

Issued in July 2018

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion on the sustainability credentials and management of the Green Bond (the "Bond") considered to be issued by Terna (the "Issuer"), according to Vigeo Eiris' Environmental, Social and Governance (ESG) assessment methodology, in line with the Green Bond Principles guidelines.

The opinion is based on the review of the two following components:

- Issuer: document-based evaluation of Terna's ESG performance, controversies and capacity to mitigate these risks.
- Issuance: analysis of the coherence of the Green Bond Framework with Terna's strategy and commitments, and document-based evaluation of the Green Bond Framework, including:
 - ▶ analysis of the process for categorisation and selection of projects eligible to the use of proceeds, and the process for evaluation of their environmental and social risks and impacts
 - ▶ assessment of reporting systems dedicated to information, monitoring and control related to fund allocation, to management and impacts of financed projects.

Vigeo Eiris' sources of information are gathered from our rating database, from Terna data, press content providers and stakeholders. Vigeo Eiris has carried out its due diligence from August 2nd, 2017 to July 13th, 2018, complemented by interviews with involved managers.

We were able to access all appropriate documents and to meet all solicited people. We consider that the provided information enables us to establish our opinions with a reasonable level of assurance on their completeness, precision and reliability.

VIGEO EIRIS' OPINION

Vigeo Eiris confirms that the Bond intended by Terna is a "Green Bond" with positive contribution to sustainable development, aligned with the Green Bond Principles.

Vigeo Eiris reaches a reasonable³ level of assurance on the Bond contribution to sustainability:

- **Issuer:** Terna displays an overall advanced³ ESG performance (see Part I).
 - ▶ Terna ranks first in the "Electric & Gas utilities" Vigeo Eiris sector, which covers 48 European companies. Terna's displays homogeneous performance on the three ESG pillars, achieving advanced performance for its Environmental, Social and Governance pillars.
 - ▶ Vigeo Eiris' assurance that ESG risk factors of Terna are adequately managed is reasonable, including reputational, human capital, operational and legal risks.
 - ▶ Terna faces one allegation⁴, regarding Community Involvement. The severity is significant based on the analysis of its impact on the company and its stakeholders. The company is overall remediative: it reports transparently, implementing remedial actions.
 - ▶ Regarding the 15 controversial activities analysed by Vigeo Eiris⁵, and based on an estimation of the level and type of company involvement, Terna is not involved in any of them.

¹ Second Party Opinion – Green Bond Principles: This opinion is to be considered as the "Second Party Opinion" described by the Green Bond Principles (2018 edition in the 'External Review' section). The Green Bond Principles include the Voluntary Process Guidelines for Issuing Green Bonds and the Guidance for Borrowers of Social Bonds (see <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>).

² The "Green Bond" is to be considered as the potential forthcoming Bond, which issuance is subject to market conditions.

³ Definition of Vigeo Eiris' scales of assessment (as detailed on the last page of this document):

Level of Performance: Advanced, Robust, Limited, Weak.

Level of Assurance: Reasonable, Moderate, Weak.

⁴ The opinion delivered on stakeholder-related ESG allegations is not a conclusion on the creditworthiness of Terna or its financial obligations.

⁵ The 15 controversial activities analysed by Vigeo Eiris are: Alcohol, Animal welfare, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear power, Pornography, Reproductive medicine, and Tobacco. The controversial activities research provides screening on companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

- **Issuance:** The Issuer's Green Bond Framework is coherent with Terna's main strategic priorities and is considered to be good (see Part II):
 - ▶ The net proceeds of the Bond issuance will be used to finance and/or refinance Eligible Green Projects, which contribute to climate change mitigation, natural resources preservation and quality of life, in line with four United Nations Sustainable Development Goals (the "UN SDGs"). Objectives and expected benefits associated with the Eligible Green Projects are visible, relevant, measurable and precise.
 - ▶ The processes for categorisation, evaluation and selection of Eligible Green Projects are clearly defined, made publically available on Terna's website⁶, and good in terms of transparency, bond governance and relevance of defined process and eligibility criteria.
 - ▶ The rules for the management of proceeds are clearly defined by the Issuer and would enable a documented and transparent allocation process, based on good management of proceeds commitments.
 - ▶ The Issuer is committed to report annually and publically, until full allocation, on a) the allocation of proceeds and b) the outputs and impacts generated. The reporting commitments and process are good, covering the fund allocation and environmental benefits of selected projects (outputs and impacts), reaching an overall reasonable level of assurance on its capacity to report on the Green Bond's use and impacts.

