



This section, which opens with a description of the sustainability topics most relevant to Terna's business, focuses on the management policies and systems behind the Company's approach to responsibly managing its activities and on the recognition achieved as a result of its performances, such as, for example, our **inclusion in leading global sustainability indices**.

The areas covered include the opportunities and risks linked to climate change, the due diligence assessment conducted with regard to human rights, sustainability in the supply chain, stakeholder engagement, above all with the local communities affected by Terna's investment in infrastructure, and social responsibility initiatives in the community.

**TERNA PLASTIC FREE
AND TERNA RECYCLING:**
INITIATIVES PROMOTING
SUSTAINABILITY IN DAILY
LIVES

TERNA IS THE WORLD'S
ELECTRIC UTILITIES
INDUSTRY LEADER
IN THE **DOW JONES**
SUSTAINABILITY INDEX

207
MEETINGS WITH LOCAL AUTHORITIES
17
MEETINGS WITH THE PUBLIC

 **Terna
Rete Italia**
TERNA GROUP



3. Responsible business management

Terna's sustainability topics

For Terna, sustainability is a strategic lever and growth factor, contributing to the achievement of its business objectives.

In line with the Group's agenda, the most significant themes in this regard are:

- Terna's role as an enabler of the transition to a decarbonised economy, based on the integration of renewable sources and, more generally, on environmental sustainability through innovation and green investment;
- the central importance of people and their skills, which are often rare or unique in the electricity sector;
- attention to local areas and their stakeholders;
- business integrity;
- innovation.

The strategies and objectives relating to these themes converge in the Group's main action plans, starting with the Strategic Plan (see page 50), which is driven by sustainability targets and KPIs, and the Innovation Plan (see page 139). These plans are highly interconnected.

Terna's sustainability policies and management systems refer to the Code of Ethics¹⁷, which has been adopted by all Group companies.

In 2009, Terna joined the Global Compact, the multi-stakeholder network promoted by the United Nations to foster compliance with ten principles relating to human rights, labour, the environment and the fight against corruption.

Terna at the Private Sector Forum in New York

For the second consecutive year, Terna's CEO, Luigi Ferraris, took part in the Private Sector Forum, the annual Global Compact event held at the United Nations General Assembly in New York. The meeting, which was part of the agenda of the 73rd General Assembly of the United Nations, was attended by the CEOs of large companies, investors, heads of state and government, United Nations representatives and civil society. In line with the commitments in the 2030 Agenda, the Global Compact invited 300 leaders from around the world to discuss the theme of "Building and Investing in Peace for All" as an essential element for sustainable development and respect for human rights.

In line with this commitment, Terna took up the challenge posed by the UN's 2030 Agenda, as set out in the 17 SDGs. This has meant incorporating a series of objectives into its strategic planning, involving the achievement of a decarbonised economy through energy transition based on the integration of renewables, and the strengthening of transmission capacity, interconnections with other countries and infrastructure resilience.

¹⁷ The Code of Ethics is published on Terna's website under Corporate governance, in the "Investor Relations" and "Sustainability" sections.

In December 2017, Terna, ANBI (the National Association of Consortia engaged in the Protection of Italy's Landscape and Irrigation Water) and Coldiretti signed a memorandum of understanding aimed at creating initiatives of common interest regarding the optimal management of irrigation resources, energy efficiency and nature conservancy.

This partnership envisages a concrete circular economy model based on multipurpose use of water (potable water, irrigation and energy reservoirs) that combines the priority needs of agricultural enterprises with environmental sustainability, through a process of upgrading existing reservoirs that ensures increasingly efficient use of water resources.

Coldiretti, in line with its mission to develop more efficient uses of natural resources, combat the effects of climate change and develop multiple uses of water, is committed to verifying that all actions undertaken comply with the principles of environmental sustainability, whilst protecting Italy's rural heritage and the biodiversity that characterises the country's agriculture. Studies looking into both the energy efficiency of land reclamation authorities and the multipurpose use of water continued in 2018 (and are still in progress).

[Terna, ANBI and Coldiretti: circular economy agreement](#)

At Terna, sustainability issues are also addressed in terms of internal awareness, by promoting the adoption of responsible behaviour in everyday work activities. Examples of such an approach are the "Terna Plastic Free" and "Terna Recycling" projects, described below.

In December 2018, "Terna Plastic Free", the initiative that eliminates single-use plastic from offices, was launched. At its headquarters, the starting point for the project, Terna is reducing the use of 125,000 water bottles and 125,000 plastic cups, equal to 4 tonnes of waste per year and approximately 13,500 kg CO₂ that would otherwise be released into the atmosphere.

In the canteen, the bar and vending machines, plastic water bottles have been replaced by hot and cold, natural and mineral water dispensers. Disposable plastic cups have also been replaced by around 700 stainless steel thermal flasks, which have been distributed by the Company and personalised by engraving employees' initials on the cap.

This project aims to foster the growth of a sustainability culture, partly thanks to the active commitment of individual staff members in their everyday working lives. By adopting sustainable behaviours, staff become protagonists in a process of change that includes separate waste collection.

The "Terna Recycling" project, which aims to introduce/implement separate waste collection schemes for the solid urban waste produced by Terna's offices, was launched, again in pilot form, alongside the "Terna Plastic Free" initiative.

Separate waste bins at each workstation have been replaced by a single bin located inside the offices. The project also includes installation of special collection points on all floors of the building for waste plastic and waste paper, as well as organic and unsorted waste.

Both projects will be extended to all the other Italian offices from 2019.

[Terna's everyday sustainability culture: launch of the "Terna Plastic Free" and "Terna Recycling" projects](#)



Sustainability governance

Terna's sustainability themes and policies are managed in accordance with a well-organised governance system that includes:

Audit, Risk, Corporate Governance and Sustainability Committee

This Committee is composed of independent members of the Board of Directors tasked to support the Board in assessing and making decisions on the Internal Audit and Risk Management System (IARMS). Since January 2016, the Committee's tasks have also included sustainability themes such as policies, objectives, the Sustainability Report (which, from the 2017 reporting year, coincides with the Non-Financial Statement), and the monitoring of sustainability indicators.

"Sustainability" department

This department, which is part of the External Relations and Sustainability department, in collaboration with all the departments concerned, helps to define and disseminate the Group's sustainability objectives in ethical, social, environmental and governance areas. Preparation of the Sustainability Report is also assisted by the SDM (Sustainability Data Manager), a dedicated non-financial data management software application. With regard to the prevention of reputational risk, the department monitors the risks relating to sustainability themes through analysis by the leading rating agencies (for example, RobecoSAM, Vigeo, Eiris), which periodically assess the Group's ESG performance. In 2018, Terna's presence was confirmed in all the leading international sustainability indices (details provided on page 63).

Integrated Management System

The Integrated Management System is the tool which - via certified management systems regarding quality, environment, occupational health and safety, energy management and combating corruption - optimises coordination of all the departments responsible for governing business processes. It is also an important risk management tool because it highlights potential risks in the areas under observation and identifies appropriate mitigation measures.

The Integrated Management System covers all the Italian and international activities of Terna S.p.A., and its subsidiaries, Terna Plus S.r.l., Terna Rete Italia S.p.A. and Terna Crna Gora d.o.o. (see the table on page 61). It does not include Tamini Group companies, which have their own quality, environmental and safety certifications.

In June 2018, the appointed certification body carried out checks for the transition from the current version of ISO 14001:2004 to the new ISO14001:2015.

In the second half of 2018, Terna Energy Solutions S.r.l. - a new Group company - was certified for Quality (ISO 9001:2015), Energy (ISO 50001:2011) and Anti-Corruption (ISO 37001:2016) Management Systems. In 2019, Terna Energy Solutions will also be certified for the ISO 14001:2015 Environmental Management System and the BS OHSAS 18001:2007 Safety Management System. In July 2018, Terna was the first company in Italy to obtain ISO 55001 certification for its Asset Management System, which defines the requirements for optimal management of tangible assets.

Terna the first Italian company to be ISO 55001 certified (Asset Management)

Terna is the first company in Italy, with regard to the management of tangible assets, to voluntarily comply with ISO 55001:2014, Asset management - Management systems - Requirements, an international reference standard for infrastructure management.

Asset Management is an organisational tool based on objective criteria to manage and optimally maintain a company's tangible assets throughout their entire life cycle, with a constant focus on cost control and reducing business risk. Improvement of the management system leads to a reduction in the environmental, economic and social risks involved and, at the same time, to an improvement in overall performance, thereby optimising costs and increasing the real added value of the assets.

The assets subject to certification consist of high voltage power lines and substations distributed throughout Italy.

Following the publication of the new ISO 45001:2018 standard regarding occupational health and safety, the Terna Group is bringing its processes into line with the standard's requirements in order to obtain certification by 2021.

TERNA GROUP CERTIFICATIONS AND ACCREDITATIONS

TYPE	SCOPE	YEAR OF 1ST ISSUE	YEAR OF RELEASE	YEAR OF EXPIRY
ISO 9001:2015	Terna Group (*) (**)	2001	2016	2019
ISO 14001:2015	Terna Group (*)	2007	2018	2019
BS OHSAS 18001:2007	Terna Group (*)	2007	2016	2019
UNI CEI EN ISO 50001:2011	Terna Group (*) (**)	2015	2018	2021
ISO 55001:2015	Terna S.p.A., Terna Rete Italia S.p.A.	2018	2018	2021
ISO 9001:2015	Tamini Group	1993	2018	2021
ISO 14001:2015	Tamini Group plants at Legnano, Valdagno and Ospitaletto	2015	2018	2021
BS OHSAS 18001:2007	Tamini Group	2015	2018	2021
ISO 27001:2013	Terna S.p.A. only for Market Monitoring Code applications	2011	2018	2020
ISO/IEC 17025:2005	Terna Rete Italia for multi-site test laboratories in Viverone (BI), Civitavecchia (RM) and Frattamaggiore (NA)	2014	2017	2022
ISO/IEC 17025:2005	Terna Rete Italia for calibration laboratories in Florence, Turin and Cagliari	2017	2017	2021
ISO 37001:2016	Terna Group (*)	2017	2017	2020

(*) Applies to the companies Terna S.p.A., Terna Plus S.r.l. and Terna Rete Italia S.p.A..

(**) Also applied to Terna Energy Solutions S.r.l..

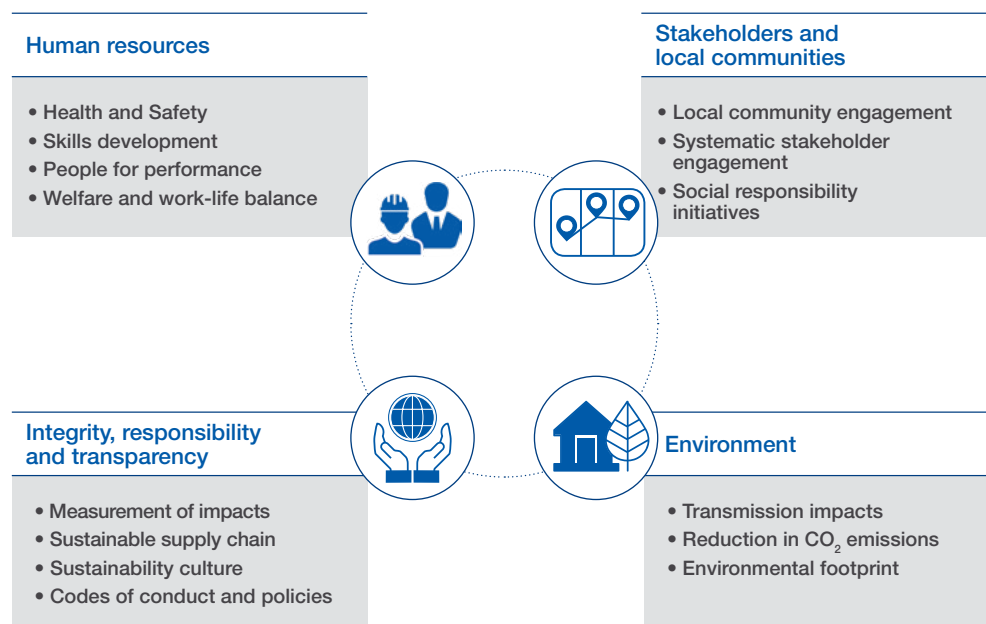
Terna Rete Italia has also implemented a "Management System for the Prevention of Major Accidents" in accordance with the provisions of Legislative Decree 105/15 (the "Seveso Directive").

Sustainability objectives and targets

During 2018, a document entitled “Sustainability initiatives and KPIs for the Strategic Plan 2019-2023” was drawn up. This consists of a structured set of activities aimed at achieving sustainability objectives. These objectives have been incorporated into the Strategic Plan 2019-2023 in order to guarantee business sustainability and the creation of value in the medium to long term. They help to define performance objectives in the Group's variable remuneration systems. The document is divided into four areas (human resources; stakeholders and local communities; integrity, responsibility and transparency; environment) which were identified last year¹⁸. They have been broken down into 14 objectives to which more than 120 activities spread across the entire timeframe of the Plan (2019-2023) refer.

The process of defining sustainability objectives took place in 2018 and was completed in March 2019. The various steps involved the departments concerned and - on several occasions - senior managers reporting to the Chief Executive Officer, the Audit, Risk, Corporate Governance and Sustainability Committee and Terna's Board of Directors.

SUSTAINABILITY OBJECTIVES IN THE STRATEGIC PLAN 2019-2023



The main objectives for the period 2019-2023 and for 2019 are set out in the sections on “Responsible business management” (page 58), “People” (page 144) and “Environment” (page 168), which also show the results achieved in 2018 compared with previous objectives. Finally, it should be noted that Terna's ranking in the sectoral classification drawn up by RobecoSAM for the Dow Jones Sustainability Index, which comprises a brief external assessment of the Group's sustainability performance, is a target included in the Long-Term Incentive (LTI) plan for the Chief Executive Officer and Group managers (see the “Remuneration Report”).

¹⁸ See the 2017 Sustainability Report, page 51.

Sustainability indices

Terna's commitment to improving its ESG (Environmental, Social and Governance) performance is reflected positively in the sustainability ratings assigned by specialist agencies, in the Company's inclusion in the leading stock exchange sustainability indices and in the appreciation shown by socially responsible investors.

Terna continued to be included in all the leading international stock exchange sustainability indices where it was already present, and in January 2019 the Company was included in the Bloomberg Gender Equality Index.

