

# SECOND PARTY OPINION

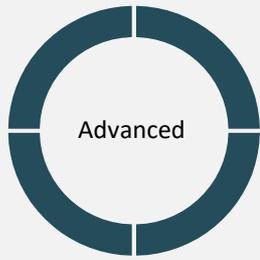
## on the sustainability of Terna's Green Bond Framework

V.E is of the opinion that Terna's Framework is aligned with the four core components the Green Bond Principles 2021 ("GBP")



### Framework

#### Contribution to Sustainability:



- Advanced
- Limited
- Robust
- Weak

	Weak	Limited	Robust	Advanced
Expected impacts				
ESG risks management				

#### SDG Mapping



#### Characteristics of the Framework

Green Project Categories	⇒ Renewable Energy ⇒ Energy Efficiency ⇒ Quality, security and resiliency
Project locations	Italy and interconnections within the European Interconnected System
Existence of framework	Yes
Share of refinancing	To be communicated in the annual report
Look back period	48 months

Follows the key recommendations of the EU Taxonomy Climate Delegated Act (June 2021)

### Issuer

#### ESG Performance as of October 2020



- Advanced
- Limited
- Robust
- Weak

	Weak	Limited	Robust	Advanced
Environment				
Social				
Governance				

#### ESG Controversies

Number of controversies	None
Frequency	NA
Severity	NA
Responsiveness	NA

#### Controversial Activities

The Issuer appears to not be involved in any of the 17 controversial activities screened under our methodology:

- Alcohol
- Fossil fuels industry
- High interest rate lending
- Pornography
- Animal welfare
- Coal
- Human embryonic stem cells
- Reproductive medicine
- Cannabis
- Gambling
- Military
- Tar sands and oil shale
- Chemicals of concern
- Genetic engineering
- Nuclear power
- Tobacco
- Civilian firearms

### Coherence

Coherent
Partially coherent
Not coherent

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

## Key findings

V.E is of the opinion that Terna's Framework is aligned with the four core components of the GBP and that it follows the key recommendations of the EU Taxonomy Climate Delegated Act (June 2021).

### Use of Proceeds –aligned with GBP

- Eligible Categories are clearly defined. The issuer has communicated the nature of the expenditures, and the location of Eligible Projects.
- Environmental Objectives are clearly defined, these are relevant for all the Eligible categories and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental Benefits are clear, these are considered relevant, measurable, and will be quantified for all the eligible categories in the reporting for all the Eligible categories.
- The Issuer has not provided information on the estimated (pre issuance) share of financing vs. refinancing and has committed to disclose the share of refinancing on the annual report. The look-back period for refinanced eligible categories may be up to 4.5 years.

### Evaluation and Selection –aligned with GBP and best practices identified by VE

- The process for Project Evaluation and Selection has been clearly defined and detailed by the Issuer. It is considered well-structured in all the evaluation steps. The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework.
- Eligibility criteria (selection) for project have been clearly defined by the Issuer for all the eligible categories.
- The process applied to identify and manage potentially material E&S risks associated with the projects is disclosed in the herewith SPO. The Process is considered robust: it combines monitoring, identification, and corrective measures for all projects (see detailed analysis on pages 16 - 21).

### Management of Proceeds -aligned with GBP

- The Process for the Management and Allocation of Proceeds is clearly defined and is publicly available in Terna's website.<sup>1</sup>
- The allocation period for the Bond proceeds may be longer than 3 years.
- Net proceeds of the Bond will be tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the Bond is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to Eligible Projects made during that period.
- The Issuer has provided information on the procedure that will be applied in case of project divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework.

### Reporting - aligned with GBP and best practices identified by VE

- The Issuer has committed to report on the Use of Proceeds annually, until full allocation (for the allocation reporting) and until maturity of the Bond (for the Impact reporting) as well as on a timely basis in case of material developments. The report will be publicly available until bond maturity.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the categories. The Issuer has also committed to report on controversies related to the projects.
- The reporting methodology and assumptions used to report on environmental benefits of the Eligible categories will be publicly disclosed.

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<sup>1</sup> [Home - Terna spa](#)

- An external auditor will verify the tracking and allocation of funds as well as on the environmental benefits to the Eligible Categories until full allocation and in case of material changes.

## Contact

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# SCOPE

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V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Green Bonds<sup>2</sup> (“Bonds”) to be issued by Terna (the “Issuer”) in compliance with the Terna-Green Bond Framework (the “Framework”) created to govern their issuance.

Our opinion is established according to V.E’s Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the latest version of the ICMA’s Green Bond Principles (“GBP”) - edited in June 2021. -

Our opinion is built on the review of the following components:

- Framework: we assessed the Framework, including the coherence between the Framework and the Issuer’s environmental commitments, the Bond’s potential contribution to sustainability and its alignment with the four core components of the GBP 2021.
- Issuer: we assessed the Issuer’s ESG performance, its management of potential stakeholder-related ESG controversies and its involvement in controversial activities<sup>3</sup>.

Our sources of information are multichannel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from V.E’s exclusive ESG rating database, and (iii) information provided from the Issuer, through documents and interviews conducted with the Issuer’s managers and stakeholders involved in the Bonds issuance, held via a telecommunications system.

We carried out our due diligence assessment from May 20 2021 to June 14, 2021. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. To this purpose we used our reasonable efforts to verify such data accuracy.

