18 May 2020, was paid:

- the fixed remuneration as Director, established by the Annual General Meeting of 18 May 2020 (€35,000 annual gross);
- the fixed remuneration, established by the Board of Directors on 18 May 2020, for assigned powers and duties (€200,000 gross per year);
- the fixed component of remuneration as General Manager (€850,000 gross per year).

Therefore, the 2021 overall remuneration package for the CEO and General Manager, in terms of fixed remuneration, amounted to €1,085,000 annual gross.

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

Key Management Personnel

In 2021, the Key Management Personnel were paid total fixed remuneration of €2,428,083.

Table 1 shows fixed remuneration paid in aggregate form.

5. Variable remuneration

Short-term variable incentive

Chief Executive Officer and General Manager

In 2021, the Chief Executive Officer and General Manager received the short-term incentive remuneration (MBO), based on the performance achieved in achieving the targets foreseen for the two roles, as reported in the financial statements for 2021, which shall be submitted for approval by the Annual General Meeting that is to approve Section I of this Report¹².

¹² Remuneration paid in application of the principles indicated in the remuneration policy put to an advisory, non-binding vote at the Annual General Meeting held on 30 April 2021.

The Chief Executive Officer and General Manager received the following annual variable remuneration for 2021:

- €200,000 gross as Chief Executive Officer. In this regard, it should be noted that the MBO bonus payable to the Chief Executive Officer is of the on/off type and that all the objectives assigned were achieved;
- €382,500 gross as General Manager, based on an overall level of achievement of the objectives assigned of 127.50%.

The degree of achievement of each objective assigned is shown below:

2021 MBO OBJECTIVES - CHIEF EXECUTIVE OFFICER

OBJECTIVES	WEIGHTING	TARGET	ACTUAL	SCORE
Net Profit - Terna Group	50%	781.60 €Mln	789.36 €Mln	ON
Innovation - NexTerna programme: New model of sustainable leadership, review of the way the Group uses workplaces and implementation of a communication plan	25%	ON	ON	ON
ARERA Resolution defining new target capacities and submission of results to ARERA for admission to first set of incentives for increasing capacity between market areas in accordance with Resolution 567/19	25%	ON	ON	ON

MBO OBJECTIVES FOR 2021 - GENERAL MANAGER

OBJECTIVES	WEIGHTING	TARGET	ACTUAL	SCORE
EBITDA - Terna Group	25%	1,814.13* €Mln	1.854,79 €Mln	150.00%
Regulated CAPEX	15%	1,312.01 €Mln	1.456,77 €Mln	150.00%
Regulated Assets entering service	15%	1,364.26 €Mln	1.117,76 €Mln	0.00%
Service quality (Regulated Energy Not Supplied, RENS)	20%	861.10 MWh	380 MWh	150.00%
Workplace safety (SI) Terna Group personnel working in the electricity sector	20%	1.00	0,48	150.00%
Injuries among contractors in Italy	5%	38	29	150.00%
WEIGHTED AVERAGE SCORE				127.50%

* 2021 results presented on a pro forma basis following reclassification of the Latin American assets to "Assets held for sale"

The total short-term variable remuneration relating to the 2021 performance period, was equal to €582,500 gross for the CEO and GM.

The amounts relating to variable remuneration are specified in Tables 1 and 3B.

Key Management Personnel

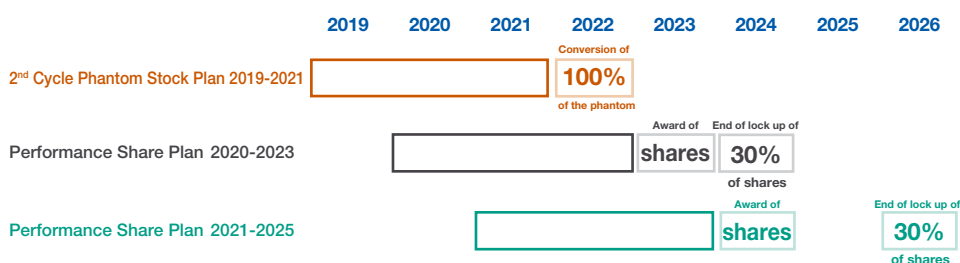
Key Management Personnel received total annual variable remuneration, based on the results reported in the financial statements for 2021, amounting to €1,613,850. Overall average achievement of the objectives assigned was approximately 136%.

Signing bonuses amounting to a total of €80,000 gross were also paid to Key Management Personnel. These bonuses were recognised exclusively to attract resources with extensive management experience and in possession of critical skills for the business.

Tables 1, 3A and 3B show aggregate figures for signing bonuses and variable remuneration paid on a prorated basis for the period for the various positions held, considering all the persons qualifying as Key Management Personnel for at least a part of the year in 2021.

