

2012

## Report on corporate governance and ownership structures

(traditional administration and management model)

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

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## Contents

### Report on corporate governance and ownership structures

<b>Foreword .....</b>	<b>4</b>
<b>Section I: Issuer's Profile - Corporate Structure .....</b>	<b>5</b>
Issuer's profile .....	5
Mission .....	5
Social Responsibility .....	5
Company organization .....	6
<b>Section II: Information on shareholding structure.....</b>	<b>8</b>
Share capital structure.....	8
Significant participating interests in share capital and shareholders agreements .....	8
Powers to increase share capital and authorization for the purchase of treasury shares .....	9
Employees' shareholdings: system to express the right to vote .....	10
Change of control clauses.....	10
Restrictions in share transfer and shares granting special powers .....	10
Voting Restrictions.....	15
Appointment and substitution of Directors and amendments to the Bylaws .....	16
Appointment, requirements and term of office of Directors .....	16
Succession Plans .....	20
Bylaws Amendments .....	20
Indemnities for Directors in case of resignation, discharge or cessation of relation following a public take-over bid .....	21
Management and coordination .....	21
<b>Section III: Compliance .....</b>	<b>22</b>
<b>Section IV: Board of Directors .....</b>	<b>22</b>
Composition.....	22
Maximum number of positions in other companies .....	28
Induction Programme .....	29
Role of the Board of Directors.....	29
Board of Directors Meetings and the role of the Chairman .....	32
Assessment of the Board of Directors activity .....	33
Delegated bodies and other Executive Directors .....	34
CEOs .....	34
Independent Directors .....	35
Lead Independent Director .....	36
<b>Section V: Management of company information.....</b>	<b>37</b>
<b>Section VI: Committees within the Board.....</b>	<b>39</b>
<b>Section VII: Appointment Committee.....</b>	<b>40</b>

<b>Section VIII: Remuneration Committee</b> .....	<b>40</b>
Functions of the Remuneration Committee.....	40
<b>Section IX: Remuneration of Directors</b> .....	<b>42</b>
<b>Section X: Control and Risk Committee</b> .....	<b>44</b>
Functions of the Control and Risk Committee.....	44
<b>Section XI: Internal Control System and Risk Management</b> .....	<b>47</b>
Executive Director in charge of the Internal Control and Risk Management System .....	49
Internal Audit Department Manager.....	49
Code of Ethics .....	51
Organizational Model under Legislative Decree no. 231/2001 .....	52
Independent Auditors .....	54
Executive in Charge of the preparation of the company's accounting documents and other company roles and departments.....	54
Coordination of the parties involved in the Internal Control and Risk Management System.....	56
<b>Section XII: Directors' interests and related party transactions</b> .....	<b>56</b>
<b>Section XIII: Appointment of the Statutory Auditors</b> .....	<b>59</b>
Appointment and requirements of Statutory Auditors .....	59
<b>Section XIV: Composition and operation of the Board of Statutory Auditors</b> .....	<b>62</b>
<b>Section XV: Investor Relations</b> .....	<b>65</b>
<b>Section XVI: Shareholders' Meetings</b> .....	<b>66</b>
<b>Tables</b>	
Table 1: Composition of TERNA's Board of Directors and of the Committees .....	71
Table 2: Composition of the Board of Statutory Auditors .....	73
<b>Attachments</b>	
Attachment 1 .....	74

## 2012 Report on corporate governance and ownership structures

### Foreword

Following the start-up of the trading of shares on the MTA stock market organised and managed by Borsa Italiana S.p.A. in June 2004, Terna adopted a corporate governance system that is compliant with the standards set out in the Governance Code prepared by the Corporate Governance Committee of listed companies promoted by Borsa Italiana and has progressively approved adjustments of the system as required by the further editions of the Governance Code - of which the latest was in December 2011 - implementing them in order to ensure compliance with the commitments made up until the date of approval of the draft financial statements for FY 2012 according to that set out below.

Therefore, the Corporate Governance system in place at Terna is in line with the principles of the December 2011 edition of the Governance Code (hereinafter the "Governance Code"), with CONSOB recommendations in this respect and, more generally, with international best practices.

This corporate governance system is essentially focused on the objective of creating value for shareholders, aware of the corporate relevance of the activities in which the Group is involved and the consequent need to suitably consider, in the related implementation, all interests involved and which - as noted by CONSOB - "good corporate governance can create a virtuous cycle in terms of efficiency and business integrity, such as to also have a positive impact on the other stakeholders".

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

This Report on Corporate Governance and Ownership Structures - prepared in consideration of the instructions given by Borsa Italiana - in a specific section provides the information required by Article 123-*bis* of Italian Legislative Decree no. 58/98 (the Consolidated Law on Finance) and by Article 144-*decies* of the "Regulation enacting Italian Legislative Decree no. 58 of February 24, 1998, concerning issuer regulations" adopted by CONSOB (Issuers Regulation) and is complete with a specific attachment that explains the main characteristics of the internal control and risk management systems existing in relation to the financial disclosure process.

Failure to comply with certain provisions of the Governance Code is explained in the section of the report that concerns the relative practice of governance otherwise applied by the Company.

All the information included in the report, unless otherwise specified, was updated on the basis of information available as of the date of the Report's approval.

With reference to the new features introduced by the Governance Code in its December 2011 edition, this Report summarises the information on conduct adopted with regard to the provisions of the Governance Code that have already come into force according to the terms required for adjustment as established by transitional legislation. Therefore, it is otherwise specified where the disclosure refers to the recommendations of the previous edition of the Governance Code of listed company published by Borsa Italiana in 2006, as amended in March 2010.

## Section I: Issuer's Profile - Corporate Structure

### Issuer's profile

#### *Mission*

"Terna is a leading grid operator for energy transmission. The Company manages electricity transmission in Italy and guarantees its safety, quality and affordability over time. It ensures equal access conditions for all grid users. It develops market activities and new business opportunities with the experience and technical skills gained in the management of complex systems. It creates value for the shareholders with a strong commitment to professional best practices and with a responsible approach to the community, respecting the environment in which it operates".

#### *Social Responsibility*

Terna manages all its activities focusing on their possible economic, social and environmental consequences and in adopting a sustainable approach to business, has identified a method for creating, maintaining and consolidating a relationship of mutual trust with its stakeholders, that is useful for the creation of value for the Company, society and the environment.

Terna's main orientation for Social Responsibility can be found in the Code of Ethics and in the Company's mission, and entail defining its concrete and measurable responsibilities and objectives in economic, environmental and social areas, in addition to the one specific to Terna, that of responsibility for the electricity service.

From the point of view of sustainability, respect for the environment is particularly important. The physical presence of pylons, electricity lines and stations which interact with the landscape and biodiversity represent indeed the most significant impact of Terna's activities. That is why Terna has chosen the approach of negotiation and coordination with Local Authorities, also involving potentially significant stakeholders such as the main environmentalist associations to take environmental needs into consideration from the early stages of planning new lines. Terna has also developed a management system to control and limit the environmental impact of its activities. Thus, consideration of environmental issues matches the Company's interest in implementing grid development investments and in the more general interest of community for a reliable, inexpensive and environmentally safe electricity system.

The results of this management approach, oriented towards continuous improvement through the definition of economic, social and environmental responsibility objectives are presented in the Sustainability Report, indicated by the Code of Ethics as an instrument to give the stakeholders an account of the degree of implementation of its undertakings, and published yearly since 2006.

For its Sustainability Report, Terna adopts the international standard *G3.1-Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI)*, a leading global organization that develops guidelines on reporting sustainability, and then submits it for analysis to an external auditor and to the Board of Directors for approval.

Since the 2009 edition, the Sustainability Report has obtained an A+, the highest level provided for by the GRI standard, for transparency and completeness of information.

Among the main 2012 results for CSR it is worth mentioning:

- the revision of the ethical measures and environmental and social responsibilities in relation to the reorganisation of the Group and the strategic objectives that, in particular, establish the adoption of the Code of Ethics and the Organisational Model pursuant to Italian Legislative Decree no. 231/2001 by new Group companies and the revision, update and, if necessary, strengthening of such measures in the supply chain;
- the continuation of the activities for the set-up of a management system inspired by energy efficiency, in line with the criteria set forth by ISO 50001;
- the signing of a Memorandum of Understanding with the 18 main consumer associations aimed at sharing proposals and actions on subjects of shared interest, relating to the national electricity transmission grid, in favour of users of the electricity service;
- the active participation in the pilot programme of the International Integrated Reporting Council (IIRC) with the study and implementation of a greater integration of the financial and sustainability information in the Report on Operations and on Terna's official website;
- the implementation of a survey on Terna's commitment to social aspects in order to get to know the opinions of selected stakeholders with regard to their initiatives in the social field in order to assess the level of knowledge and obtain information on an effective, coherent organisation of future initiatives.

Terna's commitment to improving its ESG (Environmental, Social Governance) performance has been considered positively in sustainability ratings, in the inclusion of the main international sustainability stock exchange indexes and in the appreciation of socially responsible investors.

In 2012, Terna was confirmed on all main international sustainability stock market indexes and was included in the new range of Vigeo ESG indexes.

In January 2013, Terna, the only Italian electrical company, was confirmed for the second year running as part of the Gold Class of the "RobecoSAM Sustainability Yearbook 2013", which this year includes only 67 companies in the world. The fact of belonging to the Gold Class requires a ratings score that must be less than 1% from that of the sector leader.

## **Company organization**

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

- a Board of Directors responsible for the Company management. To such aim, the Board is entrusted with the widest powers so as to complete all the actions that deems appropriate for the performance and the attainment of the Corporate purpose, excluding only the action that the Law and the Bylaws reserve to the Shareholders' Meeting;
- a Board of Statutory Auditors responsible for monitoring: (I) that the Company complies with the Law, the Bylaws and the principles of correct administration in performing Company activities, (II) the adequacy of the Company's organisational structure, Internal Control System and administrative/accounting system as well as those of the foreign subsidiaries outside of the EU. It is also responsible for carrying out all duties assigned to the Board of Statutory Auditors by Law and by the Corporate Governance Code for listed companies. Pursuant to the provisions of article 19 of Italian Legislative Decree 39/2010, it is the responsibility of the Board of Statutory Auditors to supervise the financial information process, the efficiency

of the internal control systems, of internal reviews and risk management, the auditing of annual and consolidated results and the independence of the auditing company;

- the Shareholders' Meeting - ordinary and extraordinary - that resolves upon, inter alia, (i) the appointment and revocation of members of the Boards of Directors and of Statutory Auditors and their fees and duties, (ii) the approval of the Financial statements and allocation of the profits for the year, (iii) the purchase and sale of treasury shares, (iv) amendments to the Bylaws, and (v) the issuance of convertible bonds; (vi) authorizations for actions carried out by Directors concerning Transactions with Related Parties for which there was no favourable opinion by the competent independent body, in compliance with governing regulations and based on procedures adopted by the Board of Directors as well as on urgent transactions submitted by the Directors to an advisory vote of the Shareholders' Meeting (Article 13.3 of the Bylaws), and (vii) during consultations pursuant to Article 123-ter, paragraph 6 of the Consolidated Law on Finance, on Company Policy on matters of remuneration of members of administration bodies, of general directors and of executives with strategic responsibilities;
- an Executive in Charge of the preparation of the Company's accounting records, who is given all assignments and responsibilities provided by the Law and regulations as well as those provided for by the Governance Code (Article 7.C.2).

Statutory auditing activities are entrusted to a specialized company enrolled in the specific register of legal auditors, which is appointed by the Shareholders' Meeting on proposal by the Board of Statutory Auditors.

Terna's independent legal auditors also have similar engagements with the Company's main subsidiaries.

It has been some time since the Organizational Model adopted by the Company pursuant to Legislative Decree no. 231/01 - which was recently updated based on the provisions of Legislative Decree 39/2010 - has provided that the auditing of the Company's Financial statements and that of any company of the Group and of the Consolidated financial statements is not compatible with consultancy activities for Terna or any company of the Group, extending to all network of the audit company as well as to shareholders, Directors, members of control bodies and employees of the audit company and of the other companies belonging to the same network. The assignments to the audit company are submitted to Terna's Internal Control Committee (now the "Control and Risk Committee") for any assignment other than the one given under Law provisions, in any event related to auditing activities. In order to ensure independence of the company and of the officer in charge of auditing, the assignment for the legal auditing of the Company's financial statements and that of any company of the Group and of the consolidated financial statements is not in any case given to audit companies that fall within one of the incompatibility situations pursuant to Article 17 of Italian Legislative Decree no. 39/2010 and Part III, Title VI, paragraph I *bis* of the Issuers Regulation.

The Shareholders' Meeting held on May 16, 2012 approved changes to Articles 14.3, 14.5, 26.1 and 26.2 of the Company Bylaws and the introduction of new Article 31 ("Transitional Clause") with new numbers 31.1 and 31.2 for the paragraphs forming this Article, aiming at ensuring, for three consecutive terms and without prejudice to any additional extensions as provided for by the law, gender balance in the composition of the Board of Directors and of the Board of Statutory Auditors of companies with listed shares, implementing the provisions introduced by Law No. 120 dated July 12, 2011, by Articles 147-ter, paragraph 1-ter, and 148, paragraph 1-*bis* of the Consolidated Law on Finance. The main changes concern: (i) the methods used for coordinating observance of gender quotas with the slate vote procedure, with the sole exception for lists

containing less than three candidates; (ii) the mechanisms used to ensure observance of gender quotas should there be substitutions during the course of a mandate; and (iii) methods to ensure that exercising the right of appointment, when provided for, does not contrast with the regulatory provisions of the Consolidated Law on Finance on the matter.

## **Section II: Information on shareholding structure (pursuant to Article 123-bis, paragraph 1 of the Consolidated Law on Finance)**

### **Share capital structure (pursuant to Article 123-bis, paragraph 1, letter a) of the Consolidated Law on Finance)**

The Company's share capital as of March 15, 2013 amounts to € 442,198,240.00 and comprises exclusively nominal ordinary shares, for a total of 2,009,992,000 ordinary Terna's shares with a nominal value of € 0.22 each. They are fully paid-up and bear voting rights at both the ordinary and extraordinary Shareholders' Meetings. Ordinary shares grant further administrative and financial rights provided for by the Law regulating the shares with right to vote.

Since June 23, 2004, Terna shares have been listed on the Italian stock exchange organised and managed by Borsa Italiana S.p.A., in the *Mercato Telematico Azionario* ("MTA") - Large Cap (or Blue Chip) segment comprising the 40 businesses that are most capitalised with the greatest level of liquidity and belong to the Financial Times Stock Exchange - *Milano Indice di Borsa* (FTSE MIB).

Pursuant to Article 5.2 of the Company Bylaws, the Shareholders' Meeting can approve capital increases through share issuance, also belonging to special categories, to be assigned free of charge pursuant to Article 2349 of the Italian Civil Code for employees, or rather as payment, and with the exclusion of the option right under Article 2441 of the Civil Code, in favour of subjects identified by shareholders.

In compliance with this provision of the Company Bylaws, the Shareholders' Meeting held on April 1, 2005 resolved only one share-based incentive plan that was utilized in full in 2011 and that included increasing the share capital according to g. the provisions in the subsequent paragraph "Powers to increase the share capital and authorizations for the purchase of treasury shares".

The Company did not issue other financial tools granting the right to subscribe newly issued shares.

Terna did not issue shares that were not negotiated on regulated markets of a country in the EU.

### **Significant participating interests in share capital and shareholders agreements (pursuant to Article 123-bis, paragraph 1, letters c) and g) of the Consolidated Law on Finance)**

On the basis of the shareholders' book, communications received pursuant to CONSOB Resolution no. 11971/99 and available information, and with reference to the Company's share capital as of March 15, 2013, equal to € 442,198,240.00 for a total of 2,009,992,000 ordinary Terna shares with a nominal value of € 0.22 each, the following investors hold a share of the capital in excess of the thresholds of relevance specified by Consob:

- Cassa Depositi e Prestiti S.p.A. (public limited company in which the Italian Ministry for the Economy and Finance of the Italian Republic owns 70%), with 29.851% of the share capital;
- Romano Minozzi (directly and indirectly) with 5.351% of the share capital.

BlackRock Inc. (with reference to the shares held through the management company of the BlackRock Group, by way of asset management), declared that it is applying the exemption established under Article

119-bis, paragraphs 7 and 8 of the Issuers Regulation, as amended by Consob Regulation no. 18214, which came into force on June 6, 2012. Therefore, as from June 6, 2012, BlackRock Inc.: (i) has asked that the investments declared previously in Terna, in excess of 2% and less than 5%, not be considered significant in terms of the disclosure obligations considered; (ii) has declared that it be kept beneath the new *medio tempore* threshold of relevance established by the coming into force of Consob changes; and (iii) holds (through the management company of the BlackRock Group, by way of asset management), as of November 8, 2012, a shareholding equal to 2.73% of the capital.

No other investors own more than the threshold of relevance indicated by Consob of Terna S.p.A.'s share capital and the Company is not aware of the existence of any shareholders' agreement relating to the Company shares.

### **Powers to increase share capital and authorization for the purchase of treasury shares (pursuant to Article 123-bis, paragraph 1, letter m) of the Consolidated Law on Finance)**

The power granted to the Board of Directors to increase the share capital resolved by the extraordinary Shareholders' Meeting held on April 1, 2005 was exercised through the adoption of a share-based incentive plan aimed at Terna Group's executives and in force from 2006 up to its complete exhaustion, which took place in 2011, with the exercising of all the Stock Options still in circulation.

The above-mentioned Stock Option plan brought about an increase in the share capital of € 2,198,240.00 through the issuance of 9,992,000 new ordinary Terna's shares, each with a nominal value of € 0.22.

It should be remembered that the extraordinary Shareholders' Meeting of April 1, 2005 had resolved the assignment of a five-year proxy to the Board of Directors for a share capital increase for maximum € 2,200,000 through the issuance of maximum 10,000,000 ordinary shares with a nominal value of € 0.22 each, on a dividend-right basis, to be offered for subscription to Terna Group's managers as payment with exclusion of the option right under the combined provisions of Article 2441, last paragraph, of the Civil Code and Article 134, paragraph 2 of the Consolidated Law on Finance, as provided for by Article 5.3 of the Company Bylaws.

Pursuant to the Shareholders' Meeting resolution of April 1, 2005, on December 21, 2005, Terna's Board of Directors adopted a share-based incentive plan. With reference to the adopted plan, the Board of Directors of March 21, 2007 partially exercised the above mentioned proxy, approving a share capital increase regarding the 2006 stock option plan up to maximum € 2,198,240.00 through the issuance of maximum 9,992,000 new ordinary Terna's shares with a nominal value of € 0.22 each, at € 2.072 each, to be implemented in compliance with Article 5.4 of the Bylaws. Based on Meeting resolution dated April 22, 2009, the maximum date for the total subscription of the increase is March 31, 2013.

No other proxies to increase capital have been assigned, pursuant to Article 2443 of the Civil Code.

No resolution authorizing the purchase of treasury shares under Article 2357 and following of the Civil Code has been submitted to Terna's Shareholders' Meeting.

Terna does not own, nor has purchased or sold during the year, not even indirectly, treasury shares or shares of its parent company.

**Employees' shareholdings: system to express the right to vote (pursuant to Article 123-bis, paragraph 1, letter e) of the Consolidated Law on Finance)**

The system for expressing the right to vote during the Shareholders' Meeting through shareholding associations, including employees shareholding groups, is regulated based on the existing specific legal provisions on the subject.

Based on the provisions regarding the special legislation on listed companies, Terna's Bylaws introduced a special provision aimed at facilitating collecting voting proxies with its employees' shareholding groups as well as of its subsidiaries, encouraging in this way the relative involvement in the meeting decision-making processes (Article 11.1 of the Bylaws).

As of March 15, 2013 the Company had not received any notification of the establishment of employees' shareholding groups.

**Change of control clauses (pursuant to Article 123-bis, paragraph 1, letter h) of the Consolidated Law on Finance) and statutory provisions in takeover bid matters (ex Article 104, paragraph 1-ter, and 104-bis, paragraph 1 of the Consolidated Law on Finance)**

As regards significant agreements Terna or any of its subsidiaries are parties of and that come into effect, are amended or expire in the event of shareholding change within Terna, the following should be noted.

The loan contracts stipulated with the European Investment Bank (EIB) include mandatory advance repayment clauses in the event the Company proceeds to or is involved in a merger, a split or transfer of a Company branch. Should such events occur, the EIB will have the power of requesting, and the Company will have the obligation to inform the Bank, any information that the latter may reasonably require regarding the Company situation, in order to understand any changes and relative consequences in the Company's commitments towards the Bank. In such cases, should the EIB deem, according to its indisputable judgement, that these transactions may have negative consequences on the commitments undertaken by the Company, the bank itself will have the power to request the necessary changes in the loan contracts or alternative solutions that satisfy the Bank itself, such as early reimbursement of the loan.

With regard to takeover bids and public tender offers to exchange, the Company Bylaws do not provide for any derogation of the provisions in the Consolidated Law on Finance on the so-called passivity rule provided for by Article 104, paragraphs 1 and 1-bis of the Consolidated Law on Finance, nor are there neutralization rules as established Article 104-bis, of the Consolidated Law on Finance, without prejudice to - pursuant to Article 104-bis, paragraph 7 of the Consolidated Law on Finance - law and statutory provisions regarding special powers as provided for in Article 2 of Law Decree no. 332 dated May 31, 1994 converted with amendments by Law no. 474 dated July 30, 1994, with subsequent modifications and amendments - the so-called "Law on Privatisation", and concerning limits on share possession and the right to vote pursuant to Article 3 of the same Law Decree.

**Restrictions in share transfer and shares granting special powers (pursuant to Article 123-bis, paragraph 1, letters b) and d), of the Consolidated Law on Finance)**

No limitations exist in the Company Bylaws to the availability of shares, except for the provisions stated by the Bylaws regarding rules for privatization based on the Law Decree no. 332 dated May 31, 1994 converted

with amendments by Law no. 474 dated July 30, 1994 and subsequent changes - the so called "Privatisation Law".

In particular, pursuant to Italian regulations concerning privatizations, Terna's Bylaws provide for the possibility for the Government to exercise certain "special powers" and establishes a "maximum limit of shareholding" - equal to a direct and/or indirect ownership of Terna's shares for more than 5% of the share capital - for subjects other than the Italian Government, state-controlled companies and entities subject to either control: the implementation of those provisions, in some circumstances as indicated by the Bylaws, has effects also on the voting right.

"Special powers" (indicated by Article 6.3 of the Bylaws, in enactment of Article 2, paragraph 1 of the "Privatisation Law") can be exercised by the Italian Government, represented in this case by the Ministry for the Economy and Finance, notwithstanding the number of Terna shares potentially owned by the Ministry itself.

In particular, in implementation of the "Privatisation Law", the Ministry for the Economy and Finance, as agreed with the Ministry of Productive Activities (now called Ministry for Economic Development), is assigned the following "special powers":

- a) opposition to relevant ownership (that is equal or higher than 1/20th of Terna's share capital formed by shares bearing right to vote in Shareholders' Meetings) by entities subject to the ownership restriction presented above. The opposition must be expressed within 10 days from the date of the communication, which must be made by Directors at the request of subscription in the shareholders' book, only when this may jeopardize the vital public interest. In the meantime, the right to vote and non-financial rights related to shares representing the relevant ownership, are suspended;
- b) opposition to shareholder agreements under the Consolidated Law on Finance, in case at least 1/20th of Terna's share capital, including shares bearing right to vote at Shareholders' Meetings, is thereby represented. Opposition must be expressed within 10 days from the date of communication that must be made by CONSOB. In the meantime, the right to vote and non-financial rights related to shares of shareholders that are parties of the agreements, are suspended;
- c) veto, dutifully motivated, in relation to concrete jeopardy of the vital public interest, to the adoption of provisions for the winding-up of the Company, of transfer, merger, division, moving abroad of the registered offices, of Company Corporate purpose change, of amendments to the Bylaws suppressing or modifying powers indicated by the same Article 6.3 of the Bylaws;
- d) appointment of one director with no right to vote. In case of termination of the assignment of the appointed Director, the Ministry for the Economy and Finance, in agreement with the Ministry for Productive Activities (now called Ministry for Economic Development), will appoint the substitute.

The power of opposition pursuant to letters a) and b), in accordance with the provisions of Article 4, paragraph 228 of Italian Law no. 350 of December 24, 2003, can be exercised with reference to the individual operation. It can also be exercised when ownership, also through single purchase acts, records an increase which is equal or higher than expectations. Such power can also be exercised every time the need to protect mandatory public interest arises, within ten days from their actual occurrence. In this case, the act of exercising the State power must include explicit and motivated reference to the date such causes arose.

The special powers under letters a), b), c) and d) are exercised with respect of the criteria provided for by the Prime Minister's Decree of June 10, 2004.