Beyond the Green Bond Principles requirements, in line with international standards, certain ESG factors have been integrated in the evaluation and selection process, covering main ESG risks related to most of the Eligible Green Projects. Regarding monitoring and reporting on ESG management and potential controversies, information on Eligible Green Projects will be provided, where feasible, for the most representative projects.

EXTERNAL REVIEW

Terna's Green Bond issuance is supported by external reviews, provided by:

- The pre-issuance sustainability consultant review, i.e. the hereby Second Party Opinion performed by Vigeo Eiris, on the sustainability credentials of the Green Bond, based on pre-issuance commitments and covering all bond dimensions, i.e. Issuer's sustainability profile and commitments related to the issuance (use of proceeds, evaluation, selection and allocation processes and reporting).
- An annual verification, i.e. a third party auditor verification, of the allocation of the bond proceeds, the compliance of the selected projects with all material aspects of the Eligible Green Projects criteria adopted and, where feasible, project impacts and environmental benefits through selected KPIs calculated in the cost-benefit analyses, i.e. expected impacts.

This Opinion is valid as of the date of issuance limited to Terna's 2018 first Green Bond.

Milan, July 16th 2018



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Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Vigeo Eiris has executed one audit mission for Terna (Second Party Opinion delivery on Green Loan in June 2017) and 6 consultancy missions between 2013 and 2018. No established relationship (financial or others) exists between Vigeo Eiris and Terna.

This opinion aims to explain for investors why the Green Bond is considered as sustainable and responsible, based on the information which has been made available to Vigeo Eiris and which has been analyzed by Vigeo Eiris. Providing this opinion does not mean that Vigeo Eiris certifies the materiality, the excellence or the irreversibility of the projects financed by the Green Bond. Terna is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on financial performance of the Green Bond, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction. The opinion delivered on stakeholder-related ESG controversies is not a conclusion on the creditworthiness of Terna or its financial obligations.

Restriction on distribution and use of this Opinion: the opinion is provided by Vigeo Eiris to the Issuer and can only be used by the Issuer. The distribution and publication is at the discretion of the Issuer, submitted to Vigeo Eiris approval.

⁶ <http://www.terna.it/>

DETAILED RESULTS

Part I. ISSUER

Terna's ESG performance level

As of July 2018, Terna's overall approach to manage ESG related issues is advanced.

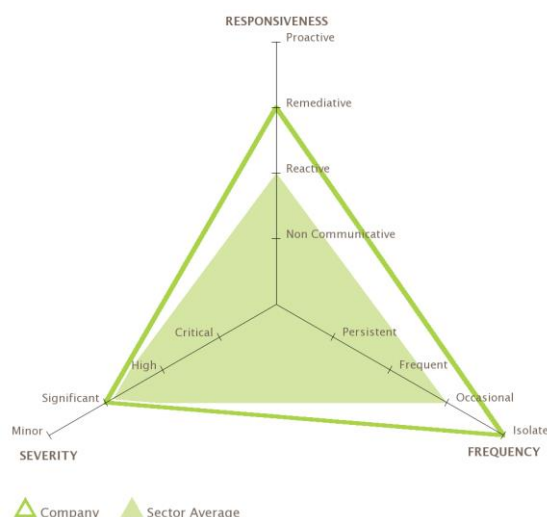
Domain	Comments	Opinion
Environment	Terna's performance in the Environment domain is considered as advanced, above the sector average. ISO 14001 certification is reported to cover 100% of its installations and a comprehensive environmental strategy appears to be set up, including extensive means to protect biodiversity. The Company also disclosed quantified targets with regard to its energy efficiency and CO ₂ emissions. In 2017, as in the previous five-year period, there were no significant leaks of pollutant liquids, as well as no penalties imposed for non-compliance with environmental laws. Terna has strategic partnerships and agreements on the topic of biodiversity preservation with several NGOs. The main Company's environmental weakness seems to be network carbon footprint, since the GHG emissions normalised by the volume transported increased during the past five years.	Advanced
		Good
		Limited
		Weak
Social	Terna's performance on the Social pillar is advanced. Regarding the Human Resources domain, the performance is advanced. Promotion of labour relations is a strength, thanks to a Protocol on the system of industrial relations defining frameworks ranging from bargaining, dialogue, consultation to preventive or periodic reporting. Terna's OHSAS 18001 certifications covers 100% of its activities, and the employee injury rate show and decreasing trend. Also in the Human Rights domain, Terna's performance is advanced. Terna's Code of Ethics contains commitments on both freedom of association and diversity. Terna's performance in the Community Involvement domain is good. This mostly reflects the Company's transparency on newly tax-related added questions. Terna displays an advanced performance on the integration of social factors in the supply chain and a good performance on responsible customer relations, with formalized and exhaustive commitments and means allocated.	Advanced
		Good
		Limited
		Weak
Governance	Terna's performance in the Corporate Governance domain is advanced in absolute terms and stand above the sector average. All Board members apart from the CEO are considered independent. CSR issues are covered by the internal controls system, namely health & safety, corruption and environment. Terna's performance in the Business Behavior domain is advanced, above the sector average. Terna's performance is advanced in terms of Prevention of Corruption and on responsible lobbying, mainly due to efforts identified in reporting.	Advanced
		Good
		Limited
		Weak