Long-term variable incentives

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



The second cycle of the three-year Phantom Stock Plan 2019-2021 vested in 2021. On 24 March 2022, the Board of Directors based on the assessment conducted by the Remuneration Committee and the resulting recommendation, confirmed the degree to which the cycle's three performance objectives had been achieved, as described below:

GOALS	WEIGHT	TARGET	ACTUAL	SCORE
Cumulative EBITDA 2019-2021	50%	5,234.4 €Mln	5,426.4 €Mln	150.00%
Total Shareholder Return 2019-2021	30%	3 rd place	3 rd place	100.00%
Dow Jones Sustainability Index	20%	Inclusion in all three years and positioning among the top 7 companies in at least one year out of 3.	2019: 1st decile; 1st place in the Dow Jones Sustainability World Index. 2020: 1 st decile; 1 st place in the Dow Jones Sustainability World Index. 2021: 1 st decile; 2 nd place ex aequo with Iberdrola in the Dow Jones Sustainability World Index.	150.00%
WEIGHTED AVERAGE SCORE				135.00%

Based on the above, the overall level of achievement with reference to the three-year Cycle of the Phantom Stock Plan 2019-2021 was 135.00% and with reference to the average closing price of Terna's Share in the last 30 working days prior to the Board of Directors of 24 March 2022, the award of:

- an incentive, calculated on a prorated basis, for the General Manager of €1,171,439 gross;
- an incentive, on an aggregate level, for Key Management Personnel of €891,979 gross.

These sums will be paid in cash as part of the first salary payment following approval of the financial statements for the year ended 31 December 2021.

The three-year cycle of the Phantom Stock Plan 2019-2021 was described in the Policy for 2019, published in the Remuneration Report for 2019.

It should also be noted that, in the light of the description provided in Section I of the Remuneration Report for 2020 and 2021 respectively, during 2020 and 2021, grants were made under the Performance Share Plan 2020-2023 and the Performance Share Plan 2021-2025. Information on this Plan is provided in Table 3A.

With regard to Key Management Personnel, table 3A shows aggregate figures for the variable remuneration paid on a prorated basis for the period the various positions were held, considering all the persons qualifying as Key Management Personnel for at least a part of the year in 2021.

6. Fees paid for participation in Board Committees

The fees paid for membership of Board Committees are reported below.

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

Chairs of the Appointments Committee, Remuneration Committee and Coordinator of the Committee for Operations with Related Parties

The Chairs of the Appointments Committee, Remuneration Committee and the Coordinator of the Related Party Transactions Committee received gross remuneration amounting to €50,000 per year (in addition to remuneration in their capacity as a Director - €35,000 per year gross).

Chairman of the Audit and Risk, Corporate Governance and Sustainability Committee:

The Chairman of the Audit and Risk, Corporate Governance and Sustainability Committee received gross remuneration amounting to €60,000 per year (in addition to remuneration in their capacity as a Director - €35,000 annual gross).

Committee Members

The members of all the Committees, other than Chairs, received €40,000 per year gross (in addition to remuneration in their capacity as a Director - €35,000 per year), calculated on a prorated basis for the period in which they were in office in the case of Directors who became Committee members with effect from 14 October 2021.

7. Benefits

In line with the Policy, the Chairwoman, the Chief Executive Officer, in his position as General Manager, and Key Management Personnel received benefits in 2021. The value of these benefits is shown in Table 1. These amounts were paid on a prorated basis for the period the various positions were held, considering all the persons qualifying as Key Management Personnel for at least a part of the year in 2021.

8. Severance

In the course of 2021, severance payments were made to outgoing Key Management Personnel, the value of which is shown in Table 1, related to the remuneration policy provided for Key Management Personnel.

9. Annual change in remuneration paid and in the Company's performance

In line with the requirements of the revised Regulations for Issuers published by the CONSOB and the remuneration paid and described in this Section of the Report, this paragraph provides an annual comparison between 2019, 2020 and 2021 of:

- the total remuneration paid to members of the Board of Directors and the Board of Statutory Auditors, as shown in "Total" column (6) in Table 1. In this regard, the table below shows total remuneration paid - prorated on the basis of the period in office - to all persons who have held the position of Director or Statutory Auditor, even if for only a fraction of the year, during 2019, 2020 and 2021. The change in remuneration between 2020-2019 and 2021-2020 is only shown for persons receiving pay in both years;
- the Company's results, in terms of EBITDA and Total Shareholder Return;
- total average remuneration for the Company's employees, based on the average full-time workforce, excluding the Chief Executive Officer and General Manager, calculated as the sum of gross annual pay, short-term variable remuneration for the year, benefits and any further compensation (e.g., overtime pay).

