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Sustainability is a growth lever that facilitates the achievement of strategic goals by carefully managing the environmental and social aspects of the business. >>

# 4

## Responsible business management



## In brief

A sustainable approach to business coincides with the knowledge that we not only have an obligation to our shareholders, but also to all our other stakeholders and the wider community.

This commitment cuts across all Terna's activities and has led to the adoption of management policies and systems designed to ensure that our businesses are managed in a responsible manner<sup>30</sup>.

Constant attention to these aspects (ESG - Environmental, Social, Governance), the conduct of audits and the definition of targets have resulted in performances that have been acknowledged by the leading sustainability rating agencies, who include Terna in the main stock exchange sustainability indices<sup>31</sup>.

This section deals with the main sustainability governance tools used by Terna and the related objectives and targets, divided into four areas: human resources; stakeholders and local communities; integrity, responsibility and transparency; and environment. These have then been taken into account in drawing up the Strategic Plan 2020-2024<sup>32</sup>. This section also provides information on the actions taken and the results achieved with regard to compliance, integrity and efforts to combat corruption<sup>33</sup>, respect for human rights<sup>34</sup> and management of the supply chain<sup>35</sup>.

### HIGHLIGHTS:

For the second year running, **Terna** has been named **Industry Leader** in the "Sector Utilities" of the **Dow Jones Sustainability Index**

**Terna** is included in the **BIT-Business Index on Transparency** published by **Transparency International Italy**

**94%** of suppliers that carry out contract work are **ISO 14001** and **OHSAS 18001** certified

<sup>30</sup> See the paragraph "Sustainability governance" on page 75.

<sup>31</sup> See the paragraph "Sustainability indices" on page 79.

<sup>32</sup> See the paragraph "Sustainability objectives and targets" on page 77.

<sup>33</sup> See the paragraph "Compliance, integrity and the prevention of corruption" on page 83.

<sup>34</sup> See the paragraph "Respect for human rights" on page 90.

<sup>35</sup> See the paragraph "Supply chain sustainability" on page 92.

## Sustainability governance

By adopting a sustainability approach to business, Terna is able to leverage the creation of value in the medium to long term, in line with the objectives of the Strategic Plan, and by monitoring environmental and social risks associated with the Group's activities, it helps the business to grow.

Terna's sustainability topics 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 topics 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" unit

This unit, 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 unit monitors the risks relating to sustainability topics through analysis by the leading rating agencies (for example, SAM, Vigeo Eiris), which periodically assess the Group's ESG performance.

In 2019, Terna's presence was confirmed in all the leading international sustainability indices (details provided on page 79).

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## Integrated Management System

The Integrated Management System is the tool that - via certified management systems - optimises coordination of all the departments responsible for governing business processes. It is also an important risk management tool because it ensures the effectiveness and efficiency of systems and highlights potential risks in the areas under observation.

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., Terna Energy Solutions S.r.l. and Terna Crna Gora d.o.o. It does not include Tamini Group companies, which have their own quality, environmental and safety certifications, and the companies operating in South America.

In 2019, the Terna Group obtained certification of its Occupational Health and Safety Management System in accordance with the new ISO 45001:2018 standard, ahead of the deadline scheduled for 2021<sup>36</sup>.

In addition to maintaining the two accreditations and eight certifications previously obtained for nine Management Systems, the Terna Group has extended the scope of ISO 14001:2015, BS OHSAS 18001:2007, ISO 45001:2018, ISO 50001:2011 and ISO 37001:2016 certification to include Terna Energy Solutions S.r.l..

### TERNA GROUP CERTIFICATIONS AND ACCREDITATIONS

TYPE	SCOPE	YEAR OF 1ST ISSUE	YEAR OF RELEASE	YEAR OF EXPIRY
ISO 9001:2015	Terna Group (*) (**)	2001	2019	2022
ISO 14001:2015	Terna Group (*)	2007	2019	2022
BS OHSAS 18001:2007	Terna Group (*)	2007	2019	2022
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 (MI), Valdagno (VI) and Ospitaletto (BS)	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 S.p.A. for multi-site test laboratories in Viverone (BI), Civitavecchia (RM) and Frattamaggiore (NA)	2014	2017	2022
ISO/IEC 17025:2005	Terna Rete Italia S.p.A. for calibration laboratories in Florence, Turin and Cagliari	2017	2017	2021
ISO 37001:2016	Terna Group (*)	2017	2019	2022
ISO 45001:2018	Terna Group (*) (**)	2019	2019	2022

(\*) 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 S.p.A. 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").