TERNA'S INCLUSION IN SUSTAINABILITY INDICES (AT 31 DECEMBER 2018)

An international index that measures companies' performance regarding gender equality issues and the quality and transparency of their public reporting. Terna was included for the first time in January 2019.	BLOOMBERG GENDER EQUALITY INDEX www.bloomberg.com/women
The DJSI indices select the companies with the best sustainability performances from among those with the highest capitalisation (the top 300 out of 2,500 companies around the world for the World Index) based on assessments carried out by the agency, RobecoSAM. Terna has been included in the DJSI World Index since 2009.	DOW JONES SUSTAINABILITY INDEX www.robecosam.com
This index was created by ECPI - an Italian agency founded in 1997 which specialises in ratings, sustainability indices and research to incorporate non-financial information into investment processes - based on its own analysis of European companies' sustainability performances. Terna has been included since 2007.	ECPI www.ecpigroup.com/it
The indices are calculated on the basis of ratings produced by Vigeo Eiris, which, as an initial population, include the approximately 10,000 ratings that are contained in the Russell Global Index. Inclusion is subject to the positive opinion of the Ethibel Forum, a panel of independent experts on the various aspects of sustainability. Terna has been included in the ESI since 2009.	ETHIBEL SUSTAINABILITY INDEX-ESI (www.forumethibel.org)
Developed by the Vigeo Eiris rating agency, these indices are based on a population of companies listed in North American, Asian and European markets and included in the STOXX® 1800 list. Vigeo Eiris's ESG indices are drawn up on the basis of a methodology including over 330 indicators and 38 sustainability criteria. Terna has been included in the World 120, Eurozone 120 and Europe 120 lists since 2012, the year in which they were introduced.	EURONEXT VIGEO www.vigeo-eiris.com
Introduced in 2010, these are the sole sustainability indices comprising a selection of companies listed only on the Italian Stock Exchange, based on analysis by the company, ECPI. Terna has been included in the FTSE ECPI since 2010.	FTSE ECPI www.borsaitaliana.it
The FTSE4Good indices group together the best companies in terms of sustainability performance based on analyses carried out by Evalueserve. The index is reviewed twice a year, in March and September. Terna has been in the index (Global and Europe lists) without interruption since 2005.	FTSE4Good www.ftse.com
MSCI has integrated the original KLD indices - among the first to track companies' non-financial performance, and which are still one of the most accredited benchmarks in the United States - with other sustainability indices. Terna's has been continuously included since 2007.	MSCI GLOBAL SUSTAINABILITY www.msci.com
Launched in 2011, these indices are based on assessments made by the Sustainalytics rating agency, and select the best shares in terms of ESG performance (around 350) from the 1,800 in the STOXX® Global general index. Admission to the Global ESG Leaders Index, requires inclusion in at least one of the three specialist indices (Global Environmental Leaders, Global Social Leaders and Global Governance Leaders). Terna is the only Italian utility company to be included in all three of them. Terna has been included in the index since 2011.	STOXX® ESG www.stoxx.com
Launched in February 2016, the STOXX® Low Carbon Indices aim to provide a selection of companies with low CO ₂ emissions. The selection of companies is based on data gathered by the CDP (Carbon Disclosure Project). The components of the indices are selected from the STOXX® Global 1800 list based on their carbon intensity (Scope 1 and Scope 2 of the GHG Protocol), based on the ratio of emissions to revenue.	STOXX® LOW CARBON www.stoxx.com
Established in 2013 by the United Nations Global Compact in collaboration with the research company, Sustainalytics, this index encompasses the 100 companies that have distinguished themselves at global level, in terms of both their attention to sustainability issues and their financial performance. Terna has been included in the index since 2013.	UNITED NATIONS GLOBAL COMPACT-"GC100" www.unglobalcompact.org

In September, on the occasion of the annual review conducted by the Swiss sustainability rating agency, RobecoSAM, Terna's presence in the Dow Jones Sustainability Index (World and Europe) was confirmed, and the Company was named **Industry Leader in the Electric Utilities sector. In February 2019**, this result led to the inclusion of Terna - the only electric utility in the world to receive such an honour - in the Gold Class of RobecoSAM's Sustainability Yearbook 2019, an international reference publication for corporate sustainability issues and performance.

Terna is the world's Electric Utilities "Industry Leader" in the Dow Jones Sustainability Index

Based on assessments carried out by RobecoSAM, the Swiss sustainability rating agency, which each year decides on inclusion in the Dow Jones Sustainability Index, Terna was ranked number one in the world ("Industry Leader") in the Electric Utilities sector for its sustainability performance.

Confirmed for the 10th consecutive year in the index, Terna achieved an overall score of 91/100, the highest ever for the Company and the highest in the electric utilities industry (sector average: 46/100), improving its 2017 figure by 4 points. The first place was confirmed by 9 of the 23 assessment criteria applicable to the Company. Terna came first in the economic criteria for Materiality, Risk and Crisis Management, and Policy Influence; in the environmental criteria for Environmental Reporting, Operational Eco-efficiency, and Transmission and Distribution; and in the social criteria for Social Reporting, Human Capital Development, Corporate Citizenship and Philanthropy.

In 2018, RobecoSAM updated its methodology by revising the scoring process compared to previous Media and Stakeholder Analysis (MSA) assessments, thereby responding to investors' growing interest in monitoring and analysing any disputes involving the companies evaluated.

In January 2019, Terna - the only Italian electricity company - was included for the first time in the Bloomberg Gender Equality Index (GEI), an international index that measures companies' performance regarding gender equality issues and the quality and transparency of their public reporting. Bloomberg analysed over 9,000 companies listed on leading world financial markets, including only 230 of them in the GEI index (in total, there are three Italian companies), from 36 countries and representing 10 different sectors (including energy, industry, utilities and finance).

Finally, Terna was selected in a number of "investment registers" (e.g. the Ethibel Register) that are developed using selective sustainability criteria, which - especially when public - are a reference point for investors who pay attention to ESG performance.

Terna takes out a line of credit linked to sustainability indices

In September 2018, Terna took out a line of credit (ESG linked Revolving Credit Facility back-up) linked to sustainability indices, totalling €900 million with a pool of banks consisting of Banca IMI, Banco BPM, BNP Paribas and UniCredit (the amount was subsequently increased to €1,150 million in November as the transaction was extended to involve Mediobanca - Banca di Credito Finanziario).

After the issue of the first Green Bond in July, this new revolving credit facility, the first of its kind for Terna, introduced elements of sustainability via an incentive-based mechanism linked to the achievement of specific environmental, social and governance objectives ("ESG"), including in the annual assessment carried out by RobecoSAM in relation to inclusion in the Dow Jones Sustainability Index.

The transaction confirms the Group's strong commitment to introducing a model aimed at consolidating sustainability as a strategic lever for the creation of value for all its stakeholders.

Networking activities

Terna is present and active, sometimes in positions of leadership, in the principal national and international trade associations that focus on sustainability issues.

A non-profit association that brings together managers and companies who share the desire to spread an entrepreneurial culture in their local areas, combining profit with the creation of wellbeing for the community. Terna has been a member of the association since 2010.	Anima per il sociale nei valori dell'impresa
A key association for professionals who deal with sustainability and corporate social responsibility issues, including company managers, consultants and researchers.	CSR Manager Network
A major organisation in Italy, the foundation is engaged in disseminating corporate sustainability and promoting dialogue between the world of business and non-profit organisations. Terna is one of its founders.	Sodalitas Foundation
An organisation whose primary activity is investigating sustainable development issues - from a cultural and technical point of view - via research, seminars and meetings. Terna joined the association in 2011.	Sustainable Development Foundation
The Observatory set up by IEFE - Bocconi University which, via research and study, aims to explore key topics for debate in relation to the green economy through dialogue, discussion and collaboration with institutions and businesses.	GEO - The Green Economy Observatory
Terna's membership of the Global Compact involves a presence at both international and local level. In Italy, Terna has had a place on the Italian network's Steering Committee since 2011.	Global Compact
An international organisation that in December 2013 published the first framework for the integration of financial, environmental, social and governance information in a single report. Terna has been associated with it since 2011.	IIRC - The International Integrated Reporting Council
A non-profit organisation made up of companies, bodies, associations and local government authorities that are committed to achieving the targets for reducing greenhouse gas emissions set by the Kyoto Protocol and to promoting awareness-raising, information and training initiatives in the fields of energy efficiency, use of renewables, and sustainable mobility.	Kyoto Club
An international benchmarking organisation engaged in measuring the contributions and impacts of corporate community investment. Terna uses its model to monitor and maximise the benefits of its community expenditure (see page 99).	LBG - The London Benchmarking Group - Corporate Citizenship
The Italian branch of the international organisation whose aim is to combat corruption.	Transparency International Italia

Risk management

The Terna Group's main business is operated as a legal monopoly, subject to the terms of the government concession and the regulations defined by the Regulatory Authority for Energy, Networks and the Environment (ARERA). This means that regulatory risks and risks that may have an impact not so much on Terna, as on the entire electricity system (for example, power outages), are particularly significant. In this regard, risks that may also have long-term effects, such as those deriving from climate change, are relevant to Terna.

Terna has identified the main risks associated with its activities and prepared organisational measures, controls and specific instruments with the aim of reducing them, and keeping any effects within acceptable limits.

From an organisational point of view, the Group is structured in such a way as to guarantee management and supervision of all its operations and the risks associated with them, as well as a clear allocation of roles and responsibilities. In particular, in line with the provisions of the Corporate Governance Code for listed companies, which the Group has voluntarily adopted, the Audit and Risk, Corporate Governance and Sustainability Committee (the "Committee"), consisting of independent directors, supports the Board of Directors in making its assessments and taking decisions relating to the Internal Audit and Risk Management System ("IARMS").

The Committee has a direct relationship with the Chief Risk Officer (CRO), who is appointed by the Director that heads the IARMS, with the task of supporting senior management in applying the risk management guidelines and the policy drawn up by the Board of Directors, and ensuring timely implementation of the activities relating to the definition of risk assessment methods and tools that form part of the Enterprise Risk Management process.

Under the Internal Audit and Risk Management System, the Audit department has the task of verifying that the IARMS is operating smoothly. Audit activities extend to all business processes (including Risk Management), with particular attention paid to the most important processes due to their impact on the Company's value, the degree of risk they pose in respect of achievement of the Company's objectives, or their influence on aspects of broad interest to the Company.

For details of the different types of risk to which the Terna Group is potentially exposed and the related management systems, reference should be made to the section, "Risk management", on page 20 of the Integrated Report 2018.



Opportunities and risks

connected with climate change

201-2 >

In assessing the risks and opportunities for Terna deriving from climate change, the role the Company plays as Italy's transmission system operator must be taken into account. In particular, given the European trend towards decarbonisation and large-scale use of renewables, and bearing in mind the support for these trends provided by government policy (European Climate and Energy Plan and the draft National Integrated Plan for Energy and Climate sent to the European Commission by the Italian government at the beginning of 2019), high-voltage grids have a greater role than ever before in driving growth in renewable generation capacity.

Indeed, the process of decarbonisation means the growing use of electricity as energy carrier will become increasingly important in meeting our energy needs. As a consequence of this role, the increase in investment necessary to enable the energy transition represents a major new opportunity for Terna. For example, the limited ability of the existing grid to absorb rising amounts of production from non-programmable renewable sources (wind, photovoltaic) has created the need to upgrade the grid and, as a result, new investment opportunities for Terna. It should also be borne in mind that the regulatory framework for the electricity system is moving towards an output-based model, linking returns on investment to effective benefit for the system and the population, including in terms of increased penetration of renewable sources and cuts in emissions.

As electricity as an energy carrier plays an ever-greater role in end uses (e.g. transport, heating), the risks deriving from possible interruptions in the supply of electricity to grid users as a result of extreme weather events are increasingly substantially. In order to mitigate such risks, Terna - in keeping with its duty to ensure security and continuity of supply - has prepared a specific Resilience Plan (see page 135), in which the necessary measures have been included in the capital expenditure financed through the bills paid by end users.

Overall, therefore, climate change and the consequent trend towards decarbonisation, create more opportunities than risks for Terna, also in terms of the development of its Non-regulated Activities. The following description of the opportunities and risks connected with climate change is presented in accordance with the recommendations for companies published by the Task Force on Climate-related Financial Disclosures.

Opportunities

The opportunities linked to climate change affect Terna's strategy, with potential economic effects in the medium term, regarding both Regulated and Non-regulated Activities in Italy and overseas. Possible sources of opportunity include:

Products and services

As regards Regulated Activities, both the Development Plan and the Electricity System Security Plan include investments that have assumed greater importance in relation to climate change. In the 2019 Development Plan, components designed to drive the integration of renewable sources and grid resilience form a significant part of the overall Plan. This approach is in line with a regulatory framework that is moving increasingly towards the use of output-based solutions, which could boost Terna's returns in relation to its ability to generate benefits for the system.

Terna's Non-regulated Activities will, in the future, also benefit from new possibilities, relating above all to the identification and development of new energy solutions.

The scenarios and trends that encourage the development of new opportunities in Italy are of global significance, and therefore also open up new opportunities overseas. See, for example, Terna's international activities in Brazil, Uruguay and Peru.

Markets

Risks

Transition Risks

Terna is not subject to legal obligations regarding cuts in emissions and registers low greenhouse gas emissions (see page 181). Therefore, no specific risks have been noted with regard to the introduction of a carbon tax or an increase in the carbon price, which would in fact improve the ratio between benefits for the system and Terna's investment costs. Nor would an increase in reporting obligations pose any problems for Terna, which has been providing full disclosure on its emissions for some time. As far as the regulation of service quality is concerned, an incentive-based scheme linked to service continuity is already in place, which may be affected by extreme weather events. The scheme has generated very different outcomes from year to year, ranging from penalties of approximately €15 million to bonuses of around €21 million in the period from 2010 to 2018. Terna's response to this risk is its Resilience Plan.

Political and legal

The decarbonisation process will require major investment in high-voltage grid infrastructure to keep pace with the growing use of electricity as energy carrier. This means that there is no risk of the service being replaced with other technologies, although it is without doubt necessary to invest in innovation to meet the challenges posed by the energy transition. In response, Terna has drawn up an Innovation Plan, identifying the most important current technological trends (above all linked to the digital transformation of the grid) and supporting investment in the related research and development in order to enable delivery of the Strategic Plan.

Technological

No current risks have been noted relating to cost increases deriving from the rise in the price of raw materials due to climate change, which in any case would not to any great extent form part of the risks to which Terna is exposed. The trend in Italy's electricity consumption is uncertain, reflecting a combination of declining demand due to progressive improvements in energy efficiency and an increase in consumption due to the shift to electricity as energy carrier. This reflects the trend towards reduced use of fossil fuels as a primary energy source. However, even if the amount of electricity transported over the transmission grid were to decline, the regulatory approach to both grid assets and operators would normally mitigate volume risk by guaranteeing stable revenues and the recovery of investment costs.