The "maximum limit of shareholding" (provided for by Article 6.4 of the Bylaws and pursuant to Article 3 of the "Privatisation Law" is calculated also considering total share ownership related to the Parent Company, natural person or legal entity or company; to all direct and indirect subsidiaries as well as the subsidiaries under the same controlling subject; to all associated subject as well as to natural persons bound by parental or affinity relationships up to second grade and by marriage, in the event that husband/wife are not legally separated. Control occurs, also with reference to subjects other than companies, in cases provided for by Article 2359, paragraphs 1 and 2, of the Italian Civil Code. Association occurs in cases under Article 2359, paragraph 3, of the Civil Code, as well as between subjects who, directly and indirectly, through subsidiaries other than those managing common investment funds, join, also with third parties, agreements related to the exercise of the right to vote or to the transfer of shares or portions of third companies or, anyway, to agreements or pacts as per Article 122 of the Consolidated Law on Finance, with reference to other companies, if these agreements or pacts refer to at least 10% of the share capital with right to vote, in case of listed companies, or 20% in case of non-listed companies. With reference to the calculation of the above-mentioned limit of share ownership (5%), shares owned through trustees and/or through a third person and, generally, through an intermediary person are also considered.

This limit established to share ownership in any case fails to apply where it is exceeded as a result of a public takeover bid, as long as the bidder, following the offer, holds a stake of at least seventy-five percent of the capital with voting rights in the resolutions regarding the appointment or revocation of directors.

The right to vote related to share ownership exceeding the above-mentioned maximum limit cannot be exercised and proportionally reduces the right to vote of each subject to whom the limit in share ownership refers to, except in the event of joint communications by the involved shareholders. In case of non-compliance, decision can be appealed under Article 2377 of the Civil Code if the requested majority would not be achieved without the votes exceeding the above-mentioned limit. Shares for which the right to vote cannot be exercised are calculated anyhow for the regular formation of the Shareholders' Meeting.

The described provisions on special powers, set out in the "Privatisation Law" have recently been subjected to a legislative change that is not yet in force, as it is awaiting enactment provisions currently being issued.

More specifically, with Italian Law Decree No. 21 of March 15, 2012, converted with amendments by Italian Law No. 56 of May 11, 2012 (the so-called "Golden Power Decree"), the legislator dictated new provisions on the special powers of the government "*in relation to strategic activities in the energy, transport and communications industries*", in order to standardise national legislation with the legislation of the European Union, assigning the Government powers of intervention to protect the lawful, essential and strategic interests of the country.

These provisions, set out under Articles 2 and 3 of the "Golden Power Decree" basically state:

- the issue of specific regulations, to be updated at least once every three years, aimed at identifying "*the grids and systems, including those needed to ensure the minimum provisioning and operations of essential public services, assets and reports of strategic relevance for the national interests in the fields*

*of energy, transport and communication and the type of acts or operations within a single group to which the regulations of this Article do not apply*";

- the obligation to notify the Prime Minister's Office - within 10 days and in any case before implementation - of resolutions, acts and operations adopted by a company holding one or more of the assets as identified above, which result in:
  - o changes to the ownership, control or availability of the assets;
  - o the change in their purpose, including resolutions of the Shareholders' Meeting or administrative bodies concerning the merger or spin-off of the company;
  - o the transfer of the company offices abroad;
  - o a change to the company object;
  - o the company wind-up;
  - o the amendment of any statutory clauses adopted in accordance with Article 2351, third paragraph of the Italian Civil Code, or introduced in accordance with Article 3, paragraph 1 of the "Privatisation Law", as most recently amended by Article 3 of the same Decree;
  - o the transfer of the business or a business unit encompassing these assets;
  - o the assignment of them by way of guarantee;

and the obligation to notify resolutions passed by the Shareholders' Meeting or administrative bodies concerning the transfer of subsidiaries holding said assets;

- the Prime Minister's power to veto adopted - on the proposal of the Ministry for the Economy and Finance and on compliant resolution of the Council of Ministers - on resolutions, acts or operations notified that give rise *"to an exceptional situation, not regulated by national and European segment legislation, of a threat for serious damages to the public interests concerning the safety and operation of the grids and systems and the continuity of provisioning"*. The power to veto can also be exercised in the form of the imposition of specific provisions or conditions where such suffices to ensure the protection of the public interests in relation to the safety and operation of the grids and plants and the continuity of provisions. The veto is notified within 15 days of communication; said terms may be suspended once only for a request for information and until receipt of such, which must be within 10 days.

The resolutions, acts or operations adopted or implemented in breach of the obligations to notify the information or in breach of the conditions, provisions or veto established by the Government are null. The Government may also demand that the company and any counterparty restore the previous situation at its own expense. Anyone not complying with the provisions relating to notification and veto, without prejudice to where the fact is a crime, is subject to the administrative sanctions specified in the "Golden Power Decree";

- the obligation to notify the Prime Minister's Office - within 10 days - of the acquisitions by any title, by a subject,
- whether natural person or legal entity, external to the European Union, or *"which does not have residence, usual place of domicile, registered office or administration or main centre of business in a European Union Member State or of the European Economic Area or which is not in any case established therein"* of majority shareholdings in companies holding the assets identified as strategic *"of relevance such as to determine the permanent establishment of the buyer by virtue of the assumption of*

*control of the company whose investment has been acquired*". The notice is accompanied "by all information useful to providing a general description of the acquisition project, the buyer and its scope of operations". In calculating the significant shareholding, consideration is also taken of the investment held by third parties with which the buyer has stipulated shareholders' agreements;

- the power of the Prime Minister, within 15 days from the notification of said acquisitions and to be exercised, at the request of the Ministry for the Economy and Finance, in accordance with paragraph 8 of said Article, and by compliant resolution of the Council of Ministers, sent at the same time to the appointed parliamentary commissions, to:
  - o subject the effect of the acquisition to the assumption by the buyer of commitments intended to guarantee the protection of the essential interests of the Government "*in relation to the safety and functioning of the grids and plants and the continuity of provisions*" where the acquisition entails a threat of serious prejudice to said interests, or
  - o oppose the acquisition, in exceptional cases of risk to the protection of the mentioned essential interests of the Government, which cannot be eliminated through the assumption of the above commitments.

Once these terms have expired, the operation can be implemented.

Until notification and expiry of the terms for the potential exercise of the special powers relating to the indicated acquisitions, voting rights and other non-capital rights connected with the shares representing the significant investment are suspended, just as such rights are suspended in the event of failure to comply with the commitments said as a condition of the admissibility of the acquisition, for the entire period for which the breach continues. Any resolutions passed with the determining vote of said shares or in any case resolutions or acts adopted in breach or infringement of the conditions set, are null. Any buyer failing to comply with the commitments required is also subject, without prejudice to where the facts constitute a crime, to the administrative sanctions specified in said "Golden Power Decree".

In the event that the power of opposition is exercised, the buyer may not exercise voting rights and in any case those rights with a different content to that of the capital rights connected with shares, which represent the significant shareholding. Any meeting resolutions adopted with the determining vote of said shares are null. Shares must be sold within 1 year and, in the event of failure to comply, at the request of the Government, the court orders the sale of said shares.

Without prejudice to the provisions commented on above, the acquisition, by any title, by a party outside the European Union is permitted at mutual conditions, in compliance with the international agreements signed by Italy or by the European Union;

- the special powers of veto and opposition to acquisitions are exercised on the basis of objective criteria, such as:
  - o the existence of connections between the operators involved and: (a) third party countries that do not recognise principles of democracy or a state of law, which do not comply with rules of international law, or which have behaved "riskily" with regard to the international community, given the nature of their alliances; or (b) criminal organisations or with subjects or entities in any case connected to them;
  - o the suitability of the structure resulting from the legal act or the operation to guarantee: (a) the safety and continuity of provisions; (b) the maintenance, safety and operations of the grids and systems.

Until adoption of the provisions, which must specify the organisational methods by which to carry out the activities required prior to the exercise of special powers, the competences relating to the proposals for the exercise of special powers set out above are instead assigned to the Ministry for the Economy and Finance for the companies in which it holds an interest.

By virtue of the specified provisions of the "Golden Power Decree" and with regard to Terna, the following shall in any case therefore cease to have any effect as from the date on which the regulations for the identification of strategic assets come into effect:

- the current legislation on special powers established by Article 2 of the "Privatisation Law" and the Prime Minister's Decree of June 10, 2004 (*"Definition of the criteria for the operation of special powers, pursuant to Article 2 of Italian Law Decree no. 332 of May 31, 1994, converted, with amendments, by Italian Law no. 474 of July 30, 1994"* as subsequently amended and supplemented), the provisions of which are in any case abrogated as from the date on which the last of the regulations that will complete the identification of the energy, transport and communication industries, comes into effect;
- the provisions assigning special powers contained in the Prime Minister's Decree of September 17, 1999 (*"Provisions for the assignment of special powers to the Ministry for the Treasury, Budgets and Economic planning on the disposal of shareholdings of ENEL S.p.a."*), in the Decree by the Ministry for the Treasury, Budgets and Economic planning of September 17, 1999 (*"Identification of the contents of statutory clauses to be included in the bylaws of ENEL S.p.a., ENEL Produzione S.p.a., Terna S.p.a. and ENEL Distribuzione S.p.a., which assign the Ministry for the Treasury, Budgets and Economic planning title of special powers in accordance with Article 2 of Italian Law Decree no. 332 of May, 31 1994, converted into Italian Law no. 474 of July 30, 1994"*) and in the decree of the Ministry for the Economy and Finance no. 32578 of April 1, 2005, which, by virtue of the changes made to the "Privatisation Law" by Article 4 of the Law no. 350 of December 24, 2003 had updated the content of the statutory clause on special powers already contained in Terna's Bylaws;
- the current clauses on special powers in Terna's Bylaws, without prejudice to the provisions on the maximum limit of shareholding.

### **Voting Restrictions (pursuant to Article 123-bis, paragraph 1, letter f) of the Consolidated Law on Finance)**

Pursuant to privatization regulations, restrictions exist (under Articles 6.3 and 6.4 of the Bylaws) to the right to vote related to the exercise of "special rights" of the Italian State and to the limits of share ownership as mentioned earlier.

Further restrictions are applied to operators of the electricity sector (as provided for by Article 3 of the Prime Minister's Decree dated May 11, 2004 as regards *"criteria, modalities and conditions for the unification of ownership and management of the National Transmission Grid"*) for which a limit equal to 5% of the share capital was established for exercising the right to vote in case of Directors' appointment (Article 14.3 letter e) of Company Bylaws).

From the date on which the regulations identifying the strategic assets came into force, pursuant to the provisions of the "Golden Power Decree" currently being issued - as already described in the previous title *sub* "Restrictions in share transfer and shares granting special powers" - restrictions to voting rights

connected to the exercise of "special powers" of the Italian State shall cease all effect, as envisaged by the "Privatisation Law" and the Terna's Bylaws, whereas those envisaged on the matter by the "Golden Power Decree", in any case without prejudice to the provisions and restrictions to voting rights established by Terna's Bylaws, connected to the provisions on the maximum limit of shareholding.

## **Appointment and substitution of Directors and amendments to the Bylaws (pursuant to Article 123-bis, paragraph 1, letter l) of the Consolidated Law on Finance)**

### *Appointment, requirements and term of office of Directors*

The terms for appointing the members of the Board of Directors are ruled by article 14 of the Bylaws.

As resolved upon by the Meeting, the Board of Directors is made up of seven to thirteen members who are appointed for a period not longer than three years (art 14.1 of the Bylaws) and they may be reappointed at the end of their term (Article 14.2 of the Bylaws). In addition to this, there may be a Director without voting rights, whose potential appointment is reserved to the Italian government (Article 6.3, letter d) of the Bylaws) by virtue of the legislation on privatisation; up until now, this power of appointment has not been exercised by the Italian government and the provisions on the matter shall cease from the date on which the regulations for the identification of strategic assets come into force pursuant to the regulations of the "Golden Power Decree", currently being issued, as already described in the previous title *sub* "Restrictions in share transfer and shares granting special powers".

The Chairman is appointed by the Shareholders' Meeting among the members of the Board (Article 16.1 of Bylaws and Article 2380-*bis*, paragraph 5 of the Civil Code): in case of impossibility, by the Board itself. The Board can appoint a Deputy Chairman. In no case such positions can be held by the Director appointed by the Italian Government under said privatisation law (Article 16.1 of the Company Bylaws).

The appointment of the entire Board of Directors takes place – in compliance with the privatisation regulation, under Prime Minister's Decree of May 11, 2004 and in compliance with the provisions of the Italian Law for listed companies – according to the mechanism of the "list voting", governed by Article 14.3 of the Bylaws, aiming at guaranteeing the presence in the management body of members designated by minority shareholders equal to 3/10 of the Directors to be appointed with rounding, in case of lower fractional number to the unit, to the following unit.

In accordance with the provisions of Articles 4, paragraph 1-*bis* of the "Privatisation Law", of Article 147-*ter* of the Consolidated Law on Finance and the implementing regulations of the above-mentioned law provisions included in Articles 144-*ter* and following of the Issuer Regulations - establishes that the lists of candidates can be submitted by the outgoing Board of Directors or by shareholders who, alone or with other shareholders, represent at least 1 % of the share capital as provided for by the law - or a lower amount, as established by the law, of the shares with voting right in the Meeting. For this purpose CONSOB, implementing the provisions of Article 147-*ter* of the Consolidated Law on Finance and Article 144-*septies* of the Issuers Regulation, has established - with Resolution no. 18452 dated January 30, 2013 and for the year that ended on December 31, 2012 - the participation stake required for submitting candidate lists to be appointed in Terna's administration and control bodies at 1% of the share capital, taking into account the Company's capitalization, floating capital and owned assets and without prejudice to the lower stake included in the Bylaws.

The presentation, filing and publication of the lists are regulated by specific referral of the Bylaws, by applicable legislation and regulations.

More specifically, the presentation and filing of the lists must take place - in accordance with Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance, at least 25 days prior to the date scheduled for the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Directors.

Ownership of the minimum stake required to submit lists shall be determined - in accordance with the provisions of Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance - by taking into account the shares that are registered in the name of the Shareholder(s) on the day in which the lists are filed with the Company. In order to prove ownership of the number of shares necessary for presenting the lists, shareholders with rights must present and/or deliver the related certification or communication issued in accordance with Articles 144-*sexies*, paragraph 4-*quater* of the Issuers Regulation and 23 of the "Regulation enacting the regulation of the centralised management services, liquidation, guarantee systems and related management companies" (adopted by the Bank of Italy and Consob on February 22, 2008 and subsequently amended by deed of the Bank of Italy/Consob of December 24, 2010), also subsequently to filing the list, as long as, within the terms envisaged for the publication of the lists (i.e. at least 21 days prior to the date scheduled for the Shareholders' Meeting called to resolve on the appointment of the administrative body).

Each Shareholder may present or assist in the presentation of one single list and each candidate may be on one list only or he will be considered ineligible.

The lists shall list candidates according to a progressive number (Article 14.3 of the Bylaws) and must specify which candidates meet the requirements of independence envisaged by the law and the Bylaws (Article 147-*ter* of the Consolidated Law on Finance) and all other information or declaration required by the regulations and legislation, applicable, and by the Bylaws for the respective offices.

Lists with three or more candidates must also include candidates of different gender, in accordance with the provisions of the notice convening the meeting, in order to enable a Board of Directors to be formed in compliance with current legislation on the balance of gender in the administrative and auditing bodies of companies with listed shares pursuant to Italian Law no. 120 of July 12, 2011 and Articles 147-*ter*, paragraph 1-*ter* and 148, paragraph 1-*bis* of the Consolidated Law on Finance.

If, upon completion of voting, the legislation on gender balance is not respected, Article 14.3, letter c-*bis*) of the Bylaws establishes the formation of a new decreasing hierarchy of all candidates who would be elected and the replacement of the candidate of the most represented gender coming lowest down in the hierarchy, with the first of the candidates of the least represented gender not elected, belonging to the same list as the candidate replaced; this is without prejudice to respect of the minimum number of independent directors established by the Bylaws. If ratios are equal, the replacement is taken from the list that has obtained the most votes, without prejudice to compliance with the minimum number of independent directors established by the Bylaws. If there is a lack of candidates from that list, we proceed with the legal majorities, respecting a proportional representation of the minorities in the Board of Directors. If it should be necessary to appoint more than one candidate of a gender different to that of the other candidates elected, the replacement procedure specified is carried out moving up the hierarchy from the bottom until the criteria laid down by the legislation is met.

Statutory provisions - introduced by the resolution of the Shareholders' Meeting passed on May 16, 2012 - aimed at guaranteeing compliance with current legislation on gender balance, shall apply, in accordance with

the provisions of Article 31.1 of the Bylaws, to the first three renewals of the Board of Directors subsequent to the coming into force and acquisition of efficacy of the provisions of Article 1 of Italian Law no. 120 of July 12, 2011, published in the Official Journal no. 174 of July 28, 2011 and in force as from August 12, 2011 without prejudice to any extensions envisaged by the law. Therefore, they shall first apply when renewing the company bodies expiring with the approval of the 2013 financial statements.

According to the provisions of Article 147-*ter*, paragraph 3 of the Consolidated Law on Finance, at least one of the members of the Board of Directors should be appointed by the minority list that has obtained the highest number of votes and is not connected in any way, not even indirectly, with the members who have submitted or voted the list that won for a number of votes. In this regard, please remember that if, upon completion of voting, the number of directors reserved to the minority lists has not been elected, and the minority director as established by Article 147-*ter*, paragraph 3 of the Consolidated Law on Finance, and the minimum number of independent directors in accordance with the Bylaws, Article 14.3 of the Bylaws, respectively letters b) and c), set outs:

- that only seven tenths of the directors to be elected by rounding-down, in the case of a partial number of less than one, to the unit below;
- that the candidate elected with the lowest ratio will be replaced, in progressive order, by the candidate meeting the requirements set out by the same list as the candidate replaced.

The lists must include declarations with which each candidate accepts his own candidacy and states, under his own responsibility, the non existence of ineligibility and incompatibility causes, and the information required by Article 144-*octies*, paragraph 1 of the Issuers Regulation and all other information required by applicable law and regulations, and by the Bylaws. Shareholders presenting a "minority list" are addressees of the CONSOB communication no. DEM/9017893 of February 26, 2009 (concerning the "Appointment of the members of the administrative and auditing bodies"), which recommends that they file, together with the list, a declaration certifying the lack of any connection pursuant to Article 147-*ter*, paragraph 3 of the Consolidated Law on Finance, setting out the information listed in said Communication with regard to the election of the administrative body.

On the basis of a clause in the notice of call for the Meeting and considering the provisions of the Governance Code (Article 2 and Comment to Article 5), which Terna has explicitly adhered to, together with the lists, a detailed description of the candidates' personal and professional characteristics must be filed, accompanied by a statement indicating as to whether or not the candidates qualify as independent according to Article 3 of the Governance Code.

The lists, complete with information on the specific characteristics of the candidates and the additional declarations and information envisaged by Article 144-*octies*, paragraph 1 of the Issuers Regulation and CONSOB Communication no. DEM/9017893 of February 26, 2009 are made available to the public - in accordance with Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance - at the company's headquarters, on the company's website and according to the methods set out by CONSOB, at least 21 days prior to the date of the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Directors, thereby guaranteeing a transparent procedure for the appointment of the Board of Directors.

Finally, the Bylaws establish - in accordance with the requirements of Prime Ministerial Decree of May 11, 2004, the Bylaws envisages for operators of the electricity sector a limit equal to 5% of the share capital as regards the exercise of the voting right during the appointment of the Directors according to the abovementioned rules.

Any replacement of Directors will be carried out pursuant to Article 2386 of the Civil Code.

In any case, the replacement of Directors whose office has ended will be carried out by the Board of Directors guaranteeing the presence of the necessary number of directors in possession of the requirements of independence established by the Law and by Article 15.4 of the Bylaws and compliance with current legislation on gender balance.

If the majority of the Directors appointed by the Shareholders' Meeting is not reached, the entire Board of Directors is considered as having resigned and the Shareholders' Meeting must be called without delay by the Directors still in office for appointing a new Board.

The Director must meet the requirements of integrity, professionalism and independence.

The Company's Directors must meet certain integrity and professionalism requirements, similar to those required by the Statutory Auditors of listed companies (Article 15.2 of the Bylaws). The appointed Directors must communicate without hesitation the loss of requirement as per current regulations and according to the Bylaws to the Board of Directors, as well as any possible cause of ineligibility or incompatibility (Article 14.3 of the Bylaws).

As regards the requirements of professionalism, the Bylaws (Article 15.3) provide that those who have not accrued experience of at least three years cannot be appointed as Director and, if so, they must resign:

- activities of administration, control or management in companies having a share capital not lower than € 2 million; or
- professional activities or university teaching in legal, economic, financial and technical scientific subjects and closely related to the activities of the Company as defined in Article 26.1 of the Bylaws; or
- managing roles in public bodies or public authorities in the finance and insurance fields or, however, in fields closely related to that of the Company, as defined by the Article 26.1 of the Bylaws (subjects such as business law, tax law, business economy and finance, as well as subjects linked to energy in general, the network communications and structures, are to be considered as closely related to the Company's scope of activities).

With stricter application compared to the provisions of Article 147-ter paragraph 4 of the Consolidated Law on Finance, at least 1/3 of the Directors in force must also be in possession of specific requirements of independence under Article 15.4 of the Bylaws that recalls the requirements of the Statutory Auditors indicated by Article 148, paragraph 3 of the Consolidated Law on Finance; furthermore, in line with the provisions of Article 3 of Prime Minister's Decree dated May 11, 2004, Executive Directors, taking into account the specific activity carried out by the Company, can be applied the independence requirements established by Article 10 of Directive 2003/54/EC as stemming from Article 15.5 of the Bylaws.

The presence of "Independent" Directors as provided for by the Governance Code becomes important in the composition of the Board Committees, as provided for by the Code itself and by the Committee for Related Party Transactions established within Terna for implementing the provisions of CONSOB Regulations that include provisions regarding related party transactions issued with Resolution no. 17221 dated March 12, 2010 and subsequently amended with Resolution no. 17389 dated June 23, 2010.

The Board of Directors assesses the presence of integrity, professionalism and independence requirements, for every one of its members and periodically assesses the presence of requirements of independence for every one of its non-executive members, on the basis of the information supplied by each member.

The Company is equipped with a specific internal procedure that defines the criteria for the assessment of independence of the non-executive members and for the assessment of the requirements necessary according to the Bylaws and the Corporate Governance Code ("Criteria of application and procedure for the assessment of independence of the directors pursuant to Article 3 of the Corporate Governance Code"). Such procedure, recently updated with the resolution of December 19, 2012, coherently with the new provisions of the Governance Code, provides for the assessment of requirements following the appointment, that is every time events take place that can interfere with the independence of a Director and however at least once a year (generally in the 30 days before the approval of the draft financial statements). To this end, Directors are asked for the information necessary to allow the Board to make its assessment. Additionally, considering that established by Article 5 of the Governance Code, it is established that non-executive directors who have declared their independence, undertake to maintain that requirement for the entire duration of the appointment, submitting the verification that the requirements remain met to a new appraisal by the Board of Directors that, if applicable, can also be carried out with reference to criteria that differs partially from that identified and disclosed in accordance with the requirements of the Governance Code (Article 3.C.4).

#### *Succession Plans*

Considering the ownership structures of Terna and the concentration of shareholders, the Board of Directors considered on March 20, 2012 - with reference to the provisions of paragraph VIII of the "Guidelines and transitional regime" which brought forward for issuers belonging to the FTSE-MIB index, to last year, the disclosure obligations with regard to the provisions of today's Article 5.C.2 of the Governance Code - not to proceed with an assessment of succession plans for the executive directors.

#### *Bylaws Amendments*

With regard to regulations applicable to the amendments to the Bylaws, the extraordinary Shareholders' Meeting resolves on the matter with the majority envisaged by the Law.

The Bylaws (Article 21.2), according to Law provisions, attributes the Board of Directors the power to adopt any resolutions pertaining to the Shareholders' Meeting that can determine amendments to the Bylaws such as:

- a) the merger and the split, in cases envisaged by the Law;
- b) the establishment or elimination of other offices;
- c) stating which of the directors represent the Company;
- d) the reduction of the share capital in case one or more members withdraws;
- e) the amendment of the Bylaws according to regulations;
- f) the transfer of the Company headquarters in the national territory.

Article 6.3 of the Bylaws, in compliance with the regulations on privatization, attributes to the Italian Government, represented for this purpose by the Ministry for the Economy and Finance, the "special power" to veto, duly motivated with reference to effective detriment of the Government's vital interests, on the

adoption of a series of resolutions adopted by the Shareholders' Meeting of significant impact on the Company, capable of amending the Bylaws, as previously described in "Restrictions in share transfer and shares bearing special powers".

From the date on which the regulations identifying the strategic assets came into force, pursuant to the provisions of the "Golden Power Decree" currently being issued - as already described in the previous title sub "Restrictions in share transfer and shares bearing special powers" - the provisions regarding the "special power" of veto shall cease all effect, as envisaged by the "Privatisation Law" and in Terna's Bylaws, instead applying those envisaged on the matter by the "Golden Power Decree".

Furthermore, as provided for by Article 3 paragraph 3 of the "Privatisation Law" and Article 3, paragraph 2, letter c) of the Prime Minister's Decree dated May 11, 2004, Terna's Bylaws provides that the measures as per Article 6.4 of the Company Bylaws relative to the above-mentioned "maximum limit of shareholding" and in the previous title "restrictions in share transfer and shares granting special powers" and those included in the Bylaws that have the purpose to ensure protection of the share minorities, cannot be modified for a period of three years from the date of effectiveness of the transfer to Terna of the activities, functions, assets and obligations relative to the management of the National Transmission Grid as per Article 1, paragraph 1 of the Prime Minister's Decree dated May 11, 2004 (November 1, 2005).