<sup>36</sup> This certification will coexist with BS OHSAS18001 due to the exemptions it provides with respect to art. 30 of Legislative Decree 81/08.

## Sustainability objectives and targets

During 2019, the state of progress of the 120 sustainability initiatives included in the Strategic Plan 2019-2023 was monitored.



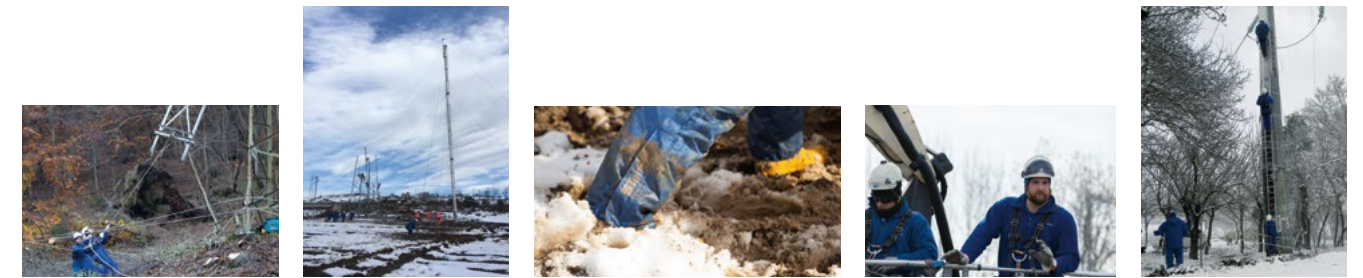
The results relating to the 2019 targets included in the Strategic Plan 2019-2023 are shown in the table below.

### TARGETS AND RESULTS 2019

PILLAR	KPI	2019	
		TARGET	RESULT
HUMAN RESOURCES	Zero fatal accidents (Terna staff)	0	0
	Safety indicator*	≤ 1	1.17
	Infrastructure Unit personnel involved in the "Zero Accident" Training Plan (%) - From 2019	50%	87%
	Number of people trained in digital skills (cumulative)	450	882
STAKEHOLDERS AND LOCAL COMMUNITIES	Staff with performance evaluation (%)	70%	75%
	Change in the level of local stakeholders' satisfaction (%)	+15%	+17.9%
INTEGRITY, RESPONSIBILITY AND TRANSPARENCY	ISO 14001 and OHSAS 18001 certified suppliers in contract work areas (%)	91%	94%
	Km of overhead lines removed/year	125	179
ENVIRONMENT	Km of new underground and submarine lines	46	144
	SF <sub>6</sub> leakage rate (%)	0.47	0.40

\* The Safety Indicator is the ratio between the weighted injury rate (weighting: 30%) and lost day rate (weighting: 70%) for the target year and that for previous three-year period.

During the last quarter of 2019, the sustainability objectives were updated for the strategic timeframe 2020-2024, whilst maintaining, in line with the previous edition, the approach based on four areas: Human resources; Stakeholders and local communities; Integrity, responsibility and transparency; and Environment. They have been broken down into 14 objectives.



**SUSTAINABILITY OBJECTIVES IN THE STRATEGIC PLAN 2020-2024**

**HUMAN RESOURCES**

- 1. Health and safety
- 2. Skills development
- 3. People for Performance
- 4. Welfare and work-life balance

**STAKEHOLDERS AND LOCAL COMMUNITIES**

- 5. Local community engagement
- 6. Systematic stakeholder engagement
- 7. Social responsibility initiatives

**INTEGRITY, RESPONSIBILITY AND TRANSPARENCY**

- 8. Measurement of the impacts
- 9. Sustainable supply chain
- 10. Sustainability culture
- 11. Codes of conduct and sustainability culture

**ENVIRONMENT**

- 12. Transmission impacts
- 13. Reduction in CO<sub>2</sub> emissions
- 14. Environmental footprint

[Priority goal]

The main objectives for the period 2020-2024 and for 2020 are set out in the sections on “Responsible business management” (page 73), “Stakeholder engagement” (page 101), “People” (page 169) and “Environment” (page 195), which also show the results achieved in 2019 measured against previous objectives.

