Supplement to the Base Prospectus dated 28 June 2013

TERNA — Rete Elettrica Nazionale Società per Azioni.
(incorporated with limited liability in the Republic of Italy)

€6,000,000,000
Euro Medium Term Note Programme

This Supplement (the **Supplement**) to the Base Prospectus dated 28 June 2013 (the **Base Prospectus**), constitutes a supplement for the purposes of Article 16 of Directive 2003/71/EC (the **Prospectus Directive**) as amended and is prepared in connection with the €6,000,000,000 Euro Medium Term Note Programme (the **Programme**) established by TERNA - Rete Elettrica Nazionale Società per Azioni (the **Issuer** or **Terna**). Unless otherwise defined in this Supplement, the terms defined in the Base Prospectus have the same meaning when used in this Supplement.

This Supplement constitutes a supplement to, and forms part and should be read in conjunction with, the Base Prospectus issued by the Issuer. The Issuer accepts responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Supplement is in accordance with the facts and contains no omissions likely to affect its import.

Purpose of the Supplement

The purpose of this Supplement is (i) updating the "Documents Incorporated by Reference" Section of the Base Prospectus to incorporate by reference the Unaudited Interim Consolidated Financial Statements of Terna as at and for the six months ended 30 June, 2013 and the Unaudited Interim Consolidated Financial Statements of Terna as at and for the Nine Months Ended 30 September, 2013 as well as recent press releases relating to Terna, (ii) updating the "Description of the Issuer – Recent Developments" Section of the Base Prospectus with the most recent information available on Terna, (iii) updating the "Description of the Issuer – Directors, Senior Management, Statutory Auditors and Employees" Section of the Base Prospectus, (iv) updating the "Risk Factors" Section of the Base Prospectus, (v) updating the "Regulatory Matters" Section of the Base Prospectus, (vi) updating the "Taxation – Italian Taxation" Section of the Base Prospectus and (vii) updating the "General Information – Significant or Material Change" Section of the Base Prospectus.

I. DOCUMENTS INCORPORATED BY REFERENCE

This Supplement has been prepared to disclose and to incorporate by reference in their entirety in the Base Prospectus, the following documents:

- Interim consolidated financial report of the Issuer as at and for the six months ended 30 June, 2013;
- Interim Financial Report as at and for the nine months ended 30 September, 2013;

- Press release dated 8 July, 2013 (relating to the signing of an agreement with the European Investment Bank for a €570 million loan);
- Press release dated 11 July, 2013 (relating to the decision of S&P to lower the long-term corporate credit rating on Terna from "A-" to "BBB+" affirming at the same time the short-term rating of Terna at "A-2". The outlook assigned to the rating remains negative);
- Press release dated 25 July, 2013 (relating to the approval by the Board of Directors of Terna of the results as of 30 June, 2013);
- Press release dated 26 July, 2013 (relating to the resignation of Mr. Fabio Buscarini as indipendent member of the Board of Directors of Terna);
- Press release dated 30 July, 2013 (relating to the publication of the half-year financial report as of 30 June, 2013);
- Press release dated 13 November, 2013 (relating to the approval by the Board of Directors of Terna of the results as of 30 September, 2013);
- Press release dated 14 November, 2013 (relating to the publication of the consolidated interim management report as of 30 September, 2013 and the interim dividend report);
- Press release dated 16 December, 2013 (relating to the signing of a Memorandum of Understanding for the realisation of a cross-border interconnection);
- Press release dated 27 January, 2014 (relating to the calendar of corporate events for year 2014), (the press releases above, together the **Press Releases**),

which have previously been published and have been filed with the Commission de Surveillance du Secteur Financier (CSSF) and shall be incorporated by reference in their entirety in, and form part of, the Base Prospectus.

The following documents shall be incorporated by reference in, and form part of, the Base Prospectus:

Document	**Information incorporated**	**Page numbers**
Issuer's Unaudited Interim Consolidated Financial Statements as at and for the Six Months Ended 30 June, 2013		
	Balance sheet	76
	Income statement	74
	Statement of changes in equity	77
	Statement of cash flows	79
	Explanatory Notes	80
	Auditors' review report	132

Document	Information incorporated	Page numbers
Issuer's Unaudited Interim Consolidated Financial Statements as at and for the Nine Months Ended 30 September, 2013		
	Balance sheet	16
	Income statement	13
	Statement of cash flows	20

The information incorporated by reference that is not included in the cross-reference lists above, is considered as additional information and is not required by the relevant schedules of the Commission Regulation (EC) 809/2004.