### **Indemnities for Directors in case of resignation, discharge or cessation of relation following a public take-over bid (pursuant to Article 123-bis, paragraph 1, letter i) of the Consolidated Law on Finance)**

The information required by Article 123-bis, paragraph 1, letter i) of the Consolidated Law on Finance on the agreements between the Company and the Directors, which envisage indemnity in the case of redundancies or termination/revocation without just cause or if their employment ceases following a public take-over bid, are reported within the "Terna's Annual Report on Remuneration", published by Terna in compliance with the provisions of Art. 123-ter of the Consolidated Law on Finance and CONSOB Resolution no. 18049 of December 23, 2011 (published in the Official Journal no. 303 of December 30, 2011) which, amongst others, introduced Article 84-quater of the Issuers Regulation.

### **Management and coordination**

Terna is subject to the de-facto control of Cassa Depositi e Prestiti S.p.A. with 29.851% of the share capital. The assessment, from which the existence of such control emerged, has been carried out by Cassa Depositi e Prestiti S.p.A. itself and made public on April 19, 2007. As of today, no managing and coordination activity has been officialized nor exercised; Terna carries out its activity either directly or through its subsidiaries under management and negotiation independence.

It is specified that the additional information on the Company's Corporate Governance envisaged in Article 123-bis, paragraph 2 of the Consolidated Law on Finance and Article 144-decies of the Issuers Regulation, with regard to:

- compliance, (pursuant to Article 123-bis, paragraph 2, letter a) of the Consolidated Law on Finance) are illustrated in the section of the Report specifically devoted thereto (section III);

- the principal characteristics of existing risk management and existing internal control systems in relation to the financial informative note, also consolidated (pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance), and further relevant Corporate Governance practices (pursuant to Article 123-*bis*, paragraph 2, letter a) of the Consolidated Law on Finance) are illustrated in the section of the Report devoted to internal control and risk management system (section XI) and in Attachment 1 therein;
- the Shareholders' Meeting activity (pursuant to Article 123-*bis*, paragraph 2, letter c), of the Consolidated Law on Finance) in the section of the report devoted to the Shareholders' Meeting (section XVI);
- the composition and the role of the Board Members as well as those relative to the appointment and composition of the control body (pursuant to Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance and 144-*decies* of the Issuers Regulations), are illustrated in the Report respectively in the section devoted to the Board of Directors (section IV) and in subsequent sections devoted to the Board Internal Committees (sections VI, VII, VIII and X) and in the sections devoted to the appointment and composition of the Board of Statutory Auditors (sections XIII and XIV).

### **Section III: Compliance**

The Corporate Governance system in place in the Company is substantially in line with the principles included in the Governance Code of listed companies published by the corporate governance committee promoted by Abi, Ania, Assonime, Assogestioni, Borsa Italiana and Confindustria, as most recently updated in December 2011 (accessible on the Borsa Italiana S.p.A. website *sub* <http://www.borsaitaliana.it>) that Terna has adopted, as illustrated before, with resolution by the Board of Directors of July 24, 2012, also proceeding to adjust the procedures in place and impacted by the new provisions of the Governance Code by subsequent resolution of the Board of Directors of December 19, 2012.

Further actions aimed at improving the Group's governance system are being carried out and others will be taken into consideration for the constant update of Terna's governance system to comply with the best practices and for the adhesion of the company to the provisions of the new Governance Code that will come into force at the next renewal of the company bodies expiring with the approval of the 2013 statutory financial statements, as indicated by the timing for the adjustment envisaged by the transitional regulations.

The Company is not subject to non-Italian laws that influence its Corporate Governance structure.

### **Section IV: Board of Directors**

#### **Composition**

In compliance with the shareholders' resolution passed during the ordinary meeting held on May 13, 2011, the Board of Directors numbers nine members, whose term will expire with the approval of the financial statements as of 2013.

The members of the Board of Directors, in accordance with that resolved by the Shareholders' Meeting of May 13, 2011 are: Luigi Roth, Flavio Cattaneo, Paolo Dal Pino, Matteo Del Fante and Michele Polo (Directors appointed within the majority list formulated by Cassa Depositi e Prestiti S.p.A.), Fabio Buscarini, Salvatore Machì and Romano Minozzi (Directors appointed from the minority list submitted by shareholder Romano Minozzi and companies he controls).

The Directors appointed represent two of the three lists submitted for the indicated Shareholders' Meeting. Further information regarding the submitted lists of candidates and on the results of the voting is available on the Company's website at [www.terna.it](http://www.terna.it) in the section "Investor Relations/Corporate Governance/Company bodies/Shareholders' Meetings/Shareholders' Meeting of May 13, 2011".

Following the resignation of Director Andrea Camporese (appointed by the abovementioned Shareholders' Meeting from the majority list), the Board of Directors in its meeting on July 29, 2011, resolved to appoint by co-optation Francesco Pensato (subject to indications from the same majority shareholder Cassa Depositi e Prestiti S.p.A. that had expressed the resigning Director). This appointment was confirmed by the Shareholders' Meeting of May 16, 2012.

On the basis of the statements made for the appointment, of the vote count and of the end of voting, the appointed Board of Directors, also following appointment by appointment of Director Pensato, largely meets the requirements envisaged by Article 147-ter, paragraph 3 of the Consolidated Law on Finance and three members of the Board of Directors appointed by the Meeting on May 13, 2011 were taken by the minority list that has obtained the highest number of votes and is not connected in any way, not even indirectly, with the members who have submitted or voted the list that won for a number of votes.

The Board of Directors consists of executive and non-executive directors and provides for the presence of a Chairman, appointed by resolution of the Shareholders' Meeting of May 13, 2011, in accordance with Article 16 of the Bylaws, and a single executive director, the Chief Executive Officer, appointed by the Board of Directors in accordance with Article 22 of the Bylaws, in accordance with that specified in the following title of this section "Appointed bodies and other executive directors" with suitable competence and professionalism (Articles 2.P.1 and 2.P.4 of the Governance Code).

Terna's Directors are suitably competent and professional (Article 2.P.1 of the Governance Code). A brief description of the Board members' professional background is provided:

• **Luigi Piergiuseppe Ferdinando Roth, 72 years old - Chairman**

[born in Milan on November 1, 1940]

With a degree in Business Administration from the "Luigi Bocconi" University, Milan, he is a registered auditor. He was appointed Chairman of Terna S.p.A. in November 2005; he was appointed Chairman of Terna Rete Italia S.r.l. in November 2009 (formerly TELAT S.r.l.) and in February 2012, Chairman of Terna Rete Italia S.p.A., a subsidiary of Terna S.p.A. He has also been Chairman of Alba Leasing S.p.A. since May 2012 and independent director on the board of Pirelli & C. S.p.A. and Autostrada Torino Milano S.p.A. since April 2007.

Mr. Roth began his career as a business manager with the Pirelli Group, handling activities in Italy and abroad. He then joined Metropolitana Milanese as Director of Planning. Since 1980, he has managed mid-sized companies both in the manufacturing and real estate sectors, in the positions of General Manager and CEO. From 1986 to 1993 he was Managing Director of Ernesto Breda S.p.A.

From 1993 to 2001 he was Chairman and Managing Director of Breda Costruzioni Ferroviarie S.p.A.. From April 1996 to January 1998, he was Chairman of Società Ferrovie Nord Milano S.p.A. of which he was CEO from December 1996 to January 1998. From December 1996 to January 1998 he was Chairman and CEO of Società Ferrovie Nord Milano Esercizio S.p.A.. From May 1998 to December 2000 he was CEO of Ansaldo

Trasporti S.p.A. and transmission agent for Finmeccanica S.p.A.. From 2002 to 2006, he was Board Member at the Luigi Bocconi University.

From January 2004 to April 2007 he was Deputy Chairman at Cassa Depositi e Prestiti S.p.A. From May 2004 to April 2007 he was Board Member at TELECOM Italia S.p.A. and from 2001 to 2009 he was President of the Fondazione Fiera Milano. From May 2006 to November 2009, he was Deputy Chairman of Terna Participações S.A., a subsidiary of Terna S.p.A., from April 2009 to April 2012, Chairman of Banca Popolare di Roma and from 2009 to 2010, Director on the Board of Cassa di Risparmio di Ferrara.

• **Flavio Cattaneo, 49 years old – CEO**

[born in Rho (Milan) on June 27, 1963]

With a degree in Architecture from the Milan Politecnico, Mr. Cattaneo has also received specialized training in business management. Since November 2005, Flavio Cattaneo has been CEO of Terna S.p.A.. Since January 2008 he has been Independent Director in Cementir Holding S.p.A. Since October 2008, he has been Deputy Chairman in Charge of Energy and Environmental Policies at UIR, Union of Industrialists and Companies in Rome.

He has held important managerial and administrative positions in various Italian companies in the building, radio and television, service, new technologies, public service and facilities sectors. He became head of the former Ente Autonomo Fiera Internazionale di Milano as Extraordinary Commissioner in 1999 and went on to oversee its stock market listing as Fiera di Milano S.p.A., serving as Chairman and CEO until 2003.

Flavio Cattaneo has been Director of many energy companies (from 1999 to 2001), including: AEM S.p.A. of Milan (as Deputy Chairman), Serenissima Gas S.p.A., Triveneta Gas S.p.A., Seneca S.r.l. and Malpensa Energia S.r.l.. From April 2003, he was appointed at the top of the public TV R.A.I. S.p.A. as General Manager until August 2005, also dealing with the merger with Rai Holding and the separation of the accounts. From May 2006 to November 2009 he was Chairman of Terna Participações S.A., a subsidiary of Terna S.p.A..

• **Fabio Buscarini, 65 years old - Director**

[born in Ancona on February 6, 1948]

He has a degree in Sociology from the University of Trento. Since January 1, 2007 he has been the Managing Director and General Manager of INA Assitalia S.p.A., positions individually held from the previous year in both companies before their merger. From 1969 he was with Assicurazioni Generali, where he held various positions, including General Manager in April 2005.

He currently also holds an important corporate role in a company of the Generali Group, namely Generali Business Solutions S.p.A. and is also a Director on the Board of Burgo Group S.p.A.

Since May 2011 he has been a member of the Board of Directors of Terna S.p.A..

He is a representative for ANIA at the CONSULTA for Rome Businesses Association.

He has also held the following offices: Deputy Chairman and Director in ImpreBanca Finanziaria d'Impresa S.p.A. (May 2008 - April 2012), Director on the Board of Compass S.p.A. (October 2010 - April 2012), in Banca Generali S.p.A. (April 2009 - May 2011) in FATA Assicurazioni Vita e Danni S.p.A. (December 2006 - April 2009) and at Banca di Credito dei Farmacisti (February 2006 - July 2008); Italian Member of the International Management Board - sponsor of Operational Excellence (2005 - 2006); President of Risparmio

Assicurazioni (December 2004 - August 2006); Member of the Board at Generali Vita (April 2003 - April 2006), Europ Assistance (March 2003 - April 2004) and Finagen (March 2003 - April 2004).

• **Paolo Carlo Renato Dal Pino, 50 years old - Director**

[born in Milan on June 26, 1962]

He has a degree in Economics from the University of Pavia. He is presently the Executive President of Pirelli Latin America. Since April 2008, he has been Director on the Board of Terna S.p.A. and, as part of this office, Chairman of the Control and Risk Committee, Coordinator of the Related Party Transactions Committee and member of the Remunerations Committee.

He previously held the following offices: Managing Director of Wind Telecomunicazioni S.p.A. (2006 - 2007); Chairman of Telecom Italia Latin America and of Tim Brasil (2004 - 2005); Managing Director of SEAT S.p.A. (2001 to 2004); General Manager of Gruppo Editoriale L'Espresso (1995 – 2001); Chief Financial Officer of Editoriale la Repubblica S.p.A. and has also been Managing Director of Kataweb S.p.A. and Director and member of the Executive Committee of ANSA.

In 1986, he began his career in the Fininvest Group and from 1987, until 1990, he joined the Mondadori Group where he was CFO of the Verkerke Group in The Netherlands.

• **Matteo Del Fante, 45 years old - Director**

[born in Florence on May 27, 1967]

He has a degree in Economic Policy from the “Luigi Bocconi” University in Milan. He began his career with J.P. Morgan in 1991 holding positions of increasing responsibility for Italy and for foreign countries in the sector of fixed income markets. From 1999 to 2003, as *Managing Director* in London, he managed significant financial and strategic operations in Europe. Since June 2010 he has been General Director at Cassa Depositi e Prestiti S.p.A., where he previously was Head of the Financial Department and of the Real Estate Department.

Since July 2010, leaving the position of CEO, he took on the position of chairman of the Board of Directors of “CDP Investimenti SGR”, a savings management company which founded and manages the “Fondo Investimenti per l'Abitare” operating in the private social construction sector. Since May 2007, he has been a Board member of the consulting firm SINLOC, a subsidiary of bank-based Foundations. Since April 2008, he has been a Director on the Board of Terna S.p.A. and, as part of this appointment, member of the Control and Risk Committee.

Since July 2011, he has been a member of the Supervisory Board of "EEFF - ° European Energy Efficiency Fund S.A." fund for energy efficiency promoted by Cassa Depositi e Prestiti, the European Commission, European Investment Bank (EIB) and Deutsche Bank.

• **Salvatore Machì, 75 years old - Director**

[born in Palermo on May 28, 1937]

He holds a degree in Electronic Engineering and has received specialized training at the Istituto Superiore di Telecomunicazioni, in addition to his professional experience with Esso and IBM, he joined Enel in 1965 and held various positions up to 1999, including Manager of the Transmission Department, National Manager of Thermoelectrical Energy Generation and Purchase and Tender Manager. He was CEO (from July 1999 to

April 2000) and, then, Chairman (up to July 2003) of the Gestore della Rete di Trasmissione Nazionale S.p.A., and Director of Gestore del Mercato Elettrico S.p.A. during that time.

He has been Chairman of the Board of Directors of CESI S.p.A. since March 2003, where he previously (from July 1999 to October 2001) served as CEO. He has been a Director on the Board of Terna S.p.A. since September 2004 and, as part of this appointment, Chairman of the Remunerations Committee and Coordinator of the Related Party Transactions Committee.

• **Romano Minozzi, 78 years old - Director**

[born in Castelnuovo Rangone (Modena) on March 6, 1935]

He has a degree in Business and Economics from the University of Bologna.

He began his career at the Banca Commerciale Italiana. In 1961 he was one of the founders of Iris Ceramica, where he holds the position of President and is still the principal reference person.

He is currently not only Chairman of Iris Ceramica S.p.A. but also Director of Castellarano Fiandre S.p.A. and, since January 7, 2013, Chairman of GranitiFiandre S.p.A.

He has been a Director on the Board of Terna S.p.A. since May 2011 and, as part of this appointment, member of the Remunerations Committee and of the Related Party Transactions Committee.

Romano Minozzi has received recognition for his activities, including the “Innovazione 2000” award by the Academy of Ceramics.

In the past, he held various roles: for 10 years, Director of Banco S. Geminiano e S. Prospero, subsequently merged into Banco Popolare; from July 2002 to May 2005, Independent Director of Ferrari Automobili S.p.A. Maranello (MO) on the appointment of Mediobanca and member of the syndicate agreement of Mediobanca since its constitution; Director of GranitiFiandre S.p.A. from April 2004 and Chairman of Fincea S.p.A. and Domfin S.p.A., Sole Director of IRIS Due S.p.A., Sole Director of R.M. Finanziaria S.p.A. and Canalfin S.p.A. (the latter incorporated by merger of October 31, 2012 into Iris Ceramica S.p.A.).

• **Francesco Pensato, 66 years old - Director**

[born in Casalpusterlengo (LO) on February 17, 1947]

He holds a Law Degree from the University of Milan. He is a professional Supreme Court of Cassation lawyer and, since 2001, has been Senior Partner at the Associated Legal Office “Franzosi-Dal Negro-Pensato-Setti”, as head of the department of corporate law and bankruptcy procedures and is presently owner of the “Pensato & Partners Avvocati” associated law firm. Since July 2011, he has been a Director on the Board of Terna S.p.A. and, as part of this appointment, member of the Control and Risk Committee. Since 2010 he has also been Board Member at Mediocredito Italiano S.p.A.

His professional experience in the field of legal consulting and assistance in corporate and commercial matters for medium and large Italian and foreign companies also includes various legal corporate appointments such as Chairman of Arbitration tribunals, as well as Adjuster and Extraordinary Commissioner with management functions upon appointment by the Ministry for Economic Development. As a legal appointment, he is currently the Common Representative of Telecom Italia S.p.A.'s bondholders.

He has been a member of the Commission for Reforming Bankruptcy Procedures on appointment of the Ministry of Justice and has been a member of the Commission for reforming the extraordinary administration of the large groups facing critical situations formed by the Ministry for Economic Development. From 2001 to

2004, he was Vice President of the Organismo Unitario dell'Avvocatura Italiana (OUI) and, from 1998 to 2001, joint Chairman with the Chairman of the Court of Appeal of Milan of the Joint Commission for relations between the Magistracy and the Bar in Milan.

• **Michele Polo, 55 years old - Director**

[born in Milan on August 7, 1957]

He has a degree in Business and Economics from the “Luigi Bocconi” University in Milan, and graduated in Economic Policy with a Masters in Economic Sciences from the *London School of Economics*. From 2003 he has been Ordinary Professor of Economic Policy and from 2007, Vice-Chancellor at the “Luigi Bocconi” University. Since April 2008, he has been a Director on the Board of Terna S.p.A. and, as part of this appointment, member of the Internal Control Committee (now the Control and Risk Committee).

He is Director of the Institute for Economics and Policy of Energy and the Environment (IEFE) of the Bocconi University and carries out other scientific and academic activities: he is Director of the Journal of Economists and member of the Editors Committee of Economy of Energy Sources and the Environment and of the Editor's Committee of Market, Competition, and Regulations.

He is scientific advisor of the publishing house “Il Mulino”, in Bologna. From 2003 to 2006 he was *Economic Advisor* of the General Management of Competition of the European Commission. Since April 2008 he has been a member of the Board of Directors of Terna S.p.A.. He is also the author of numerous essays and monographs on themes such as antitrust, liberalisation and energy sectors.

During its term, the Board of Directors has confirmed the existence of the requirements of honour and professionalism held by each of its members (Article 2.P.1 of the Governance Code).

The evaluation regarding the existence of the requirements of independence for each of the non-executive members was made, taking into account the information provided by each person, during the appointment and during the meeting held on March 15, 2013 according to the terms stated in the following paragraph “Independent Directors”.

Table 1 attached gives information on the members of the Board of Directors as at March 15, 2013 (Articles 1.C.1 letter i)-(1) of the Governance Code and 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).

### *Maximum number of positions in other companies*

All the Directors accept their appointment to office when they believe they can devote the necessary time to the diligent performance of their duties – also considering the number and type positions they hold outside the Company in other companies listed on regulated markets (also abroad), financial companies, banks, insurance companies and significantly large companies, and the work required of additional working and professional activities carried out and the association offices held – and to devote the necessary time to the diligent performance of their duties, as they are well aware of the responsibilities of the office held.

To this end, since February 2007, in compliance with Article 1.C.3 of the Governance Code, Terna's Board of Directors approved its own guidelines regarding the maximum number of positions as Director or Statutory Auditor in significantly large companies that can be held still enabling the efficient performance of the duties as Director of Terna S.p.A. included in the internal document "Orientations concerning the maximum number of positions that can be held by Directors of Terna S.p.A." requiring the Directors of Terna consider the acceptance of the office. 4 years after adoption, following the constant monitoring of the governance choices made by the company and in line with the practice seen in similar companies, in the meeting of October 7, 2011, the Board of Directors proceeded to review said guidelines, which, in order to consider the clarifications provided by the Governance Code in the December 2011 edition, were further updated by the resolution of December 19, 2012.

To this purpose, "significantly large companies" were defined as:

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

The Board has identified different general criteria for the commitments required of each role (CEO, Executive Director - for example Executive Chairman, Managing Director, i.e. with special proxy - Non-executive and/or Independent Director and Standing Statutory Auditor), considering the nature and size of the Company in which the positions are held and whether they are part of the Terna Group or are Terna's investees (which, originating from the assignment itself, are not calculated in the total number). It is specified that the attribution of deputy powers or for urgent cases only to directors without management powers of attorney does not, in itself, make them executive directors, except where such powers are, in actual fact, used significantly frequently. A "weight" was assigned to each type of position for the purposes of assessing the commitment required, and the Directors also established that the role of CEO at Terna is incompatible with the same role in other significantly large companies.

When more assignments are held within the same Group, also for a work relation with a company belonging to the Group itself, only the most important assignment is considered.

All the Directors in office that were appointed by the Meeting on May 13, 2011 informed about the positions they held at the time the lists were submitted and subsequently when they accepted their appointment. Likewise, the Director that was confirmed by the Shareholders' Meeting on May 16, 2012 at the time of appointment. Based on the updated information delivered to the Company in compliance with the approved guidelines, as of March 15, 2013, all Directors held a number of positions that is compatible with the guidelines set by the Board.

In the summaries of each Director's personal characteristics, all the positions held by them are indicated. The total number of positions held as Directors or Statutory Auditors in other significantly large companies is provided in the attached table 1.

There have not been exceptions, issued by Terna's Shareholders' Meeting, to the prohibition of competition by the Directors provided for by Article 2390 of the Civil Code (Article 1.C.4 of the Governance Code).

### *Induction Programme*

Terna has considered the organisation of initiatives appropriate, which now constitute an at least annual tradition, aimed at providing Directors and Statutory Auditors with suitable knowledge of the segment of business in which the company operates, business dynamics and their evolution and the reference legislative framework, as established by Article 2.C.2 of the Governance Code.

At the initiative of the Chairman, by agreement with the Chief Executive Officer, subsequent to appointment and during FY 2012, the Directors of Terna were involved in meetings with the company management, also attended by the members of the Board of Statutory Auditors, in relation to the core business, with specific reference to the preparation of the National Transmission Grid development plan.

Moreover, during the Board meetings of the committees, at the request of the Chairman and in line with the provisions of Article 1.C.6 of the Governance Code, executives of the company attended the meeting, whose presence was considered helpful to ensuring the best possible information on the items on the agenda and, where required by the specific subject, to explain the reference legislative framework.

In addition, the Directors are kept constantly informed by competent departments on the main legislative and regulatory innovations concerning the Company and the exercise of own functions. On occasion of the appointment, they are adequately informed about the existing Corporate Governance system and the fundamental lines of *governance*.

### **Role of the Board of Directors**

The Company's Board of Directors holds a crucial role in its organization. It has strategic and organizational functions and responsibilities with respect to the Company and the Group. It is also responsible for verifying that the necessary controls are in place to monitor the performance of the Company and its subsidiaries.

In addition to exercising the powers that are attributed to it by the Law, the Company's Bylaws (Article 21.1), according to the law, attributes the Board the competence to resolve on issues pertaining to the Shareholders' Meeting that can determine amendments to the Bylaws as previously described in "amendments to the Bylaws".

Within the limits as per Article 2381 of the Italian Civil Code, the Board of Directors may delegate its tasks to an executive committee and/or to one or more of its members (Article 22.1 of the Bylaws).

