

2011



Terna's profile

## Presentation of the Company

Terna is the largest independent transmission system operator (TSO) in Europe and sixth in the world in terms of kilometers of lines managed.

The Company's headoffice is in Rome and it is the owner of the Italian National Transmission Grid (NTG), with 57,651 kilometers of high-voltage lines (63,626 km of three-phase conductors), 454 transforming stations and 22 lines interconnecting with foreign grids (as of December 31, 2011).

In Italy, Terna is the government-licensed transmission system operator, responsible for transmitting and dispatching electricity throughout the country on the high and extra-high voltage grid. Terna is also responsible for the planning, construction, and maintenance of the grid.

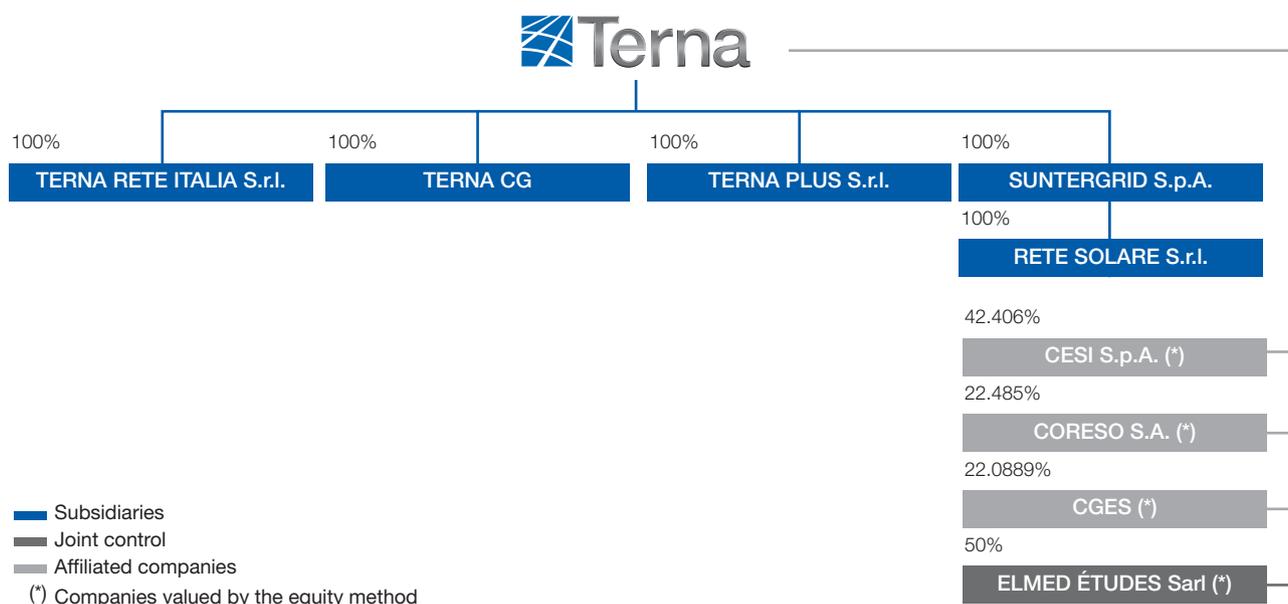
The Company's name comes from the set of three conductors or groups of conductors – in Italian, a terna – used to transfer each of the three phases of the three-phase electric field in alternating-current grids.

The founding elements of Terna's mission are:

- managing electricity transmission in Italy guaranteeing safety, quality and cost-effectiveness over time;
- ensuring equal access conditions for all grid users;
- developing market activities and new business opportunities with the expertise and technical knowhow acquired in managing complex systems;
- creating value for shareholders with a strong commitment toward professional excellence and with responsible conduct towards the community, fully respecting the environment in which the company operates.

## The Terna Group

The structure of Terna's equity interests as of December 31, 2011 was as follows:



As of December 31, 2011 the Terna Group included:

- the directly controlled, 100%-owned Italian subsidiaries, SunTergrid S.p.A., Terna Rete Italia S.r.l. (former TELAT) and Terna Plus S.r.l.;
- the directly controlled, 100%-owned Montenegro company, Terna Crna Gora d.o.o.;
- the affiliated companies CESI S.p.A. (42.406% equity stake), CORESO S.A. (a Belgian company, 22.485% equity stake); CRNOGORSKI ELEKTROPRENOSNI SISTEM AD - "CGES" (a Montenegro company, 22.0889% equity stake) and the Tunisian jointly controlled company ELMED ÉTUDES Sarl (50% equity stake).

## Subsidiaries

SunTergrid, an Italian company entirely owned by Terna, in 2009 began building photovoltaic solar plants on territories free from plants, near the transforming stations rented by the Parent Company. It entirely owns Rete Solare S.r.l.

Terna Rete Italia (former TELAT), Terna's entirely owned company, was created for planning and designing, implementing, managing, developing, operating and maintaining electricity lines, grid structures and related infrastructures as well as plants and equipment functional for their operation (see box, page 33).

Terna Plus, Terna's entirely controlled Italian company, was created for planning and designing, implementing, managing, developing and maintaining energy storage systems (including batteries), pumping and/or stocking systems. In the future, in Italy and abroad and in partnership with other parties, it will manage, among others, grid equipment and infrastructures and related research, consulting and assistance activities (see box, page 33).

Terna Crna Gora d.o.o., a Montenegro limited company established on June 22, 2011 and entirely owned by Terna, carries out activities regarding authorization, implementation and management of the electricity interconnection in Montenegro. The company will also promote development opportunities in the transmission sector for the Balkan area in support of generation investors in order to contribute to enhancing and using the Italy-Montenegro interconnection infrastructure. As of December 31, 2011, Terna Crna Gora had two employees working with a local contract and one seconded employee from Terna S.p.A..

## Affiliated companies

CESI is the leading company in the market of testing and certifying electro-mechanical equipment and consultancy on electricity systems. It covers all the stages of the life cycle of the electricity system and offers companies therein (generation, transmission, and distribution), manufacturers of electrical and electronic equipment, large consumers of electricity, and local and national governments a complete range of services aimed at the solution of problems connected with the productive processes of the entire electricity industry.

CORESIO is a service company operating under Belgian law, with its headoffice in Brussels, in which Terna acquired an equity interest of 22.485% in November 2010. Shareholders of the company include the TSOs of France (RTE), Belgium (Elia), and Great Britain (National Grid), each with the same percentage of the share capital as Terna, as well as Germany's TSO, 50Hertz Transmission, with 10%. CORESIO develops daily forecasts and real-time analyses of power flows in Central and Western Europe, identifying potential problems and promptly informing the TSOs concerned. Terna's stake in CORESIO constitutes an equity investment in an affiliated company for the Group.

CRNOGORSKI ELEKTROPRENOSNI SISTEM AD ("CGES") is Montenegro's TSO in which Terna acquired an equity interest of 22.09% in January 2011, following the approval, on the part of CGES' Member Meeting, of a capital increase reserved for Terna. The agreement represents the point of arrival of an industrial cooperation project and for the country; it is part of the inter-governmental agreements between Italy and Montenegro that began on December 19, 2007 with the signing of a strategic partnership agreement in November 2010 for building the new submarine electricity interconnection and implementing the partnership between national transmission operators. As of December 31, 2011 CGES had two seconded employees from Terna S.p.A..

## Jointly controlled companies

ELMED ÉTUDES is a special purpose entity, jointly owned by Terna and the Tunisian electricity company STEG; STEG is developing the Elmed Project, which provides for the production of electricity in Tunisia from both conventional and renewable sources and its transfer to Italy through a submarine connection. Production rights will be awarded through an international bid procedure.

For information on the recent development of the regulatory and legislative framework affecting the Company, please refer to the 2011 Annual Financial Report, pages 95-103.

## NUMBERS OF THE TERNA GROUP AS OF 31.12.2011

Number of employees	3,493
Turnover in million euros	1,636
Total capitalization in million euros	5,199
Km of three-phase conductors <sup>(1)</sup>	63,626
Km of lines <sup>(1)</sup>	57,651
of which underground	1,328
of which submarine cable	1,348

(1) For the km of lines and three-phase conductors broken down by voltage, see the indicator tables on page 186.

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## The Strategic Plan

On March 20, 2012, the Strategic Plan was presented for the 2012-2016 period, approved by the Company's Board of Directors. The following points provide the plan's summary.

### The grid of the future for a new electricity system

In the next 5 years, 4.1 billion euros will be invested for the safety and modernization of the electricity grid, of which 82% will be used for grid development. Considering also the 1.2 billion euros already invested in 2011, the investment plan reaches 5.3 billion euros, exceeding the 5 billion euros of the previous Plan.

Up to nearly 1 billion euros should also be added to 4.1 billion euros, for implementing energy storage systems for 240 MW, still not yet authorized and subject to obtaining adequate remuneration. Developing the electricity grid remains a top priority also in the new Plan.

By enhancing the Company's strong technical and engineering skills, in addition to one billion euros for implementing batteries, up to 900 million euros of investments both in Italy and abroad could be included among non-traditional activities for projects for private customers where the expected returns are higher than those from regulated activities. In this way, the total expenditure for non-traditional activities is doubled (up to 1.9 billion euros) compared to one billion euros established in the previous Plan. Therefore, during the Plan period, investments up to 6 billion euros are expected.

Terna will have over 300 building sites open throughout Italy for a value of 2.9 billion euros and in 2012 works will begin for three strategic projects: the 380 kV Foggia-Benevento power line between Puglia and Campania; the 380 kV Trino-Lacchiarella power line between Lombardy and Piedmont; the 380 kV Dolo-Camin power line between Venice and Padua. Work that began in 2011 will continue for the "Sorgente-Rizziconi" electricity bridge between Sicily and Calabria for over 730 million euros of investments and the modernization and upgrading plan of the large metropolitan areas will continue involving the cities of Rome, Milan, Naples, Turin, Palermo and Genoa for an overall investment of approximately 1 billion euros.

### Improved margins

Increased revenues and cost control will result in an increase of approximately 19% of the EBITDA accrued during the 2012-2016 Plan period, compared to the previous five-year Plan. The average annual EBITDA growth will increase from 5% to 7.5%, with a significant improvement in the operating cash flow. The EBITDA margin at the end of the period will be higher than 80%, increasing with respect to 78% of the old Plan.

### Stronger financial structure

Efforts continue for improving the equity ratios. During the Plan period, the net financial debt is expected to increase by 1.6 billion euros to 6.7 billion euros leading to the significant reduction of 1 billion euros compared to the previous Plan.

Capital structure remains solid: during the Plan period, the ratio between net financial debt and RAB will continue to be lower than 55% in all the Plan's years and the ratio between net financial debt and the EBITDA will improve compared to 4.2 at the end of 2011, remaining 4 times lower.

### New dividend policy

As of 2012, a base dividend is expected from traditional activities equal to 19 euro cents per share, to which the contribution from non-traditional activities will be added (60% payout on proceeds and/or gains).

### Revised tariff system

The new tariff system for the 2012-2015 period has revised the remuneration level of investments and also the type of investments that fall into the different categories. The Electricity and Gas Authority has planned for the end of 2013 a review of the "Risk Free" component in determining the WACC, considering the annual average return of the BTPs with 10 year maturity for the period November 2012 - October 2013.

### Financial flexibility

To increase its financial flexibility, Terna may possibly examine the sale of a group of assets to reinvest the proceeds in new development investments, without risking the stability of the capital structure in the long term.

### New organizational structure

The distinction between traditional activities and non-traditional activities is reflected on the new organizational structure, operational as of April 1, 2012 (see box page 33).

## Ownership Structure

Terna S.p.A. has been listed in the Italian Stock Exchange since June 2004.

Terna S.p.A.'s share capital is equal to 442,198,240 euros and consists in 2,009,992,000 ordinary shares with a par value of 0.22 euros each (March 29, 2012).

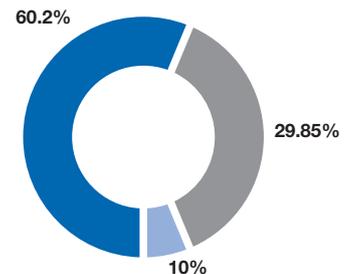
On the basis of accounting records and of other information collected as of the abovementioned date, Terna S.p.A.'s shareholders are divided as follows:

- Cassa Depositi e Prestiti S.p.A. (CdP) 29.85%
- 10% held by other relevant shareholders <sup>(1)</sup> among which:
  - Romano Minozzi with 5.6%
  - BlackRock Inc. with 2.4%
  - Assicurazioni Generali with 2%
- 60.2% held by other institutional + retail investors

On the basis of periodical surveys carried out by the Company, Terna S.p.A.'s shares are held for 65.6% by Italian shareholders (CdP 29.85%, Italian institutional investors 8% and retail investors 27.8%) and for the remaining 34.4% by foreign institutional investors, mainly European and American.

### TERNA'S SHAREHOLDER BASE

• Other institutional + retail investors	60.2%
• CdP	29.85%
• Other relevant shareholders <sup>(1)</sup>	10.0%



**Total 100%**

No other shareholder owns more than 2% of Terna's share capital, nor does the Company know of any shareholder agreements regarding its shares. On April 19, 2007, Cassa Depositi e Prestiti S.p.A. established that it was in a position of *de facto* control of Terna S.p.A..

As of March 2012, 11% of the share capital was held by Socially Responsible Investors – SRI.

By referring to specific provisions concerning State ownership in companies involved in liberalization processes, Terna's Bylaws establish restrictions on shareholding and voting rights. As with other companies involved in the liberalization process, the Ministry of Economy and Finance, in agreement with the Ministry for Economic Development, is entitled to oppose the acquisition – by parties not under public control – of more than 5% of the share capital. Furthermore, in order to safeguard Terna's independence and impartiality, when the Board of Directors is elected, no company in the electricity industry may exercise voting rights representing more than 5% of the share capital.

## Corporate Governance

Terna's governance structure is based on the traditional accounting and control model and is in compliance with the provisions of Italian legislation regarding listed companies. Terna adopted the Governance Code of listed companies published by Borsa Italiana in March 2006 and in 2007 the Company approved and implemented adjustments in its corporate governance system in order to fulfill the commitments provided for by the Code.