Finally, it should be noted that Terna’s ranking in the sectoral classification drawn up by SAM for the Dow Jones Sustainability Index, which comprises a brief external assessment of the Group’s sustainability performance, has constituted a target included in the Long-Term Incentive (LTI) plan for the Chief Executive Officer and other Group managers (see the “Remuneration Report”) since 2016.

**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.

**Terna’s inclusion in sustainability indices (at 31 december 2019)**

**Bloomberg Gender Equality Index**

DATE OF FIRST INCLUSION

An international index that measures companies’ performance regarding gender equality issues and the quality and transparency of their public reporting.

2019

**Dow Jones Sustainability Index**

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 Swiss agency, SAM.

2009

**ECPI**

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.

2007

**Ethibel Sustainability Index-ESI**

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.

2009

**Euronext Vigeo**

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.

2012

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	<b>FTSE ECPI</b>
2010	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.
	<b>FTSE4Good</b>
2005	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.
	<b>MSCI Global Sustainability</b>
2007	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.
	<b>STOXX® ESG</b>
2011	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.
	<b>STOXX® Low Carbon</b>
2016	Launched in February 2016, the STOXX® Low Carbon Indices aim to provide a selection of companies with low CO <sub>2</sub> 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.
	<b>United Nations Global Compact - "GC100"</b>
2013	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.

In September, on the occasion of the annual review conducted by the Swiss sustainability rating agency SAM, Terna's presence in the Dow Jones Sustainability Index (World and Europe) was confirmed and, for the second consecutive year, the Company was named **Industry Leader in the Electric Utilities sector**.

In January 2020, 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 SAM's "Sustainability Yearbook 2020", a leading international publication focusing on corporate sustainability issues and performance.

Based on assessments carried out by SAM, which each year decides on inclusion in the Dow Jones Sustainability Index, Terna was, for the second consecutive year, ranked number one in the world ("Industry Leader") in the Electric Utilities sector for its sustainability performance. Confirmed for the 11<sup>th</sup> consecutive year in the index, Terna achieved an overall score of 90/100 (sector average: 45/100), ranking ahead of all the 77 companies assessed in the Electric Utilities sector.

The first place was confirmed by 9 of the 24 assessment criteria applicable to the Company. Terna came first in the economic criteria for Materiality, Code of Business Conduct, and Innovation Management and Privacy Protection (new criterion included this year; in the environmental criteria for Environmental Reporting, Biodiversity, and Transmission and Distribution; and in the social criteria for Social Reporting, Corporate Citizenship and Philanthropy.

In the last five years, no company in the sector has ever ranked first for two consecutive years.

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

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 has confirmed its strong commitment to pursuing a model aimed at consolidating sustainability as a strategic lever for the creation of value for all its stakeholders.

After the first transaction in September 2018 (see page 64 of the Sustainability Report for 2018), Terna took out a second line of credit (ESG linked back-up Revolving Credit Facility), totalling €1.5 billion, with a pool of banks consisting of Banca IMI, BNP Paribas and UniCredit as Bookrunner and Joint Mandated Lead Arranger, and Santander and SMBC as Joint Mandated Lead Arranger. BNP Paribas worked in partnership with Terna in the role of Sustainability Coordinator.

At the same time, the Company cancelled two back-up lines of credit totalling €1.3 billion, falling due on 18 December 2020 and 26 July 2021.

With this new 5-year revolving credit facility, Terna is strengthening the integration of sustainability objectives into the Company's business strategy via an incentive-based mechanism linked to the achievement of specific environmental, social and governance objectives. The amount available will be used for ordinary corporate requirements. The interest rate is indexed to EURIBOR, plus an initial margin of 0.65% (ranging between a minimum of 0.60% and a maximum of 1.45% depending on Terna's ESG results).

Terna takes out a second line of credit linked to sustainability indices



## 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.

### *Anima per il sociale nei valori dell'impresa*

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.

### CSR Manager Network

A key association for professionals who deal with sustainability and corporate social responsibility issues, including company managers, consultants and researchers.

### Sustainable Development 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 has been a member of the organisation since 2011.

### GEO - The Green Economy Observatory

The Observatory set up by IEFÉ - 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.

### Global Compact

Terna's membership of the Global Compact involves a presence at both international and local level. Terna has had a place on the Italian network's Steering Committee since 2011 and is a founding member of the Global Compact Network Italy, which was established in 2013.

### Kyoto Club

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.

### Transparency International Italy

The Italian branch of the international organisation whose aim is to combat corruption (also see page 84).

