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A summary of sustainability performances, in line with Terna's leading role in the current energy transition. >>

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Summary of the 2019 Report

About Terna



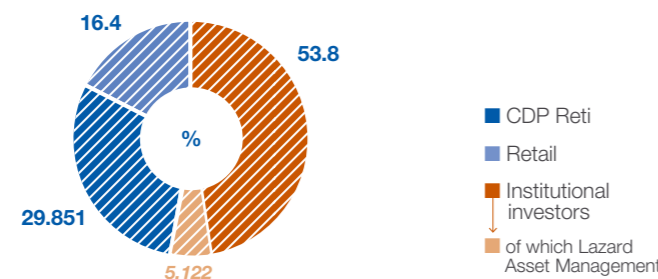
Terna performs the role of TSO (Transmission System Operator) under a government concession: main activities are electricity **transmission** and **dispatching** in Italy. Our headquarters are in Rome.

We are responsible for the planning, construction and maintenance of the National Transmission Grid ("NTG"), as well as management of the electricity that flows through it. Our activities are carried out under a monopoly regime, in accordance with the regulations defined by the Regulatory Authority for Energy, Networks and the Environment ("AREERA") and in implementation of the guidelines established by the Ministry for Economic Development (the "MED").

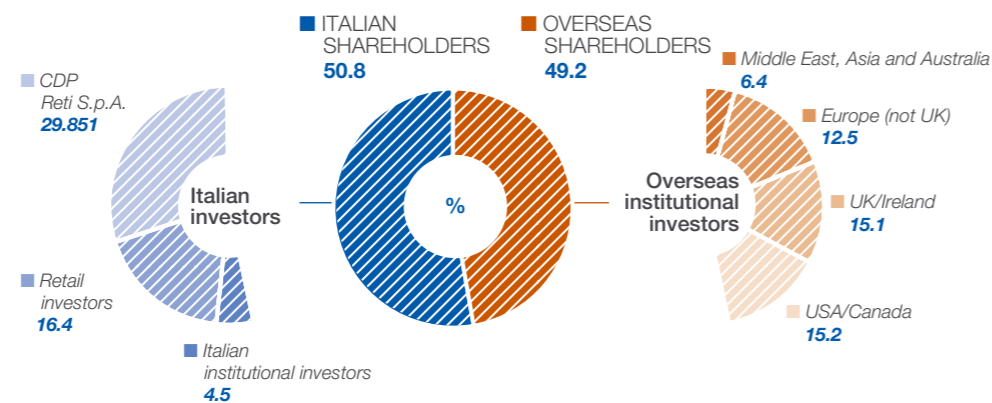
Listed on Borsa Italiana's screen-based trading system (*Mercato Telematico Azionario*) since 2004, at approximately €11.9 billion¹, Terna ranks among Italy's leading companies by market capitalisation.

The controlling shareholder, with a 29.851% interest, is CDP Reti, a subsidiary of CDP-Cassa Depositi e Prestiti.

SHAREHOLDERS BY CATEGORY



SHAREHOLDERS BY GEOGRAPHICAL AREA AND CATEGORY



¹ Market capitalisation at the close of trading on 30 December 2019. The market capitalisation, calculated on the basis of the average share price for the year, is €11.3 billion.



Terna shareholders include a large number of institutional investors, including a significant number of SRIs (Socially Responsible Investors), who have invested in Terna's shares in accordance with an approach that takes into account ESG (Environmental, Social, Governance) aspects.



Regulated Activities, which coincide with Terna's mission to ensure the quality and cost-effectiveness of electricity transmission service over time, represent the Group's core business, accounting for 88% of revenue. Alongside these activities, the Group also operates in a number of non-regulated sectors, leveraging its distinctive technical expertise and innovation. Overseas, Terna is engaged in the development of transmission infrastructure in countries with stable political and regulatory frameworks, including in collaboration with energy operators that have an established international presence.

2019 TOTAL REVENUE: 2,295.1 €M



Energy transition and Terna's role



The drive towards decarbonisation of the energy sector is reflected, at international level, in the United Nations SDGs and in European policies.