II. RECENT DEVELOPMENTS

The following paragraph shall be included in the Section entitled "Description of the Issuer – Recent Developments" on page 111 of the Base Prospectus:

"**Ratings**

On 11 July, 2013, Standard and Poor's (S&P) lowered its long-term corporate credit rating on Terna from "A-" to "BBB+" affirming at the same time the short-term rating of Terna at "A-2". The outlook assigned to the rating remains negative.
This rating action followed the downgrade, from BBB+ to BBB, of the Republic of Italy.
The rating of Terna remains one notch higher than that of the Italian Republic."

III. NEW DIRECTOR

This Supplement has also been prepared to disclose that, following the resignation on 9 July 2013 of Mr. Fabio Buscarini as member of the Board of Directors of Terna, Mr. Antonio Segni was appointed as an independent member of the Board of Directors of Terna on 13 November 2013. Mr. Segni will remain in office until the approval of the financial statements for the year ended 31 December, 2013.

The principal business activities, experience and other principal directorships of Mr. Segni are summarised below.

The following paragraph shall be included in the Section entitled "Description of the Issuer – Directors, Senior Management, Statutory Auditors and Employees" on page 133 of the Base Prospectus:

"Mr. Antonio Segni, 48 years old - Independent - Non-Executive Director
born in Genova, on May 11, 1965.

Graduate in Law from the University of Rome "La Sapienza", Master of Laws (LL.M.) from Harvard University. An expert in company law and financial markets since January 2014 he has been a partner

of Law Firm Lombardi Molinari Segni and is recognized as one of the top Italian experts in the field of capital markets. After five years at the legal advisory office of Consob, he began his professional career at the Law Firm Gianni, Origoni, Grippo & Partners, reaching the position of partner in charge of the Capital Market Group. From 2006 to 2013 he was a founding partner of the Law Firm Labruna Mazziotti Segni where, in addition to continuing his consultancy work in the area of capital markets, he focused on the field of corporate finance and M&A, often involving listed companies. Recently, he has also been involved in the restructuring of listed companies and in arbitration on matters of company and contract law. From the beginning of the sector's development, he has also been involved in the structuring and setting up of investment funds in the private equity and real estate fund sectors.

Since 2009, he has held the position of (non-executive) Chairman of the Board of Directors of Ambienta SGR SpA and since 2012 has been (non-executive) Vice Chairman of Bioera S.p.A. He has been a Director of Terna since November 13, 2013."

IV. RISK FACTORS

- The Risk Factor entitled "*The Issuer's revenues and the conduct of regulated activities substantially depend on the actions and decisions of the regulatory authorities in Europe and Italy*" on pages 8-9 of the Base Prospectus shall be deemed deleted and replaced with the following:

"The Terna Group's business is subject to EU and Italian laws and regulations. During the year ended 31 December, 2012, approximately 95 per cent. of the Terna Group's consolidated revenues came from annual fees paid for the provision of services regulated by the Italian Energy Authority AEEG. With Resolutions 199/11, 204/11 and 197/11, as subsequently updated, AEEG established, with reference to the fourth regulatory period of 2012-2015, remuneration criteria for the supply of electricity transmission, distribution, metering and dispatching services and the regulation of the transmission service quality, in addition to the methods for updating tariffs in subsequent years. Within the scope of these regulations, there are a number of variables that could impact on the Terna Group's performance, among which, with specific respect to certain investments of Terna Group not located in the Italian territory and related to the interconnection between Italy and Montenegro, Resolution 607/13 has made the remuneration of these investments subject to an opinion -still to be requested- of the Consiglio di Stato.

In addition, with respect to the electricity transmission, the payments due to the Terna Group, are collected directly by the Terna Group invoicing the Italian electricity distributors. From such proceeds, the portions attributable to the other owners of the Italian grid and to the relevant Terna Group member itself must be deducted. Accordingly, any failure or delay in collecting tariffs from the Italian electricity distributors may have an adverse effect on the Terna Group's financial condition and results of operations. Also, distributors or other participants in the electricity sector may request the recalculation of tariffs invoiced to them. If any such recalculation proves to be required, it is possible that the annual fees related to the recalculation period may be reduced as a result and/or such recalculation may have an adverse effect on the Terna Group's revenues, financial position or results of operations.

