

SECOND PARTY OPINION¹

ON THE SUSTAINABILITY OF TERNA'S GREEN BOND FRAMEWORK²

July 2020

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion (hereafter "Second Party Opinion" or "the opinion") on the sustainability credentials and responsible management of the Green Bond Framework (the "Framework") created by Terna (the "Issuer") to govern the issuance of Green Bonds (the "Bonds").

Our opinion is established according to Vigeo Eiris' Environmental, Social and Governance ("ESG") exclusive assessment methodology and to the Green Bond Principles voluntary guidelines (the "GBP") edited in June 2018.

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

- **Issuer:** we updated the assessment of Terna's Environmental, Social and Governance (ESG) performance, its management of potential stakeholders related ESG controversies and its involvement in controversial activities.
- **Issuance:** we assessed the Framework, including the coherence between the Framework and the issuer's environmental commitments, the Framework's alignment with the four core components of the GBP, the Bonds' potential contribution to sustainability and the responsible management of ESG risks associated with the eligible projects.

Our sources of information are multichannel, combining data (i) from public sources, press content providers and stakeholders, (ii) from Vigeo Eiris' exclusive ESG rating database, and (iii) provided by the Issuer, through documents, interviews with involved managers and written exchanges.

We carried out our assessment from August 2nd, 2017 to July 13th, 2018. Our opinion has been updated in July 2020 taking into consideration public information available and an updated version of the Framework received on July 15th, 2020.

We consider that we were provided with access to all the appropriate documents we solicited. To this purpose we used our reasonable efforts to verify such data accuracy.

VIGEO EIRIS' OPINION

Vigeo Eiris is of the opinion that Terna's Green Bond Framework is aligned with the four core components of the Green Bond Principles (June 2018).

We express a reasonable³ assurance (our highest level of assurance) on the Issuer's commitments and on the contribution of the contemplated Bonds to sustainability.

1. **Issuer:** Terna displays an overall advanced³ ESG performance (see Part I).
 - ▶ As of our last rating cycle (January 2019), Terna ranks first in Vigeo Eiris' "Electric & Gas utilities" sector, which covers 48 European companies. Terna displays advanced performance on the three ESG pillars: Environmental, Social and Governance. Vigeo Eiris' assurance that ESG risk factors of Terna are adequately managed is reasonable, including reputational, human capital, operational and legal risks.
 - ▶ As of today, no stakeholders-related ESG controversy involving Terna was identified over the last 3 years.
 - ▶ The Issuer does not appear to be involved in any of the 17 controversial activities screened under our methodology.
2. **Issuance (see part II):**

The Issuer has described the main characteristics of the Bonds within a formalized Green Bond Framework, which covers the four core components of the GBP. The Issuer has committed to make this Framework publicly available on its website⁴ in line with good market practices.

We are of the opinion that the Green Bond Framework is coherent with Terna's strategic sustainability priorities and sector issues, and contribute to achieving the Issuer's sustainability commitments.

¹ This opinion is to be considered as the "Second Party Opinion" described by the Green Bond Principles (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 See Terna's corporate website

Use of Proceeds

- ▶ The net proceeds of the Bonds will be used to finance and/or refinance Eligible Green Projects included in the following categories: Renewable energy, Energy efficiency and Environmentally sustainable land use & terrestrial and aquatic biodiversity which contribute to climate change mitigation, natural resources preservation and quality of life. We consider that the Eligible Projects are clearly defined and relevant.
- ▶ Eligible Green Projects are intended to contribute to two sustainability objectives, namely: Climate change mitigation and Natural resources preservation.
- ▶ The Eligible Projects are considered to provide clear environmental benefits. The Issuer has committed to assess and, where feasible, quantify the expected environmental benefits of the Eligible Green Projects and to publicly communicate on them within annual reporting. The Issuer has provided ex-ante estimates of the expected environmental benefits of some of the Eligible Projects.
- ▶ The Eligible Projects are likely to contribute to four of the United Nation's Sustainable Development Goals ("SDGs"), namely: Goal 7: Affordable and clean energy, Goal 9: Industry, innovation and infrastructure, Goal 13: Climate action, and Goal 15: Life on Land.
- ▶ Eligible Projects are located in Italy and will include past and future investments or disbursements corresponding to concluded (since 2014), on-going and future projects. The Issuer has not communicated an ex-ante share of refinancing, which is an area for improvement. Another area for improvement identified is, in case of refinancing, to set a look back period of a maximum of 36 months from the Bond's issuance date, to be in line with market practices.