Terna is included in the following Vigeo Eiris Indices (as the date of publication):

- Euronext Vigeo Eiris World 120
- Euronext Vigeo Eiris Europe 120
- Euronext Vigeo Eiris Eurozone 120

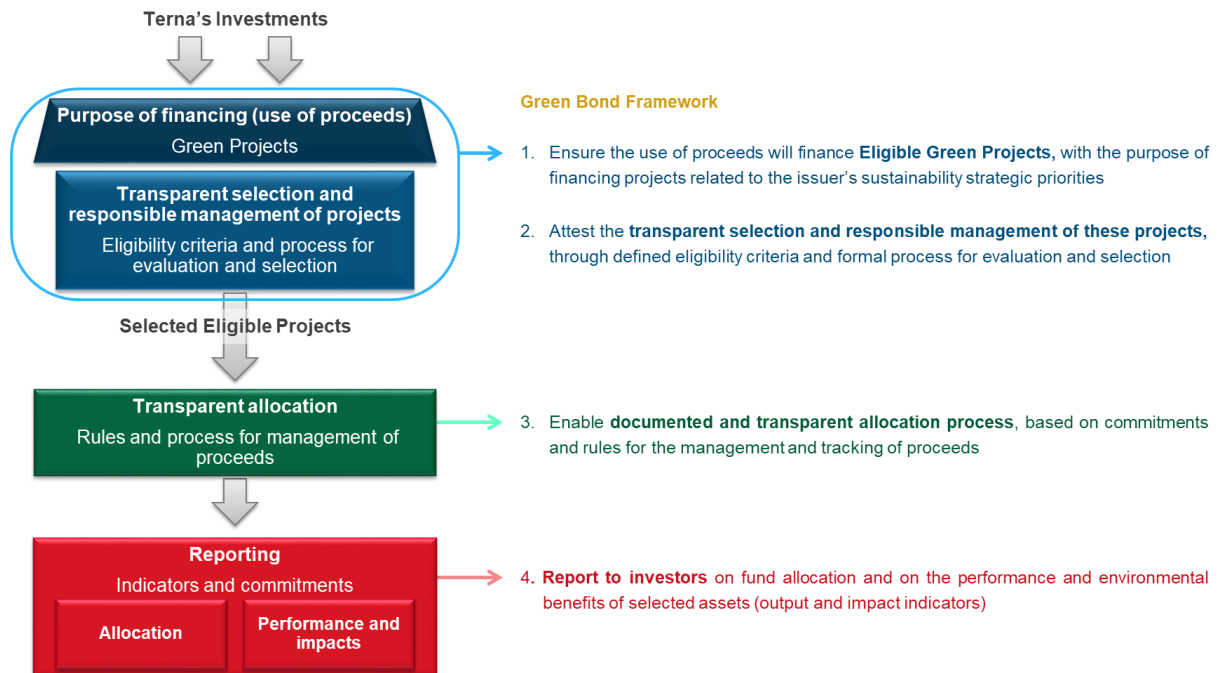
Stakeholder-related ESG controversies and Involvement in controversial activities

- **Frequency:** As of July 12th 2018, Terna faces isolated allegations: the Company is involved in one stakeholder-related ESG controversy, on one domain, namely Community Involvement (on social and economic development).
- **Severity:** The level of severity is significant based on the analysis of their impact on the company and its stakeholders.
- **Responsiveness:** Terna is overall remediative: the company reports transparently, implementing remedial actions.