In Italy, the Integrated National Plan for Energy and Climate (PNIEC) envisages the complete phase-out of coal by 2025, followed, in 2030, by the goal of meeting 55.4% of gross electricity consumption from renewable energy sources (RES).

The electricity system is thus undergoing a period of radical transformation, as is Terna's approach to managing the grid.

The current transition to a decarbonised energy model means that Terna has a major role to play in this process, in which it is called upon to maintain high standards of service quality and continuity in a rapidly changing, increasingly complex electricity system, marked by the growing importance of non-programmable renewable sources (solar and wind).

This challenge is thus in keeping with a number of the United Nations Sustainable Development Goals (SDGs), which have taken on the role of benchmarks for Terna. Above all, this refers to Goals 7, 9 and 13.

TERNA'S BENCHMARK SDGs

SDGs



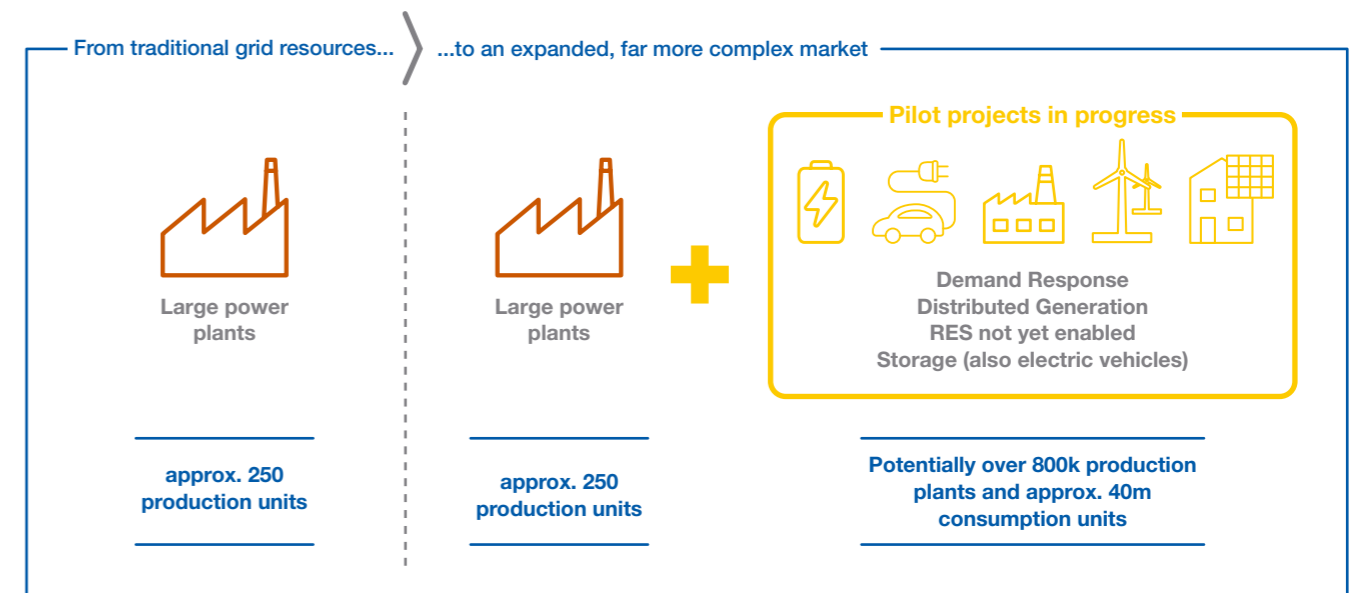
Target

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

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

Take urgent action to combat climate change and its impacts.

DEVELOPMENT OF THE ELECTRICITY SYSTEM AND THE OPENING UP OF THE MARKET FOR SERVICES TO NEW RESOURCES



Source: Terna

A full description of changes in the electricity system, and the challenges that this poses for Terna, is provided in "Context and development of the electricity system"², presented in October 2019 during the "States General of the Energy Transition".



Terna again guaranteed a high level of quality of service in 2019.

99.99%

Average System Availability

Further details are provided in the section, "Electricity service and innovation" on page 129.

