



Structure of the Report, reporting standards, materiality analysis and table linking with the requirements of the “Non-financial Statement”.



Methodological note

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Introduction

The 2019 Sustainability Report is Terna's fifteenth annual publication focusing on the Group's environmental, social and governance performance. As in the previous two editions, this Report also has an additional role as the Group's "Non-Financial Statement", thus meaning the non-financial disclosure requirements set forth in Legislative Degree, as amended.

Reporting is based on the GRI Sustainability Reporting Standards published in October 2016 by the GRI - Global Reporting Initiative, applied in accordance with the "core" option.

In addition to information that meets the "Non-Financial Statement" requirements, clearly identified in the table on pages 34-35, the Report also contains additional voluntary disclosures in line with a general principle of maximum transparency.

As in previous years, the report was approved by Terna S.p.A.'s Board of Directors and had undergone specific audit procedures.

The independent limited assurance report on the Non-Financial Statement, prepared by PricewaterhouseCoopers, is included on page 241.

The observation period is 2019 and all data refer to the year ended 31 December 2019. Significant events occurring up to 29 February 2020 are also included.

Finally, any changes to the data published in previous editions are suitably indicated in the document.

Structure of the Report

The 2019 Sustainability Report opens with the "Summary of the 2019 Report", summing up key content and highlights presented throughout the document, and concludes with the section entitled "15 years of sustainability", providing a review of Terna's milestones in that period of time.

In compliance with Non-Financial Statement requirements, the "Profile and Activities" section gives detailed information on the Group's organisational and ownership structure, its business model and activities, whilst the next section entitled "Responsible business management" focuses on the cornerstones underlying the Group's approach to sustainability.

The first part of the Report ends with a new section on "Stakeholder engagement".

The central section, "Electricity service and innovation", deals with the various aspects of Terna's core business - the transmission and dispatching of electricity - placing them within the context of the relevant SDGs, namely 7 ("Affordable and clean energy"), 9 ("Industry, innovation, and infrastructure") and 13 ("Climate action").

The Report continues with two sections on "People" and "Environment".

As usual, in order to aid the reader, information corresponding to specific GRI indicators is denoted by the respective abbreviation in the margins of the text in the relevant passages (an indicator's abbreviation is placed next to the paragraph heading if the entire text is deemed relevant).

The focus on Tamini, a subsidiary operating in sectors different from those in which the rest of the Terna Group operates, reports on the results of the materiality analysis carried out at the beginning of 2019, and on the most significant environmental and social data (page 228).

The Report concludes with the "GRI Content Index", followed by a table linking the GRI indicators with the ten Global Compact principles.

The following are also attached to the Report:

- the "Green Bond Report 2019", a document enabling Terna to comply with the commitment given, when issuing its green bonds in July 2018, January 2019 and April 2019, to report annually on the use made of the related proceeds and the environmental benefits resulting from the projects financed with those proceeds;
- a section that does not fall within the scope of the Non-Financial Statement, consisting of "Key indicator tables", which reproduce the published GRI Standards, supplemented with additional ones.

Scope and indicators

Data and disclosures in the 2019 Sustainability Report refer to the Terna Group, meaning the scope that includes Terna S.p.A. and the companies consolidated on a line-by-line basis in its consolidated financial statements for the year ended 31 December 2019.

Unless otherwise indicated, the following are excluded from the scope:

- Tamini Group companies;
- Avvenia;
- company data referring to subsidiaries operating overseas.

Specifically, data for the Tamini Group are not consistent with data for the Terna Group. Aggregation of the two sets of data would not fully represent the specific nature of Tamini itself and assessment of the performance of the rest of the Group would be influenced by elements that would not permit a clear and realistic reading of the data.

The Tamini Group's environmental and social indicators are useful in helping to understand its activities, performance, results and impact on the Group. They are therefore presented in a specific section on page 225, which also includes the outcomes of the materiality analysis carried out by the Tamini Group in 2018.

Data regarding Avvenia, a subsidiary acquired in 2018 and controlled by Terna Energy Solutions, in its turn a subsidiary of Terna, have not been consolidated (17 staff at 31 December 2019). Environmental impact analyses for Avvenia were completed in 2019 and the results were not material for reporting purposes.