Regarding the 15 controversial activities analysed by Vigeo Eiris, and based on an estimation of the level and type of company involvement, Terna is not involved in any of them.

Part II. ISSUANCE



Coherence of the issuance

Terna owns the Italian transmission grid and it is responsible, under Government concession, for transmitting and managing the electricity flows on the high-voltage and very-high-voltage grid. Terna operates solely in electricity transmission and it does not own production plants. Thus, it is not subject to obligations to reduce emissions according to Kyoto targets, nor to emission trading schemes of any type. Nonetheless, in terms of sustainability commitments, Terna voluntarily focuses on the goal of monitoring and controlling its emissions. Moreover, Terna promotes nature conservation in the planning activities and maintenance of the electricity grid, thanks to specific cooperation agreements with environmental organizations (e.g. WWF, LIPU, Greenpeace). In addition to environmental issues, Terna is also focused on social issues like integrity in business conduct, health and safety, professional training, human rights, in line with the commitments expressed by adhering to the UN Global Compact in 2009, other than engaging its suppliers to adopt responsible behaviors.

Decarbonisation, market efficiency, security of supply, the continual growth of non-programmable renewable production sources and at the same time the gradual decommissioning of traditional generation plants are the main challenges Terna has to face. Thus, every year Terna prepares a Network Development Plan (NDP), as prescribed by legal norms, containing a section devoted to the investments that have the goal of favoring the increase of production from renewable sources, such as the connections of new plants or the lines and substations that will remove the constraints to an increased inflow of production from renewable. The grid development investments included in Terna's 2018-2022 Strategic Plan account for €5.3bn.

Terna's Green Bonds Framework appears to be an integral part of the long-term sustainability vision of the company and contributes to achieve its commitments. Vigeo Eiris has a reasonable level of assurance of Terna's capacity to integrate relevant issues in terms of environmental responsibility in the selected project management.

Use of proceeds

An amount equal to the net proceeds of the Green Bond will be used to finance and/or refinance, in whole or in part, Eligible Green Projects included in three categories:

- Renewable Energy
- Energy Efficiency
- Environmentally sustainable land use & terrestrial and aquatic biodiversity.

Eligible Green Projects would contribute to defined sustainability objectives and meet a set of eligibility criteria evaluated by Vigeo Eiris. They are located in Italy and it is envisaged, as of the date of this Second Party Opinion, that they include past and future investments or disbursements corresponding to concluded (since 2014), ongoing and future projects.

The definition of each Eligible Green Projects' category, related objectives and expected sustainability benefits have been evaluated in the table below:

Content of the Green Bond Framework				Vigeo Eiris' opinion	
Eligible Projects' categories	Definition	Environmental objectives	Projects examples	Expected environmental benefits	Vigeo Eiris' analysis
Renewable Energy	<p>Projects aimed at increasing the production from renewable energies:</p> <ul style="list-style-type: none"> • Connection of renewable sources generation plants (grid infrastructures devoted to directly connecting grid generation plants from renewable sources to the transmission grid). • Integration of production from renewable sources (grid infrastructures that allow a higher inflow of production from renewable sources into the transmission grid by resolving congestions in a given portion of the grid). 	<ul style="list-style-type: none"> • Increase renewable energy inflow 	<p>Genzano new electrical station</p> <p>Expected increase of production from RES in 89,600,000 kWh/y</p>	<p>Climate change mitigation</p> <p>GHG emissions avoidance (renewable energy generation)</p>	<p>The definition is clear and the content is relevant, in line with Terna's strategy.</p> <p>The objectives are visible, relevant and measurable but partially precise due to the lack of quantitative targets.</p>
Energy Efficiency	<p>Projects aimed at reducing system CO2 emissions through the reduction of grid losses:</p> <ul style="list-style-type: none"> • Grid infrastructures that allow a higher transmission efficiency (reduction of the difference between energy generation and consumption, other things being equal). 	<ul style="list-style-type: none"> • Improve energy efficiency of grids 	<p>City of Naples 220kV grid reorganisation</p> <p>Expected grid losses reduction in 23,800,000 KWh/y</p>	<p>Climate change mitigation</p> <p>Energy savings and GHG emissions avoidance (more efficient network)</p>	<p>The definition is clear and the content is relevant, in line with Terna's strategy.</p> <p>The objectives are visible, relevant and measurable but partially precise due to the lack of quantitative targets.</p>
Environmentally sustainable land use & terrestrial and aquatic biodiversity	<p>Projects aimed at reducing soil use and the impact on terrestrial biodiversity:</p> <ul style="list-style-type: none"> • Grid improvements thanks to substitution of existing overhead lines with underground cables and demolition of km of existing lines. 	<ul style="list-style-type: none"> • Reduce soil consumption • Reduce visual impact 	<p>Piedmont and Lombardy 220/132 kV High Voltage Grid rationalization</p> <p>Planned demolition of overhead lines (km) = 80 km</p>	<p>Natural resources preservation</p> <p>Restitution of km of territory occupied by overhead lines</p>	<p>The definition is clear and the content is relevant, in line with Terna's strategy.</p> <p>The objectives are visible, relevant and measurable but partially precise due to the lack of quantitative targets.</p>