In this context and in compliance with the Law and the provisions of specific resolutions, and considering the provisions of Article 1 of the Governance Code, the Board of Directors carries out the following:

- examines and approves the strategic, industrial and financial plans of the company and the Group it heads, regularly monitoring implementation. In this respect, the current structure of Company powers provides that, in particular, the Board of Directors approves the Company's annual budget and long-term plans updated on an annual basis (which include the combined annual budgets and long-term plans of the subsidiaries) (Article 1.C.1, letter a) of the Governance Code); Monitoring is carried out through the regular assessment of the

trend of operations and specific Company Performance Management tools (BSC). In 2012, the Board of Directors examined and approved the strategic, industrial and financial plan of Terna and the Terna Group, presented to the market on March 20, 2012 (the 2012 - 2016 Strategic Plan), most recently updated on February 6, 2013 (2013 - 2017 Strategic Plan), thereby pursuing the creation of value for shareholders in the medium/long-term. With regard to the action planned, the Board provides specific guidelines, a description of the objectives, characteristics and application methods of the activity monitoring the business processes and risk analysis, and defines the nature and level of accounting risk with the strategic objectives relating to the implementation of the mission assigned to the company (Articles 1.P.2 and 1.C.1, letter b) of the Governance Code). With regard to this matter, reference should be made to section XI;

- defines the corporate governance system under the scope of the company and provides for the appointment, definition of functions and regulations of the internal committees of the board, as established by the current structure of powers in the company and presented in this report (Articles 1.C.1, letter a); 7.P.3 and 7.C.1, letter d) of the Governance Code);
- resolves, with regard to the Group structure and regarding the establishment of new companies, the purchase and transfer of shares in companies, namely in companies or company branches with a value exceeding € 30 million, as envisaged by the current structure of powers in the company (Article 1.C.1, letter a) of the Governance Code);
- on the basis of the proposals by the specific Committee, approves Company Policy concerning remuneration of members of administration bodies, general directors and executives with strategic responsibilities, which is then submitted to the Shareholders' Meeting for an advisory vote, and after having heard the Board of Statutory Auditors, determines the remuneration of the CEO and of other Directors covering special offices (Article 6.P.4 of the Governance Code) which it indicates annually in a specific report; With regard to this matter, reference should be made to section IX;
- constantly evaluates the suitability of the organisational, administrative and accounting structure of the company, defined by the CEO according to the proxies received, and its subsidiaries of strategic relevance (thereby meaning, in accordance with that resolved by the company's Board of Directors on February 22, 2007: a) subsidiaries listed on regulated markets and b) subsidiaries which abroad have a significant share of the segment of core business of the Group) and during the examination of internal procedures on the matter submitted to the Board and the resolutions passed that, in FY 2012, also regarded the reorganisation of the Group and adjustments to meet the new provisions of the Governance Code. With specific reference to the internal control and risk management system, it defines the relevant guidelines, at the proposal of the Director appointed by the Internal Control and Risk Management System and, upon seeking the opinion of the specific Committee (Articles 1.C.1, letter c) and 7.C.1, letter a) and b) of the Governance Code). The evaluation of the suitability of the Internal Control and Risk Management System of the Terna Group with respect to the characteristics of the business and the risk profile assumed, and its efficiency is carried out at least once a year, upon seeking the opinion of the Control and Risk Committee (Article 7.C.1, letter b) of the Governance Code). With regard to this matter, reference should be made to section XI;
- examines and approves transactions with a significant impact on the Company's financial position and results, especially if they are related party transactions or could otherwise give rise to a potential conflict of interest. This is without prejudice to the powers assigned to the CEO for particularly urgent cases. In particular, in addition to that specifically envisaged by a specific procedure on related party transactions and

the steps taken to identify and manage situations where a Director holds his own interest or an interest of third parties regarding a transaction that he should evaluate (for which we would refer you to the specific section XII sub "Interests of Directors and related party transactions) are subjected to the prior approval or preventive examination (in the case of operations for which the companies directly and/or indirectly controlled by Terna are competent) of the Board of Directors, "significant operations" concluded also by means of subsidiaries identified under the scope of a specific internal procedure of the Board ("Approval of significant operations and management of situations of interest", most recently updated on March 31, 2011). These are identified as: (i) transactions that have as their object, amount and terms/time frames of implementation an impact on safeguarding the company assets or the completeness and correctness of Terna's information also of accounting information and that as such create an obligation for Terna to make available to the public an informative document in compliance with provisions by supervisory authorities of financial markets and/or (ii) financial transactions whose value exceeds 50 million euros with the exception for transactions included in the budget and in approved financial plans as well as those regarding dispatching activity and all related services (Article 1.C.1, letter f) of the Governance Code). In this regard, it is specifically envisaged that the Board of Directors shall receive a suitable disclosure on the executive methods of significant operations, on timing and economic conditions for the implementation of such operations, on the evaluation procedure, the interests and reasoning underlying them and on any risks for Terna and its subsidiaries connected with said operations and, moreover, that can use the assistance of one or more independent experts for an opinion on the economic conditions and/or the executive and technical methods of the operation. Board resolutions taken in relation to infra-group operations are suitably grounded with regard to the reasons and convenience of the operation. According to the current structure of powers in the company, the Board of Directors is also entitled to pass resolutions on: the reduction of loans, assets and liabilities, in any form, in the medium/long-term, of a value in excess of € 100 million not envisaged by the budget and financial plans approved and not aimed at developing interventions that have already been approved by the Board in the National Transmission Grid Development Plan and/or the Strategic Plan;

- receives, as does the Board of Statutory Auditors and in accordance with the provisions of Article 21.3 of the Bylaws, constant, complete information from the Chief Executive Officer on the activities carried out in the exercise of the proxies received and in relation to the trend of operations of the company, its foreseeable outlook and the most important operations, summarised on a quarterly basis in a specific report (Article 1.C.1, letter d) of the Governance Code). In particular, with respect to all significant transactions carried out by the Company and its subsidiaries (including any related party transactions of lesser importance as identified in the specific Procedure adopted by Terna, and which are not exempt from application of the same, which do not require approval by the Board of Directors) the CEO reports to the Board of Directors on the (i) characteristics of the transactions, (ii) the parties involved and their relationship with the Company or its subsidiaries;
- assesses the general performance of Company operations, with specific reference to situations of conflict of interest, on the basis of the information received from the CEO and the Control and Risk Committee, periodically checking that planned results have been achieved (Article 1.C.1, letter e) of the Corporate Governance Code);

- carries out, at least once a year, an assessment on the operation of the Board and its committees and on the dimension and composition. In this respect, we refer you to the details given in the title below "Assessment of the operation of the Board of Directors" (Article 1.C.1, letter g) of the Governance Code);
- assesses, having consulted with the Board of Statutory Auditors and received the opinion of the Control and Risk Committee, the results given by the legal auditor in any letter of suggestions and in the report on the essential issues that have emerged during the legal audit (Article 7.C.1, letter e) of the Governance Code);
- reports to the shareholders in the meeting, in accordance with the provisions of current legislation. With regard to this matter, reference should be made to section XVI.

#### *Board of Directors Meetings and the role of the Chairman*

The Directors gather regularly and carry out tasks based on their full knowledge and in autonomy, pursuing the objective of creating value for shareholders, taking into account the social aspects of the Group's activities and the resulting need to adequately consider all stakeholders in the performance of those activities (Articles 1.P.1 and 1.P.2 of the Governance Code).

During FY 2012, the Board of Directors held 7 meetings, each lasting an average of 1 hour and 20 minutes, which saw the regular participation of the Directors and the attendance of the Board of Statutory Auditors and which also was the attendance, by invitation of the Chairman and in line with the provisions of Article 1.C.6 of the Governance Code, executives of the Company, whose presence was considered an assistance in ensuring a better disclosure on the items on the agenda. The percentage participation of each Director in the meetings held during FY 2012 is indicated in table 1 attached (Article 1.C.1, letter i)-(2) of the Governance Code and Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance).

For 2013, a Board meeting is expected every month and all the meetings have been scheduled relative to the examination of the economic and financial data by the Board of Directors according to what officially communicated to the market on January 18 and 24, 2013. In the current year and as of the date of approval of the present Report, the Board of Directors met two times.

The activities of the Board of Directors are coordinated by the Chairman. In accordance with the Bylaws, the latter has the legal power of representation of the company and the company signature, chairs the Shareholders' Meeting, shares the Board of Directors, convenes board meetings, establishes the agenda on the request of the CEO and guides the related events; it also verifies implementation of board resolutions (Article 25 of the Bylaws) and is assigned the tasks attributed to the Chairman by the law or Governance Code. More specifically, with regard to the duties involved in organising the Board works, the Chairman ensures that suitable documentation and information is given to enable the Board to rule knowledgeably on the matters submitted for its examination (Article 1.C.5 and Comment to Article 2 of the Governance Code).

To this end, during the meeting held on December 19, 2012 - considering the provisions of the Governance Code and the set of governance rules of the company with regard to the meetings of the Board of Directors and the committees established within the board - the Board of Directors defined a disclosure prior to the board meeting and for the committees that is at least coherent with the terms envisaged for convening the meetings of these organisations, without prejudice to the fact that, where the subject so requires, the information given can be supplemented, including subsequently, by the presentation provided orally by the Chairman, the Chief Executive Officer or members of the Group management and/or consultants suitably

authorised and invited during the meetings of said organisations, or the meetings of the Board of Statutory Auditors, or during specific informal meetings open to the participation of Directors and/or Statutory Auditors organised to further investigate matters of interest with reference to business management.

Subsequently to that resolved and until the date of approval of this Report, the disclosure made has been coherent with that specified by the Board.

#### *Assessment of the Board of Directors activity*

In compliance with the Governance Code, Terna's Board of Directors also for 2012 assessed the Board operation, its committees and their size and composition. The Board conducted such assessment, drawing on the assistance of the company Egon Zehnder International S.p.A. as an external consultant to ensure the utmost objectivity of its evaluations. This initiative follows on from others run by the Board of Directors of Terna since 2006, which, amongst other matters, have highlighted how the suitability of the members of the Board of Terna and the specificity of the members have helped ensure that aware decisions were taken (Articles 2.P.1, 2.P.2, 2.P.3, and 2.P.4 of the Governance Code).

It is specified that, in accordance with Article 1.C.1, letter g) of the Governance Code, Egon Zehnder International S.p.A. has specifically declared the lack of other consulting and/or other professional appointments between Egon Zehnder and Cassa Depositi e Prestiti S.p.A. and/or some of the subsidiaries of Terna S.p.A.

The analysis of the consulting firm, initiated during the first quarter of 2013, was carried out using qualitative questionnaires and in-depth individual interviews with individual Directors expressing both the majority and minority shareholders and with the subsequent examination of the data collected (Article 1.C.1, letter i)-(3) of the Governance Code). More specifically, the analysis focused on numerous aspects relating to: a) the heterogeneous, balanced composition of the members of the Board and Committees, considering the professional characteristics, experience (including managerial and in the office), with reference to the provisions of the company Bylaws and Governance Code with regard to the members of the Board and Committees that have already come into force on the basis of the respective adjustment time indicated by the transitional regulations; b) the decision-making process; c) the flow of information and presentation; d) the participation in the definition of the strategic guidance and e) the climate within the Board and relations with the Chairman and CEO. Such analysis highlighted how Terna's Board of Directors is totally in line with the Governance Code to the point that it fully represents a *best practice* both at the Italian and international level, confirming the positive judgement that there was *compliance* with said requirements.

On the basis of the results of the analysis carried out, on March 15, 2013, the Board of Directors passed an overall positive evaluation on the size, composition and performance of the Board and its Committees having positively evaluated all the principal profiles examined and committed to exercising their role as best as possible.

In particular, the Board, considering that the operation of the board in 2012 has confirmed the high level of efficiency and the general tendency towards continuous improvement of some organisational subjects that constitute the excellences of the Board, has seen improvements on: internal cohesion and independence of the Board; greater support of the Board to the Senior Management and attention to the company risks; optimisation of the committees internal to the Board; efficiency of the information process between Chairman, CEO and Directors.

With reference to the requirements of Article 1.C.1, letter h) of the Governance Code, the Board has also pointed out that thus far no situations of difficulty have arisen by the shareholders in preparing suitable candidates, such as to enable a composition of the Board aligned with that recommended by the Governance Code.

## **Delegated bodies and other Executive Directors**

### **CEOs**

On May 13, 2011 the current structure of the Board of Directors provides for only one CEO, to which the Board has attributed powers, defining their content, limits and any exercise modalities; no executive committee was established.

The CEO has powers of legal representation of the Company and is entrusted with the widest powers for the administration of the Company, pursuant to Board Resolution, with exception of those differently attributed by the Law, by the Bylaws or reserved for the Board of Directors, as described in this section under the "Role of the Board of Directors" (Article 2.C.1 of the Governance Code).

The CEO informs the Board of Directors and the Board of Statutory Auditors of the activities and of the management of the Company as well as of the resolutions passed in exercising his powers pursuant to Article 21.3 of the Bylaws, at least on a quarterly basis and on occasion of Board meetings.

On a quarterly basis, specific *reports* are prepared in order to inform the Board on major action and activities. As at the date of this Report and in accordance with 2.C.5 of the Governance Code, it is specified that there are no situations referred to as "cross directorship": in actual fact the Chief Executive Officer of Terna does not hold any offices of Director in companies outside the Terna Group, of which another Director of Terna is Chief Executive Officer.

Exception made for the CEO Flavio Cattaneo, the other 8 members of the Board of Directors (Luigi Roth, Fabio Buscarini, Paolo Dal Pino, Matteo Del Fante, Salvatore Machi, Romano Minozzi, Francesco Pensato and Michele Polo) must all be considered as non-executive. In actual fact, we note, in this regard, that the Chairman Luigi Roth does not hold an executive role, insofar as he has not been assigned individual management powers, nor does he have a specific role in preparing business strategies (Articles 2.P.1 and 2.C.1 of the Governance Code).

As already explained in the previous title "Board Meetings and role of the Chairman", the Bylaws assign the Chairman powers of legal representation of the Company and the company signature, the chair of the Shareholders' Meetings and the power to convene and chair the Board of Directors and verify the implementation of the Board's resolutions (Article 25 of the Bylaws); he is also assigned the duties assigned to the Chairman by law and by the Governance Code.

In this context, the separation of roles between the Chairman and CEO in Terna strengthens the characteristics of impartiality and balance required of the Chairman of the Board of Directors as envisaged by the Governance Code (Comment to Article 2 of the Governance Code).

Non-executive directors (insofar as they do not have any operative powers of attorney and/or management functions within the company):

- enrich with their specific competences the Board's discussions, so as to favour the examination of the subjects according to various perspectives and subsequently pass deeply analysed, conscious and respectful resolutions in line with social interests (Article 2.P.2 of the Governance Code) and

- for their number, competence, authority and availability of time, they are capable of guaranteeing that their judgement can have a significant weight in Board's decisions in line with what provided for by the Governance Code (Article 2.P.3 of the Governance Code).

The suitability of the dimension, composition and function of Terna's Board and its committees, in this regard is certified by the results of the annual board reviews, as illustrated in the previous title "Assessment of the function of the Board of Directors".

### *Independent Directors*

A suitable number, also for competence, of Non-executive Directors is independent.

Although independence characterises the activity of all the Directors, executives and non-, the presence of Directors that can be qualified as "independent" in compliance with the independence requirements set out by the law, the Bylaws and the Governance Code adopted by Terna, and whose role is significant both within the Board and its committees, suitably ensures adequate consideration of all shareholding members' interests.

Since February 2007, therefore the Company has been equipped with a specific internal procedure that defines the criteria for the assessment of independence of the non-executive members and for the assessment of the requirements necessary according to the Bylaws and the Corporate Governance Code ("Criteria of application and procedure for the assessment of independence of the directors pursuant to Article 3 of the Governance Code), in coherence with the provisions of the Governance Code, according to the already explained in the previous section II under "Appointment, requirements and term of office of Directors".

With reference to this criteria, and on the basis of the information supplied by the individual parties concerned, the Board of Directors has assessed the existence of the requirements of independence set out by the law, the Bylaws and the Governance Code with each Director at the first opportunity following appointment (Articles 3.P.2 of the Governance Code and 144-*novies*, paragraph 1-*bis* of the Issuers Regulation) and, subsequently, once a year at the board review (Articles 3.P.2 and 3.C.4 of the Governance Code).

More specifically, in the meeting of March 15, 2013, the Board of Directors assessed, on the basis of the information provided by the individual parties concerned, any commercial, financial and professional relations entertained, directly or indirectly, by the Directors with TERNA, and which may be or appear to be such as to affect the independence of a Director by virtue of their significance both in absolute terms and with reference to the economic-financial position of the party concerned and certified the existence of the requirements of independence with the following 6 non-executive directors: Fabio Buscarini, Paolo Dal Pino, Salvatore Machi, Romano Minozzi, Francesco Pensato, Michele Polo (Articles 3.C.1, 3.C.2, and 3.C.4 of the Governance Code).

At the same time, the correct application of the defined criteria and the procedures adopted by the Board of Directors was verified by the Board of Statutory Auditors (Article 3.C.5 of the Governance Code).

Among the assessments carried out by the Board, with reference to the 6 Directors, the existence is proven of the requirement of independence envisaged for in Article 15.4 of the Bylaws that requires that at least 1/3rd of the Directors in force - with rounding, in case of fractional number lower than the unit, to the

following unit - meets the requirements of independence established for Statutory Auditors by Article 148, paragraph 3, of the Consolidated Law on Finance.

The number of independent directors is therefore already in line with the requirements for the members of the board as set out in the Governance Code for issuers belonging to the FTSE-MIB index, which applies as from the forthcoming renewal of the body (Article 3.C.3 of the Governance Code).

The number and competences of the independent directors have also guaranteed a suitable membership of the committees indicated by the Governance Code and instituted in Terna in accordance with the provisions of current transitional regulations of said Code (paragraph VIII of the "Guidelines and transitional regime" and 3.C.3, first sentence, of the Governance Code).

Following the composition and the work method of the Board of Directors, as well as the presence of Independent Directors in the composition of the Committees, in the operating system a constant exchange of information between the same Independent Directors has been taking place, both at meetings of the Internal Committees and at the Board meetings, which has not required a specific meeting to be held for them (Article 3.C.6 of the Governance Code).

#### *Lead Independent Director*

The work method and composition of the Board of Directors has assured the suitable coordination of the contributions and the requests of the Non-executive Directors and, in particular, of the Independent Directors; it also guaranteed a preventive exchange of information that rendered the work of the Board productive and focused on the true requirements of the Company. On the basis of these assumptions, confirmed by the results of the board review to which the Board is subjected, and without the criteria being met as specified in the provisions of the 2006 edition of the Governance Code, updated in 2010 or the new provisions of the Governance Code (Article 2.C.3 of the Governance Code), which are intended to be applied as from the next renewal of the body, in Terna the figure of Lead Independent Director has not yet been instituted (Article 2.C.4 of the Governance Code).

## Section V: Management of company information

In April 2004, in accordance with the provisions of the Governance Code in force at the time, the company's Board of Directors adopted a specific regulation for the internal management and processing of confidential information, also setting out procedures for the external communication of documents and information concerning the company and its subsidiaries, aimed at preserving the confidentiality of confidential information, whilst also assuring that the market disclosure in relation to company data is correct, complete, suitable, timely and not selective.

This regulation - which also provides guidance for the subsidiaries, to assure that they provide Terna with all information necessary to fulfil the communication obligations set out by the law - was then supplemented in December 2006, with specific reference to the inside information pursuant to Article 114, paragraph 1 of the Consolidated Law on Finance, aimed at preventing insider trading and, most recently, updated on December 19, 2012 by the CEO according to the proxies received from the Board to consider the applicable regulatory innovation and the new organisational and document structure of the Group (Article 1.C.1, letter j) of the Governance Code).

The Directors and Statutory Auditors of Terna and its subsidiaries are required to comply with the provisions of this regulation and, in any case, keep all documents and information acquired in the performance of their duties, as well as the content of any discussions during Board meetings, confidential.

The regulation - available on the company's website [www.terna.it](http://www.terna.it) under the section "*Investor Relations/Corporate Governance/Regulations and Procedures/Information Management Regulations*" - assigns, on a general basis, the CEO of the company and the respective company heads (sole director, executive chairman, chief executive officers and/or general managers, as applicable) of the subsidiaries, the management of the relevant confidential information, establishing that disclosure of the information relating to the individual subsidiaries must in any case take place with the authorisation of the company's CEO.

Moreover, the regulation establishes specific procedures to be followed when disclosing Company documents and information outside the Company, with particular focus on the disclosure of privileged information. It also scrupulously governs the way in which members of the Company should deal with the press and other mass communication means (i.e. financial analysts and institutional investors) (Comment to Article 1 of the Governance Code).

Lastly, specific "Measures for persons committing violations" are also envisaged in the regulation's provisions.

Moreover, in the more general interests of protecting information and to guarantee the security of information within the Group, in 2012, Terna also gave specific guidelines for subsidiaries too, contained in the document "Information Security Policy - Strategic Guidelines", adopting a security governance model inspired by the strictest standards of *Information Security Management Systems* (ISMS).

In compliance with the provisions of Article 115-*bis* of the Consolidated Law on Finance and with the regulatory measures issued by CONSOB, Terna's Board of Directors created a specific list of people with access to privileged information within Terna. It also prepared a specific regulation to govern how the list should be held and updated. The same regulation requires that subsidiaries also create their own Registers. As of April 2004, the Company's Board of Directors also approved the internal dealing Corporate Governance Code, in compliance with the regulatory measures laid down by Borsa Italiana S.p.A.,

establishing the market transparency requirement for listed companies with respect to significant transactions, involving the financial instruments of the Company or its subsidiaries, carried out by people with significant decision-making powers in the Company and with access to price sensitive information (so called "relevant persons").

Following the entrance into force of the new internal dealing regulations that were introduced by Law no. 62 dated April 18, 2005 ("2004 Community Law" that integrated the provisions of Article 114 of the Consolidated Law on Finance) and of the relative implementing provisions (Articles from 152-*sexies* to 152-*octies* and Attachment 6 of the Issuers Regulations), starting from 2006 Terna adopted a specific internal Procedure to identify Terna's "relevant persons" and to manage, handle e disseminate to the market information regarding financial instruments of the Company.

Within this Procedure - subsequently updated based on CONSOB explanations and on the structural asset of the Company - Terna deemed appropriate to maintain, for the "relevant persons" identified, the obligation to refrain - either directly or indirectly - from carrying out transactions that are subject to internal dealing regulations during two blocking periods in concomitance with the approval of the draft financial statement and of the half-year report by Terna's Board of Directors.

The transparency obligations are governed by legislative and/or regulatory provisions of reference, as in force at the time (Article 114, paragraph 7 of the Consolidated Law on Finance and Article 152-*sexies et seq.* of the Issuers Regulation, as resulting following the simplifications made by CONSOB Resolution no. 18079 of January 20, 2012 published in the Official Journal of February 7, 2012, aimed at combining the competitiveness of the market with the necessary investor protection and the related thresholds for the disclosure of operations subsequent to those already disclosed).

This procedure is available in the Company's website [www.terna.it](http://www.terna.it) in the "*Investor Relations/Corporate Governance/Regulations and Procedures/Internal Dealing*" section. The procedure includes the following qualifying elements, which are considered adequate in heightening its qualitative content:

- application of internal dealing transparency obligations towards "relevant persons" within the Company and its subsidiaries as identified in the procedure (in addition to Terna's actual Directors and Statutory Auditors, the list of which is updated in line with the organisational changes made to the company);
- "relevant persons" are not allowed to carry out transactions (other than the exercise of options) during the 30 days before the approval of the draft financial statements and half year report by Terna's Board of Directors. Moreover, the Board can establish additional *blocking periods* during the year, following specific events;
- an adequate penalty system was created for "relevant persons" identified as violating the measures of this procedure.

## **Section VI: Committees within the Board**

Within the Board of Directors, according to the provisions of previous edition of the Governance Code, the Remuneration Committee and the Internal Control Committee have been set, both with proposal-making and advisory functions, and made up of at least three Directors, the majority of which independent, pursuant to the Governance Code. The criteria for the composition, the tasks and the responsibilities attributed to said committees in compliance with the Governance Code and the modalities of carrying out the meetings have been ruled through proper internal organizational Regulations adopted by the Board of Directors as of January 24, 2007.

In the meeting held on December 19, 2012, the Board of Directors resolved the necessary adjustments of the competences of the committees in place to the new provisions of the Governance Code, approving the modifications to the related organisational regulations, without changing the members (Article 4.C.1, letters a) and b) of the Governance Code). Consequently, the "Internal Control Committee", already instituted, took on the name of the "Control and Risk Committee" and the related competences as indicated by the new provisions of the Code (Article 4.P.1 of the Governance Code).

At least one member of the Remuneration Committee possesses adequate knowledge and experience in financial matters, and at least one member of the Control and Risk Committee possesses adequate knowledge in accounting and finance matters. The composition of these committees is therefore in line with the provisions of the current transitional provisions of the Governance Code (paragraph VIII of the "Guidelines and transitional regime" and Article 3.C.3, first sentence, of the Governance Code), finding the new provisions on the members of the committees as from the next renewal of the Board of Directors.

The information given under the scope of this Report on the activities carried out during the year, on the number and average duration of the meetings held and the related percentage participation of each member of the instituted committees is given with the support of the Chairman or other members, as respectively competent (Article 4.C.1, letter g) of the Governance Code).

Within the Board of Directors another Committee was set up ("Transactions with Related Parties Committee") as the body that plays the role required by "Regulation containing provisions concerning transactions with related parties" issued by CONSOB in March 2010 and subsequently amended and on the basis of the provisions in "Procedure for Transactions with Related Parties" adopted by the Company and illustrated in the special Section XII of this Report. The Committee is assigned preliminary, proactive and advisory duties and powers in evaluations and decisions concerning the above mentioned Transactions with Related Parties both for the approval of greater importance transactions and of those of lesser importance indicated in Terna's procedure, as well as in relation to possible proposals for amendments to the same procedure adopted by Terna. Said Committee is composed of at least three Directors, all independent, according to the provisions of the Governance Code.

Minutes are taken of committee meetings (Article 4.C.1, letter d) of the Governance Code). Each committee has also the faculty to access the information and the necessary departments to carry out its tasks and can use possible external advisors in the limits provided for by the Board of Directors (Article 4.C.1, letter e) of the Governance Code).

Within the Company budget, adequate financial resources are allocated for the implementation of the tasks of each committee (Article 4.C.1, letter e) of the Governance Code). At the invitation of the Chairman/Coordinator of each committee, other members of the Board of Directors can attend or other

people whose presence may prove helpful to ensuring the best possible fulfilment of the functions of the committee with reference to the items on the agenda and in accordance with that detailed below with reference to each of the committees established (Article 4.C.1, letter f) of the Governance Code).

## **Section VII: Appointment Committee**

Currently, Terna has not set up, within the Board of Directors, a specific Appointment Committee, since up to now shareholders have not met difficulties in presenting adequate candidacies, such as to allow a composition of the Board in line with the provisions of the Governance Code.