# Compliance, integrity and 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.

## Compliance with legislation

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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 2019 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).
- In particular, the accounting records for 2019 do not reveal any pecuniary sanctions of an administrative nature, fines or penalties in excess of €10,000 relating to environmental matters. With reference to the previous two-year period, it should be noted that in 2018 Terna Rete Italia S.p.A. registered a payment of €12,091. This amount is connected with the penalty issued by the Municipality of Pegognaga (MN) for violation of the municipal regulations regarding the protection of urban and suburban green spaces.
- 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 2019 or in the previous two-year period.
- There were no pending criminal proceedings for injuries caused to third parties by any of Terna's assets. There were 2 accidents in 2019 (6 in 2018 and 11 in 2017).
- 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 2019 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.

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## Prevention of corruption

The values underpinning Terna's fight against corruption are contained in the Code of Ethics and the tenth principle<sup>37</sup> of the Global Compact.

In 2019, 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.

Terna listed in the Business Index on Transparency (BIT) of Transparency International Italy

Terna has been included in the Business Index on Transparency (BIT), the index promoted by Transparency International Italy, which assesses the level of transparency of Italy's largest companies regarding issues relating to anti-corruption, integrity and the influence of the private sector on politics.

Transparency International Italy examined 100 large Italian companies and carried out an assessment in descending order from "A" to "E" regarding the Financing of Politics, Lobbying and Revolving Door categories.

The award highlights the attention Terna pays to this issue and confirms the Company's due commitment to sustainability and to maintaining ISO 37001 (anti-corruption management system) certification.

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 535 construction sites, 283 projects, 866 contracts and 628 suppliers (201 contractors and 427 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, 33% of business processes were subject to Risk Assessment in 2019; the cumulative figure for 2018/2019 is more than 57%.

<sup>37</sup> "Businesses should work against corruption in all its forms, including extortion and bribery."

In November 2017, the Board of Directors approved the Global Compliance Programme<sup>38</sup> 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.

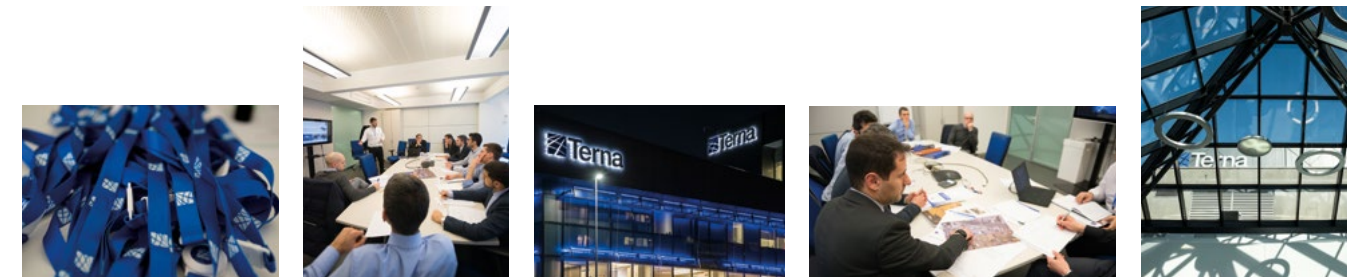
Overall, the Terna Group has adopted three approaches to preventing corruption: its 231 Organisational Model, Fraud Management and Awareness-raising.

In 2016, Terna adopted a Whistleblowing Policy<sup>39</sup> 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", which may be used by all Group companies, and also enables management of anonymous reports and/or reports received from other offline channels.

<sup>38</sup> The Global Compliance Program 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. The GCP was last updated in December 2019, in order to enable the introduction of more monitoring tools at overseas subsidiaries.

<sup>39</sup> The policy was subsequently updated, in line with the provisions of Law 179 of 30 November 2017.



## 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: 29 January 2019) breaks down into 11 sections, 1 general and 10 special sections, 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](http://www.terna.it), or the email address [OdV\\_Terna@terna.it](mailto:OdV_Terna@terna.it), or by ordinary mail.

Training initiatives continued in 2019, 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 2019, three infringements of the 231 Model 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.

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## 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.

In 2019, the long-term Training Plan regarding matters relating to the 231 Organisational Model and efforts to combat corruption, which involved 461 staff (equal to 12% of the total workforce), was completed.