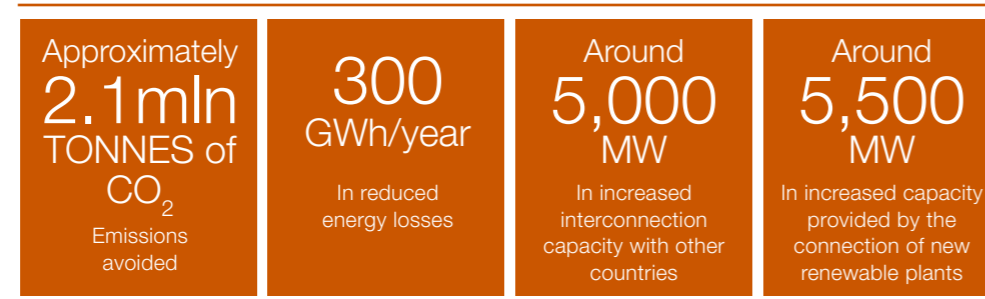


² The full document can be downloaded from Terna's corporate website using the following link: <https://www.terna.it/it/sistema-elettrico/ruolo-terna/insight>

The instruments that Terna uses to respond to the challenges posed by the energy transition are the infrastructure projects included in the Grid Development Plan³ and innovation.

The Development Plan marks Terna's response to the community's need for a secure and efficient electricity service, even when demand is being met to a growing extent by production from non-programmable renewable sources. All investment in development of the grid is subject to a prior **cost-benefit analysis** (CBA), comparing the related expenditure with the resulting benefits, expressed in monetary terms. A positive cost-benefit ratio is a necessary condition of the investment's inclusion in the Development Plan.

The **2020 Development Plan entails investment of approximately €14 billion**, with over €4 billion included in the Strategic Plan 2020-2024. The Development Plan will enable the Company to achieve:



Another key enabler of the energy transition is **innovation**, needed to operate an increasingly complex electricity system, requiring the management of a growing quantity of information. Given that the scenario is undergoing radical change, innovation requires an external contribution in the form of open innovation.

THREE INNOVATION HUBS WERE OPENED IN 2019

<p>Turin IoT-Internet of Things</p>	<p>Milan Analytics & Energy Systems</p>	<p>Naples Digital to People</p>
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These hubs are a type of local laboratory, focusing on the main areas of technology identified by Terna and interacting with local businesses, start-ups and the academic world.

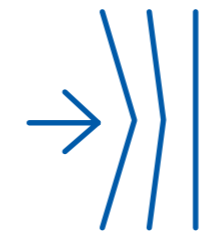
Further information on Terna's innovation and the most important projects carried out during the year is provided in the paragraph, "Innovation", on pages 160-167.

³ Further details are provided in the section, "Electricity service and innovation" on page 129-167.

Climate change: risks and opportunities

In common with a lot of infrastructure, the NTG is exposed to increasingly frequent extreme climate events.

Terna's strategy for mitigating the risks to its grid infrastructure and the electricity service is contained in its **Resilience Plan**, a specific section of the Security Plan.



The Resilience Plan presented as part of the 2020 Security Plan envisages **investment of approximately €505 million** over the five-year period 2020-2024

Climate change is also a source of opportunities reflected in Terna's strategy and relating to both the core business and non-regulated activities.

REGULATED ACTIVITIES



The Development Plan and the Electricity System Security Plan point investment towards the **integration of renewable sources** and **NTG resilience**, in keeping with ARERA's shift towards the use of output-based solutions, which could **boost Terna's returns in relation to its ability to generate benefits for the system**.



NON-REGULATED ACTIVITIES



The **Smart Tower** project aims to extract value from the NTG by expanding its use from an infrastructure exclusively designed for transmitting HV power to an **Integrated Monitoring and Environmental Protection System**, exploiting the potential of the IoT (Internet of Things) in relation to "environmental protection services", "NTG services" and "connectivity infrastructure". Trials involving the use of 11 pylons in environmental monitoring were completed in 2019 and smart towers were installed in Veneto and Abruzzo with a view to providing services for the NTG.



HIGHLIGHTS IN 2019

Green Bonds: three issues between July 2018 and April 2019, amounting to €1.5 billion, with the proceeds used entirely to finance grid development projects with positive environmental impacts.