In this regard, we would remind you that, in accordance with the provisions of current transitional regulations of the Governance Code (paragraph VIII of the "Guidelines and transitional regime" of the Governance Code) on the appointment of Directors, the provisions recommending the institution of said Committee only apply as from the next renewal of the Board of Directors. Moreover, with reference to the specific competences in terms of making proposals and providing consultation assigned to said Governance Code Committee on the dimension and members of the Board of Directors and to those on the replacement and appointment by co-optation of an independent director (Article 5.C.1, letter a) and b) of the Governance Code), we would remind you (as already explained in Section IV above, under "Assessment of the function of the Board of Directors") that the board of Directors has in any case assessed the dimension and composition if it during its annual board review, using a specialised external consultant and that, in the event of the co-optation of an independent director, guaranteeing maximum impartiality of the decision, it has proceeded, at the indication of the shareholder, who had expressed the candidate to be replaced: as was the case most recently at the time of appointment of the Director Francesco Pensato in the session held on July 29, 2011, an appointment subsequently confirmed by the Shareholders' Meeting of May 16, 2012.

## **Section VIII: Remuneration Committee**

### **Functions of the Remuneration Committee**

In 2004, a specific Remuneration Committee was established within the Board of Directors, whose duties were identified in compliance with the provisions of the Governance Code of reference and the methods by which the meetings are held, governed by a specific internal organisational regulation adopted by the Board of Directors since January 24, 2007 ("Organisational Regulation of the Remuneration Committee of TERNA S.p.A.") subsequently updated on November 9, 2011, in order to assure full coherence with the indications of Article 7 of the 2010 edition of the Governance Code.

During the meeting of December 19, 2012, in making some changes to the specified Organisational Regulation, the Board of Directors resolved further adjustments in relation to the competences and composition of the Committee in order to bring it perfectly into line with the new provisions of the Governance Code (Article 6).

More specifically, the following are the competences of the Committee: (i) on the remuneration policy of the Directors and Executives with strategic responsibilities (Articles 6.P.4 and 6.C.5 of the Governance Code); (ii) on the proposals and opinions for the remuneration of executive directors and other directors holding specific roles; (iii) on the fixing of performance objectives linked to the variable part of that remuneration; (iv) monitoring the application of the decisions taken by the Board; and (v) verification of the effective achievement of performance objectives (Article 6.C.5 of the Governance Code).

With regard to the new provisions on the composition of the Committee, we note that, as envisaged by the transitional provisions of the Governance Code (paragraph VIII of the "Guidelines and transitional regime"), they are to be applied during the next renewal of the Board of Directors.

The current composition of the Committee in any case is more than appropriate for the provisions of the previous Governance Code as, following the renewal of the Board of Directors during the meeting of May 13, 2011, three directors were appointed, all non-executive and independent: Salvatore Machì (to act as Chairman), Romano Minozzi and Paolo Carlo Renato Dal Pino. At least one member is in possession of sufficient financial knowledge and experience.

The Chairman of the Committee or other member of the Committee reports to shareholders on how duties are exercised. To this end, it is envisaged that the Chairman of the Committee or another member of the Committee shall attend the Annual Shareholders' Meeting (Comment to Article 6 of the Governance Code). The Chairman of the Committee attended the Shareholders' Meeting of May 16, 2012, making a speech.

No Director takes part in Remuneration Committee meetings where proposals intended for the Board are formulated on matters concerning its own remuneration, unless proposals are presented that regard general Committee members as established within the Board (Article 6.C.6 of the Governance Code).

At the request of the Chairman of the Committee, members of the Control and Risk Committee and/or other members of the Board of Directors can attend the meetings, the Chairman of the Board of Statutory Auditors or another Statutory Auditor appointed by him and other TERNA's executives or other people whose presence may prove helpful to the best fulfilment of the Committee functions (Article 4.C.1, letter f) and Comment to Article 6 of the Governance Code).

In 2012, the Remuneration Committee held 4 meetings, with the regular participation of all members and the Chairman of the Board of Statutory Auditors. The meetings lasted an average of about 40 minutes each. None of the Directors participated in the Committee meetings in which proposals regarding their remuneration were submitted to the Board of Directors. Upon the Committee's request, the meetings were also attended by Directors of the Company whose presence was deemed helpful for the best information regarding the items on the agenda.

Minutes were duly taken of all committee meetings and the committee had the chance to access the information and business functions necessary to go about its duties and to use external consultants in accordance with the terms established by the Board (Article 4.C.1, letter e) of the Governance Code). In this latter regard, the Committee verified the existence of the requirement of independence of the consultants used (Article 6.C.7 of the Governance Code).

In 2013, the Committee will hold as many meetings as are sufficient for carrying out the duties assigned.

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

The percentage participation of each member of the committee in the meetings held during FY 2012 is indicated in table 1 attached (Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance).

As part of its duties, and with respect to the remuneration of the CEO and other Directors covering particular offices, during 2012 the Remuneration Committee made specific proposals to the Board of Directors, with the support of a consultancy company that set the remuneration benchmark, that provided for a portion of the Executive Director's compensation to be based on the Company's results and the achievement of specific objectives indicated in advance by the Board. Moreover, using the support of a consulting firm, it prepared the specific proposal for the "Remunerations Policy" adopted by Terna for the remuneration of executive

directors, other directors assigned specific duties, statutory auditors, general managers and executives with strategic responsibilities, submitted to the annual Shareholders' Meeting in accordance with Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance and, on that occasion, positively considered, in accordance with the reference provisions of the Governance Code, the overall coherence and concrete application of the policy adopted by the company. In addition, during the meetings held in 2012, the Remuneration Committee examined the incentive plans for the Company's top management. In 2013, the Committee also formulated proposals for the "Remuneration Policy" for at least the following year, approved by the Board and to be submitted to the Shareholders' Meeting called to approve the financial statements for FY 2012 pursuant to Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance.

During the meeting of March 15, 2013, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the committee, was confirmed by the Board of Directors within the yearly review of the Board itself and of the committees.

The Committee has been granted adequate financial resources.

## **Section IX: Remuneration of Directors**

With regard to FY 2012, we would remind you that in December 2011, Terna's Board of Directors adopted the "Remuneration Policy" in implementation of the provisions of the Governance Code of reference, in force at the time, at the proposal of the "Remuneration Committee".

Following the coming into force of the regulatory provisions enacting Article 123-*ter* of the Consolidated Law on Finance, issued by Consob Resolution no. 18049 of December 23, 2011 (published in the Official Journal no. 303 of December 30, 2011), which, amongst other aspects, introduced Article 84-*quater* to the Issuers Regulation, in the meeting held on March 20, 2012 of Terna's Board of Directors, on the proposal of the Remunerations Committee, approved the update to the policy adopted. This policy – as summarised in the "Terna's Annual Report on Remuneration" filed and made available to the public at the company offices and published on the company's website ([www.terna.it](http://www.terna.it)) and the market management company Borsa Italiana S.p.A. ([www.borsaitaliana.it](http://www.borsaitaliana.it)) – has been submitted to the consulting, non-binding vote of the Shareholders' Meeting of May 16, 2012, in accordance with Article 123-*ter*, paragraph 6 of the Consolidated Law on Finance, which ruled in favour.

All additional information and/or updates of the remuneration policy of the company approved by the Board of Directors on the proposal of the Remuneration Committee on the remuneration of members of the administrative bodies, the general directors and the executives with strategic responsibilities, with reference at least to the following year, and the activities carried out by the Committee and the procedures used to adopt and implement this policy and the information required by Article 6 of the Governance Code to which Terna has adhered are summarised in the Terna's Report Annual Report on Remuneration, which will be published by Terna and submitted to the next annual Shareholders' Meeting called to approve the financial statements for the year ended on December 31, 2012, in compliance with the provisions of Article 123-*ter* of the Consolidated Law on Finance and the mentioned Consob Resolution.

This Report was approved by the Board of Directors on March 15, 2013.

With regard to the compensation of the Directors, please remember that this is established by the Shareholders' Meeting for each Director (Article 24.1 of the Bylaws).

Extra compensation for the members of the Committees formed within the Board of Directors in compliance with the Governance Code was resolved, following the evaluation by the Board of Statutory Auditors, in compliance with Article 2389, paragraph 3, of the Civil Code and with Article 24.2 of the Bylaws, by the Board itself; the overall compensation for the Chairman and the CEO is also identified by the Board of Directors based on the proposal submitted by the Remuneration Committee and following the evaluation by the Board of Statutory Auditors.

The total emoluments received by the members of the Board of Directors during the year are indicated in the note to the financial statements.

For a suitable representation of the fees paid during the year of reference, by any title and in any way by the company and subsidiaries or related parties to the administrative body of Terna and executives with strategic responsibilities for FY 2012, including the representation of each of the items comprising the remuneration and treatments established in the event of cessation of office or termination of employment and a judgement of the coherence with the Company's Remuneration Policy approved the previous year, we would refer you to the specified "Terna's Annual Report on Remuneration" which will be published and submitted to the forthcoming annual Shareholders' Meeting called to approve the financial statements for the financial year ended on December 31, 2012 in compliance with the provisions of Article 123-*ter* of the Consolidated Law on Finance and the mentioned Consob Resolution.

Finally, based on the provisions of Article 84-*quater*, paragraph 4, of the Issuers Regulations, the Annual Report on Remuneration shall include information concerning compensation plans provided for by Article 114-*bis* and information on shareholdings in Terna and in subsidiaries held by members of the administration and control bodies, by general directors, and by other executives with strategic responsibilities, as well as by spouses not legally separated and by minor children, directly or through subsidiaries, trust companies or through a third parties.

## Section X: Control and Risk Committee

### Functions of the Control and Risk Committee

In 2004, within the Board of Directors, a specific Internal Control Committee was established, with the task of providing instructions, in the form of advice and suggestions, and, in particular, supporting the Board in its assessments and decisions relating to the Internal Control System and regularly monitoring its suitability, as well as in connection with specific aspects relating to the identification of the main business risks (such as, for example, operational risk, financial risk, market risk, and compliance risk (in addition to auditing compliance)), regularly reporting back to the Board on the suitability of the system and the work performed. The duties of the Committee have been identified in compliance with the Governance Code and the modalities of carrying out the meetings have been ruled through proper internal organizational Regulations adopted by the Board of Directors as of January 24, 2007.

In the meeting held on December 19, 2012, the Board of Directors resolved the necessary adjustments in relation to the members and competences of the committee in place in order to ensure that it was perfectly in line with the new provisions of the Governance Code on the internal control and risk management system (Articles 7.P.3, letter a-ii), 7.C.1 and 7.C.2 of the Governance Code) making some changes to the indicated Organisational Regulation (now named the "Organisational Regulation for the Control and Risk Committee of Terna S.p.A."). Consequently, the Internal Control Committee, already established in Terna, took on the name of Control and Risk Committee with no change made to its members.

More specifically, the "Control and Risk Committee" has the task of supporting the Board of Directors, with suitable guidance, in the assessments and decisions relating to the "Internal Control and Risk Management System" (the "System"), to approval of the annual financial report and the half-yearly financial report and relations between the company and the external auditor (Article 7.P.3, letter a-ii) of the Governance Code). Under this scope, the Committee is specifically assigned the following tasks:

- supporting the Board of Directors in fulfilling the duties assigned it by the Governance Code on internal control and risk management, preparing specific opinions in this regard:
  - i. the definition of the System guidelines and level of compatibility of these risks with business management that is coherent with the strategic objectives identified by the Board of Directors (Article 7.C.1, letter b) of the Governance Code);
  - ii. the regular verification of the suitability of the System with respect to the business characteristics of the business and the risk profile assumed and its effectiveness (Article 7.C.1 letter a) of the Governance Code);
  - iii. the approval of the plan of works prepared by the Internal Audit Department Manager (Article 7.C.1, letter c) of the Governance Code);
  - iv. in the description of the main characteristics of the system in the Annual Report on Corporate Governance and Ownership Structures and in the assessment of the suitability of the system (Article 7.C.1, letter d) of the Governance Code);
  - v. in the assessment of the results presented by the legal auditor and in the report on the essential issues that emerged during the legal audit;
- assessing, together with the executive in charge of the preparation of accounting documents and the legal auditor and the Board of Statutory Auditors, the correct application of accounting principles and their

uniformity for the preparation of the consolidated financial statement (Article 7.C.2, letter a) of the Corporate Governance Code);

- expressing opinions on request of the CEO, on specific aspects concerning identification of main Company risks (Article 7.C.2, letter b) of the Corporate Governance Code);
- examine the regular reports concerning the assessment of the system and those of particular relevance prepared by the Audit Department (Article 7.C.2, letter c) of the Governance Code);
- monitor the independence, suitability, efficacy and efficiency of the Audit Department (Article 7.C.2, letter d) of the Governance Code). In this respect, we would refer you to the title below "Internal Audit Department Manager";
- report at least once every six months to the Board of Directors during approval of the annual financial report and half-yearly financial report, on the activities carried out and on the suitability of the system (Article 7.C.2, letter f) of the Governance Code);
- carry out the additional duties as may be assigned to the Board of Directors.

Additional specific duties are assigned to the Committee based on the Organisational Model adopted by Terna in compliance with Legislative Decree no. 231/01 and with Terna's Code of Ethics.

The Committee can ask the Internal Audit Department to carry out checks on specific operative areas, simultaneously informing the Chairman of the Board of Statutory Auditors (Article 7.C.2, letter e) of the Governance Code).

The Chairman of the Board of Statutory Auditors (or another auditor appointed by him) shall attend the meetings of the Committee, and in any case, all other auditors can also attend (Article 7.C.3, letter e) of the Governance Code). At the invitation of the Committee Chairman, the Internal Audit Department Manager can attend the meetings and, with reference to the individual items on the agenda, the CEO (in his capacity as Director appointed to oversee the functions of the Internal Control and Risk Management System), the members of the Remuneration Committee and/or other members of the Board of Directors or other people whose presence may be useful to ensure the best possible operation of the Committee (Article 4.C.1, letter f) of the Governance Code).

With regard to the new provisions on the composition of the Committee, we note that, as envisaged by the transitional provisions of the Governance Code (paragraph VIII of the "Guidelines and transitional regime"), they are to be applied during the next renewal of the Board of Directors. The current members of the Committee are therefore in line with the applicable provisions of the previous Governance Code. In actual fact, following the renewal of the Board of Directors and subsequent appointment of the Director Pensato in lieu of a Director who was standing down, by resolutions passed on May 13, 2011 and November 9, 2011, four directors were appointed, all non-executive, and the majority of whom are independent: Paolo Carlo Renato Dal Pino (acting as Chairman), Matteo Del Fante, Francesco Pensato and Michele Polo. At least one member is in possession of sufficient accounting and financial experience.

Information on the number of meetings and the percentage attendance, as set out below, refers to the total activities of the Committee in FY 2012.

More specifically, during FY 2012, the Committee held 6 meetings, characterised by the regular participation of its members and the Board of Statutory Auditors, in view of the specific supervisory duties over the system that are assigned to the Board by current legislation on listed companies and by the Governance Code (Articles 7.P.3, letter d) and 7.C.3 of the Governance Code). The average duration was approximately 1 hour

and 15 minutes each. By invitation of the Committee Chairman, the Internal Audit Department Manager attended the meetings.

Upon the Committee's request, the meetings were also attended by Directors of the Company whose presence was deemed helpful for the best information regarding the items on the agenda (Article 4.C.1, letter f) of the Governance Code).

More specifically, during FY 2012, in accordance with the provisions of the Governance Code in force at the time, the Committee has:

- assessed the implications for Terna with regard to the adhesion to the new provisions on the Internal Control and Risk Management System envisaged by the Governance Code, to this end initiating a plan to carry out all consequent activities and providing support to the Board, which saw the involvement of the various entities and organisations involved;
- carried out a preliminary examination of the adjustments by the Company on the Internal Control and Risk Management System to meet the new requirements of the Governance Code, also by virtue of the new Group organisational structure and the reference policies in place with the Company and the guidelines of the "Internal Control and Risk Management System".
- given a positive opinion on the determination by the Board of the level of compatibility of the main risks relating to Terna and its subsidiaries with business management in line with the strategic objectives identified;
- in connection and with the involvement of various entities and organisations involved, given its positive opinion on the suitability of the Internal Control and Risk Management System with respect to the business characteristics and risk profile assumed, and its effectiveness;
- positively examined the structure of the Terna Audit, the plan of work prepared by the Internal Audit Department Manager, the activities relating to the Quality Assurance Plan and the methods for carrying out the tests and support for the Supervisory Body pursuant to Italian Legislative Decree no. 231/01 and examined and monitored the 2012 audit activities, noting elements for the assessment of the state of the risk management and control system also in relation to the Group reorganisation;
- met the independent auditing firm to assess the auditing activities with particular regard to the methods by which they were carried out and the results.

Furthermore, it examined the progress of financial risk management. Pursuant to what provided for by the Governance Code, the committee assessed, together with the Executive in Charge and having consulted with the legal auditor and the Board of Statutory Auditors, the correct use of the accounting standards and received information on control activities implemented for compliance with the provisions of law 262/05 and subsequent amendments. The Committee also received the required disclosure from the Supervisory Body pursuant to Italian Legislative Decree no. 231/01 on the suitability and development of the Model and activities carried out by said organisation and reported to the board at the time of approval of the annual and half-yearly financial reports on the activities carried out and the suitability of the Internal Control and Risk Management System (Articles 7.C.2, letter c) and f) of the Governance Code).

Minutes were duly taken of all committee meetings and the committee had the chance to access the information and business functions necessary to go about its duties and to use external consultants in accordance with the terms established by the Board (Article 4.C.1, letter e) of the Governance Code).

In 2013, the Committee will hold as many meetings as are sufficient for carrying out the duties assigned.

During the current year, up to the date of approval of this Report, the Committee has held one meeting. The percentage participation of each member of the committee in the meetings held during FY 2012 is indicated in table 1 attached (Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance). During the meeting of March 15, 2013, the Board of Directors evaluated the duties and performance of the Committee. The generally positive evaluation of the composition, size and responsibilities of the committee, was confirmed by the Board of Directors within the yearly review of the Board itself and of the committees. The Committee has been granted adequate financial resources.

## **Section XI: Internal Control System and Risk Management**

With regard to internal controls, since December 2006, on the basis of the preventive instructions given by the Internal Control Committee (now the Control and Risk Committee), the Board of Directors has:

- defined the "Terna Group Internal Control System" (now the "Internal Control and Risk Management System of the Terna Group" or the "ICRMS"), taking its inspiration from national and international best practices such as the set of rules, procedures and organisational structures, which, through a suitable identification, measurement, management and monitoring process of the main risks, enable correct, coherent business management with the objectives established by the Company;
- established the guidelines for the Internal Control and Risk Management System of the Terna Group, describing the rules, procedures and organisational structures prepared in such a way that the main risks relating to Terna and its subsidiaries are correctly identified and suitably measured, managed and monitored according to criteria of compatibility with a healthy, correct management, coherent with the strategic objectives identified (Articles 7.P.1, 7.P.2, and 7.C.1, letter a) of the Governance Code).

More specifically, these guidelines were updated by the Board of Directors - also considering the new provisions of the Governance Code - by resolution of December 19, 2012 and upon seeking an opinion of the Control and Risk Committee. At the same time and in accordance with the provisions of the mentioned guidelines, upon seeking the opinion of the Control and Risk Committee, the board defined the nature and level of risk compatible with the strategic objectives of Terna and its subsidiaries.

The Internal Control and Risk Management System of the Terna Group helps, with reasonable certainty, to guarantee the achievement of strategic objectives, the safeguarding of the company assets, the efficiency and effectiveness of the business processes, the reliability of the financial operations, compliance with the law, regulations, Bylaws and internal procedures and the reliability of the company reports and financial disclosure. Moreover, it is constructed considering the specific nature and type of activities carried out and the connected risks and corporate interest of the activities carried out with special attention paid to the part of the ICRMS that has the objective of safeguarding continuity of the electrical service and the guarantee of impartial behaviour in carrying out the activities granted under concession.

The ICRMS is based on the following elements: control environment; risk management system; control activities; information, communication and monitoring. The coordinated implementation of these elements makes the ICRMS effective overall.

- "The control environment", the basis of all other elements, consists of the set of ethical and cultural values, the governance and organisational model, the leadership style exercised by the company's senior management and by the management and staff management policies.

- The "risk management system" implemented by the company senior management and management starts from the definition of the business objectives (strategic plans, budget, key performance indicators, risk appetite) and enables the various levels of the organisation to identify the main risks of the individual processes to which the plans of action are related for the prevention and management of risk in order to keep it within acceptable limits, monitoring the results over time. The risk management models adopted, the roles and responsibilities within the organisation are defined in specific business procedures and policies. In order to implement an integrated "risk management system", in 2007 Terna created a Corporate Security Department significantly integrating its security tools and defining a transversal system for identifying, analysing and controlling Corporate risks. Moreover, in accordance with the provisions of the guidelines of the Internal Control and Risk Management System of the Terna Group, the figure of the Chief Risk Officer (CRO) has been envisaged (Comment to Article 7 of the Governance Code), to whom the main responsibility is assigned for supporting company management in the effective implementation and management of the risk management process on a Group level, with reference to all financial, operational, business and sundry risks.

In addition to ensuring absolute compliance with legal provisions, this integrated model allows reaching corporate security levels that exceed the regular standards attainable through a sectoral and fragmented security management.

- The "control activities" are carried out by management and employees to achieve specific objectives on the basis of principles, such as self-control, hierarchical control, accountability, opposing interests and segregation of duties.

The "communications and information processes" ensure that the Company's expected objectives, culture, values, roles, responsibilities and conduct are clearly disclosed internally, while guaranteeing that disclosures to stakeholders outside the Company are correct and transparent.

- "Monitoring" aims at constantly verifying the effectiveness of the Internal Control and Risk Management System of the Terna Group through continuous activities carried out by personnel in the performance of their work, and through separate assessments that are regular, but not continuous, and typical, but not exclusive, of the Audit Department.

Terna has indeed an appropriate structure dedicated to preventing and managing Corporate fraud activities also aimed at spreading the culture of legality and respecting Corporate regulations. Continuously monitoring processes, verifying and managing reports of illegalities have led to introducing specific controls aimed at reducing such risks and at defining, for certain critical processes, specific procedures aimed at preventing illegal conduct.

Upon completion of the resolutions passed on the ICRMS as described above and on the basis of the positive opinion of the Control and Risk Committee, during the meeting of December 19, 2012, the Board of Directors expressed a positive opinion on the suitability of the Internal Control and Risk Management System with respect to the characteristics of the business and the risk profile assumed, as well as its effectiveness.

Terna's Board of Directors' meeting of March 15, 2013, in compliance with the opinion rendered by the Internal Control Committee on the basis of the analyses made during 2012 and when approving the draft financial statements for FY 2012, confirmed the positive assessment given and judged the Terna Group's Internal Control System suitable to achieve an acceptable risk profile, in consideration of the field in which

Terna operates, of its size, organizational and Corporate structure (Article 1.C.1, letter c) and 7.C.1 letter b) of the Governance Code).

In its report, the Control and Risk Committee also reported on the report of the Supervisory Body appointed in accordance with Italian Legislative Decree no. 231/01 on the implementation of the Organisational Model in place at Terna and at the other Group companies.

Attachment 1 to this report includes the principal characteristics of existing risk management and internal control systems with respect to the financial information note, also consolidated (ex Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Finance).

### **Executive Director in charge of the Internal Control and Risk Management System**

The CEO of Terna, as the Director in Charge of the Internal Control and Risk Management System identified by the Board of Directors by resolution of December 19, 2012, is responsible for establishing and maintaining the Internal Control and Risk Management System of the Terna Group. More specifically, he implements the guidelines defined by the Board of Directors, ensuring the design, development and management of it and constantly verifying the suitability and effectiveness and the identification of the main business risks, considering the characteristics of the company's business and that of its subsidiaries, submitted regularly to the Board of Directors (Articles 7.P.3, letter a)-(i) and 7.C.4, letter a) and b) of the Governance Code). He carries out the duties assigned by the Governance Code (Article 7.C.4, letters c), d) and e) of the Governance Code). He also appoints and revokes the Chief Risk Officer (CRO) having first sought the opinion of the Control and Risk Committee.

In carrying out its business in FY 2012, the CEO specifically ensured the adaptation of the Internal Control and Risk Management System of the Terna Group to the legislative and regulatory context and the dynamics of the operative conditions of the company also consequent to the reorganisation of the Group, to this end - and through the appointed company structures - reporting to the Control and Risk Committee.

### **Internal Audit Department Manager**

The Internal Control and Risk Management System of the Terna Group - according to the provisions of the guideline "Internal Control and Risk Management System of the Terna Group", as most recently updated on December 19, 2012 and already presented in this section - provides for an Audit Department and the figure of the Internal Audit Department Manager appointed by the Board of Directors on the appointment of the "Director in Charge of the Internal Control and Risk Management System" upon first seeking the favourable opinion of the Control and Risk Committee and having consulted with the Board of Statutory Auditors (Article 7.C.1 of the Governance Code). This is also assigned the tasks set out in the Governance Code (Article 7.C.5 of the Governance Code) and is not assigned any operative area; it depends on the Board of Directors and also reports to the CEO as "Director in Charge of the Internal Control and Risk Management System" (Article 7.C.5, letter b) of the Governance Code).

