

GREEN BOND FRAMEWORK

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1. INTRODUCTION

About Terna

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

It has an institutional public service role essential to guarantee electricity to the country and allow operation of the entire national electricity system: it performs grid planning, development and maintenance activities, in addition to ensuring the balance between the supply of and demand for electricity throughout the operation of the electricity system 24 hours a day, 365 days a year.

With approximately **75 thousand km of high and extra-high-voltage power lines**, over 900 substations across the national territory and **26 cross-border interconnections**, it can count on **5,600 professionals**.

Terna must **provide the country with energy**, ensuring security, quality and cost-effectiveness over time, pursuing the development and integration with 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 the electronic market of Borsa Italiana since 23 June 2004, **Terna is director and enabler of the energy transition** to create 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 in various 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 must not only design a grid capable of managing this progressive decarbonisation and the increasing integration of renewables ("**transmission operator**"), but must also guarantee, moment by moment, that the energy required by consumers is always in balance with what is produced, through so-called "dispatching" ("**system operator**"). 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

Enabling 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, the **Integrated National Plan for Energy and Climate (PNIEC)** envisages the complete phase-out of coal by 2025, and 55% of gross electricity consumption from renewable energy sources (RES) by 2030.

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").

The main instruments that Terna uses to respond to the challenges posed by the energy transition are the infrastructure projects included in the Network Development Plan and innovation.

The 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 make 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;

¹ <http://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union>

- 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 Network Development Plan (NDP)** prepared by Terna every two years, as prescribed by legal norms². Every NDP, that contains the projects envisaged for the next ten years and the progress made on the works planned in previous Plans, is assessed and approved by the Ministry of Environmental and Energy Security. In the approval process, stakeholders can express their views in many ways. The NDP is subject to:

- public consultation carried out by the sector Regulatory Authority for Energy, Networks and the Environment (ARERA);
- evaluation by the Grid User Consultation Committee;
- Strategic Environmental Assessment (SEA), a process carried out by the Ministry of the Environment and Protection of Land in collaboration with the Ministry for Cultural Heritage 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 investment 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 comments and suggestions.

Since 2013, **the NDP contains a section devoted to the investments that have the goal of favoring the increase of production from renewable sources**, such as the connections of new plants or the lines and substation 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 2022 this percentage has more than doubled, with renewable sources covering around 36% of national production³.

A further contribution to the transition to renewables will come from the grid development investments included in Terna's 2021-2025 Updated Industrial Plan, which calls for €9.5 billion in investment to modernize and strengthen the National Transmission Grid, and from the 2023 Development Plan for the National Electricity Grid: over €21 billion of investments in the next 10 years, 17% more than the previous Plan, to accelerate the energy transition, promote

² Law Decree no. 76 of 16 July 2020, article 60.

³ [https://www.terna.it/en/electric-system/dispatching/operating-data/Provisional data on operation](https://www.terna.it/en/electric-system/dispatching/operating-data/Provisional%20data%20on%20operation)

decarbonisation across the Country, reduce dependence on foreign supply sources, and increase the environmental sustainability of the Italian electricity system.

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 programme, approved by the Ministry of Environmental 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 investments included in NDP with costs greater than € 15 Mln (until NDP 2021) or € 25 Mln (since NDP 2023) 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 of the investment's inclusion in the Development Plan.

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 on 14 December 2017, with resolution 856/17/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 decarbonized, resilient, reliable and secure electricity system, guaranteeing the highest standards of service quality and adequacy, in line with PNIEC and EU guidelines laid down through the Green New Deal.



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 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 new 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 in order to promote the full integration of renewable energy sources and reduce grid losses, activities for increasing the efficiency of electricity and energy consumption.

Moreover, in 2022, the Company completed preparations for the definition of a **Circular Economy Strategy** and setting out a Roadmap of actions for the procurement of materials and their correct use, the sustainable use of resources, including secondary raw materials, and the management of waste.