## Scope of External Reviews supporting the Framework

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input checked="" type="checkbox"/>	Independent verification of impact reporting
<input checked="" type="checkbox"/>	Independent verification of funds allocation	<input type="checkbox"/>	Climate Bond Initiative Certification

<sup>2</sup> The “Green Bond” is to be considered as the bond to be potentially issued, subject to the discretion of the Issuer. The name “Green Bond” has been decided by the Issuer: it does not imply any opinion from V.E.

<sup>3</sup> The 17 controversial activities screened by V.E are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

# COHERENCE

Coherent
Partially coherent
Not coherent

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

The Electric & Gas Utilities sector has a major role to play with regard to fight against climate change, through the promotion and development of renewable energy sources. These companies' main challenges are the development of renewable energy, the protection of biodiversity, reducing their greenhouse gas (GHG) emissions and improving the energy efficiency of their networks. Energy companies can contribute to climate change mitigation and energy transition by increasing the share of renewable energy production in their energy mix and by reducing their greenhouse gas (GHG) emissions. In pursuing that essential goal, the European leaders has set, within the 2030 climate & energy framework, three key targets for the year 2030, namely:

- At least 40% cuts in greenhouse gas emissions (from 1990 levels)
- At least 27% share of renewable energy
- At least 27% improvement in energy efficiency

In Italy, the Integrated National Plan for Energy and Climate (Piano Nazionale Integrato per l'Energia e il Clima or "PNIEC") expects the complete phase-out of coal by 2025, followed, in 2030, by the goal of meeting 55.4% of gross electricity consumption from Renewable Energy Sources (RES).<sup>4</sup>

Terna appears to acknowledge the role of the Electric & Gas Utilities sector to support projects with environmental benefits and decarbonising its activities.

As an operator of NTG (National Transmission Grid), Terna has a responsibility to meet Italy's "National Plan for Energy and Climate (Piano Nazionale Integrato per l'Energia e il Clima or "PNIEC"). Below are the key targets outlined in the plan:

- Phase out of coal by 2025
- 55.4% of gross electricity consumption from Renewable Energy by 2030
- Decrease 33% greenhouse gas emissions compared with 2005 levels

In November 2020, Terna's Board of Directors approved the "2021-2025 Industrial Plan", which targets to achieve 55% cut in CO<sub>2</sub> emissions by 2030, before reaching the target of zero emissions by 2050.

Decarbonization, market efficiency, security of supply, the continual growth of non-programmable renewable production sources and at the same time the gradual decommissioning of traditional generation plants are the main challenges Terna has to face. Thus, every year Terna prepares a Network Development Plan (NDP), as prescribed by legal norms, containing a section devoted to the investments which aims to favouring the increase of production from renewable sources such as the connections of new plants or the lines and substations that will remove the constraints to an increased inflow of production from renewable. The grid development investments included in Terna's 2020-2024 Strategic Plan account for €4.2bn.

By creating a Framework to finance or refinance new or existing eligible green activities and assets related to Renewable Energy, Energy Efficiency and Quality electricity transportation Infrastructure, Terna coherently aligns with its sustainability strategy and commitments, and addresses the main issues of the sector in terms of sustainable development.

<sup>4</sup> [Terna Sostenibilità 2020 ENG 8 4 2021 8d8fb3cb10e318d.pdf](#)

# FRAMEWORK

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The Issuer has described the main characteristics of the Bonds within a formalised Terna-Green Bond Framework which covers the four core components of the GBP 2021 (the last updated version was provided to V.E on June 11, 2021). The Issuer has committed to make this document publicly accessible on Terna’s website, in line with good market practices.

## Alignment with the Green Bond Principles

### Use of Proceeds



The net proceeds of the Bonds will exclusively finance or refinance, in part or in full, projects falling under three Green Project Categories (“Eligible Categories”), as indicated in Table 1.

- Eligible Categories are clearly defined. The issuer has communicated the nature of the expenditures, and the location of Eligible Projects.
- Environmental Objectives are clearly defined, these are relevant for all the Eligible categories and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental Benefits are clear, these are considered relevant, measurable, and will be quantified for all the eligible categories in the reporting for all the Eligible categories.
- The Issuer has not provided information on the estimated (pre issuance) share of financing vs. refinancing and has committed to disclose the share of refinancing on the annual report. The look-back period for refinanced eligible categories may be up to 4.5 years.

An area for improvement is to provide the expected share of refinancing at least to investors prior to each issuance.

We consider the Eligible Category follows the Technical Screening Criteria specified by the [EU Taxonomy Climate Delegated Act adopted on 4 June 2021](#).

#### BEST PRACTICES

- ⇒ The definition and eligibility criteria (selection) are clear and in line with international standards for all categories
- ⇒ Relevant environmental benefits are identified and measurable for all project categories

Table 1. V.E' analysis of Eligible Categories, Sustainability Objectives and Expected Benefits as presented in the Issuer's Framework

- Nature of expenditures: Investments and purchasing.
- Location of Eligible Projects: Italy and interconnections within the European Interconnected System