Therefore, the Company's corporate governance system is in line with the principles included in the Governance Code (available at [www.borsaitaliana.it](http://www.borsaitaliana.it)), with the relevant recommendations issued by CONSOB, and in general with international best practices. This corporate governance model aims at creating value for shareholders, while being aware of the social importance of the Group's activities and of the need to appropriately considering all the interests involved in carrying them out. The task of managing the Company is entrusted to the Board of Directors, which is appointed by the shareholders' meeting. The Board of Directors is responsible for establishing strategic and organizational guidelines for the Company and the Group, as well as ensuring that the controls necessary for monitoring the performance of the Company and its subsidiaries are in place.

(1) Relevant shareholders are meant to be shareholders who own more than 2% of Terna S.p.A.'s share capital, on the basis of information available and of notices received pursuant to CONSOB Resolution no. 11971/99.

## Board of Directors

In compliance with the Bylaws, the Board is entrusted with the broadest powers for the company's ordinary and extraordinary management and in particular, it has the power to take all action it deems necessary for implementing and reaching corporate goals, excluding only the action that the law and the Bylaws reserves for the shareholders' meeting.

## Chairman of the Board of Directors

In compliance with the Bylaws, the Chairman has the company's legal representation power, chairs the shareholders' meeting, summons and chairs the Board of Directors and verifies the implementation of the Resolutions passed by the Board itself.

## Chief Executive Officer

Also in compliance with the Bylaws, the CEO has the company's legal representation power and corporate signature and is also entrusted, according to the Board's Resolution, with all the powers for managing the company, with the exception of those differently established by law, by the Bylaws or reserved to the Board of Directors.

### EC7 BOARD OF DIRECTORS IN OFFICE AS OF 31/12/11

Office	Members	Executive	Non executive	Independent	Internal Control Committee	Remuneration Committee	Committee for Related Party Transactions
Chairman	Luigi Roth		●				
CEO							
Director	Flavio Cattaneo	●					
Director	Fabio Buscarini		●	●			
Director	Francesco Pensato		●				
Director	Paolo Dal Pino		●	●	●	●	●
Director	Matteo Del Fante		●		●		
Director	Salvatore Machi		●	●		●	●
Director	Romano Minozzi		●	●		●	●
Director	Michele Polo		●	●	●		

The Board of Directors in office as of December 31, 2011 was appointed on May 13, 2011 and consists of nine members. On May 30, 2011, Director Andrea Camporese, non independent and non executive member, resigned from his positions for personal reasons. As his replacement, Terna S.p.A.'s Board of Directors appointed Francesco Pensato by cooptation and upon indication by Cassa Depositi e Prestiti; he will remain in office until the next shareholders' meeting.

Further information on Terna's corporate governance can be found in the "Corporate Governance Report", which was approved by the Board of Directors on March 20, 2011 and available on the Company's website, [www.terna.it](http://www.terna.it), in the Investor Relations section, accessible from the homepage.

## Terna's new organizational structure

As of April 1, 2012 the Terna Group has a new organizational structure.

Announced in February 2011 during the analyst presentation of the 2011-2015 Strategic Plan, the reorganization is functional to developing the opportunities of the business objectives outlined in the Strategic Plan and focuses on the expertise and know-how acquired by Terna's people in managing large works and on its knowledge of the electricity market. In the new structure, the Terna Group is divided in Terna S.p.A., the Parent Company, that is the owner of the concession and of the assets, and into two entirely owned operational companies: Terna Rete Italia and Terna Plus, each one with its own CEO and its Board of Directors.

**Terna** has the task of establishing the company's strategic policies, govern processes, guarantee compliance with concessions and define the investment plan. While allowing the two new companies independent management, the Parent Company will exercise control through group guidelines that will be defined according to department and may be based on orientation, control, authorization and exclusiveness.

**Terna Rete Italia** is responsible for carrying out concession activities and for the operation, maintenance and development of the National Electricity Transmission Grid. The Company, with nearly 3,000 people, has also the task of implementing the projects established by the Parent Company in the Development Plan.

**Terna Plus** is responsible for non-traditional activities, particularly battery storage systems and energy efficiency as well as scouting development opportunities abroad (in particular the Balkans).

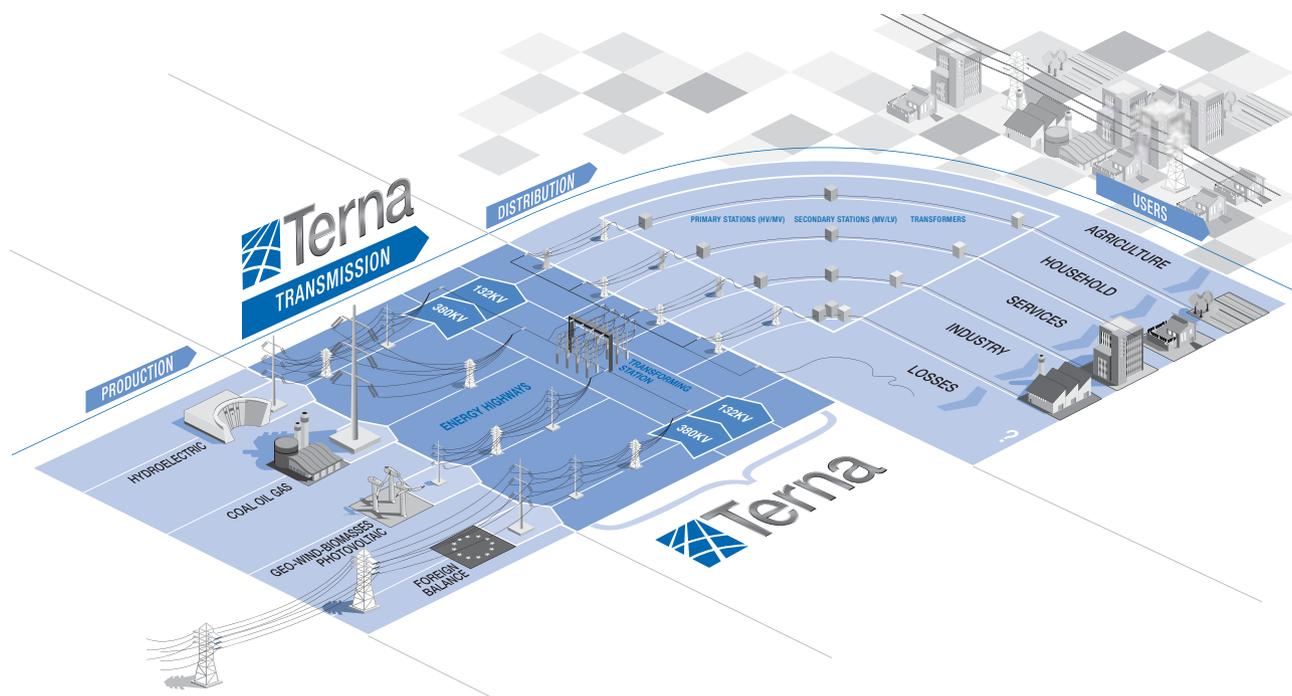
The two subsidiaries operate fully respecting the policies and guidelines defined by the Parent Company, according to the logic of the hierarchic-functional dual reporting: hierarchic reporting to the respective CEOs and functional reporting to the corresponding corporate structures. The CEOs of the subsidiaries determine the priority activities according to the logic and guidelines defined by the Parent Company's staff structures.

The new corporate and organizational structure was presented on April 3, 2012 by the Top management to the executives and through waterfall model presentations to all the Group's personnel.

## Transmission activities and processes

The Italian electricity system consists of four components: the production, transmission, distribution, and sale of electricity.

**Terna's business regards the transmission of electricity on the high-voltage grid;** in particular, the Company manages the electricity system, operating the grid and striving for the utmost efficiency of the infrastructures and excellence in their maintenance through plant engineering and management and grid development.



The main stages of the transmission service are the following.

### Operation

Operation of the grid **requires at all times a balance between injections and withdrawals**, i.e. between the supply of domestic and imported power and the power consumed by end users. This function is called dispatching.

Preparation for real-time operation includes **unavailability planning** (of the grid and of production plants) with different time horizons, forecasting the national electricity demand, verifying its compliance with the production plan determined as the outcome of the free electricity market (Electricity Exchange and off-Exchange contracts), acquiring resources for dispatching, and verifying power transits for all the lines of the transmission grid.

In the **real-time control phase**, the National Control Center coordinates other centers throughout Italy, monitors the electricity system and performs the task of dispatching, taking action in case of deviations from the expected operation due to malfunctioning of production plants or grid segments or to a different demand trend compared to forecasts; instructions are thus given to producers and to Remote-control Centers to adjust the supply and the grid setup. In case of an emergency, the National Control Center may also take action to reduce the demand in order to avoid the risk of grid degeneration and extensive outages.

### Grid development planning

The analysis of electricity flows on the grid and the development of projections of demand enable Terna to **identify the critical aspects of the grid and the new works that need to be constructed** in order to ensure the system's adequacy with respect to meeting the demand, the security of operation, congestion reduction, and the improvement of service quality and continuity.

The new works to be constructed are included in the National Transmission Grid Development Plan, which is submitted for approval to the Ministry for Economic Development every year. Terna then follows the authorization process, from advance consultation with the local bodies to the authorization to construct the work.

Lastly, by analyzing the situation of the grid, Terna identifies the **best ways of connecting to the grid** the plants of all the operators that so request.

### Construction

Terna establishes the engineering standards of the plants connected to the grid, in particular construction standards and the performances required for equipment, machinery and components of stations and power lines.

As far as plant construction is concerned, **Terna prepares projects for the works authorized**. In particular, it establishes the requirements of external resources and the budget for the projects, as well as the work methods and the technical specifications of the components and materials that will be used in constructing the new lines or stations, including the adoption of innovative methods. The construction of new plants is generally outsourced.

### Maintenance

Terna carries out the **maintenance of its power lines and stations** through eight Transmission Operating Areas, which employ most of the Company's human resources (slightly less than 70%).

## Other Activities

As a complement to the activities carried out under concession, Terna also develops non-traditional activities, i.e. activities that are not regulated or that are subject to regulation by the Electricity and Gas Authority (AEEG) that differ from activities carried out under concession.

In 2011, these activities regarded:

- Continuing the photovoltaic project, with a second group of plants built by the subsidiary Nuova Rete Solare S.r.l., subsequently sold to the Terra Firma fund on October 24, 2011;
- Starting investment projects in the field of energy storage systems (see "Responsibility for the electricity service", box page 188);
- Developing foreign activities in the Balkan areas and in the Mediterranean-North African area.



## Terna's second photovoltaic project

Terna's activity in the photovoltaic field consisted in enhancing the territories adjacent to power stations by building small-sized photovoltaic production plants.

Since 2010, the year the first photovoltaic project began, Terna installed over 220 MWp of solar panels.

The first group of plants (approximately 145 MWp) was built between 2010 and the first months of 2011 and was sold by transferring Rete Rinnovabile S.r.l., finalized in March 2011. The second group of plants was built by Nuova Rete Solare S.r.l. – a company entirely owned by the subholding SunTergrid.

The sale agreement of Nuova Rete Solare S.r.l. to Terra Firma, the private equity fund that had already bought from Terna Rete Rinnovabile S.r.l., was finalized in July 2011 with closing at the end of October.

At the closing, Nuova Rete Solare had a photovoltaic system with a total capacity of approximately 78.5 MWp built and connected, but not yet in production.

The agreed consideration (so called Enterprise Value) for the transaction was equal to 264 million euros. Selling the equity stake generated total gross proceeds for approximately 69 million euros, partly allocated for integrating the 2011 dividend.

On the basis of the agreement, Terna shall provide Nuova Rete Solare with maintenance, surveillance and monitoring services of the plants in compliance with contracts defined at the time of the multi-year sale transaction.

Once the system is fully operating, the photovoltaic production of this second part will allow saving approximately 74,000 tons of CO<sub>2</sub> emissions a year which added to the emissions saving determined during the first part of the project, will lead to a total of CO<sub>2</sub> emissions saved a year, equivalent to those produced by 78,000 vehicles.

## Development Abroad

With regard to its international development activities, **Terna has focused its industrial development on the strategic areas located around the Mediterranean.** In particular, development areas regard North Africa and the Balkan countries with which the Italian government is implementing inter-governmental cooperation and development agreements in the electricity sector as well as for promoting renewables.

The purpose of expanding the Company's activities in strategic areas is to increase its ability to import electricity through new interconnections with neighboring countries; this will allow obtaining benefits in terms of increased safety for the Italian electricity system and, more generally, of the diversification of electricity supply sources from abroad, of increased competition on the Italian electricity market and of the reduction of electricity prices.

The new submarine power line between Italy and Montenegro, under construction, is the most significant electricity interconnection project for linking Italy with the Balkan area. Terna is not carrying out operational activities in North Africa as of now, preliminary studies are only being conducted.

### The Balkans

The Balkans represent for Terna the most interesting strategic development area based on the geographical proximity and on the region's energy potential, particularly regarding renewables.

The region currently has the most attractive nearby power market based on the expected medium- and long-term power surplus thanks to its unused potential of hydroelectric power, wind power and biomasses. Accessing this market will allow diversifying supply sources at competitive production costs.

The opportunities for developing production from renewable sources in the Balkan area also represent a possibility for complying with EU targets for the reduction of CO<sub>2</sub> emissions.

Montenegro is the country of greatest interest to Terna in the Balkans thanks to its optimal geographical location for the national market needs and to the availability of a transmission grid that is in good conditions and well connected with the future production hubs planned in the area (Bosnia-Herzegovina, Serbia, Albania and – via Serbia – Bulgaria and Romania). These characteristics make it the best candidate for carrying out the role of electricity exchange platform between Italy and the South-Eastern European area, characterized by a significant power surplus in the short-and medium term at lower costs compared to Italy.