Terna's organisation instituted a specific Internal Audit Department some time ago and assigned its responsibility to a company executive with suitable requirements of professionalism without any operative responsibilities or appointments, who reports to the Director in Charge of the Internal Control and Risk Management System and who answers in his work to the Board of Directors, assigning him resources and means for overseeing the suitability, operations and function of the ICRMS and remuneration coherent with

business policies (Article 7.C.1 of the Governance Code). This structure has guaranteed the efficiency of the audit in pursuing its mission and the conformity of the activities carried out with the Standard for the practice of Internal Auditing issued by the IIA and consequently, the Board of Terna has maintained its current structure and the figure of the Internal Audit Department Manager already in place in Terna and held by engineer Fulvio De Luca.

Terna's Internal Audit Department Manager:

- checks, both continuously and in relation to specific needs and in compliance with international standards, the operations and suitability of the Internal Control and Risk Management System through the audit plan based on a structured process analysing and prioritising the main risks (Article 7.C.1, letter a) of the Governance Code);
- has direct access to all information useful to fulfilling the appointment. More specifically, in order to go about its duties, the Audit Department may access all company information systems freely and all acts and information in the company (Article 7.C.1, letter c) of the Governance Code);
- prepares regular reports containing suitable information on his work, on the way in which risks are managed and on compliance of the plans defined to limit them. The regular reports contain an assessment of the suitability of the Internal Control and Risk Management System (Article 7.C.1, letter d) of the Governance Code);
- prepares prompt reports on particularly important events (Article 7.C.1, letter e) of the Governance Code);
- sends the reports pursuant to the above points to the Chairs of the Board of Statutory Auditors, the Control and Risk Committee, the Board of Directors and the Director in Charge of the Internal Control and Risk Management System (Article 7.C.1, letter f) of the Governance Code);
- checks, as part of the audit plan, the reliability of the information systems including the accounting systems (Article 7.C.1, letter g) of the Governance Code).

The plan of works prepared by the Internal Audit Department Manager is approved by the Board of Directors at least once a year and having first sought the opinion of the Control and Risk Committee, having consulted with the Board of Statutory Auditors and the Director in Charge of the Internal Control and Risk Management System (Article 7.C.1, letter c) of the Governance Code). For FY 2012, the plan of works was examined first by the Internal Control Committee on the basis of the provisions of the Governance Code of reference as in force at the time. The new plan of works was then approved by the Board in the meeting of March 15, 2013, having first obtained the opinion of the Control and Risk Committee and consulted with the Board of Statutory Auditors and the Director in Charge of the Internal Control and Risk Management System.

The Internal Audit Department Manager operates through audits, the scope of application of which is extended to Terna and its subsidiaries. Audit activities can be carried out in connection with the departments carrying out audits in the companies and are carried out according to the annual plan of action or prepared each time by the company senior management (such as the "Director in Charge of the Internal Control and Risk Management System") in relation to specific facts or following specific events, simultaneously informing the Chairman of the Board of Directors, the Chairman of the Control and Risk Committee and the Chairman of the Board of Statutory Auditors (Article 7.C.4, letter d) of the Governance Code).

The Control and Risk Committee can ask the Audit Department to carry out audits on specific operative areas, simultaneously notifying the Chairman of the Board of Statutory Auditors (Article 7.C.1, letter e) of the Governance Code) and the Director in Charge of the Internal Control and Risk Management System.

The Board of Statutory Auditors, within its own activities, can request the Audit department to carry out assessments on specific operating areas or Company operations (Article 8.C.4 of the Governance Code).

The Internal Audit Department Manager informs the Director in Charge of the Internal Control and Risk Management System of the requests for audit received from the Control and Risk Committee and the Board of Statutory Auditors.

The Board of Statutory Auditors and the Control and Risk Committee exchange significant information to fulfil their tasks (Article 8.C.5 of the Governance Code).

During FY 2012, numerous significant company scopes were audited, relating to: the management of the electrical system and its safety, impartiality with regard to grid users, design and development activities, group reorganisation and information management.

## **Code of Ethics**

In May 2002, aware of the moral aspects involved in its core activities, Terna's Board of Directors resolved to adopt its Code of Ethics (that was updated in March 2004) to allow employees and all those having relations with Terna, to operate in the right way in order to establish trust, strengthen the Company's positive reputation and create value.

In 2006, the Code of Ethics underwent an updating process to provide Terna, following the change that rendered it an independent operator in the electricity transmission market, with a set of rules and principles to follow on the basis of its new context of reference.

The new Code of Ethics, which was approved by the Board of Directors on December 21, 2006, explains also in ethical terms, Terna's uniqueness. It underlines the need to respect universal ethical principles, that can be immediately recognized by everybody, and that should be fully adopted by companies. It is by no coincidence that the Code of Ethics specifically recalls the 10 Global Compact standards, the most prestigious expression of this vision.

Terna's Code of Ethics is broken down into five sections, which discuss, in this order:

- Terna's fundamental ethical principles, which are organized into general ethical principles (legality, honesty and accountability), that are universal and therefore to be recognized and shared by all, and into four main principles that Terna believes are particularly important, given its activities and nature (good management, respect, fairness and transparency);
- the conduct required, especially from employees, based on three important elements: loyalty to the Company, conflicts of interest and the integrity of Company assets;
- general instructions for the conduct to follow in relations with stakeholders, broken down into eight groups in which Terna requires consistent conduct;
- Terna's commitment to comply with the Code and the conduct required in relation to certain stakeholders;
- the rules implementing the Code and the relevant people responsible for updating it and gathering reports, who should be contacted for any clarifications.

The Code of Ethics was approved in December 2006. It applies to all of Terna Group's subsidiaries for sections 1 (Principles), 2 (Conflicts of interest, Company loyalty and the integrity of Company assets) and for section 3 (Relations with stakeholders) limited to the initial guidelines for the conduct to be followed with the individual categories of *stakeholders*.

On December 16, 2009 Terna's Board of Directors, based on sustainability, undertook an additional and coherent step resolving to officially join the Global Compact, the multi-stakeholder network promoted by the UN Organization that joins governments, companies, UN agencies, trade union organizations, non-profit organizations and the civil society with the aim of globally promoting the 10 universal principles of human rights, employment, environmental protection and anti- corruption measures.

The establishment of the Ethical Committee between the end of 2009 and the beginning of 2010, was another occasion to focus the contents and give new impulse to the complete implementation of the Code of Ethics by means of a dissemination campaign involving the entire Company.

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

### **Organizational Model under Legislative Decree no. 231/2001**

Since December 2002, Terna's Board of Directors has resolved to adopt an Organizational and Management Model that met the requirements of Legislative Decree no. 231 of June 8, 2001, which introduced into the Italian Law a system of administrative (and criminal) liability for companies with respect to certain types of offences committed by their Directors, managers or employees in the Company's interest or to its benefit. The Model was updated in June 2004, after the Company's shares were listed.

During 2010, the Model was amended following changes in law provisions as per Article 24-*ter* regarding "organized crime offences" and Article 25-*bis*, 25-*novies* and 25-*novies-(bis)* regarding, respectively, "offences against industry and trade", "crimes related to the violation of copyright" and "crime of incitement to refrain from issuing statements or to issue false statements", introducing the new Special Section I, relative to organized crime offences and updating the "General Section" and the "Special Sections" "A", "B", "G" and "H" for the other types of offences.

In addition to identifying areas deemed to be mostly at-risk for committing offences (so called "At-risk Areas"), the activity also involved defining conduct principles which all company representatives must comply with in order to prevent such offences, in addition to the provisions already included in the existing procedures within the Company.

This project went hand-in-hand with the Code of Ethics, as the Company believes that the adoption of this Model - regardless of the regulations that made it optional rather than mandatory - is a valid tool in increasing the awareness of those operating in the name and on behalf of Terna and its Group, so that their conduct be correct and transparent in the performance of their activities, to prevent the risk of the offences provided for by the Decree from being committed.

In 2011, due to the extension of the predicate offences category to environmental crimes, pursuant to Article 25-*undecies* of Legislative Decree no. 231/2001, an assessment was carried out, as well as the mapping of company areas, the roles is and responsibilities, identifying the so-called "At-Risk Areas" and the definition of principles of conduct which company representatives must comply with in order to prevent the occurrence of new predicate offences. Therefore, following said activity, the Model 231 was further broadened through the introduction of the Special Section "L" in connection with "Environmental Offences".

In 2012, by virtue of the business reorganisation of the Terna Group, the Model of the parent company Terna S.p.A. was completely reviewed and updated and specific Organisational Models were prepared for the subsidiaries to consider their specific business.

Under the scope of the new special part "D", the new Model also considers the extension of the list of crimes established under Article 25-*duodecies* of Italian Legislative Decree no. 109 of July 16, 2012, which establishes the extension of the administrative liability to include entities where the minimum rules relating to the employment of citizens of third party countries with invalid permits to stay are exceeded, as established in Italian Legislative Decree no. 286 of July 25, 1998 (the Consolidated Law on Immigration).

The Model is currently organized into eleven sections:

- a "general section" which describes, inter alia, the content of Legislative Decree no. 231/2001, the objectives of the Model and its implementation, the duties of the supervisory board – structured as a collective body – required to monitor the implementation and compliance of the Model, information flows and the penalty system; In this regard, in the meeting of December 19, 2012 and considering the current legislative and regulatory structure concerning the appointments and competences of the Board of Statutory Auditors, the Board of Directors chose not to transfer the functions of supervisory body to this organisation (Comment to Article 7 of the Governance Code);
- a "special section A" concerning the crimes committed in transactions with the public administration and crime of leading someone not to make a declaration or to make untruthful declarations to the legal authorities;
- a "special section B", which discusses Corporate offences;
- a "special section C", which deals with offences of terrorism or subversion of the democratic order;
- a "special section D" in relation to crimes against the individual personality and the employment of citizens from third party countries with invalid residence permits;
- a "special section E", concerning market abuse offences, with the addition of specific "Compliance regulations for the prevention of offences and administrative market abuse offences";
- a "special section F" regarding dealing in stolen goods, money laundering and use of money or assets coming from illegal sources as introduced in Decree no. 231/01 consequent to Legislative Decree no. 231/07 becoming effective;
- a "special section G", regarding manslaughter and serious or very serious injuries committed in violation of the rules on occupational health and safety;
- a "special section H", regarding computer-related offences;
- a "special section I" relative to organized crime offences;
- a "special section L", concerning environmental offences.

The content of this Model is consistent with the guidelines prepared for this purpose by trade associations. It is also in line with the *best practices*, and represents the final step towards complete accuracy, transparency and accountability in internal and external relations, while offering shareholders a guarantee of efficient and correct management.

As a supplement to the Model, already in 2008, Terna also approved a specific "Compliance Regulation for preventing offences and administrative illegalities of market abuse", most recently updated in July 2012, aimed at providing the recipients of the Model an additional operational tool for evaluating their conduct for

integrating offences and administrative illegalities of market abuse and consequently for preventing conduct potentially representing a source of administrative responsibility for the Company.

In order to guarantee wider diffusion of the knowledge of the adopted Model, the same is published in the Company's website ([www.terna.it](http://www.terna.it)) under the Investor Relations section and, since 2010, a widespread training and customized campaign has been carried out involving all employees. In particular, in 2012 an awareness raising campaign based on "At-risk areas" for crimes where everyone operates, and other activities were undertaken aimed at ensuring an effective process-modulated awareness of regulations and conduct to be followed by all company representatives. Moreover, a manual was drafted and distributed throughout the territory on the "Model for Organization and Management of Procedures" - intended for Terna's personnel called on to implement Model 231 - in order to facilitate a simple reading of the Model but complete in its fundamental elements by clearly indicating proper conduct and conduct to be avoided so as not to incur liability.

### **Independent Auditors**

The assignment of auditing the annual report and the consolidated financial statements was entrusted, pursuant to the resolution passed by the Shareholders' Meeting of May 13, 2011 on proposal of the Board of Statutory Auditors, to the audit company PricewaterhouseCoopers S.p.A. for the 2011-2019 period in replacement of the company KPMG S.p.A., whose appointment expired with no possibility for renewal or extension pursuant to Article 17 of Legislative Decree no. 39 of January 27, 2010.

In drafting the auditing assignment proposal submitted to the Meeting of May 13, 2011, the Board of Statutory Auditors preliminarily assessed the independence requirements of such company with reference to Terna and the Group. This company confirms its independence to the Board of Statutory Auditors once a year, in accordance with Article 17, paragraph 9 of Italian Legislative Decree no. 39 of January 27, 2010.

### **Executive in Charge of the preparation of the company's accounting documents and other company roles and departments**

In implementation of Article 154-*bis* of the Consolidated Law on Finance - introduced by Law no. 262 of December 28, 2005 and subsequently modified by Legislative Decree no. 303 of December 29, 2006 - Terna's Shareholders' Meeting of May 24, 2007 provided for in the Bylaws (Article 21.4) the position of the Executive in Charge of the preparation of the company's accounting documents (Executive in Charge), delegating his appointment to the Board of Directors, following the indication by the Board of Statutory Auditors, based on specific requirements of professionalism.

The choice to reserve the appointment and revoking of the Executive in Charge to the Board of Directors was carried out in line with Law provisions that directly acknowledge the Board of Directors a specific task of supervision (Article 154-*bis*, paragraph 4 of the Consolidated Law on Finance). In this regard - under the scope of the guideline "Internal Control and Risk Management System of the Terna Group", as most recently updated on December 19, 2012 and already presented in this section - the Board has specifically assigned the figure of the Internal Control and Risk Management System Director, regulated by the Governance Code, the task of making the proposal for appointment.

The Executive must also be in possession of requirements of honour indicated by Law and of professionalism indicated in the Bylaws (Article 21.4).

In particular, the Executive in Charge of the preparation of accounting documents must have a total experience of at least three years in:

- a) administration activities, finance and control and/or managing functions inherent to the activity of preparation and/or analysis and/or evaluation and/or verification of company documents whose complexity is comparable to accounting documents of the Company; or
- b) activity of legal control of the accounts in companies listed in Italian regulated markets or in those of other countries of the European Union; or
- c) professional activities or university teaching in financial or accounting subjects.

The Board of Directors, in compliance with the regulations, has immediately appointed as Executive in Charge Luciano Di Bacco, after verification of the requirements of honour and professionalism. Such appointment has also involved the adjustment of the organisational structure of the Company attributing to the Executive autonomy and authority with the institution of a specific Senior Manager reporting directly to the CEO.

The Executive carries out all the activities necessary to give the Board of Directors the possibility to comply with its supervision tasks as per Article 154-*bis*, paragraph 4 of the Consolidated Law on Finance.

The Executive in Charge issues a declaration on the compliance, under Article 154-*bis*, paragraph 2 of the Consolidated Law on Finance, with the action and communications of the Company provided for by Law or communicated to the market, with reference to the report, even half-year, of the Company, to documents, and the accounting books and records. These declarations have been made since the half-yearly report of 2007.

In accordance with Article 154-*bis*, paragraph 3 of the Consolidated Law on Finance, the Executive in Charge prepares suitable administrative and accounting procedures to prepare the statutory financial statements and consolidated financial statements and any other financial communication requiring his issue of a certificate. In this regard, the Executive in Charge certifies, together with the appointed administrative bodies, with a specific report on the statutory financial statements, the abridged interim financial statements and the consolidated financial statements, their suitability and effective application, in accordance with paragraph 5 of the same Article, according to the model established in the Issuers Regulation. These declarations have been made since the financial statements as at December 31, 2007.

In 2012, following the reorganisation of the Terna Group, by agreement with the CEO also in his capacity as "Director in charge of the Internal Control and Risk Management System", the Director in Charge has updated the administrative and accounting procedures on the basis of the new organisation, and:

- the financial disclosure control system, also referred to as the "Model 262";
- the Regulation of the Executive in Charge;
- the Administrative and Accounting procedures;
- the Analysis of the Internal Control and Risk Management System at an entity level.

Testing operations were also conducted for verifying the implementation of the actual control.

In accordance with the provisions of the Governance Code, the Executive in Charge has, together with the Control and Risk Committee, evaluated the correct use of the accounting standards (Article 7.C.2, letter a) of the Governance Code).

## **Coordination of the parties involved in the Internal Control and Risk Management System**

The Terna Group "Internal Control and Risk Management System" involves, each insofar as they are competent, the Board of Directors, the CEO identified by the Board as the "Director in charge of the Internal Control and Risk Management System", the Control and Risks Committee, the Board of Statutory Auditors, the Audit Department and its Manager, the Supervisory Body (SB) instituted in accordance with Italian Legislative Decree no. 231 of June 8, 2001, the CEO (Executive in Charge) instituted in accordance with Article 154-*bis* of the Consolidated Law on Finance, the Chief Risk Officer (CRO) and provides for the ways in which they shall liaise, describing roles and competences on the Internal Control and Risk Management System, in order to maximise the overall efficiency of the ICRMS and reduce duplication of activities.

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

- suitable, continuous flows of information between the parties involved in the ICRMS,
- specific meetings for the management of specific situations or events, needed to ensure prompt control of exposure to risks and the recognition of operative anomalies.
- regular meetings to notify the status of the risk management system and plan tests,
- systematic forecasting reporting and reports on the summary of exposure to risk, with different information levels according to the addressee.

## **Section XII: Directors' interests and related party transactions**

Even before listing its shares in the stock market, Terna and its subsidiaries decided to lay the foundation for ensuring that related party transactions were carried out in compliance with the principles of procedural and substantial correctness, in its own interest, and as a duty to the market.

As of February 22, 2007, in implementing the provisions of the 2006 edition of the Governance Code, Terna defined these conditions as part of specific internal procedures submitted in advance to the Internal Control Committee and approved by the Board of Directors. Among other things, these procedures established for the entire 2011 a specific reporting to the Board of Directors and Board of Statutory Auditors that was periodically implemented.

Following the publication of "Regulations regarding related party transactions" issued by CONSOB with resolution no. 17221 dated March 12, 2010, subsequently amended with resolution no. 17389 dated June 23, 2010 ("CONSOB Related Party Regulations"), Terna's Board of Directors - as announced to the market on November 12, 2010 - defined these conditions within a new Procedure ("Procedure for Related Party Transactions"), effective as of January 1, 2011, taking into account the new regulations regarding the provisions of the Civil Code and those of the Governance Code of listed companies. The resolution was approved unanimously following the positive opinion of the Committee established for this purpose and formed by independent Directors only (as established by Article 4, paragraph 3, of CONSOB Related Parties Regulations) whose members were identified among the Remuneration Committee. The new Procedure was published, as of November 12, 2010, on the Company's website ([www.terna.it](http://www.terna.it), under the Investor Relations/Corporate Governance/Regulations and Procedures section).

Within the new Procedure and pursuant to Article 4 of CONSOB Related Party Regulations, the following was implemented:

- Related Parties were identified, Related Party Transactions were defined and the new terms for identifying, approving and implementing the various categories of Related Party Transactions were ruled;

- lower amount Transactions were identified as well as those cases in which the provisions of the Procedure should not be applied (in line with the provisions of Articles 13 and 14 of CONSOB Related Party Regulations) having taken into account the size of the Company and the sector it operates in, as well as the ownership structure;
- the terms for forming the Director Committee were identified called upon to express its opinion on the single Transactions of greater or lesser importance, as well as the contents of such opinion and the independence requirements of the Committee member. Furthermore, specific measures were identified should at least 3 independent, non related Directors not be present;
- the rules were established regarding cases in which Terna shall examine or approve transactions of Italian or foreign subsidiaries;
- the terms and time frames were established with which Directors and the Committee for Related Party Transactions it should be provided with information on Related Party Transactions and relative documentation;
- the choices were identified as made by the Company with reference to the possibilities included in CONSOB Related Party Regulations.

Compared to previous conduct principles regarding Related Party Transactions adopted by Terna, the new Procedure envisaged lowering the relevance thresholds regarding certain types of Transactions which should be reported to the Board of Directors, so that an enlargement of entitled Related Party Transactions could be obtained – according to the definition indicated by CONSOB in the above-mentioned resolution – as transactions of lesser importance.

The statutory changes required by the Procedure were approved by the resolution passed by the Shareholders' Meeting of May 13, 2011.

Since 2011, the annual census has been carried out of the related parties as envisaged by Article 4.

According to the provisions of the document, as a first application, the "Procedure for Related Party Transactions" was submitted for verification of possible amendments to the Board of Directors of Terna, which, on the basis of the opinion provided by the special Committee and taking into account that no critical issues have arisen, did not deem it necessary to change it. Further verifications of the "Procedure for Related Party Transactions" are envisaged, based on such procedure, where deemed necessary, and at least every three months also considering the organizational structure of the Company and of the Group, the assets owned and the effectiveness of the Procedure in its application.

The Related Party Transaction Committee, following the renewal of the outgoing Board of Directors, is presently composed of Salvatore Machì (acting as Coordinator), Romano Minozzi and Paolo Dal Pino, all non-executive and independent Directors; at least one member is also in possession of adequate experience in accounting and finance matters.

The Board identified such Committee as the body in charge of carrying out the role required by "Regulations on Related Party Transactions" issued by CONSOB with resolution no. 17221 of March 12, 2010, subsequently amended with resolution no. 17389 of June 23, 2010, both for the approval of greater importance transactions and for those of lesser importance in the Terna Procedure. The Committee is assigned preliminary duties and powers, proactive and advisory, in evaluations and decisions regarding the aforesaid Related Party Transactions, as well as in relation to possible amendment proposals by the Procedure adopted by Terna. A special "Organizational Regulation of the Related Party Transaction

Committee of Terna S.p.A.” approved by resolution on December 12, 2010 and in force since January 1, 2011, governs the composition, the duties and the operation of the Committee.

The Company's budget provides for adequate financial resources for carrying out the duties of the Related Party Transactions Committee. Moreover, for purposes of its own evaluation, said Committee may require the Company to utilize specialized, independent experts external to the Company, who are designated by this committee; costs for services rendered by consultants are shouldered by the Company. The methods for holding meetings are governed by the internal ad hoc Organizational Regulations adopted by the Board of Directors on November 12, 2010 and in force since January 1, 2011. Upon invitation by the Coordinator, other people whose presence could be helpful for the smooth performance of the Committee's functions may participate in the meetings of the Related Party Transactions Committee.

During 2012, the Related Party Transactions Committee held 1 meeting for a duration of approximately 20 minutes, in which Company executives were in attendance, whose presence was considered helpful for the best information on the issues on the agenda.

More specifically, during FY 2012, the Related party transactions Committee provided the Board of Directors and the Departments of the companies appointed to examine the specific operations envisaged by the Procedure with preliminary support.

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

The percentage participation of each member of the committee in the meetings held during FY 2012 is indicated in table 1 attached (Article 123-*bis*, paragraph 2, letter d) of the Consolidated Law on Finance).

Terna has also identified specific methods for the approval of the significant operations concluded by the Company, also through subsidiaries (Article 1.C.1, letter f) of the Governance Code) - explained in section IV under "Role of the Board of Directors" - and for the identification and management of situations in which a Director holds his own interest or an interest of third parties regarding a transaction that he should evaluate, in compliance with the regulations of the previous edition of the Governance Code and according to the provisions of Article 2391 of the Italian Civil Code under the scope of a specific internal procedure adopted in 2007 and subsequently updated (most recently on March 31, 2011: "Approval of significant operations and management of situations of interest"), thereby ensuring procedural monitoring that also applies where the provisions on related party transactions do not apply. In this regard, Directors who have an interest (including potential or indirect interests) in the transaction:

- are required to inform the Board of Directors and Board of Statutory Auditors in due time of the existence of the interest, specifying its nature, terms, origin and scope;
- are required to leave the Board meeting or refrain from voting at the time of resolving, unless the Board specifically authorizes participation in the related discussions and/or vote;
- are required to inform the Board of their positions at the time of their appointment and regularly update the Board on them.

## **Section XIII: Appointment of the Statutory Auditors**

### **Appointment and requirements of Statutory Auditors**

The terms for appointing the members of the Board of Directors are ruled by Article 26 of the Bylaws.

In compliance with the provisions of the Company's Bylaws, the Board of Statutory Auditors is comprised of three Standing Auditors and two Alternate Statutory Auditors, who are appointed by the Shareholders' Meeting for a period of three years and may be re-appointed at the end of their term.

All members of the Board of Statutory Auditors must meet the integrity and professionalism requirements as per the special legislation for Statutory Auditors of listed companies (Article 148, paragraph 4 of the Consolidated Law on Finance) now under Ministry for Justice Decree no. 162 of March 30, 2000, as integrated by appropriate Bylaws provisions (Article 26.1 of Bylaws).

Each Statutory Auditor may not be Statutory Auditor of five or more companies that have issued securities and can hold other assignments of administration and control in share capital companies according to Book V, Title V, Chapters V, VI and VII of the Civil Code within the limits established by the Article 144-*terdecies* of the Issuers Regulations implementing the provisions of Article 148-*bis* of the Consolidated Law on Finance.

All the members of the Board of Statutory Auditors must also possess provided requirements of independence under Article 148, paragraph 3 of the Consolidated Law on Finance.

The appointment of the entire Board of Statutory Auditors takes place, in application of the provisions on privatisation and in compliance with the provisions of Italian legislation on companies with listed shares, according to the "list voting" mechanism governed by Article 26.2 of the Bylaws, aimed at guaranteeing the presence in the auditing body of a statutory auditor and an alternate statutory auditor appointed by the minority shareholders, also regulating - according to the provisions of Article 144-*sexies*, paragraph 9 of the Issuers Regulation - the criteria for the identification of the candidate to be elected if lists are equal, by referral to the provisions on the appointment of the Board of Directors.

