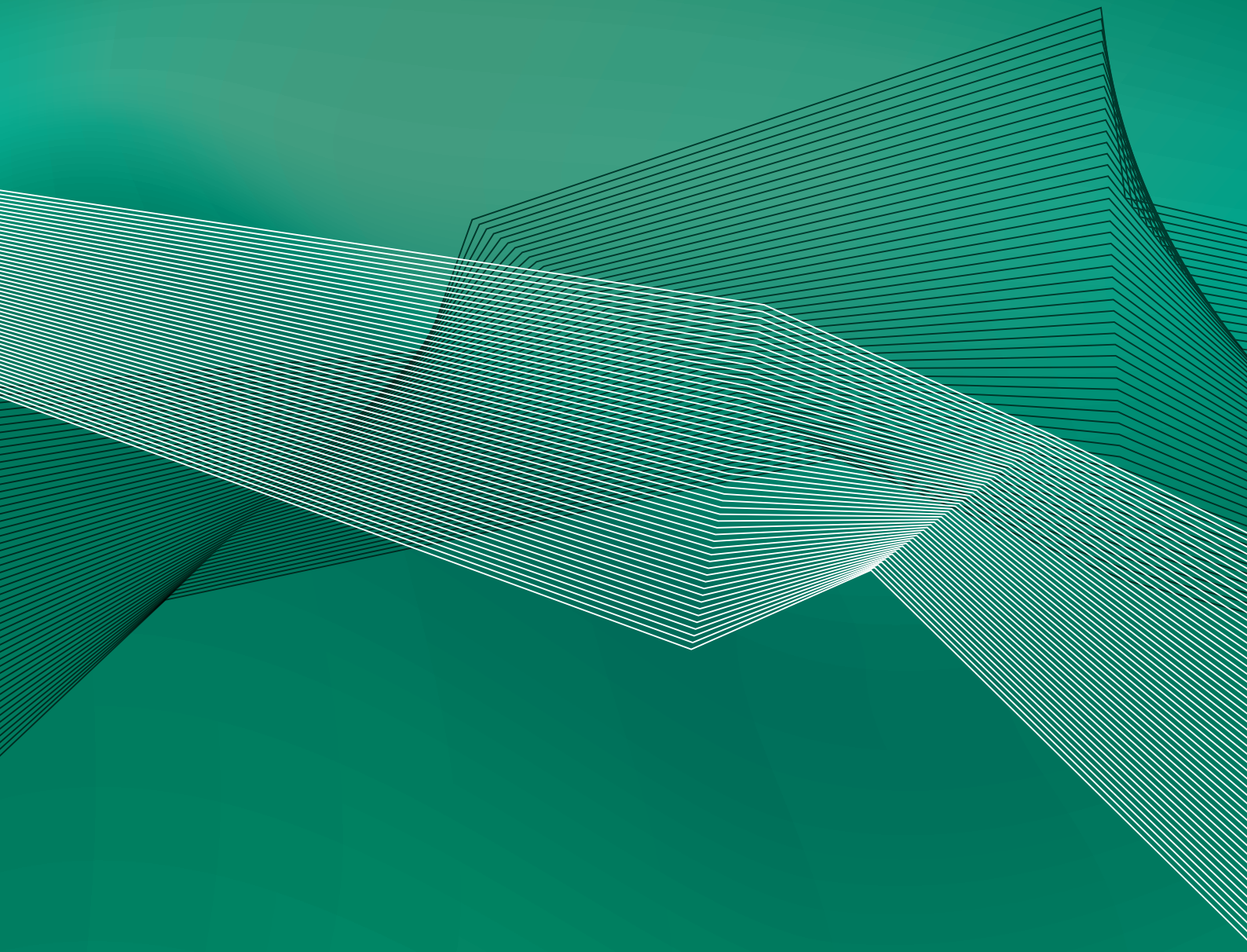
# 2025
# Green Bond Framework



Terna
Driving Energy

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Driving Energy

MISSION

## Terna is investing in Italy's development

We guarantee energy security and balance electricity supply and demand 24 hours a day, ensuring that the system is reliable, efficient and accessible to all.

We invest and innovate every day in the development of an electricity grid capable of integrating the energy produced from renewable sources, improving links between the different areas of the country and strengthening cross-border interconnections, applying a sustainable approach that takes into account the needs of the communities and people we work with.

PURPOSE

## We are behind the energy you use every day

We are responsible for guaranteeing the continuity of power supply, essential in making sure that electricity reaches Italian homes and businesses at all times.

We provide everyone with equal access to electricity and are working to provide clean energy for future generations.

VISION

## We care about the future of energy

We are committed to building a future powered by clean energy, enabling new forms of consumption and production increasingly based on renewable sources. This will allow us to achieve the goal of delivering an energy transition that is fair and inclusive, whilst also lowering costs.

Thanks to our overall vision of the electricity system and new digital technologies, we are leading the country's drive to get to net zero by 2050, in line with European climate goals.

# Indice

# 1 Introduction

## About Terna

**Terna is the company that manages the Italian National Transmission Grid (NTG)** for high and extra-high-voltage electricity and is the largest independent electricity transmission system operator (TSO) in Europe.

Terna has an institutional public service role, crucial to ensuring the country's electricity supply and enabling the entire Italian electricity system to function: it performs grid planning, development and maintenance activities, combining expertise, technology and innovation to optimise high-voltage electricity transmission; it also handles dispatching - i.e. the activities necessary to maintain the balance between the supply and demand - 24 hours a day, all over Italy, by means of operating the electricity system.

With over 75,000 km of high and extra-high-voltage power lines, over 900 substations across the national territory and 30 cross-border interconnections, Terna can count on around 6,501 professionals.