The Terna Group is also required to comply with the guidelines and directives of the Italian Ministry of Economic Development relating to the operation, maintenance and development of the Terna Grid, including the level of capital expenditure required for such activities. Future guidelines or directives by the Italian Ministry of Economic Development (over which the Issuer has no control),

including those requiring investments or the incurrence of capital expenditures, may increase the Terna Group's costs or, otherwise, adversely affect the financial condition and results of operations."

-The Risk Factor entitled "*The Issuer's results may be adversely affected if the volume of electricity transmitted on the Terna Grid does not match the yearly forecasts set by the Italian Energy Authority*" on page 10 of the Base Prospectus shall be deemed deleted and replaced with the following:

"The revenues of Terna S.p.A. and Terna Rete Italia S.r.l. attributable to the management, operation and development of the National Transmission Grid, and to the management of dispatching activities, are regulated by tariffs set by the Italian Energy Authority. The unitary transmission and dispatching tariffs are respectively applied to the overall volume of energy transmitted and dispatched on the NTG.

These volumes depend on factors beyond the control of the Terna Group and if the actual energy subject to the tariff payment is higher or lower than forecast, revenues and results of operations will be higher or lower. According to Resolutions 199/11, 565/2012 and 607/13, the volume mitigation mechanism (introduced by Resolution 188/08) has been confirmed for the whole regulatory period (2012-2015), so that any impact on revenues caused by variations in electricity volumes withdrawn from the transmission grid and dispatched, would be limited to +/- 0.5 per cent."

V. REGULATORY SECTION

The Section entitled "Regulatory Matters" on pages 156-169 of the Base Prospectus shall be deemed deleted and replaced with the following:

"**REGULATORY MATTERS**

Supervision and Regulation of the Italian Electricity Industry

The Ministry of Economic Development and AEEG are the entities in charge of the overall supervision and regulation of the Italian electricity industry.

The Ministry of Economic Development is mainly responsible for the management (including the granting and revocation) of concessions and authorisations (other than those referring to plants producing energy from renewable sources) as well as for the establishment of strategic guidelines for the development and safety of the electricity industry. AEEG's primary responsibilities include determining tariff rates and access charges, issuing service quality-control guidelines and protecting consumers' interests through mediation, arbitration, fines or other sanctions. AEEG is independent from the Italian Government.

Regulation before the Bersani Decree of 1999

Until 1962, the production, transmission and distribution of electricity in Italy were essentially unregulated activities. On 6 December, 1962, the Italian Government granted almost exclusive rights to produce, import and export, transport, transform, distribute and sell electricity in Italy to a nationalised entity.

In 1992, the nationalised entity was converted into a joint stock company (*società per azioni*), wholly owned by the Ministry of Economy and Finance and renamed Enel S.p.A. (**Enel**). Under the regulatory framework of the Italian electricity industry at that time:

- the Italian Government had ultimate authority over the generation, transmission and distribution of electricity. The government licensed such activities to Enel and to municipal electricity utilities;

- power generation was restricted to authorised producers which could only produce electricity for their own consumption, for sale to affiliated companies or for sale to Enel; and

- AEEG determined the electricity tariff rates annually on an industry "cost-plus" basis.

Regulation under the Bersani Decree

The enactment of the EU Directive 1996/92/CE (the **Electricity Directive**) led to the liberalisation of the electricity industry. The Bersani Decree and subsequent legislation implemented under the Italian law the principles set forth by the Electricity Directive and liberalised the production, import, export, purchase and sale of electricity on the market. The activities of both transmission and dispatching of electric energy have been reserved to the State and are currently carried out, on license, by Terna. More specifically, the Bersani Decree and subsequent legislation provided for:

- *Production.* An increase in competition in the power generation sector. Italian legislation currently prohibits any single company from producing or importing more than 50 per cent. of the overall amount of the electricity imported and domestically produced in Italy.

- *Transmission.* A requirement that each network owner transfers its own transmission assets to a special purpose subsidiary. In addition, AEEG continued to be responsible for determining the tariff system pursuant to which each entity owning electricity transmission assets of the Italian grid is compensated. Also, the Italian Independent Operator System (**ISO** (*Gestore della rete di trasmissione nazionale S.p.A.*) was established to act as system operator for the transmission and dispatching of electricity and for the management operations of the NTG.

- *Distribution.* The establishment of a new licensing regime for the distribution of electricity and the provision of incentives for the consolidation of electricity distribution networks within each municipality.