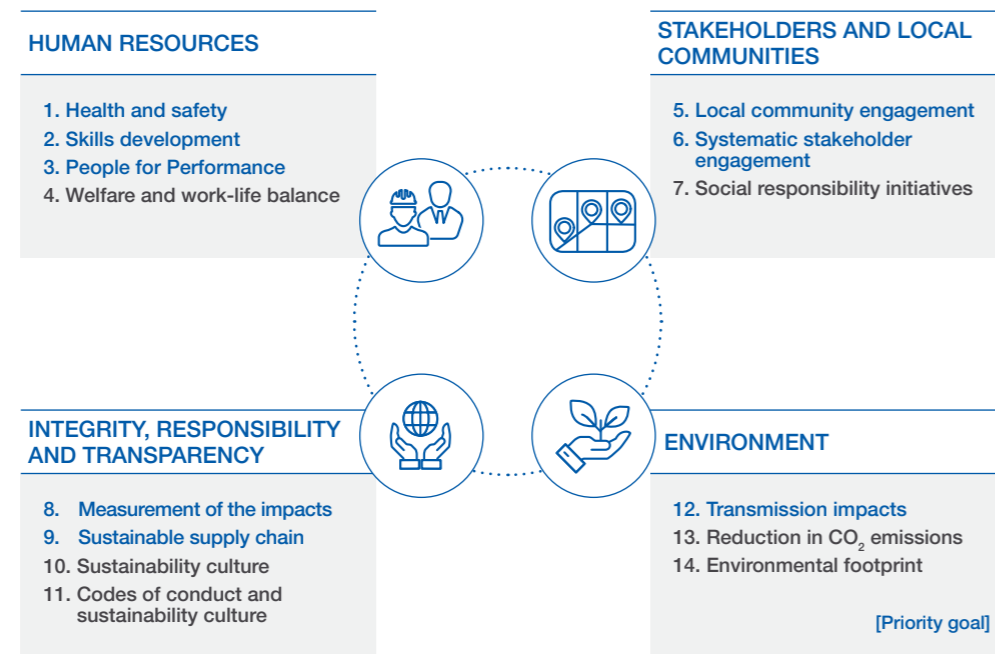
Further details on the "Opportunities and risks connected with climate change" are provided in the specific paragraph on page 64.



Sustainable management

Integrating sustainability into management practices helps to create value over the medium to long term, enabling us to mitigate ESG (Environmental, Social, Governance) risks, equip the Group with the necessary human capital and build positive stakeholder relations.

The principal way in which this can be achieved is by including specific sustainability goals in the Strategic Plan, focusing on four areas (Human resources; Stakeholders and local communities; Integrity, responsibility and transparency; and Environment).



The principal goals are described in the corresponding sections.

Governance aspects



Terna's corporate governance is in line with the principles contained in the Code of Conduct⁴ for listed companies. Further details are provided in the specific paragraph on page 48 and in the "Report on Corporate Governance and Ownership Structures", which is available on Terna's corporate website.

Sustainability goals are included in the Long-Term Incentive (LTI) plans for the Chief Executive Officer and the Group's management (further information is available in the "Remuneration Report").

⁴ Edition last updated in July 2018 and available on Borsa Italiana S.p.A.'s website at <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2018clean.pdf>. The Code was drawn up by the Corporate Governance Committee for listed companies established by ABI, Ania, Assonime, Assogestioni, Borsa Italiana and Confindustria).

Integrated Management System

The Integrated Management System is the tool that aligns day-to-day operations with international UNI ISO standards in terms of health and safety, the environment and the prevention of corruption. Terna currently has 8 certifications and 2 accreditations.

HIGHLIGHTS IN 2019

Terna was awarded certification for its Occupational Health and Safety Management System in accordance with the **ISO 45001:2018** standard, in advance of the deadline in 2021.

Human rights

In line with the recommendations from the United Nations "The guiding principles on business and human rights", Terna has adopted guidelines entitled "Respect for human rights within the Terna Group". The guidelines provide for a periodic due diligence process to be overseen by the Audit department⁵.

Supply chain

In keeping with this sustainable approach, Terna also extends its attention to its ESG performance to the supply chain which, in 2019, numbered 2,251 suppliers and involved total expenditure on the procurement of services, supplies and works amounted to over €1,148⁶ million. To make its supply chain increasingly sustainable, Terna requires suppliers to meet environmental and social standards in order to qualify during tenders and achieve specific objectives⁷.