On the basis of this referral and in accordance with the provisions of Articles 4, paragraph 1-*bis*, of the Privatisation Law and modified by Legislative Decree no. 27 of January 27, 2010, by Article 148 of the Consolidated Law on Finance and by the implementing rules for the above mentioned provisions included in Articles 144-*ter* and following of the Issuers Regulations, that the lists of candidates can be presented by shareholders that, alone or jointly with other shareholders, hold at least 1% of the share capital or a lower amount as envisaged by the law - of shares with voting rights in the meeting. For this purpose CONSOB, implementing the provisions of Article 148 of the Consolidated Law on Finance and Articles 144-*septies* of the Issuers Regulations, has established - with Resolution no.18452 dated January 30, 2013 and for the year that ended on December 31, 2012 - the participation stake required for submitting candidate lists to be appointed in Terna's administration and control bodies at 1% of the share capital, taking into account the Company's capitalization, floating capital and owned assets and without prejudice to the lower stake included in the Bylaws.

The presentation, filing and publication of the lists, by specific referral of the Bylaws, are regulated in a similar fashion as arranged for the appointment of the entire Board of Directors, where compatible with the legislation and regulations applicable and with that specifically established by Article 26 of the Bylaws for the appointment of the Board of Statutory Auditors.

More specifically, the presentation and filing of the lists must take place - in accordance with Article 148, paragraph 2 and 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance, at least 25 days prior to the date scheduled for the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Statutory Auditors.

Ownership of the minimum stake required to submit lists shall be determined - in accordance with the provisions of Article 147-*ter*, paragraph 1-*bis* of the Consolidated Law on Finance - by taking into account the shares that are registered in the name of the Shareholder(s) on the day in which the lists are filed with the Company. In order to prove ownership of the number of shares necessary for presenting the lists, shareholders with rights must present and/or deliver the related certification or communication issued in accordance with Articles 144-*sexies*, paragraph 4-*quater* of the Issuers Regulation and 23 of the "Regulation enacting the regulation of the centralised management services, liquidation, guarantee systems and related management companies" (adopted by the Bank of Italy and Consob on February 22, 2008 and subsequently amended by deed of the Bank of Italy/Consob of December 24, 2010), also subsequently to filing the list, as long as, within the terms envisaged for the publication of the lists (i.e. at least 21 days prior to the date scheduled for the Shareholders' Meeting called to resolve on the appointment of the administrative body).

Pursuant to Article 144-*sexies*, paragraph 5, of the Issuers Regulations, in the event that on the date due for the submission of the lists for the Board of Statutory Auditors only one list has been filed, that is only lists submitted by members who are connected to each other pursuant to applicable law provisions, lists may be submitted up to the third day following said date; In this case, the thresholds set forth above shall be reduced by half.

Each Shareholder may present or assist in the presentation of one single list and each candidate may be on one list only or he will be considered ineligible. The lists must include the candidates according to a progressive number (Article 26.2 of the Bylaws) and are divided into two sections, one for the candidates for statutory auditors, and the other for the candidates to alternate statutory auditors. The first one of the candidates of each section of the lists must be registered in the register of statutory auditors and must have exercised the activity of legal control of the accounts for a period of at least three years.

In this regard, lists considering both sections, have three or more candidates must include, both the first two of the section of the list relating to statutory auditors and with regard to the first two on the list relating to alternate statutory auditors, candidates of different genders, in order to enable a Board of Statutory Auditors to be formed in compliance with current legislation on the balance of gender in the administrative and auditing bodies of companies with listed shares pursuant to Italian Law no. 120 of July 12, 2011 and Articles 147-*ter*, paragraph 1-*ter* and 148, paragraph 1-*bis* of the Consolidated Law on Finance. These statutory provisions aimed at guaranteeing compliance with current legislation on gender balance - introduced by the resolution of the Shareholders' Meeting passed on May 16, 2012 - aimed at guaranteeing compliance with current legislation on gender balance, shall apply, in accordance with the provisions of Article 31.1 of the Bylaws, to the first three renewals of the Board of Statutory Auditors subsequent to the coming into force and acquisition of efficacy of the provisions of Article 1 of Italian Law no. 120 of July 12, 2011, published in the Official Journal no. 174 of July 28, 2011 and in force as from August 12, 2011 without prejudice to any extensions envisaged by the law. Therefore, they shall first apply when renewing the company bodies expiring with the approval of the 2013 financial statements. At the same time, in accordance with the provisions of Article 31.2 of the Bylaws, the new provisions of the Bylaws apply, which - for the same

purpose and for the first three renewals, save any additional extensions provided for by the law - have extended the members of the Board of Statutory Auditors, which will number three standing auditors and three alternates. Up until that time, the Board of Statutory Auditors shall number three standing auditors and two alternates.

The presentation and filing of the lists must take place - in accordance with Article 148, paragraph 2 and 144-*sexies*, paragraph 4 of the Issuers Regulation, at least 25 days prior to the date scheduled for the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Statutory Auditors.

In order to ensure a transparent procedure for the appointment of the Board of Statutory Auditors, the lists are filed complete, in accordance with Article 144-*sexies*, paragraph 4 of the Issuers Regulation:

- a) information on the identity of the shareholders who have submitted the lists, indicating the total percentage of the shares held;
- b) a declaration by shareholders other than those who hold, also as a group, a controlling interest or relative majority, indicating the absence of relationships as set forth in Article 144-*quinquies* of the Issuers Regulations with them. In this regard, Consob, with Communication no. DEM/9017893 of February 26, 2009 (concerning the "Appointment of the members of the administrative and auditing bodies") recommends that shareholders presenting a "minority list" provide the information required with regard to the election of the auditing bodies in this declaration;
- c) an accurate description of the personal and professional characteristics of the candidates, accompanied – pursuant to Article 2400, last paragraph of the Civil Code – by a list of administration and control positions held within other companies as well as a statement by the candidates certifying possession of the requirements set by the law (including possession of independence requirements pursuant to Article 148, paragraph 3 of the Consolidated Law on Finance) and their acceptance of the candidacy.

The lists - complete with the information envisaged by Article 144-*octies*, paragraph 1, Issuers Regulation and CONSOB communication no. DEM/9017893 of February 26, 2009 - are therefore made available to the public - in accordance with Article 148, paragraph 2 of the Consolidated Law on Finance - at the company's offices, on the company's website and according to the ways established by Consob at least 21 days prior to the date of the specified Shareholders' Meeting.

Pursuant to Article 148, paragraph 2 of the Consolidated Law on Finance, at least one effective member is appointed by the minority shareholders who are not connected, not even indirectly, with the shareholders who have introduced or voted the list winning for a number of votes.

In compliance with the Italian legislation for listed companies, the Bylaws (Article 26.2) attribute the chairmanship of the Board of Statutory Auditors to the Statutory Auditor appointed by the minority list.

For any replacement of the Statutory Auditors, the terms of Article 26.2 of the Bylaws will be applied. If one of the Statutory Auditors is replaced, without prejudice to the possession of the legal requirements, the first of the alternate statutory auditors taken from the same list shall take his place. If the take-over carried out in this way, does not enable the reconstruction of a Board of Statutory Auditors compliant with current legislation on gender balance, the second of the alternate statutory auditors on the same list shall be appointed. If, subsequently, it should be necessary to replace the other statutory auditor taken from the same list that has obtained the greatest number of votes, in any case the additional alternate statutory auditor

taken from the same list shall be appointed. If the Chairman of the Board of Statutory Auditors is replaced, this position will be taken by the Alternate Auditor taken from the same list.

For the appointment of the Statutory Auditors occurring outside the provisions for renewing the entire Board of Statutory Auditors, the Shareholders' Meeting resolves based on the majority envisaged by the Law and without respecting the above mentioned procedure, but nonetheless so as to ensure a composition of the Board of Statutory Auditors in compliance with the requirements of integrity and professionalism established by the Law, and compliance with current legislation on gender balance.

## **Section XIV: Composition and operation of the Board of Statutory Auditors**

The Board of Statutory Auditors currently in office, appointed by the ordinary Shareholders' Meeting of May 13, 2011, will be in office until the approval of the 2013 financial statements.

According to that resolved by the Shareholders' Meeting on May 13, 2011, the following comprise the Board of Statutory Auditors: Luca Aurelio Guarna (Chairman of the Board of Statutory Auditors appointed by the minority list submitted by shareholder Romano Minozzi and by his subsidiaries), Alberto Luigi Gusmeroli and Lorenzo Pozza (Statutory Auditors appointed by the majority list submitted by Cassa Depositi e Prestiti S.p.A.).

Alternate Statutory Auditors were also appointed: Stefania Bettoni (included in the minority list submitted by the shareholder Romano Minozzi and by his subsidiaries), and Flavio Pizzini (included in the majority list submitted by Cassa Depositi e Prestiti S.p.A.).

The Statutory Auditors appointed represent both lists submitted for said meeting. Further information regarding the submitted lists of candidates and on the results of the voting is available on the Company's website at [www.terna.it](http://www.terna.it) in the section "Investor Relations/Corporate Governance/Company bodies/Shareholders' Meetings/Shareholders' Meeting of May 13, 2011". Following the statements made for the appointment, the vote count and after the voting, a standing member was appointed by the minority members that are not connected, not even indirectly, with the members who have submitted or voted the list that won for a number of votes.

From its appointment, the Board of Statutory Auditors is unchanged.

A summary of the professional background of the Statutory Auditors is provided below.

### **• Luca Aurelio Guarna, 40 years old - Chairman of the Board of Statutory Auditors**

[born in Milan on December 20, 1972]

He has a degree in Business Administration from the "Luigi Bocconi" University; he qualified for the title of Tax Consultant in 2000 and since 2002, he has been enrolled as Auditor. He has been Chairman of the Board of Auditors of Terna S.p.A. since April 2008 and Chairman of the Board of Auditors of Terna Rete Italia S.p.A., a subsidiary of Terna S.p.A., since February 2012.

He has carried out professional activity with prestigious legal and tax offices and since 2001 he has been a member of the administrative, tax and corporate consulting Spadaccini office in Milan.

He is presently the Chairman of the Board of Statutory Auditors at Gemina S.p.A. and Standing Auditor in other companies such as: Aeroporti di Roma S.p.A., Eagle Pictures S.p.A. and Silvano Toti Holding S.p.A..

• **Alberto Luigi Gusmeroli, 52 years old - Standing Auditor**

[born in Varese on February 27, 1961]

He has a degree in Economics from the University of Pavia, School of Economics, with a focus on company finance and credit, enrolled as a tax consultant in the Auditors Register. He has been a standing auditor for Terna S.p.A. since May 2011.

He is Chairman of the Board of Auditors of the publishing house Editoriale Nord Soc. Coop since 1997 and of Comecor coop a.r.l. since 1990, as well as member of the Board of Auditors of Bancoposta Fondi S.p.A. Sgr (Poste Italiane Group) since 2002 and of Enel Green Power Strambino Solar s.r.l.. He is also a member of the Board of Società Italiana per Azioni per il Traforo del Monte Bianco. Since 2000 he has also been member of the Board of Fondazione Salina, and since 2005 of the Centro Studi sulle Lingue Parlate Locali ed i Dialetti. He is a member of the Commission for study on local bodies of the National Council of Tax Consultants in Rome and general partner of the auditing company Fiduciaria Di Revisione Sas.

He was a member of the Board of the Hotel Company 3S from 2000 to 2006, Chairman of the Board of Auditors of Frigorcoop from 1992 to 2000 and Auditor in Enel Energia S.p.A. from 2005 to 2007. In the municipalized company Aspem S.p.A. in Varese he was first Board member with powers, from 1998 to 2002, and then member of the Board of Auditors from 2003 to 2009. He has held many positions as consultant, including in Aero Club d'Italia, and he was an auditor in various local bodies as well as Member of the Inspection Committee of the Regional Council of the Region of Lombardy.

• **Lorenzo Pozza, 46 years old - Standing Auditor**

[born in Milan on October 11, 1966]

He has a degree in Business Administration from the “Luigi Bocconi” University, tax consultant and auditor. He has been a standing auditor for Terna S.p.A. since April 2008.

Since 2001, he has been Associate Professor of Business Administration at the “Luigi Bocconi” University and Professor of Methodology and Quantitative Standards for Companies after having held various positions as a Professor in International Accounting and Accounting and Budget since 1991 at the same university, and since 1992 at the Corporate Management School (SDA), and since 1996 at the University of Italian Switzerland.

He has been Director and Auditor in various different listed and unlisted companies operating in the industrial, financial, real estate and insurance sectors. These include: Telecom Italia S.p.A., Gas Plus S.p.A., Bracco Imaging S.p.A., Leonardo & Co S.p.A. and Merloni Invest S.p.A..

He also carries out professional activity since 1990 and has been a founding member of the Partners S.p.A. consulting firm. He is the author of three books on budget and company evaluation as well as of numerous other publications, and has also written articles and essays on this subject for national and international magazines.

During the appointment and taking account of the information provided by the individuals involved, the Board of Directors, based on the envisaged terms, has confirmed and verified the existence of the requirements of integrity, professionalism and independence of the members of the Board of Statutory Auditors appointed by the Shareholders' Meeting held on May 13, 2011.

In the attached table 2, information is included regarding the composition of the Board of Statutory Auditors as of March 15, 2013.

No Statutory Auditor holds five assignments in other Italian companies issuing stocks listed in the Italian regulated markets or in other countries of the European Union and in companies issuing financial instruments available to the public in significant amounts pursuant to Article 116 of the Consolidated Law on Finance as defined by Article 2-*bis* of the Issuers Regulations.

The total number of assignments as Director or Statutory Auditor in other companies according to Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the Civil Code, relevant according to Article 148-*bis* of the Consolidated Law on Finance, is indicated in the attached Table 2. The total number of assignments according to Article 144-*quinquiesdecies* of the above mentioned Issuers Regulations based on CONSOB resolution no. 17326 dated May 13, 2010, is published by CONSOB and is available on its website ([www.consob.it](http://www.consob.it)). In this regard, it should be remembered that following the amendments to Articles 144-*terdecies* and 144-*quaterdecies* of the Issuers Regulations as per the CONSOB resolution no. 18079 of January 20, 2012 (published in the Official Journal on February 7, 2012), the limits on the total number of assignments and the consequent obligation to notify CONSOB are not applicable to standing members of the control body who hold the position of standing member of the control body "in one issuer only".

During 2012, the Board of Statutory Auditors held 9 meetings which lasted in average approximately 2 hours each, with the regular participation of the Statutory Auditors.

In 2013, all the preliminary meetings are scheduled for reviewing the economic-financial data on the part of the Board of Directors. During the year in progress up to the date of approval of this Report, the Board of Statutory Auditors held 3 meetings.

The Board of Statutory Auditors, on the basis of the criteria envisaged for the evaluation of the independence of the non-executive members of the Board of Directors in accordance with Article 3 of the Governance Code and in ways that comply with those envisaged for the directors - with reference to the information supplied by the individual parties concerned - has certified that the independence requirements remain met by all statutory auditors (Article 8.C.1 of the Governance Code).

Terna's Board of Statutory Auditors, already from March 16, 2007, decided to voluntarily adapt to a system of transparency analogous to that of the Directors (explained in section XII) in case of operations in which they bear an interest for themselves or third parties (Article 8.C.3 of the Governance Code). This orientation was also confirmed by the Board of Statutory Auditors in office.

In 2012, the Board carried out its typical supervisory duties as established by the national order on: (i) the observance of the Law and of the founding deed, including the respect of principles of proper administration in carrying out Corporate activities, (ii) the adequacy of the organizational structure, (iii) the adequacy and effectiveness of the Internal Control and Risk Management System and (iv) the suitability of the company's administrative-accounting system; (v) on the methods of concrete implementation of the rules of corporate governance set out by the code of conduct to which the Company has declared it complies; and (vi) on the financial disclosure process and legal auditing of the annual and consolidated accounts (Article 7.P.3 and Comment to Article 8 of the Governance Code). It has also verified the implementation of the provisions pursuant to Article 114, paragraph 2 of the Consolidated Law on Finance relative to communication obligations. The Board of Statutory Auditors also monitored the independence of the auditing company verifying both the respect of the provisions applicable on the matter, and the nature and entity of the services

different from the accounting and auditing provided to Terna and to its subsidiaries by PricewaterhouseCoopers S.p.A. and the bodies belonging to its network.

The Board of Statutory Auditors verified the proper application of criteria and of procedures adopted by the Board of Directors for evaluating the independence of its members and also analysed the implementation of the regulations pursuant to Legislative Decree no. 231/01 and of the Regulations for the Executive in Charge of the preparation of financial documents pursuant to Law no. 262/05.

In FY 2012, the Board of Statutory Auditors, through its Chairman, was the addressee of the results of the audits performed by the Internal Audit Department Manager and the Statutory Auditors regularly attended meetings of the Board of Directors and the Control and Risk Committee and - the Chairman - at the meetings of the Remuneration Committee has guaranteed suitable involvement of the Board of Statutory Auditors in a great many internal procedures.

In carrying out its activity, the Board of Statutory Auditors was coordinated with the audit department and with the Control and Risk Committee according to the terms included in the previous "Section XI: Internal Control System" (Articles 8.C.4 and 8.C.5 of the Governance Code), with the Control Body pursuant to Legislative Decree no. 231/01, with the Executive in Charge pursuant to Law no. 262/05, as well as with the Boards of Statutory Auditors of the holding company and with the auditing company, exchanging relevant information to go about the respective duties.

## **Section XV: Investor Relations**

Since its listing on the stock exchange, the Company has believed that is both in its best interest and a duty to the market establishing a constant dialogue, based on the mutual understanding or roles, with all of shareholders and institutional investors: this dialogue is to be carried out in compliance with both the procedure for the disclosure of documents and information outside the Company and the principles included in the "Guide for market disclosures" and in recent regulatory measures and regulations on market disclosure.

To this regard, and also considering the Company's size, it was decided that this dialogue should be facilitated by the creation of specific Company structures.

Accordingly, the Company has set up the (I) Investor Relations Department, which currently reports to the CEO and has the task of keeping contacts with institutional investors under the responsibility of Antonio Colombi (Viale Egidio Galbani, 70, 00156 Rome - tel. 06 8313 9041 - fax 06 8313 9312 - e-mail: investor.relations@terna.it) - and (II) a department for relations with general shareholders within the Corporate and Legal Affairs Department under the direction of Attorney Filomena Passeggio (Viale Egidio Galbani, 70 - tel. 06 8313 8136 – fax 06 8313 8218 e-mail: azionisti.retail@terna.it) – (Articles 9.P.1, 9.P.2, and 9.C.1 of the Governance Code).

Furthermore, the Company has further encouraged dialogue with investors by creating a specific section in its website (www.terna.it), where they can find both financial information (financial statements, half year and quarterly reports and presentations to the financial community) and updated information and documents of interest to general shareholders (press releases, the Company structure, the Bylaws and regulations for Shareholders' Meetings, Corporate Governance information and documents, the Code of Ethics and the Organizational and Management Model pursuant to Legislative Decree no. 231/2001, distributed dividends, etc.

## Section XVI: Shareholders' Meetings

The Governance Code establishes that the Shareholders' Meetings should be considered as special occasions to initiate fruitful dialogue between shareholders and the Board of Directors (despite the wide-ranging diversification of the communications methods used by listed companies with their shareholders, institutional investors and the market). This was carefully evaluated and fully approved by the Company, which believed it necessary to adopt specific measures to adequately improve the meetings, in addition to guaranteeing the participation of its Directors (Article 9.C.2 of the Governance Code).

Also on the basis of special legislation enacted as expected in relation to listed companies, Terna introduced into its Bylaws a specific regulation aimed at facilitating the gathering of voting proxies for shareholders who are employees of the Company and its subsidiaries, so as to involve them in the decision-making process at the Shareholders' Meetings.

Pursuant to Article 11.1 of the Bylaws, every shareholder that has the right to attend the Shareholders' Meeting can be represented according to the Law, through a proxy.

In order to facilitate the notification of proxies to the Company, with resolution of October 18, 2010, Terna's Board of Directors approved the amendments to the Bylaws necessary for adjusting the Company Bylaws to the novelties introduced by law provisions regarding shareholders' rights of listed companies aiming at favouring the participation of shareholders in the life of the Company (Directive 2007/36/EC and relative implementing Legislative Decree no. 27 dated January 27, 2010) including notification of proxies by electronic means and, according to Article 125-*bis* of the Consolidated Law on Finance, mentioning such terms from time to time in the notice of call. On that occasion, the Board of Directors deemed appropriate to allow shareholders the possibility to grant proxies together with specific voting instructions to a Designated Company Representative according to Article 135-*undecies* of the Consolidated Law on Finance without exercising the so-called opt out possibility set by the Consolidated Law on Finance (Article 9.P.1 of the Governance Code). Additionally, by resolution of the Shareholders' Meeting held on May 13, 2011 and with reference to current legislation looking to encourage the participation of shareholders in the company's life, the possibility of using the single convening of the Shareholders' Meeting has been envisaged, with a view to providing shareholders and the market with a single indication of the real date on which the meeting is held.

In order to facilitate the collection of proxies with the shareholders' employed with the Company and its subsidiaries associated with shareholders' associations that meet the requirements envisaged by the existing laws, according to the terms and modalities agreed upon each time with their legal representatives, these associations have made spaces available to be used for communication and for carrying out activities for collecting proxies.

With regard to the right to attend a Shareholders' Meeting, the Bylaws (Article 10.1) – as modified by the Board of Directors on October 18, 2010 implementing the Legislative Decree no. 27 dated January 27, 2010 – envisages that attendance in the Shareholders' Meeting is allowed only to those who have the right to participate in the Meeting and to exercise the voting right pursuant to law provisions in force.

On the basis of this provision and according to existing Article 83-*sexies* of the Consolidated Law on Finance, eligibility to participate in the Meeting and exercising the voting right is certified by a notice to the Company, made by an intermediary, in compliance with own accounting books, in favour of the person entitled to voting right on the basis of evidence of the accounts specified by Article 83-*quater*, paragraph 3 of

the Consolidated Law on Finance related to the close of the accounting day of the seventh open-market day prior to the date set for the Shareholders' Meeting in first call, the so-called "record date".

These provisions do not entail any obstacles to the subsequent negotiations of shares. The credit and debit registrations made on accounts subsequent to said term are not material for purposes of legitimizing the exercise of the right to vote in the Shareholders' Meeting. Therefore, those who appear as owners of the Company shares subsequent to said date will not be allowed to participate and vote in the Meeting.

Communications by intermediaries for participation must be received by the Company by the end of the third open-market day prior to the date set for the first (or only) call of the Shareholders' Meeting. There is no prejudice to the entitlement to participate and vote if the Company has received the communications after said indicated term, provided that they are received by the time the Meeting begins on single call (Article 83-*sexies*, paragraph 4 of the Consolidated Law on Finance).

The Bylaws do not envisage attendance to the Shareholders' Meeting through telecommunications means or through the expression of the right to vote by correspondence or by electronic means.

The right for integration of the agenda and the presentation of new proposed resolutions on the part of the shareholders', by virtue of the postponement of general nature pursuant to Article 30 of the Bylaws, is held by the shareholders that, also jointly, represent at least one fortieth of the share capital according to the direct provisions of the Law (Article 126-*bis* of the Consolidated Law on Finance). On the basis of this provision, shareholders can present a written application, also by correspondence or electronically, in compliance with any requirements strictly necessary to identify the applicants and as indicated by the company, within ten days of the publication of the notice convening the meeting, to supplement the agenda with additional items, specifying in the application what additional items are proposed, or presenting proposed resolutions on items already on the agenda, filing a report within these same terms, giving the reasoning for the proposed resolutions on the new items up for discussion or the reasoning in relation to the additional proposed resolutions presented on items already on the agenda and certification showing ownership of the shares.

Those with voting rights can individually present proposed resolutions to the Shareholders' Meetings.

The integration of the list of items to be discussed is allowed only for those topics on which the Shareholders' Meeting is authorized to resolve pursuant to the Law. These topics exclude those for which the Law itself envisages that a resolution is made on the proposal by the Directors or on the basis of one of their projects or of a report they have prepared.

In case of an integration to the agenda or the presentation of additional proposals, the modified list of subjects to be discussed during the Meeting and the new proposals must be published according to the same terms as for the notice of call, at least fifteen days prior to the day scheduled for the Meeting. At the same time - in the same ways as envisaged for the Directors' Report on the items on the agenda - the report presented by the shareholders is made available to the public, accompanied by any considerations of the administrative body.

In accordance with Article 127-*ter* of the Consolidated Law on Finance, those with voting rights in the Shareholders' Meeting can ask questions on the items on the agenda, even before the meeting. The notice convening the meeting specifies the terms and conditions in compliance with which any questions raised prior to the meeting must reach the company.