Terna's mission is to ensure energy security, service quality and cost-effectiveness over time, pursuing the development and integration of the Italian grid within the European electricity grid to guarantee equal access to all users. The company also develops market activities and new business opportunities, making its expertise and experience available in Italy and abroad.

Listed on Borsa Italiana since 23 June 2004, **Terna is a key enabler of the energy transition** committed to creating a new development model based on renewable sources and respect for the environment: sustainability, innovation and distinctive competence with the aim of providing the generations to come with a clean, accessible and emission-free energy future.

## Electricity Transmission: the role of Terna for Italy

The supply chain of the electricity system is structured into four main segments: electricity production, transmission, distribution and sale. With its **transmission and dispatching activities**, Terna occupies the essential segment of transmission. In fact, as Transmission System Operator (TSO), Terna not only has to design a grid capable of managing this progressive decarbonisation and the ever-growing integration of renewable sources ("**transmission operator**"), but also ensure that, moment by moment, consumer demand for energy is constantly balanced with production, through dispatching ("**system operator**").

Terna has a key and delicate role of guaranteeing this balance through a high-technology system, using a specific market (the dispatching services market or "MSD"), in which it makes daily purchases of the "services". It is a very complex task which requires an independent central coordinator with overall visibility over a large number of actors on the production side and on the demand side. This is why it calls itself the "director of the transition" and the corporate strategy is **Driving Energy**.

# 2. Terna: Committed to Sustainability

## Driving energy transition

The energy model based on production from fossil fuels that has for many years driven the world's economic and demographic growth is no longer sustainable. The electricity market is thus rapidly changing, driven by new challenges such as decarbonisation, market efficiency and security of supply, which have been included into specific **targets by the European Commission**[1] to ensure that Europe will have secure, affordable and climate-friendly energy.

In Italy, according to the latest **Integrated National Plan for Energy and Climate (INECP)**, energy from renewable sources will have to cover at least 65% of final consumption in the electricity sector by 2030 for a total of more than 70 GW of additional power (wind and solar) compared to 2021 (about 65 GW compared to 2023). This will enable the reduction of $CO_2$ emissions by at least 55% by 2030 compared with 1990 levels.

The electricity system is thus undergoing a period of radical transformation, as is Terna's approach to managing the grid. In the energy transition to a decarbonised energy model, Terna has both the **role of director and enabler**. This involves continuing to provide the entire country with a secure, high-quality electricity service at the best price, and promoting, as far as possible, the **integration of renewable sources**, either by directly connecting them to the grid or through grid upgrades, and by improving grid management capabilities when using non-programmable renewable sources to meet high demand.

Increased use of renewables and development of the electricity grid go hand in hand. Indeed, the latter is an essential enabling factor for the former. Terna's activities are an integral part of the form of sustainable development set out in the **United Nations Sustainable Development Goals** and, especially, in **Goal 7** ("Affordable and clean energy"), Goal 9 ("Industry, innovation and infrastructure"), **Goal 13** ("Climate action") and **Goal 17** ("Partnership for the goals").

Main instruments that Terna uses to respond to the challenges posed by the energy transition are the infrastructure projects included in the Grid Development Plan and innovation. The Grid Development Plan marks Terna's response to the community's need for an uninterrupted and efficient supply of electricity, even when demand is being met to a growing extent by production from non-programmable renewable sources.

The continual growth of non-programmable renewable production sources and - at the same time - the gradual decommissioning of traditional generation plants makes appropriate development of the electricity grids necessary. This has led to undertaking strategic initiatives aimed at:

- enabling the integration of renewable sources and improving the security of the system and the quality of the service, by creating also an increasingly resilient system, capable of handling critical events external to the system itself;
- expanding interconnections to reduce local congestions;
- using cutting-edge technologies, with ever-increasing attention to environmental and sustainability aspects.

Most parts of the quoted initiatives are investments, namely grid development investments included in a Grid

[1] Please, see the following link: http://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union

Development Plan prepared by Terna every two years, as prescribed by regulatory framework[2]. The Grid Development Plan includes infrastructure projects that will be mainly completed in the next ten years. It is assessed and approved by the Ministry of the Environment and Energy Security. In the approval process, stakeholders can express their views in many ways. The Grid Development Plan is subject to:

- public consultation carried out by the sector Regulatory Authority for Energy, Networks and the Environment (ARERA);
- Strategic Environmental Assessment (SEA), a process carried out by the Ministry of the Environment and Energy Security in collaboration with the Ministry of Culture with the purpose of integrating environmental considerations into the process of preparing the plan, thus guaranteeing environmental sustainability.

Over and above legal compliance, Terna regularly engages with local stakeholders on a drafted version of the main projects. Different options are discussed with local authorities before starting the authorization process, in order to agree on an optimal localization that takes into account environmental aspects and local concerns. Indeed, stakeholders engagement at local level includes the organization of meetings with citizens, to illustrate the reason for building a new electricity infrastructure and its main features and to gather feedback and suggestions.

Since 2013, the Grid Development Plan highlights projects 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 in a given grid portion.

Actions taken by Terna in the last ten years have already contributed to allowing the increase of production from renewable sources in Italy. Grid development investment made it possible for the electricity system to fully benefit of the new production: in 2005 the renewable sources covered about 16% of national production; in 2024 this percentage has tripled, with renewable sources covering around 50% of national production[3].

A further contribution to the transition to renewables will come from the grid development investments included in Terna's 2024-2028 Industrial Plan Update, which calls or a total of Euro 17.7 billion in investment to pursue the development and strengthening of the National Transmission Grid, and from the 2025 Development Plan for the National Electricity Grid: over Euro 23 billion of investments  over the ten-year horizon covering the years 2025-2034 (up 10% compared to the previous ten-year Plan) with the aim of enabling the energy transition and achieving the environmental objectives outlined by EU regulations in both the medium and long term.