"SUPPLY CHAIN SUSTAINABILITY" TARGET

KPI	2019	
	TARGET	RESULT
ESG criteria in tenders		
Use of ESG criteria in "vegetation management" tenders > €1 million (% of tenders)	100%	100%
Use of ESG criteria in hardware procurement tenders* (% of tenders)	50%	66%
Supplier certifications		
% of ISO 14001 and OHSAS 18001 certified suppliers in contract work areas	91%	94%

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

⁵ See the paragraph "Respect for human rights" on page 90.

⁶ 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.

⁷ See the paragraph "Supply chain sustainability" on page 92.



Importance of local stakeholders



In 2019, Terna further strengthened its already significant commitment to local stakeholder engagement in order to combat local opposition to projects involved in development of the NTG, where communities see the impact the work will have on their area but not the benefits for the system.

The overall improvement in the quality of local stakeholder relations was an objective that, thanks to continuous dialogue, led to a result that was ahead of expectations.

“LOCAL COMMUNITY ENGAGEMENT” TARGET

KPI	2019	
	TARGET	RESULT
Stakeholder engagement Stakeholders who changed their opinion* after a meeting with the Company	+15%	+17.9%

* 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.

HIGHLIGHTS IN 2019	469 meetings with local Authorities	40 meetings with the public	76 plots of land returned to owners following the demolition of obsolete lines
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In line with the commitment to minimising the visual impact on the landscape of electricity infrastructure, Terna physically removes power lines that have become obsolete and prefers to use, where possible, underground cables - that are therefore “invisible” - for new works.

HIGHLIGHTS IN 2019	179 km of obsolete lines removed	1,268 km of obsolete lines removed in the ten-year period 2010-2019	144 km of new underground lines
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Further details on engagement with local stakeholders and, more generally, on relations with other categories of stakeholder are provided in the specific section on pages 101-127.

People

The peculiarities of Terna's business added to the objectives set out in the Strategic Plan have led to further investment in the Group's people, with the aim of strengthening the **long-standing commitment to occupational safety** and boosting **digital skills**, which are necessary in order to prepare the electricity grid to deal with the complexities of the energy transition.



Alongside this, the process of **generational turnover**, embarked on some years ago, has resulted in a constant increase in the level of education among the workforce and a gradual reduction in the average age, with the recruitment of 208 people under the age of 30 in 2019 out of a total of 287 new hires.

HIGHLIGHTS IN 2019	4.9 The injury rate (6.4 in 2018)	47 hours of training per capita	98% Coverage of the workforce (training)
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Terna Engagement Survey 2019, an internal climate survey, was carried out in November 2019 to measure the degree of people's engagement based on three components - rational (understanding of corporate objectives and strategies), emotional (sense of belonging and pride) and motivational (availability and willingness to contribute).

HIGHLIGHTS IN 2019	85% Response rate	64% of participants made an additional comment	85% Engagement score
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Outperforming the average achieved by companies included in the index, in January 2020, Terna's inclusion in the **Bloomberg Gender Equality Index (GEI)** was confirmed. This is an international index that measures companies' performance regarding gender equality issues and the quality and transparency of their public reporting.

Environment



The commitment to a growing integration of renewable sources into the electricity system represents Terna's most important contribution to the environment.

This strategic goal is being pursued alongside efforts to cut CO₂ emissions linked to Terna's activities, such as, for example, minimising **leakage of the greenhouse gas SF₆** and implementing **energy efficiency programmes** in offices and at electricity substations.

HIGHLIGHTS IN 2019

0.40% an SF₆ leakage rate
(as a % of the total installed)

Carbon intensity, measured as the ratio of CO₂ emissions (in tonnes) to revenue (in millions of euros), rose slightly in 2019 (58.2 compared with 57.8 in 2018) within the context of a gradual downward trend (93.9 in 2010).

In terms of environmental impact, Terna's activities regard less the use of natural resources and the emission of pollutants, and rather more the physical presence of power lines and electricity substations and their interaction with the surrounding natural and manmade environment (see page 198).