Environmental data regarding subsidiaries operating overseas have been consolidated in a compatible manner based on the type of impact and management model. In contrast, it was deemed preferable to report data on social aspects (e.g. injuries, easements) separately, given the importance of the reference regulatory framework.

In accordance with the materiality principle, data presented in the Sustainability Report cover all companies having a significant impact on sustainability (e.g. in terms of size or personnel, potential impact on the environment and the community or the number of transactions/activities occurring during the year) and over which Terna directly or indirectly exercises control or has the power to govern their financial and operating policies. There are no joint ventures, other subsidiaries or leased assets that might significantly influence the scope or compatibility of the environmental or social data.

In 2019, information on the 306 electricity substations formerly owned by RFI (239 at the end of 2018) was included in the scope of environmental data. Only the substations that, by 31 December 2019, had been integrated into the Terna Group's scope of operations have been consolidated. The remaining 44 electricity substations formerly owned by RFI were operated under an O&M (Operation & Maintenance) contract entered into with the previous owner.

The data have been calculated on the basis of Terna's general accounts and other information systems; where estimates have been used in calculating the indicators, the method utilised has been described.

All the GRI indicators are listed below in the "GRI content index", in which eventual limitations with respect to the relevant requirements are noted (see page 235).

Materiality

Regarding the section on non-financial content to be disclosed, Legislative Decree 254/2016 provides for coverage of "environmental, social and personnel-related matters, respect for human rights and the fight against active and passive corruption, which are deemed relevant taking into account a company's activities and characteristics". Such matters should be reported "insofar as is necessary to ensure understanding of a company's activities, performance, results and impacts", thereby introducing a materiality criterion into the process of determining the topics to be reported and the extent to which they should be dealt with.

The Decree specifies that information should be provided "in accordance with the methods and principles laid down by the reporting standard used". Having decided to adopt the GRI Standards as a reference, Terna opted to follow the recommendations of the GRI 101 - Foundation standard, which contains the basic guiding principles regarding content definition and the quality of reporting. According to this standard, the "material" topics to be potentially included in reporting are those that reflect the significant impacts (positive and negative) of an organisation in the economic, environmental and social spheres, and which influence stakeholders' decisions.

The choice of topics on which this Report is based reflects the updated materiality analysis conducted in 2019. Specifically, said analysis sprang from a revision of the topic tree with respect to the 2016 version, which took account of strategic trends in recent years (e.g. constant reference to energy transition) and advancements in key corporate documents.

A comparison with the materiality categories used by the SASB (Sustainability Accounting Standards Board), including the metrics in the standard for the Electric utilities & Power generation sector, indicates the presence of the applicable SASB categories among Terna's topic tree, bearing in mind the particular nature of Terna's business (e.g. no relations with final consumers, no electricity generation).

In updating the "significance for Terna" aspect, a survey of the Company's managers was carried out (on two levels starting from the Group Parent's Chief Executive Officer). Participants were asked to assess the topics in the new topic tree.

This survey results were weighted against the assessments completed in 2018, aimed at evaluating the level of "active management" (existence of policies, procedures, objectives, monitoring activities, etc.) concerning each topic. The overall results were then validated by the Group's senior management.