For the implementation of its contribution to the achievement of the energy transition and the related SDGs, Terna relies as well on:

- the investment in security of service (the Security Plan, a four-year plan, approved by the Ministry of the Environment and Energy Security, that sets out initiatives to protect the security of the electricity system);
- the investment to enhance the resilience of the grid and the service in response to different types of weather event (the Resilience Plan within the Security Plan);
- the Asset Management Plan, which contains all the monitoring, maintenance and renewal/replacement activities planned for assets, based on an analysis of their technical condition, as well as analytics and/or statistical analysis of recorded anomalies and breakdowns.

All projects included in the Grid Development Plan with investments greater than Euro 25 million or Euro 50 million [4] are subject to a **prior cost-benefit analysis (CBA)**, comparing the related expenditure with the resulting benefits, expressed in monetary terms. A positive cost-benefit ratio is a necessary condition for the investment's inclusion in the Grid Development Plan.

[2] Law Decree no. 76 of 16 July 2020, article 60.
[3] Monthly Report on the Electricity System-Decembre 2024 (https://www.terna.it/en/electric-system/publications/monthly-report)
[4] CBA applies to all interventions with an estimated investment of more than Euro 50 million and to projects consisting mainly of one or more new network elements (e.g., a new station) with an expected investment cost of more than Euro 25 million.

Terna has used a cost-benefit analysis methodology since 2005 in the assessment of the investments assessments process. Environmental benefits have been gradually included in the CBA and agreed upon by the ARERA. The main features of the CBA have been approved by the Sector Authority (ARERA) on 4 November 2016, with resolution 627/16/eel/r as updated in 2017, with resolution 856/17/eel/r and in 2023, with resolution 15/2023/eel/r. The latest adopted Cost-Benefit Analysis Methodology (CBA 2.0) entails an important alignment with the criteria and methods applied by ENTSO-E (European Network of Transmission System Operators for Energy) and considers and includes indicators of environmental and social benefits.

**Terna's mission is to play a leading role in the energy transition**, enabling the further development and integration of renewable energy sources and the overall energy efficiency for an increasingly decarbonised, resilient, reliable and secure electricity system, guaranteeing the highest standards of service quality and adequacy, in line with INECP and EU guidelines laid down through Fit-for-55 and RePowerEU.

# Operating responsibly

Terna is an electricity utility that operates solely in electricity transmission: it does not own thermoelectric plants, which are among the principal sources of greenhouse gas emissions. This explains why the company is not subject to obligations to reduce emissions nor to emission trading schemes of any type. Nonetheless, Terna voluntarily focuses on the goal of monitoring and controlling its emissions, thus contributing to a solution for the problem of climate change. In fact, Terna's process for creating value over time is shaped by a form of governance that targets sustainable success through the definition of a solid medium to long-term strategy, based on its Grid Development Plan and the Industrial Plan, with the aim of delivering a just transition that is as fair and inclusive as possible.

Terna has, indeed, turned its core business into an opportunity to guide Italy towards the completion of the energy transition in order to comply with the provisions of the EU Green Deal to achieve carbon neutrality by 2050, building a grid capable of enabling the energy transition towards a carbon-free system based on renewable energy.

Furthermore, it should be noted that, at the beginning of 2023, Terna reinforced its commitment to fight climate change thanks to the definition of targets to reduce greenhouse gas emissions arising from its direct and indirect activities. Indeed, **Science-Based Targets initiative (SBTi)** approved the new target of Terna Group to decrease carbon footprint in line with the "1.5°C" scenario of the Paris Agreement; the approved Science-Based Target (SBT) introduces also a target to reduce "Scope 3" indirect emissions. The actions that Terna has decided for the achievement of its target concern, also, the acceleration of investments for the development of the electricity grid to promote the full integration of renewable energy sources and reduce grid losses, activities for increasing the efficiency of electricity and energy consumption. With a view to constantly raising its ambition in combating climate change, when publishing the 2024-2028 Industrial Plan Update in March 2025, the Group officially announced its commitment to the Science Based Targets Initiative to define a net zero target within two years.

In general, the Terna Group's strategy for the five-year period from 2024 to 2028, updated in 2025, is based on a unified vision of its role in serving the country and means that the new Industrial Plan is fully integrated with the Sustainability Plan, with ESG objectives being given the same priority as industrial and financial objectives. The two common threads running through both the Sustainability Plan and the Industrial Plan are linked to environmental and social considerations, shaped by the Group's material topics. These concepts express two of Terna's key characteristics: on the one hand, as already seen, given its role as a TSO with a vital part to play in delivering the energy transition, thus leaving future generations with a carbon-free environment, sustainability is inherent in the very nature of Terna, making it "Green by Nature". On the other hand, Terna's business activities are carried out within the framework of a solid structure of protections and safeguards aimed at the maximum protection of its stakeholders' rights and demands, with a constant commitment to listening to local communities. As a result, the Group is sustainable by choice and therefore "Social by Purpose". The elements that make up the two threads - Green by Nature and Social by Purpose - thus indicate that,

in delivering on its priority goal of achieving a combined energy and digital transition (the Twin Transition), the Company must also take into account the social impacts, raising the Group's ambition and delivering a Just Transition.

Achieving an energy and digital transition that is both fair and inclusive is thus, at the same time, the priority goal of the 2024-2028 Sustainability Plan and the Plan's contribution to the Industrial Plan, providing further impetus towards the objective of delivering long-term value and sustainable success.