Waste management

Terna does not use raw materials, but does purchase finished products (electrical equipment, conductors, tools and other components). As part of a circular economy-based approach, at the end of their normal lifecycle, the materials used in electricity infrastructure are recovered for reuse in operations. Only a residual portion is sent to landfill and has an impact on the environment.

The percentage of waste recovered amounted to 94% in 2019 (86% in 2018 and 87% in 2017).

In line with sustainability guidelines, Terna promotes initiatives designed to boost internal awareness and the adoption of responsible behaviours in daily working life, such as, for example, "Terna Plastic Free" - the initiative that is eliminating single-use plastic from offices - and "Terna Recycling".

Sustainability ratings

In keeping with Terna's strategic objectives and the SDGs, combined with our constant commitment to improvement through the introduction of guidelines, policies and monitoring systems, our ESG performance is reflected positively in the sustainability ratings assigned by the leading international agencies.



Terna's inclusion in all the sustainability indices it was already present in was confirmed in 2019 and the Company was, for the second year running, named **Industry Leader** in the Electric Utilities sector of the Dow Jones Sustainability Index.

In January 2020, this result led to the inclusion of Terna in the Gold Class of SAM's "Sustainability Yearbook 2020", a leading international publication focusing on corporate sustainability issues and performance.

Since 2017, Terna's ranking in the sectoral index published by SAM for the Dow Jones Sustainability Index is one of the objectives included in the **Long-Term Incentive (LTI) plan** for the Chief Executive Officer and the Group's management (further information is available in the "Remuneration Report").

Other information

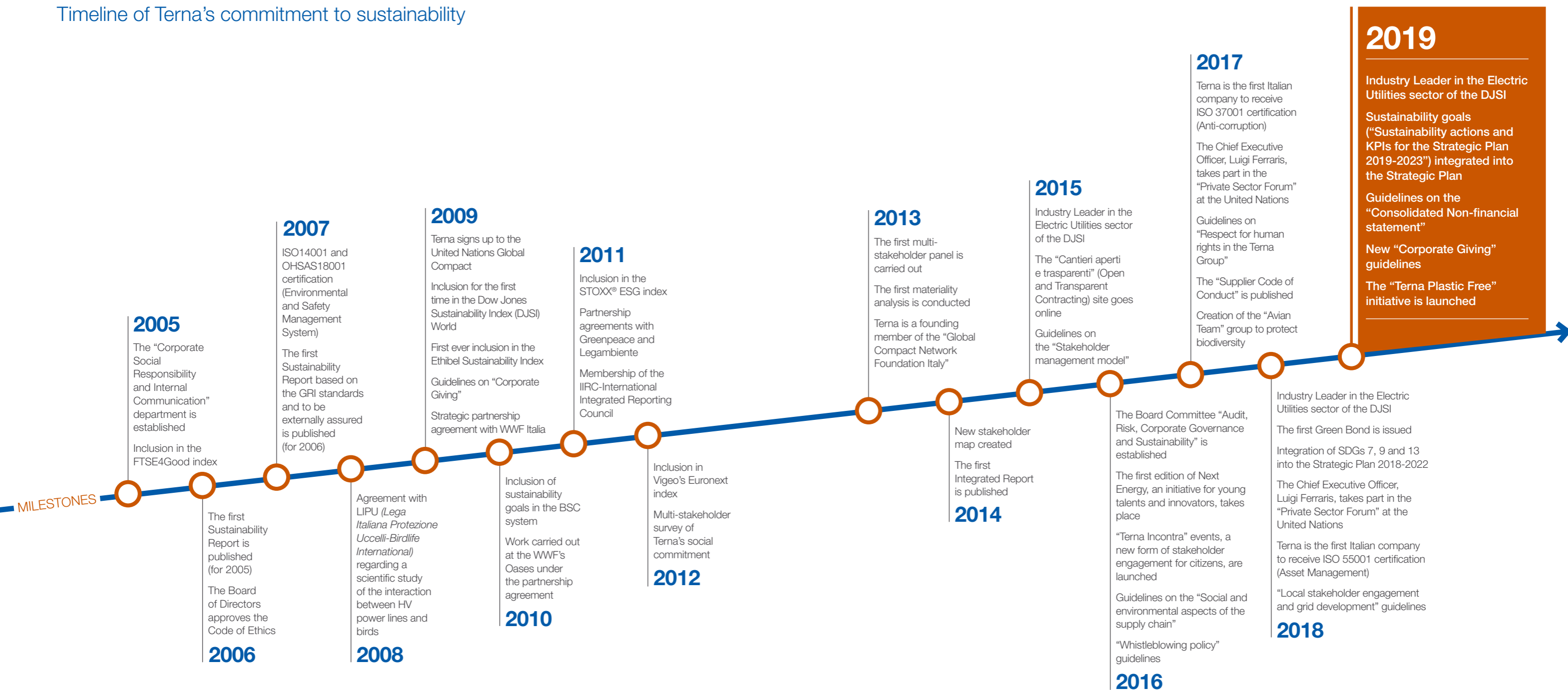
This Report deals with issues considered to be material in accordance with the Company's materiality matrix, which was updated at the end of 2019. This reflects topics linked to the energy transition and their sustainable management.