REMUNERATION OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS

NOMINATIVO	CARICA	2019	2020	2021	Δ2021-2020
Valentina Bosetti	Chairwoman of the Board of Directors		148,624.15 €	238,907.90 €	60.75%
Catia Bastioli	Chairwoman of the Board of Directors	239,736.85 €	91,734.92 €		
Stefano Antonio Donnarumma	CEO and General Manager		1,203,775.71 €	1,723,651.25 €	43.19%
Luigi Ferraris	CEO and General Manager	3,326,853.34 €	526,348.85 €		
Jean-Michel Aubertin	Director		46,723.83 €	83,659.14 €	79.05%
Antonella Baldino	Director		21,804.45 €	35,054.25 €	60.77%
Paolo Calcagnini	Director	30,642.25 €	13,451.13 €		
Valentina Canalini	Director		21,804.45 €	35,054.25 €	60.77%
Ernesto Carbone	Director		46,723.83 €	83,768.90 €	79.29%
Fabio Corsico	Director	125,545.39 €	125,913.40 €	125,193.74 €	- 0.57%
Alessandra Faella	Director		46,723.83 €	83,659.14 €	79.05%
Giuseppe Ferri	Director		46,723.83 €	83,768.90 €	79.29%
Paola Giannotti	Director	120,138.34 €	135,986.48 €	135,209.24 €	-0.57%
Marco Giorgino	Director	65,633.29 €	121,732.13 €	125,193.74 €	2.84%
Yunpeng He	Director	75,327.23 €	50,400.85 €	35,054.25 €	-30.45%
Gabriella Porcelli	Director	157,279.13 €	141,264.59 €	125,193.74 €	-11.38%
Elena Vasco	Director	112,195.15 €	48,039.74 €		
Luca Dal Fabbro	Director	45,179.14 €			
Matteo Mario Busso	Standing Auditor		34,245.92 €	55,085.24 €	60.85%
Raffaella Fantini	Standing Auditor		28,019.39 €	45,069.75 €	60.85%
Riccardo Schioppo	Standing Auditor	55,239.97 €	21,137.49 €		
Vincenzo Simone	Standing Auditor	45,196.34 €	45,205.17 €	45,069.75 €	-0.30%
M. Alessandra Zunino de Pignier	Standing Auditor	45,196.34 €	17,294.31 €		

The changes are due to the term in office and/or participation in Board Committees and not to any change in the applicable remuneration policy. Details of the individual components of remuneration are provided in the tables and notes in Section II of the Reports for 2019, 2020 and 2021.

COMPANY'S PERFORMANCE

MEASURE	2019	2020*	2021*	CHANGE Δ 2021-2020
EBITDA	€ 1,741.2 million	€ 1,811.0 million	€ 1,854.8 million	2.42%
Total Shareholder Return	25.13%	9.36%	18.78%	100.64%

* In compliance with the requirements of IFRS 5, the overall results for the 2021 and 2020 financial years attributable to the South American subsidiaries involved in the potential sale of the Group's Latin American assets have been classified in "Profit/(Loss) from assets held for sale" in the Group's reclassified income statement.

AVERAGE REMUNERATION OF EMPLOYEES

SCOPE	2019 (€)	2020 (€)	2021 (€)	CHANGE Δ 2021 - 2020
Full-time employees (average)	49,766	50,158	52,212	4.09%

Part two

Table 1 - Remuneration paid to members of management and oversight bodies, General Managers and Key Management Personnel.

A	B	C	D	1	2
NAME AND SURNAME	POSITION	PERIOD IN OFFICE	EXPIRY OF TERM OF OFFICE (APPROVAL OF FINANCIAL STATEMENTS FOR)	FIXED PAY	FEEES PAID FOR PARTICIPATION IN BOARD COMMITTEES
Valentina Bosetti	Chairwoman of the Board of Directors	01/01/2021-31/12/2021	Approval of 2022 Financial Statements		
(I) Remuneration from the company preparing the financial statements				50,000.00 €	
				188,000.00 €	
(II) Remuneration from subsidiaries and associates					
(III) Total				238,000.00 €	
Stefano Antonio Donnarumma	CEO and General Manager	01/01/2021-31/12/2021	Approval of 2022 Financial Statements		
(I) Remuneration from the company preparing the financial statements				35,000.00 €	
				200,000.00 €	
				850,000.00 €	
(II) Remuneration from subsidiaries and associates					
(III) Total				1,085,000.00 €	
Jean-Michel Aubertin	Director	01/01/2021-31/12/2021	Approval of 2022 Financial Statements		
(I) Remuneration from the company preparing the financial statements				35,000.00 €	48,529.68 €
(II) Remuneration from subsidiaries and associates					
(III) Total				35,000.00 €	48,529.68 €
Antonella Baldino	Director	01/01/2021-31/12/2021	Approval of 2022 Financial Statements		
(I) Remuneration from the company preparing the financial statements				35,000.00 €	
(II) Remuneration from subsidiaries and associates					
(III) Total				35,000.00 €	
Valentina Canalini	Director	01/01/2021-31/12/2021	Approval of 2022 Financial Statements		
(I) Remuneration from the company preparing the financial statements				35,000.00 €	
(II) Remuneration from subsidiaries and associates					
(III) Total				35,000.00 €	
Ernesto Carbone	Director	01/01/2021-31/12/2021	Approval of 2022 Financial Statements		
(I) Remuneration from the company preparing the financial statements				35,000.00 €	48,639.27 €
(II) Remuneration from subsidiaries and associates					
(III) Total				35,000.00 €	48,639.27 €
Fabio Corsico	Director	01/01/2021-31/12/2021	2022		
(I) Remuneration from the company preparing the financial statements				35,000.00 €	90,000.00 €
(II) Remuneration from subsidiaries and associates					
(III) Total				35,000.00 €	90,000.00 €