- *Supply.* As of 1 July, 2007, all consumers are able to freely choose their electricity supplier irrespective of their consumption.

In order to coordinate the overall function of electricity market mechanisms following the above developments, the Bersani Decree and subsequent legislation established several new entities,i.e.:

- *The Italian ISO*. The Italian ISO was established on 27 April, 1999, as a wholly owned entity of the Ministry of Economy and Finance, with the purpose of acting as a system operator for the electricity transmission, dispatch and management operations of the NTG without having ownership of the NTG. Enel contributed to Terna, on a tax neutral basis, the Terna Grid (as it then existed), to separate ownership of the NTG from the activities of the Italian ISO.

- *Terna S.p.A.* Terna was incorporated as a joint-stock company under the laws of the Republic of Italy on 31 May, 1999 as a wholly owned entity of Enel. Enel contributed to Terna, on a tax neutral basis, the Terna Grid (as it then existed), to separate ownership of the NTG from the activities of the Italian ISO.

- *Gestore dei Mercati Energetici S.p.A.* (the **Markets Operator**). The Markets Operator is the entity in charge of managing the Power Exchange, which is the marketplace through which producers, importers, wholesalers, the Italian ISO, other Eligible Customers and the Single Buyer (as defined below) contribute to the determination of wholesale electricity prices through a competitive bidding process. Since 1 April, 2004, the Power Exchange has been fully operational.

- *Acquirente Unico S.p.A.* (the **Single Buyer**). The Single Buyer was established as a central purchaser of electricity from producers on behalf of all Captive Customers (i.e. those customers who, before 1 July, 2007, were not in a position to freely choose their electricity supplier; as of today, the Single Buyer is in charge of purchasing electricity for those consumers who still have not chosen their electricity supplier on the market (the **Eligible Customers**)). The Single Buyer and Eligible Customers may freely purchase electricity, either through transactions in the Power Exchange or by entering into bilateral contracts with individual producers or wholesalers. As of 1 January, 2004, the Single Buyer has been fully operational.

Subsequent legislation

After the Bersani Decree, Law Decree 239/03, passed into Law 290/03, set forth further provisions referring to the electricity sector. More in particular, said Decree:

- provided for integration of the ownership and management of the NTG; and

- as of 1 July, 2007, prevented companies (including Enel) operating in the production, importation, distribution and sale of electricity or natural gas, and any company controlled, directly or indirectly, by the State, operating in the above-mentioned sectors, from holding, directly or indirectly, more than 20 per cent of the share capital of any company that both owns and manages any part of the NTG or gas transmission network.

Regulation under the DPCM

On 11 May, 2004, the Italian Government passed a Presidential Decree (hereinafter the DPCM – *Decreto del Presidente del Consiglio dei Ministri)*, subsequently officially published on 18 May, 2004, implementing Law 290/03 as follows:

(a) The Italian ISO was required to transfer to Terna (either by way of a contribution or a sale and purchase), for consideration, all of its business, assets, active and passive legal relationships (including agreements entered into by and between the Italian ISO and other owners of the NTG), by no later than 31 October, 2005 (the **Transfer**), except for the following:

(i) any assets, legal relationships and employees relating to (a) the purchase of electric energy by Enel, (b) the management of the electricity generated by facilities subject to special incentives pursuant to CIP6/92, and (c) the activity of verifying the qualifications of the facilities relating to renewable energy sources and issuing "green certificates" pursuant to the Bersani Decree, as well as certain other related activities;

(ii) the ownership interests held in the Markets Operator and the Single Buyer; and

(iii) any liabilities incurred by the Italian ISO prior to the Transfer. In any event, the Italian ISO is required to indemnify and hold Terna harmless for such liabilities incurred prior to the effective date of the Transfer, although Terna has an obligation to mitigate such liabilities,

(all business, assets and legal relationships to be transferred to Terna, collectively the **ISO Assets**).

The Italian ISO and Terna were required to agree on the ISO Assets and the consideration to be paid for the Transfer. At the date of the Transfer, Terna should have assumed ownership and the Italian ISO's obligations for the management of the NTG and each of the Italian ISO and Terna should have changed their respective corporate names.