Vigeo Eiris estimates that the objectives and expected benefits associated with the Eligible Green Projects are visible, partially precise, relevant and measurable. The Eligible Green Projects' contribution to sustainable development is considered to be positive, due to expected environmental benefits associated with defined categories on climate change mitigation, on natural resources preservation and on quality of life. We suggest defining quantitative targets, when relevant and feasible.

In addition, Vigeo Eiris considers that the Eligible Green Projects align with the following United Nations Sustainable Development Goals (UN SDGs):

Eligible Green Projects	UN SDGs
Renewable Energy	<ul style="list-style-type: none"> - UN SDG 7. Affordable and clean energy - UN SDG 13. Climate action
Energy Efficiency	<ul style="list-style-type: none"> - UN SDG 7. Affordable and clean energy - UN SDG 9. Industry, innovation and infrastructure - UN SDG 13. Climate action
Environmentally sustainable land use & terrestrial and aquatic biodiversity	<ul style="list-style-type: none"> - UN SDG 15. Life on land

Contribution to achieving the UN SDG 7. Affordable and clean energy



The UN SDG 7 consists in ensuring access to affordable, reliable, sustainable and modern energy for all, with targets by 2030 on the share of renewable energy in the global energy mix and the promotion of investment in energy infrastructure and clean energy technology. By using the Green Bond proceeds to (re)finance defined Renewable Energy and Energy Efficiency projects, the Issuer is contributing to the UN SDG 7, with regards to the above-mentioned targets.

Contribution to achieving the UN SDG 9. Industry, innovation and infrastructure



The UN SDG 9 consists in building resilient infrastructure, promoting sustainable industrialization and fostering innovation, with targets by 2030 on the development of quality, reliable, sustainable and resilient infrastructure, to support economic development, with a focus on affordable and equitable access for all, the promotion of inclusive and sustainable industrialization, the upgrade of infrastructure and the retrofit of industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies. By using the Green Bond proceeds to (re)finance defined Energy Efficiency projects, the Issuer is contributing to the UN SDG 9, with regards to the above-mentioned targets.

Contribution to achieving the UN SDG 13. Climate action



The UN SDG 13 consists in taking urgent action to combat climate change and its impacts. Companies from the Electric & Gas utilities sector can contribute to this goal by improving their energy efficiency, reducing the carbon footprint of their products, services and processes, setting GHG emissions reductions targets. By using the Green Bond proceeds to (re)finance defined Renewable Energy and Energy Efficiency projects, the Issuer is contributing to the UN SDG 13, with regards to the above-mentioned targets.

Contribution to achieving the UN SDG 15. Life on land



The UN SDG 15 consists in sustainably managing forests, combating desertification, halting and reversing land degradation, halting biodiversity loss, with targets by 2030 on the urgent and significant action to take to reduce the degradation of natural habitats, halt the loss of biodiversity, and by 2020 on the integration of ecosystem and biodiversity values into national and local planning, and the mobilization and significant increase of financial resources to conserve and sustainably use biodiversity and ecosystems. By using the Green Bond proceeds to (re)finance defined Environmentally Sustainable Land Use & Terrestrial and Aquatic Biodiversity projects, the Issuer is contributing to the UN SDG 15, with regards to the above-mentioned targets.