Attention to the environment and biodiversity, furthermore, is the subject of specific **cooperation agreements in collaboration with the principal environmental organizations** (e.g., WWF, Legambiente, Greenpeace) designed to emphasize nature conservation in the planning activities and maintenance of the electricity grid. In this regard, in February 2023, Terna signed a new Memorandum of Understanding with Greenpeace Italia, Legambiente and WWF Italia for the development and construction of increasingly sustainable electricity infrastructure, integrated into the local areas and respectful of the environment and biodiversity. The collaboration between Terna and environmental associations, aims at an increasingly ambitious improvement of the environmental sustainability of the ten-year Development Plan for the Italian transmission grid and of Terna's industrial plan, with a view to the decarbonisation of the electricity system, also through concrete and constant dialogue and institutional discussion on subjects and measures of mutual interest.

In addition to environmental issues, Terna is also focused on social issues like **integrity in business conduct** (Terna is ISO37001 certified), **health and safety** (Terna is certified for its Occupational Health and Safety Management System in accordance with the ISO45001:2018 standard), **professional training, human rights**. This is in line with the commitments expressed by **adhering to the UN Global Compact in 2009**.



CAPRI-MAINLAND AND SORRENTO INTERCONNECTION

An electricity link with Sorrento and Torre Annunziata with major environmental benefits and increased service quality, efficiency and reliability. The new “invisible” cable is entirely undersea or underground and will ensure the increased quality, reliability and efficiency of the local electricity service, with significant benefits for the community, both environmentally, through the supply of renewable energy produced on the mainland and the decommissioning of the diesel generator on the island, and economically.

Thanks to the new connection Capri joins the Italian national grid, with annual savings for the community and the electricity system in the region of 20 million euro and a reduction of 130,000 tonnes of CO₂ each year.

Terna also asks all its suppliers to adopt behaviors coherent with legal and ethical standards as far as human rights and the protection of the environment are concerned.

In coherence with its approach, in March 2022 Terna implemented, and subsequently certified in early 2023, a **Compliance Management System** in line with the ISO 37301:2021 standard, with a view to ensuring effective monitoring of the compliance obligations identified. This new certification bears witness to the Group’s ability to ensure that its operations comply with national and European regulations, and also provides an opportunity for the development of a compliance culture within the Company.

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). Furthermore, Terna’s Annual Report is an integrated report prepared with the aim to illustrate how ESG factors interact with strategy and operations to deliver economic, social and environmental value to stakeholders.

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 Integrated Report, Terna publishes since 2021 a **specific standalone report “Terna’s Climate Change-related Disclosures”**⁴ 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.

In particular, the table below shows the references within Terna’s “2022 Integrated Report” and “Terna’s Climate Change-related Disclosures - 2023” that respond to the recommendations made by the Task Force on Climate-related Financial Disclosures.

Thematic areas	TCFD recommendations	References
Governance	a) Describe the Board's oversight of climate related risks and opportunities.	'The governance of climate change issues' (Terna's Climate Change-related Disclosures p.11)
	b) Describe the role of management in assessing and managing climate-related risks and opportunities.	'Disclosure on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)' (Integrated Report 2022 p.88) 'ESG performance monitoring' (Integrated Report 2022 p.193)
Strategy	a) Describe the climate-related risks and opportunities in the short, medium and long term identified by the organisation.	'Terna's scenarios' (Terna's Climate Change-related Disclosures p.13) 'Risks and opportunities associated with climate change' (Terna's Climate Change-related Disclosures p. 20) 'Terna's strategy' (Terna's Climate Change-related Disclosures p.24)
	b) Describe the impacts of climate related risks and opportunities on the organisation's business, strategy and financial planning.	'Opportunities and risks for Terna connected with climate change' (Integrated Report 2022 p.89) 'Control and Management of ESG Risks' (Integrated Report 2022 p. 86) 'The 2023 Development Plan' (Integrated Report 2022 p. 38) 'The 2021-2025 Industrial Plan' (Integrated Report 2022 p. 42)
	c) Describe the resilience of the business strategy taking into account different climate scenarios including those at or below 2°C.	'Innovation Strategy' (Integrated Report 2022 p. 48) 'Security and Resilience Plan' (Integrated Report 2022 p. 104) 'Focus: Grid Resilience and Resilience Methodology' (Integrated Report 2022 p. 105) 'Renewal Plan' (Integrated Report 2022 p. 107) 'Reference Scenario' (Integrated Report 2022 p. 24) 'Terna's scenarios' (Integrated Report 2022 p. 36 p. 259)