The Plan is based on four pillars, all defined with a view to delivering the priority goal of a Just Transition and whose content is firmly anchored to the Company's Purpose and the way in which Terna intends to fulfil its role in leading the country's fair and inclusive energy transition. The pillars are as follows:

- **Energy transition**: this pillar focuses on the delivery of a transition to a new, more sustainable energy paradigm, based on the use of energy from renewable sources. In addition to a progressive reduction in the carbon footprint and in the related $CO_2$ emissions – needed to limit global warming – this pillar also involves concerns regarding the security and resilience of the National Electricity System and, therefore, the country's productive and social system;
- **Sustainable value chain**: this pillar aims to establish a new, increasingly inclusive and sustainable value chain through the adoption of new development models that promote sustainable supply chain management, internal stakeholder value creation, transparency in customer relations and the development of circularity in business practices;
- **Creation of share value**: the aim is to strengthen the business model in terms of sustainability, achieving a balance between profit, safeguards for natural capital and the social license, based around engagement with and support for the communities affected by Terna's presence and activities;
- **Sustainable growth**: this pillar aims to guarantee sustainable long-term growth. This involves innovation and digitalization focused on the energy transition, the development of an ecosystem and new businesses to support growth and a commitment to financing for a just transition.

Believing that disclosure on ESG performances is a cornerstone of a sustainable approach to business, Terna has **published a Sustainability Report every year since 2005**, in line with GRI Reporting Initiative and verified by external auditors (since 2006). Starting from 2024, the Group has adopted the European Sustainability Reporting Standards, in line with the EU Corporate Sustainability Reporting Directive, and has included the new Consolidated Sustainability Statement within its Annual Report.
Furthermore, with the objective of monitoring its stakeholder needs and the major trends that characterize the context in which operates, Terna also carries out a periodical **materiality analysis**, a fundamental tool for prioritizing the main sustainability topics for the Organization.

In addition to ESG disclosures available within its Annual Report, Terna publishes since 2021 **a specific standalone report "Terna's Climate Change-related Disclosures"** aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) that describes the role of Terna in the energy transition, the corporate governance and management of climate change issues, the company's strategy for the decarbonization and its related targets. Since 2024, Terna publishes also a specific standalone report dedicated to biodiversity protection that takes into consideration the recommendations of the Task Force on Nature-related Financial Disclosures (TNFD).

# Financial resources and sustainable finance

The Group's financial management is based on an approach that aims to maximise efficiency and achieve and maintain **a solid financial structure**, whilst adopting a highly prudent stance towards mitigation of the potential risks. The key aspects of the resulting financial strategy are:

- diversification of the sources of financing, raising funds on both the capital markets and in the form of borrowings from major banks and supranational financial institutions;
- a balance between short and medium-term instruments, in keeping with the composition of assets;
- a proactive management of debt in order to take advantage of the opportunities offered by the capital markets;
- a commitment to maintain high credit ratings, based on a strong financial position;
- a commitment to develop sustainable finance with the aim of embedding the concept of sustainability in the Company's financial strategy;
- an active management of the financial risks to which the Company is exposed.

Fully in line with Terna's strategy, which aims to combine investment and sustainability to drive growth and value creation, **it is Terna's ambition to play a leading role in the sustainable finance market**.

**The senior green bonds** issued by Terna as of 31 December 2024, under its Euro 12,000,000,000 Euro Medium Term Notes (EMTN) programme, amount to €2.25 billion, in addition to the two issues of perpetual, subordinated green bonds, amounting to a total of €1.85 billion.

In addition, on 10 February 2025 Terna launched a new single-tranche green bond issue, again as part of the EMTN programme. The issue has a total nominal value of Euro 750 million, a term of 7 years and matures on 17 February 2032. The aforementioned green bonds are used to finance or refinance Eligible Green Projects (see below "Use of Proceeds" section).

The senior green bonds issued by Terna are also listed on the ExtraMOT PRO segment of Borsa Italiana (in addition to the listing on the regulated Luxembourg Stock Exchange), created to offer institutional and retail investors the opportunity to identify instruments whose proceeds are intended to finance projects with specific environmental and social benefits or impacts. Furthermore, the latest Euro 750 million green bond, issued on 10 February 2025, was also listed on the electronic bond market (MOT) managed by Borsa Italiana.

As of 31 December 2024, Terna can also rely on several ESG-linked Term Loans for a total of Euro 1.25 billion, three ESG-linked Revolving Credit Facilities linked to sustainability indicators for a total of about Euro 4.2 billion and a Euro Commercial Paper (ECP) programme of Euro 2 billion for the issuance of short-term conventional or ESG notes.

Terna's leadership in sustainable finance is widely recognised in the market which, since 2018, has shown a strong appetite for the green bonds issued. In addition to its inclusion in the **main ESG indices**, from January 2021, Terna is the first Italian electric utility to join the **Nasdaq Sustainable Bond Network**, the sustainable finance platform operated by Nasdaq that brings together investors, issuers, investment banks and specialist organisations.

Terna continues to be a member of the **CFO Coalition for the SDGs**, which is building on the work of the CFO Taskforce for the SDGs, the initiative launched by the UN Global Compact at the end of 2019 to develop sustainable finance and of which Terna was one of the founding members. The Coalition aims to continue to promote sustainability, scale up its global community and follow the example set by the CFOs that founded the Taskforce.

Further confirmation of the commitment to playing an active role in developing sustainable finance, Terna is taking part in the **Corporate Forum on Sustainable Finance**, a network of major European businesses committed to the development of sustainable finance as a means to promote a more sustainable and responsible society. Finally, Terna, both individually and as a member of the above Corporate Forum on Sustainable Finance, will continuously monitor developments in European legislation, with particular regard to the impact on sustainable finance.

# International indices and ESG ratings

Terna's commitment to measuring and improving its sustainability performance is reflected positively in its ESG ratings and, as a result, in its presence in international stock exchange ESG indices. Following an overview of Terna's main ESG ratings and ESG indices which the company is included in as of April 2025.