Process for project evaluation and selection

The Issuer is committed to attest the transparency and efficiency of selection process and the responsible management of the proceeds and financed projects, through defined eligibility criteria as defined within the existing Green Bond Framework, which have been evaluated by Vigeo Eiris using our evaluation methodology based on international and sectors standards, in line with the Green Bond Principles guidelines.

The process for project evaluation and selection is good, regarding the transparency, governance and relevance of the defined internal process, in line with the Green Bond Principles guidelines.

- The process is clearly defined, formalised and publically available, relying on relevant selection criteria, including:
 - ▶ Projects must be present in one of Terna's yearly Network Development Plan (NDP).
 - ▶ Use of proceeds criteria, based on the definition of each Eligible Green Projects' category.
 - ▶ Sustainability objectives and expected benefits described for each category.

- The evaluation and selection process is based on relevant internal expertise, internal roles and responsibilities are well-defined:
 - ▶ Terna's Network Development Plan is built every year thanks to the cooperation between different Terna's functions: Grid Planning is the owner of the process launched every year. Grid Development supports the process, coordinating the stakeholder engagement (territory, users, authorities) and mastering the Strategic Environmental Assessment, as required by law.
 - ▶ Grid Planning analyses every project worth at least 15 mn € with an advanced cost-benefit analysis ("CBA", since 2005), including environmental and social indicators, whose methodology has been developed by ENTSO-E, the European association of the national transmission system operators and approved by the Sector Authority AEEGSI. The description of the CBA methodology is publicly available at <http://download.terna.it/terna/0000/0109/45.pdf>. For example, the indicator "greater production integration from renewable sources, calculated by market simulations (system overgeneration)" is used for determining the eligibility to category Renewable Energy, the indicator "variation of CO2 emission calculated by market simulations of the energy market" is used for category Energy Efficiency and indicator "variation, in terms of km occupied by High Voltage lines, of occupation of areas of particular natural interest or biodiversity" is linked to category Environmentally sustainable land use & terrestrial and aquatic biodiversity. The projects to be refinanced and submitted to investment decision before 2013 have been analysed according to an equivalent cost/benefit analysis.
 - ▶ The Network Development Plan is then approved by the CEO and the Board of Directors and finally submitted to the validation of the Ministry for the Economic Development.
 - ▶ Moreover, Terna has put in place a dedicated Green Bonds Committee to review and validate the selection of the Eligible Green Projects. The dedicated Green Committee comprises:
 - the Head of Finance department,
 - the Head of Sustainability,
 - the Head of Planning and control department,
 - the Head of grid planning and interconnections.
 - ▶ The Committee will take place on an annual basis and when the situation requires.

Beyond the Green Bond Principles requirements, in line with international standards, certain ESG factors have been integrated in the evaluation and selection process, covering main ESG risks related to most of the Eligible Green Projects.

- Relevant criteria and commitments have been defined within the ESG eligibility grid and ESG management regarding:
 - ▶ Environmental domain, including environmental management of the project, protection of biodiversity and natural resources.
 - ▶ Social and community domain, including respect of human and labour rights, health and safety, business ethics, stakeholders dialogue and community involvement.
 - ▶ Governance domain, including business ethics and responsible procurement.

Management of proceeds

Vigeo Eiris considers that the Issuer's rules for management of proceeds are clearly defined and would enable a transparent allocation process.

- Upon receipt, the net proceeds will be invested in cash and cash equivalents until allocation to Eligible Green Projects. The allocation of the net proceeds to Eligible Green Projects will be monitored throughout the period that the capital expenditure and operating costs will be incurred, to prevent any double counting.
- The overall share of refinancing (i.e. refinancing of projects concluded from 2014, according to the current planning) will be disclosed for each reporting.
- In case of project divestment or if a project becomes ineligible, Terna will replace it by another Eligible Green Project on a best effort basis.

Monitoring & Reporting

Conditions and process for monitoring are clearly defined. The process for data collection, consolidation and reporting will rely on internal expertise, including relevant people from across the Group, and has been defined in the Green Bond Framework.