The **new submarine power line between Italy and Montenegro** will link Italy to the Balkan area through 415 km of cable between the 400 kV junctions in Villanova (Pescara) and Tivat (Montenegro), with a 1,000 MW transfer capacity. The infrastructure is part of Terna's NTG Development Plan approved by the Ministry for Economic Development and is carried out according to the same rules that regulate (for example in the field of bids) grid development investments in Italy.

In November 2010 and in January 2011 binding agreements were signed between Terna, Montenegro's government and the local transmission operator CrnoGorski Elektroprenosni Sistem AD (CGES) for building the cable between Italy and

Montenegro and for the strategic partnership with CGES. These agreements regulate modalities, coordination and the timeframe for implementing the infrastructures. The cable's entrance into operation is scheduled by agreements to take place by 2015 on the part of both the operators. Along with the submarine interconnection, a development plan for grid infrastructures has also been scheduled to be carried out by CGES.

The authorization process for the Italian side ended on July 28, 2011 with the authorization for building and operation issued by the Ministry for Economic Development. In Montenegro, the project was included in the detailed zoning scheme approved by Montenegro's government on July 28, 2011 and published on September 23, 2011. The project is currently being implemented by Terna and by Montenegro's operator CGES.

To complete building the new submarine connections, Terna will develop grid infrastructures in the Balkan countries in order to strengthen the electricity exchange corridors with Italy and guarantee Italian electricity market operators the opportunity to import from the region. Within this context, and in association with SAE Power Lines, Terna has built the 400 kV Tirana-Elbasan electricity line in Albania, successfully tested in March 2011.

Terna is also present in Kosovo, with technical assistance activities in favor of TSO KOSTT, focused on the operation of the electricity system and on international regulatory aspects for the electricity market. In partnership with the Scottish IPA, the contract is financed by the European Commission and has a total duration of 46 months, expected to terminate in January 2013.

June 2011 marked the successful conclusion of the technical assistance in favor of the Serb regulatory authority AERS following the previous experiences with the Turkish TSO (TEIAS), the Ukrainian Ministry of Energy, the Albanian distribution company KESH and the Albanian TSO (OST).

### North Africa

Terna does not currently have any investment activities in North Africa but is only conducting studies and preliminary development activities.

Infrastructures (energy, water, transportation and related activities) represent the basis for the area's social and economic development: new market spaces open for companies operating in the electricity infrastructure sector, historically concentrated on national markets.

As part of interconnection projects with North African countries, Terna prefers integrated projects for electricity production and transfer, particularly referred to renewable sources whose use includes advantages for the environment and strengthens investment safety by improving the risk profile.

A strategic geographical position and a solid interconnection capacity with the European grids capable of supporting the efficient development of exchanges, make Terna a referent for connecting North African grids to Europe.

This development strategy is implemented by integrating the Euro-Mediterranean electricity grid for:

- enhancing the availability of renewables located along the southern coast of the Mediterranean by connecting them to end markets;
- promoting the building of electricity infrastructures along the southern coast, necessary for implementing international energy exchanges along the South-South and South-North axes.

This approach is based on a **multi-lateral Euro-Mediterranean cooperation project by:**

- building an electricity corridor Maghreb-Europe, with interconnection projects with Tunisia and Algeria;
- participating in international cooperation, institutional and industrial initiatives.

Interconnection projects currently being developed are:

- **Elmed Project:** an integrated production and transmission project based on market procedures that includes producing electricity in Tunisia and exporting it towards Italy, according to an Italian-Tunisian intergovernmental agreement that guarantees institutional coverage to the industrial initiative. On the basis of this agreement, Terna and the Tunisian national electricity company STEG signed a partnership agreement for implementing the Project; they also formed a mixed company (Elmed Études) responsible for providing assistance to the Tunisian Ministry for managing the bid aimed at granting production rights in Tunisia and export rights to Italy.

The Project has not yet entered the operational phase and includes:

- a production mix from renewables (min. 100 MW) and conventional sources in Tunisia for 1,200 MW, 400 of which for the Tunisian market and 800 for export to Italy, by the party that will be granted production rights in Tunisia, selected through an international bid launched by the Tunisian government;
- an Italy-Tunisia interconnection via submarine cable, built and managed by a mixed company Terna-STEG, with Terna as major shareholder; the transfer capacity will be of 1,000 MW.
- **Italy-Algeria interconnection:** as part of an interconnection between the Algerian and Italian electricity systems – and, more generally, between the Maghreb and Europe – Terna and Sonelgaz signed an agreement (March 2011) for the electricity connection between the two countries.

Specifically, the agreement regards updating and implementing a previous feasibility study for the submarine interconnection between Algeria and Italy, completed in 2004 by former GRTN with Sonelgaz and defining technical, economic, industrial, institutional and regulatory conditions for its implementation. According to the activity plan, Terna and Sonelgaz aim at initiating in 2012 the authorization process for the interconnection.

Other cooperation initiatives include:

- **Paving the Way for the Mediterranean Solar Plan:** the European Commission project for implementing and developing the Mediterranean Solar Plan that Terna is carrying out in association with RTE (France), Sonelgaz (Algeria), MVV Decon (Germany) and with ENEA.

The project includes technical assistance activities to nine beneficiary countries from the MENA Area (Middle East – North Africa), for defining a legal and regulatory framework promoting energy production from renewable in the southern Mediterranean coasts and integrating the electricity systems of the two Mediterranean coasts.

The Consortium closely coordinates its activities with the authorities of the beneficiary countries and carries out know-how transfer. Terna's contribution is focused on assessing production and transmission systems of the countries involved, on submitting proposals for developing renewable energy exchanges and on defining a regulatory framework that is harmonized throughout the Mediterranean area for promoting the integration of regional electricity systems.

- **Medgrid:** is a joint venture governed by French law, aimed at creating a Euro-Mediterranean electricity grid for exchanging renewable energy among the countries of the MENA Area and transferring it to Europe.
- **Desertec:** a German headed industrial initiative with the objective of promoting a Euro-Mediterranean cooperation project for producing electricity, mainly from renewables, in North Africa and in the Middle East (MENA Area).

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## Med-TSO: Terna for a Euro-Mediterranean electricity grid

The Mediterranean's social and economic development requires the availability of electricity infrastructures supporting production activities and a framework of clear and stable regulations for implementing long-term infrastructural investments.

Within this context, Terna has promoted together with the Algerian electricity company (Sonelgaz) and with the Tunisian electricity company (STEG), the creation of Med-TSO, the association of Mediterranean grid operators.

The initiative, currently being finalized, aims at creating a free and independent area among the Mediterranean TSOs and at guaranteeing the necessary connection between regulatory duties (specific to regulatory authorities) and those for the operational management of electricity systems.

Med-TSO holds the role of natural interface for Med-Reg (Association of Mediterranean Regulators) and Entso-E (Association of European TSOs).

In November 2011, the first organizational meeting among TSOs was held in Naples, under the patronage of Med-Reg and of the Parliamentary Assembly of the Mediterranean, during which nearly two thirds of the 24 coastal Mediterranean TSOs expressed their interest in joining the Association. The formal establishment of the Association took place in Rome at Terna's headoffice on April 19, 2012.

### The Northern Frontier

On the northern frontier the most important development project is the one regarding the 1000 MW interconnection with France connecting Piosasco, (Turin) and Grand'Île, (France) with a direct-current cable that will be completely buried or integrated in the infrastructure of the A32 Fréjus highway. With its long tunnels and viaducts and its extremely low environmental impact, this technological project is unparalleled in the world. Authorized by the Italian authorities in March 2011, the line will be 190 kilometers long – nearly half of which in Italy – and will use the highway and the new Fréjus service tunnel. The benefits for the Italian electricity system consist in an increase in its ability to import low-cost power and in the security and diversification of its supply sources.

# Sustainability

## Terna's concerns

Terna has a crucial and fundamental role in the Italian electricity system. The major economic and social impact of its corporate business is determined by its ability to provide society with a reliable and efficient electricity service. Service commitment is therefore also the main reference of the Company's approach to sustainability issues, among which respect for the environment and local communities are particularly important, as well as occupational safety and personnel training. In general, as established in its Code of Ethics, Terna's aim is to construct and develop relations with its stakeholders based on trust in order to create value for the Company, society, and the environment.

Terna's core business is the provision of a service that is indispensable for the operation of the entire electricity system and for supplying everyone in Italy with electricity. Although the end users of the electricity service are not Terna's direct customers, but rather of companies that distribute and sell electricity, the essential role it performs in the electricity system makes the Company **ethically responsible for the service towards the entire country**. Terna therefore is very conscious of the responsibility entrusted to it by the government concession and takes on its objectives, i.e. to:

- provide a secure, reliable, continuous, and cost-effective service;
- keep the transmission system efficient and develop it;
- comply with impartiality and neutrality principles in order to ensure equal treatment to all grid users.

Terna's activities intrinsically produce a heavy impact on the environment: electricity infrastructures have a tangible, visible presence which is represented by the large pylons of electricity lines. Therefore, the **reduction of the impact of lines** is another major objective. The Company considers **respect for the environment and local communities** a rule of conduct that can trigger a virtuous circle: it allows biodiversity, natural and cultural heritage to be preserved, while facilitating the acceptance and construction of new infrastructures, thus generating economic benefits for shareholders and society as a whole, which takes advantage from a more secure, efficient and less costly service. The Company's concern for communities is also expressed through initiatives with social, humanitarian, and cultural value as a concrete sign of participation in the civil growth of society.

The role of human resources in Terna's activities is crucial. The **renewal of technical expertise** that is distinctive and often rare or unique in the electricity industry, represents an essential element of Terna's approach to sustainability. Another equally important element is concern for **occupational safety**, which is even greater considering that many operating activities are characterized by particular risks, such as working many meters above the ground and performing maintenance tasks on energized lines.

Further details on the significant aspects for Terna regarding sustainability are included in the first sections of the four chapters on service, economic, environmental, and social responsibility in this Report.

## Sustainability Governance

### Code of Ethics

The Code of Ethics was approved by the Board of Directors on December 21, 2006. The result of internal reflection that involved the top and first-line management, it is the highest reference for identifying the sustainability issues that are significant for Terna and establishing internal policies and guidelines. It is a concrete guide in making everyday decisions and aligning them with the objective of creating and consolidating a relationship with stakeholders based on trust.

The Code is divided into five sections, which describe:

- general ethical principles (legality, honesty and responsibility) and those particularly significant for Terna's business (good management, respect, fairness and transparency);
- the conduct required, specifically from employees, with regard to the general issues of loyalty to the Company, conflicts of interest, and the safeguard of corporate assets;
- the main guidelines on conduct in relations with stakeholders;
- Terna's commitments to ensuring compliance with the Code;
- the rules for implementing the Code and the persons responsible.

One of the commitments expressed in the Code is to provide evidence, in the Sustainability Report, of the implementation of the Company's environmental and social policy, as well as of consistency between objectives and the results achieved. The Code of Ethics is available in Terna's website, under Corporate Governance, in the "Investor Relations" section.

## HR5 Global Compact

HR6

HR7

In becoming a member of the Global Compact (2009), the multistakeholder network of the United Nations, Terna further consolidated its commitment to complying with the Global Compact's 10 principles on human rights, labor, the environment and the prevention of corruption. These principles were already referred to in Terna's Code of Ethics as a benchmark for the Company's initiatives regarding sustainability and corporate social responsibility.

During 2011, Terna joined the Steering Committee of the Italian Network. Additional information on Terna's activities in the Global Compact Network Italia are described below.

## Terna's Commitment in the UN Global Compact



"Public-Private Joint Efforts Towards Rio+20": plenary session at the Ministry of Foreign Affairs - Rome

In 2011, Terna increased its commitment in the Global Compact Network Italia, the Italian multistakeholder organization that in line with the directives of the headoffice in New York, promotes the culture of corporate citizenship through the "Global Pact" launched in 1999 by the UN General Secretary at the time, Kofi Annan.

The network's activities have registered a significant increase also with respect to the annual meeting of the European networks that was held in Rome in October.

"Public-Private Joint Efforts Towards Rio+20" is the subject that was discussed by representatives from the business world, non-profit organizations, universities and civil society for making a contribution toward implementing a more inclusive and sustainable global economy, in line with the 10 universal principles on human rights, labor, environment and the prevention of corruption.

During the annual meeting of European networks, that coincided with the closing of the European Year of Volunteering, Terna organized at the Ministry of Foreign Affairs, the institutional venue of the Global Compact's event, the photographic exhibit by Daniele Tamagni on the electrification of the Andes region of Kami, in Bolivia, made possible thanks to the profit/non-profit partnership with the NGO COOPI - International Cooperation.

During 2011, Terna participated in the Working Group focused on the environment and formed by Acea, Altran, Coca Cola HBC Italia, Consorzio CBI, Edison, Eni, Fondaca, Fondazione per lo sviluppo sostenibile, Intesa Sanpaolo, Italcementi, Snam Rete Gas, Studio Legale Cocchi, Fondazione Sodalitas, Terna and Unicredit.

Terna's commitment to Global Compact was expressed also by improving Communication on Progress (CoP), the annual reporting of its activities in support of the 10 principles that the organizations belonging to the Global Compact must submit to the headoffice in New York. As of 2011, Terna has been one of the 10 Italian companies, out of the 114 participating in the network with an "advanced" level (the highest, above "basic" and "active") for its CoP. In order to obtain this result, Terna submitted its 2010 Sustainability Report to an analysis based on 24 criteria regarding Strategies, Governance and Stakeholder involvement, UN objectives and purposes, protection of human rights, labor, environment, prevention of corruption and creating a value chain. The results of this self-assessment are published in the area dedicated to Terna on the Global Compact's official website at [www.unglobalcompact.org](http://www.unglobalcompact.org). As of November 2011, Terna joined the Steering Committee of the Italian network.