ELIGIBLE CATEGORIES	ELIGIBLE SUB-CATEGORIES DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Renewable Energy	<ul style="list-style-type: none"> <li>- Connection of renewable sources generation plants (grid infrastructures devoted to directly connecting grid generation plants from renewable sources to the transmission grid).</li> <li>- 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).</li> </ul>	<u>Climate Change Mitigation</u> Increase in renewable energy distribution	<p>The Eligible Category is clearly defined. The issuer has communicated the nature of the expenditures, and the location of Eligible Projects.</p> <p>The issuer has confirmed the compliance to below conditions set forth by the EU Taxonomy Climate Delegated Act <sup>5</sup> :</p> <ul style="list-style-type: none"> <li>- More than 67% of newly enabled generation capacity in the system is below the generation threshold value of 100 gCO<sub>2</sub>e/kWh measured on a life cycle basis in accordance with electricity generation criteria, over a rolling five-year period</li> <li>- The average system grid emissions factor, calculated as the total annual emissions from power generation connected to the system, divided by the total annual net electricity production in that system, is below the threshold value of 100 gCO<sub>2</sub>e/kWh measured on a life cycle basis in accordance with electricity generation criteria, over a rolling five-year period.</li> </ul> <p>The environmental objective is clearly defined and relevant.</p> <p>The environmental benefit is clear, measurable and relevant and will be quantified in the reporting.</p>
Energy Efficiency	<ul style="list-style-type: none"> <li>- Grid infrastructures that allow higher transmission efficiency (reduction of the difference between energy generation and consumption, other things being equal).</li> </ul>	<u>Climate Change Mitigation</u> Reduction of grid losses	<p>The Eligible Category is clearly defined. The issuer has communicated the nature of the expenditures, and the location of Eligible Projects. The issuer has confirmed the compliance to below conditions set forth by the EU Taxonomy Climate Delegated Act <sup>6</sup> :</p>

<sup>5</sup> [https://ec.europa.eu/info/publications/210421-sustainable-finance-communication\\_en#taxonomy](https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en#taxonomy)

<sup>6</sup> [https://ec.europa.eu/info/publications/210421-sustainable-finance-communication\\_en#taxonomy](https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en#taxonomy)

ELIGIBLE CATEGORIES	ELIGIBLE SUB-CATEGORIES DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
	<ul style="list-style-type: none"> <li>- Development of grid, with new lines and substation which improves energy flows.</li> </ul>		<ul style="list-style-type: none"> <li>- The average system grid emissions factor, calculated as the total annual emissions from power generation connected to the system, divided by the total annual net electricity production in that system, is below the threshold value of 100 gCO2e/kWh measured on a life cycle basis in accordance with electricity generation criteria, over a rolling five-year period.</li> </ul> <p>The Issuer has estimated the expected reduction of grid losses for some Eligible Projects. An area for improvement will be to commit to estimate the reduction of grid losses for each Eligible project and to communicate it (when feasible) to investors prior to each issuance.</p> <p>The environmental objective is clearly defined and relevant. The environmental benefits are is clear, measurable and relevant and will be quantified in the reporting.</p>
<p>Quality, security and resiliency of electricity transportation Infrastructure</p>	<ul style="list-style-type: none"> <li>- 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 ecological transition through the decommissioning of the thermoelectric plants and the integration of RES.</li> <li>- 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).</li> </ul>	<p><u>Climate change Mitigation</u> <u>Climate change Adaptation</u> Reduction of energy not supplied</p>	<p>The Eligible Category is clearly defined. The issuer has communicated the nature of the expenditures, and the location of Eligible Projects.</p> <p>The issuer has confirmed the compliance to below conditions set forth by the EU Taxonomy Climate Delegated Act <sup>7</sup> :</p> <ul style="list-style-type: none"> <li>- Interconnection to European system, i.e. the interconnected control areas of Member States, Norway, Switzerland and the United Kingdom, and its subordinated systems</li> </ul> <p>The Issuer has estimated the expected reduction of energy not supplied for some Eligible Projects. An area for improvement will be to commit to estimate the reduction of energy not supplied for each Eligible project and to communicate it (when feasible) to investors prior to each issuance.</p>

<sup>7</sup> [https://ec.europa.eu/info/publications/210421-sustainable-finance-communication\\_en#taxonomy](https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en#taxonomy)

ELIGIBLE CATEGORIES	ELIGIBLE SUB-CATEGORIES DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
			<p>The environmental objective are clearly defined and relevant.</p> <p>The environmental benefits are is clear, measurable and relevant and will be quantified in the reporting.</p>

SDG Contribution

The Eligible Categories are likely to contribute to 3 of the United Nations’ Sustainable Development Goals (“SDGs”), namely:

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Renewable Energy	 7 Affordable and Clean Energy	7.2 Increase substantially the share of renewable energy in the global energy mix and the promotion of investment in energy infrastructure and clean energy technology
Energy Efficiency		7.3 By 2030, double the global rate of improvement in energy efficiency
Quality, security and resiliency of electricity transportation Infrastructure	 9 Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
Quality, security and resiliency of electricity transportation Infrastructure		9.4 Upgrade inclusive and sustainable industrialization, the upgrade of infrastructure and the retrofit of industries to make them sustainable, with increased resource use efficiency and greater adoption of clean and environmentally sound technologies
Energy Efficiency	 13 Climate Action	Take urgent action to combat climate change and its impacts
Renewable Energy		
Quality, security and resiliency of electricity transportation Infrastructure		

## Evaluation and Selection of Eligible Projects



- The process for Project Evaluation and Selection has been clearly defined and detailed by the Issuer. It is considered well-structured in all the evaluation steps. The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework.
- Eligibility criteria (selection) for project have been clearly defined by the Issuer for all eligible categories.
- The process applied to identify and manage potentially material E&S risks associated with the projects is disclosed in the herewith SPO. The Process is considered robust: it combines monitoring, identification, and corrective measures for all projects (see detailed analysis on pages 16 - 21).

### Process for Project Evaluation and Selection

#### Standard project selection process at Company level

The investments included in the Development Plan of the Company are subject to a cost-benefit analysis in order to be considered sustainable. The Process and methodologies has been well defined and detailed in the Framework.