The Issuer has identified reporting indicators and calculation methodologies will be defined and made publically available on the Issuer website for each reporting.

The Issuer commits to transparently report, until full allocation of the funds, and as necessary thereafter in the event of material developments, on:

- Use of proceeds

At project level	At Bond level
<ul style="list-style-type: none"> - Allocated amounts by Eligible Green Project, including a brief description of the most representative projects from each category - Main technical data referring to the single project, when available (e.g. peak power of wind or solar plants connected) 	<ul style="list-style-type: none"> - Division of the allocation between financing and refinancing (i.e. share of refinancing) - The balance of unallocated cash and/or cash equivalent still held by the Issuer

An external auditor will verify, on an annual basis until full allocation of the funds, the allocation of proceeds to Eligible Green Projects and the remaining balance of unallocated proceeds.

- Environmental benefits: annual expected outputs aggregated at category level

Eligible Green Projects		Output & Impact reporting indicators				
		Connection of RES production plants (MW)	Increase in production from RES (MWh)	Reduction of grid losses (MWh)	Construction of underground cables (km)	Demolition of lines (km)
		planned / effective	expected (estimate*)	expected (estimate*)	planned / effective	planned / effective
Renewable Energy	Renewable energy - Connection of production plants from renewable sources	✓	◇	◇		
	Renewable energy - Integration of production from renewable sources		✓	◇		
Energy Efficiency	CO2 Emissions - reduction of grid losses		◇	✓	◇	◇
Environmentally sustainable land use & terrestrial and aquatic biodiversity	Soil use & biodiversity - new underground cables				✓	◇
	Soil use & biodiversity - demolition of existing lines in protected areas				◇	✓
	Soil use & biodiversity - demolition of existing lines (all sorts of territory)				◇	✓

✓ *Main environmental benefit: KPI will be presented in reporting*

◇ *Other possible environmental benefit: KPI may be presented in reporting*

* Estimates of the expected impacts may vary in time, when a project is subject to a new evaluation under a different scenario. Changes will be reported when significant.

Where feasible, Terna will report on an annual basis project impacts and environmental benefits by Eligible Green Project or aggregated by the three categories of eligibility. In most cases, the environmental KPIs linked to the single project will be those calculated in the cost-benefit analyses, i.e. expected impacts. The cost-benefit analyses documents will be the reference of the key underlying methodology used in the quantitative metrics.

Information on ESG management of Eligible Green Projects and potential controversies will be provided, where feasible, for the most representative projects. ESG management (i.e. additional ESG indicators) of each Eligible Green Project is covered by the overall annual group reporting, which is disclosed in the annual Sustainability Report and dedicated web pages, available on the Issuer website. We have recommended reinforcing disclosure at project level and reporting related to projects ESG management.

An external auditor will verify, on an annual basis and until full allocation of the funds, outputs and impacts generated.

In order to report on the projects' benefits, the Issuer may select alternative quantitative or qualitative indicators, to remain relevant to the selected Eligible Green Projects. For all Eligible Green Projects, the Issuer may integrate additional qualitative or quantitative indicators as considered appropriate to disclose relevant performances or details on project management.

The reporting will be performed on an annual basis through the Sustainability Report or Annual Report available on the Issuer's website, according to the Green Bonds Principles guidelines, including calculation methodologies. Vigeo Eiris considers that Terna's overall reporting commitments are good, providing a reasonable level of assurance on its capacity to report regularly and transparently on fund allocation and impacts of the Green Bond.

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Issuer's Corporate Social Responsibility as an organization, and on the objectives, management and reporting of the projects to be (re)financed by this transaction.

Vigeo Eiris' methodology to define and to assess corporate's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behavior and Corporate Governance. The evaluation framework has been customized regarding material issues, based on the Electric & Gaz Utilities assessment framework, projects specificities and emerging issues.

Vigeo Eiris reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources will be considered as long as they are public, documented and traceable. Vigeo Eiris has reviewed documents and websites of the Issuer (Network Development Plan 2017, Strategic Environmental Assessment of the Network Development Plan, Guidelines for the realization of the Network Development Plan, Guidelines for Projects realization, Worksites EHS Management), related to the Bond evaluation and interviewed members from several departments of the Issuer.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, internal review by the audit department for second party opinions) complemented by a final review and validation by the Direction of Methods. A right of complaint and recourse is guaranteed to all companies under our review, including three levels: first, the team linked to the company, then the Direction of Methods, and finally Vigeo Eiris' Scientific Council. All collaborators are signatories of Vigeo Eiris' Code of Ethics.