## Management policies and systems

The principles and criteria of conduct expressed by the Code of Ethics have been translated into consistent corporate policies and management systems. Among these, the following should be stressed:

### Quality-Environment-Occupational Safety integrated management system

The activities in the important areas of the environment and occupational safety, which are crucial in Terna's view of sustainability, are coordinated and guided by its **ISO 9001, ISO 14001, and OHSAS 18001**-certified Quality-Environment-Occupational Safety Integrated management system. Compliance with certification requirements demonstrates Terna's ongoing search for improvement, which ensures consistency with the commitments expressed in the Code of Ethics and in the Company's policies. **The integrated system covers 100% of Terna's activities**, both those carried out on existing infrastructures and those regarding the planning, design, and construction of new plants. In 2010, following inspections performed by the IMQ certification body on the Quality-Environment-Occupational Safety management systems, Terna's UNI EN ISO 9001:2008 - UNI EN ISO 14001:2004 - and BS OHSAS 18001:2007 certifications were renewed for the three-year period 2011-2013, with the consequent issuance of the new certificates. In 2011, the certification bodies issued their annual confirmation.

On September 14, 2011 Terna also obtained the ISO/IEC 27001:2005 certification for TIMM applications (Integrated Text for Monitoring the Electricity Market), with reference to the Operational Unit of the Rome Headoffice that is in charge of this (see also page 70).

The ISO 27001:2005 standard is an international rule that determines the requirements for the Information Security Management System (in Italian SGSI) for physical, logical and organizational safety (Information Security Management System-ISMS) and is in line with Terna's approach to the ISO 9001 Quality System and Risk Management (see also page 65 of the 2010 Sustainability Report).

### 231 Organizational Model (pursuant to Legislative Decree 231/2001)

In 2002, Terna's Board of Directors resolved to adopt the Organizational and Management Model to comply with the provisions of Legislative Decree no. 231 of June 8, 2001, which introduced into Italian law a regime of administrative (but *de facto* criminal) liability of companies for several kinds of crimes committed by directors, executives, or employees in the interest or to the benefit of the company. In particular, the law was intended to fight corruption. The possibility for a company to be exempted from liability depends on specific actions, including:

- having adopted and implemented (before the crime is committed) an organizational and management model consistent with Legislative Decree 231 and appropriate for preventing crimes as the one that was committed;
- having entrusted the operation, respect and updating of the Model to an internal Vigilance Body endowed with autonomous powers of initiative and control regarding the application of the Model.

Terna's adoption of the 231 Organizational and Management Model is thus aimed at ensuring "conditions of fairness and transparency in conducting the Company's business" and activities so as to safeguard its position and image, as well as the expectations of its stakeholders, in keeping with the provisions of Legislative Decree no. 231 of June 8, 2001. The Model has subsequently undergone a number of revisions to adapt it to law provisions and for the inclusion of additional crimes in Decree 231.

The Model currently consists of 11 parts, a general one and 10 special ones (A, B, C, D, E, F, G, H, I, L). In particular, after Legislative Decree no. 121/2011 became effective, which extended the application field to certain environmental crimes, Terna S.p.A. adapted its Organizational and Management Model by introducing Special Part L, which regards environmental crimes. Specifically, the 11 special Parts of the Model regard the following:

- A – crimes towards the Public Administration
- B – corporate crimes
- C – crimes of terrorism
- D – crimes against individuals
- E – market abuse
- F – money laundering crimes
- G – crimes of involuntary manslaughter and grievous bodily harm
- H – computer crimes, unlawful data processing, copyright violation
- I – organized crime
- L – environmental crimes

In March 2011, the Corporate Security Department published and distributed to all employees a manual for personnel entitled "Legislative Decree no. 231 of June 8, 2001 – A Model for Organizing and Managing the Procedures" to further support the provision of information and training on the subject (see also page 177). An awareness campaign was also conducted adjusted according to crime "at risk" areas in which each one operates.

Further information on Terna's organizational Model is available at [www.terna.it](http://www.terna.it) under Corporate Governance, in the "Investor Relations" section.

## Balanced Scorecard and incentive systems

In monitoring and auditing corporate activities, the Company utilizes a Balanced Scorecard (BSC) system, a panel of indicators that allow it to follow quarterly the progress made with respect to the operating objectives into which – according to the economic/financial, organizational/processes, strategic/customers, and innovation/development areas – the annual objectives of the Strategic Plan are divided. Particularly significant from the point of view of sharing Terna's sustainable approach to business, is the **inclusion in the BSC system of sustainability objectives**. Thanks to the link between the Balanced Scorecard and variable-pay schemes for managers (MBO), the sustainability objectives are also supported by the incentive systems based on pay.

## Internal organization

Particularly important from the point of view of sustainability are:

- the presence of a Corporate Security and Safety Department entrusted with, among other things, Risk Management, Fraud Management and the safeguard of the Company's physical, human, and financial resources, as well as occupational safety. Risk Management has the objective of assessing the types and outcomes of possible disturbances to the regular carrying out of corporate activities. The method for risk management allows identifying various causes that can lead to deviating from the established goals and quantifying their consequences so as to support decisions regarding the possibility of preventing, limiting, transferring or accepting corporate risks. Risk Management is focused on analyzing causes that have not yet been determined, assuming that determined, certain, or highly probable causes should have already been addressed and preventively eliminated. The Fraud Management unit has the objective of safeguarding the Company's assets (material and human resources, direct and indirect benefits) in the face of illegal events that could compromise them with activities aimed at preventing and managing corporate fraud. This activity takes the form of constantly monitoring processes, checking reports of illegal activities, implementing memorandums of understanding and assessing and monitoring compliance risk.

In managing corporate risks, Terna adopts procedures suitable for guaranteeing operating efficiency and market growth opportunities.

- the presence of a Corporate Social Responsibility Unit in the External Relations and Communication Department, which – in cooperation with all the corporate departments and referring to the best practices – contributes to establishing the Company's sustainability objectives regarding the ethical, social and environmental context as well as sustainability governance and communication of the objectives and results of Corporate Social Responsibility. The unit also constantly monitors the risks connected with aspects of sustainability that entail potential negative repercussions on the Company's reputation and intangible value through the analysis of the ratings of the leading agencies (such as SAM - Sustainable Asset Management; Vigeo, and Eiris) which periodically prepare sustainability assessments;
- the creation in 2009 of a Sustainability and Environmental Steering Committee, whose members are the heads of the departments that share the responsibility of implementing sustainability projects and monitoring their impacts;
- the use since 2009 of SDM (Sustainability Data Manager) dedicated software for managing the sustainability information system, which currently includes more than 1,500 indicators linked to textual information, data, conversion factors, and formulas for monitoring Terna's environmental and social performances;
- the presentation to the Board of Directors, upon the approval of the Sustainability Report, of sustainability objectives and results.

## Sustainability results and objectives

2011 registered important progress in all areas of responsibility. According to the order listed in the table, the following **results** are highlighted corresponding to the objectives delineated for 2011 and included in the previous Sustainability Report.

- The scheduled survey on the reputation was postponed owing to the need of re-focusing the group of monitoring tools of the stakeholder opinions.
- The Sustainability section of the website [www.terna.it](http://www.terna.it) was significantly modified based on the need for improving organization of contents, expanding the reference documents and above all, for providing an easier and more dynamic subject structure with pages whose central, more concise texts are accompanied on the right by links to documents, videos and references to other pages of the website. The experts viewed these changes favorably: Terna's Sustainability Section ranked fifth among the first 50 companies listed in the special Lundquist ranking (see box page 61), representing the expectations of the web users regarding sustainability information.
- The central responsibility for the electricity service was confirmed by the excellent result obtained with respect to the targets set by the AEEG for 2011; greater revenues were consequently obtained (see the paragraph "Revenue Structure and Regulatory Framework").
- Developing non-regulated activities was successfully concluded in October 2011 with the sale of the second group of photovoltaic plants that was carried out in only a few months (see box "Terna's second photovoltaic project", page 36) with positive consequences on the Company's revenues and profits.

- In the environmental field, action plans and targets for controlling SF<sub>6</sub> leakage are still being re-examined; even if equipment with recurring leakage has been identified, installing high-performance equipment continued and the percentage of the leakage on the total of gas installed registered the lowest amount of the past years. Research continues for comparative data for developing a benchmark and some of the first results are included in this Report (see pages 135-136).
- Guidelines were defined for constructing Terna's office buildings according to the best energy efficiency practices. The Guidelines will represent input for adopting energy saving technology and solutions in the future construction of Terna's offices.
- Reforestation was increasingly used for offsetting CO<sub>2</sub> emissions connected to the production of various Terna publications; moreover, offsetting emissions was a contract requirement in the bid for purchasing batches for renewing the corporate vehicle fleet (see pages 137-138).
- All mitigation and improvement measures regarding usability in the three Oases identified in the WWF-Terna agreement were completed and officially presented (see box pages 122-123).
- Applying the GPS performance management system was extended to include more employees with respect to 2010, as part of a project for gradually including a growing number of professional areas (see page 162) within the official performance evaluation process, fundamental for development and meritocracy-based management.
- 2011 registered intensive activity also regarding the tools for allocating and controlling solidarity and charity expenses that also led to defining regulations for freely selling corporate goods and for improving management of external requests on the part of non-profit organizations (see pages 179-180).
- Regulations for employee volunteering are currently being developed. In addition to the above-mentioned initiatives with the WWF, in 2011, an important collaboration agreement was signed with Legambiente, along with the ones already signed in the previous years with the WWF and with Lipu (see page 140).

**Objectives for 2012** represent further steps along the directions already taken: the following table provides a summary. These objectives include:

- revising ethical, environmental and social responsibility supervision with respect to the re-organization of the Group and its strategic objectives, particularly:
  - adopting the Code of Ethics and the 231 Model on the part of the new companies of the Group;
  - revising, updating and, if necessary, strengthening this supervision along the supply chain;
  - preventive analysis of environmental impact connected to business expansion (new operating activities);
- actively participating in the Pilot Programme of the International Integrated Reporting Council, by studying and implementing a greater integration of financial and sustainability information both in the Report on Management and in the website;
- continuing activities for planning a management system based on energy efficiency, in line with the ISO 50001 criteria;
- defining an action plan with practical initiatives to be implemented in the principal areas for improvement indicated by the organizational satisfaction survey conducted in 2011.

Area of responsibility	2011 objectives	2011 results	2012 objectives
<b>Governance and general aspects</b>	Conducting survey on Terna's reputation	Initiative postponed	••• Adopting the Code of Ethics and Model 231 by the Group's new Companies
	Revising the website's sustainability section	New website's sustainability section created (page 61)	••• Revising and updating supervision of responsibilities (environment, human rights, prevention of corruption) in the supply chain
	2010 Sustainability Report online within mid-June	2010 Sustainability Report online July 5 <sup>th</sup>	••• Integrated Reporting: participation in the Pilot Programme of the International Integrated Reporting Council
<b>Responsibility for the electricity service</b>	Respecting the continuity indicator targets	Respecting the continuity indicators targets (page 72-73)	••• Respecting the continuity indicators targets (page 72-73)
	Progress of the Safety Plan	Progress of the Safety Plan (page 67)	••• Progress of the Safety Plan (page 67)
	Positive result of AEEG incentives	Positive result of AEEG incentives (page 72)	••• Positive result of AEEG incentives (page 72)
<b>Economic responsibility</b>	Corporate Profitability	Corporate Profitability <sup>(1)</sup>	••• Corporate Profitability
	Implementing grid development investments	Implementing grid development investments <sup>(1)</sup>	••• Implementing grid development investments
	Developing non-regulated activities (photovoltaic energy)	Second group of photovoltaic assets completed (page 90)	••• Developing non-traditional activities
<b>Environmental responsibility</b>	Revising action plans on SF <sub>6</sub> leakage	Initiative in progress	••• Revising action plans on SF <sub>6</sub> leakage
	Defining an energy efficiency plan for Terna's buildings	Guidelines implemented	••• Defining a management system for energy efficiency in compliance with ISO 50001 criteria
	Increasing offsetting of CO <sub>2</sub> emissions	Increase implemented (page 124 and page 127)	•••
	Completing measures in the Oases included in the agreement with the WWF	Measures completed and officially presented (page 122)	••• Initiating environmental impact analyses of new business
<b>Social responsibility</b>	Expanding the plan for the performance assessment system	Increasing the number of personnel assessment (page 162)	••• Defining and implementing action plans in response to the results of the 2011 organizational satisfaction survey
	Defining rules for volunteering of employees and for donations of corporate property	Rules defined for donations of corporate property (page 179)	••• Defining rules for employee volunteering
	Partnership initiatives with non-profit organizations	Agreement signed with Legambiente (page 140)	••• Partnership initiatives with non-profit organizations

#### Legenda

- Objectives achieved
- Partly achieved
- Postponed or suspended

(1) The result achieved corresponds to a performance in line with the objectives approved by the Board of Directors for the Strategic Plan presented annually to financial analysts (see page 30).