(b) The Italian ISO was required to draft, by no later than 31 December, 2004, a document named "Network transmission, dispatch, development and safety code" (the **Grid Code**), which

should have contained objective and non-discriminatory rules for the use of, and access to, the NTG with respect to the transmission, dispatching and management operations of the same. The Grid Code should also have provided for the establishment of a technical consulting committee for the users of the NTG, consisting of a maximum number of seven members responsible for (a) updating the rules and specifications contained in the Grid Code, and (b) the resolution of any disputes arising from the application of such rules and specifications. The committee may also express non-binding opinions on the general criteria for (a) the development of the NTG, (b) the development and operation of connections, and (c) security for the NTG.

The Grid Code (including the terms for the appointment and operation of the technical consulting committee) was subject to the approval (including by acquiescence) of the Ministry of Productive Activities (currently Ministry of Economic Development) and AEEG.

(c) AEEG was instructed to evaluates the mechanisms (including those related to tariffs) required to facilitate the acquisition of those remaining portions of the NTG not owned by Terna by 30 April, 2006, and to assess different mechanisms for the acquisition of Terna's (or the resulting entity's) shares by other owners of the NTG as well.

(d) It was provided that, the entity resulting from said integration should have been be operated in an objective manner without distinguishing between users or types of users of the NTG and that the relevant By-laws should have been amended (prior to the earlier of Enel losing control of Terna and the integration) to provide for the following:

(i) consistency of the corporate purposes that are consistent with both the ownership and management of the NTG;

(ii) any company operating in the production, importation, distribution, sale or transmission of electricity (or which controls, is controlled by or is under common control with, any such company) and owning more than 5 per cent. of shares of the resulting entity shall be prohibited from voting shares, in the election of the resulting entity's directors, exceeding five per cent. of the voting share capital in the resulting entity;

(iii) the shareholders of the resulting entity were requested to appoint, within 60 days from the integration, a new board of directors in accordance with the new By-laws, meeting certain standards of integrity and independence, to ensure that the NTG will be managed objectively, without discriminating between users or categories of users. Such duly appointed board of directors should have remained in office until such date as Enel reduces its shareholding in Terna to no more than 20 per cent.; and

(iv) no person other than the Italian Government or state or local authorities (or entities controlled by any of them) is allowed to hold more than 5 per cent. of Terna's share capital (which provision cannot be amended for at least three years from the integration). In any event, a shareholder which owns, directly or indirectly, shares that in the aggregate constitute more than 5 per cent. of Terna's share capital may not vote in relation to the excess shares. However, according to Law 474/94, this limitation on holding more than five per cent. of Terna's share capital does not apply in the case of a public tender offer that has the purpose of acquiring the entire outstanding share capital of Terna in accordance with Articles 106 and 107 of the TUF.

(e) Prior to the effective date of the Transfer, the Ministry of Productive Activities was requested to amend the concession for electricity transmission and dispatching activities in Italy, in order to better ensure the optimal functionality of such concession in light of the interests and responsibilities acquired by Terna pursuant to the Transfer.

(f) Pursuant to Article 4 of the DPCM the privatisation of the entity resulting from the integration should also aim to ensure the stability and continuity of public utility services through the participation of one or more committed shareholders. To this end, by 1 July, 2007, Enel was required to reduce its ownership interest in Terna, or the resulting entity from the integration, to no more than 20 per cent. of the total share capital through (a) a demerger of Terna or the resulting entity, (b) the declaration and payment of a distribution or dividend-in-kind in the form of shares of Terna or the resulting entity, or (c) the direct sale of shares of Terna or the resulting entity, in each case without compromising the safety and cost objectives of the national transmission system. Upon the completion of the above transactions, Enel was allowed to dispose of the remaining shares held in Terna or the resulting entity, through objective and non-discriminatory procedures directed towards the wide distribution of those shares among public investors and/or institutional investors without compromising the safety and cost objectives of the national transmission system.

The DPCM was implemented as follows:

(g) Terna's by-laws were amended on 31 January, 2005 by Terna's general meeting of shareholders;

(h) the Ministry of Productive Activities (currently Ministry of Economic Development) issued the new electricity transmission and dispatching concession on 20 April, 2005;

(i) Enel then gradually disposed of its stakes in Terna (on 31 March, 2005, it signed over 13.86 per cent. of its participation to institutional investors and later, on 15 September, 2005, it also transferred 29.99 per cent. of its stake to CDP) until complete disposal of its stake (on 2 February, 2012, which Enel sold to institutional investors);

(j) Terna acquired the Italian ISO Assets on 1 November, 2005;

(k) the Grid Code came into force on 1 November, 2005 and has been subsequently amended in order to reflect changes in regulation and legislation; and

(l) on 10 April, 2006, AEEG issued Resolution 73/2006 setting forth provisions relating to the transfer by the current owners, other than Terna, of interests in the NTG to Terna. The Resolution granted AEEG the right to attribute certain incentives to Terna and those owners of other portions of the NTG disposing their portions of the NTG in favour of Terna. AEEG set the total amount of such incentives at €14 million, to be divided between Terna and the other owners of the NTG assigning their portions of the NTG to Terna in accordance with a 30 per cent./70 per cent. ratio. Only transactions closed upon before 30 April, 2006, were allowed to benefit from such incentives.