Part I. ISSUER

NB: The Issuer performance, i.e., commitments, processes, results of the Issuer, related to ESG issues have been assessed through a complete process of rating and benchmark developed by Vigeo Eiris Rating. Furthermore, this assessment has been completed by Vigeo Eiris Enterprise based on additional public information and stakeholders' views and opinion collected from public documentation.

Level of the Issuer's ESG performance

Terna has been evaluated by Vigeo Eiris on its Corporate Social Responsibility (CSR) performance, based on 25 relevant ESG drivers organized in the 6 sustainability domains. Terna's performance has been assessed by Vigeo Eiris on the basis of its:

- Leadership: relevance of the commitments (content, visibility and ownership).
- Implementation: coherence of the implementation (process, means, control/reporting).
- Results: indicators, stakeholders feedbacks and controversies.
- Scale for assessment of ESG performance: Advanced, Good, Limited, Weak.

Stakeholder-related ESG controversies and involvement in controversial activities

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation on unproven facts.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- Severity: the more a controversy will relate to stakeholders' fundamental interests, will prove actual corporate responsibility in its occurrence, and will have adverse impacts for stakeholders and the company, the highest its severity. Severity assigned at corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- Responsiveness: ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non Communicative).
- Frequency: reflects for each ESG challenge the number of controversies faced. At corporate level, this factor reflects on the overall number of controversies faced and scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

In addition, 15 controversial activities have been analysed following 30 parameters to verify if the company is involved in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The precise nature of the controversial products or services provided by the company.

Part II. ISSUANCE

The Green Bond framework has been evaluated by Vigeo Eiris according to the Green Bond Principles and our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Use of proceeds

The use of proceeds requirements are defined to ensure that the funds raised are used to finance and/or refinance an Eligible Projects and are traceable within the issuing organisation. Each Project endorsed shall comply with at least one of the Eligible Projects category definition in order to be considered as an Eligible Project. Vigeo Eiris evaluates the relevance, visibility, and measurability of the associated environmental and/or social objectives. The sustainability purpose of the Green Bond related Eligible Projects has been precisely defined, with regard to the Issuer's commitments, and assessed based on the described and estimated benefits of Eligible Projects. The contribution of Eligible Projects to sustainable development is evaluated based on the United Nations Sustainable Development Goals.

Process for project evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris regarding its transparency, governance and efficiency. The relevance and exhaustiveness of selection criteria and associated supporting elements integrated in the Green Bond framework, and the coherence of the process are analysed based on material issues considered in Vigeo Eiris' methodology.

Management of proceeds

The rules for the management of proceeds and the allocation process have been evaluated by Vigeo Eiris regarding their transparency, coherence and efficiency.

Reporting

Reporting indicators, processes and methodologies are defined by the Issuer to enable annual reporting on fund allocation, environmental benefits (output and impact indicators) and on the responsible management of the Eligible Projects financed by the Green Bond proceeds, collected at project level and potentially aggregated at Bond level. Vigeo Eiris has evaluated the relevance of the reporting framework according to three principles: transparency, exhaustiveness and effectiveness.

- Scale of assessment for processes and commitments: Weak, Limited, Good, Advanced.
- Scale of level of assurance on Issuer's capacity: Reasonable, Moderate, Weak.

VIGEO EIRIS'S ASSESSMENT SCALES

Performance evaluation		Level of assurance	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.	Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.	Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.	Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.		



vigeo eiris
Rating

vigeo eiris
Enterprise

Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organisations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organisations.

Vigeo Eiris offers a wide range of services:

- ▶ **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- ▶ **For companies & organisations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

Vigeo Eiris is committed to delivering client products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9001 standard. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

With a team of more than 240 experts of 28 different nationalities, Vigeo Eiris is present in Paris, London, Boston, Brussels, Casablanca, Hong Kong, Milan, Montreal, Rabat, Santiago and Stockholm.

The Vigeo Eiris Global Network, comprising 7 exclusive research partners, is present in Australia, Brazil, Germany, Israel, Japan, Spain and Mexico.

For more information: www.vigeo-eiris.com

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