Process for Projects Evaluation and Selection

- ▶ The governance and the process for project categorisation, evaluation and selection are considered to be good, and rely on explicit eligibility criteria (selection).
- ▶ The identification and management of environmental and social risks associated with the selected Eligible Projects are considered to be good.

Management of Proceeds

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

Reporting

- ▶ The reporting process and commitments appear to be good, covering both the funds allocation and the environmental benefits of the Eligible Green Projects (outputs and impacts generated). The Issuer has committed to annually and transparently report until full allocation.
- ▶ Beyond the Green Bond Principles requirements, in line with international standards, certain ESG factors have been integrated in the evaluation and selection process, covering the 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.

The Issuer has committed to support its Green Bonds issuances with the following external reviews:

- A pre-issuance consultant review: The hereby Second Party Opinion delivered by Vigeo Eiris, covering all the features of the Bonds, based the pre-issuance assessment and commitments, to be made publicly available by the issuer on its website, at the date of issuance.
- An annual verification: i.e. an annual third-party auditor verification covering the allocation of the net proceeds of the Bonds, the compliance of the selected projects with all material aspects of the Eligible Green Projects criteria adopted and, where feasible, projects impacts and environmental benefits through selected KPIs calculated in the cost-benefit analyses (i.e. expected impacts).

This Second Party Opinion is based on the review of the information provided by the Issuer, according to our exclusive assessment methodology and to the GBP voluntary guidelines (2018). Terna acknowledges that in case of changes of such standards and market practices and expectations, VIGEO EIRIS shall exclude any liability regarding the use of the concerned Second Party Opinion and its compliance with then-current standards and market practices and expectations.

Paris, July 15th, 2020

Project team

Valentina SANNA
Research Manager
Project Manager

Muriel CATON
Senior Advisor
Supervisor

Gonzalo MARAMBIO
Sustainability Consultant

For more information, contact:

Sustainable Finance Team

VEsustainablefinance@vigeo-eiris.com

Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Vigeo Eiris has executed four audit missions for Terna (Second Party Opinions) until so far. No established relation (financial or other) exists between Vigeo Eiris and the Issuer.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. The Issuer 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 the financial performance of the 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.

Restriction on distribution and use of this opinion: The deliverables remain the property of Vigeo Eiris. The draft version of the Second Party Opinion by Vigeo Eiris is for information purpose only and shall not be disclosed by the Schiphol. Vigeo Eiris grants the Issuer/Borrower all rights to use the final version of the Second Party Opinion delivered for external use via any media that the Issuer Borrower shall determine in a worldwide perimeter. The Issuer Borrower has the right to communicate to the outside only the Second Party Opinion complete and without any modification, that is to say without making selection, withdrawal or addition, without altering it in any way, either in substance or in the form and shall only be used in the frame of the contemplated concerned bond(s) issuance. The Issuer acknowledges and agrees that Vigeo Eiris reserves the right to publish the final version of the Second Party Opinion on Vigeo Eiris' website and on Vigeo Eiris' internal and external communication supporting documents.

DETAILED RESULTS

Part I. ISSUER

Level of Terna's ESG performance

Vigeo Eiris has assessed Terna's ESG performance, based on our exclusive ESG rating database.

As of our last rating cycle (January 2019), Terna's overall performance to manage ESG related issues is advanced.

Domain	Comments	Opinion
Environment	Terna's performance in the Environment pillar is considered as advanced, above the sector average. ISO 14001 certification is reported to cover 97% 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 in 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 shows a decreasing trend. In the Human Rights domain, Terna's performance is also advanced. Terna's Code of Ethics contains commitments on both freedom of association and diversity. It conducts human and labour rights risk assessments and internal audits to verify compliance. Terna's performance in the Community Involvement domain is good. The performance has improved mainly thanks to its commitment to address issues of access to energy in developing countries. 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 and stands 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 Behaviour 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

Stakeholder-related ESG controversies

As of today, the review conducted by Vigeo Eiris did not reveal any controversy against Terna over the last 3 years.