Legislative Decree n. 93/2011

The current regulatory structure of the electricity sector is determined also by Legislative Decree No. 93 2011, implementing EU Directive 2009/72/EC concerning common rules on the internal market in electricity.

Implementation of Ownership unbundling provisions

According to Legislative Decree 93/2011:

- the activities of both transmission and dispatching of electric energy are reserved to the State, pursuant to Article 1 of the Bersani Decree and are carried out, on license, by Terna.

- Terna is prevented, both directly and indirectly, from carrying out electric energy production or supply activities or from managing, even only on a temporary basis, electric energy infrastructures or production plants.

Moreover, AEEG issues, in compliance with the requirements set forth by EU Directive 2009/72/EC, the certification attesting the fully effective separation of TSO activity from supply and generation activity (details of the certification procedure are presented in the following paragraph: "*Certification procedure*"). The TSO's certification is issued by AEEG on the basis of the following criteria:

(a) The same person or persons, natural or juristic, is/are not allowed to contemporarily exercise control over an undertaking performing any of the functions of generation or supply, and to exercise control or exercise any right over a transmission system operator or over a transmission system;

(b) The same person or persons, natural or juristic, is/are not allowed to appoint members of the supervisory board, the administrative board or bodies legally representing the undertaking, of a transmission system operator or a transmission system, and directly or indirectly to exercise control or exercise any right over an undertaking performing any of the functions of generation or supply and vice versa;

(c) The same person is not allowed to be a member of the supervisory board, the administrative board or bodies legally representing the undertaking, of both an undertaking performing any of the functions of generation or supply and a transmission system operator or a transmission system.

Finally, according to Legislative Decree 93/2011, AEEG is required to set forth, by 29 December, 2011, "appropriate mechanisms" to boost the complete integration of the ownership of NTG within the following 36 months.

Certification procedure

AEEG has ruled, by Resolution ARG/com 153/11, the certification procedures of businesses acting as natural gas transport system managers or electricity transmission operators, pursuant to Directive 2009/72/EC as Legislative Decree 93/2011 providing a timely certification process of the transmission/transport system operators aimed at attesting compliance, by the said parties, with the conditions set forth by European Community Regulations for the three models of separation of the transmission/transport activities from the generation/production and supply activities the ownership unbundling (OU), the institution of an independent transmission operator (ITO), the institution of an independent system operator (ISO).

The certification procedure, carried out by AEEG on the basis of the information provided by the transmission and transport operators, includes, in short:

(a) a preliminary certification decision, issued by AEEG within four months from the receipt of the data sent by the operators;

(b) the opinion of the European Commission on this preliminary certification;

(c) the final decision on certification, to be issued by AEEG within two months from the receipt of the European Commission opinion.

AEEG issued the preliminary certification decision for Terna by the Resolution 531/2012/R/eel and, after the positive opinion of the European Commission issued on 11 February 2013, issued the final certification decision by Resolution 142/2013/R/eel.

Therefore, by this Resolution, Terna has been certified according to the "ownership unbundling" model: this is the option chosen as "preferable" by the EU Legislator. In certifying Terna, the Resolution 142/2013/R/eel also requires some fulfilments to be implemented by the Company.

A subsequent "re-certification" procedure is also established should significant changes be made to the data declared by the operators and, in any case, three years after certification.

Regulatory Structure of the Transmission Sector

The Ministry of Productive Activities (currently Ministry of Economic Development) granted the 2005 concession to the Italian ISO for a period of 25 years, starting from 1 November, 2005, for the dispatching and transmission of electricity, including management responsibilities for the NTG. The concession was transferred to Terna when it acquired the Italian ISO Assets on 1 November, 2005. On 15 December, 2010 Terna and the Ministry of Economic Development agreed an update to the concession (the **New Convention**).