Market

The increased likelihood of critical situations arising due to extreme weather events, and the growing complexity of the electricity system (the phase-out of traditional generation and the growth of distributed generation), requiring constant checks on the level of adequacy, could lead to widespread malfunctions. This has increased Terna's reputational exposure to public authorities and stakeholders in general.

Reputational

Physical Risks

The occurrence of extreme weather events poses a particular risk for service continuity, but may also affect grid infrastructure. Terna has responded with its Resilience Plan and Innovation Plan.

Acute

Among the systematic changes relating to climate change, such as rising sea levels and rainfall, only temperature rises directly interfere with grid operation, as higher temperatures limit the possible amounts of electricity transmission.

Chronic

Compliance, integrity

and the prevention of corruption

Legality and honesty are two of the general principles on which Terna's Code of Ethics and the conduct of its business are based.

419-1 >

Compliance with legislation

Compliance with the law is the starting point for any voluntary improvement initiative. A summary of administrative or judicial sanctions and any significant court judgements regarding Terna is provided below. Also taking into account the indicators contained in the GRI-Standards, Terna's compliance performance is illustrated below:

- No significant procedures of an administrative or judicial nature, resulting in final judgements or in fines or court injunctions (e.g. prohibitions), were registered in 2018 or in the previous two years, nor did any of its employees receive criminal convictions (full compliance with regard to both environmental and socio-economic matters).

307-1 >

- In particular, the accounting records for 2018 do not reveal any pecuniary sanctions of an administrative nature, fines or penalties in excess of €10,000 relating to environmental matters.

205-3 >

206-1 >

- There were no legal proceedings pending against Terna in relation to corruption, antitrust or monopoly practices, nor were any court judgements handed down against Terna regarding these matters in 2018 or in the previous two-year period.

EU25 >

- There were no pending criminal proceedings for injuries caused to third parties by any of Terna's assets. There were 6 accidents in 2018 (11 in 2017 and 4 in 2016).
- No accidents affecting contractors' employees whilst carrying out work commissioned by Terna were registered, where such accidents gave rise to final court judgements ordering Terna to pay damages, or resulted in criminal convictions for Terna's employees.
- There is no record of charges brought, in 2018 or in the previous two-year period, in relation to harassment or occupational injuries affecting employees or former employees, in which Terna's liability was definitively established.

Data protection compliance

In 2018, Terna drew up and implemented a structured plan of action (e.g. information updates, guidelines, data protection operating instructions, definition of the data breach process, etc.) to comply with changes in personal data protection legislation (namely European Regulation no. 679/2016 - GDPR, Legislative Decree 196/2003, Legislative Decree 101 of 2018 and any other legislation regarding personal data protection applicable in Italy, including the provisions of the Italian Data Protection Authority).

In particular, Terna has adopted a new Organisational Model for the management of personal data protection which defines roles and responsibilities, in line with the provisions of the GDPR.

The initiatives undertaken included an update of the data processing activities register, which is one of the tools used to define the general accountability framework provided for by the GDPR. In this context, a review of the list of personal data processing operations carried out in each organisational department was initiated, via interviews with the Privacy Focal Points, internal staff who support Terna's Data Protection and Privacy department in meeting the requirements of the GDPR.

Terna has also appointed a Data Protection Officer, chosen on the basis of his professional expertise, in particular specialist knowledge of data protection legislation and practices. His name has been submitted to the Data Protection Authority.

In 2018, workshops were organised for senior management and middle managers at Terna and Terna Rete Italia, in order to raise their awareness of the issue and, at the same time, ensure compliance with the new European regulations.

These courses were attended by the Group's Data Protection Officer and the Head of the Special Data Protection Unit from the Finance Police (Italy's tax authority or *Guardia di Finanza*), who gave a first-hand account of the unit's inspection, fact-finding and reporting duties relating to personal data processing matters.

The GDPR training plan was extended to the majority of the workforce (administrative staff and managers), including employees of Tamini Trasformatori and Avvenia - The Energy Innovator, in the form of an online course. A selected number of staff most affected by the issue were also given in-depth training.

Prevention of corruption

< 205-1

The values underpinning Terna's fight against corruption are contained in the Code of Ethics and the tenth principle¹⁹ of the Global Compact.

In 2018, Terna actively participated in initiatives promoted by Transparency International, the world's largest organisation focused on preventing and combating corruption. This has included helping to spread awareness and engaging in communication campaigns, and the adoption of initiatives designed to combat the phenomenon.

Since 2015, Terna has published "Transparent and Open Construction Sites", a web space that can be accessed from any device. Since the beginning of the year, this has handled a total of 631 construction sites, 310 projects, 1,043 contracts and 660 suppliers (229 contractors and 431 subcontractors).

In January 2017, Terna was the first Italian company to obtain 37001 Certification for its anti-bribery management system, which covers the Parent Company as well as Terna Rete Italia and Terna Plus for all the Italian operations. As part of this system, 52% of business processes were subject to Risk Assessment in 2018.

In November 2017, the Board of Directors approved the Global Compliance Programme²⁰ and the Anti-corruption Guidelines, which are applicable to all the Group's Italian and overseas companies subject to prior approval from their respective Boards of Directors, in line with international best practices that promote a "top-down" approach. The Guidelines contain standards of conduct that all recipients are required to observe concerning, for example, the provision of gifts and donations and the related records, sponsorship and charitable activities, the prohibition of facilitating payments, political contributions and compliance with the Company's obligations regarding training, information and information flows.

¹⁹ "Businesses should work against corruption in all its forms, including extortion and bribery".

²⁰ The Global Compliance Programme is a monitoring tool for the Group's overseas companies aimed at preventing the commission of crimes under foreign law (accounting offences, terrorist financing, money laundering, copyright infringement offences, workplace health and safety offences), and to protect the individual subsidiaries and the holding company from the possible attribution of liability for criminal conduct perpetrated by employees or persons acting in their name and/or on their behalf.



Overall, the Terna Group has adopted three approaches to preventing corruption: its 231 Organisational Model, Fraud Management and Awareness-raising. In 2016, Terna adopted a Whistleblowing Policy to manage reports, by employees, of violations of the Terna Group's internal control and risk management system. The Guidelines set out the organisational arrangements for handling such reports and establishes the various responsibilities at each stage of the process. The policy also covers all aspects of security, above all regarding protection of the anonymity of the whistleblower, but also that of the accused. In addition, in line with best national and international practices and existing legislation, Terna has put in place specific communication channels, including the web portal, "The whistleblowing procedure". During 2018, the procedure was updated to extend its use to all Group companies, and also to bring together and manage within the Group any anonymous reports and/or reports received from other offline channels.

231 Organisational Model

The 231 Organisational Model - which takes its name from Legislative Decree 231 of 8 June 2001 and was adopted by Terna in 2002 - defines rules of conduct and of internal organisation designed to ensure that the Company conducts its business and activities in a fair and transparent manner, with the aim of protecting the Company's position and image and meeting its stakeholders' expectations. In particular, the Model sets out rules to prevent various types of offence from being committed, some related to corruption and some to other concerns such as the environment and human rights.

In its current form, the Model (latest revision: 1 December 2017) breaks down into 11 sections, 1 general and 10 special, subdivided by category of offence. The first section regards the prevention of corruption and is supplemented by compliance rules relating to market abuse.

As provided for in the Model itself, responsibility for ensuring compliance with the Model's provisions, its effectiveness and its revision lies with the Supervisory Board, whose members are appointed by the Board of Directors. Reports of any infringements of the 231 Model may be sent directly to the website at www.terna.it, or the email address OdV_Terna@terna.it, or by ordinary mail.

Training initiatives continued in 2018, as described in the section "Raising staff awareness". Further information regarding Terna's Organisational Model and those of other Group companies may be found in the "Report on Corporate Governance and Ownership Structures".

During 2018, three infringements of the Organisation and Management Model pursuant to Legislative Decree 231/01 were reported.

Fraud management

The Fraud Management team guarantees protection of the Company's assets (tangible and intangible resources, direct and induced benefits) against all illegal acts that may compromise the assets and protects the Company's reputation and image via fraud prevention and management activities.

In order to identify potential vulnerabilities and eliminate them, Terna uses a method based on systematic analysis of the pre-conditions that may lead to fraudulent events, identifying the critical areas in which such acts are likely to occur, and tracing their causes back to any organisational and operational issues affecting its processes. Alongside this approach, the correct application and revision of existing internal guidelines, procedures and rules is also monitored, with a view to assessing and improving the efficiency of the internal control and risk management system in respect of fraud prevention.

Raising staff awareness

All new hires attend training courses which, among other things, aim to ensure awareness and dissemination of the rules of conduct and procedures established in order to prevent unlawful behaviour, and to train and inform staff about areas of risk and potential crimes associated with the Company's activities.

< 205-2

In 2018, the long-term Training Plan regarding matters relating to the 231 Organisational Model and efforts to combat corruption, which involved 1,795 staff, was completed (equal to 47% of the total workforce).

Clarifications regarding the Code of Ethics and the reporting of violations

Terna staff who seek clarifications or wish to report an issue may contact the Ethics Committee or the Audit department. Up-to-date contact information (address, e-mail and telephone) may be found on the intranet and the website: comitato.etico@terna.it e audit.codiceetico@terna.it. The Ethics Committee was established to provide internal and external stakeholders with a specific communication channel for matters dealt with in the Code of Ethics. This Committee, which was reappointed in November 2017, is comprised of five members - appointed by the Chief Executive Officer - who are tasked with replying to requests for clarification regarding the Code of Ethics, receiving and examining reports of any violations and, finally, deciding whether or not to instigate an investigation following a report, and providing an appropriate answer.

The Audit department, which is Terna's internal audit unit, is responsible for investigating any reports of violations of the Code of Ethics. The reports gathered by the Ethics Committee and the Audit department are published on page 231.

Respect for human rights

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The Terna Group operates mainly in Italy, where the regulatory framework and the level of civil development largely guarantee respect for human rights, freedom of association and collective bargaining, and therefore it is not crucial for the Company to take specific actions on these issues.

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Despite this, Terna pays constant attention to respect for human rights²¹.

In 2014 and 2016, the Audit department carried out two surveys, structured on the basis of the recommendations of the United Nations ("Guiding Principles on Business and Human Rights", also known as the "Ruggie Report") to gauge employees' perceptions regarding the application of human rights within the Company and with respect to suppliers.

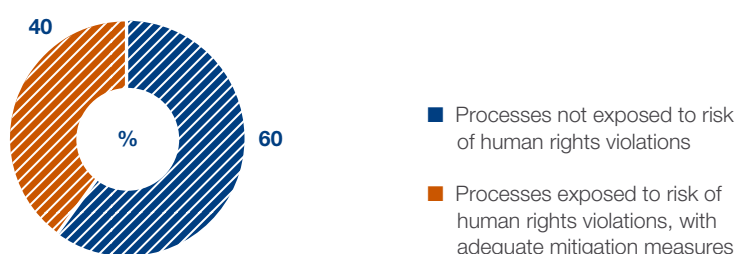
In April 2017, Terna adopted guidelines entitled "Respect for human rights within the Terna Group" in order to implement the recommendations of the guidelines on business and human rights set out in the aforementioned UN Guiding Principles. The guidelines provide for a periodic due diligence process regarding the Group's respect for human rights, taking into account its interaction with all its stakeholders. Particular attention is paid to vulnerable groups and the human rights most pertinent to Terna's activities, such as labour rights (e.g. discrimination, forced and child labour, freedom of labour union association, health and safety). The first due diligence assessment, carried out in 2017, included the phases provided for in the guidelines and described in the following table.

RESPECT FOR HUMAN RIGHTS - DUE DILIGENCE OBJECTIVES

- > Identification of the areas of the Group's activities, including relations with suppliers, joint ventures and business partners, that are potentially exposed to the risk of violating stakeholders' human rights.
- > Identification of existing risk mitigation measures in these areas (e.g. certified management systems, guidelines, operating instructions, contract terms, training and awareness-raising activities).
- > Preparation of action plans if such measures are found to be lacking or inadequate.
- > Monitoring of the implementation of action plans.

²¹ In February 2017, the French rating and sustainability research agency, Vigeo Eiris, announced the results of its study, "The human rights responsibilities of business in a changing world", conducted in over 3,000 companies in 35 countries and 38 sectors, in which Terna was ranked 14th overall, and first in the group of the best 30 Italian companies at global level.

The first due diligence assessment revealed that approximately 60% of the Group's processes are not exposed to the risk of human rights violations; for the remaining 40%, the existing mitigation measures and reporting systems were found, at first sight, to be adequate. In the interests of greater security, an additional investigation was provided for in a very few cases. Finally, the risk of violations was also found to be adequately monitored for suppliers, joint ventures and business partners.



At the end of 2018, the Audit department carried out an assessment to update the map of the business areas exposed to risk, evaluate the design of the planned controls, and verify their actual implementation. During this due diligence procedure, the operational mechanisms for conducting periodic audits were refined. The assessment of the Internal Control System (ICS) and the verification of its effectiveness, widely covered major processes as well as stakeholders and human rights. The analysis carried out showed that the system for monitoring respect for human rights within the map of business areas exposed to risk is satisfactory.

In principle, management responsibility for the Group's human rights rests primarily with the Human Resources, Organization and General Affairs, Procurement and Contracts and Security and Services departments, which ensure respect for human rights and labour protections by contractors and subcontractors. The Audit department is responsible for overseeing correct application of the rules in the Code of Ethics, while the Sustainability department monitors developments in external benchmarks (e.g. international conventions).

Supply chain sustainability

204-1 >

Procurement and suppliers

308-1 >

As well as providing a service of general importance, Terna's activities help to generate downstream supply chain activity, creating significant economic value and social benefits.

308-2 >

In 2018, total expenditure on the procurement of services, supplies and works amounted to over €1,183²² million, spread across 2,148 suppliers contracted during the year.

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414-2 >

The prevalence of national and local suppliers is determined by the specific nature of the business, especially by the need to carry out maintenance operations very swiftly in order to ensure the utmost safety of the system and greater competitiveness in terms of transport costs for heavy and bulky supplies. This also helps to cut the related environmental impacts.