#### Special process for the Green Bond Program

For the purpose of the Bonds, a Green Committee (“the Committee”) has been created. This Committee is composed of representatives of:

- Head of Finance department
- Head of Sustainability
- Head of Planning and control department
- Head of grid planning and interconnections
- The Committee is responsible for:
  - Evaluating Terna’s National Development Plan based on its review process “CBA 2.0” which is a tool to gauge the worthiness of a projected investment from the collective standpoint of the users of the electricity service.
  - Evaluating the values of specific underlying KPIs to determine the association between projects and categories
  - Meet on an annual basis and as when the situation requires in order to review and validate the selection of the Eligible Green Projects.
  - Guarantee that the management of operations, including the consultation and authorization phases, the selection of suppliers and the management of worksites, are sustainable as well.
  - Consider potential environmental impacts as an input for the final definition of the project before entering the authorization phase. Terna is committed to prevent and manage controversies arising with stakeholders, in order to minimize negative impacts.
  - Disclose all relevant information, including the Environmental Impact Assessments, and to fulfil all the obligations coming from prescription by the relevant Authorities in due course.
  - Adopts a “funnel” approach that makes stricter requests to suppliers when the higher the environmental and social risks associated with the suppliers’ performance are.
  - Mitigation of risks associated with the actual construction of its infrastructures. Among the main issues under control are safety at work and prevention of injuries – including contractors’ and subcontractors’ employees – and the correct management of potential environmental impacts.
- The traceability and verification of the selection and evaluation of the projects is ensured throughout the process:

- Monitoring will be carried out to ensure that the Eligible Projects is aligned with the categories and eligibility criteria throughout the life of the Bond(s). If, for any reason, a project becomes ineligible, it will be replaced by another Eligible project on a best effort basis.
- ESG controversies will be monitored in accordance with the Green Bond Framework's commitment and information on ESG management of Eligible Green Projects and potential controversies will be provided, where feasible, for the most representative projects.
- The decision-making process will be traceable through by a continuous exchange of email (or other available means of communication) among departments involved in the selection of projects.

#### Eligibility Criteria

The process relies on eligibility criteria (selection), relevant to the environmental objectives defined for the Eligible Categories.

- The selection criteria is based on definitions in Eligible Categories defined Table 1 in the Use of Proceeds section.

#### BEST PRACTICES

- ⇒ Eligibility criteria for project selection are clearly defined and detailed for all of the eligible categories
- ⇒ The Issuer reports that it will monitor compliance of selected projects with eligibility criteria specified in the Framework throughout the life of the Bond and has provided details on content/ frequency/duration and on procedure adopted in case of non-compliance
- ⇒ The Issuer reports that it will monitor potential ESG controversies associated with the projects throughout the life of the Bond and has provided details on frequency, content and procedures in case a controversy is found on a project

## Management of Proceeds



- The Process for the Management and Allocation of Proceeds is clearly defined and is publicly available in Terna's website.
- The allocation period for the Bond proceeds may be longer than 3 years.
- Net proceeds of the Bond will be tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the Bond is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to Eligible Projects made during that period.
- The Issuer has provided information on the procedure that will be applied in case of project divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework.

### Management Process

- Upon receipt, the net proceeds will be invested in cash and cash equivalents in 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. Monitoring will be done on progress (Forecast and Business Plan) of the projects in terms of capex amount and timing of completion.
- 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).The proceeds will be allocated in line with the timing of the completion of the projects, therefore generally the maximum time limit for full allocation is within the term of the five-year industrial plan of reference at the date of release of the Bond. The unallocated proceeds will be reallocated on other eligible green projects.
- In case of postponed projects or divestments the Issuer will reallocate the proceeds to similar projects eligible in terms of sustainable benefits, amount and project completion date (within the deadlines set for the annual report).

#### BEST PRACTICES

- ⇒ The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework

## Monitoring & Reporting



- The Issuer has committed to report on the Use of Proceeds annually, until full allocation (for the allocation reporting) and until maturity of the Bond (for the Impact reporting) as well as on a timely basis in case of material developments. The report will be publicly available until bond maturity.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the categories. The Issuer has also committed to report on controversies related to the projects.
- The reporting methodology and assumptions used to report on environmental benefits of the Eligible categories will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds as well as on the environmental benefits to the Eligible Categories until full allocation and in case of material changes.

### Indicators

The Issuer has committed to transparently communicate at Eligible Category level, on:

- Allocation of proceeds: The indicators selected by the Issuer to report on the allocation of proceeds covers all the relevant information

REPORTING INDICATORS
⇒ 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)
⇒ Information on the types of temporary investments (e.g. cash or cash equivalent)

- Environmental benefits: The indicators selected by the Issuer to report on the environmental benefits are clear and relevant.

ELIGIBLE CATEGORIES	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Renewable energy	Connection of RES production plants (MW)	Increase in production from RES (MWh and/or TCO2)
Energy Efficiency	Number of Grid infrastructures installed to enable higher transmission efficiency	Reduction of grid losses (MWh and/or TCO2)

ELIGIBLE CATEGORIES	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Quality and resiliency	Number of Grid infrastructures installed to enable the increased the resilience of the National Transmission Grid	Reduction of energy not supplied (MWh/years)

The reporting methodology and assumptions used to report on environmental benefits of the Eligible categories will be publicly disclosed in Terna's website.