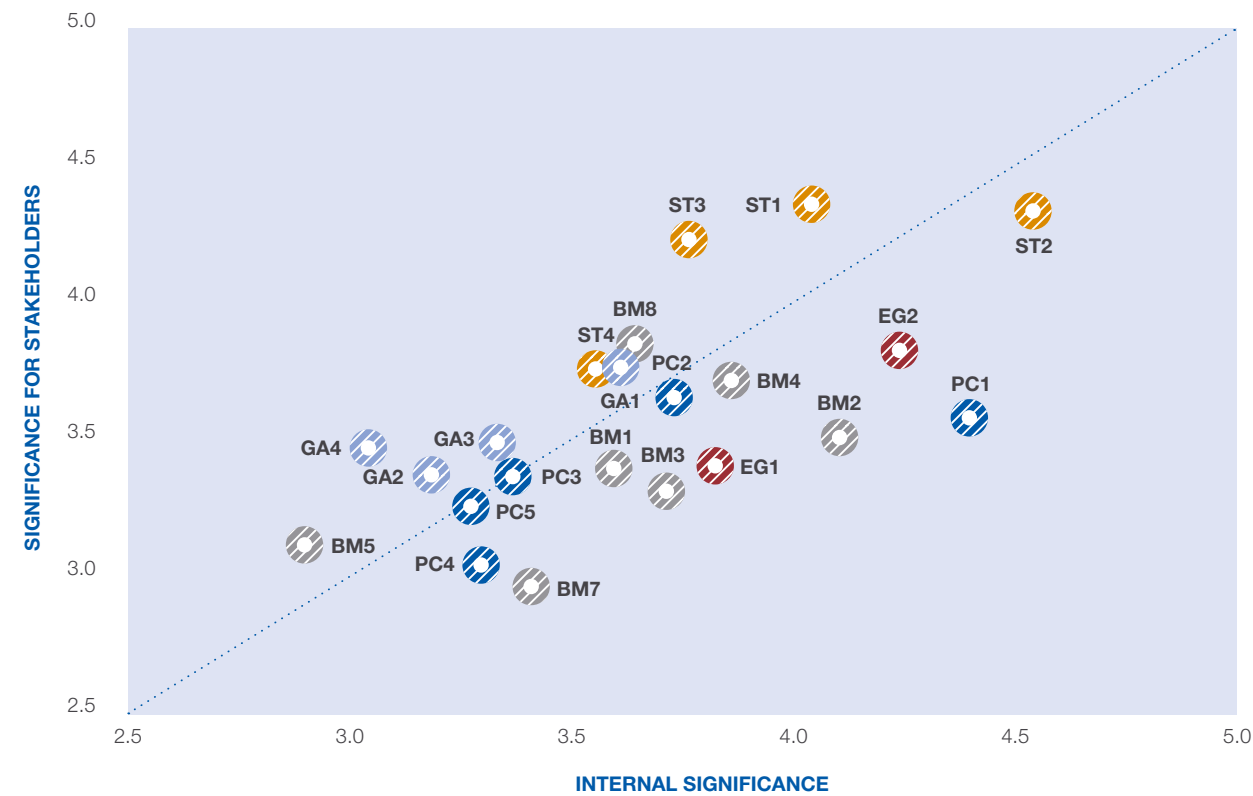
With regard to the "significance for stakeholders" aspect, the assessment was carried out via an external survey involving various subgroups of key stakeholders (institutional shareholders, distributors, national and local media, national and international opinion groups, non-regulated customers, core suppliers and representatives of local interest groups).

Moreover, numerous documentary sources revealing the perception of stakeholders not included in 2018 were examined, thereby enhancing and enriching the analyses completed in 2018:

- direct engagement, namely the outcomes of initiatives carried out directly by Terna and aimed at its stakeholders to understand their perception of significance with regard to topics (e.g. for staff, local communities, public decision-makers and authorities);
- general sources, namely standards, publications, position papers, stakeholders' assessment tools that reflect their perception of significance in relation to topics.

The score that summarises the significance of a topic for the majority of stakeholders was obtained by combining the assessments relating to each stakeholder category with the weighting of this category in terms of influence and mutual dependence in their relationship with the Group.

MATERIALITY MATRIX



- Ethics and Governance Model**
 - EG1: Governance model effectiveness
 - EG2: Business integrity
- Transmission service**
 - ST1: Delivering the energy transition
 - ST2: Ensuring the quality, security and continuity of the electricity service
 - ST3: Grid resilience
 - ST4: Economic impacts on the community
- Management of environmental impacts**
 - GA1: Mitigating the impact of infrastructure
 - GA2: Protecting biodiversity
 - GA3: Reducing the Group's CO₂ emissions
 - GA4: Reuse and recycling of materials
- Business Management**
 - BM1: Strategic approach to stakeholder management
 - BM2: Delivering on financial and performance goals
 - BM3: Information security
 - BM4: Optimal management of relations with local stakeholders
 - BM5: Growing and diversifying the business
 - BM7: Sustainable supply chain
 - BM8: Innovation and digitalisation
- Our people and the community**
 - PC1: Workplace health and safety and correct working practices
 - PC2: HR development
 - PC3: Promoting wellbeing within the workforce
 - PC4: Promoting diversity and equal opportunities
 - PC5: Social responsibility and positive impact on local areas

A summary of the Company's and stakeholders' points of view is expressed in the **Materiality Matrix**, which makes it possible to identify the "material" topics, namely those deemed most important by Terna and stakeholders. It also highlights any differences in viewpoints on topics between stakeholders and the Company.