3		4	5	6	7	8
VARIABLE NON-EQUITY PAYMENTS		BENEFITS IN KIND	OTHER REMUNERATION	TOTAL	FAIR VALUE OF EQUITY-BASED PAYMENTS	SEVERANCE OR TERMINATION PAYMENTS
BONUSES AND OTHER INCENTIVES	PROFIT-SHARING					
				50,000.00 €		
		907.90 €		188,907.90 €		
		907.90 €		238,907.90 €		
				35,000.00 €		
200,000.00 €				400,000.00 €		
382,500.00 €		56,151.25 €		1,288,651.25 €	475,186.82 €	
582,500.00 €		56,151.25 €		1,723,651.25 €	475,186.82 €	
		129.46 €		83,659.14 €		
		129.46 €		83,659.14 €		
		54.25 €		35,054.25 €		
		54.25 €		35,054.25 €		
		54.25 €		35,054.25 €		
		54.25 €		35,054.25 €		
		129.63 €		83,768.90 €		
		129.63 €		83,768.90 €		
		193.74 €		125,193.74 €		
		193.74 €		125,193.74 €		

Section II: Report on remuneration paid in 2021 • Part two

A	B	C	D	1	2
NAME AND SURNAME	POSITION	PERIOD IN OFFICE	EXPIRY OF TERM OF OFFICE (APPROVAL OF FINANCIAL STATEMENTS FOR)	FIXED PAY	FEEs PAID FOR PARTICIPATION IN BOARD COMMITTEES
Alessandra Faella	Director	01/01/2021-31/12/2021	2022		
(I) Remuneration from the company preparing the financial statements				35,000.00 €	48,529.68 €
(II) Remuneration from subsidiaries and associates					
(III) Total				35,000.00 €	48,529.68 €
Giuseppe Ferri	Director	01/01/2021-31/12/2021	2022		
(I) Remuneration from the company preparing the financial statements				35,000.00 €	48,639.27 €
(II) Remuneration from subsidiaries and associates					
(III) Total				35,000.00 €	48,639.27 €
Paola Giannotti	Director	01/01/2021-31/12/2021	2022		
(I) Remuneration from the company preparing the financial statements				35,000.00 €	100,000.00 €
(II) Remuneration from subsidiaries and associates					
(III) Total				35,000.00 €	100,000.00 €
Marco Giorgino	Director	01/01/2021-31/12/2021	2022		
(I) Remuneration from the company preparing the financial statements				35,000.00 €	90,000.00 €
(II) Remuneration from subsidiaries and associates					
(III) Total				35,000.00 €	90,000.00 €
Yunpeng He	Director	01/01/2021-31/12/2021	2022		
(I) Remuneration from the company preparing the financial statements				35,000.00 €	
(II) Remuneration from subsidiaries and associates					
(III) Total				35,000.00 €	
Gabriella Porcelli	Director	01/01/2021-31/12/2021	2022		
(I) Remuneration from the company preparing the financial statements				35,000.00 €	90,000.00 €
(II) Remuneration from subsidiaries and associates					
(III) Total				35,000.00 €	90,000.00 €
Matteo Mario Busso	Standing Auditor	01/01/2021-31/12/2021	2022		
(I) Remuneration from the company preparing the financial statements				55,000.00 €	
(II) Remuneration from subsidiaries and associates					
(III) Total				55,000.00 €	
Raffaella Fantini	Standing Auditor	01/01/2021-31/12/2021	2022		
(I) Remuneration from the company preparing the financial statements				45,000.00 €	
(II) Remuneration from subsidiaries and associates					
(III) Total				45,000.00 €	
Vincenzo Simone	Standing Auditor	01/01/2021-31/12/2021	2022		
(I) Remuneration from the company preparing the financial statements				45,000.00 €	
(II) Remuneration from subsidiaries and associates					
(III) Total				45,000.00 €	
Key Management Personnel (9)					
(I) Remuneration from the company preparing the financial statements				2,428,082.93 €	
(II) Remuneration from subsidiaries and associates					
(III) Total				2,428,082.93 €	

3		4	5	6	7	8
VARIABLE NON-EQUITY PAYMENTS		BENEFITS IN KIND	OTHER REMUNERATION	TOTAL	FAIR VALUE OF EQUITY-BASED PAYMENTS	SEVERANCE OR TERMINATION PAYMENTS
BONUSES AND OTHER INCENTIVES	PROFIT-SHARING					
		129,46 €		83,659.14 €		
		129,46 €		83,659.14 €		
		129,63 €		83,768.90 €		
		129,63 €		83,768.90 €		
		209,24 €		135,209.24 €		
		209,24 €		135,209.24 €		
		193,74 €		125,193.74 €		
		193,74 €		125,193.74 €		
		54,25 €		35,054.25 €		
		54,25 €		35,054.25 €		
		193,74 €		125,193.74 €		
		193,74 €		125,193.74 €		
		85,24 €		55,085.24 €		
		85,24 €		55,085.24 €		
		69,75 €		45,069.75 €		
		69,75 €		45,069.75 €		
		69,75 €		45,069.75 €		
		69,75 €		45,069.75 €		
1,613,850.00 €		202,703.10 €		4,244,636.03 €	561,911.49 €	667,557.17 €
1,613,850.00 €		202,703.10 €		4,244,636.03 €	561,911.49 €	