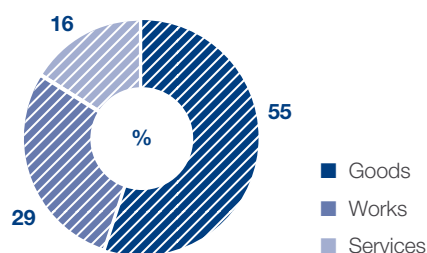
2,148

SUPPLIERS
CONTRACTED IN 2018

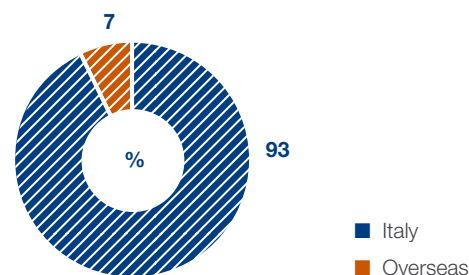
Terna requires suppliers to conduct themselves in a lawful and ethical manner, protecting human and labour rights, health and safety, information security and the environment. These behaviours have been formalised in the "Supplier Code of Conduct"²³ in which each principle is linked to the requirements contained in the qualification process and in Terna's tender and contract documentation. All suppliers are required to contractually commit themselves to comply with the provisions of Terna's Code of Ethics and 231 Model; any non-compliance encountered will result in penalties. Terna's tender procedures include several requirements relating to social (human rights, working conditions) and environmental matters which, for some sectors relevant for ESG purposes, must be met from the qualification phase.

Procurement, which regards activities carried out in relation to Terna's core business - so-called "key supplies" -, and which mainly includes supplies of materials and electrical equipment, contracts for the provision of works and services in the electricity transmission, telecommunications and IT sectors, is governed by the new Procurement Code. This has introduced aspects relating to sustainability in tenders drawn up in accordance with the most economically advantageous tender criterion.

**PROCUREMENT
BY CATEGORY**



**PROCUREMENT
BY ORIGIN**



²² The figure refers to the amount ordered during the year. This means the sum of the amounts allocated for all contracts (works, supplies and services) signed during the year.

²³ The document is available for download at: <http://download.terna.it/terna/0000/0930/50.PDF>

The following table shows the suppliers active during year, broken down by type of environmental and social requirements, according to their characteristics.

SUPPLIERS ACTIVE IN 2018 AND APPLICATION OF ENVIRONMENTAL AND SOCIAL REQUIREMENTS

SUPPLIERS ACTIVE IN 2018					AMOUNT PROCURED FROM SUPPLIERS SUBJECT TO SPECIFIC REQUIREMENTS (% OF RESPECTIVE TOTAL AMOUNT PROCURED)			
	NUMBER	% OF TOTAL	AMOUNT PROCURED (€M)	% OF TOTAL	BASIC REQUIREMENTS ⁽¹⁾	ADDITIONAL SOCIAL AND ENVIRONMENTAL REQUIREMENTS ⁽²⁾	SOCIAL ⁽³⁾ AND ENVIRONMENTAL QUALIFICATION REQUIREMENTS ⁽⁴⁾	COUNTRY RISK ASSESSMENT ⁽⁵⁾
Total active suppliers	2,148	100	1,183.3	100	100	97.8	28.0	100
Critical suppliers	1,896	88.3	1,156.9	97.8	100	100	28.7	100
Suppliers in sectors relevant for ESG purposes	219	10.2	585.1	49.4	100	98.8	48.2	100

⁽¹⁾ Compliance with the principles and behaviours provided for in Terna's Code of Ethics and 231 Model.

⁽²⁾ Integrity pact (text verified by Transparency Italy), anti-mafia certification, which checks: the application of collective labour agreements, payment of tax and social security contributions, the absence of environmental offences, the absence of serious breaches of labour safety regulations, regularity of employment of legally protected categories, certificate of medical fitness for specific roles issued by the relevant doctor (for works contracts), and the absence of any impediment to the award of public contracts.

⁽³⁾ OHSAS 18001 certified occupational safety management system or similar (required only from the suppliers of specific product categories at the time of qualification).

⁽⁴⁾ ISO 14001 certified environmental management system or similar (required only from the suppliers of specific product categories at the time of qualification).

⁽⁵⁾ Assessment of the risks of corruption and respect for human rights in connection with a supplier's premises.

The table illustrates the coverage guaranteed by the various initiatives, in terms of percentage of procurement, for significant groups of suppliers active in 2018.

Coverage is 100% or just under for the majority of the social and environmental requirements. Regarding the most stringent social and environmental qualification requirements, the coverage is higher for suppliers from sectors that are relevant for ESG purposes. Such suppliers are periodically identified²⁴ on the basis of the product categories whose relevance to the business is assessed (the amount supplied, problems for the core business), as well as social aspects (health and safety and working conditions) and environmental aspects (significant environmental impacts in the production chain, relating to use by Terna, at the end of the asset's useful life). Inclusion in this category leads to particular attention being paid during the qualification phase and in the development of technical specifications, as well as a commitment to adopt special precautions regarding sectors not subject to qualification. Finally, additional health and safety measures have been introduced for works contracts (see the section "Guaranteeing safety, the environment and human rights at contractors' construction sites" on page 80). The following table refers to new suppliers in 2018.

NEWLY CONTRACTED SUPPLIERS

	2018
% of new suppliers - checked for basic requirements ⁽¹⁾	100
% of new suppliers - checked for additional social and environmental requirements ⁽²⁾	88

⁽¹⁾ Compliance with the principles and behaviours provided for in Terna's Code of Ethics and 231 Model.

⁽²⁾ Integrity pact (text verified by Transparency Italy), anti-mafia certification, which checks: application of collective labour agreement, payment of tax and social security contributions, absence of environmental offences, absence of serious breaches of labour safety regulations, regularity of employment of legally protected categories, and absence of impediment for undertaking public contracts.

²⁴ The matrix for identifying the relevant product sectors for ESG purposes was updated in 2017 on the basis of the latest available purchasing data and certain references made public by reference stakeholders, such as rating agencies.



“SUPPLY CHAIN SUSTAINABILITY” TARGET

KPIs AND TARGETS IN THE STRATEGIC PLAN 2019-2023

KPI	TARGET		
	2019	2020	2021
ESG CRITERIA IN TENDERS			
Use of ESG criteria in “vegetation management” tenders > €1million (%)	100%	100%	100%
Use of ESG criteria in 50% of hardware procurement tenders	100%	100%	100%

Procurement portal

The initial encounter between Terna and suppliers (potential or otherwise) takes place on the “Procurement Portal”, a dedicated section of the website, www.terna.it, where it is possible to find information about calls for tenders, participate in online tenders and complete the qualification procedure in order to be included in the list of approved suppliers.

In 2018, approximately 1,670 requests for online assistance were received from suppliers, all of which were dealt with within the deadlines set out in the Company's procedures.

With a view to expanding the supplier base, the Procurement and Contracts department carries out scouting activities in the market, including meetings with potential Italian and overseas suppliers. In the case of suppliers who have already been contracted - above all those deemed to be of critical importance to the business²⁵ - Terna maintains direct contacts in order to manage and acquire greater knowledge of specific issues during the procurement process. In this regard, meetings are periodically organised with qualified companies or trade associations to notify them of any updates to requirements or key issues relating to the ethical conduct expected of them when doing business with Terna.

Qualification of suppliers

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The majority of the most relevant product groups for the core business are subject to a qualification procedure. This allows the qualified supplier to be included in the list of approved suppliers, having met the regulatory compliance requirements, in line with those set out in the Procurement Code, being in possession of the necessary high-quality technical and organisational expertise and bring financially sound.

In the sectors at greatest risk in terms of sustainability, an adequate level of environmental management and the ability to protect workers' health and safety are also required, both represented by corporate procedures focused on key elements of the international UNI EN ISO14001 and BS OHSAS 18001 standards. In particular, the obligation to obtain certification for “Vegetation management”, “Pylon painting” and “HV glass insulators” was introduced, with the aim of extending the obligation to all areas relating to works contracted out by 2020.



“SUPPLY CHAIN SUSTAINABILITY” TARGET

KPIs AND TARGETS IN THE STRATEGIC PLAN 2019-2023

KPI	TARGET					
	2018	2019	2020*	2021	2022	2023
SUPPLIER CERTIFICATIONS						
% of ISO 14001 and OHSAS 18001 certified suppliers in contract work areas	91%	91%	100%	100%	100%	100%

(*) Target brought forward to 2020.

As far as overseas suppliers are concerned, Terna assesses the country risk, namely the possibility of incurring damages if incidents or events occur that may be linked to the economic, social and political environment of the country in which the supplier normally operates. This risk is, for the time being, very limited, given the prevalence of domestic suppliers. However, it could become more significant in view of the expansion of procurement markets and, more generally, Terna's international growth strategy.

²⁵ These are suppliers whose contracts are of high value and who are not replaceable or who provide strategic supplies or works that are specific to the electricity system.

Objective elements are used in the analysis and assessment of the most relevant risk factors, which relate to economic and political governance issues in the various countries, and with respect to internationally agreed human rights protocols, including the ratification of UN and ILO conventions, together with the assessments made by the main international non-governmental organisations and the leading rating agencies actively concerned with these issues. As these assessments are regularly updated, they enable the Company to constantly monitor developments in the related environment. In addition to these assessments, restrictive measures are also issued by Italian and European authorities, entailing limitations on the free movement of goods (trade embargoes) or rules of conduct in the case of transactions with countries that have preferential tax treatment (tax havens).

Of the total number of qualified suppliers, 82% have or are acquiring BS OHSAS 18001:2007 safety certification, and 84% have or are acquiring ISO 14001:2004 environmental certification.

QUALIFIED COMPANIES

	2018
Number of eligible companies	414
- of which new companies eligible during the year	68
Companies required to have an Environmental and Safety management system	202

Supplier audits

During the three-year qualification period, Terna checks that suppliers meet the qualification requirements, including the various ESG aspects. In 2018, 1,214 document audits were carried out.

Terna conducts further checks based on the activities carried out by suppliers and the type of risks assessed as being prevalent in a given sector. These include:

- prior checks for applications regarding the award of consulting, professional and IT services contracts, and for awards to previously qualified suppliers;
- on-site checks of qualified/qualifying suppliers. In 2018, 67% of these checks focused on companies belonging to sectors that are relevant for ESG purposes.

AUDITS

	2018
Qualification checks	1,214
On-site qualification checks	37
- including relevant ESG sectors	25

If conduct no longer meets the requirements for qualification, the supplier may receive a warning or be temporarily suspended from the list; in the most serious cases, offenders will be struck off the list.

ACTION TAKEN FOLLOWING QUALIFICATION CHECKS

	2018	2017	2016
Suppliers struck off the list	0	0	0
Suspensions	2	0	6
Warnings	2	0	4

Since 2016, Terna has added a List of Suppliers to the Qualification Portal. This integrated environment enables records to be kept and information on selected suppliers in product groups that are not subject to qualification to be screened. This is done with a view to drawing up checklists to identify competitors in the procedures relating to the award of contracts for amounts below EU thresholds.

Equal opportunities in accessing calls for tenders

Access to tender procedures is guaranteed for all eligible companies in accordance with the principle of equal opportunity and is governed by the "Procurement Regulations". These Regulations, which have set guidelines for Terna's procurement activities, were drawn up on the basis of the Procurement Code, which in turn implements the relevant EU legislation.

CONTRACTED SUPPLIERS

	UNIT	2018	2017	2016
Number of contracted suppliers	n.	2,148	1,978	1,818
Contract award procedures adopted				
% of amounts awarded)				
EU calls for tender	%	75	66	61
Non-EU calls for tender	%	11	16	22
Previously qualified suppliers	%	12	12	14
One-off contracts ⁽¹⁾	%	2	7	3

⁽¹⁾ The "One-off contracts" category includes: sponsorship and donations, fees paid to public entities, trade bodies and contracts awarded to previously qualified suppliers by Terna Plus.

Finally, Terna is keen to reach a settlement in the event of litigation with suppliers.

DISPUTES WITH SUPPLIERS

	2018	2017	2016
Pending	29	23	22
In progress	6	4	0
Settled	0	3	2

Guaranteeing safety, the environment, and human rights at contractors' construction sites

The rise in the number of staff employed by contractors and subcontractors in 2018 is linked to the increase in the number of construction sites.

EU17 >

EMPLOYEES OF CONTRACTORS AND SUBCONTRACTORS *

	2018	2017	2016
Number of days worked	559,247	561,348	516,348
Full-time equivalents (FTEs)	2,542	2,552	2,347

* The figures take into account the duration of contracts and the variable nature of the related workforce and relate to the different types of contract awarded by Terna, ranging from major works to those for the cutting back of vegetation located under power lines. The number of days worked and FTEs are estimated on the basis of the average daily attendances at the largest sites and the value of the works contracted out at smaller sites. Further information about the types of contract used by contractors is not available. The figures for 2017 and 2016 differ from the data published in previous reports as the estimation criteria have been revised.

Given the substantial use of external labour at Terna's construction sites, works contracts are subject to stricter rules, not only in terms of qualification but also regarding management, with particular reference to occupational safety, the requirements of which are excluded from any lowest price concerns during the award process.

EU18 >

During the qualification process Terna requires evidence of documented procedures to protect workers' health and safety; for companies from sectors deemed most significant from an environmental and safety point of view, an in-depth analysis of management practices is required.

Terna requires additional certification from qualified contractors, specifically regarding:

- personnel's knowledge of Italian;

- adequate specific training for all overhead power line site workers on the use of personal protective gear, on the risks set out in the Safety and Coordination Plan (SCP) and in the Operational Safety Plan (OSP), and on the operating procedures and the environmental protection measures set out in the specific operating procedure, "Management of environmental aspects during plant construction", which is appended to each individual contract;
- attendance at training courses for certain specific roles (e.g. workers involved in the assembly and maintenance of overhead power lines, workers cutting back vegetation, site managers, foremen and safety officers);
- appointment of a Prevention and Protection Service Manager (PPSM), a construction-site safety representative, a crisis manager and a deputy, and an appointed doctor;
- a requirement that the contracts entered into with contractors include the need to keep records of any injuries occurring during the year.

The effective implementation of training is verified via the "Qualified Company Personnel" online platform. In order to minimise the risk of violations of human and labour rights to the detriment of contractors' employees, in addition to specific documentation on key contracts, Terna requires a copy of an insurance policy taken out to cover third-party liability and damage to persons and property, including assets owned by the contractor, for the entire duration of the works and for an amount commensurate with the nature of the works. A copy of the contractor's records of social security and pension contribution payments is also required.

From 2019, all works and supply contracts involving work onsite contain a requirement to provide the information needed to, on the one hand, closely monitor and assess injuries to contractors' personnel and, on the other, acquire the data necessary in order to compute contractors' injury rates.