## ESG ratings

| AGENCY | DESCRIPTION |
|---|---|
| **S&P GLOBAL** | Its **Corporate Sustainability Assessment** ("CSA") is a periodic evaluation of companies' sustainability practices. The highest ranked companies are included in the Dow Jones Best-in-Class World Index (former Dow Jones Sustainability Index). |
| **SUSTAINALYTICS** | It periodically publishes an **ESG Risk Rating Report** on the Company. In 2024, Terna was rated as "Negligible Risk" (the best possible). |
| **MOODY'S ESG** | It periodically measures the ESG performances of companies. In October 2024, Terna was rated **with the highest level of performance**. |
| **MSCI** | It periodically publishes an **ESG Ratings Report** analysing and assessing companies on a scale from "AAA" (the highest rating) to "CCC". Terna has been assigned a rating of "AA". |
| **CDP (CARBON DISCLOSURE PROJECT)** | Its periodically produced **Climate Change** questionnaire focuses on issues linked to climate change. In the latest assessment, in 2024, CDP confirmed Terna in the "Leadership" category, with an "A-" rating. |
| **ISS ESG** | It assesses the sustainability performances of companies based on approximately a hundred criteria. The highest ranked companies, such as Terna, are awarded **Prime** status. |
| **FTSE RUSSELL** | Its ESG ratings reflect the company's exposure to - and management of - **ESG issues** and constitute the main input for inclusion in the FTSE4Good indices. |
| **STANDARD ETHICS** | Standard Ethics ratings indicate the level of compliance by companies in the field of sustainability on the basis of documents and guidelines published by the European Union, the OECD, and the UN. In December 2024, Terna improved its rating to "**EE+**" on a scale from "EEE" (the best) to "F" (the worst). |
| **GRESB** | GRESB ("Global Real Estate Sustainability Benchmark") conducts assessments of the level of disclosure. In 2024, Terna received the highest possible rating of "**A**". |

## ESG indices

| INDEX | TERNA |
|---|---|
| **DOW JONES BEST-IN-CLASS WORLD (FORMER DOW JONES SUSTAINABILITY WORLD)** | The Dow Jones Best-In-Class indices select the companies with the best sustainability performances, as assessed by S&P Global CSA, from among those with the highest capitalisation. |
| **FTSE4GOOD** | The FTSE4Good indices are based on assessments carried out by FTSE Russel. |
| **MSCI** | Terna is a member of over a hundred of MSCI's general and sectoral ESG indices. |
| **STOXX® GLOBAL ESG LEADERS** | Launched in 2011, these indices are based on assessments made by the Sustainalytics rating agency and select the best shares based on ESG performance. Admission to the Global ESG Leaders Index, requires inclusion in at least one of the three specialist indices (Global Environmental Leaders, Global Social Leaders and Global Governance Leaders). |
| **EURONEXT SUSTAINABLE (FORMER VIGEO EIRIS)** | These indices are based on a population of companies listed on international markets. Terna has been a member of the World 120, Eurozone 120 and Europe 120 indices since 2012, the year of their introduction. |
| **MIB ESG** | Launched in 2021, this is Italy's first blue-chip index focusing on ESG best practices. |
| **S&P GENDER EQUALITY & INCLUSION INDEX** | Launched in 2021, this index measures the performances of listed companies with respect to gender equality and inclusion. |
| **EURONEXT EQUILEAP GENDER EQUALITY EUROZONE 100 INDEX** | Launched in 2022, it includes 100 Eurozone companies that have shown that they are playing a major role in promoting gender equality. |
| **EURONEXT ESG EUROZONE BIODIVERSITY LEADERS PAB INDEX** | The biodiversity index, launched in 2022, selects the best performers with respect to an assessment of their "Corporate Biodiversity Footprint". |

| INDEX | TERNA |
|---|---|
| **S&P GLOBAL 1200 SCORED & SCREENED INDEX (FORMER S&P Global 1200 ESG)** | The index rewards the best sustainability performances of the largest capitalized international companies based on data collected through the S&P Global CSA (Corporate Sustainability Assessment). |
| **S&P Global LargeMidCap SDG** | The index, launched in 2024, selects the best companies in the S&P Global LargeMidCap Index based on their alignment with the 17 United Nations Sustainable Development Goals. |
| **S&P Global LargeMidCap Biodiversity** | The biodiversity index, launched in 2024, measures the ability of companies in the S&P Global LargeMidCap index to limit the impacts of business activities on ecosystems. |

# Rationale behind the Green Bond Framework

Terna's Green Bond Framework is a cornerstone of its long-term sustainability strategy directly linking financing activities to the company's investments in grid development and modernization. These investments are pivotal in facilitating the energy transition and are expected to yield significant environmental benefits.

The selection of green investment categories – detailed in the "Use of proceeds" section below – and Terna's sustainable approach to operation management are also in line with the commitment of the company to contribute to the United Nations 2030 Agenda, namely towards the following Sustainable Development Goals:

- **SDG 7** "Affordable and clean energy", in particular Goal 7.2 "increase substantially the share of renewable energy in the global energy mix";
- **SDG 9** "Industry, innovation and infrastructure", in particular Goal 9.1 "develop quality, reliable, sustainable and resilient infrastructure";
- **SDG 13** "Climate action".

The Green Bond Framework is structured in accordance with the **International Capital Market Association (ICMA) Green Bond Principles 2025**, encompassing the following four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

In addition, Terna aims to align its Green Bond Framework, on a best-effort basis and to the extent currently possible, with the European Union's evolving sustainable finance regulations, including the EU Green Bond Standard (Regulation (EU) 2023/2631) and the EU Taxonomy Regulation (Regulation (EU) 2020/852) which establish a framework to facilitate sustainable investments.