Further information on the method used in the related analysis and on the "Materiality matrix" is provided on page 29.

15 years of sustainability

The Sustainability Report 2019 marks Terna's fifteenth annual report on its non-financial performances, proof of a concrete commitment that is increasingly integrated into the Group's business.

Timeline of Terna's commitment to sustainability



Since the first edition (the annual reporting period 2005), the Sustainability Report has been submitted for approval by the Board of Directors. From the second year onwards, it has been prepared on the basis of the international reporting standards drawn up by the GRI-Global Reporting Initiative and has been externally assured by the same audit firm responsible for auditing the Company's financial statements.

EVOLUTION OF TERNA SUSTAINABILITY REPORTS*

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Adoption of GRI standards	NO	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Version of standards adopted	=	G3	G3	G3	G3	G3	G3.1	G3.1	G3.1	G4	G4	G4	SRS	SRS	SRS
Level of GRI application	=	B+	B+	B+	A+	A+	A+	A+	A+	CORE	CORE	CORE	CORE	CORE	CORE
Number of indicators	=	35	41	55	56	58	64	65	64	69	83	83	66	63	63
External assurance	NO	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES

* From the annual reporting period 2017, the Sustainability Report coincides with the Non-financial Statement.

From the Report for 2009, the year in which Terna formally signed up to the United Nations Global Compact ("UNGC"), the Sustainability Report also constitutes the Communication on Progress ("CoP"). This is the instrument used by participating enterprises to report annually to stakeholders, via the UNGC's official website⁸, on their activities and the related progress made in implementing the 10 Principles and in supporting the adoption of best practices through partnerships.

To make it easier to read the Report from a UNGC perspective, from the document for 2009, alongside the GRI Content Index, Terna also publishes a table linking the GRI indicators published with the matching Global Compact principles⁹. From the Report for 2011, in line with the growing number of indicators published, Terna's CoP¹⁰ has achieved "Advanced" level, the highest level of disclosure and transparency envisaged by the UNGC.

Our commitment to all aspects of sustainability relevant to our business, as translated into policies and procedures, has enabled Terna to make numerous improvements and highlight them through complete, high-quality reporting. The performance of a selection of indicators is shown below, although it should be noted that certain factors, such as changes in the structure of the Group and in the size of our asset base or workforce, may have a partial impact on comparability.

SHARE PRICE PERFORMANCE 2005-2019

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	AVG 2005-2014	AVG 2015-2019	AVG 2005-2019
Share price in €	2.08	2.57	2.76	2.33	3.00	3.16	2.60	3.02	3.63	3.76	4.76	4.35	4.84	4.95	5.95	2.89	4.97	3.58

WORKFORCE 2005-2019

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	AVG 2005-2014	AVG 2015-2019	AVG 2005-2019
Total employees	3,388	3,475	3,495	3,524	3,447	3,468	3,493	3,433	3,442	3,437	3,333	3,468	3,508	3,843	3,872	3,460	3,605	3,508

⁸ <https://www.unglobalcompact.org/>
⁹ See the paragraph "Links between the GRI indicators and the Global Compact principles" on page 238.
¹⁰ <https://www.unglobalcompact.org/what-is-gc/participants/11215-Terna-S-p-A->