BEST PRACTICES
<ul style="list-style-type: none"> <li>⇒ The issuer report will be publicly available at least until bond maturity</li> <li>⇒ The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the categories. The Issuer has also committed to report on material development related to the projects, including ESG controversies</li> <li>⇒ The reporting methodology and assumptions used to report on environmental benefits of the Eligible categories will be publicly disclosed</li> <li>⇒ Environmental benefits and impacts will be externally verified, until full allocation and in case of material changes</li> </ul>

## Contribution to sustainability

### Expected Impacts

The potential positive Impact of the eligible projects on environmental and social objectives is considered to be advanced.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Renewable energy	ADVANCED	<p>The Eligible Projects will bring overall positive impacts to the countries in which Terna operates through construction of grid infrastructures devoted to directly connecting to renewable sources and ensuring grid stability.</p> <p>This project is 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.</p> <p>In Italy, approximately 40% of country's energy are from renewable source, and Italy as well as the rest of the aforementioned countries have set clear targets to increase renewable energy in their energy mix. In order to steadily increase the renewable energy, it is critical to ensure stability of the grid system as well.</p> <p>The project contributes to Italy's Integrated National Plan for Energy and Climate (PNIEC) which envisages the complete phase-out of coal by 2025, 55.4% of gross electricity consumption from renewable energy sources (RES) by 2030.</p> <p>The Eligible Category is aligned with the EU Taxonomy technical criteria.</p>
Energy Efficiency	ADVANCED	<p>The Eligible Projects will bring overall positive impacts to the countries in which Terna operates through increased energy efficiency by development of grid, new lines and substation. Such efforts will reduce the difference between energy generation and consumption and consequently grid losses. In March 2021, electricity demand was 78,634 GWh, 51% of which was met via production from Non-Renewable Energy Sources, 34% from Renewable Energy Sources and the remainder from the foreign balance. Given that the majority of energy is sourced from non-renewables, it is important to increase the energy efficiency to lower the overall GHG emission of Tern's grid system.<sup>8</sup> This project will also contribute to the national target of achieving 27% energy efficiency by 2030 and Terna's target to cut 55% of CO2 emissions by 2030.</p> <p>The Eligible Category is aligned with the EU Taxonomy technical criteria. However, the expected impact remains robust due to the lack of energy efficiency threshold.</p>

<sup>8</sup> [https://download.terna.it/terna/Monthly%20Report%20on%20the%20Electricity%20System\\_March\\_2021\\_8d916184c60ac58.pdf](https://download.terna.it/terna/Monthly%20Report%20on%20the%20Electricity%20System_March_2021_8d916184c60ac58.pdf)

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Quality, security and resiliency of electricity transportation infrastructure	ADVANCED	The Eligible Projects will bring overall positive impacts to the countries in which Terna operates through construction of new lines (overhead lines, underground cables) and new substations. These efforts will be made in order to improve the meshing of the grid to guarantee a secure, high-quality electricity services, reducing local congestion and improving interconnection between bidding zone. This project will contribute to the "National Plan for Energy and Climate (Piano Nazionale Integrato per l'Energia e il Clima or "PNIEC") which targets the decrease of 33% greenhouse gas emissions compared with 2005 levels. The Eligible Category is aligned with the EU Taxonomy technical criteria.
OVERALL ASSESSMENT	ADVANCED	

### ESG Risks Identification and Management systems in place at project level

The identification and management of the environmental and social risks associated with the Eligible Projects are considered advanced.

	ELIGIBLE CATEGORIES		
	RENEWABLE ENERGY	ENERGY EFFICIENCY	QUALITY, SECURITY AND RESILIENCY OF ELECTRICITY TRANSPORTATION INFRASTRUCTURE
Environmental Management System	X	X	X
Eco-design and end-of-life impact	X	X	X
Reducing energy use and climate change mitigation	X	X	X
Preventing and mitigation of environmental pollution	N/A	N/A	N/A
Protection of biodiversity	X	X	X
Fundamental human and labour rights	X	X	X
Health and safety of the workers and users	X	X	X
Promoting local social and economic development	X	X	X
Business ethics	X	X	X

	ELIGIBLE CATEGORIES		
	RENEWABLE ENERGY	ENERGY EFFICIENCY	QUALITY, SECURITY AND RESILIENCY OF ELECTRICITY TRANSPORTATION INFRASTRUCTURE
OVERALL ASSESSMENT	Advanced	Advanced	Advanced

### Environmental Management System

Terna's Environmental Management System "Integrated Management System" is ISO 14001 certified and aligned with international UNI ISO standards in terms of health and safety, the environment, and the prevention of corruption. Furthermore, Environmental Impact Assessment procedures are compliant with last updated version of the Directive 2011/92/EU, the Directive 2014/52/EU. This assessment requires the projects to be submitted to the appropriate entities for examination. These organisations express their opinions, with any provisions, as part of the Environmental Impact Assessment (EIA) procedure. These bodies then verify that the project has been executed properly and monitor compliance with provisions, thereby guaranteeing the utmost protection and attention for the environment.<sup>9</sup> Monitoring is ensured on the compliance to the environmental requirements contained in the EIA Decrees and compliance with legal obligations also with reference to contractors' activities. It also monitors the indicators set out in ISO 14001 certification, relating to complaints/reports, environmental accidents, waste and the consumption of energy and natural resources. Direct and indirect effects of the work on humans, animals, plants, soil, water, air, and landscape, in addition to cultural and environmental assets, are all assessed in the Environmental Impact Study.

Environmental impacts of Terna Group's assets are therefore monitored through the UNI EN ISO 14001:2015 environmental management systems and energy management systems ISO 50001:2018 standard. This also includes periodical third-party verifications carried out on site.