# 3. Use of Proceeds

An amount equal to the net proceeds from the issue of the Notes will be allocated to the refinancing and/or financing, in whole or in part, of existing and/or future "Eligible Green Projects" which meet the Eligibility Criteria described as follows:

| Eligible Green Project Category | Description of Eligible Green Projects | Contribution to UN SDGs | EU Taxonomy activity | Contribution to EU Environmental Objectives |
|---|---|---|---|---|
| **Renewable Energy** | • Connection of renewable sources generation plants (grid infrastructures devoted to directly connecting grid generation plants from renewable sources to the transmission grid).<br>• 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, for instance by resolving congestions in a given portion of the grid). |  | **4.9 Transmission and distribution of electricity** | **EU Environmental Objective 1: Climate Change Mitigation** |
| **Energy Efficiency** | • Grid infrastructures that allow higher transmission efficiency (reduction of the difference between energy generation and consumption, other things being equal). |  | **4.9 Transmission and distribution of electricity** | **EU Environmental Objective 1: Climate Change Mitigation** |
| **Quality, security and resiliency of electricity transportation Infrastructure** | • Investments included in the Network Development Plan, whose objective are the quality and security of the service (they mainly concern interventions to reinforce and mesh the network), to solve operational issues related also to the energy transition through the decommissioning of the thermoelectric plants and the integration of RES.<br>• Investments in infrastructural interventions related to the construction of new lines or substation aimed to increase the resilience of the National Transmission Grid in those areas of the Italian territory more exposed to severe climatic events (e.g. strong wind and ice-snow). |  | **4.9 Transmission and distribution of electricity** | **EU Environmental Objective 1: Climate Change Mitigation** |

All the projects included in each of the aforementioned categories **concern transmission and distribution infrastructure or equipment which are part of the interconnected European system, i.e. the interconnected electricity system covering the interconnected control areas of Member States, Norway, Switzerland and the United Kingdom, and its subordinated systems**. An example of projects falling in each of the above categories is reported in Annex 1 of this document.

The Group's activities, in **compliance with the EU Taxonomy (Regulation Regulation 852/2020)**, have been mapped in order to identify those activities that are taxonomy-eligible, namely potentially able to contribute to climate change mitigation objectives.
Then, for the purpose of assessing alignment, analyses were carried out for each identified eligible activity in order to verify compliance with the substantial contribution criteria and the established Do No Significant Harm criteria.

The table below shows the Terna Group's turnover, capex and opex for 2024, referring to taxonomy eligible and taxonomy non-eligible activities, as well as those that are aligned and not aligned.

| KPI | Share of Eligible Activities | Share of Aligned Activities |
|---|---|---|
| **Turnover** | 99% | 86% |
| **CapEx** | 100% | 99% |
| **OpEx** | 100% | 95% |

The eligible projects included in the three categories mentioned above (Renewable Energy, Energy Efficiency and Quality, security and resiliency of electricity transportation Infrastructure) are all related to "4.9 Electricity transmission and distribution activities", they meet the technical screening criteria set forth in the Climate Delegated Act, and are in line with the minimum safeguards, pursuant to Article 18 of the Regulation.
An amount equal to the net proceeds from the issue of the Notes will be used to refinance existing Eligible Green Projects that have been completed in the last 24 months starting from the last annual reporting reference date (i.e. at the date of this document the last annual reporting reference date is 31 December 2024) and / or finance on-going and future Eligible Green Projects.

*If, for any reason, a project becomes ineligible, it will be replaced by another Eligible Green Project on a best effort basis*. The division of the allocation of Green Bond proceeds between new projects and refinancing will be included in the annual reporting until full allocation (see the Reporting section below).

# 4. Project Evaluation and Selection Process

The investments included in the Network Development Plan are subject to a cost-benefit analysis in order to be considered sustainable, i.e., they must produce overall benefits for the System that are significantly greater than the estimated costs necessary to achieve them. Annex A.74 of the Network Code reports the **CBA 2.0 cost-benefit analysis** methodology, positively verified by the Regulatory Authority for Energy, Networks and the Environment (ARERA), with the resolution 856/17 (the **Resolution**). The Resolution also provides for Terna's Development Plan (starting from the 2018 edition) to incorporate a document containing the methodology for cost-benefit analysis. In particular, the latter describes the following aspects:

- Identification and quantification of benefits;
- Monetization of benefits;
- Quantification of estimated costs;
- Enhancement of economic indexes' synthesis (IUS and VAN)[5].

The categories reported above are among those used in the CBA 2.0. The values of specific underlying KPIs determine the association between projects and categories. For example, the indicator B5 "greater production integration from renewable sources, calculated by market simulations or grid simulation" is used for determining the eligibility to category "Renewable Energy", the indicator B2 "variation of grid losses" is used for category "Energy Efficiency" and the indicator B3 "variation in expected energy not-supplied " for the category "Quality, security and resiliency of electricity transportation Infrastructure".

Eligible Projects that are not subject to cost-benefit analysis, are assessed through network analyses and studies which, in line with the CBA 2.0 methodology, allow to estimate the related environmental benefits.

As part of the governance of its Green Bond program, Terna has put in place a dedicated **Green Committee**, which is composed of employees holding related roles. The role of the Committee is to review and validate the selection of the Eligible Green Projects. The Committee meeting will take place on an annual basis and as and when the situation requires.