In the matrix, the most significant topics are those furthest from the origin; the most important topics in absolute terms are the ones furthest from the origin and, at the same time, closer to the bisector.

Terna's Sustainability Report has always aimed to provide transparent and full disclosure. This same approach has also been adopted in this document, which serves to meet the requirements of Legislative Decree 254/2016. Nonetheless, given the emphasis placed by the standard on materiality, it should be pointed out that some of the topics shown in the matrix are not among those that are strictly necessary "to ensure understanding of a company's activities, performance results and impact".

This particularly regards the advancement of well-being in the Company, the protection of biodiversity, the reuse and recycling of materials and business development and diversity. These topics have been identified as falling below a minimum materiality threshold based on a distribution of values of overall relevance - provided by adding up the significance scores for stakeholders and Terna - and by the distribution of significance for Terna. These - like all significant topics - are also included in the Sustainability Report, but by virtue of the Company having opted for "voluntary disclosure" and not due to regulatory requirements of Legislative Decree 254/2016.

Risks and impacts

The significance of the various topics for Terna and its stakeholders is based on the impacts, both positive and negative, connected to them. In line with the requirement in Legislative Decree 254/2016 to explain "the main risks, generated or incurred, in connection with" the significant topics in terms of materiality, for each of the topics identified, the table below shows an example of the risk involved and the type of impact for Terna and for the specific categories of stakeholder affected. In the classification of impacts for Terna, the categories used in the Company's application of the Enterprise Risk Management model have been adopted, whilst the impacts for stakeholders are broken down into:

- Service quality
- Economic
- Health and safety
- Human rights
- Quality of life, wellbeing

TOPIC	EXAMPLE OF RISK MANIFESTATION	POTENTIAL IMPACT ON TERNA	STAKEHOLDERS POTENTIALLY IMPACTED	POTENTIAL IMPACT ON STAKEHOLDERS
Ensuring the quality, security and continuity of the electricity service	Increase in malfunctions, grid inadequacy	- Strategic/operational - Reputational - Economic/financial	Community	<i>Service quality, economic</i>
Delivery of the energy transition	Increased service disruption, grid inadequacy, growth in renewable energy production below expectations	- Strategic/operational - Reputational - Economic/financial	Community, electricity sector operators, public decision-makers and regulators	<i>Service quality, economic, decarbonisation targets</i>
Business integrity	Behaviours in breach of statutory requirements	- Compliance - Reputational - Economic/financial	Shareholders, other stakeholders who are damaged by Terna's conduct	<i>Shareholders: economic. Other stakeholders: human rights, health and safety, economic</i>
Grid resilience	Increased service disruption, grid inadequacy	- Strategic/operational - Reputational - Economic/financial	Community, local communities affected by the presence of Terna's infrastructure	<i>Quality and continuity of service, economic</i>
Workers' health and safety and workers' rights	Occupational injuries	- Reputational - Economic/financial - Compliance	Personnel, suppliers	<i>Health and safety, human rights</i>
Delivering on financial and performance goals	Economic and financial performance below expectations	- Strategic/operational - Economic/financial	Shareholders, lenders, suppliers, business partners, personnel, community	<i>Economic</i>
Optimal management of relations with local stakeholders	Tensions with local communities affected by grid development	- Reputational - Economic/financial - Strategic/operational	Local communities	<i>Quality of life, wellbeing</i>
Innovation and digitalisation	Insufficient innovation capacity for the energy transition and business growth	- Strategic/operational - Economic/financial in the medium-term - Reputational	Community, shareholders, suppliers	<i>Community: service quality. Shareholders and suppliers: economic in the medium-long-term</i>
HR development	Inadequate human capital	- Strategic/operational - Reputational - Economic/financial	Shareholders, personnel	<i>Personnel: quality of life, economic. Shareholders: economic</i>