Terna has drawn up a preventive safety and environmental protection monitoring system for construction sites, broken down into three levels:

- First level: as per current regulations, responsibility lies with the contractors and subcontractors operating at the construction site;
- Second level: Terna is responsible (primarily through the Engineering and Asset Management department) for monitoring, via spot checks, the work of the Construction Safety Manager and by contractors;
- Third level: Terna is responsible (through the Health, Safety and Environment department), for spot checks designed to monitor all aspects of project management and site inspections.

Regarding the environmental checks provided for in the second level, 13 construction sites were monitored in 2018 in connection with the following aspects:

- Site document management and record keeping;
- PPE, equipment and machinery;
- Waste management;
- Excavated soil and rocks;
- Site equipment storage management;
- Hazardous substances and accidental spills;
- Rainwater and supplies;
- Dust and sediment emissions;
- Noise;
- Site-specific characteristics and planning consent requirements.

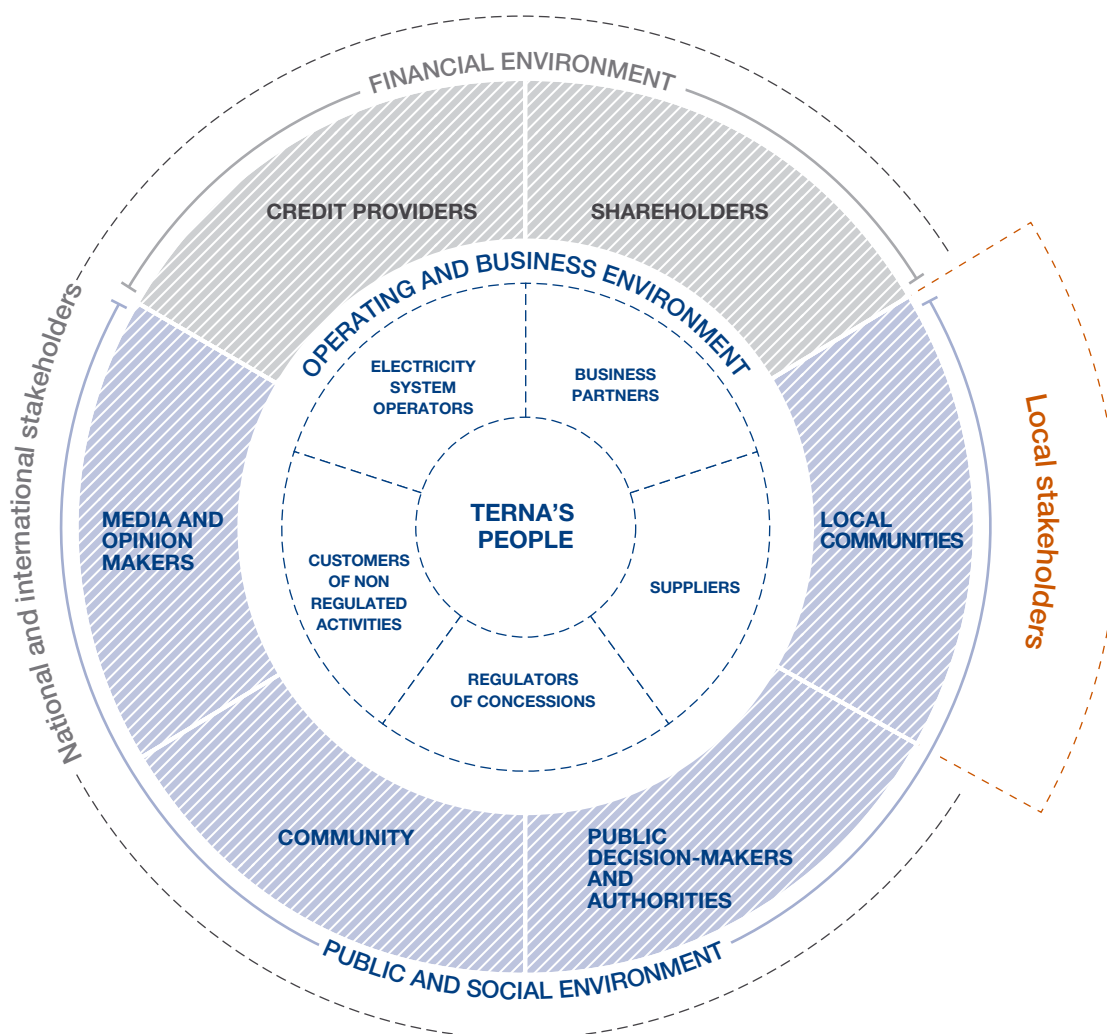
Monitoring did not reveal any significant areas for improvement

The third-level checks related to 11 construction sites for power lines and substations under the responsibility of contractors, selected on the basis of the duration of the works and the complexity of the activities to be carried out.

Finally, Terna, together with the leading Italian operators of networks and infrastructure, participates in the "Inter-company Health, Safety and Environment Round Table", with the aim of sharing experiences and regulatory interpretations in order to achieve continuous improvements with regard to health, safety and environmental issues.



Stakeholder engagement



Relations based on reciprocal trust between Terna and its stakeholders underpin the Group's relational capital and this is reflected in the values set out in the Code of Ethics.

The outcomes of an analysis of each stakeholder category, alongside indications of the best engagement techniques and tools to use and the ideal frequency of initiatives in order to successfully manage relations with the different categories, thus avoiding risk of failing to promptly identify any problems, have been incorporated into specific guidelines (the "Stakeholder engagement model").

The resulting stakeholder map takes into account the reference frameworks of the various categories (financial, public and social, operational and business), making a distinction between national and international stakeholders and local stakeholders affected by the presence of electricity infrastructure or construction projects.

Local stakeholders

In 2018, in line with the recommendations of the Strategic Plan, which focus on the challenge of the energy transition and the Company's enabling role within it, and with the resulting need for new electricity infrastructure investment, Terna further stepped up its already intense engagement with local stakeholders.

Engagement with these stakeholders - who are often critical of Terna's initiatives as they see their impact on their local area but not the systemic benefits they bring - is vital for the acceptance and implementation of infrastructure projects.

413-1 >

Local communities

This category includes various kinds of stakeholder who are affected by Terna's activities in their local area during all operational phases, from development through to network maintenance. It includes parties who are directly or indirectly affected, but also parties with the power to influence politics and decision-making and local opinion makers.

From the initial planning phase of grid development initiatives, Terna reaches out to local communities in the areas where they will be implemented, involving local authorities (regional and local authorities, park authorities, etc.). For several years, the Company has also reached out to citizens via public meetings called "Terna incontra".

During 2018, Terna held a total of 207 meetings with local authorities, involving around 118 bodies, which break down as follows:

MEETINGS WITH LOCAL AUTHORITIES - 2018

AREA	MEETINGS	BODIES
North-west	36	17
North-east	77	56
Centre-South Adriatic	44	38
Centre-South Tyrrhenian	50	7

Terna also held 17 "Terna incontra" events in eight Italian regions (Piedmont, Lombardy, Veneto, Tuscany, Sardinia, Campania, Apulia and Calabria). One meeting was held in Bisaccia (AV), Lacedonia (AV), Deliceto (FG), Avigliana (TO), San Vincenzo (LI), Suvereto (LI), Piombino (LI) and Codrongianos (SS), (two meetings) Santa Teresa di Gallura (OT), Troia (FG), Alberona (FG), Sorrento (NA), Naples, Vellezzo Bellini (PV), Cortale (CZ) and Auronzo di Cadore (BL). Finally, it should be noted that, since 2018, the "Terna incontra" sharing and listening approach has also been applied to engagement with authorities in connection with the Strategic Environmental Assessment (SEA) in Rome and L'Aquila.

During the “Terna incontra” meetings at Troia (FG), Alberona (FG), Sorrento (NA), Naples, Deliceto (FG), Avigliana (TO), Auronzo di Cadore (BL) and Lacedonia (AV), local residents who participated in the events were asked for their opinion via a questionnaire. Six areas were surveyed: familiarity with Terna, information on the project, eventual areas for improvement, usefulness of the meeting, the need for further information and a final opinion.

Overall, 78% of respondents said that they were familiar with Terna and 55% had taken part in the “Terna incontra” events because they had little information on Terna's investment plans, above all with regard to the environmental impact (16%), the visual impact (13%) and the reasons for the infrastructure (5%). The meetings were deemed useful by 36% of the participants, very useful by 42% and extremely useful by 10%. 61% of respondents changed their opinion, becoming more favourable to the project.

Effectiveness of “Terna incontra” meetings: survey for 2018

Terna voluntarily consults on the need for grid development with local authorities and listens to stakeholders' opinions in order to promote the best location for new projects, based on shared classification of land according to so-called “ERPA criteria”: (Exclusion, Repulsion, Problems and Attraction), and with the support of GIS (Geographic Information System) technology, which includes all information relating to different types of land use and the related protection constraints (regional, naturalistic, cultural, landscape, etc.).

During 2018, Terna stepped up its engagement at local level, with a view to raising awareness of the Company and its responsibilities, promoting an electricity culture and decarbonisation objectives, and initiating transparent engagement with all local stakeholders, opinion makers and influencers, in order to gauge their opinions and needs.

Precise and accurate mapping of all local stakeholders in the main areas affected by grid development projects (e.g. committee representatives, local authorities, universities and local associations) was carried out, as well as an assessment of their capacity to influence their respective communities and their perception of Terna and its initiatives.

Continuous listening to stakeholders has generated an overall improvement in engagement.

“LOCAL COMMUNITY ENGAGEMENT” TARGET

KPIs AND TARGETS IN THE STRATEGIC PLAN 2019-2023

KPI	TARGET	
	2018	2019
STAKEHOLDER ENGAGEMENT		
Stakeholders who changed their opinion after a meeting with the Company	15%	15%



(*) Changes in local stakeholders' opinions of Terna are measured on the basis of a summary indicator that shows the level of satisfaction with Terna, weighted to take into account the significance of the stakeholder.

Landowners affected by NTG development

EU22 >

The construction of new power lines involves the use of between approximately 30 and 250 square metres of land - usually agricultural - for each pylon.

413-2 >

Although Terna is legally authorised to use an expropriation procedure²⁶ to obtain the use of land, Terna prefers solutions based on mutual consent, involving payment of one-off compensation for easement on private property. Attempts to reach a consensual solution do not always succeed, making enforcement measures necessary.

POWER LINE EASEMENTS

LANDOWNERS AFFECTED BY THE CONSTRUCTION
OF NEW POWER LINES (NO)

AREA	2018	2017	2016
Total easements	1,644	1,817	7,857
- of which consensual	888	1,069	5,886
- of which enforced	756	748	1,971

When building a substation that occupies much more land, Terna usually purchases the necessary land.

During 2018, in line with the number of kilometres of line demolished as a result of upgrade initiatives, 287 plots of land were returned to their owners.

RETURN OF PLOTS OF LAND TO LEGITIMATE OWNERS

AREA	2018	2017	2016
Number of plots of land	287	115	0

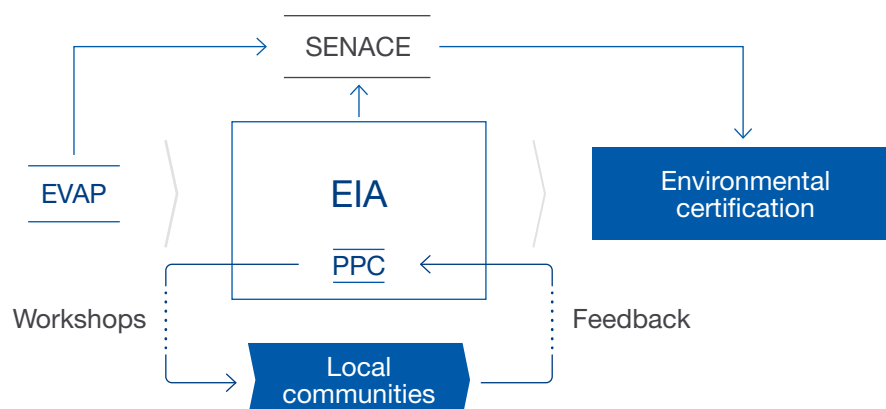
²⁶ Law 1775 of 1933; Presidential Decree 327/2001 "Consolidated Law on Expropriations".

Dialogue with local communities overseas

The authorisation process for the design and construction of the Aguaytía-Pucallpa 138 kV power line in Peru is similar to the Italian process, including intense stakeholder engagement from the Environmental Impact Assessment phase (EIA, *Estudio de Impacto Ambiental*).

The process consists of several phases (see diagram below). It begins with a preliminary environmental impact assessment (EVAP, *Evaluación Ambiental Preliminar*) and, after approval by SENACE²⁷ (a government agency reporting to the Peruvian Ministry of the Environment), continues with environmental assessment activities (EAA). These activities include a Citizen Participation Plan (PPC, *Plan de Participación Ciudadana*), comprising a series of workshops with the local people directly affected by the power line, during which the nature of the project, its main impacts (positive and negative) and management strategies are presented. During 2018, Terna held the workshops envisaged by the PPC. Any comments (feedback) made by local people are incorporated within the final assessment document.

Once the PPC has been completed and the final EIA document has been approved, the authorisation process concludes with the issue of environmental certification by SENACE.



The procedures for obtaining easements for the construction and operation of overhead power lines are similar to those in Italy.

Normally, Terna prefers solutions based on mutual consent, involving payment of one-off compensation, at market rates, for easement on private property. Only when it is not possible to reach an agreement is it necessary, as in Italy, to adopt enforcement measures (*imposición de servidumbre*).

POWER LINE EASEMENTS: AGUAYTÍA-PUCALLPA PROJECT IN PERU

LANDOWNERS AFFECTED BY THE 132 KM POWER LINE IN PERU (AGUAYTÍA-PUCALLPA PROJECT)	TOTAL PLANNED FOR PROJECT	TOTAL AT 15/02/2019
Total easements	504	76
of which consensual	N/A	76
of which enforced	N/A	0

²⁷ Servicio Nacional de Certificación Ambiental para las Inversiones Sostenibles.



Dialogue with local communities: the most difficult cases and shared solutions

Reaching a consensual solution entails lengthy and difficult mediation procedures. Outcomes are usually positive, but during the process local opposition may persist. In these cases, Terna is willing to examine the situation and seek alternative solutions - even ones that are technically more complex than those originally identified - provided that they are compatible with the general interest of maintaining the safety, efficiency and cost-effectiveness of the electricity service.

In 2018, such cases included:

Difficult cases

Italy - Switzerland interconnector

The consent process for the project began in 2012. Several committees were set up from the outset. In response, Terna scheduled various open meetings ("Terna incontra") with local residents, including, for example, those held in February and March 2017 in Val d'Ossola and Comignago. Over the years, Terna has made a series of voluntary additions to the project, in order to meet the demands of the local community and local authorities.