The sustainability of the projects financed through the Green Bond depends primarily on their impact, as illustrated above. Terna will guarantee, whenever feasible, that the management of operations, including the consultation and authorization phases, the selection of suppliers and the management of worksites, is sustainable as well. **The main ESG management commitments are as follows**:

- **Consultation**. Terna is committed to listen to local stakeholders, as described in the previous paragraph "Operating responsibly". This leads the Committee to consider potential environmental impacts as an input for the final definition of the project before entering the authorization phase. In this context, Terna is committed to prevent and manage controversies arising with stakeholders, in order to minimize negative impacts.
- **Authorization**. Terna is committed to disclose all relevant information, including the Environmental Impact Assessments, and to fulfill all the obligations coming from prescription by the relevant Authorities in due course.

[5] For further information, please refer to the following link: https://www.terna.it/en/electric-system/grid/national-electricity-transmission-grid-development-plan

- **Selection of suppliers**. Terna adopts a "funnel" approach that makes the requests to suppliers stricter the higher the environmental and social risks associated with the suppliers' performance are.
- **Management of worksites**. Terna is putting much care in the mitigation of risks associated with the actual construction of its infrastructures. Among the main issues under control, there are safety at work and prevention of injuries – including contractors' and subcontractors' employees – and the correct management of potential environmental impacts.

The described evaluation and selection process ensures a full alignment with Technical Screening Criteria defined in the Annex 1 of **Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 (Taxonomy Climate Delegated Act)** for the activity "Transmission and distribution of electricity".

# 5. Management of Proceeds

Upon receipt, the net proceeds will be invested in the treasury investment portfolio until allocation to Eligible Green Projects as defined in this Framework. The allocation of the net proceeds to Eligible Green Projects will be monitored throughout the period that the capital expenditure will be incurred. Terna will review the allocation of the net proceeds to projects to ensure that they are aligned with the eligibility criteria set forth in the Green Bond Framework.

Until the full allocation is achieved, Terna will disclose the amount equal to the net proceeds unallocated to Eligible Green Projects which will be held temporarily in treasury investment portfolio (cash and cash equivalents, tradable government bonds or other cash investments instruments, etc); unallocated net proceeds will not be invested in any activities directly related to fossil fuels, tobacco, cannabis, alcohol, gambling, weapons or adult entertainment.

In the event that Eligible Green Project is postponed, cancelled, or become ineligible, Terna commits to reallocate the proceeds to similar Eligible Green Projects on a best effort basis and within the scope of this Framework.

The full allocation of Green Bond is forecasted within the timeframe of the relevant Industrial Plan, which currently lasts five years.

# 6. Reporting

With the **Green Bond Report**, Terna is delivering on its commitment, made at the time of the bond issuances, to report annually on its use of the proceeds and the environmental benefits resulting from the projects financed with those proceeds.
The Green Bond report will contain information on **eligible projects, amounts allocated** at project level and **amounts unallocated, the share of refinancing, the environmental benefits and any potential material developments/ issues/controversies** related to the projects.

At the date of this document none of the selected projects financed by green bond net proceeds is the subject of significant proceedings (administrative or final court judgements) resulting in Terna being ordered to pay fines or to act or not act (e.g., prohibitions), or in its employees being found guilty of a criminal offence (full compliance in environmental and socio-economic matters).

| Project Categories | | | Environmental Benefits | | | |
|---|---|---|---|---|---|---|
| | | | Connection of RES production plants (MW) | Increase in production from RES (MWh and/or TCO2) | Reduction of grid losses (MWh and/ or TCO2) | Reduction of energy not supplied (MWh/years) |
| | | | Planned* / effective | Planned*/effective | Planned*/effective | Planned*/effective |
| | Renewable energy | Connection of production plants from renewable sources | ■ | ▫ | | |
| | | Integration of production from renewable sources | | ■ | | |
| | Energy Efficiency | Reduction of grid losses | | | ■ | ▫ |
| | Quality, security and resiliency | Increase of the quality security and the resiliency of the grid | | | | ■ |

■ Main environmental benefit: KPI will be presented in reporting

▫ Other possible environmental benefit: KPIs 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.

# Allocation reporting

**Terna will report annually until full allocation**, and as necessary thereafter in the event of material developments, on the following:

- Allocated amounts by Eligible Green Project, including a brief description of 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);
- Division of the allocation between refinancing and new projects;
- The outstanding amount of net proceeds yet to be allocated to projects at the end of the reporting period;
- Percentage of co-financing (if the Eligible Green Projects are financed together with another company outside the Terna group).

# Impact reporting

Where feasible, **Terna will also report on an annual basis until bond maturity 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.

Moreover, information on ESG management of Eligible Green Projects and potential controversies will be provided, where feasible, for the most representative projects.

Monitoring will be carried out to ensure that the Eligible Projects is aligned with the categories and eligibility criteria throughout the life of the Bonds.

Furthermore, any critical issues and controversies that may emerge during the monitoring phase will be brought to the attention of the Green Bond Committee for their evaluation. The annual Green bond report will be made publicly available on Terna's website.

# 7. External Review

## Second Party Opinion

A leading independent Second Party Opinion provider will issue a Second-Party Opinion (SPO) to assess the alignment of this Green Bond Framework to the ICMA Green Bond Principles and to the EU Taxonomy Regulation.

## Annual Assurance Report

An independent auditor appointed by Terna will review that the allocation of the Green Bonds is done in accordance with Terna's Green Bond Framework, considering also Environmental Benefits of the Eligible Categories, and will provide an annual assurance report, until all the proceeds of the bonds have been allocated, confirming that an amount equal to the net proceeds of the bonds has been allocated in compliance with all material aspects of the Eligible Green Projects criteria set forth in the Green Bond Framework and with the "Use of Proceeds" section of the bond documentation.