TOPIC	EXAMPLE OF RISK MANIFESTATION	POTENTIAL IMPACT ON TERNA	STAKEHOLDERS POTENTIALLY IMPACTED	POTENTIAL IMPACT ON STAKEHOLDERS
Mitigation of impact of infrastructure	Insufficient consideration given to and containment of negative externalities (excluding CO ₂ emissions) resulting from Terna's operations	- Reputational	Local communities affected by the presence of Terna's infrastructure	<i>Quality of life, wellbeing</i>
Economic impact on the community	Increased cost of the service (caused by Terna)	- Reputational - Economic/financial in the medium-term - Strategic/operational	Community	<i>Economic</i>
Effectiveness of governance model	Below par governance	- Strategic/operational - Reputational	Shareholders, lenders, suppliers, business partners, personnel	<i>Economic (indirect)</i>
Information security	Increased disruption to services, loss of confidential data, breach of privacy of grid users, grid inadequacy	- Strategic/operational - Reputational - Economic/financial	Community, electricity sector operators, personnel	<i>Quality of service, economic, right to privacy</i>
Strategic approach to stakeholder management	Failure to consider stakeholders' expectations	- Reputational - Strategic/operational	All	<i>Quality of life, wellbeing</i>
Reduction in the Group's CO₂ emissions	Insufficient consideration given to and containment of greenhouse gas emissions resulting from Terna's operations	- Reputational	Community	<i>Quality of life, wellbeing</i>
Sustainable supply chain	Conduct of suppliers not in line with Terna's sustainability policies	- Reputational - Economic/financial	Suppliers	<i>Human rights, health and safety</i>
Advancement of diversity and equal opportunities	Unjustified differences in treatment linked to aspects of diversity; inadequate human capital	- Reputational - Economic (productivity)	Personnel, potential candidates for employment	<i>Human rights and economic</i>
Social responsibility initiatives	Terna's social responsibility unclear and poorly perceived	- Reputational	Community, personnel	<i>Quality of life, wellbeing. Personnel: sense of pride</i>

The following table links Legislative Decree 254/2016 (“Non-Financial Statement”) topics to the topics deemed to be material during Terna’s materiality analysis and by the adopted reporting standard. In line with the changes to said Decree introduced by Law 145/2018, the following table includes a new column showing exact references to how the Group manages the various risks generated or incurred.

LEGISLATIVE DECREE 254/2016 TOPIC	TERNA MATERIAL TOPIC	RISKS IDENTIFIED	POLICIES ADOPTED AND HOW THE RISKS GENERATED OR INCURRED ARE MANAGED	TOPIC SPECIFIC STANDARD	TOPIC SPECIFIC DISCLOSURE	NOTE
	Mitigation of impact of infrastructure	See materiality risks table (page 32)	<p>“Environment” section: Power lines and local communities (K_m of lines demolished, Power lines with reduced visual impact, Use of underground lines, Mitigation and natural engineering): page 198-202.</p> <p>Management and monitoring of electromagnetic fields: page 207.</p> <p>Reports and complaints regarding environmental concerns: page 207.</p> <p>“Transmission impacts” target - KPIs and targets in the Strategic Plan 2020-2024: page 199.</p> <p>Reports and complaints regarding environmental concerns: page 207.</p> <p>“Electricity service and innovation” section: State of progress in implementing previous Development Plans: pages 145-146.</p> <p>“Responsible business management” section: Compliance with legislation: page 83.</p>	304; 413	304-1; 413-2 EU13	
Environmental	Reduction of the Group’s CO ₂ emissions	See materiality risks table (page 33)	<p>“Environment” section: Direct and indirect CO₂ emissions (Containment of direct emissions: SF₆, leakage): pages 212-215.</p> <p>“Transmission impacts” target - KPIs and targets in the Strategic Plan 2020-2024: page 214.</p> <p>Consumption and cuts in emissions: energy efficiency (Energy management system, energy efficiency in substations and offices, vehicle fleet): pages 215-218.</p> <p>Other indirect CO₂ emissions (Grid losses): page 219.</p>	305; 201 302	305-1; 305-2 305-4; 201-2 302-1; 302-3	
	Delivery of the energy transition	See materiality risk table (page 32)	<p>“Electricity service and innovation” section: Investment and innovation for the SDGs: pages 140-141.</p> <p>Grid development (2020 Development Plan, Reduction of CO₂ emissions in the electricity system; State of progress in implementing previous Development Plans; Connecting new plants; Overseas interconnections; Private interconnectors pursuant to Law 99/2009): pages 142-151.</p> <p>“Profile and activities” section: Opportunities and risks connected with climate change: pages 64-67.</p>	201	201-2	