## Controversies and litigation

### Opposition to the construction of new lines

Terna considers respect for the environment and local communities to be an integral part of grid planning and makes every effort to carry out its activities in agreement with local authorities. However, projects for constructing new infrastructures entail adverse reactions manifesting the NIMBY (not in my backyard) syndrome. In these cases, Terna's stance is one of willingness to seek alternative solutions, even ones that are technically more complex than those originally planned, provided they are compatible with the requirements of security, efficiency, and cost-effectiveness of the electricity service. The pursuit of shared solutions requires difficult negotiations and lengthy time. The outcomes are usually positive, however local opposition may continue during the process. During 2011 and in early 2012, the following cases were reported:

- **“Dolo-Camin”**: the line was authorized in April 2011 by the Ministry for Economic Development (MiSE) in agreement with the Ministry of the Environment (MATT). In 2011, the Municipality of Vigonovo, together with the Municipalities of Fossò and Camponogara filed a petition against the MiSE's Decree. 2010, contrarily, was characterized by opposition to the project by various Municipalities that requested the segment of line that concerned their respective territories to be buried. The Cat (Committee for the Environment and Local Communities) also protested strongly in favor of the project of the buried power line. Three petitions have presently been filed with the Regional Administrative Court (TAR).
- **“Trasversale in Veneto”**: the line is in the coordination stage. There are many problems with the local communities, in particular with an environmental association in the Municipality of Paese. Among the local bodies involved, particularly the Provinces of Treviso and of Venice, the first is generally in favor of the project. The Committees request totally burying the 380 kV (approximately 33 km) power line. The “Trasversale in Veneto” power line is the fruit of a lengthy process that began in 2001 and is currently in progress. The project is included in the works for implementing the provisions of Law 443/2001, known as “Legge Obiettivo”, the legislative tool that establishes the procedures of funding modalities for building large strategic infrastructures in Italy for the 2002-2013 ten-year period. Terna has voluntarily chosen, based on a responsible approach, to involve the municipalities in the pre-authorization phases and since 2011 has intensified meetings with the municipalities to concur on a written agreement – after 5 years of dialogue – for determining the feasibility segment for placing the power line's route and thus allowing to associate the possible removal of old lines with the building of the new one. Terna will begin the work in the authorization stage in 2012: submitting the project will activate the procedures of the “Legge Obiettivo” (also see the dedicated box, page 58).
- **“Redipuglia-Udine Ovest”**: the line has been in the authorization stage since December 2008. On July 26, 2011, the environmental compatibility decree was issued. In 2009, and throughout 2010 and 2011 there was strong opposition – led by the Committee for the Defense of Rural Friuli – to the project, requesting the construction of the work as a buried line. The controversy was also directed against the information and awareness rising campaign that Terna launched in Friuli to inform the people in the communities affected by the power line project.
- **“Sorgente-Rizziconi”**: the work is under construction. After the authorization Decree was issued on July 8, 2010 by the Ministry for Economic Development, citizens in the municipality of Serro (hamlet of Villafranca Tirrena) carried out protest actions, requesting that some of the pylons of the overhead segment “Sorgente-Villafranca”, which crosses Serro, be buried or shifted. Similar requests were made by communities from the Municipality of Pace del Mela, both regarding the new power line under construction and the presence of the existing 380 kV “Sorgente-Rizziconi” located near the urban center of Passo Vela. Despite the power line's route is the fruit of over 2 years of technical-environmental assessment and analyses that have led - in agreement with Sicily's Regional Authorities, Messina's Provincial Authorities, the Municipality of Villafranca and the Municipality of Pace del Mela, together with other 11 municipalities involved of the Messina area - to defining an overhead route that would meet in the best possible way the needs of environmental, social and health needs, fully respecting the limits established by law. Coordination and dialogue with the local governments began in 2004: over 100 meetings were held between Terna, the authorities and the local bodies involved for identifying the best solutions for protecting the territory. During 2010, the Municipality of Villafranca Tirrena, of San Filippo del Mela and of Pace del Mela filed an appeal for canceling the single authorization issued by the Ministry for Economic Development; a similar initiative was undertaken by some private citizens and environmental associations.
- **“Italy-Montenegro”**: the work was authorized in July 2011. The electricity interconnection project between Italy and Montenegro was included in 2008 among the priority infrastructures (Corridor 8) as a strategic connection between the entire Balkan area and Europe through Italy, by the European Commission that also co-financed all the studies and research as part of the program for supporting Trans-European Network (TEN) electricity infrastructures. Following the favorable stance with a unanimous vote by the Local Authorities Planning Conference (November 2010), as of March 2011 controversies arose in Pescara against the cable's route. Terna, in line with its practice of willingness to dialogue with the local governments and the communities involved, modified the route to meet the needs of the Municipality of Pescara. In February of this year, the “Futuro e Libertà per l'Italia” council group at the Municipality of Pescara announced its intention of wanting to promote a consulting referendum to hear the opinions of the community regarding the building of the power line. The Municipality of San Giovanni Teatino officialized the appeal at the Tar (Regional Administrative Court) in Lazio against the project's authorization.

- **“Fano-Teramo”**: the work is currently being coordinated. As of 2006, technical consulting began with the regional authorities involved (Marche and Abruzzo). The optimal corridor for the project was agreed upon and coordination is still in progress for defining and sharing a feasibility segment for the future power line. In January of this year, the Municipality of Pesaro expressed its opposition, through a specific amendment, against having the power line pass through its territory. Even Coldiretti, the Comitato di Belforte and the Municipalities of Ostra, Senigallia, Monte San Vito, Polverigi, Osimo and Santa Maria Nuova expressed opposition against building the power line.

#### **Preliminary inquiries of the Electricity and Gas Authority**

The following inquiries by the Authority that involved also Terna, among others, should be noted.

#### **Outages in Sicily in June 2007**

Fact-finding investigation on the outages that occurred in Sicily on June 25 and 26, 2007, which the Authority initiated with its Resolution no. 155/2007. On June 26, 2007 Terna took anti-blackout measures to avoid loss of control of the system and prevent more critical situations from arising; electricity distributors consequently carried out planned rotating disconnections of ordinary users. The measure was necessary owing to a series of concomitant factors: very high consumption, widespread fires that entailed shutting down several lines to allow them to be extinguished, breakdowns, and failures. The investigation is still pending.

#### **Preliminary inquiry on unassigned power**

With its Resolution VIS 16/11 of February 7, 2011, the AEEG imposed a 420,000 euros administrative fine on Terna. The inquiry followed the fact-finding investigation (VIS 171/09), begun in 2009, regarding non assigned energy. The preliminary inquiry followed the conclusions of the fact-finding investigation, begun in 2007, regarding anomalies noted in the determination of the electricity lots withdrawn from the grid and not correctly assigned to dispatching users. With the imposition of the penalty, the AEEG criticized Terna’s conduct for lack of diligence in performing several activities of the transmission and dispatching services for which it is responsible. The AEEG also acknowledged Terna’s proactive conduct in mitigating the negative effects of the improper behavior of other companies providing the electricity service and took the same into account in quantifying the penalty.

#### **Fact-finding investigation on supplying the connection service to the grid for the electricity production plants by the grid operators**

With its Resolution VIS 42/11 of March 16, 2011, the Authority began a fact-finding inquiry for further analyzing the situation regarding grid connections of the electricity production plants, particularly the low and medium voltage connections of productions plants from renewables, also following reports from operators and category associations indicating possible criticalities in carrying out connection procedures in various areas.

During the inquiry, all the grid operators and principal associations of electricity producers were requested to provide information regarding the grid connection service for production plants and also to differentiate this information according to the various reference resolutions that regulate the issue (281/05, 89/07, 99/08-ICA, TICA modified). (See box page 81). Also Terna, as the National Transmission Grid operator, received the requests and provided all the information under its responsibility.

The fact-finding investigation closed with Resolution VIS 99/11, without any further provisions being expected to be taken against Terna.

The outcome of the inquiry, included in the Report attached to the Resolution, indicated a substantial compliance of the grid operators’ activity with respect to the terms of the regulation. Nonetheless, the Authority deemed it necessary to continue inquiry procedures with the grid operators analyzing in detail various random sample connection applications.

#### **Litigation regarding environmental issues**

Litigation for environmental issues is based on the installation and operation of electricity plants and mainly regards damages that could derive from exposure to electrical and magnetic fields generated by the power lines. The Parent Company and the subsidiary Terna Rete Italia were parties in various civil and administrative proceedings where a request was made for moving or modifying the operation modalities of the electricity lines on the basis of the alleged damage they cause, even if installed in full compliance with the existing laws on the matter (Law no. 36, February 22, 2001, and D.P.C.M. (Decree of the Presidency of the Council of Ministers) July 8, 2003). Requests for damages compensation for health owing to electromagnetic fields were very few.

Regarding decisions on the matter, it should be noted that only in few litigation cases, unfavorable decisions against the Parent Company were issued, which were appealed and whose relative proceedings are still pending and negative outcomes are considered unlikely.



### Litigation regarding concession activities

The Parent Company, as the owner of the concession for transmission and dispatching activities as of November 1, 2005, was summoned in various proceedings largely for appeals to provisions issued by the AEEG and/or the MSE (Ministry for Economic Development) and/or by Terna itself and relative to such activities. Only in the cases where the appellants claim, in addition to irregularities in the provisions appealed, also Terna's alleged violation of the rules established by the above-mentioned authorities, the Company started a legal action. As part of this litigation, although various proceedings ended in first and/or in second instance trials with the annulment of the AEEG Resolutions and of Terna's consequent provisions, it is unlikely that there will be any negative outcomes for the Company, since these are considered normally as let through lots, as is also gathered by the information provided by the external attorneys that assist the Company in proceedings. Terna, the Parent Company, as the owner of the concession of the transmission and dispatching activities, in application of the Resolutions of the Authority, adopts deeds and provisions that can be appealed, even if the relative economic charges, in the presence of certain conditions, can be recognized by the sector's Authority.

### Other litigation

Some proceedings are pending regarding the environment and city-planning in connection with the construction and operation of several transmission lines. A negative outcome in these cases could generate unpredictable effects and thus they are not included in the determination of the "Provision for litigation and sundry risks".

For a small number of proceedings we cannot presently absolutely exclude unfavorable outcomes, whose consequences – in addition to the payment of damages – could consist in, among other things, sustaining the expenses connected with modifying lines or the temporary unavailability of the lines themselves. In any case, negative outcomes would not compromise the operation of the lines.

Taking into account also the opinion of the Company's external lawyers, an examination of the abovementioned litigation leads to believing that negative outcomes are highly unlikely.

### Penalties

In the 2009-2011 three-year period:

- EU25** • there were no definitive criminal convictions or plea bargaining for injuries to third parties caused by Terna's assets;
- S04** • as of December 31, 2011 there was no pending litigation nor had any legal proceedings ended regarding corruption, unfair competition, anti-trust, or monopolistic practices. Also with regard to corruption, unfair competition, anti-trust, or monopolistic practices, no definitive administrative or judicial, monetary or non-monetary fines were recorded for non-compliance with laws or regulations, including environmental ones, that imposed on Terna an obligation to "do/not do" (e.g., prohibitions) or convicted its employees for crimes.

**S07**  
**S08**  
**EN28** In the three-year period 2009-2011 no significant penalties were recorded regarding the environment, or in general, compliance with law provisions.

**PR9** On the basis of Resolution VIS 16/11 by the AEEG, in 2011, Terna S.p.A. paid an administrative fine of 420,000 euros to settle the preliminary inquiry begun with Resolution VIS 171/09, for having violated AEEG's provisions regarding electricity transmission, dispatching and metering services. The dispute particularly referred to anomalies noted in the determination of electricity lots withdrawn from the NTG and not correctly assigned to dispatching users.

## Promotion of Corporate Social Responsibility

### IIRC - The International Integrated Reporting Council – Pilot Programme

Terna joined the bi-annual Pilot Programme created by the IIRC, the international organization involved in researching and experimenting a framework for integrating financial, environmental, social and governance information. 61 leading global companies are part of this program of which 4 are Italian, in addition to Terna.

### Fondazione per lo Sviluppo Sostenibile (Sustainable Development Foundation)

In 2011, Terna joined the Fondazione per lo Sviluppo Sostenibile, whose activity mainly consists in analyzing – from both a cultural and technical point of view – sustainable development themes through research, seminars and meetings. During 2011, Terna actively participated in the Fondazione's initiatives.

### LBG The London Benchmarking Group – Corporate Citizenship

After having joined LBG – The London Benchmarking Group, the British organization which groups over 120 companies around the issue of measuring the contributions and impacts of Corporate Community Investment, Terna adapted the monitoring tools established by the LBG methods to the Italian context and to its specific aspects for a more timely measuring of the output of its initiatives in the community. For more information on 2011 activities see the paragraph "Community Initiatives", page 179; the model is described in the box - page 179.

## Sodalitas

Terna is one of the companies that, in 2008, created the Foundation for the Development of Entrepreneurship. The Foundation continues the commitment undertaken by the Sodalitas Association for the dissemination of social responsibility and the promotion of dialogue between the business and the non-profit world. The Foundation presently counts on the contribution of 82 supporting companies, which generate an economic value equal to 25% of Italy's GDP, and on 80 volunteer managers.

Together with other 22 companies belonging to the Foundation, in 2011, Terna was among the promoters of the first "Sodalitas Social Innovation", the program created for aiding non-profit organizations in defining quality social business plans capable of attracting the interest of companies for creating new partnerships.

202 non-profit organizations participated in this first edition, presenting 231 projects whose evaluation was assigned to Commissions formed by representatives from the Sodalitas Foundation, the Istituto Italiano della Donazione (Italian Institute for Donation), companies and authorities. Terna participated in the Commission that examined the international projects for the area "Youth and Territory" and in the final Jury that selected and awarded the best 13 projects.

Terna also participates in the Corporate Volunteering Laboratory promoted, in addition to the Sodalitas Foundation, also by Ciessevi and by SDA Bocconi.

## CSR Manager Network Italia

Through the professional contribution of its own managers, Terna supports the activity of the CSR Manager Network Italia, the reference point for professionals, consultants, and university researchers whose work regards sustainability and corporate social responsibility.

The Network offers its members the possibility of comparing their experiences, identifying elements of innovation, learning about the best practices in Italy and abroad, having at their disposal an organization that represents them vis-a-vis public authorities, associations and non-profit organizations, that can participate in discussions at the national and international levels. During 2011, Terna participated in the joint CSR Manager Network-ISTAT project aimed at establishing a connection between GRI indicators, national statistics and international projects for assessing the collective well-being.

## Anima per il sociale nei valori dell'impresa

In 2010 Terna joined *Anima per il sociale nei valori d'impresa*, ("Soul for society in business values"), a non-profit association founded in 2001 and promoted by the Unione degli industriali e delle imprese di Roma – Rome association of enterprises – which groups managers and companies wishing to disseminate in their community a new entrepreneurial culture that is able to combine profit with the creation of welfare for the community.

In the year of the 150<sup>th</sup> anniversary of the Unification of Italy, Terna has supported the "Premio Anima – Per la crescita di una coscienza etica" (Anima Prize – For developing an ethical conscience"), the association's initiative that enhances the contribution made by representatives from the art and cultural worlds towards developing an ethical conscience and creates an awareness among companies and the public opinion on social responsibility and sustainability issues.

## ABI's VI CSR Forum (Rome, January 20-21, 2011)

Terna supported the sixth edition of the CSR Forum promoted by ABI - Associazione Bancaria Italiana, in collaboration with the Forum per la Finanza Sostenibile and the CSR Manager Network, focused on the theme "Sustainability and corporate core business: integration that gives value".