4 https://download.terna.it/terna/Terna_s_climate_change_related_disclosures_2023_8db8dc5f89c6ac4.pdf

Thematic areas	TCFD recommendations	References
Risk management	<ul style="list-style-type: none"> a) Describe the processes for identifying and assessing climate-related risks. b) Describe climate-related risk management processes. c) Describe how the processes of identifying, assessing and managing climate-related risks are integrated into the overall risk management processes. 	<ul style="list-style-type: none"> 'Terna's risk framework' (Terna's Climate Change-related Disclosures p.16) 'Risk Governance' (Integrated Report 2022 p. 80)
Metrics and Targets	<ul style="list-style-type: none"> a) Communicate the metrics used by the organization to assess climate-related risks and opportunities, in line with the adopted risk management strategy and process. b) Report scope 1, scope 2 and, where applicable, scope 3 greenhouse gas emissions, and associated risks. c) Describe the objectives used by the organization to manage climate-related risks and opportunities, including performance against objectives. 	<ul style="list-style-type: none"> 'Metrics and Targets' (Terna's Climate Change-related Disclosures p. 30) 'Emissions into the atmosphere' (Integrated Report 2022 p. 259) 'The EU Taxonomy' (Integrated Report 2022 p. 158)

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;
- the 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;
- 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 at 30 June 2023, under its €9,000,000,000 Euro Medium Term Notes (EMTN) programme, amount to €2.6 billion, in addition to the perpetual, subordinated green bonds issued on a standalone basis in February 2022, amounting to €1 billion. These green issues are used to finance or refinance Eligible Green Projects (see below section "Use of Proceeds").

Once again under the Euro Medium Term Notes (EMTN) programme, a green, single-tranche, euro-denominated, fixed-rate bond with a total nominal value of €650 million was launched on 17 July 2023.

Terna has also agreed a number of **ESG-linked Credit Facilities**, two **Sustainability-Linked Revolving Credit Facilities** and a **Euro Commercial Paper (ECP) Programme**.

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 was 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.

To confirm its active role in developing sustainable Finance, Terna continues to be a member of the **CFO Coalition for the SDGs**, which is built 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 through the implementation of standards and guidelines and of which Terna was one of the founding members. The Coalition aims to continue, aligning corporate finance and investment with the sustainable development goals promoted by the United Nations, to promote sustainability, scale up its global community and follow the example set by the CFOs that founded the Taskforce.

Terna is also taking part in the **Corporate Forum for Sustainable Finance**, a network of major European businesses committed to the development of sustainable finance to promote a more sustainable and responsible society.

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**.

On 9 February 2023, Terna was included among the **'Top 1%' companies in the Sustainability Yearbook 2023'**, the leading publication produced by S&P Global, the international rating agency that assesses the ESG performance of over 7,800 companies worldwide. Thanks to an excellent score of 91 (out of 100) awarded by S&P Global in its 'Corporate Sustainability Assessment 2022' (latest update: December 2022), **Terna recorded the best score among the electric utilities assessed**.

Following an overview of Terna's main ESG ratings and ESG indices which the company is included in as of July 2023.

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 Sustainability Index (DJSI).
SUSTAINALYTICS	It periodically publishes an ESG Risk Rating Report on the Company. In 2022, Terna was rated as "Negligible Risk" (the best possible).
MOODY'S ESG	It periodically measures the ESG performances of companies. In October 2022, Terna was rated with the highest level of performance .
BLOOMBERG	Its Gender Reporting Framework is an international standardized reporting and disclosure method for workplace gender data. The highest ranked companies, such as Terna, are included in the Gender Equality Index (GEI).
MSCI	It periodically publishes an ESG Ratings Report in which it analyses and assesses companies on a scale from "AAA" (the highest rating) to "CCC". Terna has been assigned a rating of "AAA".
CDP (CARBON DISCLOSURE PROJECT)	Its periodically produced Climate Change questionnaire focuses on issues linked to climate change.
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 issues an opinion on companies' degree of compliance with regard to sustainability and corporate governance. In December 2022, 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 2022, Terna received the highest possible rating of "A".