## Clarifications regarding the Code of Ethics and the reporting of violations

With regard to compliance with the Code of Ethics, in addition to the Whistleblowing portal, Terna staff who seek clarifications or wish to report an issue may also contact the Ethics Committee or the Audit department.

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 consists 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 265).

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# 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 (see page 64).

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 the definition of risk analysis, management and monitoring policies, and in the effective coordination of the actors involved in the IARMS, in order to maximize its efficiency and reduce duplication of activities. The CRO reports periodically to the Committee on risk management in the Company.

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 68 of the Integrated Report for 2019.

## Data protection compliance

In 2019, Terna drew up and implemented a structured plan of action, in line with the Company's Privacy Management Model and with the Terna Group's Privacy Regulation Guidelines, in order to ensure compliance with personal data protection legislation, (e.g. European Regulation 679/2016 - GDPR<sup>40</sup>, and Legislative Decree 101 of 2018 "Privacy Code").

The main activities carried out by the Data Protection and Privacy department in 2019 include:

- the appointment of external data processors;
- the preparation and update of information on personal data processing;
- the preparation and update of the register of the processing activities carried out in each of the departments within the Terna Group's organisation, via interviews with the Privacy Focal Points, internal personnel who support Terna's Data Protection and Privacy department in meeting the requirements of the GDPR;
- the handling of applications received from individuals who have exercised their right to be forgotten;
- the preparation of joint ownership agreements between Terna S.p.A., Terna Rete Italia S.p.A., Terna Energy Solutions S.r.l. and Terna Plus S.r.l.;
- the launch of assessments of external data transfers to non-EU countries;
- the assessment of video surveillance activities, including fulfilment of the necessary obligations in order to ensure compliance with personal data protection legislation;
- the preparation and update of Guidelines, Operating Instructions and other components of the documentation framework regarding personal data protection and the confidentiality of documents (e.g. the Operating Instructions regarding system administrators, etc.).

In May 2019, Terna appointed a new Data Protection Officer, chosen on the basis of their professional qualities - in particular, specialist knowledge of data protection regulations and practices - and notified the Data Protection Authority of the appointment.

<sup>40</sup> The EU General Data Protection Regulation 2016/679, better known as GDPR, is a European Union regulation regarding the processing of personal data and privacy. It was adopted on 27 April 2016, published in the EU Official Gazette on 4 May 2016, came into force on 24 May of the same year and has been in operation since 25 May 2018.

# 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. Despite this, Terna pays constant attention to respect for human rights<sup>41</sup>.

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412-1 >

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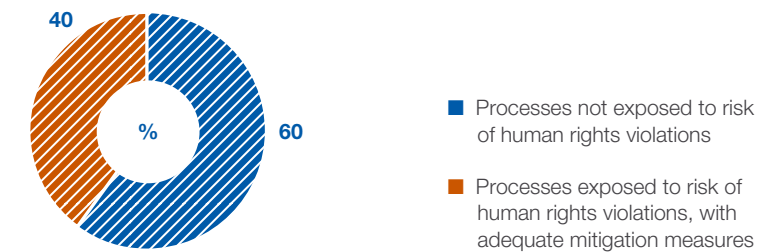
In April 2017, Terna adopted guidelines entitled "Respect for human rights within the Terna Group" in order to implement the recommendations of the guidelines on business and human rights set out in the aforementioned UN Guiding Principles. The guidelines provide for a periodic due diligence process 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.

<sup>41</sup> 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 14<sup>th</sup> 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 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 departments responsible for human resources, procurement and security and services, which are tasked with ensuring that contractors and subcontractors respect human rights and labour protections. The Audit department is responsible for overseeing correct application of the rules in the Code of Ethics, while the Sustainability unit monitors developments in external benchmarks (e.g. international conventions).

The Audit Plan for the 2019/2020 period provides for an assessment (scheduled for March 2020) to update the map of the areas of activity exposed to risk, assess the design of the controls envisaged and verify their actual implementation.

In 2014 and 2016, the Audit department carried out two surveys, structured on the basis of the recommendations from the United Nations ("The 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.



# Supply chain sustainability

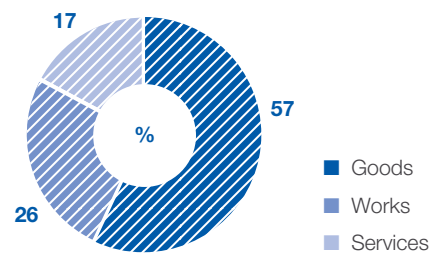
## 204-1 > Procurement and suppliers

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.