Involvement in controversial activities

The Issuer appear to be not involved in any of the 17 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuel Industry, Coal, Unconventional Oil and Gas, Gambling, Genetic engineering, Human Embryonic Stem Cells, 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.

Part II. ISSUANCE

Coherence of the issuance

We are of the opinion that the Green Bond Framework is coherent with Terna's strategic sustainability priorities and sector issues and contribute to achieving the Issuer's sustainability commitments.

Terna owns the Italian transmission grid and 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 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, Legambiente, Greenpeace).

In addition to environmental issues, Terna is also focused on social issues such as integrity in business conduct (Terna is ISO 37001 certified), 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 behaviours.

Decarbonization, 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 which aims to favouring 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 2020-2024 Strategic Plan account for €4.2bn.

With this Green Bond Framework, Terna coherently responds to its commitment in terms of development of clean energy, as well as it aligns to one main issue of the sector in terms of environmental responsibility.

Use of proceeds

The net proceeds of the Bonds will be used to finance and/or refinance Eligible Green Projects included in the following categories: Renewable Energy, Energy efficiency and Environmentally sustainable land use & terrestrial and aquatic biodiversity which contribute to climate change mitigation, natural resources preservation and quality of life. We consider that the Eligible Projects are clearly defined and relevant.

Eligible Green Projects are intended to contribute to two sustainability objectives, namely: Climate change mitigation and Natural resources preservation. These objectives are considered clearly defined and relevant.

The Eligible Projects are considered to provide clear environmental benefits. The Issuer has committed to assess and, where feasible, quantify the expected environmental benefits of the Eligible Green Projects and to publicly communicate on them within annual reporting. The Issuer has provided ex-ante estimates of the expected environmental benefits of some of the Eligible Projects.

Eligible Projects are located in Italy and will include past and future investments or disbursements corresponding to concluded (since 2014), on-going and future projects. The Issuer has not communicated an ex-ante share of refinancing, which is an area for improvement. Another area of improvement identified is, in case of refinancing, to set a look back period of a maximum of 36 months from the Bond's issuance date, to be in line with market practices.

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			Environmental objectives and benefits	Vigeo Eiris' analysis
Eligible Projects' categories	Definition	Projects examples		
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 while enhancing grid stability (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). 	<p>Genzano new electrical station</p> <p>Expected increase of production from RES in 1,951,680 MWh per year kWh/y</p>	<p>Climate change mitigation</p> <p>GHG emissions avoidance</p> <p>Increase in renewable energy generation</p>	<p>The definition of the category is clear and the content is relevant, in line with Terna's strategy.</p> <p>The environmental objective is clearly defined and relevant.</p> <p>The environmental benefits are clear, measurable and relevant. The Issuer has provided an ex-ante estimate of the increase in renewable energy generation. .</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). 	<p>City of Naples 220kV grid reorganisation</p> <p>Expected grid losses reduction in 17,700 MWh per year</p>	<p>Climate change mitigation</p> <p>Energy savings from improvement of energy efficiency of grids.</p> <p>GHG emissions avoidance</p>	<p>The definition of the category is clear and the content is relevant, in line with Terna's strategy.</p> <p>The environmental objective is clearly defined and relevant.</p> <p>The environmental benefits are clear, measurable and relevant. The Issuer has provided an ex-ante estimate of the energy savings due to grid losses reduction.</p>
Environmentally sustainable land use & terrestrial and aquatic biodiversity	<p>Projects aimed at reducing soil use and the impact on terrestrial biodiversity:</p> <p>Grid improvements thanks to optimization of the grid, that allow the demolition/removal of km of existing overhead lines.</p>	<p>Piedmont and Lombardy 220/132 kV High Voltage Grid rationalization</p> <p>Rationalization has enabled to demolish 80km of overhead lines and lay 50km of underground cable</p>	<p>Natural resources preservation</p> <p>Restitution of km of territory occupied by overhead lines</p>	<p>The definition of the category is clear and the content is relevant, in line with Terna's strategy.</p> <p>The environmental objective is clearly defined and relevant.</p> <p>The environmental benefits are clear, measurable and relevant.</p>

The Eligible Projects are likely to contribute to four of the United Nation's Sustainable Development Goals ("SDGs"), namely: Goal 7: Affordable and clean energy, Goal 9: Industry, innovation and infrastructure, Goal 13: Climate action, Goal 15: Life on Land.