### Eco-design and end-of-life impact

The quality criteria of Terna's assets are certified in accordance with UNI EN ISO 14001:2015, environmental laws and the integration of environmental protection criteria is taken into consideration at each stage of operations. End-of-life and decommissioning impact will be managed in line with the "The Management of environmental aspects during infrastructure construction", in line with the Group's Environmental Policy and existing regulations.<sup>10</sup> Terna carries out various Life Cycle Assessment ("LCA") evaluations which are made in accordance with EN ISO 14040:2006 and UNI EN ISO 14044:2006 Standards applying the Circular Footprint drawn up by the European Commission as part of its Product Environmental Footprint<sup>11</sup>. Terna does not use raw materials, but does purchase finished products (electrical equipment, conductors, tools and other components). As part of a circular economy-based approach, at the end of their normal lifecycle, the materials used in electricity infrastructure are recovered for reuse in operations. Only a residual portion is sent to landfill and has an impact on the environment. Upon completion of the construction work, Terna restores the areas concerned to their natural state.

### Reducing energy use and climate change mitigation

Terna is ISO 50001:2018 certified and operates according to its standards. Terna's construction sites and their impact on the environment is managed via the operating manual, "The Management of environmental aspects during infrastructure construction", in line with the Group's Environmental Policy and existing regulations. Furthermore, Terna established the "2021-2025 Industrial Plan", which targets to support the Italian system target to achieve 55% cut in CO2 emissions by 2030, before reaching the target of zero emissions by 2050.

Energy consumption sensors are installed in 80% of Terna's main sites and, in 2018, online project to monitor the electricity consumed by 24 transformer substations was completed. The monitoring data from sensors installed in these 24 substations enabled identification of specific Energy Performance Indicators (EnPI) to assess the performance of buildings and substations. Between 20 and 40 meters were installed at each substation to measure the electricity used, and after monitoring, energy audits will be carried out to define improvement targets.

<sup>9</sup> <https://www.terna.it/en/projects/manage-projects/environmental-impact-assessment>

<sup>10</sup> [Terna Sostenibilità 2020 ENG 8 4 2021 8d8fb3cb10e318d.pdf](#)

<sup>11</sup> [Terna Sostenibilità 2020 ENG 8 4 2021 8d8fb3cb10e318d.pdf](#)

### Protection of biodiversity

The preservation of biodiversity is reported to be taken into consideration at each stage of Terna's operations. During the planning process, the prevention of negative impacts is based above all on full compliance with biodiversity protection regulations: the Strategic Environmental Assessment (SEA) procedure introduced by EU Directive 2001/42/EC; the Environmental Impact Assessment (EIA) procedure; the implementation of the European "Habitats" Directive (92/43/EEC) and "Birds" Directive (79/409/EEC). In addition, the observance of national and EU legislation is supported by a number of additional voluntary initiatives implemented by Terna to ensure maximum protection for biodiversity (such as partnerships with environmental associations and the usage of the selection criteria for the most suitable environments for new infrastructure, known as the ERPA location criteria – Exclusion, Repulsion, Problematic nature, Attraction). Terna's construction sites and its impact on the environment is managed via the operating manual, "The Management of environmental aspects during infrastructure construction", in line with the Group's Environmental Policy and existing regulations as well as through ensuring compliance to indicators set out in ISO 14001 certification.<sup>12</sup>

Upon completion of the construction work, Terna restores the areas concerned to their natural state. If these areas regard natural or semi-natural habitats, in addition to the normal restoration works, specific interventions are implemented. Based on natural engineering techniques, they involve, by way of example, the creation of habitats suitable for animal and/or plant species communities, the replanting of live native plants, which do not require irrigation, special fertilisation or the use of materials (even if only inert), in order to recreate favourable living conditions for animal species.<sup>13</sup>

### Fundamental human and labor rights

Terna's Code of Ethics outlines the rules for respecting human rights and Terna's Guideline "Respect for human rights within the Terna Group", in line with the recommendations from the United Nations "The guiding principles on business and human rights", provides the process to prevention and mitigation of human rights violation. The guidelines provide for a periodic due diligence process regarding the Group's respect for human rights, taking into account its interaction with all its stakeholders. Particular attention is paid to vulnerable groups and the human rights most pertinent to Terna's activities. The due diligence process concerning respect for human rights consists of four phases: 1. identification of the areas of the Group's activities, including relations with suppliers, joint ventures and business partners, that are potentially exposed to the risk of violating stakeholders' human rights; 2. identification of existing risk mitigation measures in these areas; 3. preparation of action plans if such measures are found to be lacking or inadequate; 4. monitoring of the implementation of action plans.<sup>14</sup>

### Health and safety of the workers and users

Given the substantial use of external labour at Terna's construction sites, works contracts are subject to stricter rules, not only in terms of qualification but also regarding management, with particular reference to occupational safety.

During the qualification process, Terna requires evidence of documented procedures to protect workers' health and safety including adequate specific training for all construction site workers on the use of personal protective gear, risks set out in the Safety and Coordination Plan and in the Operational Safety Plan. Training courses are in compliance with the CEI 11-27 Standard and "Qualified Company Personnel" online training is provided to ensure compliance.

Terna has drawn up a preventative safety and environmental protection monitoring system for construction sites, broken down into two levels:

- First level: the contracting entity is entrusted with monitoring, via checks, the work carried out by the Construction Safety Manager and the contractors.
- Second level: Terna (Health, Safety & Environment department) is responsible for spot checks designed to monitor the entire management and control process at construction sites.

