

## Methodological note

The Sustainability Report as at 31 December 2014 (hereinafter “2014 Sustainability Report”) of the Terna Group was prepared according to the GRI-G4 guidelines and the update G4 “Sector Disclosure-Electric Utilities” issued in 2013 by the Global Reporting Initiative (GRI). As in the last few years, the Report was approved by Terna S.p.A.’s Board of Directors and subjected to specific auditing procedures. The assurance report, prepared by PricewaterhouseCoopers, is provided as an annex.

The GRI-G4 guidelines were applied according to the **“CORE” option**.

The process of preparing the document involved identifying the significant aspects to report (see the “Materiality” paragraph below) and presenting the performance achieved by the Group in relation to such aspects and the sustainability targets. The period of observation is the year 2014; all data refer to the financial year ending on 31 December 2014. At the descriptive level, the significant changes occurring up to 20 March 2015 have also been indicated.

As part of its progressive adoption of the principles outlined by the International Integrated Reporting Council (IIRC), Terna has published, as was the case last year, the Integrated Report coinciding with the 2014 Report on Operations in the Annual Financial Report. This Report also contains numerous topics dealt with in this Sustainability Report. The discussion of the aforementioned topics is the same in both Reports, except where further detail is required pursuant, for example, to specific requirements in the GRI guidelines. The sustainability issues included in the Integrated Report were chosen based on materiality considerations.

## Materiality

The information and GRI indicators to be included in this Report, so as to enable stakeholders to make a balanced assessment of the Group’s performance, were chosen on the basis of a careful analysis of the informative objectives of the contents of the Report and its pertinence to Terna’s activities and the interests of its stakeholders.

In 2013, Terna launched a process of identification of relevant issues for the company and its stakeholders. The analysis followed the principal of materiality, as described in the GRI-G4 standard and allowed for a materiality matrix to be prepared, as well as a thematic tree (topics grouped together with several levels of detail) on the basis of the parameters of “Relevance for the company” (issues that reflect the significant economic, social and environmental impacts of the organization) and “Relevance for stakeholders” (issues that substantially affect stakeholders’ assessments and choices).

In 2014, the matrix was updated, considering new information on relevant issues, as well as their importance to stakeholders and for achieving corporate objectives. In particular, the following activities were undertaken:

- updating the prioritisation of issues in terms of their **“Impact on strategies”**, in other words, the potential for each topic to generate risks and opportunities for corporate objectives in the short, medium and long term. The update was prepared via the analysis of documentation relating to 2014 (e.g. internal policies, the Development Plan and appropriate consultations, the Strategic Plan, press reviews, in-house publication, the Sustainability Plan, BSC and sustainability rating agency questionnaires, etc.). In order to give a more dynamic and forward-looking take on the evaluation, the evidence from the meetings carried out with company departments in 2013 has been included. The **“Relevance for Terna”** was obtained by considering the two results for each topic;
- updating the prioritisation of the issues for the **“Relevance for Stakeholders”** aspect. The update was prepared via the analysis of documentation relating to 2014 (e.g. the AEEGSI Strategic Plan, ANIE Annual Report, AGCM Annual Report, ASSOELETRICA Report, Greenpeace Report, local and national press reviews, evidence from Terna interviews carried out as part of the new mapping of stakeholders). The “Relevance for Stakeholders” aspect was also supplemented with the evidence from the meetings carried out with company departments in 2013. A qualitative-quantitative model was subsequently developed which allows for the issues to be prioritised via three variables:
  - the relevance of the issue for every category of stakeholder;
  - the priority of each category of stakeholder which considers the new mapping and the relevance of the stakeholders available from 2014;
  - the number of categories of stakeholders interested in the topic.

After having validated the results obtained for the two dimensions, the **Materiality Matrix 2014** was calculated, which highlights the relevant issues and their position in relation to the relevance for corporate strategies (Relevance for Terna) and to the relevance that the company’s reference stakeholders attribute to them (Perceived relevance).

THE TERNA GROUP'S MATERIALITY MATRIX 2014



### Key

#### Ethics and governance model

- EG1 Efficacy of the governance model
- EG2 Integrity and transparency in corporate conduct

#### Environmental conservation and improvement

- AM1 Mitigation of visual impact
- AM2 Safeguarding biodiversity
- AM3 Management and monitoring of electromagnetic fields
- AM4 Emissions management
- AM5 Responsible use of resources

#### Relations with people

- RU1 Health and safety of workers and correct working practices
- HR2 Developing human resources
- HR3 Corporate welfare
- RU4 Promoting diversity and equal opportunities

#### Business Management

- BM1 Excellence of economic financial performance
- BM2 Containment of service costs
- BM3 Developing new business
- BM4 Development of interconnections with foreign countries
- BM5 Careful risk management
- BM6 Responsible planning of the NTG
- BM7 Local stakeholder engagement to develop the NTG
- BM8 Innovation and integration of renewable sources
- BM9 Quality, safety and continuity of the energy supply
- BM10 Fairness in relations with electricity operators
- BM11 Responsible management of the supply chain
- BM12 Social commitment and positive impact on the country

In order to clarify the relationship between the materiality matrix (in which the Terna's key priorities are found) and the handling of the G4 indicators and aspects in the Sustainability Report, one or more Terna key priorities of 2nd or 3rd level has been attributed to each G4 indicator, with the respective values for "Relevance for Terna" and "Relevance for Stakeholders". The rating for each G4 indicator was then calculated and, by grouping the indicators by aspect, a relevance evaluation for each G4 aspect was obtained.