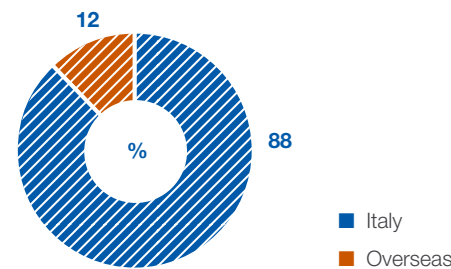
414-1 > In 2019, total expenditure on the procurement of services, supplies and works amounted to over €1,484<sup>42</sup> million, spread across 2,251 suppliers contracted during the year.

414-2 >

**PROCUREMENT BY CATEGORY**



**PROCUREMENT BY ORIGIN**



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.

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"<sup>43</sup> 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 categories relevant for ESG purposes, must be met from the qualification phase on.

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.

<sup>42</sup> 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, net of options (amounting to approximately €694 million). An option is a provision added to supply contracts, clearly, precisely and unequivocally granting the contracting entity the right to increase the value of the contract in return for an increase in the contracted quantity or volume, subject to the same terms and conditions. Once introduced into the contract, such an option, though not constituting the assumption of an obligation on the part of the contracting entity, is included in the calculation of the overall amount.

<sup>43</sup> 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 2019 AND APPLICATION OF ENVIRONMENTAL AND SOCIAL REQUIREMENTS

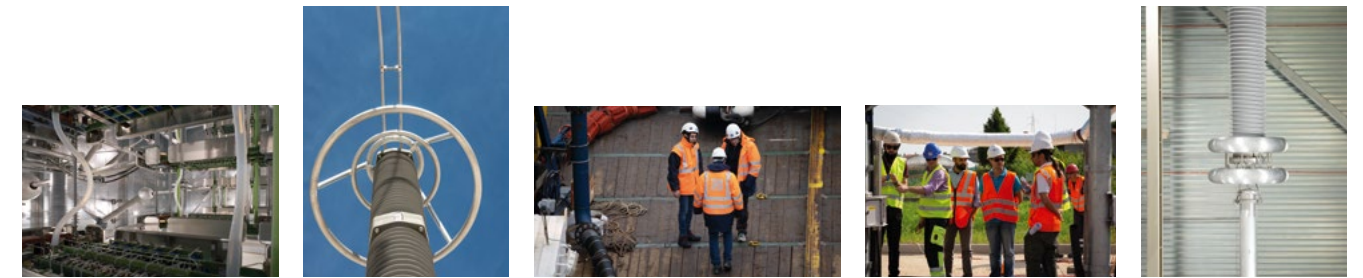
	SUPPLIERS ACTIVE IN 2019				AMOUNT PROCURED FROM SUPPLIERS SUBJECT TO SPECIFIC REQUIREMENTS (% OF RESPECTIVE TOTAL AMOUNT PROCURED)			
	N. TOTAL	% OF TOTAL	AMOUNT PROCURED (€M)	% OF TOTAL	BASIC REQUIREMENTS <sup>(1)</sup>	ADDITIONAL SOCIAL AND ENVIRONMENTAL REQUIREMENTS <sup>(2)</sup>	SOCIAL <sup>(3)</sup> AND ENVIRONMENTAL QUALIFICATION REQUIREMENTS <sup>(4)</sup>	COUNTRY RISK ASSESSMENT <sup>(5)</sup>
Total active suppliers	2,251	100	1,484.5	100	100	94.8	20.8	100
Key suppliers	1,920	85.3	1,408.0	94.8	100	100	21.9	100
Suppliers in categories relevant for ESG purposes	129	5.7	720.3	48.5	100	99.8	41.4	100

<sup>(1)</sup> Compliance with the principles and behaviours provided for in Terna's Code of Ethics and 231 Model.  
<sup>(2)</sup> 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.  
<sup>(3)</sup> OHSAS 18001 certified occupational safety management system or similar (required only from the suppliers of specific product categories at the time of qualification).  
<sup>(4)</sup> ISO 14001 certified environmental management system or similar (required only from the suppliers of specific product categories at the time of qualification).  
<sup>(5)</sup> 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 2019.

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 included in categories that are relevant for ESG purposes. Such suppliers are periodically identified<sup>44</sup> 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 categories 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 190). The following table refers to new suppliers in 2019.