ESG indices

INDEX	TERNA
DOW JONES SUSTAINABILITY	The DJSI indices select the companies with the best sustainability performances 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).
BLOOMBERG GENDER EQUALITY	This index measures companies' performance regarding gender equality issues.
EURONEXT 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.
ECPI	ECPI has created sustainability indices and carries out research so as to provide additional non-financial information. Terna is, among others, one of the ECPI ESG Best in Class.
MIB ESG	Launched in 2021, this is Italy's first blue-chip index focusing on ESG best practices.
GLIO/GRESG ESG	Launched in 2021, this is the first index to specialise in an assessment of the best ESG practices adopted by companies that manage strategic infrastructure.
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".

Rationale behind the Green Bonds Framework

Terna's Green Bonds Framework is an integral part of the long-term sustainability vision of the company. The framework provides a **direct link from financing to relevant and continuing parts of Terna's activities**, i.e. grid development investment, most of which is bearing positive environmental impacts.

The selection of green investment categories – see “Use of proceeds” below – and Terna's sustainable approach to operation management are also in line with **the commitment of the company to contribute to the UN 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”.

Terna has established this Green Bond Framework in accordance with the **Green Bond Principles 2021**, published by **the International Capital Market Association (ICMA)**, and their four core components:

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

The Green Bond Framework is also intended to align (on a best effort basis and to the extent currently possible) with the Proposal for the EU Green Bond Standard, and the Regulation (EU) 2020/852, the EU Taxonomy regulation setting forth 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	<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, 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Investments included in the National 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. • 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 (eg. 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 above 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 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 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 2022) 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 Reporting section below).



4. PROJECT EVALUATION AND SELECTION PROCESS

The investments included in the 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 A74 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 methodologies:

- 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 (system over generation)" 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 of energy not supply" 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 analyzes 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**. The role of the Committee is to review and validate the selection of the Eligible Green Projects.

The dedicated Green Committee includes:

- the Head of Finance department;
- the Head of Investor Relation and Sustainability;
- the Head of Planning and Control department;
- the Head of Grid Planning and Interconnections.

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:**

⁵ For more details, please see <https://www.terna.it/en/electric-system/grid/national-electricity-transmission-grid-development-plan>: National Development Plan and its annex "Document of CBA Methodology"

- **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.
- **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. The allocation of the net proceeds to Eligible Green Projects will be monitored throughout the period that the capital expenditure and operating costs will be incurred. Terna will review the allocation of the net proceeds to projects to ensure that they are in compliance with the criteria set forth in the Green Bond Framework.

Until full allocation, 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 case of postponed projects or divestments, the Issuer will reallocate the proceeds to similar projects eligible on a best effort basis.

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

6. REPORTING

With the **Green Bond Report** (included in the Annual Report—Integrated Report), Terna is delivering on its commitment, made at the time of the bond issues, 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).

		Environmental Benefits				
		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)	Reduction of energy not supplied (MWh/years)	
		Planned* / effective	Planned*/ effective	Planned*/ effective	Planned*/ effective	
Project Categories	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				■

- 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 the largest and 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);
- 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 Second Party Provider will issue a Second-Party Opinion on the Framework, to confirm the alignment of the Framework to the ICMA's Green Bond Principles and the EU Taxonomy.

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 (www.terna.it).

ANNEX 1 – EXAMPLES OF ELIGIBLE GREEN PROJECTS

Project:	Garaguso new electrical station
Eligible Green Project Category:	a) Renewable energy - integration of production from RES
Description:	Substation to be built for the connection of Renewable Energy Plants in the Basilicata Region to the 380 kV High Voltage Line “Matera - Laino”.
Environmental benefit:	Expected increase in production from RES = 668,473 MWh per year

Project:	380 kV Paternò-Pantano-Priolo powerline
Eligible Green Project Category:	b) 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'Arce substations allow to obtain further benefits in term of grid reliability.
Environmental benefit:	Expected reduction in grid losses = 13,200 MWh per year.

Project:	220 kV Schio Substation and reinforcement grid
Eligible Green Project Category:	c) Quality, Security, Resilience
Description:	In order to improve the quality and security of Vicenza network, a development program has been planned with a new 220/132 kV substation and reinforcement of 132 kV network to remove the limitation of power lines and reduce the risk of supply interruption.
Environmental benefit:	Energy Not Supplied = 453 MWh per year.



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