In 2017 and 2018, meetings continued with the Ministry of Cultural Heritage and Activities and the Piedmont and Lombardy regional authorities, aimed at reaching a solution with the broadest possible consensus. To this end, Terna requested and obtained a suspension of the consent process until May 2018. Following the services conferences held in July 2018 and the meetings promoted by the Prefectures of Verbania and Novara, in which the mayors of the municipalities involved took part, Terna announced its willingness to study further design solutions with a view to making technical and environmental improvements.

Restructuring of the 380 and 132 kV grid in the Lucca area

In January 2014, an authorisation procedure was launched regarding construction of a new electricity substation and a new line, and the demolition of other obsolete lines. Although the project was initially coordinated with the municipalities involved, they subsequently rejected it as a result of protests by local residents. Terna then prepared four alternative solutions and presented them to local residents (at a "Terna incontra" event held in January 2016 in Nozzano Castello LU). Dialogue with the authorities involved continued during 2016. In April 2017, Terna requested six-month suspension of the consent process in order to produce the documentation required by the EIA (Environmental Impact Assessment) Technical Committee. In April 2018, the Ministry of Cultural Heritage and Activities declared itself against, while the Environmental Impact Assessment Technical Committee declared itself in favour. Therefore, it is necessary to request the intervention of the Cabinet to overcome these disagreements between the ministries.

In 2011, the Ministry for Economic Development authorised works regarding the new 380 kV Dolo - Camin power line. In 2013, the Council of State annulled the environmental clearance granted by the Ministry of the Environment and of the Protection of Land and Sea in 2010 and the subsequent consent to construction and operation granted by decree in 2011, thereby suspending construction activities. In 2016, Terna re-submitted the authorisation application for the 380 kV Venice - Padua upgrade project, excluding the works already authorised, and the procedure was launched in January 2017. This immediately met with strong opposition from local councils, especially those of Dolo, Saonara and Vigonovo, all of which unanimously demanded an underground line, rather than the overhead solution envisaged. Terna looked at a new solution and on 21 January 2019 the Company signed a planning agreement with Veneto Regional Authority which, among other things, provides for the construction of a 380 kV underground power line between Dolo and Camin (see also page 91). In February 2019, work began on preparations for demolition of the section of the Villabona - Fusina 2 line that interferes with the area known as the Vallone Moranzani. By March 2019, the overhead Fusina 2 - Sacca Fisola line will be demolished, removing a total of 6.5 km of line and 24 pylons.

Upgrade of the 380 kV grid between Venice and Padua (Dolo - Camin 380 kV power line)

The authorisation procedure for this project began in 2011 and it is currently at the Environmental Impact Assessment (EIA) phase. Some municipalities, including Belluno and Soverzene, have opposed the identified route and, in response, Terna proposed a project alternative in August 2015.

Upgrade in the Mid Piave Valley

Dialogue with local authorities and local communities continued in 2016, thanks to the organisation of four meetings with local residents. Following differences of opinion between the Ministry of the Environment and of the Protection of Land and Sea, which was in favour, and the Ministry of Cultural Heritage and Activities and Tourism, which was not, the two ministries have continued to disagree. As a result, the issue was brought before the Italian Cabinet in order to find a solution. At a Cabinet meeting held in January 2018, ministers decided to give the go-ahead for the project. In March 2018, the environmental compatibility decree was issued, including some restrictions. This initiative is also part of the planning agreement entered into, on 21 January 2019, with Veneto Regional Authority, which, in response to requests from the local communities involved, provides for an underground section of line from Polpet station to the Piave river crossing (see also page 91).

These works were authorised in 2010 by Campania Regional Authority. Initially to be carried out by the company, ESSEBIESSE POWER, responsibility was subsequently transferred to Terna. In 2011, immediately after the works had begun, the municipality of Montesano sulla Marcellana ordered their suspension and initiated legal action. Since 2015, when the process of obtaining the necessary consents for the new substation (more compact than the previous one) designed by Terna began, the local committee has organised several demonstrations. In addition, questions have been put in Parliament and strong opposition has been manifested by the mayor of the town of Marcellana, Campania Regional Authority, private citizens and the mountain community, all of which have expressed their opposition, as well as comments and requests for supplementary information. All the alternative proposals presented by Terna were deemed unacceptable by the local authorities and residents. In 2018, in response to the requests from the local community, Terna announced that, together with the town of Montesano sulla Marcellana, it was willing to consider relocation of the substation.

Montesano sulla Marcellana electricity substation

This is the new Volpago substation project, presented in November 2017, regarding which meetings with the councils of Volpago and Scorzè were held in December 2017. A number of committees are already active in the region. They oppose the project because the areas affected by the works include the same municipalities that were involved in the "Cross-Veneto" project (see page 58 of the 2011 Sustainability Report), which they strongly opposed. Moreover, some municipalities are engaged in the construction of the "Pedemontana Veneta" expressway (especially Volpago del Montello, where the substation is located), a project that is having a major impact on an area already heavily involved in mining activities (quarries). For the time being, Terna has filed the project with the Ministry for Economic Development and is proceeding with formalities involved in beginning the consents process (see also page 91). This project is also included in the planning agreement between Terna and Veneto Regional Authority, signed on 21 January 2019. In addition, efforts have been made to coordinate the committees operating in the area with the aim of safeguarding the local environment and supporting plans to install underground cables.

380 kV Volpago substation



The “Cross-Lucana” project

Aimed at connecting plants for the production of renewable energy from wind power, these works have encountered political problems, due to the position taken by the three councils in the area: Oppido Lucano, Tolve and Avigliano (the latter has requested relocation of the substation, which Terna agreed to and presented a modification to the project). During 2018, the councils of Oppido Lucano and Tolve filed for injunctions suspending work and also requested demolition of two pylons (Oppido Lucano). The latter was then suspended by the Regional Administrative Court, which upheld Terna's request for interim relief. Finally, Terna has filed an appeal before Basilicata Regional Administrative Court, challenging the Regional Authority's failure to respond to its application for an extension of the planning consents authorising the power line.

Sa.Co.I. 3

The Sa.Co.I.3 project regards renewal and modernisation of the current HVDC electricity connection between Sardinia, Corsica and the Italian mainland, called Sa.Co.I.2, which has reached the end of its useful life. The initiative, which is classified as a Project of Common Interest (PCI), will strengthen the sharing capacity between the countries involved, ensure service continuity and also contribute to the development of the European electricity grid and therefore to the energy transition to more widespread use of renewable energy sources. In September and November 2018, Terna launched the public consultation process required by the regulations, organising six information days (“Terna Incontra” events) in Sardinia and Tuscany. In the municipality of Suvereto, where the new substation is planned, a “No SACOI3 Committee” has been set up and also has the support of some local politicians. Terna is committed to implementing the best technical and environmental solutions for the benefit of the new infrastructure's sustainability, participating in public meetings and technical roundtables in order to dialogue with local communities.

Shared solutions

This initiative was necessitated by the age and poor reliability of elements of the grid, resulting in a high level of downtime each year and the risk of electricity not being supplied to end users. Local residents have opposed the Fuorigrotta substation as the work will affect the urban environment near homes. In September 2018, two residents' committees were set up to oppose the works, which Terna responded to by organising various meetings with the parties concerned. In January 2019, an important partnership between Terna and E-Distribution took shape. This involves the use of existing infrastructure, thereby avoiding the need to build the new Fuorigrotta substation, with a significant benefit in terms of the optimal use of land and the reduced impact on the local area.

In January 2019, the long process of dialogue and consultation with local authorities and Veneto residents resulted in a planning agreement regarding extraordinary works relating to the security of the electricity system, development of the region and socio-economic recovery in the areas affected by the exceptional weather events of November 2018. The agreement was signed by the CEO of Terna, Luigi Ferraris, and the Governor of the Veneto Region, Luca Zaia.

The agreement provides for substantial investment in the implementation of vital works on the Veneto electricity grid, such as an upgrade between Venice and Padua via construction of the Dolo-Camin 380 kV underground power line; restructuring of the Mid Piave Valley electricity grid (new Polpet-Scorzé 220 kV line) with an underground cable from the new Polpet substation to the Piave river crossing; construction of the Volpago substation and an upgrade of the existing grid, including 26 km of new underground cable connections and the demolition of 51 km of overhead lines; and restructuring of the electricity grid in Alto Bellunese (Cortina - Auronzo di Cadore 150 kV line) which will be laid entirely underground.

Terna has also undertaken to renew the existing regional electricity grid in order to increase the energy transmission service's stability and security and the infrastructure's resilience in the face of exceptional weather events, through the installation of new devices to mitigate the risk of ice formation on lines, as well as predictive maintenance initiatives and asset management using the latest available technologies.

The agreement also provides for collaboration with Veneto Regional Authority and the Regional Forestry Authority to develop "green corridors", an innovative project regarding the creation of ecological corridors along the routes of existing power lines in wooded areas. This will involve the selective planting of native plant species with controlled regrowth. Finally, Terna has undertaken to open centres of technological excellence in the Veneto region and to enter into agreements with universities to promote studies and research regarding the construction of electricity infrastructure, including via theses and projects by students and PhD students, and to provide coworking opportunities.

[Restructuring of the 220 kV grid in the city of Naples](#)

[Agreement between Terna and Veneto Regional Authority regarding a plan to develop and renew the Veneto transmission grid](#)

National and international stakeholders

These include all the other stakeholders whose engagement with Terna is not determined by the presence of electricity infrastructure on their territory and who interact with Terna because they work there ("People", see the relevant section on page 144), have regulatory, supervisory and authorised power (competent authorities and ministries, see page 98), have an economic interest (shareholders, lenders, see page 30), operate in the electricity supply chain (see below), have commercial relations (suppliers, see page 76, are customers of Non-regulated Activities and business partners, see page 44) or play a mediating role between Terna and other stakeholders (media and opinion makers, see page 95). A specific case is communities, namely all the end users of the energy transmission service (see page 98).

Electricity system operators

Together with Terna, these stakeholders make up the electricity supply chain, operating as producers, distributors, wholesalers and consumers. They engage in multiple relations with Terna, which are highly regulated and characterised by reciprocal impact and influence. These stakeholders also have the potential to influence regulatory authorities and public decision makers.

The My Terna portals (a platform that manages the dispatching users with whom Terna has entered into a contract, supported by a dedicated call centre) and GAUDI¹, the management system for the Consolidated Power Generation Plant Register at national level, are also used to management relations with these stakeholders.

Consultation Committee

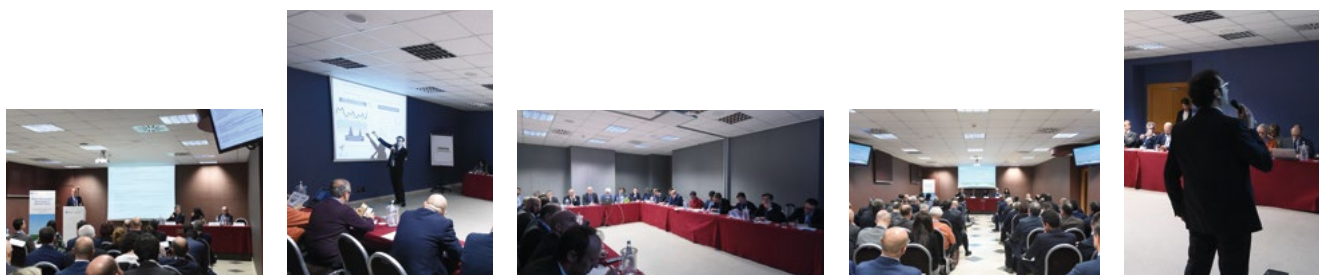
The Committee is a technical body, chaired by a Terna representative. It is the permanent forum for consultation with operators from the electricity sector, in which the various categories of user (distributors, producers from conventional and renewable sources, large industrial customers, wholesalers and consumers) are represented, and includes the participation of ARERA and MED as observers.

In 2018, the Committee was involved in the process of drawing up the 2018 Development Plan and the 2019 Development Plan. The Committee was also provided with a timely update on the progress of priority development projects.

Discussions with the Committee regarding the Development Plan are published on Terna's website²⁸. The Consultation Committee met twice in 2018.

With a view to sharing knowledge of the sector and promoting opportunities to listen to operators' requests, during 2018 Terna organised workshops to present projects and changes to the current regulatory framework.

²⁸ <http://www.terna.it/it-it/sistemaelettrico/pianodisviluppodellarete/consultazioni.aspx>



These included:

- a seminar on the capacity market;
- a workshop on the pilot project regarding participation in the Dispatching Services Market for the resources made available by the so-called UVAM (mixed production, consumption and storage units);
- a workshop on the start of the implementation process for the European Balancing Regulation and the integration projects relating to the intraday market (XBID project) and the balancing market (the TERRE project);
- a workshop on the 2018 Development Plan as part of the public consultation promoted by ARERA;
- a workshop on identification methodology for target capacities;
- a workshop with SNAM on the definition of future energy scenarios.

GAUDÌ portal

The GAUDÌ platform, which may be accessed by producers, distributors, dispatching users, authorities and Italy's Energy Services Company (GSE), was created by Terna²⁹ to manage the Consolidated Power Generation Plant Register at national level.

The Register records all the generation plants and the individual units that comprise them, of any size or source (conventional, renewable, cogeneration), including a total of approximately 840,000 units. It also enables monitoring of the status of each plant - from authorisation to connection, and the market qualification process - as well as all the changes to the plant and to commercial aspects that occur during a plant's operation.

In 2018, the platform implemented important changes to the Register in line with the market reform³⁰ and the revision of the zonal structure³¹. The algorithms for calculating the main fuel used by plants have also been updated in order to align the GAUDÌ platform with the Terna Transparency Platform.

The new developments were communicated to distributors during meetings organised in collaboration with the Italian Association of Electrotechnics, Electronics, Automation, Information Technology and Telecommunications (AEIT) and with Utilitalia - Association of Energy and Environmental Water Companies. In 2018, the Renewable Energy Sources portal was developed on the Terna website. In charts and tables, the dedicated section³² shows the stock of renewable plants by source, region, number and power capacity, updated on a monthly basis.

Business relations with electricity service operators

In providing the public electricity transmission and dispatching services operated by the Company under concession, Terna maintains business relations with various categories of operator, including:

- dispatching users (producers, wholesalers or end customers) with regard to the provision of dispatching services;
- distribution companies and other private grid operators in relation to transmission and aggregate metering, required with regard to regulate the dispatching service.
- Since 2017, Terna is also responsible for the settlement of amounts due to and from balancing service providers (BSPs) that provide services on the Dispatching Services Market (DSM), as part of pilot projects launched by Terna in accordance with ARERA resolution 300/2017.