Pursuant to the New Convention:

- The Issuer, in compliance with European provisions, laws in force in Italy, specific conventions with Public Authorities, conditions provided by the Concession and guidelines determined by the Ministry of Economic Development and AEEG: (i) manages electricity flow through the NTG; (ii) ensures the safety, reliability, efficiency and lower costs of its services and supplies; (iii) manages the NTG without any discrimination of consumers; (iv) prepares operational plans in order to ensure the safety and adequacy of the transmission; (v) develops the portions of the NTG directly owned; (vi) decides on maintenance operations of the NTG and performs the maintenance activity on its portion of the NTG; (vii) advises the Ministry of Economic Development on the construction of new installations; (viii) sets out the rules for the dispatch of energy in compliance with the conditions determined by AEEG pursuant to Article 3, paragraph 3, of the Bersani Decree and the guidelines of the Ministry of Economic Development pursuant to Article 1, paragraph 2, of the aforesaid Decree; (ix) issues, pursuant to Article 1, paragraph 4, of the DPCM 11 May, 2004, on the basis of the directives of AEEG, non-discriminatory technical rules for the access to the NTG, for the dispatch of energy, for the development and defence of the safety of the NTG and for the maintenance of the NTG; (x) performs all other activities, including those of a regulatory nature, permitted by applicable law; (xi) builds and operates facilities for energy storage and energy conversion, aimed at ensuring: safety and proper operation of the power system, maximum use of power from renewable sources and supply of resources for the dispatching of electricity; and (xii) performs, in Italy or abroad, related and auxiliary activities useful for the pursuit of its corporate purpose. Pursuant to Legislative Decree 93/2011, the TSO cannot, neither directly, nor indirectly, engage in energy production nor supply activities and it cannot manage, neither temporary, energy production infrastructures and plants. The same Legislative Decree provides that the Issuer is allowed to set up and manage energy storage systems through batteries.

- In order to keep the installations in good condition and to ensure the uninterrupted transmission and dispatch of electricity, the Issuer takes decisions about (i) the maintenance and development of the portions of the NTG's directly owned and (ii) the maintenance and development of the portions of the NTG' owned by other operators, on behalf of the same. The owners of the NTG other than Terna must comply with the decisions of the Issuer. The maintenance of the electrical lines of the NTG shall be performed pursuant to Article 3, paragraph 2, of the Bersani Decree.

- The Issuer undertakes activities to keep the electricity system safe and, to this end, files with the Ministry of Economic Development, by 31 May of each year, a programme for the safety of the electricity system.

- In order to secure development of the NTG in accordance with electricity demand, the Issuer, by 31 December of each year, prepares and approves a development plan for the NTG and files it within 30 days to the Ministry of Economic Development, which verifies compliance of the plan with laws and guidelines determined by the Ministry itself as required by Law 290/03. The plan is subject to approval by the Ministry of Economic Development. The above mentioned Legislative Decree 93/2011 provides for a public consultation procedure held by AEEG, which assesses the plan, carries out a public consultation and delivers a not binding advice to the Ministry.

- The development plan, which contains strategies for the development of the NTG, with a description of the planned activities in the short-to-medium term and the long term, constitutes the document illustrating and updating Terna's programme of activities.

- The Issuer promotes and implements agreements with other TSO interconnected to the European electricity network, with the aim of ensuring efficiency and safety of the network. According to the European regulatory rules, the Issuer adopts a specific method to calculate total transmission capacity, disclosing the criterion used for the calculation as well as informing on the available transmission capacity.

- Fees due for the financing of the concession holder activities are fixed by AEEG on the basis of certainty and adequacy. The Ministry of Economic Development sets forth the guidelines to be followed by AEEG in order to permit an efficient performance of the service and encourage the development activities.

- Failure of the Issuer to perform at least one of the obligations required by the Convention may trigger a penalty (between €5,000 and €50,000) for each violation. The Ministry of Economic Development may also, at the Issuer's expense, perform the unfulfilled obligations. In the cases provided by Article 2, paragraph 20(c), of Law 481/1995 and where the violations of the Issuer may seriously damage the electricity service, the Ministry of Economic Development may, on the AEEG's proposal, suspend or terminate the Convention. During the period of suspension the service will be managed by the Italian State. For this purpose the Government will appoint a commissary in order to ensure the regular development of the service. The commissary may use the Issuer's existing infrastructure.

- The Issuer may carry out its activities in the electricity sector also through its subsidiaries.