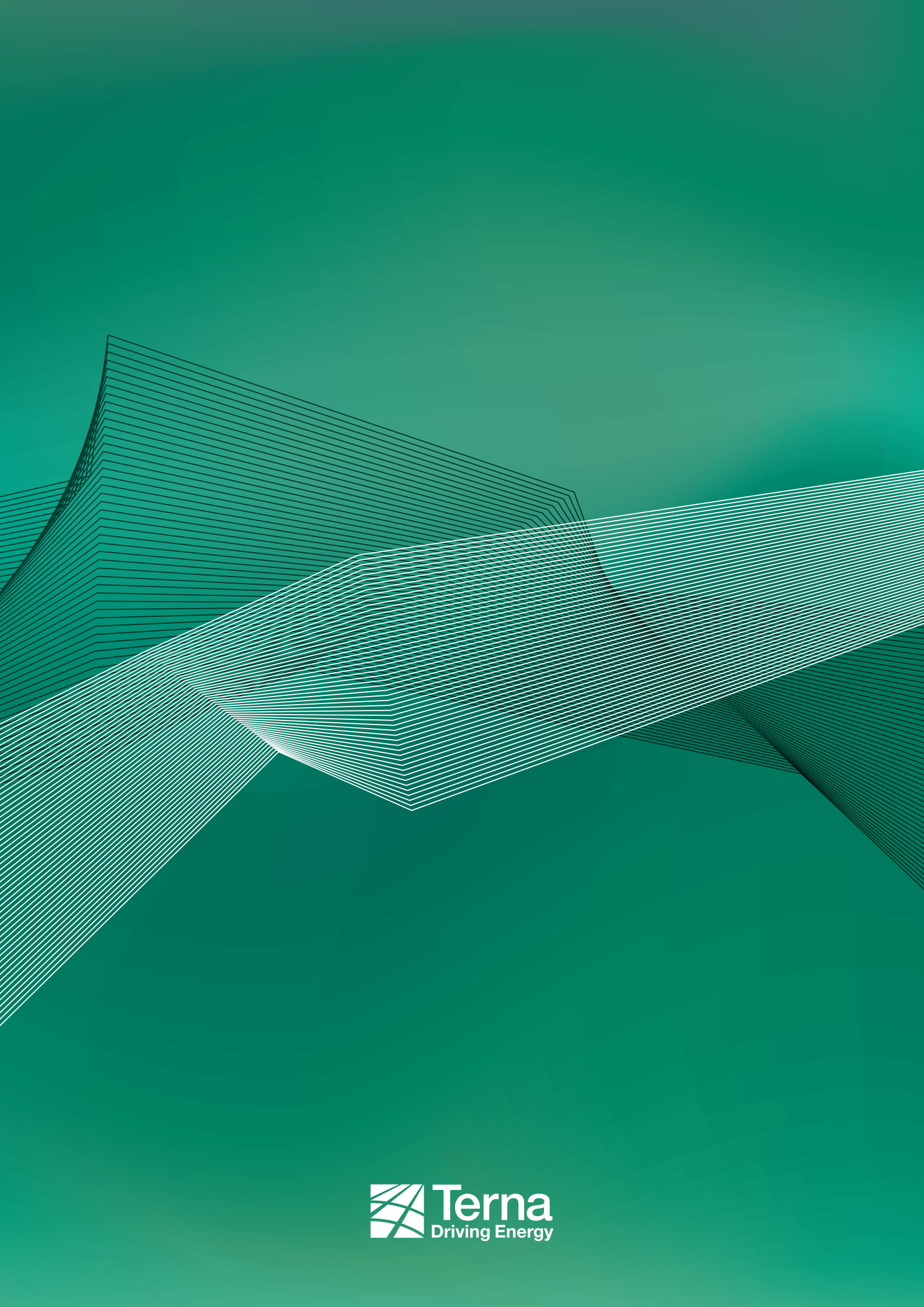
**Both Terna's Green Bonds Framework and the Second Party Opinion will be made available on Terna's website (http://www.terna.it).**

# ANNEX 1 – Examples of Eligible Green Projects

| **Project:** | **New electrical substation "San Marco dei Cavoti"** |
|---|---|
| Eligible Green Project Category: | **Renewable energy - integration of production from RES** |
| Description: | Substation built for the connection of Renewable Energy Plants in Campania Region to the High Voltage Line "Foiano – Colle Sannita". |
| Environmental benefit: | Expected increase in production from RES = 325,128 MWh per year |

| **Project:** | **380 kV Paternò-Pantano-Priolo powerline** |
|---|---|
| Eligible Green Project Category: | **Energy efficiency (reduction of grid losses)** |
| Description: | With the new 380 kV Paternò-Pantano-Priolo power line, the 380 kV electricity grids will be connected with the 150 kV grid of south-eastern Sicily to support the production of renewable plants located in the area, and to improve continuity and stability of eastern Sicily grid. The upgrade of Melilli, Priolo and Pantano D'Arci substations allows to obtain further benefits in term of grid reliability. |
| Environmental benefit: | Expected reduction in grid losses = 13,200 MWh per year. |

| **Project:** | **Riassetto Penisola Sorrentina** |
|---|---|
| Eligible Green Project Category: | **Quality, Security and Resilience** |
| Description: | The intervention consists of the construction of the connections between the new electrical station in Sorrento and the existing primary substations in Vico Equense, Agerola and Lettere, which will be adapted to allow their connection to the National Transmission Grid with the new voltage levels. The new interconnection will increase the reliability of the electrical system of the Sorrento Peninsula and overcome the 60 kV voltage level, which is no longer adequate to ensure the security, resilience and quality of electrical transmission service in the area.<br>Moreover, the intervention, by increasing the meshing of the local grid, will allow a reduction in the risk of disconnection for severe weather events, increasing the resilience of the power system. |
| Environmental benefit: | Energy Not Supplied = 10,890 MWh per year. |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