²⁹ In implementation of ARERA Resolution ARG/elt 124/10.

³⁰ In implementation of Resolution 300/17 R/eel.

³¹ In implementation of Resolution 386/18/R/eel.

³² <https://www.terna.it/it-it/sistemaelettrico/fontirinnovabili.aspx>

As part of dispatching activities, Terna manages electricity flows through the National Transmission Grid (NTG) and guarantees that a balance is maintained at all times between demand for and the supply of electricity. To this end, as the sole counterparty, the Company procures the resources needed to meet requirements and to guarantee a reserve margin on the DSM.

In 2018, transactions in the DSM amounted to approximately €1.5 billion.

In addition, for dispatching services purposes, Terna checks the consistency between the final programmes of operators (producers and consumers) with the amounts that have actually been withdrawn from/input into the grid: any deviations represent so-called “imbalances”, the value of which entails invoicing the related energy imbalance prices to the individual parties responsible for the imbalance costs. This is done in order to cover the costs generated for the system as a result of their conduct.

Further categories of operator with whom Terna trades include applicants who have requested connection of their plants to the NTG (producers and consumers) and interruptible users, namely customers who are willing to have their electricity supply suspended. Terna signs contracts with these operators regarding the interruptibility service, which is required for the secure operation of the electricity system, and especially with the aim of mitigating the risk of widespread power outages. Participants in the interruptibility service numbered 243 in 2018, accounting for 4,214 MW of power. The related annual cost amounts to approximately €0.25 billion.

EU3 >

ELECTRICITY SECTOR OPERATORS IN RELATIONS WITH TERNA - NUMBER OF CUSTOMERS

CUSTOMERS	2018	2017	2016
Interruptible users	243	288	286
Distributors directly connected with the NTG	51*	27	25
Supply-side dispatching service users (producers and traders)	135	140	135
Demand-side dispatching service users (traders and end users, including the Single Buyer)	187	186	182

(*) In addition to licensed distribution companies, the figure includes operators of closed distribution systems for internal user networks directly connected to the NTG.

Relations with consumer associations

Relations between Terna and the consumer associations were stepped up in 2018, in order to ensure a comprehensive exchange of views on issues of common interest. This involves the mutual exchange of information aimed at facilitating joint assessment of activities relating to the security, reliability and continuity of the electricity service.

Dialogue continued with the aim of improving the location of development and upgrade projects, by examining planning aspects and environmental, landscape and social compatibility.

Periodic consultation with the associations that represent the interests of consumers and users has enabled discussion of issues of common interest, including:

- the evolution of the regulations regarding planning, approval and implementation of the National Transmission Grid Development Plan, authorisation procedures for work on the NTG, policies to encourage renewable energy sources and implementation of the current regulations;
- the benefits to consumers deriving from carrying out works to improve electricity infrastructure and upgrade the grid.

On the basis of the experience gained, a new memorandum of understanding is currently being discussed. In addition to already established activities, this provides for the setting up of a permanent consultation round table between Terna and the associations, comprising representatives of the various parties and tasked with:

- assessing and formulating possible joint actions to inform residents of areas involved in the implementation of projects envisaged in the Development Plan;
- identifying and developing shared research projects designed to implement best practices;
- collaborating in the execution of projects that implement shared consumer sustainability objectives and the related SDGs.

In line with its policies regarding stakeholder engagement and dissemination of a sustainability culture, Terna commissioned the Codacons Research Centre to undertake a critical reading of the 2017 Sustainability Report and summarise the contents that most closely relate to consumers' interests in a "Letter to consumers - Terna for the future". In June 2018, the Codacons Research Centre emailed this document to a specially selected cluster of 35,600 citizen-consumers potentially interested in environmental issues, social cohesion and administrative transparency.

The subsequent survey of the results showed that 10,233 citizen-consumers read the document, representing 28.7% of the cluster. This a positive outcome given the Terna's role as a B2B enterprise.

"Terna for the future":
the Letter to consumers
from the Codacons
Research Centre

Media and opinion makers

These stakeholders have a role as mediators between Terna and other stakeholders. This category includes national and international media outlets, national and international opinion leaders, web users, universities and other scientific and research organisations, study groups and national and international influencers, towards whom - with a view to achieving transparency and fostering a widespread electricity culture - Terna has always adopted an approach based on its willingness to share its often unique information content (see also page 96).

The media indirectly influence public opinion, regulatory authorities and public decision makers. They can have a direct impact on Terna's reputation or an indirect effect on its operating and business environment and on political decisions regarding energy.

All communication activities have been developed in such a way as to make coordination between the various departments and the integration of the various tools and activities even more effective, in order to obtain ever more widespread and consistent coverage across all media. The Group's communication generated coverage via the release of 5,114 significant items, partly thanks to the publication of 99 press releases (up 9% on 2017, as well as 210 local memos and position statements (up 29%). 439 significant articles were published in the national press (up 6%) and 727 in the local press (up 147%), while 3,230 articles were posted on leading websites (up 395%) and 718 items were broadcast on leading TV and radio channels (up 191%). 51 of Terna's senior executives (up 54%) and 81 managers were interviewed (up 285%). Overall, including traditional (newspapers, periodicals, radio and TV) and online media, Terna released a total of 20,053 items (up 3%). In terms of media relations, over 650 direct contacts were made with the editorial staff of national, local and international press, web-based and TV and radio outlets.

CONTENT GENERATION AND MEDIA COVERAGE

	2018	2017	2016
Press releases	99	91	116
Local memos	210	164	79
Published articles	5,114	1,626	522
Total items (traditional and web-based media)	20,053	19,481	17,000

WWW.TERNA.IT WEBSITE - WEBRANKING ITALY RANKING*

	2018	2017	2016
Ranking	4	5	10

* Compiled by Lundquist, in collaboration with the Swedish company Comprend, this is the most important survey for assessing the transparency of the digital channels of leading listed Italian companies.

Webranking Europe 500: Terna ranked fifth in the Top 10

With a score of 88 out of 100, Terna rose to fifth place in the Top 10 of Webranking Europe 500 by Comprend 2018, the leading survey for assessing the transparency of the digital channels of leading listed European companies. In 2017 Terna was in sixth place. For the second year running, Terna also ranked among the top five websites in the Top 10 in Italy, rising from fifth to fourth place, up 3.1 points (from 85 points in 2017 to 88.1 in 2018). This important result rewards the Company's digital communication performance regarding not just the financial sector but also sustainability and governance, areas in which Terna was ranked number one for the first time.

SOCIAL NETWORKS

	2018	2017	2016
Facebook			
Fans	13,153	9,209	7,238
Views	3,328,470	3,674,105	3,886,230
Interactions	46,090	42,870	41,981
Twitter			
Followers	4,500	3,838	3,020
Views	485,288	290,611	179,164
Interactions	8,992	4,930	1,205
LinkedIn			
Followers	61,490	31,990	25,400
Views	4,635,262	1,764,035	1,418,631
Interactions	108,136	18,925	12,881

Open Data projects: "Evolution of the electricity market" and "Birdwatching 24/7"

A wealth of searchable and "open" data in Excel format, available to all stakeholders, from electricity operators to birdwatchers. This is what unites Terna's two data sharing projects: the evolution of the electricity system: all the data and birdwatching 24/7.

The electricity system data project is undoubtedly Terna's most important native content asset, and anyone interested in understanding its evolution over the years now has a unique working tool available on the Terna.it website to share knowledge on such a fundamental issue as energy transition.

Terna has also been among the forerunners in the use of radar to monitor bird migration. For more than three years, bird movements across the Strait of Messina, a vital migration route between North Africa and Europe, have been monitored. The outcome is an invaluable collection of data regarding the migration of certain bird species, which Terna has made available to birdwatchers and the scientific community.

Relations with environmental organisations

Since 2009, Terna's commitment to further improve the environmental sustainability of the NTG has been implemented in concrete partnership agreements with the main environmental organisations.

The most significant include those with Legambiente, WWF and Greenpeace - which were signed or renewed in 2016 - who support Terna in the identification of grid development solutions in line with national and international environmental targets that are shared with local communities.

The importance of listening to qualified stakeholders is an increasingly central item on Terna's agenda, which is reflected in the desire to update grid development procedures, orienting them towards the inclusion of such stakeholders in the decision-making process.

Overcoming the problem of local communities not accepting electricity infrastructure works can, in many cases, make it easier to meet expected completion times and, consequently, to reap the benefits generated by Terna's electricity infrastructure in advance.

Meeting stakeholders' requests for comprehensive information regarding initiatives' objectives, and greater commitment to mitigation measures and project choices that can generate benefits for the environment, the landscape and communities, are the starting point for the activities of the Renewables Grid Initiative (RGI). This association, of which Terna is a member together with eight other European grid operators and eight non-governmental organisations focused on environmental issues, including Legambiente, has set up three working groups to: (1) foster dialogue with strategic stakeholders regarding the need for new electrical infrastructure in their local areas, (2) identify the most relevant environmental issues and define guidelines for sustainable design, and (3) develop new indicators relating to the benefits of new electricity infrastructure. Regarding the last point, Terna contributed to the definition of a methodology which, via two indicators, quantifies the economic value of the advance fruition of benefits by the electricity system and the adoption of design solutions or technological improvement options for local areas, such as laying cables underground, the use of pylons with lower visual impact and camouflage works.

[Acceptance of electricity infrastructure: Terna's commitment with the RGI](#)

Other stakeholders

Information regarding Terna's engagement with regulators of services operated under concession, public decision makers and other regulators is provided below.

Regulators of services operated under concession

These are the national and EU institutions and public bodies that by law are granted regulatory and supervisory powers over Terna, in its capacity as the operator of the electricity transmission grid and of dispatching activities.

While carrying out its activities and in full compliance with respective roles, Terna - in its capacity as an independent system operator - maintains transparent and collaborative relations with these bodies, both with regard to compliance with its obligations under the current legislative and regulatory framework, and in order to make a positive contribution towards development of the framework, playing a proactive role and providing technical support to national and European institutions. Collaboration with institutions specifically involves proposals for solutions that - on the basis of Terna's distinctive know-how - enable more effective pursuit of institutional objectives, such as market efficiency, promotion of the integration of renewable sources, integration of the national market within the European market, and the integrity and security of the Italian electricity system.

Terna also works with non-governmental organisations to ensure the systemic sustainability of the Development Plan's initiatives, paying ever greater attention to local areas and their enhancement.

Public decision makers and regulators

These public institutions are responsible for regulation, supervision and authorisation of a general nature, and in particular regarding the construction of infrastructure. They exert an influence over Terna and engage with the Company in the performance of their institutional roles.

Since 2016, Terna has been on the Transparency Register, established by the Ministry for Economic Development to guarantee transparency and the traceability of meetings with the Ministry's top officials.

In 2018, in addition to ordinary communication initiatives and institutional relations, on 19 September 2018 Terna attended a hearing before the Senate's Standing Industry Committee, in connection with item no. 59, regarding support for productive activities via the use of electricity generation, storage and self-consumption systems.

Community

The concept of the community covers current and future end users of the electricity service and the response to their expectations of the electricity service in keeping with the commitments given in the related concession arrangement.

Communication channels

The management of relations with key stakeholders presupposes the availability of dedicated communication channels to receive requests for information, suggestions, reports and complaints of various kinds.

The most accessible and user-friendly tool is e-mail, using dedicated addresses to deal with specific matters³³. This is publicised via the website, www.terna.it, and in the case of the e-mail address reserved for personnel, also via the intranet.

Via a set of questions, the "Contacts" section in the homepage menu guides visitors who wish to contact Terna. This page also contains certified e-mail addresses, for all communications that are subject to this requirement.

³³ For example: sostenibilita@terna.it - investor.relations@terna.it - azionisti.retail@terna.it - tufficio.stampa@terna.it

For electricity operators and suppliers, Terna has three separate company portals (GAUDI, MyTerna and the Procurement Portal), as well as a dedicated call centre, which may be reached via a toll-free number (800-999333).

From the website's homepage it is also possible to access Terna's social media profiles, which provide a growing opportunity for interaction with the Company. During 2018, the number of messages received in the Facebook page private mailbox folder (photos sent, support requests for CV submissions, reports and suggestions, requests for information and cooperation proposals) grew 23.8%, with a private response rate by Terna of over 83%. Overall, during the three-year period 2016-2018, the total number of messages received by private mail from the Facebook page has risen from 151 in 2016 to 208 in 2018, an increase of 37.7%. This growth was driven by the increase in the numbers of support requests for CV submissions (up from 41 in 2017 to 67 in 2018) and photos sent (up from 67 in 2017 to 91 in 2018).

In addition to these tools, dedicated reporting tools and mechanisms are available relating to ethical and environmental matters.

Community initiatives

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Terna's contribution to Italy's civic growth goes beyond its role as an infrastructure operator, as expressed through the Company's support for social, cultural and environmental initiatives.

Terna's corporate giving activities primarily consist of financial support for projects with social goals and - preferably - the Company's own organisation of initiatives to benefit the community. In addition, assets no longer of use in operations are donated free of charge, and Terna's employees provide support by spending their working hours on various initiatives, especially paid hours for voluntary work or hours spent on social projects organised directly by Terna, as was the case in 2018 with the second edition of the Next Energy programme. All external requests are managed in line with the Group's corporate giving policy and assessed by a special committee comprising the heads of Corporate Affairs, External Relations and Sustainability and Human Resources, Organisation and General Affairs.

In any event, in line with Terna's Code of Ethics, donations are never made to political parties or their representatives.

< 415-1

Terna is a member of the London Benchmarking Group (LBG) and has adopted its model - developing its own customised version - for the definition, classification and accounting of companies' charitable initiatives. The model is geared towards accounting for what companies do via initiatives that generate actual external benefits. Such initiatives may include cash contributions (donations, portions of sponsorships that generate an actual benefit and membership of associations that promote sustainability), in-kind contributions (the donation of assets at the end of their useful lives) or be in the form of working hours. In some cases, the valuation of contributions thus requires the use of non-accounting criteria and is therefore influenced by interpretative factors. Moreover, it has the advantage of consistently linking the costs and benefits of social initiatives, thus enabling strategic planning and effective management of the related activities.

Indeed, an important part of the model regards the measurement of benefits, with the aim of assessing the effective impact on the end beneficiaries. In the most important projects, Terna appoints specialist external providers to assess the impact. The community initiatives implemented by Terna in 2018, classified in accordance with the LBG model, are broken down in the following table.