Table 1 notes

Valentina Bosetti	Column 1	The amount includes: - fixed annual remuneration payable pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Chairwoman (€50,000); - fixed annual remuneration payable pursuant to art. 2389, para. 3 of the Italian Civil Code for the position of Chairwoman (€188,000).
	Column 3	The amount includes: - fixed annual remuneration payable pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Director (€35,000); - fixed annual remuneration payable pursuant to art. 2389, para. 3 of the Italian Civil Code for the position of Chief Executive Officer (€200,000); - gross annual pay (€850,000) for the position of General Manager.
Stefano Antonio Donnarumma	Column 1	The amount corresponds to the gross annual fixed pay established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Director (€35,000).
	Column 2	The amount includes: - gross remuneration due as a member of the Appointments Committee (€40,000); - prorated amount payable, for the period from 14 October 2021 to 31 December 2021, as gross remuneration due as a member of the Remuneration Committee (€40,000).
Jean-Michel Aubertin	Column 1	The amount corresponds to the gross annual fixed pay established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Director (€35,000). This amount was not paid in 2021.
	Column 2	The amount corresponds to the gross annual fixed pay established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Director (€35,000). The amount was partially disbursed in 2021.
Antonella Baldino	Column 1	The amount corresponds to the gross annual fixed pay established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Director (€35,000). This amount was not paid in 2021.
	Column 2	The amount includes: - gross remuneration due as a member of the Related Party Transactions Committee (€40,000); - the prorated amount payable, for the period from 14 October 2021 to 31 December 2021, as gross remuneration due as a member of the Appointments Committee (€40,000). The amounts were partially disbursed in 2021.
Ernesto Carbone	Column 1	The amount corresponds to the gross annual fixed pay established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Director (€35,000). This amount was not paid in 2021.
	Column 2	The amount includes: - gross remuneration due as Chairman of the Remuneration Committee (€50,000); - gross remuneration due as a member of the Appointments Committee (€40,000).
Fabio Corsico	Column 1	The amount corresponds to the gross annual fixed pay established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Director (€35,000). This amount was not paid in 2021.
	Column 2	The amount includes: - gross remuneration due as a member of the Remuneration Committee (€40,000). The amount was not paid in 2021; - the prorated amount payable, for the period from 14 October 2021 to 31 December 2021, as gross remuneration as a member of the Audit and Risk, Corporate Governance and Sustainability Committee (€40,000). This amount was not paid in 2021.
Alessandra Faella	Column 1	The amount corresponds to the gross annual fixed pay established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Director (€35,000). This amount was not paid in 2021.
	Column 2	The amount includes: - gross remuneration due as a member of the Remuneration Committee (€40,000). The amount was not paid in 2021; - the prorated amount payable, for the period from 14 October 2021 to 31 December 2021, as gross remuneration as a member of the Audit and Risk, Corporate Governance and Sustainability Committee (€40,000). This amount was not paid in 2021.

	Column 1	The amount corresponds to the gross annual fixed pay established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Director (€35,000). The amount was partially disbursed in 2021.
Giuseppe Ferri	Column 2	<p>The amount includes:</p> <ul style="list-style-type: none"> - gross remuneration due as a member of the Audit and Risk, Corporate Governance and Sustainability Committee (€40,000). - the prorated amount payable, for the period from 14 October 2021 to 31 December 2021, as gross remuneration due as a member of the Related Party Transactions Committee (€40,000). The amounts were partially disbursed in 2021.
	Column 1	The amount corresponds to the gross annual fixed pay established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Director (€35,000).
Paola Giannotti	Column 2	<p>The amount includes:</p> <ul style="list-style-type: none"> - gross remuneration due as Chairwoman of the Audit and Risk, Corporate Governance and Sustainability Committee (€60,000); - gross remuneration due as a member of the Related Party Transactions Committee (€40,000).
	Column 1	The amount corresponds to the gross annual fixed pay established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Director (€35,000). The amount was partially disbursed in 2021.
Marco Giorgino	Column 2	<p>The amount includes:</p> <ul style="list-style-type: none"> - gross remuneration due as a member of the Audit and Risk, Corporate Governance and Sustainability Committee (€40,000); - gross remuneration due as Chairman of the Related Party Transactions Committee (€50,000). The amounts were partially disbursed in 2021.
Yunpeng He	Column 1	The amount corresponds to the gross annual fixed pay established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Director (€35,000), to be paid to State Grid. This amount was not paid in 2021.
	Column 1	The amount corresponds to the gross annual fixed pay established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Director (€35,000).
Gabriella Porcelli	Column 2	<p>The amount includes:</p> <ul style="list-style-type: none"> - gross remuneration due as Chairwoman of the Appointments Committee (€50,000); - gross remuneration due as a member of the Remuneration Committee (€40,000).
Matteo Mario Busso	Column 1	The amount corresponds to the gross annual fixed pay, established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Board of Statutory Auditors (€55,000). The amount was partially disbursed in 2021.
Raffaella Fantini	Column 1	The amount corresponds to the gross annual fixed pay, established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Statutory Auditor (€45,000). This amount was not paid in 2021.
Vincenzo Simone	Column 1	The amount corresponds to the gross annual fixed pay, established pursuant to art. 2389, para. 1 of the Italian Civil Code for the position of Statutory Auditor (€45,000). This amount was not paid in 2021.
Dirigenti con Responsabilità Strategiche	Column 3	The amount corresponds to total gross remuneration due under the MBO scheme for 2021 (€1,613,850).
	Column 8	References to severance payments in line with the remuneration policy for 2021 in relation to Key Management Personnel.