TRAINING 2005-2019

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	AVG 2005-2014	AVG 2015-2019	AVG 2005-2019
Total hours	124,188	118,123	146,787	186,654	164,416	171,146	178,734	143,418	120,115	148,955	190,807	203,066	178,856	203,556	183,193	150,254	191,896	164,134
Avg hours per capita	42	35	43	53	47	49	51	41	35	43	56	61	50	55	47	44	59	47

KM OF OBSOLETE LINES DEMOLISHED 2005-2019

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	AVG 2010-2014	AVG 2015-2019	AVG 2005-2019
Km of lines	n/a	n/a	n/a	n/a	n/a	91	130	120	81	93	98	290	98	87	179	103	150.4	120.9

SF₆ LEAKAGE 2005-2019

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	AVG 2005-2014	AVG 2015-2019	AVG 2005-2019
Leakage rate	0.59	0.58	0.77	1.07*	0.89	0.73	0.60	0.59	0.49	0.55**	0.44	0.39	0.47	0.38	0.40	0.68	0.42	0.59

* This figure includes leaks due to an accident that occurred in 2008.
 ** This figure includes leaks (784 kg) due to an accident that occurred in 2014.

CO₂ CARBON INTENSITY - TONNES OF CO₂ EQUIVALENT/ REVENUE (€M) 2005-2019

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	AVG 2006-2014	AVG 2015-2019	AVG 2005-2019
	n/a	104.54	115.2	132.5	111.3	93.9	87.8	77.5	72.7	72.0	65.9	65.0	68.6	57.8	58.2	96.4	64.3	84.5

Thanks to our sustainability performance, Terna has been included in a growing number of international stock exchange indices and boasts an increasing number of socially responsible investors (SRIs) among our shareholders, with proportion who are SRIs rising from 1.6% in March 2009¹¹ to 11.8% at the end of 2019.

INCLUSION OF TERNA'S SHARES IN SUSTAINABILITY INDICES

2005	2006	2007	2008	2009	2010	2011	2013-2015	2016	2017	2018	2019
FTSE4 GOOD	FTSE4 GOOD	FTSE4 GOOD	FTSE4 GOOD	FTSE4 GOOD	FTSE4 GOOD	FTSE4 GOOD	FTSE4 GOOD	FTSE4 GOOD	FTSE4 GOOD	FTSE4 GOOD	FTSE4 GOOD
	ECPI	ECPI	ECPI	ECPI	ECPI	ECPI	ECPI	ECPI	ECPI	ECPI	ECPI
		AXIA	AXIA	AXIA	AXIA	AXIA	AXIA	AXIA	AXIA	AXIA	AXIA
			FTSE KLD	FTSE KLD	MSCI	MSCI	MSCI	MSCI	MSCI	MSCI	MSCI
			ASPI	ASPI	ASPI	ASPI	ASPI	ASPI	ASPI	ASPI	ASPI
			ETHIBEL	ETHIBEL	ETHIBEL	ETHIBEL	ETHIBEL	ETHIBEL	ETHIBEL	ETHIBEL	ETHIBEL
			DJSI World	DJSI World	DJSI World	DJSI World	DJSI World	DJSI World	DJSI World	DJSI World	DJSI World
			DJSI Europe	DJSI Europe	DJSI Europe	DJSI Europe	=	=	DJSI Europe	DJSI Europe	DJSI Europe
			FTSE ECPI	FTSE ECPI	FTSE ECPI	FTSE ECPI	FTSE ECPI	FTSE ECPI	FTSE ECPI	FTSE ECPI	FTSE ECPI
			STOXX® ESG	STOXX® ESG	STOXX® ESG	STOXX® ESG	STOXX® ESG	STOXX® ESG	STOXX® ESG	STOXX® ESG	STOXX® ESG
			VIGEO World Europe	VIGEO World Europe	VIGEO World Europe	VIGEO World Europe	VIGEO World Europe	VIGEO World Europe	VIGEO World Europe	VIGEO World Europe	VIGEO World Europe
											Bloomberg GEI

¹¹ The first year the figure was recorded.