### Promoting local social and economic development

Terna's contribution to Italy's civic growth goes beyond its role as a provider of strategic infrastructure for the country, as expressed through the Company's support for social, cultural and environmental initiatives. In Terna's Development Plan<sup>15</sup> response to the community's needs in terms of a secure and efficient electricity services are clearly laid out. Furthermore, since 2018, Terna has conducted a public meeting called "Terna Incontra" to ensure community opinion is reflected in the projects they carry out. Such consistent communication with the community is reinforced in order to fulfil ethical responsibility towards the whole community as a responsible NTG management company.

<sup>12</sup> [https://terna-reports.it/2018/assets/pdf/Sostenibilita\\_ENG/Environment.pdf](https://terna-reports.it/2018/assets/pdf/Sostenibilita_ENG/Environment.pdf)

<sup>13</sup> [AIPIN | Associazione Italiana per l'Ingegneria Naturalistica](#)

<sup>14</sup> [Terna Sostenibilità 2020 ENG 8 4 2021 8d8fb3cb10e318d.pdf](#)

<sup>15</sup> [Terna Sostenibilità 2020 ENG 8 4 2021 8d8fb3cb10e318d.pdf](#)

Terna's corporate giving activities primarily consist of financial support for projects with social goals and the Company's own organisation of initiatives to benefit the community.

#### Business ethics

Terna complies to Terna's Code of Ethics and the United Nations Global Compact Principles to ensure that all projects respect principles of business ethics. The conditions stipulated here apply to all Terna's activities and projects. Compliance with the law is essential not only in Italy but also in the other countries in which Terna's business is performed.

Terna is the first Italian company to obtain ISO 37001 certification for its anti-corruption management system Anti-corruption Guidelines which are applicable to all the Group's Italian and overseas companies.

## EU taxonomy (March 2020) – DNSH screening

The identification and management of the environmental and social risks associated with the Eligible Projects cover the “Do-no-significant-harm” principle and minimum social safeguards recommended by the EU Taxonomy Climate Delegated Act.

	RENEWABLE ENERGY	ENERGY EFFICIENCY	QUALITY, SECURITY AND RESILIENCY OF ELECTRICITY TRANSPORTATION INFRASTRUCTURE
Mitigation	X	X	X
Adaptation	X	X	X
Water	X	X	X
Circular Economy	X	X	X
Pollution	X	X	X
Ecosystem	X	X	X
Overall DNSH	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

# ISSUER



Terna Rete Elettrica Nazionale SpA (Terna) is an independent electricity Transmission System Operator. It deals with the management of electrical systems through the operation of the grid, efficiency of infrastructures and their maintenance through engineering and management of plants and grid developments. Terna ensures a balance of deliveries and withdrawals between the supply of energy and consumption by end users. In 2018, the Company acquired Avvenia, an energy efficiency consulting company.

## Level of ESG performance/ ESG strategy

Terna's ESG performance was assessed through a complete process of rating and benchmark.

As of October 2020, Terna displays an overall advanced ESG performance, ranking 6th in our "Electric & Gas Utilities" sector which covers 61 companies.

As of October 2020, we reach an advanced level of assurance on Terna's capacity to integrate relevant ESG factors in its strategy, and to account on them. We reach an advanced assurance on Terna's capacity to integrate relevant environmental and social factors in its strategy. We reach an advanced assurance on Terna's performance in the Governance pillar.

DOMAIN	COMMENTS	OPINION
Environment	<p>Terna's performance in the Environment pillar is considered <u>advanced</u>.</p> <p>ISO 14001 certification is reported to cover 99% of the Company's installations, and more than 75% of the company's sites have a certified environmental management system. Quantified targets with regard to its GHG emissions are disclosed. Extensive resources, such as pollution control audits, appear to be allocated to pollution prevention and control.</p> <p>Terna reports on strategic partnerships over biodiversity preservation with several NGOs, as well as biodiversity management guidelines and environmental impact assessments to identify the impacts of its operations on biodiversity. Relevant biodiversity management guidelines such as WWF's conservations strategy criteria and ERPA locations criteria are followed to select the most suitable locations for new infrastructure. Moreover, the Company reports on asset replacement programs to improve its network energy efficiency, and its SF6 emissions have decreased between 2017 and 2019.</p> <p>However, the indicators on biodiversity are published but are on a negative trend between 2017 and 2019.</p>	Advanced
		Robust
		Limited
		Weak

Social	<p>Terna's performance in the Social pillar is considered advanced. .</p> <p>In terms of human rights, Terna is a signatory of the Global Compact and has issued a formalised commitment to respect and promote human rights in society in its Code of Ethics. Human rights impact assessments of the company reported that 60% of its processes are not exposed to the risk of human rights violations.</p> <p>Terna has signed a framework agreement with employee representatives on reorganisations, which covers the whole organisation. The health and safety system is OHSAS 18001 certified. Finally, 98% of the Company's employees received training in 2019.</p> <p>Terna conducts human and labor rights risk assessments and internal audits to verify compliance with human and labor rights standards. Extensive measures are allocated to ensure equal opportunities and to promote family friendly working environment. The share of women in management positions increased between 2017 and 2019.</p> <p>Health and safety is ensured through the ISO 45001 certification and Terna has made full commitment in its Code of Ethics with quantitative target. However, the of fatal accidents among contractors increased by 100% between 2017 and 2019 and no quantitative data is disclosed on subcontracted labor absenteeism and occupational disease rates.</p> <p>In terms of community involvement, Terna reports on off-grid solutions and capacity building measures to support access to energy in developing countries. Capacity building programmes as well as grievance mechanisms are carried out for local communities. Finally, indicators on social and economic development have improved between 2017 and 2019. However, indicators on access to energy in developing countries are not disclosed.</p>	Advanced
		Robust
		Limited
		Weak
Governance	<p>Terna's performance in the Governance pillar is considered advanced.</p> <p>Terna disclosed targets to reach 100% of its tenders using ESG criteria in hardware procurements for 2021. Also, on-site social audits are conducted by Terna to verify that suppliers meet various ESG aspects. In addition, the Company conducts risk assessment of its vulnerability to the risk of corruption, and internal and external audits to verify compliance with its Anti-Corruption Policy. Finally, Terna is transparent with regards to lobbying activities and budget. Sustainability Board Committee is in place, while the Board's independence is high (77%) and its diversity appears to be advanced. CSR risks, namely health and safety, corruption and anti-competition continue to be covered by the Company's internal controls system, and relevant processes are dedicated to managing these risks.</p>	Advanced
		Robust
		Limited
		Weak