Terna also organized with Etica Sgr, a saving management company that exclusively promotes socially responsible common investment funds, a co-building session on active shareholding.

## Other activities

The dissemination of the culture of sustainability and the promotion of its own experiences were the objective of many of Terna's external events, including teaching in Degree Programs on CSR, promoted by the KPMG company, at the Università Europea Roma (Rome, January 2011), the report on sustainability indicators at the conference "Measuring organizational performance" created by the magazine "Sviluppo e Organizzazione" (Rome, March 2011), the two experiences regarding the partnership between Terna and COOPI during management training courses at Siemens and participation in the conference on donating responsibly promoted by the Istituto Italiano della Donazione (Rome, May 2011).

Also in 2011, Terna supported the activities of the Centro Studi "Politeia" for research and education in politics and ethics participating in the 7<sup>th</sup> CSR Forum held in May.

## Sustainability Indexes

The ongoing improvement of its ESG performances (Environmental, Social, Governance) allowed Terna to constantly increase its sustainability ratings, to being included in the main international sustainability indexes, and to being recognized by socially responsible investors.

### TERNA'S PRESENCE IN SUSTAINABILITY INDEXES (AS OF 31/12/2011)

Index	Year included	Characteristics of the indexes
<b>FTSE4Good</b> - Global - Europe	2005	FTSE indexes include the best companies in terms of sustainability performance on the basis of the analyses of the EIRIS agency.
<b>AXIA</b> - Ethical - CSR	2006	Axia indexes select the best practices regarding sustainability among the companies with greater capitalization in the Eurostoxx50 (Ethical) and Eurostoxx60 (CSR).
<b>ECPI</b> - Ethical Global - Ethical Euro - Ethical EMU	2007	These indexes were designed to be used by customers for investment analysis, benchmarking, and performance assessment based on the analyses by the ECPI agency.
<b>MSCI</b> - Global Sustainability - Europe Sustainability	2007	These indexes continue the KLD Indexes, which were among the first to trace the non-financial performances of companies and still represent one of the most highly regarded references in the United States.
<b>ASPI Eurozone</b>	2009	Among the 600 European companies with greater capitalization, this index selects the 120 leaders in terms of sustainability according to the Vigeo rating agency.
<b>Ethibel</b> - Excellence - Sustainability (ESI) Europe	2009	These indexes are developed on the basis of the ratings provided by the Vigeo agency. Inclusion is subject to the positive opinion of the Ethibel Forum, a panel of independent experts in the different aspects of sustainability.
<b>Dow Jones Sustainability</b> - World - Europe	2009 2010	DJS indexes select the companies with the best sustainability performances among those with greater capitalization (for the World Index the first 2,500 companies in the world and for the Europe Index the first 600 European companies) on the basis of the rankings of the SAM agency - Sustainable Asset Management.
<b>FTSE ECPI</b> - Italia SRI Benchmark - Italia SRI Leaders	2010	Introduced in 2010, these are the only sustainability indexes that include only companies listed on Borsa Italiana, the Italian stock exchange, based on the analyses of the ECPI firm.
<b>STOXX®</b> - Global ESG Leaders Index - Global Environmental Leaders - Global Social Leaders - Global Governance Leaders	2011	Launched in 2011, these indexes are developed on the basis of evaluations made by the rating agency Sustainalytics and select the 300 best shares for ESG performance among the 1,800 present in the STOXX Global index. To be included in the Global ESG Leaders Index it is necessary to be present in at least one of the 3 specialized indexes (Global Environmental Leaders, Global Social Leaders and Global Governance Leaders). Terna is the only Italian utility included in all three.

## Awards

### SAM 2012 Gold Class

Terna was included in the Gold Class of the "SAM Sustainability Yearbook 2012", based on an a detailed analysis conducted by SAM - Sustainable Asset Management, the sustainability rating agency that conducts all the assessments for the Dow Jones indexes. On the basis of this assessment, Terna ranks among the first three electricity companies in the world for sustainability performance out of a total of 104 companies in the sector. Belonging to the Gold Class indicates a score that is within 1% of the Sector Leader's.

### Carbon Disclosure Project

For the second consecutive year, Terna was included in the "Carbon Disclosure Leadership Index" drafted by the Carbon Disclosure Project, the International initiative supported in 2011 by 551 investors that manage 71,000 billion dollars and aimed at guaranteeing transparency on CO<sub>2</sub> emissions generated by companies and on programs implemented for limiting their release. In 2011, Terna ranked – among the Italian companies – second for utilities and absolute third for transparency in communication regarding its carbon footprint. For additional information see box, page 130.

#### IV CSR Online Awards

In 2011, Terna ranked fifth in the research “CSR Online Awards” on web communication regarding Corporate Social Responsibility.

The research conducted by Lundquist, the Swedish financial communication company, analyzes the modalities adopted by the first 50 Italian listed companies for communicating, through their websites, the corporate social responsibility commitments and initiatives (also see box, page 61).

#### Ethic Award 2011

Terna won the Ethic Award 2011, in the category reserved to sustainable development projects for “The South of the World”, with the electrification of Kami, in Bolivia.

The award, promoted by the publication GDO Week of the “Il Sole 24 Ore” Group, has now reached its ninth edition and enhances sustainability initiatives in the environmental, social and cultural fields carried out by Italian retail, consumer goods, services and equipment companies. In the 2011 edition, 72 projects participated in 7 theme categories.

### Medium-term prospects

Projected onto a medium-to-long-term horizon, the issues of sustainability intersect with Terna’s development strategies mainly in the aspects of relations with local communities and environmental impact. Also in the next few years, a major generational turnover will keep the issue of core competence management topical, along with those of the quality and security of the electricity service, which are always top priorities.

The development of foreign activities that can be presently foreseen does not seem to include any challenges that are not already considered in the current approach to social responsibility activities, requiring, however, a constant monitoring of the appropriateness of instruments and processes.

#### Local communities

**In the medium and long term, the creation of value for shareholders and the quality of the electricity service are linked to developing the grid and interconnection relations with other countries.**

As far as the grid is concerned, the following aspects are crucial:

- **acceleration of authorization processes:** in Italy, obtaining authorization for new power lines may take four times longer than actually building the line, with significant consequences of a financial nature, as well as on the efficiency of the NTG. Terna has chosen the path of dialogue and early discussion with local authorities believing that the identification of shared solutions that respect communities may facilitate the issue of authorizations, also thanks to the trust generated over time by the consistency of the Company’s conduct. In the next few years, therefore, it will be important to optimize the process to make it more effective - with regard to relations with local authorities - and more efficient;
- **acceptance by local communities:** in addition to relations with authorities, increasing the level of acceptance of electricity infrastructures by the communities involved is an extremely important objective, as can also be seen in the disputes described in the present Report. Terna is presently identifying the most effective ways to present its development projects. With regard to these objectives, an important role is played by communication and the involvement of associations representing society at the local level, in addition to the authorities. (see dedicated box, page 115).

#### Environment, climate and renewables

Current issues focused on by Terna include electromagnetic fields, climate change and developing electricity production from renewables.

With regard to electromagnetic fields, Terna’s commitment is demonstrated above all by scrupulously complying with the Italian laws, among the most stringent ones internationally. Considering the sensibility of the public opinion on the issue, Terna dedicates **constant attention to the development of scientific research on electromagnetic fields** for assessing any risks connected with its activities. Moreover, it will continue to contribute toward correctly informing the public opinion on the issue.

Climate change and greenhouse gas emissions represent one of the most significant global problems. Terna is not subject to obligations for reducing emissions or bound by emission trading regulations, nor does it see particular risks connected to the climate change for its own economic situation. (see paragraph “Risk management”, pages 93-96). Nonetheless, both as a sign of its awareness to environmental issues and in response to the growing attention concerning all electricity companies toward this matter, **Terna has already defined control and limiting programs for direct and indirect emissions**, and will maintain its commitment for achieving greater energy efficiency. Terna’s major contribution for reducing CO<sub>2</sub> emissions into the atmosphere is represented by grid development, that allows for the electricity system’s overall greater efficiency and **allows accepting an increasing amount of production from renewables**. In its Strategic Plan, Terna also identifies a series of activities also regarding energy efficiency (see paragraph on the Strategic Plan). Terna is

involved in various ways to supporting, within the limits of the regulations on non-discrimination among operators, the development of electricity production from renewables. Applied research and Smart Grid initiatives (see box, page 68) and participation in international initiatives and projects for developing an integrated Euro-Mediterranean electricity grid are part of this direction taken, which are referenced to on page 38.

Lastly, Terna carefully considers developing non-traditional activities included in its Strategic Plan in the upcoming years (i.e., energy storage systems), according to an approach that is consistent with its commitment for assessing and limiting environmental impacts.

### Activities abroad

Focusing on the North African Mediterranean area and on the Balkans limits the potential criticalities that could emerge by operating abroad. With the gradual shifting from the current preparatory phase to that of implementing the projects, Terna will intensify monitoring environmental and social conditions – including the prevention of corruption – in the countries where it is present, for adopting adequate prevention and control measures.

### Human resources

Constant concern for human resources, first of all with regard to **safety**, but also to **training for ongoing updating the technical expertise that is distinctive of its sector**, will continue to be a priority for Terna.

The issue of professional updating will be particularly significant with regard to the generational turnover that will concern Terna's personnel in the coming years even if the turnover impact was distributed over a longer period of time than planned, following the retirement reform approved by the Italian government in December 2011. The response strategy – a distinctive element of which is the exchange of knowledge through the Campus faculty – is described in details in the box entitled "Management of the generational turnover", page 153.

## Stakeholder engagement

Building a relationship based on mutual trust with our stakeholders begins with considering their interests and analyzing their compatibility with those of the Company in order to adopt a consistent and transparent conduct.

In preparing its Code of Ethics, Terna identified – through the active participation of its top executives and top management – eight most significant categories of stakeholders in terms of the continuity of the relationship and of the importance of the Company's impact on them and vice versa.

For each stakeholder category, the following table shows the most important commitments expressed in the Code of Ethics and the specific engagement instruments, such as monitoring and checking expectations and opinions. The various instruments are used with different time frequencies.

Stakeholders	Commitments	Instruments for monitoring and checking
<b>Shareholders, financial analysts and providers of capital</b> (Shareholders, financial analysts, providers of capital, banks, creditors, rating agencies)	<ul style="list-style-type: none"> <li>Balanced management of financial objectives and of those regarding service security and quality.</li> <li>Creation of value for shareholders in the short and long term.</li> <li>Corporate governance aligned with the best practices.</li> <li>Adoption of systems to prevent and control risks.</li> <li>Attention to shareholders and informing them in a timely and equal fashion.</li> <li>Commitment to avoiding insider trading.</li> </ul>	Road shows, dedicated meetings, website, dedicated e-mails. Sustainability Rating.
<b>Employees</b> (Employees, Directors, Collaborators, Employee Representatives, Labor Unions)	<ul style="list-style-type: none"> <li>Safeguard of the physical integrity of employees and their personal dignity.</li> <li>Nondiscrimination and equal opportunities.</li> <li>Investment in professional growth.</li> <li>Recognition of individual capabilities and merit.</li> </ul>	Survey on people satisfaction. Focus group on specific topics. Consulting, exchanges and negotiations with the Labor Unions.
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>Opportunity to compete on the basis of quality and price.</li> <li>Transparency and fulfillment of agreements and contractual commitments.</li> <li>Transparent procurement processes.</li> <li>Supplier qualification, also through quality, environmental and social certification.</li> <li>Anti-mafia and anti-money laundering prevention with suppliers.</li> </ul>	Procurement portal, direct meetings.
<b>Grid users, customers and business partners</b> (Private customers, grid users – producers, distributors, traders, interruptible users – users of the electricity system, grid owners, other grid operators, business partners)	<ul style="list-style-type: none"> <li>Efficient, quality service aiming at constant improvement.</li> <li>No arbitrary discrimination among operators.</li> <li>Confidentiality of information regarding grid users.</li> </ul>	Consultation Committee on Grid Code, dedicated meetings. Section “Operator Consulting” in Terna’s website.
<b>Regulatory authorities and institutions - AEEG</b> (AEEG–Electricity and Gas Authority, other sector regulatory authorities, government bodies with decision-making powers, Antitrust Authority, CONSOB, stock exchange bodies, strike committee)	<ul style="list-style-type: none"> <li>Transparent, complete, reliable information.</li> <li>Meeting deadlines.</li> <li>Fair and collaborative approach to facilitate the regulatory task.</li> </ul>	Periodical meetings
<b>Authorities and associations</b> (EU and International bodies, National authorities and government representatives, Civil Protection, National Safety Authority and Police forces, regions, provinces and autonomous provinces, associations representing economic interests, ETSO, UCTE)	<ul style="list-style-type: none"> <li>Representation of the Company’s interests and positions in a transparent, scrupulous, consistent way, avoiding collusive attitudes.</li> <li>Ensuring utmost clarity in relations.</li> </ul>	Direct participation in technical committees and in steering bodies.
<b>Media, opinion groups, scientific community</b> (Media, universities and scientific associations, environmental organizations, consumer associations, opinion makers, opinion groups, national and international technical standardization bodies, political parties)	<ul style="list-style-type: none"> <li>Public and widespread dissemination of information.</li> <li>Exclusion of exploitation and manipulation of information to the advantage of the Company.</li> <li>Pursuit of cooperation areas of mutual interest with associations representing stakeholders.</li> </ul>	Presentation and dissemination of the Sustainability Report and of the Development Plan. Organization of seminars, workshops, targeted surveys. Collaboration and partnership initiatives.
<b>Society and local communities</b> (National society; the country, local communities and the environment, end users of the electricity service, local bodies directly affected by Terna’s activities).	<ul style="list-style-type: none"> <li>Ensuring security, continuity, quality, and cost-effectiveness of the service over time.</li> <li>Assessing the long-term effects of the Company’s choices.</li> <li>Reducing the environmental impact of corporate activities.</li> <li>Advance dialogue with local authorities to carry out investment that is respectful of the environment, landscape, and local interests.</li> <li>Supporting initiatives having a social, humanitarian, and cultural value.</li> <li>Providing evidence for the implementation of the environmental and social policy.</li> </ul>	Coordination process in planning the electricity grid. Sample surveys of the population.