Starting March 3, 2004, with a special shareholders' resolution, the Company implemented a specific regulation aimed at ensuring the exact and functional running of Shareholders' Meetings, with detailed rules for the various sectors, in compliance with each shareholders' fundamental right to request clarifications on the various issues being discussed, express an opinion and submit proposals (Article 9.C.3 of the Governance Code). With the shareholders' resolution of May 13, 2011, the text of the adopted "Regulations for Terna S.p.A.'s Shareholders' Meetings" was adjusted to be in line with the provisions of Legislative Decree no. 27, dated January 27, 2010 with regard to the exercising of some rights of shareholders of listed companies. On that occasion, some further adjustments were made in order to better define the scope of some provisions of the Regulations in light of the acquired enforcement practice and to ensure smoother running of the Shareholders' Meetings. The main amendments made, which were illustrated in detail to the shareholders with an ad hoc report to the Shareholders' Meeting, regarded provisions concerning governing the right to participate and vote in a Shareholders' Meeting and provisions concerning the right to pose questions on the items on the agenda, also before the Shareholders' Meeting.

In particular, with regard to the right of each shareholder to take the floor regarding the items on the agenda, Article 6 of the Regulations envisages that those entitled to exercising the right to vote can ask for the floor only once regarding the topics being discussed, presenting observations, requesting information and formulating proposals. The request to have the floor can be submitted at the time the Shareholders' Meeting is held and - unless otherwise stated by the Chairman - until the Chairman himself has not declared the discussion on the topic closed. The terms for such request, for taking the floor and relative order, are established by the Chairman. Considering the topic and the importance of each item discussed, as well as of the number of those requesting the floor and possible questions posed by shareholders before the Shareholders' Meeting which were not answered by the Company, the Chairman predetermines the duration of the reports and the responses - usually not to exceed ten minutes for reports and five minutes for the responses - in order to guarantee that the Shareholders' Meeting can end its activity in a single session. The Chairman and, by his invitation, all those who assist him, respond to the speakers at the conclusion of all the reports, or after each report, taking into consideration also possible questions posed by shareholders before the Shareholders' Meeting which were not answered by the Company. Those that have requested the floor may reply briefly.

Although said Regulation is not included in the Bylaws, it is approved by ordinary meetings under the specific power given to the shareholders by the Bylaws (Article 11.2). The contents of the Regulation have been aligned to the most sophisticated models prepared by trade associations (Assonime and ABI), for listed companies. The "Regulations for Terna S.p.A.'s Shareholders' Meetings" can be found in the Company's website under the section: "Investor Relations/Corporate Governance/Corporate bodies/Shareholders' Meetings".

The Board of Directors reports to the Shareholders' Meeting on the activities carried out and planned during the financial statements approval and regarding the report on management and, with specific reports, provides the shareholders with adequate information in a timely manner, so that they may pass resolutions with full knowledge of the facts; further clarifications, where required, are also provided in response to queries raised by shareholders during the meeting (Article 9.C.2 of the Governance Code). In this regard, the annual Shareholders' Meeting held in FY 2012, called to approve the financial statements for FY 2011, saw the attendance of 6 directors out of 9 and the entire Board of Statutory Auditors. On this occasion, the

Chairman of the Remuneration Committee also attended, making a speech (comments to Article 6 of the Governance Code).

As from the date on which the new provisions of the Governance Code come into force, all resolutions passed by the Shareholders' Meeting regarded proposals of the board of directors. Therefore, the basis hoped for under the comment to Article 9 of the Governance Code on the preventive publishing of the proposals to be submitted to the Shareholders' Meeting by the controlling shareholders, has not been seen.

The Shareholders' Meeting is chaired by the Chairman of the Board of Directors, or, in case of his absence or impossibility, by the Deputy Chairman, if appointed, or, in the absence of both, by another person designated by the Board of Directors; should all the above conditions not apply, the Shareholders' Meeting appoints its own Chairman (Article 12.1 of the Bylaws).

The Chairman of the Shareholders' Meeting is assisted by a secretary, even if not a shareholder, designated by those present upon the request of the Chairman, and can appoint one or more vote counters (Article 12.2 of the Bylaws and Article 4 of the Regulations for Terna S.p.A.'s Shareholders' Meetings). The assistance of the secretary, according to the terms envisaged by the Law, is not necessary if the Chairman waives said assistance or when the minutes of the Shareholders' Meeting are prepared by a notary public, even outside cases in which it is mandatory by law (Article 4 of the Regulations for Terna S.p.A.'s Shareholders' Meetings).

The Shareholders' Meeting, unless otherwise stated by the terms envisaged by Article 21.2 of the Bylaws, assigns to the Board of Directors, according to the terms established by the Law, the power to adopt certain resolutions that fall under the Shareholders' Meetings duties that can determine amendments to the Bylaws and resolves on all the topics as established by the Law or the Bylaws (Article 13.1 of the Company Bylaws) according to the indications in the foregoing Section I under the heading: "Company organization".

The resolutions adopted by the Shareholders' Meeting of significant impact on the Company, capable of amending the Bylaws indicated in Article 6.3 of the Company Bylaws are subject to the "special power" of veto by the Ministry of Economics and Finance as mentioned above in Section II "Information on Ownership Structure" in paragraphs "Restrictions in share transfer and shares bearing special powers" and "Bylaws Amendments".

Where not otherwise established by the Bylaws, resolutions for both the ordinary and extraordinary Shareholders' Meetings, are passed with the majorities required by the law in the individual cases (Article 13.2 of the Bylaws). In particular, the Bylaws provide that: (i) for transactions with related parties that have not received a favourable opinion from the competent body, the Shareholders' Meeting resolves, in addition to the majority provided for by law, in the presence of unrelated shareholders, as defined by governing regulations, who represent at least 10% of the share capital with voting rights and with a favourable vote by the majority of said unrelated shareholders; (ii) for urgent transactions with related parties that have been submitted by the Directors for an advisory vote, the Shareholders' Meeting adopts resolutions with the majority provided for by law (Article 13.3 of the Bylaws).

During 2012 – with reference to the regulations for minority rights and compatibly with the regulations and rules for the Company mentioned above – no significant changes were made in market capitalisation of the Company's shares or in the composition of its corporate bodies for which the Board of Directors had to evaluate the opportunity of proposing to the Shareholders' Meeting any amendments to the Bylaws

regarding the percentages established for exercising shares and of the prerogatives set for minority protection (Article 9.C.4 of the Governance Code).

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The hereby attached two tables summarise some of the most significant information included in the fourth, eighth, tenth, twelfth and fourteenth sections of the document. An "Attachment 1" is also enclosed that includes the description of the "Principal characteristics of existing risk management systems with regard to the financial informative note" (pursuant to Article 123-*bis*, paragraph 2, letter b) of the Consolidated Law on Finance).

Table 1

## Composition of TERNA's Board of Directors and of the Committees

Position	Name (Last name and first name)	Appointed since	In office until	BoD							C.R.C.		R.C.		R.P.T. Committee					
				List	Exec.	Non exec.	Indep. based on Code	Indep. based on Cons. Law on Fin.	%	Other assignments	X	%	X	%	X	%				
Chairman	Roth Luigi	02/11/2005	Financial statements 31/12/2013	M		√				100%	3	-	-	-	-	-				
CEO	Cattaneo Flavio	02/11/2005	Financial statements 31/12/2013	M	√					100%	1	-	-	-	-	-				
Director	Buscarini Fabio	13/05/2011	Financial statements 31/12/2013	m		√	√	√		71.43 %	2	-	-	-	-	-				
Director	Dal Pino Paolo	28/04/2008	Financial statements 31/12/2013	M		√	√	√		85.71 %	0	X:	100%	X:	100%	X: 100 %				
Director	Del Fante Matteo	28/04/2008	Financial statements 31/12/2013	M		√				100%	2	X:	100%	-	-	-				
Director	Machì Salvatore	16/09/2004	Financial statements 31/12/2013	m		√	√	√		100%	0	-	-	X:	100%	X: 100 %				
Director	Minozzi Romano	13/05/2011	Financial statements 31/12/2013	m		√	√	√		85.71 %	1	-	-	X:	75%	X: 0%				
Director	Francesco Pensato	29/07/2011	Financial statements 31/12/2013	M		√	√	√		100%	1	X:	100%	-	-	-				
Director	Polo Michele	28/04/2008	Financial statements 31/12/2013	M		√	√	√		85.71 %	0	X:	83.33 %	-	-	-				
<b>Directors who resigned from their position during the year under consideration</b>																				
<b>Legal number necessary for submitting the lists during the last appointment:</b>									1%											
<b>Number of meetings held during the year under consideration:</b>									<b>BoD</b>		<b>C.R.C.</b>		<b>R.C.</b>		<b>A.C.</b>		<b>E.C.</b>		<b>RPT Committee</b>	
									7		6		4		-		-		1	

KEY:

**BoD Int. Contr.** Board of Directors.

**EC:** Executive Committee.

**AC:** Appointment Committee.

**R.C.** Remuneration Committee.

**C.R.C.** Control and Risk Committee In implementation of the provisions of the new Governance Code of listed companies published by the Corporate Governance Committee promoted by Abi, Ania, Assonime, Assogestioni, Borsa Italiana and Confindustria in the December 2011 edition, the Board of Directors, in the meeting held on December 19, 2012, resolved the necessary adaptations to the competences of the current committees in place; consequently, the Internal Control Committee, already instituted in Terna in accordance with the provisions of the previous editions of the Governance Code, took on the name of the Control and Risk Committee and the related competences indicated by the new provisions of the Code, making no change to the composition. Information on the composition, number of meetings and the percentage attendance, as set sub C.R.C, refers to the total activities of the Committee in FY 2012.

**RPT Committee:** Related Party Transaction Committee established for approving the Procedure for Related Party Transactions as indicated by the "Regulations regarding related party transactions" issued by CONSOB with Resolution no. 17221 dated March 12, 2010, as subsequently modified by Resolution no. 17389 dated June 23, 2010 ("CONSOB Regulations for Related Parties").

**Position:** indicates whether is Chairman, Deputy Chairman, CEO, etc.

**List:** indicates M/m whether the Director was appointed from the majority list (M) or from the minority list (m).

**Exec:** it is ticked if the Director can be qualified as an executive.

**Non Exec:** it is ticked if the Director can be qualified as a non executive.

**Indep. based on Code:** it is ticked if the Director can be qualified as independent according to the criteria of the Governance Code.

**Indep. based on Cons. Law on Fin.:** It is ticked if the director has the independence requirements as per Article 148, paragraph 3 of the Consolidated Law on Finance as indicated by Article 147-ter, paragraph 4 of the same Law.

%: indicates the attendance in percentage terms of Directors at the meetings of, respectively, the Board of Directors and of the Committees (in calculating this percentage the number of meetings was considered which the Director attended compared to the number of meetings of the Board or of the Committee that were held during the year under consideration or after his appointment).

**Other assignments:** indicates the total number stated of assignments as Directors or Statutory Auditors in other companies listed in regulated markets (also foreign markets), in financial, banking and insurance companies or in large companies, identified on the basis of criteria defined by the Board. In calculating the indicated assignments, those held in subsidiaries, either directly or indirectly controlled, namely Terna's subsidiaries, were not included. When more assignments are held within the same Group, also for a work relation with a company belonging to the Group itself, only the most important assignment is considered. For the list of assignments held by each Director, please see the brief professional resumes included in this Report.

**X:** "X" indicates that the Board Director belongs to the Committee.

Table 2

## Composition of the Board of Statutory Auditors

Board of Statutory Auditors								
Position	Members (Last name and first name)	In office since	In office until	List	Indep. based on Code	%	Number other assignments:	Number assignments in issuers
Chairman	Guarna Luca Aurelio	28/04/2008	Financial statements 31/12/2013	m	√	100%	27	2
Statutory Auditor	Gusmeroli Alberto Luigi	13/05/2011	Financial statements 31/12/2013	M	√	100%	0	1
Statutory Auditor	Pozza Lorenzo	28/04/2008	Financial statements 31/12/2013	M	√	100%	8	2
Alternate Statutory Auditor	Bettoni Stefania	28/04/2008	Financial statements 31/12/2013	m	-	-	-	-
Alternate Statutory Auditor	Pizzini Flavio	13/05/2011	Financial statements 31/12/2013	M	-	-	-	-
<b>Statutory Auditors who resigned from their position during the year under consideration</b>								
-	-	-	-	-	-	-	-	-
<b>Legal number necessary for submitting the lists during the last appointment:</b>							1%	
<b>Number of meetings held during the year under consideration:</b>							9	

KEY

**Office:** indicates whether is Chairman, Statutory Auditor, Alternate Statutory Auditor.

**In office since:** Indicates the date when the person was first appointed as a member of Terna's Board of Statutory Auditors. All members specified were appointed by the Shareholders' Meeting of May 13, 2011.

**List:** Indicates M/m whether the statutory auditor was appointed from the majority list (M) or from the minority list (m).

**Indep. based on code:** it indicates "√" if the statutory auditor can be qualified as independent according to the criteria of the Code.

**%:** indicates the attendance in percentage terms of the Statutory Auditor at the meetings of the Board of Statutory Auditors (in calculating this percentage the number of meetings was considered which the Statutory Auditor attended compared to the number of meetings of the Board that were held during the year under consideration or after his appointment).

**Number other assignments:** indicates the total number of assignments as directors or statutory auditors in companies as per Book V, Title V, Chapters V (S.p.A.), VI (S.A.p.A.) and VII (S.r.l.) of the civil code that are important according to Article 148-bis of the Consolidated Law on Finance. The total number of assignments according to Article 144-*quinquiesdecies* of the above mentioned Issuers Regulations based on CONSOB resolution no. 17326 dated May 13, 2010, is published by CONSOB and is available on its website [www.consob.it](http://www.consob.it).

**Number assignments in issuers:** indicates the total number of assignments in issuers, taking into account that, following the amendments to Articles 144-*terdecies* and 144-*quaterdecies* of the Issuers Regulation made based on CONSOB Resolution no. 18079 dated January 20, 2012, (published in the Official Journal dated February 7, 2012), the limitations to the total number of assignments and the consequent information obligations to CONSOB shall not be applied for the standing members of the control body holding the position of standing members in the control body of "only one issuer". "Issuers" are defined by Article 144-*duodecies*, paragraph 1, letter d) of the Issuers Regulation as Italian companies issuing stocks listed in the Italian regulated markets or in other countries of the European Union and in companies issuing financial instruments available to the public in significant amounts pursuant to Article 116 of the Consolidated Law on Finance as defined by Article 2-*bis* of the Issuer Regulation.

## **Attachment 1**

### **Principal characteristics of existing risk management and internal control systems with regard to the financial informative process (pursuant to Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Finance)**

#### **Foreword**

The Terna Group drafted the “262 Control Model” with the objective of defining operational modalities for assessing the “Internal Control and Risk Management System” hereinafter referred to as ICRMS that oversees the drafting of the financial statements in order to issue the certification required as per paragraphs 2 and 5 of Article 154-*bis* of the Consolidated Law on Finance.

The ICRMS, which oversees the preparation of the financial statements, must be considered together with the internal control and risk management system, insofar as they are elements of the same "system" described in the guidelines "Internal Control and Risk Management System of the Terna Group" approved by the Board of Directors (last update December 19, 2012). In these guidelines, the ICRMS is recognised as the "set of rules, procedures and organisational structures aimed at enabling the identification, measurement, management and monitoring of the main risks for the running of a business coherently with the business objectives defined by the Board of Directors and encouraging the taking of aware decisions".

The provisions of Law no. 262 (dated December 28, 2005 subsequently modified by Legislative Decree no. 303 dated December 29, 2006) relative to the ICRMS that oversees the drafting of the financial statement have the principal objective of ensuring that the financial informative note provides a truthful and proper representation of the company's shareholders' equity as well as its economic and financial position in compliance with the commonly accepted accounting principles.

On the basis of the provisions envisaged by Article 154-*bis* of the Consolidated Law on Finance, the ICRMS that oversees the drafting of the financial statements, actively involving all the corporate departments, is focused on the reliability objectives pursued by establishing adequate “accounting administrative procedures” and by verifying their actual implementation.

Definitions of the field of activity (scoping) and of the processes to be analysed are updated by the Executive in Charge (hereinafter referred to as “EIC”) at least once a year in order to analyse, identify and consider the variations that have impacted the ICRMS and integrate/modify accordingly the administrative and accounting procedures.

This update is substantiated in order to guarantee the traceability of activities.

## **Description of the principal characteristics of the existing risk management and internal control systems with respect to the financial informative process**

The analysis approach of the ICRMS that oversees drafting the financial statements adopted by Terna is based on a twofold method of analysis:

### *Individual Company Analysis*

Overall analysis (brief) on the individual companies of the Group with reference to the 5 elements that form the CoSO Report, specifically focusing on the adequacy of financial disclosure. This is mainly an analysis of the infrastructural components of the ICRMS (the supervisory activities carried out by the Board of Directors, by the Control and Risk Committee, by the Board of Statutory Auditors, as well as the Corporate policies and general group policies etc.) conducted in general terms but with a particular focus on the consequences of the quality of the economic and financial information.

The establishment, management and assessment of the ICRMS at the individual company level is to be carried out by those in charge of the various company departments (management) with regard to their respective duties, in line with the structure of the “individual company” being analysed.

The objective of the individual company analysis is to identify any shortcomings in the general control of the individual company that would potentially render ineffective even the best structure of controls overseeing the processes.

The assessment is expressed with a “benchmarking” activity with respect to the reference procedures defined or referred to by official bodies or with the international best-practices adopted by companies similar to the Terna Group.

This method is applied by filling out a check list based on the five components of the control system (Control Environment, Risk Assessment, Control Activity, Information System and Communication Flows, Monitoring), developed in specific control objectives.

Controls are assessed on the basis of the following requirements, where applicable:

- existence of the control tool (organizational structure, legal structure, process);
- adequate communication regarding the existence of the control tool identified for all the bodies referred to;
- understanding on the part of the company's employees of their role and responsibility in implementing the identified control tool;
- appropriate and effective monitoring of the control tool;
- management support in implementing the control tool;
- application, or action undertaken by the management aimed at ensuring compliance with the implemented control tool.

### *Individual Process Analysis*

Analysis of relevant processes by establishing guidelines that define the principal risks on the financial informative note and relative controls aimed at mitigating them.

The individual process analysis allows assessing the action plan and operational level of the controls on Corporate processes and sub-processes on which the financial informative note is based.

The terms for carrying out this analysis are the establishment of administrative and accounting procedures for preparing the financial statement/consolidated financial statements/abridged interim financial statements that include the execution of specific control activities aimed at preventing the occurrence of risks of significant errors in financial statements during the development of the processes.

The process analysis and the subsequent establishment of administrative and accounting procedures requires the selection of "significant processes". For this purpose, it is necessary to carry out specific "scoping" in order to identify both the significant items in the financial statements/financial informative note as well as associate the significant information to the processes.

The relevance of the financial informative note is assessed with reference to the possible consequence that its omission or misrepresentation could determine in decisions made by the individuals who are notified about the note through the financial statements.

With regard to the above, quantity parameters are identified, that are normally defined in terms of percentages compared to income before taxes, as well as quality parameters capable of rendering an information relevant, even if the amount is lower than the level of relevance identified.

Identifying significant information is carried out through the combination of quantitative parameters, linked to the level of significance defined for the Terna Group and quality parameters linked to the specific risk for financial statement sections or informative notes.

Identifying quality parameters consists in considering possible "factors" that render significant various calculations, even if these do not exceed the threshold of materiality, by themselves. Investors could demonstrate a certain interest in various calculations in the financial statement that represent an important performance indicator or an important indicator for the sector they belong to.

The association of the information identified as being significant for the relative processes they are based on allows concentrating identification activities on those processes that can determine significant errors regarding the financial information.

Each selected significant information/item in the financial statements must be associated with the processes that contribute to its elaboration, in order to determine the significant processes.

On the basis of quality and quantity parameters, after having defined the significant information and having selected the relevant processes, the EIC establishes the guidelines for "risk activities and controls" that represent administrative and accounting procedures and assesses their adequacy and effective implementing (assessment of their operational level).

For this purpose, the analysis of significant processes occurs through the following operational steps:

- defining and analysing activities that form the processes ("mapping");
- identifying and assessing risks for each activity and their being associated with the control objectives;
- identifying and assessing existing controls;
- assessing the operational level of existing controls. assessing the operational suitability of existing controls.

Analysing activities that form the processes (“mapping”) is aimed at clearly identifying the process that creates the data or the comment to be represented in the financial statements, from identifying the initial event that originates it up to its being included in the accounting prospects or in the notes.

Mapping activities that form the processes are functional to the final objective of applying controls along the entire process of data creation or for the notes commenting the financial statements and should be capable of ensuring that the information having an administrative impact is collected, processed and sent correctly and in a timely fashion.

For every process, for mapping purposes and the subsequent association of the risks and controls, the “key” elements must be identified that are useful in identifying existing risks and controls.

Verifying the effectiveness of the action plan and the actual operational level of the “key” controls is carried out through a testing activity that is conducted by a dedicated structure, using sampling techniques that are recognised by the international best practices.

Control assessment, where deemed necessary, can involve identifying compensatory controls, corrective measures and improvement plans. The results of these activities are submitted to the evaluation of the Executive in Charge who in turn notifies the company executives.

#### *Roles and Departments involved.*

##### *The Executive in Charge (“EIC”)*

In relation to the responsibilities assigned him:

- annually updates the field of activity and the significant processes considering the factors of change/risk communicated by the Directors of Terna S.p.A. and by the management of the companies that are individually significant;
- prepares the updates to the Model 262 and the Regulation of the Executive in Charge”;
- establishing and updating adequate administrative and accounting procedures for drafting the financial statements, the consolidated financial statements and the abridged interim financial statements;
- providing, with the collaboration of the Human Resource and Organization Department, to disseminate administrative and accounting procedures and action plans;
- supporting the Directors and the management of the companies that are individually significant in executing operational, control and reporting activities that are part of their specific duties.

The EIC can rely on the assistance of qualified external companies with specialized professional staff for carrying out plan assessment activities and the assessment of the operational levels of controls over administrative and accounting procedures.

##### *The Internal Audit and Risk Management*

Are responsible for:

- sending the Executive in Charge the regular reports prepared and the reports prepared against specific needs, regarding the operations and suitability of the ICRMS and to support the Executive in Charge in assessing the

correct function of the internal control system and the related risk governance mechanisms, including any IT implementations;

- coordinating with the Executive in Charge in defining the annual audit plan, for the part regarding administrative-accounting processes;
- providing the Executive in Charge with a suitable information flow in relation to the results of the activities connected with the respective audit plans relating to the responsibilities of the Executive in Charge in the shared methods;
- in case of involvement in specific testing activities, ensuring the necessary collaboration and changes in the audit plan and in defining priorities also, if necessary, with the assistance of the administrative body in charge.

#### *Terna S.p.A.'s Directors*

Are responsible for:

- coordinating those in charge of individual controls, including of subsidiaries, in executing the controls they are responsible for;
- coordinating individual controls, including of subsidiaries, in establishing and implementing the Action Plan;
- supporting the activities carried out by the EIC and ensure access to all documents/information useful in carrying out his activities;
- preparing and forwarding in the time frames established by the *reporting* calendar the certifications regarding the control activities and their operational level.

#### *Human Resources and Organisation Director*

Is responsible for:

- supporting the EIC in preparing and updating the administrative-accounting procedures;
- supporting the EIC and the Management/Departments of the Terna Group in the correct implementation of the action plans that can give rise to organisational changes. To this end, the EIC is informed in advance in any case on any organisational changes.

#### *Management of the companies that are individually significant*

Is responsible for:

- coordinating those in charge of individual controls in executing the controls they are responsible for;
- assessing, in collaboration with the EIC, the ICRMS on the financial disclosure of the company that is individually significant;
- preparing and forwarding, in the time frame established by the reporting calendar, the certifications regarding the ICRMS of the company that is individually significant.

To enable the EIC and the administrative bodies in charge to issue the certificates in compliance with Article 154-*bis* of the Consolidated Law on Finance, it was necessary to define a system of “chain” certificates with the objective of ensuring the adequacy and actual implementation of administrative and accounting procedures

drafted as part of the “Model 262”, of preparing and disseminating the Plan for corrective measures, where necessary, and to update such procedures.

The certification, issued to the market with the CONSOB form, is based on a complex evaluation process that includes:

- collecting internal “chain” certificates issued both by the Directors of Terna S.p.A. and by the management of the companies that are individually significant. The existence of a periodic reporting flow allows carrying out the following:
  - periodic assessment of the plan for existing controls and consequent updating of administrative and accounting procedures;
  - assessment of the operational level of existing controls and the subsequent certification of the actual implementation of administrative and accounting procedures;
  - assessment of the shortcomings (absence of control or failure to execute controls) that emerge with reference to their impact on the informative note on the financial statements;
- the assessment of the actual operational level of administrative and accounting procedures carried out by the EIC;
- the final assessment of the adequacy and effective application of administrative and accounting procedures by the CEO and the EIC. This activity is supported by the assessment of the plan for specific controls as well as by that for their operational level as mentioned above. It is therefore carried out overall with reference to the probability that following one or more significant shortcomings an error in the financial statements could occur and with reference to the risk that this error may have been significant. To support the CEO and the EIC in their final assessments concerning the concrete possibility that there is significant error in the financial statements, where one or more significant deficiencies are seen, offset controls and audits can be envisaged, which, if successful, despite the presence of one or more significant deficiencies identified specifically by the lines, enable the CEO and EIC to issue their report without findings; any significant deficiencies highlighted by the assessment process must be notified promptly, together with the results of the offset controls performed by the CEO and the EIC to the Control and Risk Committee, the Supervisory Body and the Board of Statutory Auditors of Terna S.p.A..