Table 3A

Equity-based incentive plans, other than stock options, for members of the board of directors, general managers and other key management personnel

A	B	1	FINANCIAL INSTRUMENTS AWARDED IN PREVIOUS YEARS THAT DID NOT VEST DURING THE YEAR	
			2	3
NAME AND SURNAME	POSITION	PLAN	NUMBER AND TYPE OF FINANCIAL INSTRUMENTS	VESTING PERIOD
Stefano Antonio Donnarumma	CEO and General Manager			
		Cycle Phantom Stock Plan 2019-2021 (AGM 8 May 2019)		
(I) Remuneration from the company preparing the financial statements		Cycle Performance Share Plan 2020-2023 (AGM of 18 May 2020)	252,144	3 years
		Cycle Performance Share Plan 2021-2025 (AGM of 30 April 2021)		
(II) Remuneration from subsidiaries and associates				
(III) Total				
Key Management Personnel (9)				
		Cycle Phantom Stock Plan 2019-2021 (AGM 8 May 2019)		
(I) Remuneration from the company preparing the financial statements		Cycle Performance Share Plan 2020-2023 (AGM of 18 May 2020)	301,210	3 years
		Cycle Performance Share Plan 2021-2025 (AGM of 30 April 2021)		
(II) Remuneration from subsidiaries and associates				
(III) Total				

FINANCIAL INSTRUMENTS GRANTED DURING THE YEAR					FINANCIAL INSTRUMENTS VESTING DURING THE YEAR AND NOT AWARDED	FINANCIAL INSTRUMENTS VESTING DURING THE YEAR AND AWARDABLE		FINANCIAL INSTRUMENTS ATTRIBUTABLE TO THE YEAR
4	5	6	7	8	9	10	11	12
NUMBER AND TYPE OF FINANCIAL INSTRUMENTS	FAIR VALUE AT GRANT DATE	VESTING PERIOD	GRANT DATE	MARKET PRICE ON GRANT DATE	NUMBER AND TYPE OF FINANCIAL INSTRUMENTS	NUMBER AND TYPE OF FINANCIAL INSTRUMENTS	VALUE AT GRANT DATE	FAIR VALUE
						167,708	1,171,439	
248,565	1,425,560.5	3 years	16/06/21	6.34*				475,186.8
	1,425,560.5							475,186.8
						127,699	891,979	
293,967	1,685,734.5	3 years	16/06/21	6.34*				561,911.5
	1,685,734.5							561,911.5

* The market price at the grant date: based on the Volume Weighted Average Price (VWAP) registered in the 22 working days prior to the Grant Date for the shares.

Table 3B

Cash-settled incentive plans for members of the Board of Directors, general managers and other key management personnel

A	B	1	2			3			4
NAME AND SURNAME	POSITION	PLAN	BONUS FOR THE YEAR			BONUS FOR PREVIOUS YEARS			OTHER BONUSES
			(A) PAYABLE/ PAID	(B) DEFERRED	(C) DEFERRAL PERIOD	(A) NO LONGER PAYABLE	(B) PAYABLE/ PAID	(C) STILL DEFERRED	
Stefano Antonio Donnarumma	CEO and General Manager								
(I) Remuneration from the company preparing the financial statements		MBO 2021 (CEO)	€ 200,000.00						
		MBO 2021 (GM)	€ 382,500.00						
(II) Remuneration from subsidiaries and associates									
(III) Total			€ 582,500.00						
Key Management Personnel (9)									
(I) Remuneration from the company preparing the financial statements		MBO 2021	€ 1,613,850.00						
(II) Remuneration from subsidiaries and associates									
(III) Total			€ 1,613,850.00						

Form 7-ter

Interests of members of management and oversight bodies, general managers and key management personnel

Shares held by Directors, Statutory Auditors, General Managers and Key Management Personnel

In accordance with art. 84-*quater*, paragraph 4 of the Regulations for Issuers, the following tables provide a list of shares in Terna and its subsidiaries held by Directors, Statutory Auditors, general managers (table 1) and key management personnel (table 2), and by spouses who are not legally separated and minor children, either directly or through subsidiaries, trust companies or proxies, as recorded in the shareholder register, notifications received and other information obtained by such members of management and oversight bodies, general managers and key management personnel. The list includes all persons holding the positions of Director, Statutory Auditor, General Manager and Key Management Personnel in 2021.

The number of shares is reported by name for members of the management and oversight bodies and general managers and, on an aggregate basis, for other key management personnel.