## Shareholders, financial analysts and providers of capital

Information transparency and timeliness characterize the relationship between Terna and its institutional and individual investors. Specifically, the Investor Relations Department interfaces with market operators and the Corporate Secretary Department with retail investors.

Retail investors can contact the Company by phone at (+39) 06-8313.8136 and (+39) 06-8313.8359 and by e-mail at: [azionisti.retail@terna.it](mailto:azionisti.retail@terna.it).

For institutional investors, the phone numbers are (+39) 06-8313.8106 and (+39) 06-8313.9041 and the e-mail address is [investor.relations@terna.it](mailto:investor.relations@terna.it).

To further facilitate dialogue with its investors, Terna activated a dedicated Investor Relations Section on its institutional website, [www.terna.it](http://www.terna.it), which offers everyone interested **the opportunity to be promptly updated on the Company's economic results and strategic objectives**. The section provides financial information (financial statements, half-year and quarterly reports, sustainability reports, presentations to the financial community), data, and updated documents of interest to most shareholders (press releases, composition of the corporate bodies, the Bylaws and shareholders' meeting regulations, documents and other information regarding corporate governance, the Code of Ethics, the Organizational and Management Model pursuant to Legislative Decree 231/2001). In addition to the complete documentation produced by the Company also in an interactive version, web streaming also enables visitors to the site to follow the conference calls organized both when the Company's results (quarterly, half-year, and annual) are published and when significant extraordinary transactions take place. Live participation in these events through the two channels exceeds on average fifty connections, including the analysts who follow Terna's shares and publish studies.

During 2011, retail investors made 29 e-mail requests (23 in 2010, 29 in 2009). The requests regarded dividends and interim dividends, the related policy and the right to receive dividend payments as well as the documentation for shareholders' meetings.

During Terna's 2011 annual Shareholders' Meeting and throughout all the period that was strictly functional to its being in session, the Company has made available to all entitled shareholders a certified email (Posta Elettronica Certificata – PEC) for receiving documents and any questions regarding the Shareholders' Meeting and the items on the agenda.

The Corporate Social Responsibility Department maintains relations with sustainability rating agencies and, in collaboration with the Investor Relations Department, with analysts and investment managers providing them with the information necessary to assess the Company's ESG performance. In 2011, the following organizations requested and obtained information: Carbon Disclosure Project, ECPI, EIRIS, Etica Sgr, Goldman Sachs, Natixis, SAM – Sustainable Asset Management, Sustainability and Vigeo.

## Employees

### 2011 Survey on People Satisfaction

In 2011, Terna once again conducted a survey among its employees regarding people satisfaction, reopening a listening exchange that began in 2007 and that was temporarily suspended in 2010, after three editions, based on the need to revise and improve the survey tools. For the new survey, a method was adopted that refers to people satisfaction, allowing to explore not only the quality of relations and of the working environment, but also the company's capability to be effective and productive by promoting and maintaining an adequate level of employee satisfaction.

The initiative was addressed to all employees part of the labor force as of December 31, 2010. The investigation, in strict anonymity, was conducted by an external company during the 2011 May–November period in two phases:

- an online questionnaire for executives, managers, employees; a hard copy questionnaire for technicians without an individual PC;
- 5 Focus Groups with employees characterized by belonging to professional groups and to different offices, aimed at analyzing the data of the questionnaires.

The areas surveyed were: Efficiency/Being Open to Innovation; Work Organization; Comfort/Occupational Safety; Management; Equity; Relations among colleagues; Conflicts.

Confirming the validity of the survey methods, the participation rate was 63%, in line with the interest demonstrated by the employees also in the previous years (without workers, for which in 2009 a sampling criteria was used, participation was 71% compared to 70% in 2009).

The general picture of employee satisfaction at Terna was positive. The average points being 58/100, not comparable to the results of the previous years owing to the different method used, were higher by 10 points with respect to the average results registered with the same method used by other companies. Terna is perceived as an efficient and innovative company, attentive to its employees' safety and comfort. People experience their working life in a dynamic context within a spirit of collaboration and confidence in the management's capabilities. The company's full range of know-how and expertise is considered as a resource to be proud of and as an element in which to invest an increasing number of resources. The work pace is intense involving a high level of physical and mental energy. This is matched with the

willingness on the part of the personnel to dedicate their commitment to the company also based on a strong feeling of belonging and an overall high level of satisfaction. The prevailing feeling is being part of a team, being satisfied with personal relations forged at work, perceiving that the company's activity is appreciated also externally and sharing the company's activities.

Within this positive situation, certain areas are underlined requiring improvement, among which a more complete recognition of merit through improved evaluation tools and performance enhancement, a more intensive communication among departments and among the head office and branches and the need for improving flexibility of the procedure system. Generally, expectations are based on the company maintaining and strengthening an exchange with employees and enhancing human resources. Following the analysis of the survey's results, at the beginning of 2012 Terna created interdepartmental working groups to define improvement proposal.

### **Relations with labor unions**

The Protocol on the System of Industrial Relations that governs relations with labor unions at the corporate level establishes a system of relations and arrangements based on advance and/or periodical bargaining, discussion, consultation, and information (see the section on Industrial Relations).

In the 2009-2011 three-year period, bargaining with the industry labor unions led to signing 44 agreements.

For 2011, industrial relations activity was characterized by negotiations with the national labor union secretariats regarding collective bargaining agreements or second level bargaining agreements.

Two principal agreements were signed defining the new economic-regulatory framework for the 2011-2013 three-year period regarding performance related pay and expense reimbursement for travel. The latter agreement replaced the previous system, based on 20 different regional agreements, providing for the gradual establishment – to be completed by January 1, 2013 – of single amounts at the national level for itemized reimbursement costs.

The memorandum signed on September 21, 2011 also implemented specific occupational safety training projects (managing building site safety, fire safety training, safe driving in snow and ice), with the willingness to consolidate a participatory industrial relations model also by sharing training objectives and purposes. A preliminary exchange also began with the national labor union secretariats regarding the project for the Terna Group's new organizational structure.

## **Grid users and companies in the electricity industry**

### **Consultation Committee**

As in the last few years, in 2011 Terna continued to promote the engagement of the electricity operators concerned by the regulation of the transmission and dispatching services performed by Terna, also through the activities of the users' Consultation Committee.

The Committee is the technical consultation body established in compliance with Prime Minister's Decree of May 11, 2004, which regulates the unified ownership and management of the grid. It is the permanent place for consultation of electricity operators: the Committee indeed includes representatives of the different operator categories, namely: distributors, producers from both conventional and non conventional sources, major industrial customers, wholesalers and consumers, with the participation of the Electricity and Gas Authority and the Ministry for Economic Development as observers.

The Committee, whose members are renewed every three years, has an advisory role (expressing non-binding opinions on the general criteria for grid development, interconnections, grid safety protection and on the general criteria for classifying sensitive information and their access); it proposes amendments to the existing regulations and carries out conciliatory duties since, upon request of the parties, it may facilitate the settlement of disputes among grid users deriving from the application of Grid Code regulations.

During 2011, the Committee was involved in the consultation process and in expressing its opinion on the following issues:

- the agreement that regulates the relations between Terna and distribution companies regarding the metering aggregation service whose contract standard represents an attachment to the Grid Code (Attachment A.58);
- the proposal for dividing the relevant grid into zones pertaining to the 2012-2014 three-year period in compliance with article 15 of the Resolution no. 111/06 issued by the Electricity and Gas Authority. This document also represents an attachment to the Grid Code (Attachment A.24);
- proposals for new technical attachments to the Grid Code. A first document regards the minimum requirements for connecting and operating photovoltaic plants connected to the relevant grid; a second document pertains to the technical regulation of the system's requirements for distributed electricity generation. Both documents were drafted based on the development of photovoltaic technology for producing electricity and on the growing number of grid connection requests of this type, requiring specific technical requirements in order to safely manage the electricity grid. An additional technical document defines criteria and operational connection modalities of the production plants used for Terna's defence system;
- the document integrating the 2011 Development Plan, in order to include a specific section regarding electricity storage

systems aimed at facilitating the dispatching of production plants from non-programmable renewable sources, on the basis of the provisions of article 17, paragraph 3, of Legislative Decree no. 28 of March 3, 2011, “Implementing Directive 2009/28/EC for promoting the use of energy from renewables containing the amendment and subsequent repeal of Directives 2001/77/EC and 2003/30/EC”;

- the amendments made to dispatching rules (chapters 4 and 7 of the Grid Code and Attachment A.25).

In addition to the above-mentioned topics on which the Committee was officially called to express its opinion, also in 2011, Terna ensured that the members in the Committee received ongoing updates and information regarding its activities in progress that were of interest to the operators.

In this context, the Committee received information and updates on the progress of the National Transmission Grid’s Development Plan with particular reference to work in progress in the building sites, the medium and long term forecasts of the national electricity demand and the required power supply, to initiatives underway for defining Grid Codes particularly focusing on the Network Code “*Requirements for Generators*”, and on the implementation of the Gaudi project (see box page 109).

As part of facilitating the broadest participation in establishing the technical regulation for transmission and dispatching services, concomitantly with revising the company’s website, the homepage contains a specific box “**Operator consulting**” through which interested operators can dialogue with Terna regarding amendment proposals for modifying the regulations included in the Grid Code.

## S01 Society and Local Communities

### S010 Consultation with Local Governments

Terna’s approach to local communities comes into play especially when the Company builds new lines (see chapter on Environmental responsibility) and consists in the early engagement of local authorities (regional and local authorities, parks, etc.). This process includes sharing the development needs of the National Transmission Grid (NTG) with local authorities, listening to stakeholders’ opinions and the pursuit of an agreed solution for the location of the new infrastructures and the reorganization of the existing ones. To encourage the acceptance of electricity infrastructures on the part of the local communities, Terna believes it is fundamental to advance as much as possible the coordination phase with the Local Authorities as of the moment the need is determined for implementing new development projects for the NTG. In this way conditions are “built” together for developing the grid, allowing the projects to be more sustainable and acceptable. This approach can also help expediting authorization processes that for the Local Authorities become a way to recognize the advance work coordinated with Terna, rather than being the first opportunity for learning about the existence of projects involving one’s own territory planned by others, without any prior involvement. The dialogue between Terna and local authorities requires nearly 20 resources of the Institutional Affairs Department, who deal with institutional meetings and joint on-the-spot investigations with all the bodies concerned. This is an intense activity, since the process before and after the authorization of new projects is very complex.

The **voluntary pre-authorization process** lasts on average from one to three years and includes various specific activities, particularly meetings, for:

- defining and finalizing cooperation for sustainably developing the NTG as part of the Strategic Environmental Assessment;
- defining a system of criteria for analyzing the local area and selecting the alternatives with the least impact;
- applying the criteria to the local area and identifying the best corridor in which the work is to be built;
- defining the feasibility range inside the corridor and finalizing the related memorandums of understanding;
- defining and finalizing agreements on offsetting any remaining environmental impact.

As established by the law, the authorization process is implemented through “*conferenza dei servizi*” (meetings of all authorities and players involved) and lasts on average from one to two years.

**EU19** The following table summarizes the level of participatory decision-making processes with the stakeholders concerned on energy planning and infrastructure development, as well as the results of their engagement.

## MAIN COORDINATION ACTIVITIES

Project	Type	Length	Authorities involved	Number of meetings in 2011
"Foggia-Villanova (PE)" power line "Foggia-Gissi (CH)" segment - Abruzzo, Molise and Puglia	380 kV	Nearly 120 km	3 Regions 3 Provinces 19 Municipalities	71
"Fano (PU)-Teramo" power line	380 kV	Nearly 190 km	2 Regions 6 Provinces 45 Municipalities	46
Interconnection of the islands in Campania (part of the work)	150 kV	30 km	3 Municipalities	6
"Deliceto-Bisaccia" power line (Campania and Puglia)	380 kV	Nearly 35 km	2 Regions 2 Provinces 5 Municipalities	35
"Montecorvino-Avellino Nord-Benevento II" power line ("Avellino Nord - BN II" segment)	380 kV	65 km	1 Region 3 Provinces 23 Municipalities	15
Station north of Bologna (Emilia-Romagna)	380 kV	25 km of overhead lines 20 km of dismantlement	2 Municipalities	5
Upgrading Reggio-Emilia Area (Emilia-Romagna)	132 kV	38 km of overhead lines 14 km of cable lines 44 km of dismantlement	1 Province 7 Municipalities	6
Riccione-Rimini ring	132 kV	Work to be defined <sup>(*)</sup>	Municipalities of Riccione, Rimini, Coriano	4
"S.ta Teresa-Tempio-Buddusò" power line (Sardinia)	150 kV	Nearly 95 km	1 Region 1 Province 9 Municipalities	7
"Selargius-Goni" power line (Sardinia)	150 kV	Nearly 30 km	1 Region 1 Province 12 Municipalities	2
Station in Mulargia (Sardinia)	150 kV	–	1 Region 1 Province 1 Municipalities	3
"Chiaromonte Gulfi-Ciminna" power line (Sicily)	380 kV		22 Municipalities 6 Provinces 1 Region	11
Grid restructuring in Lucca area (Tuscany)	380 kV e 132 kV	Work to be defined <sup>(*)</sup>	Coordination presently underway with the Municipality of Lucca	2
Upgrading HV grid in Umbria (Umbria)	120 kV	Work to be defined	1 Region 2 Provinces (as of today, 1 Municipality involved in coordination)	16
Station in Schio (VI) - (Veneto)	220 kV	–	1 Municipality	25
Trasversale in Veneto power line	380 kV		2 Provinces 9 Municipalities 1 Park	50
Upgrading Valle Sabbia (integration)	380/220/13 2 kV	<sup>(*)</sup>	1 Municipality 1 Mountain community	6
Upgrading HV line in Potenza area	380/220/15 0 kV	<sup>(*)</sup>	2 Provinces 11 Municipalities	8
380 kV Sorgente-Ponte Cinque Archi power line	380 kV		4 Provinces	3
Upgrading Valle D'Aosta	380/132 kV	Work to be defined <sup>(*)</sup>	1 Province 12-13 Municipalities	10
220 kV Partinico-Fulgatore power line	220 kV		2 Provinces	1
Grid restructuring in Ferrara	380/220 kV	Work to be defined <sup>(*)</sup>	1 Province 1 Municipality	3
Grid restructuring in Penisola sorrentina	380/220/15 0 kV	Work to be defined <sup>(*)</sup>	3 Provinces	10

(\*) In the event of restructuring/upgrading, this does not involve only one line but a series of measures, that cannot be grouped only into one figure.