## Management of ESG Controversies

As of today, the review conducted by V.E did not reveal any ESG controversy against Terna over the last four years.

## Involvement in Controversial Activities

The Issuer appears to be not involved in any of the 17 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from V.E.

# METHODOLOGY

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In V.E's view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company; then the Executive Director in charge of Methods, Innovation & Quality; and finally, V.E's Scientific Council. All employees are signatories of V.E's Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

## COHERENCE

Scale of assessment: not coherent, partially coherent, coherent

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

## ISSUANCE

### Alignment with the Green and/or Social Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

*The Framework has been evaluated by V.E according to the ICMA's Green Bond Principles - June 2021 ("GBP, and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.*

#### Use of proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds and Loans standards. V.E evaluates the clarity of the definition of the Eligible Categories, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

#### Process for evaluation and selection

The evaluation and selection process is assessed by V.E on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

#### Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by V.E on their transparency, traceability and verification.

#### Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by V.E on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

## Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

V.E's assessment of activities' contribution to sustainability encompasses both the evaluation of their expected positive impacts on environmental and/or social objectives, as well the management of the associated potential negative impacts and externalities.

### Expected positive impact of the activities on environmental and/or social objectives

The expected positive impact of activities on environmental and/or social objectives to be financed by the Issuer or Borrower is assessed on the basis of:

- i) the relevance of the activity to respond to an important environmental objective for the sector of the activity; or to respond to an important social need at country level;<sup>16</sup>
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders (i.e. the issuer, its value chain, local and global stakeholders); or targeting those populations most in need;
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental and/or social objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) only for environmental objectives, the extent to which the activity is adopting the best available option.

### Activities' ESG risk management

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of V.E's ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

## ISSUER

### Issuer's ESG performance

Scale of assessment of ESG performance: Weak, Limited, Robust, Advanced

*NB: The Issuer's level of ESG performance (i.e. commitments, processes, results of the Issuer related to ESG issues), has been assessed through a complete process of rating and benchmarking developed by V.E.*

The Issuer's ESG performance has been assessed by V.E on the basis of its:

- **Leadership:** relevance of the commitments (content, visibility and ownership).
- **Implementation:** coherence of the implementation (process, means, control/reporting).
- **Results:** indicators, stakeholders' feedbacks and controversies.

### Management of stakeholder-related ESG controversies

V.E defines a controversy as public information or contradictory opinions from reliable<sup>17</sup> sources that incriminate or make allegations against an issuer regarding how it handles ESG issues as defined in V.E ESG framework. Each controversy may relate to several facts or events, to their conflicting interpretations, legal procedures or non-proven claims.

V.E reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

V.E provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Frequency:** reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity:** the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the company, the higher its severity is. Severity assigned at the corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).

<sup>16</sup> The importance of a specific social need at country level is assessed on the basis of the country performance on the priority SDG that the project is targeting using data from Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. 2020. The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020. Cambridge: Cambridge University Press.

<sup>17</sup> 'Reliable' means that there are sufficient details to substantiate claims made, with due attention paid to the political dimension of news and the danger of misinformation. V.E draws on investigative journalism, the business press, NGO and trade union reports which focus on corporate behavior relating to ESG issues. It is neither possible nor advisable to create a prescriptive fixed list of sources as new, valid sources arise all the time and it is necessary to investigate these as and when they are retrieved in order to comprehensively cover evolving issues and media.

- **Responsiveness:** ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

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

## Involvement in controversial activities

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

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

### V.E'S ASSESSMENT SCALES

Scale of assessment of Issuer's ESG performance or strategy and financial instrument's Contribution to sustainability		Scale of assessment of financial instrument's alignment with Green and/or Social Bond and Loan Principles	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the sustainability objective. An advanced expected impact combined with an advanced to robust level of E&S risk management & using innovative methods to anticipate new risks.	Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles by adopting recommended and best practices.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. A robust expected impact combined with an advance to robust level of assurance of E&S risk management or an advanced expected impact combined with a limited level of assurance of E&S risk management.	Aligned	The Instrument has adopted all the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. A limited expected impact combined with an advanced to limited level of assurance of E&S risk management; or a robust expected impact combined with a limited to weak level of assurance of E&S risk management; or an advance expected impact combined with a weak level of assurance of E&S risk management.	Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles, but not all of them.
Weak	Commitment to social/environmental responsibility is non-tangible; no evidence of command over the issues. A weak expected impact combined with an advanced to weak level of assurance of E&S risk management or a limited expected impact with a weak level of assurance of E&S risk management.	Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.

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This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond, based on the information which has been made available to V.E. V.E has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. The Issuer is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by V.E neither focuses on the financial performance of the Bond, nor on the effective allocation of its proceeds. V.E is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

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