Tabella 1

NAME AND SURNAME	POSITION	INVESTEES COMPANY ¹³	NUMBER OF SHARES HELD AT THE END OF THE PREVIOUS YEAR (2020)	NUMBER OF SHARES PURCHASED (IN 2021)	NUMBER OF SHARES SOLD (IN 2021)	NUMBER OF SHARES HELD AT END OF YEAR 2021	TITLE ¹⁴
Bosetti Valentina	Chairwoman of the Board of Directors	TERNA S.p.A.	0	0	0	0	
Donnarumma Stefano Antonio	CEO and General Manager	-	0	0	0	0	
Aubertin Jean-Michel	Board member	-	0	0	0	0	
Baldino Antonella	Board member	-	0	0	0	0	
Canalini Valentina	Board member	-	0	0	0	0	
Carbone Ernesto	Board member	-	0	0	0	0	
Corsico Fabio	Board member	-	0	0	0	0	
Faella Alessandra	Board member	-	0	0	0	0	
Ferri Giuseppe	Board member	-	0	0	0	0	
Giannotti Paola	Board member	-	0	0	0	0	
Giorgino Marco	Board member	-	0	0	0	0	
He Yunpeng	Board member	-	0	0	0	0	
Porcelli Gabriella	Board member	-	0	0	0	0	
Busso Matteo Mario	Chairman of the Board of Statutory Auditors	-	0	0	0	0	
Fantini Raffaella	Standing Auditor	-	0	0	0	0	
Simone Vincenzo	Standing Auditor	-	0	0	0	0	
Massimiliano Ghizzi	Alternate Auditor	-	0	0	0	0	
Barbara Zanardi	Alternate Auditor	-	0	0	0	0	
Maria Assunta Damiano	Alternate Auditor	-	0	0	0	0	

Table 2¹⁵

NUMBER OF KEY MANAGEMENT PERSONNEL	INVESTEES COMPANY ¹⁶	NUMBER OF SHARES HELD AT THE END OF THE PREVIOUS YEAR (2020)	NUMBER OF SHARES PURCHASED (IN 2021)	NUMBER OF SHARES SOLD (IN 2021)	NUMBER OF SHARES HELD AT END OF YEAR 2021	TITLE ¹⁷
9	-	18.000	0	18.000	0	

¹³ Terna and/or its subsidiaries.

¹⁴ In this column - added to Form 7-ter of Annex 3A provided for in art. 84-quater, paragraph 4 of CONSOB Resolution 11971/99 - shows if the shares are held under ownership or a pledge, are held in usufruct, have been deposited, lent or borrowed, etc.

¹⁵ During 2021, the role of Key Management Personnel partially changed. Against the number of shares notified by KMP in the course of 2021, the number of shares held by Key Management Personnel decreased from 18,000 to 0. As a result, the Company is not aware of share purchases and sales completed after the aforementioned change in scope.

¹⁶ Terna and/or its subsidiaries.

¹⁷ In this column - added to Form 7-ter of Annex 3A provided for in art. 84-quater, paragraph 4 of the Regulations for Issuers - shows if the shares are held under ownership or a pledge, are held in usufruct, have been deposited, lent or borrowed, etc.

Glossary

Annual General Meeting (“AGM”): the collective body that deliberates on matters relating to the Company. All the holders of voting rights are represented (either directly or by proxies) at the meeting. The AGM has the powers conferred on it by law and the Company’s Articles of Association: the most important of these are the power to approve the financial statements and to elect and terminate Directors and members of the Board of Statutory Auditors and its Chair. With regard to the Remuneration Policy, the AGM expresses a binding opinion on Section I and a non-binding opinion on Section II of the Remuneration Report.

Audit and Risk, Corporate Governance and Sustainability Committee: this is a Board Committee set up on the basis of art. 6 of the Corporate Governance Code. Its members are non-executive independent Directors, and the Committee’s Chair is an independent Director. A description of the functions of the Audit and Risk, Corporate Governance and Sustainability Committee is provided in the Report on Corporate Governance and Ownership Structures.

Bloomberg GEI: an international index, published annually, that measures companies’ performance regarding gender equality issues and the quality and transparency of their public reporting.

Board of Directors: this is the collective body responsible for management of the Company. Terna S.p.A.’s Board of Directors consists of 13 Directors. It is the body with the authority for, among other things, approving the Remuneration Policy recommended by the Remuneration Committee.

Board of Statutory Auditors: the Company’s oversight body, which has the role of overseeing compliance with the law, the Company’s Articles of Association and with correct corporate governance principles, also verifying the adequacy of the organisational structure and administrative and accounting systems adopted by the Company and their functionality. It expresses a mandatory, albeit non-binding, opinion on the definition of the Remuneration Policy for Directors with delegated powers, which must be taken into account in the decisions taken by the Board of Directors.

Clawback provisions: these are contract provisions enabling the Company to request the return of all or a part of the variable components of remuneration paid on the basis of information that was subsequently revealed to be inaccurate or misleading or in the event of fraud or gross negligence on the part of the beneficiary, or where there have been breaches of the related laws or regulations (company rules, statutory and regulatory requirements, etc.), without which the related performance objectives would not have been met.

Consolidated Law on Finance (“CLF”): the “Consolidated Law on Finance” or Legislative Decree 58 of 24 February 1998 (as amended).

Corporate Governance Code: Borsa Italiana's new Corporate Governance Code for Listed Companies, published in January 2020 and in effect from the first reporting period beginning after 31 December 2020, and to which Terna adheres. The document contains a series of principles and recommendations setting out the objectives of good corporate governance for companies listed on the screen-based trading system (Mercato Telematico Azionario) managed by Borsa Italiana. Application of the Code is voluntary and is described in the Report on Corporate Governance and Ownership Structures.

Directors with delegated powers: the Chair of the Board of Directors and the Chief Executive Officer.

Directors without delegated powers: all Directors except for the Chair of the Board of Directors and the Chief Executive Officer.

Dow Jones Sustainability Index (or DJSI or Index): the sustainability index published annually by S&P Global, consisting of listed companies considered the best in terms of sustainability performance; in this document, reference is specifically made to the "World" Index.