## Trasversale in Veneto: complete online information

At the beginning of 2011, within the section “Terna’s buildings sites in Italy” on its website [www.terna.it](http://www.terna.it), Terna published online a focus on the reasons for building the new “Trasversale in Veneto” electricity line, its impacts and advantages, with charts, data and overhead photographs of the territory, updates on the coordination in progress and on the authorization process that started at the beginning of 2012.

This initiative, a first of its kind, intends to provide all the communities of the provinces of Treviso and Venice involved by the new electricity line, easy and immediate access to complete, transparent and timely information on this essential and urgent work for solving the risk of blackouts and guaranteeing stability to the regional electricity system. The detailed section “Trasversale in Veneto” is divided into five parts: “Reasons for implementing the project”, “The project and its advantages” (with details for each Municipality) “The Authorization Process”, “Communication” and “Questions and Answers” and illustrates to all the communities involved by the presence of the power line (Venice, Martellago, Scorzé, Zero Branco, Quinto di Treviso, Morgano, Paese, Istrana, Trevignano and Volpago del Montello) and to those involved only by possible removal and modernization of old lines (Ponzano Veneto, Povegliano and Treviso) the need for the project, its progress and advantages for each territory in the event an agreement is reached between the Municipalities and Terna, prior to the authorization request for the new line.

### Reasons for implementing the project

The Veneto region is characterized by a high level of electricity consumption, but produces less than half the quantity it consumes: for this reason it must import the electricity it needs from neighboring regions, using the “energy highways”, i.e., the system of transmission lines that must be efficient and safe.

Veneto’s transmission grid currently represents a critical segment of the entire Italian electricity system: the region only has two main EHV electricity lines crossing it from the North to the South, part of a grid system (built prior to 1950) characterized by a low level of interconnection and of meshing. The region’s inadequate transmission grid also emerges from the direct comparison with other regions having similar characteristics owing to the presence of extensive industry. A malfunction or maintenance work along a segment of the two existing EHV lines are sufficient for risking blackouts in the Treviso and Venice provinces. In order to solve **the risks of blackouts** to which families and businesses living in the Marca Trevigiana and in the Venice area are exposed to, it is essential to build as soon as possible the power line named “Trasversale in Veneto” – connecting the two existing EHV lines. Thanks to building the new line, all the area involved in the project will solve the risk of outages.

### The project’s environmental advantages

The “Trasversale in Veneto” electricity line includes building approximately 34 km of a new 380 kV electricity line between the existing power station in Venezia Nord and a new power station to be built in Volpago del Montello. The electricity line, far away from urban centers, will be built fully respecting the safety distances from urban areas exceeding by far law requirements which are the most stringent ones in Europe for electromagnetic fields. It will also be possible to **remove 86 km of old electricity lines** currently included in urban centers: approximately 1,000 buildings, built near (if not actually under) the power lines could benefit from the removal of the electricity lines. Over 1,800 buildings located within a 100 meter reach from the electricity lines that could be removed, would benefit from an economic re-evaluation thanks to the removal of the pylons.

The new electricity line will allow reducing by 12 thousand tons/year the quantity of CO<sub>2</sub> emissions in the environment. The old electricity lines that will be replaced by the new Trasversale were built with obsolete technology and with grid losses that the new, more efficient, electricity line will drastically reduce.

## Suppliers

The usual place where Terna and its suppliers meet is the “**Procurement Portal**”, the section of the institutional website through which it is possible to learn about tenders, participate in online tenders, and go through the qualification process for being included in the supplier register.

The Procurement Department also maintains direct contacts with suppliers to manage contractual relations and improve the Company’s knowledge of the specific problems of groups of suppliers. In this regard the Company periodically organizes meetings with the qualified companies or industry associations to inform them of new developments regarding requirements or concerns connected with the ethical conduct expected in relations with Terna.

**Terna presents and discusses its most important investment projects** – as well as the related procurement plans – **with the electro-mechanical companies in the electricity industry** (many of which are members of Confindustria ANIE).

The Company's large program of works requires an even greater effort by suppliers, which are called on to transform themselves from simple contractors into veritable technological partners. The new challenge is entrusting all the works, in which the contractor will be involved from the earliest stages of planning. Lastly, Terna actively participates in the main occasions for meeting its suppliers, such as industry meetings, expos, and conferences.

In order to expand its portfolio of suppliers, Terna permanently engages in "procurement marketing" through market scouting, benchmarking, and monitoring the performance of suppliers, which entails constantly meeting with both Italian and foreign supplier firms.

## Media, opinion groups and the scientific community

### Presenting the Development Plan to category associations

For the first time, Terna has organized a series of meetings with category associations for a direct dialogue regarding the National Transmission Grid's (NTG) Development Plan. With this initiative, Terna has created mutual exchange on common interest topics. For more information see the box below.

## A network of relations with stakeholders

According to Terna's vision, a sustainable approach to business must occur through transparent relations with its reference stakeholders.

In this respect, 2011 was a year filled with novelties: for the first time systematic meetings were held with the top management of three types of associations representing the interests of entrepreneurs, consumers and environmentalists. The object of the meetings was the presentation of the grid's Development Plan, which is the document drafted every year by the Company with the projects scheduled for the next 10 years and a progress report of the works included in the Plans of the previous years.

The law establishes that the Development Plan, prior to being approved by the Ministry for Economic Development, is submitted to the Strategic Environmental Assessment (SEA). The SEA, adopted by Terna since 2002 and ahead of time with respect to its becoming effective, establishes that the Development Plan be submitted to the appropriate authorities for consultation on the part of the interested public which then have a timeframe of 90 days for presenting any comments.

This year Terna wished to enhance this phase by promoting direct meetings with the associations placing them in the condition to fully understand the Plan.

Terna's invitation, extended to all the principal associations, was accepted by Coldiretti, Confapi, Adiconsum, ADOC, Assoconsum Roma, Assoutenti, Codacons, CODICI-Centro per i diritti del cittadino (Center for Citizen's Rights), Federconsumatori, ENPA - Ente Nazionale Protezione Animali (National Animal Protection Association), Fare Ambiente, LIPU - Lega Italiana Protezione Uccelli (Italian Bird Protection Association), VAS - Verdi Ambiente Società (Green Environment Association), WWF Italia and WWF Research and Projects. Explanatory meetings for the Development Plan were held also with representatives of Confindustria and with the entrepreneurial Associations of the electricity and energy sectors belonging to it. Particularly significant was the meeting with the consumer Associations representing the national community, a primary stakeholder to which Terna must guarantee a safe, cost-effective and high quality electricity service.

The presentations held in June 2011 were attended by the Director of Operations Italia, head of grid planning and development activities and also of the Development Plan.

All the meetings were characterized by a positive acceptance of the initiative by the associations invited which, also thanks to the materials provided by Terna, became promoters with their respective organizations for disseminating the information.

Knowledge of the Development Plan and of the energy needs determining it, also generated understanding of the complexities and of the lengthy authorization processes for the various projects; many associations expressed their willingness to support Terna's requests submitted to the local authorities based on proper coordination.

Explaining the Single Authorization, the procedure that combines the authorization process for new plants from renewables with that for the relative grid connection work, determined the willingness of various associations to oversee its proper application in the specific territories.

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### **Terna-Greenpeace exchange on the grids of the future**

In July 2011, Terna hosted a technical meeting open to authorities, companies operating in the sector and consumer associations, with the environmentalist association Greenpeace on grid development in light of the increase of renewable sources and of the European 20-20-20 objectives.

The starting point of the debate was “The Battle of the Grids”, the research commissioned by Greenpeace International to the German research center EnergyNautics. For more information see the box below.

## **The Battle of the Grids: joint Terna-Greenpeace initiative**

On July 12, 2011 the technical debate “The Battle of the Grids” was held in the Auditorium at Terna’s headoffice in Rome. The meeting was organized by Terna together with the environmentalist association Greenpeace to discuss grid development in light of the increase of renewable sources and of the European 20-20-20 objectives. The seminar’s focus, to which authorities, companies operating in the sector and consumer associations were invited, was the presentation and a debate on the research “The Battle of the Grids”, commissioned by Greenpeace International to the German research center EnergyNautics.

The research outlines a scenario up to 2050 where production from renewables will cover up to nearly 100% of the European electricity demand: an attainable result with different combinations of investments in the European production and in the large grid interconnection works, with significant implications in all segments of the electricity production process, from generation and transmission to distribution.

The research’s results were presented by the CEO of EnergyNautics Thomas Ackermann and discussed in a panel formed by Terna’s technicians and by experts from the energy sector.

The seminar’s joint organization was also an opportunity and the result of a constructive exchange between Greenpeace and Terna on energy production from renewables in Europe and on the role of the transmission grid in promoting an increased production from renewables.

### **Agreement with Legambiente**

At the end of 2011, Terna signed a Memorandum of Understanding with Legambiente for sustainably developing the country’s electricity grid and for promoting the spread of an energy sustainability culture that joins developing the electricity system as well as renewables. For further information see box, page 140.

### **KWD Webranking Italy, Europe and Lunquist Assessments**

Terna’s online communication received important recognition in the principal analyses of the year; all the rankings registered improvements, even significant ones.

## The reference stakeholders reward Terna's web communication

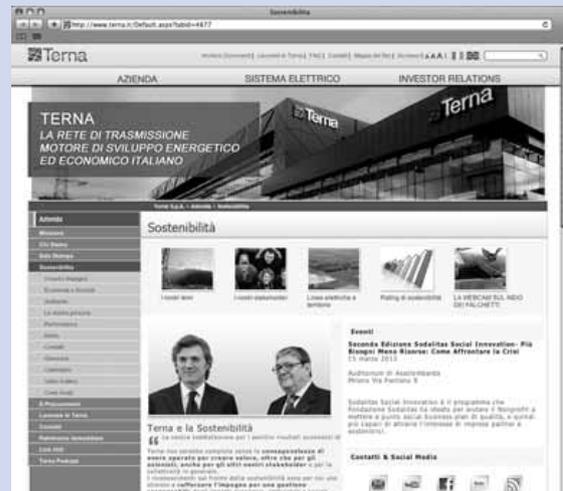
2011 registered a general improvement in the company's online communication that reached the top of the most important rankings in the sector.

The KWD Webranking annual research (previously known as H&H Webranking), that reached its tenth edition in Italy, examined 101 leading Italian companies for capitalization assessing their corporate web communication.

Terna's website was included in the Top 10 thanks to a score (71.3 points, Italian average: 36.8) that allowed it to climb three positions (from 13<sup>th</sup> to 10<sup>th</sup>) ranking fifth among the "best improver" websites, i.e., those that improved the most in the last year. Terna's website performance is even more significant when considering that the first two companies in the ranking maintained their position even in the analysis that was extended to Europe.

In the KWD Webranking Europe 500, i.e., the analysis extended to the 500 leading European companies for capitalization (source: FT Europe 500), with its 71.25 points (European average: 44.2) Terna entered into the Top 20 (19<sup>th</sup> place, climbing 33 positions) standing out as the company that improved the most compared to the previous edition. KDW Webranking's research method is based on 3 principal phases, the first of which includes stakeholder engagement by collecting feedback from professionals in the sector, drafting assessment criteria based on information collected and data analyzed and comments regarding the results.

These two rewards for Terna's online corporate communication were added to the one obtained in October 2011 in the website's "Sustainability" section ranking fifth in the fourth edition of the "CSR Online Awards" research conducted by the Swedish financial communication company Lundquist in collaboration with Il Sole 24 Ore (see Awards, page 50). This analysis is also based on the initial involvement of experts that responded to the questionnaire (312 from 37 countries) that was followed by an assessment of 79 criteria which could not exceed a maximum of 100 points assigned. In particular, Terna was indicated among the "best in class" in the Ethics & Governance areas (maximum obtainable points: 6.5) with 6, closely behind Telecom Italia and Fiat (6.5) and in Contents (58 available points) with equal points (46) with Fiat after Telecom Italia (51.5), Enel and Hera (47).



The reference stakeholders reward Terna's web communication.

### TOP TEN 2011 - KWD WEBRANKING

Company	Points
Telecom Italia	89
Eni	87
Hera	85.5
Piaggio Group	81.5
Pirelli & C.	80.3
UniCredit Group	77.3
Edison	76
Snam Rete Gas	76
Assicurazioni Generali	71.5
Terna	71.3

### TOP TEN 2011 - LUNDQUIST

Company	Points
Telecom Italia	82
Fiat SpA	79.5
Eni	79
Hera	79
Terna	74.5
UniCredit	74.5
Enel	74
Snam Rete Gas	72
Intesa Sanpaolo	71.5
Banca MPS	71

### Demoskopea Survey "City Giornalisti 2011"

The 2011 edition of the Demoskopea survey "City Giornalisti", conducted with 80 economic and financial journalists out of a sample of 48 companies for assessing the quality of press offices, this year also revealed excellent results for Terna that ranked sixth in the overall ranking and fourth among the energy companies.

Another important result was achieved regarding the "familiarity" of journalists with the company: in this special ranking Terna ranked absolute fifth, climbing eighteen positions compared to the previous edition and third among energy companies. Terna is the company that improved the most compared to 2010: rising by 4 percentage points compared to an average of -4%. The financial press, lastly, judges Terna's profile positively and appreciates its press office for the timeliness in providing information.