LEGISLATIVE DECREE 254/2016 TOPIC	TERNA MATERIAL TOPIC	RISKS IDENTIFIED	POLICIES ADOPTED AND HOW THE RISKS GENERATED OR INCURRED ARE MANAGED	TOPIC SPECIFIC STANDARD	TOPIC SPECIFIC DISCLOSURE	NOTE
	Quality, security and service continuity	See materiality risks table (page 32)	<p>“Profile and activities” section: Electricity transmission: pages 52-55.</p> <p>Dispatching of electricity: page 56.</p> <p>“Electricity service and innovation” section: Continuity and quality of service: pages 136-137.</p> <p>Grid development (2020 Development Plan, Reduction of CO₂ emissions in the electricity system; State of progress in implementing previous Development Plans; Connecting new plants; Overseas interconnections; Private interconnectors pursuant to Law 99/2009): pages 142-151.</p> <p>Asset management (Infrastructure maintenance; Renewal Plan; Security and resilience of the electricity system): pages 152-158.</p> <p>Innovation (Open Innovation; Terna Innovation Hubs; Factories; Innovation, research and development initiatives): pages 160-167.</p>	203	203-1; EU28 EU29	
Social	Optimal management of engagement with local stakeholders	See materiality risks tables (page 32)	<p>“Responsible business management” section: Sustainability objectives and targets: pages 77-78.</p> <p>“Stakeholder engagement” section: Dialogue with local communities (Local communities; The most difficult cases and shared solutions): pages 105-111.</p> <p>“Local community engagement” target - KPIs and targets in the Strategic Plan 2020-2024: page 107.</p> <p>“Environment” section: Power lines and local communities (Planning and consultation): pages 198-200.</p>	413	413-1; 413-2	
	Workers’ health and safety and correct working practices	See materiality risks tables (page 32)	<p>“Responsible business management” section: Respect for human rights: pages 90-91.</p> <p>“People” section: Protecting employees’ safety: pages 185-187.</p> <p>“Health and safety” target - KPIs and targets in the Strategic Plan 2020-2024: page 189.</p>	403	403-1; 403-2 403-4	
Pertaining to personnel	Development of human resources	See materiality risks table (page 32)	<p>“People” section: Development: page 181.</p> <p>“Application of performance evaluation” - KPIs and targets in the Strategic Plan 2020-2024: page 181.</p>	401; 404	401-1; 404-1 EU15	
	Advancement of diversity and equal opportunities	See materiality risks tables (page 33)	<p>“People” section: Diversity and equal opportunities: page 192.</p>	405	405-1; 405-2	
Respect for human rights	Sustainable supply chain	See materiality risks tables (page 33)	<p>“People” section: Safety, the environment and human rights at contractors’ construction sites: pages 190-191.</p> <p>Procurement and supplies: pages 92-94.</p> <p>“Sustainable supply chain” target - KPIs and targets in the Strategic Plan 2020-2024: page 94.</p>	406; 407 412; 414	406-1; 407-1 412-1; 414-1 414-2	
Fighting corruption	Business integrity	See materiality risks tables (page 32)	<p>“Responsible business management” section: Compliance, integrity and the prevention of corruption (Compliance with legislation; Prevention of corruption): pages 83-87.</p>	205; 206	205-1; 205-3 206-1	