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortisation (gross operating profit) is an indicator of operating performance; it is calculated on the basis of profit before taxation, net financial income/(expenses), depreciation, amortisation and impairment losses, as reported in the annual financial statements.

Entry level: the minimum level for performance indicators, below which the incentive plans will not pay any bonus.

Executive Directors: the chief executive officers of the Company or strategically important subsidiaries, including the chairs of these companies if granted executive powers or when they have a specific role in defining business strategies. Executive Directors also include Directors holding managerial positions in the Company or a strategically important subsidiary, or in the parent company when the position also relates to Terna. Finally, Directors who sit on the Executive Committee are also classified as Executive, when they have not been nominated as a Chief Executive Officer or when membership of the executive Committee, given the frequency of meetings and the matters decided on, effectively means there is systematic involvement of its members in the day-to-day running of Terna.

Gate: the performance threshold, below which no bonus is due.

Gross Annual Pay ("GAP"): this refers to gross annual pay, relating solely to the fixed elements of remuneration payable under an employment contract, excluding any benefits linked to employment and any one-off payments, reimbursements of expenses and any incentive or variable component even if defined as guaranteed and/or paid as a one-off or on a continuous, repeated or deferred basis, termination benefits and any other payment provided for in law or in the applicable collective employment contract.

Key Management Personnel (KMP): these managers have the direct or indirect authority and responsibility for planning, managing and overseeing the Company's operations. A definition of "Key Management Personnel" is provided in Annex 1 to the CONSOB Regulation on Related Party Transactions, last amended by resolution 22144 of 22 December 2021.

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

Lock-up period: the period of two year from the end of the vesting period, during which the shares awarded are non-transferable.

Long-term Incentive (LTI) Plan: this is the long-term incentive plan that awards beneficiaries a bonus linked to the achievement of predetermined multi-year objectives at company level.

Management by Objectives (MBO): this short-term form of incentive grants beneficiaries the right to receive an annual cash bonus, based on predetermined objectives agreed with each of the Plan beneficiaries.

MIB® ESG: Launched in 2021, this is Italy's first blue-chip index focusing on ESG best practices. The index is based on the outcome of the periodic assessment conducted by the agency, Vigeo Eiris, part of Moody's ESG Solutions

Net profit: this is an indicator of operating performance; it is calculated on the basis of the difference between revenue and operating costs after depreciation, amortisation and impairment losses, net financial income/(expenses) and taxation.

Appointments Committee: this is a Board Committee set up on the basis of art. 4 of the Corporate Governance Code. Its members are independent Directors. A description of the functions of the Appointments Committee is provided in the Report on Corporate Governance and Ownership Structures.

Objective at target: the level of achievement of the objective granting the right to receive 100% of the incentive.

Overperformance: the maximum level of achievement of the objective granting the right to receive a predetermined maximum percentage of the incentive, above 100%.

Performance Share: this Share represents the shares in Terna S.p.A. awarded as a bonus as part of the long-term incentive plans 2020-2023, 2021-2025 e 2022-2026 linked to specific performance objectives.

Phantom Stock: this refers to "units" representing a share in virtual form and that track its value over time, simulating the official share price. The stock results in payment of a cash bonus. The number of "units" awarded as a bonus is linked to specific performance objectives.

Regulation on Related Party Transactions: CONSOB Regulation 17221 of 10 March 2010, as amended, setting out rules designed to ensure the transparency and substantive and procedural fairness of related party transactions carried out directly by the Company or through subsidiaries.

Regulations for Issuers: the CONSOB Regulations for Issuers 11971 of 14 May 1999, as amended, containing regulations applicable to the issuers of financial instruments.

Related Party Transactions Committee: the Committee is made up of 3 independent Directors with the roles and responsibilities provided for in CONSOB Regulation 17221/2010, as amended. A description of the functions of the Related Party Transactions Committee is provided in the Report on Corporate Governance and Ownership Structures.

Remuneration Committee: this is a Board Committee set up on the basis of art. 5 of the Corporate Governance Code. Its members are non-executive Directors, the majority of whom independent, and the Committee's Chair is an independent Director. A description of the functions of the Remuneration Committee is provided in the Report on Corporate Governance and Ownership Structures.

Shareholder: a person or entity holding shares in the Company.

Stakeholder: a person or entity with an interest in the Company and its business.

STOXX ESG: Launched in 2011, these indices are based on assessments made by the Sustainalytics rating agency and select the best shares based on ESG performance. Admission to the Global ESG Leaders Index, requires inclusion in at least one of the three specialist indices (Global Environmental Leaders, Global Social Leaders and Global Governance Leaders).

Total Shareholder Return ("TSR"): the total return on an equity investment, calculated as the sum of:

- i) the capital gain: the change in the share price (difference between the price at the end and at the beginning of the relevant period) as a percentage of the price at the beginning of the period;
- ii) reinvested dividends: the ratio between dividends per share paid out during the period and the share price at the beginning of the period. Dividends are deemed to have been reinvested in the shares. The source used for TSR is Bloomberg.

Vesting (vesting period): this is the period between the grant of rights under an incentive scheme and the date on which the beneficiary acquires unconditional title to the underlying shares or cash payment.

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