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 SGD 7. Affordable and clean energy

The UN SDG 7 consists in ensuring universal access to affordable, reliable, sustainable and modern energy for all. More precisely, SDG 7 targets by 2030 include:

- 7.2 Increase substantially 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 net proceeds to (re)finance the selected Eligible Projects, the Issuer is likely to contribute 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. More precisely, SDG 9 targets by 2030 include:

- 9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
- 9.2 Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product
- 9.4 Upgrade 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 net proceeds to (re)finance defined Energy Efficiency projects, the Issuer is likely to contribute to the UN SDG 9, with regards to the above-mentioned targets.



Contribution to achieving the UN SGD 13. Climate action

The UN SDG 13 consists in building resilience and adaptive capacity to its adverse effects, developing sustainable low-carbon pathways to the future, and accelerating the reduction of global greenhouse gas emissions.

By using the net proceeds to (re)finance the selected Eligible Project, the Issuer is likely to contribute 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 net proceeds to (re)finance defined Environmentally Sustainable Land Use & Terrestrial and Aquatic Biodiversity projects, the Issuer is likely to contribute to the UN SDG 15, with regards to the above-mentioned targets.

Process for project evaluation and selection

The governance and the process for project categorisation, evaluation and selection are considered to be good, documented and relevant.

The process for evaluation and selection of Eligible Projects to be (re)financed is clearly defined and formalized in Terna's Framework.

The evaluation and selection process is based on relevant internal expertise, and 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.
- Eligible Projects that are not in the Network Development Plan are assessed by means of methodologies used to analyse the behaviour of the electrical system, in compliance with the Group standards. Using this methodology, Terna is able to estimate the expected environmental benefits of the potential Eligible Project.
- Grid Planning analyses every project worth at least 15 M € 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 the category Renewable Energy, the indicator "variation of CO2 emission calculated by market simulations of the energy market" is used for the category Energy Efficiency and the indicator "variation, in terms of km occupied by High Voltage lines, of occupation of areas of particular natural interest or biodiversity" is linked to the 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 (the "Committee") to review and validate the selection of the Eligible Green Projects. The Committee includes:
 - 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.

The verification and traceability are well defined throughout the process.

The process is clearly defined, formalized and publicly available, relying on explicit and relevant eligibility criteria (selection), including:

- Use of proceeds criteria, based on the definition of each Eligible Green Projects' category.
- Sustainability objectives and expected benefits described for each category.

The identification and management of environmental and social risks associated with the selected Eligible Projects are considered to be good, covering the ESG risks related to most of the Eligible 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 and documented 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 during which 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.

An area of improvement is to communicate transparently on the maximum time limit for full allocation of the proceeds of the Bonds (e.g. immediate allocation, within 1 year, more...).

Monitoring & Reporting

The reporting process and commitments appear to be good, covering both the funds allocation and the environmental benefits of the Eligible Green Projects (outputs and impacts generated).

The Issuer has committed to annually and transparently report at bond level until full allocation.

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

An area for improvement is to define and disclose the process and responsibilities for reporting on the Use of Proceeds of the Bond.

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

- 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 and/or tCO ₂)	Reduction of grid losses (MWh and/or tCO ₂)	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 project evaluation phase, i.e. expected impacts.

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.

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 an annual Green Bond 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 (hereafter "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 Issuance's objectives, management and reporting for the Eligible Projects to be (re)financed by this transaction.

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

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 Behaviour 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.

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.

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, 17 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 Framework has been evaluated in 2018 by Vigeo Eiris according to the GBP 2018 and to 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 Eligible Projects and are traceable within the issuing entity. 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 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.

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

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 & organizations:** 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, Brussels, Casablanca, Hong Kong, Milan, New York, Rabat and Santiago de Chile.

The Vigeo Eiris Global Network, comprising 4 exclusive research partners, is present in Brazil, Germany, Israel and Japan.

For more information: www.vigeo-eiris.com

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