<sup>44</sup> The matrix for identifying the relevant product categories for ESG purposes was updated in 2017 on the basis of the latest available purchasing data and certain references made public by key stakeholders, such as rating agencies.



### NEWLY CONTRACTED SUPPLIERS

	2019
% of new suppliers - checked for basic requirements*	100
% of new suppliers - checked for additional social and environmental requirements**	79

\* Compliance with the principles and behaviours provided for in Terna's Code of Ethics and 231 Model.

\*\* 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.



### "SUPPLY CHAIN SUSTAINABILITY" TARGET KPIs AND TARGETS IN THE STRATEGIC PLAN 2020-2024

KPI	TARGET			
	2019	2020	2021	2022
<b>ESG CRITERIA IN TENDERS</b>				
Use of ESG criteria in "vegetation management" tenders > €1 million (% of tenders)	100%	100%	100%	100%
Use of ESG criteria in hardware procurement tenders* (% of tenders)	50%	66%	75%	100%

\* PCs, monitors, printers, video-conference systems, routers, switchers and servers.

## Procurement portal and supplier qualification 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](http://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 2019, approximately 1,502 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 business<sup>45</sup> - 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.

<sup>45</sup> 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.

## Qualification of suppliers

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 being financially sound.

The entire process is managed via the "Supplier Qualification Portal", thus ensuring an efficient, traceable and transparent process.

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 2020-2024

KPI	TARGET					
	2019	2020	2021	2022	2023	2024
<b>SUPPLIER CERTIFICATIONS</b>						
% of ISO 14001 and OHSAS 18001 certified suppliers in contract work areas	91%	94%	100%	100%	100%	100%

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.

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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.

#### ACTIVE QUALIFICATIONS

	2019
Number of active qualifications	508
- of which new qualifications during the year	68
Number of qualifications requiring an Environmental and Safety management system	244

#### Cybersecurity: Terna sets up a specific product category for qualification

The gradual trend towards the digital transformation of business processes is widely referred to in Terna's Strategic Plan, within a context of innovation and development of high-performance technological solutions and projects to cope with the growing complexity of the system. This is accompanied by greater attention to cybersecurity and data protection issues, due to an increase in risks associated with the widespread use of such tools.

Terna is one of the first contracting entities in Italy to have set up a specific cybersecurity product category for qualification, with the aim of ensuring the selection of top-quality providers in a crucial sector for the security of Italy's economic system.

The requirements include high-quality standards in terms of corporate and professional certifications, as well as prior willingness to sign non-disclosure agreements to protect information and highly critical projects. In particular, in addition to ISO 9001 certification, all operators are also required to have ISO/IEC 27001 certification<sup>46</sup>. Finally, Terna requires the adoption of information risk management systems, including in other product categories with a high level of cyber risk (e.g. Industrial IoT).

<sup>46</sup> SO/IEC 27001 is an international standard that defines the requirements for governing an information security management system (SGSI or ISMS-Information Security Management System), including aspects relating to logical, physical and organisational security, with the aim of establishing a complete system to ensure management of the security of information and information systems.

## Supplier audits

During the three-year qualification period, Terna checks that suppliers meet the qualification requirements, including the various ESG aspects. In 2019, 766 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 category. 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 2019, 82% of these checks focused on companies belonging to categories that are relevant for ESG purposes.

#### AUDITS

	2019
Qualification document checks	766
On-site qualification checks	38
<i>including categories relevant for ESG purposes</i>	31

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 revoked off the list.

#### MEASURES TAKEN

	2019	2018	2017
Number of suppliers revoked off the list	0	0	0
Number of suppliers suspended	8	2	0
Number of suppliers warned	3	2	0

Since 2016, in addition to the Supplier Qualification Portal, Terna has used a List of Suppliers. 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	2019	2018	2017
Number of contracted suppliers	no.	2,251	2,148	1,978
Contract award procedures adopted (% of amounts awarded)				
EU calls for tender	%	78	75	66
Non-EU calls for tender	%	13	11	16
Previously qualified suppliers*	%	8	12	12
One-off contracts**	%	2	2	7

\* Directly assigned professional appointments and/or consulting services.

\*\* 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 S.r.l..

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

### DISPUTES WITH SUPPLIERS

	2019	2018	2017
Pending	23	29	23
In progress	2	6	4
Settled	8	0	3

