

Presentation of the Annual Report 2021

From this year, the Terna Group's Annual Report contains the first Integrated Report to fully espouse an approach based on "Integrated thinking". This means that the Report includes in a single document the Report on Operations, the Sustainability Report and the Consolidated Non-financial Statement^{1 2} (the "NFS"), in addition to the consolidated financial statements, the Parent Company's separate financial statements and the Green Bond Report.

The decision to publish a single integrated document was taken in response to the growing need to satisfy the legitimate expectations of all our stakeholders. This requires a clear, complete, balanced and responsible form of reporting, in line with the indications contained in the European Commission's proposed "Corporate Sustainability Reporting Directive" ("CSRD") of 21 April 2021. The proposed legislation follows on from the "Non-Financial Reporting Directive" ("NFRD") and forms a key element in the EU's sustainable finance package, which aims to channel capital flows towards sustainable assets throughout the European Union.

The Integrated Report also coincides with the Group's Communication on Progress ("CoP")³, the document that all members of the United Nations Global Compact are required to publish. The document is designed to inform stakeholders on the actions members have taken during the year in order to advance and support the values expressed in the ten Principles and on progress towards achieving the sustainable development goals ("SDGs") set in the 2030 Agenda.

In line with international best practices, Terna's Integrated Report applies the framework published by the International Integrated Reporting Council ("IIRC"). The Report presents our operating, financial and sustainability performances within a more complete vision of the process of creating value over time, starting from the Company's specifics (its mission) and going on to report on how we interact with the external environment, the responsible use of our available capitals, risk management and the identification of new opportunities, governance and strategy.

Non-financial information is prepared using the GRI ("Global Reporting Initiative") reporting standards, applying the "in accordance - core" option. When possible, reference is also made to the matching SASB ("Sustainability Accounting Standards Board") criteria, the standard used by financial stakeholders located in North America.

¹ The Terna Group's NFS has been prepared in compliance with the provisions of Legislative Decree 254/2016, as amended. It contains disclosures on the matters deemed material and provided for in art. 3 of the above Decree, to the extent necessary to enable readers to gain an understanding of the Group's activities, its performance, results and impacts. As required by Regulation 852/2020, the DNF also includes disclosure related to the taxonomy disclosure.

² The NFS, prepared using the GRI reporting standards "in accordance core" version, was subject to a limited assurance by Deloitte & Touche S.p.A., resulting in a specific "Assurance report", as required by the provisions of articles 3 and 4 of Legislative Decree 254/16. The opinion of the auditing firm and the related assurance activities did not concern the disclosure relating to the "material performance indicators envisaged in the supplement for the Electric Utility sector (EUSS)", the "other published GRI performance indicators" reported on pages 272-273, the "Key indicator tables", published in the "Sustainability" section of the website at www.terna.it or the "The EU taxonomy" disclosures.

³ See the UNGC site at the following link: <https://www.unglobalcompact.org/what-is-gc/participants/11215>.



In addition, in line with the materiality principle, where the methods applied in the IIRC framework, the GRI standards and Legislative Decree 254/2016 meet, all the information reported corresponds with a topic identified as significant in the materiality analysis conducted in December 2021. The resulting “materiality matrix” is shown on page 42.

To provide readers with an view of the individual topics shown in the materiality matrix within the context of the value creation process, for each topic, the key shows not only the relevant sustainable development goals (“SDGs”) but also indicates the connections with the relevant capitals and, if present, links with the related SASB criterion.

All these capitals are of fundamental importance to Terna in its role in driving the Energy Transition, above all financial and infrastructural capital. However, as emphasised in the European Commission’s proposed CSRD, intangible capitals (the intellectual, human and social and relationship capitals) have a major role to play in a business’s process of creating value. For this reason, the Terna Group has dedicated an entire section to these capitals. This approach has been adopted without at any point overlooking the most precious and fragile form of capital, namely natural capital, which belongs to everyone. Terna has dedicated a specific section to this capital to provide a full and exhaustive description of the steps taken to protect and preserve it over time.

The sustainability performances represented by a GRI KPI are, as is usual, immediately identifiable by a cross-reference to the related code in the margin of the text. Similarly, the topics included in the materiality matrix are also indicated by a cross-reference showing the related classification.

This Annual Report for 2021 was approved by Terna S.p.A.’s Board of Directors on 17 March 2022.