COMMUNITY INITIATIVES

	2018	2017	2016
Total value of contributions (excluding internal operating costs)	1,956,323	1,817,996	1,189,259
By type of contribution			
- In cash	1,707,603	1,625,685	867,167
- In kind (the donation of assets)	1,700	28,031	43,140
- Working hours	247,020	164,280	278,952
By type of initiative (*)			
- Donations	110,200	330,000	241,917
- Investment in the community	1,303,314	931,433	519,042
- Commercial initiatives	542,808	556,562	428,300
By purpose			
- Education and youth	880,630	1,067,497	355,829
- Healthcare	23,000	62,900	0
- Economic development	105,300	84,580	107,267
- The environment	242,921	130,721	130,500
- Art and culture	418,575	226,740	432,300
- Social well-being	0	42,000	38,600
- Emergency aid	98,484	100,210	77,463
- Other	187,412	103,347	47,300

(*) **Donations:** sporadic contributions, typically in response to requests for funds from charitable organisations deemed to be of merit.

Investment in the community: expenditure on initiatives coordinated/organised by the Company in accordance with a medium- to long-term programme, often in partnership with non-profit organisations.

Commercial initiatives: marketing initiatives with beneficial effects (only the portion of expenditure that constitutes a charitable contribution is accounted for).

Terna's corporate giving policy gives preference to initiatives projects relating to SDGs 4 ("Quality education"), 7 ("Affordable and clean energy"), 9 ("Industry, innovation and infrastructure") and 11 ("Sustainable cities and communities").

In keeping with these guidelines, the most important topics are youth employment - in the form of education and training (see the box below on the "Trasmettere il Sapere" project) and by promoting innovation projects (see the box below on the NEXT ENERGY project). Work on the initiatives included in the partnership agreement with the LUISS University began in 2018. This programme aims to provide high-quality training to talented young students.

NEXT ENERGY, the Terna programme focusing on the young and innovation

In partnership with the Cariplo Foundation and in collaboration with the Cariplo Factory, Terna has launched NEXT ENERGY, a programme that brings together young people and innovation. The initiative has the dual aim of facilitating open innovation, in connection with Terna's growing need for innovation and the development of innovative projects, and increasing, again with regard to innovation within the context of the energy transition, opportunities for young, innovative entrepreneurs and talented new university graduates.

The second edition of NEXT ENERGY came to a conclusion in May 2018, with the announcement of Bettery as the winning project. This is a start-up that has developed a liquid battery that can be recharged in a very short time and offers specific energy with voltages that are higher than the best storage systems on the market. The second edition extended the "Call for Talents" to new university graduates in economics, mathematics, physics and statistics and introduced the "Call for Growth", aimed at finding mature start-ups ready to work with Terna (also see pages 141 and 152).

The third edition of NEXT ENERGY was launched in September 2018 and will come to an conclusion in May 2019.

"Trasmettere il sapere" ("Transmitting knowledge"), Terna's work experience scheme

Facilitating young people's transition from school to work via a constructive exchange with the world of companies and with their knowledge networks is the objective of the Good School legislation (Law 107/15). Terna has taken this as inspiration for its work experience scheme, carried out in collaboration with the ELIS Consortium.

The second edition of the scheme, which coincided with the 2017-2018 school year, involved 13 vocational training institutes (electrical engineering students) from all over Italy, with a total of more than 600 students.

Another topic, which is currently of minor importance, but has potential linked to the growth of the Group's International Activities, is access to energy (see the box below on the "Mato Grosso" project).

In 2018, spending on initiatives aligned with priority SDGs 4, 7, 9 and 11 accounted for 71.9% of Terna's expenditure on community initiatives.

For the purposes of full disclosure, it should also be noted that, in 2018, expenditure accounted for as donations and sponsorships amounted to €88,500 and €1,333,878, respectively.

Work is continuing on the activities provided for in the agreement signed in November 2016 between Terna, the parish of Chacas and the non-governmental organisation, Operation Mato Grosso, to build a 16.5 km, 60 kV power line in Peru. This will safely connect the local Huallin hydroelectric power plant (3 MW), thereby significantly increasing the availability of electricity, for the benefit of local community development projects.

During 2018, the working group comprising Terna technicians and volunteers from Operation Mato Grosso and the parish defined the route of the line and how it will be connected to the existing Pomabamba - Huari 60 kV line. The authorisation process, which Terna has helped to prepare by supporting the parish in drawing up of technical and design documents, will be completed by the end of the first quarter of 2019. Ahead of the construction phase, which will start in the second quarter of 2019 and will last approximately one year, a new agreement has been signed between Terna Plus - the Terna subsidiary responsible for Non-regulated Activities overseas - and the parish of Chacas regarding implementation of all the planned activities. The new agreement provides for the establishment of Terna Mato Grosso, a Peruvian newco which will be 99.9% owned by Terna Plus and 0.1% owned by Terna Chile, with the task of supervision, engineering and provision of goods and services for installation of the infrastructure, as well as substation components, including a Tamini transformer. The newco's staff will include people trained locally by Terna.

Operation Mato Grosso

Support for environmental causes has not been included in this table as it is usually linked to the construction of new lines and has therefore been classified under environmental expenditure (see "Environmental costs" on page 190).

Relations with European institutions

During 2018, Terna set up the Brussels Office, which has been operating since last July, to strengthen its links with European institutions and its position in Europe, both as a leading European stakeholder in the energy sector and as the operator of a transmission system that operates under a concession.

The aim is to establish ongoing dialogue with the European Parliament, the Commission and the Permanent Representation in order to take advantage of Terna's experience and expertise.

Being in Brussels also allows Terna to strengthen its presence in European and industry associations - especially ENTSO-E, the association of European TSOs - and to monitor its activities in a structured and coordinated way in order to ensure uniform and consistent participation and constant dialogue and discussion with other European TSOs on the important issues regarding the energy transition in progress.

Participation in European and international associations

A further opportunity for engagement and dialogue is provided by Terna's membership of the principal national and international trade associations.

European Associations

ENTSO-E

(European Network of Transmission System Operators for Energy)

ENTSO-E is the European Network of Transmission System Operators for Electricity which is involved in the process of integrating national electricity markets, coordinating the secure operation of interconnected electricity systems and developing electricity transmission grids, in implementation of the EU's Third Energy Package. ENTSO-E's main objectives are to: draw up European network codes, guarantee the coordinated development of the electricity grid at European level by drawing up the European Electricity Grid Development Plan (TYNDP) and the related benchmark scenarios, and draw up the Research, Development and Innovation Plan at European level. In particular, the TYNDP is the European Commission reference document for the identification of Projects of Common Interest (PCI) in implementation of Regulation (EU) no. 347/2013.

EASE

(European Association for Storage of Energy)

The European association that is responsible for promoting industrial research and development in the field of electricity storage system applications in Europe and around the world and the use of this technology for the transition to a stable, flexible, sustainable and cheaper continental energy system. In particular, EASE is working on the development of a European platform for sharing information in the field of energy storage.

RGI

(Renewables Grid Initiative)

An association consisting of nine European TSOs and eight environmental NGOs which aims to promote the integration of renewable energy sources through the development of electricity grids. In particular, RGI is committed to promoting strategic planning and participating in the construction of new power lines, via a meeting platform involving environmental NGOs and European TSOs. For details of activities in 2018 see page 97.

International Associations

CIGRE

(Conseil International des Grands Réseaux Electriques)

An international non-profit association that conducts research regarding high-voltage grids. It has 58 member countries, and Terna has been appointed as the Chair and Vice Chair of the Italian Committee.

GO15

(Reliable and Sustainable Power Grids)

An international association bringing together the 19 leading grid operators worldwide in order to share best practices in the management of electricity transmission grids. Terna chairs the "Reliability and security" group, which deals with the resilience of the electricity system.

Med-TSO

(Mediterranean Transmission System Operators)

This association brings together the TSOs from 19 Mediterranean countries, with the aim of promoting the standardisation of development plans and the coordinated management of grids. The association also works to facilitate the creation of a legislative and regulatory framework designed to drive the development of interconnection projects and promote the exchange of electricity between electricity systems in the Mediterranean area. Terna hosts the association's registered office and operational headquarters in Rome and appoints its Secretary General, as well as chairing the Technical Committee, which is responsible for planning the Mediterranean electricity grid.

<p>The association aims to promote renewable energy and energy efficiency projects in the northern and sub-Saharan Africa, enabling the development of projects in these areas to meet local energy needs.</p>	<p>RES4MED&AFRICA (Renewable Energy Solutions for the Mediterranean & Africa)</p>
<p>The Italian national committee of the WEC, an international organisation that brings together operators from over 90 countries, with the aim of promoting a sustainable energy system worldwide.</p>	<p>World Energy Council (Italian committee)</p>

During 2018, in addition to consolidating its presence in industry associations, Terna helped to organise World Energy Week in Milan, which was attended by the world's leading energy experts to discuss the current energy transition. On this occasion, Terna hosted a meeting of the CEOs of the 19 largest electricity system operators in the world belonging to the GO15 association, which focused on the importance of having increasingly resilient and sustainable electricity infrastructure as a key factor in the energy transition.

The Company also continued to participate in the activities of organisations with a broader thematic scope (such as Diplomacy, the Council on Foreign Relations, etc.) in order to monitor the socio-political and economic contexts in which to develop or consolidate its business, focusing its attention on Latin America and the Mediterranean basin. In Latin America, Terna has joined the regional body, CIER (Comision de Integracion Energetica Regional), participated in by energy companies and local authorities, which pursues the objective of regional energy integration through cooperation between its members.

At bilateral level, Terna has initiated a series of contacts with the senior managements of European and non-European system operators, with the aim of concluding cooperation agreements in areas of common interest, particularly with regard to technological innovation, grid development and electricity system operation.

Investigations, litigation and sanctions

Investigations by ARERA

The following measures were issued by the regulator in 2018:

Resolution 158/2018/E/eel - Initiation of an investigation into the availability of transport capacity between Italy and Greece, partly in view of the launch of market coupling on this border pursuant to Regulation 2015/1222 (CACM)

With this resolution, and also at the request of the Greek regulator and in coordination with the latter, the regulator initiated an investigation regarding the availability of transport capacity between Italy and Greece, in view of the expected extension of market coupling on this border from 2019. The purpose of the investigation is to acquire information and data to assess the availability of transport capacity between Italy and Greece, the reliability of the Italy-Greece HVDC interconnector and the actions undertaken by Terna to ensure resumption of service.

Prescriptive measures regarding non-diligent planning strategies in relation to the dispatching service

In 2018, the regulator completed the investigation regarding prescriptive measures referring to dispatching users who have been reported to the regulator for non-diligent planning strategies in the wholesale energy and dispatching services markets.

With reference to previous years, and on the basis of the information in the Company's possession, the following cases are still pending:

- Resolution 450/2013/E/eel of 11 October 2013 - Ruling on electricity price trends in the Sicily area, during the period of maintenance of the Sicily - Mainland interconnector - October 2013;
- Resolution 256/2014/E/com of 6 June 2014 - Launch of a fact-finding investigation regarding investment by regulated companies;
- Resolution 674/2017/ E/eel Urgent rulings regarding potential problems in the wholesale electricity market deriving from the preventive seizure of the Brindisi Cerano power plant. Formal notice to a market operator and initiation of a fact-finding investigation.

Litigation

The main commitments and risks not disclosed in the financial statements at and for the year ended 31 December 2018, relating to the Parent Company, Terna, its subsidiary, Terna Rete Italia S.p.A., and Tamini Group companies, are described below. There are no significant commitments or risks for the other subsidiaries at that date.

Environmental and urban planning litigation

Part of environmental litigation deriving from the construction and operation of Terna's power plants, consists of legal actions taken against the alleged negative effects of electric and magnetic fields generated by power lines.

In general, this litigation necessarily involves the Parent Company, which owns the infrastructure in question.

Moreover, it cannot be ruled out that the parties concerned may also initiate legal proceedings against the subsidiary, Terna Rete Italia S.p.A., as the electromagnetism generated by power lines relates not only to ownership of the plant, but also to its operation and the quantity and quality of electricity it transports.

Regarding this matter, it should be noted that the issue of the Cabinet Office Decree of 8 July 2003 - which specifically set the values of the three parameters (exposure limits, safety thresholds and quality targets) provided for in Framework Law 36 of 22 February 2001, which electricity infrastructure must comply with - led to a significant reduction in any such litigation.

Other environmental and urban planning disputes, which do not relate to electromagnetic fields, are also pending with regard to Terna S.p.A. These disputes are connected with the operation of certain Terna-owned plant, which in the event of an unfavourable outcome could also generate immediate effects for Terna Rete Italia S.p.A. (to date unforeseeable and therefore not included in "Provisions for litigation and sundry risks"), both as the entity appointed by Terna S.p.A. to build the related infrastructure and as the entity responsible for its operation. In particular, charges may arise for Terna Rete Italia S.p.A. connected with changes to the infrastructure involved in such disputes and its temporary unavailability. However, after examination of the disputes in question by Terna S.p.A. and external counsel appointed by the Company, it appears that the possibility of any negative outcomes is remote.

Litigation regarding the legitimacy of construction permits and plant operations

Another aspect of litigation connected with the plant owned by the Parent Company derives from legal actions brought before the competent administrative courts, aimed at obtaining the annulment of decisions granting consent for the construction and operation of infrastructure.

Litigation relating to activities carried out under concession

As the operator of transmission and dispatching activities since 1 November 2005, the Parent Company has been a party in a number of court cases, most of which have contested determinations adopted by ARERA (Italy's Regulatory Authority for Energy, Networks and the Environment), and/or the Ministry for Economic Development, and/or Terna, in relation to these activities. In cases in which the plaintiffs have, in addition to inherent defects in the contested determinations, alleged violation of the regulations laid down by the aforementioned authorities, or in cases in which the determination has had an impact on Terna, the Company has also taken action to defend its interests through the legal system. Within the scope of such litigation - even though some cases have been concluded, at first and/or second instance, with the annulment of ARERA's resolutions and, when applicable, of the consequent determinations adopted by Terna - any negative outcomes for the Company itself may be deemed unlikely, as these disputes normally relate to pass-through items.

Litigation regarding supply contracts

This litigation only refers to Tamini Group companies and relates to supply contracts entered into between Tamini Group companies and its customers, regarding the supply of transformers and/or the related components.

It also concerns certain claims for damages brought against companies, regarding alleged damage caused by machinery and/or components supplied by them.

With regard to these judgements, it is impossible to exclude, in absolute terms, any unfavourable outcomes. Where such outcomes are deemed likely, specific provision is made to the provisions for risks and charges.

Further details on the various categories of litigation are provided in the "Key indicator tables" on page 232.