This allowed for the "G4 Materiality Matrices" to be calculated for each GRI-G4 information context (economic, environmental and social), which illustrate the position of the various aspects on the axes of "Relevance for Terna" and "Relevance for Stakeholders" (please see pages 82, 99, 120 and 132). Lastly, we note that the "Aspects" relative to management of the "reporting mechanisms" are not shown in the individual matrices but dealt with together in the relative paragraph on page 58.

## Structure of the Report

The chapter divisions in the Report are the same as in previous years. After the Terna's profile and relations with stakeholders comes the standard division of the issues into four main sections, corresponding to the triple bottom line – economic, environmental, and social – typical of sustainability reports, preceded by the section on responsibility for the electric service, which is specific to Terna.

Each chapter begins with an explanation of the managerial approach to the specific area. This is followed by several thematic sections, which are integrated into a single text, giving the precise information required by the GRI Guidelines and the in-depth analysis that Terna considers important to provide. In order to make the Report easier to read, the information regarding the GRI indicators is signalled by the related code in the margin of the text, next to the relevant passages or next to the title if the entire section is considered relevant.

The Tables of Indicators, summarising the GRI indicators and supplementing them with others, complete the Report. For the meaning of technical terms specific to the electricity industry, see the Glossary on the website [www.terna.it](http://www.terna.it) on the "Tools" page using the following link: [www.terna.it/default/Home/sostenibilita2/strumenti\\_sostenibilita.aspx](http://www.terna.it/default/Home/sostenibilita2/strumenti_sostenibilita.aspx).

## Scope and indicators

The data and information in the 2014 Sustainability Report refer to the Terna Group, that is to say the scope which includes Terna S.p.A. and the companies that were consolidated in the Consolidated Financial Statements for the year ending 31 December 2014, except – unless otherwise stated – the Tamini Group, acquired by the subsidiary Terna Plus on the 20 May 2014. In accordance with the principle of materiality, the data included in the Sustainability Report include all the companies with a significant impact on sustainability (i.e. by size or rather the number of employees; or by potential impact on the environment and society or rather the number of operations/activities which took place during the year), over which Terna S.p.A. exercises control, directly or indirectly, that is to say for which it has the power to determine the financial and operational policies. There are no relations with joint-ventures, subsidiaries or leased businesses that could significantly influence the boundary or the comparability of the environmental and social data. The Group's work abroad – including that of the Montenegrin Terna Crna Gora d.o.o. – did not involve operating activities for the whole of 2014 with significant external impacts (e.g. activities involving construction infrastructure). For this reason, foreign activities have not been included (unless otherwise stated) in the calculation of the indicators published in this Report.

The data were calculated precisely on the basis of the entries in the general accounting and Terna's other information systems. In the case of estimates in determining the indicators, the procedure followed is stated.

All the GRI indicators published are listed below in the GRI-G4 Content Index, which also includes any limitations relative to the requirements.

In comparing this Report to that of 2013, the following should be noted:

- the different definition of days not worked relative to injuries used to calculate the Lost-Day Rate (indicator G4-LA6). The days not worked related to injuries occurring in 2014 were considered, together with any continued absence related to injuries occurring during the previous years, following the criterion of annual accrual of days of absence. This method was also adopted to recalculate the 2013 and 2012 Lost-Day Rates. For this reason, the data shown in the table differ from those published previously.

## Comparative analysis of sustainability performance

Convinced that a comparison of environmental, social and governance performance is of interest, not only to the Company itself, but also to its stakeholders, certain comparisons between Terna's results and those of other companies are included in the 2014 Sustainability Report, as was the case in previous years. For 2014, the comparisons were focused on four indicators: CO<sub>2</sub> emissions, SF<sub>6</sub> leakage incidence rate, hours of training per capita provided to employees and the turnover rate on termination. The reduction of the indicators for the comparative analysis, compared with previous years, is mainly derived from the updating of the materiality matrix which gives less relevance to the excluded issues (water consumption, waste production and the gender pay gap).

Listed below are the main criteria adopted in the analysis, as an introduction to the reading and interpretation of the comparisons of individual indicators in the Report:

- three panels of companies were identified: the first was composed of the European transmission system operators and the major non-European operators in terms of kilometres of lines managed; the second, multi-sectoral in nature, is made up of large Italian companies (the 40 listed companies of the FTSE-MIB at 21 January 2015); the third formed by the best international performers in the "Electric Utilities - ELC" sector (identified by the RobecoSAM sustainability rating agency and included in the Dow Jones Sustainability World Index of September 2014). The purpose of the three panels is to guarantee, also relative to the type of indicator reviewed, a comparison between companies with the same operational characteristics, an Italian comparison, and a comparison with top international performers in the same sector.
- the companies considered from among those in the three panels were those which publicise the information necessary for comparisons either on their websites, through the Sustainability Report (even if not prepared following the GRI guidelines) or through other documentation (HSE Report, Financial Report, etc.). This led to a reduction in the sample compared to the number of companies in the starting panel;
- the comparative analysis entails reference to 2013 data, since the comparisons were drafted when the 2014 Reports were still being prepared, as was the case for Terna.

It must be noted that, despite the exclusion of data which were explicitly not consistent, in numerous cases doubts remain as to the actual comparability between companies, especially in instances where significant discrepancies exist between the declared data of some companies and the average value of the reference Group.

In the CO<sub>2</sub> emissions comparison, the data are expressed as physical quantities in absolute terms and therefore show very different levels depending on the type of production activity and the size of the company. In this case, the comparison provides information on the varying significance of the environmental aspects being considered for the individual companies, but does not fulfil the task of making the performance comparable.

For further details, please see the Terna website (where the comparisons regarding water consumption, waste production and the gender pay gap are also published) and the note "Comparing sustainability performance: Terna's experience" in the study "Beyond the financial figures: companies and collective well-being", drafted by the CSR Manager Network and ISTAT, and available on their respective websites.