- The Issuer may engage in activities outside the electricity sector which are instrumental and linked to its corporate objects and which do not conflict with Terna Group's principal business. The Issuer may also engage in other activities which do not conflict with Terna's principal business, after specific approval from the Ministry of Economic Development.

- The Issuer sends its Annual Report to the Ministry of Economic Development and to the Ministry of Economy and Finance within one month by the date of approval. Within the following financial year the Ministry of Economic Development, also upon the request of the Ministry of Economy and Finance, may ask for any explanation about data shown in the Annual Report and may make remarks concerning compliance of the document with the obligations arising out of the New Convention and any other applicable laws and regulations, considering the obligations of the Issuer.

- In order to inform on the state of dispatching and transmission services, the Issuer notifies to the Ministry of Economic Development about the publication (on its own website) of statistics and development plan of the national grid referring to the previous year and showing: (a) the amount of electricity transported over the Italian network; (b) the assets in the plants, the numbers and the entity of the interventions resolved and made; (c) the amount of import and export capacity used as well as the amount of available capacity for at least ten years.

Tariff System

Procedures used for calculating tariff rates and Terna's remuneration: general overview

Under the current legislation, AEEG establishes the tariff mechanism pursuant to which the Issuer and the other owners of the residual portions of the NTG are remunerated.

Under Italian law AEEG, before the beginning of each regulatory period, whose duration is currently of four years, after having consulted the grid participants fixes the criteria as well as the formulae for

calculating tariff rates. Subsequently, tariff rates are adjusted, on an yearly basis, according to the above-mentioned criteria and formulae.

The transmission tariff is paid by the Italian electricity distributors for the use of the NTG.

The tariff for the electricity dispatching activity is paid by the users of the dispatching service and it is fully retained by Terna as the sole responsible for the electricity dispatching service. In terms of assessment and remuneration of the total allowed costs of dispatching services, the regulation currently in force sets the same regulatory criteria applied for transmission activity. These criteria are better described in the following paragraphs, which focus on the regulatory framework applicable to the tariff system during the fourth regulatory period.

Regulatory Period 2012-2015

Pursuant to Resolutions 199/11 and 351/07, as subsequently amended by Resolution 204/11, AEEG has set out (i) the remuneration criteria for the regulatory period 2012-2015 (ii) the tariff rates for transmission and dispatching services for year 2012.

The tariff rates for years 2013-2015 are updated on a yearly basis, according to the criteria set in Resolutions 199/11 and 351/07 as subsequently amended and integrated by, among others, Resolutions 288/12 and 40/13.

For 2013:

- The transmission tariff has been updated by Resolution 565/12;
- The dispatching tariff has been updated by Resolution 576/12.

For 2014:

- The transmission tariff has been updated by Resolution 607/2013/R/eel;
- The dispatching tariff has been updated by Resolution 636/2013/R/eel

Resolutions 607/2013/R/eel and 636/2013/R/eel has been published both on December 2013.

Allowed costs and tariff values: transmission service

The electricity transmission tariff mechanism is designed to compensate transmission companies for the costs directly related to their activities and also includes the cost of some incentive schemes for Terna. Since the tariff mechanism is applicable to all companies operating in this sector, AEEG calculates tariff rates based on the "allowed costs" of the transmission sector which, in turn, are based on the sum of costs of the transmission companies and the cost for the incentive schemes. As in the previous regulatory period, with Resolution 199/11 AEEG set the criteria for the calculation of the electricity transmission tariff both for the first year of the regulatory period (2012) and for the following years of the same period (2013-2015).

Calculation of electricity transmission tariff rates for the first year of the fourth regulatory period

In order to define the "allowed sector costs", AEEG used the following criteria:

(a) ***Operating costs***:

The operating costs were established as the sum of:

(i) 2010 actual costs for companies operating in the transmission sector, a) net of a few unrecognised cost categories, b) brought forward to 2012 to take *inflation* into account;

(ii) the residual part of the extra-efficiencies achieved during the second regulatory period, left to transmission operators according to the profit sharing mechanism and not yet absorbed by the X-factor (i.e. the annual reduction rate of the allowed costs established by AEEG) applied during the third regulatory period;

(iii) 50 per cent. of the extra-efficiencies achieved during the third regulatory period and left to transmission operators according to the profit sharing mechanism.

(b) ***Return on RAB***:

RAB value. the value of recognised RAB as of 31 December, 2010 (which has been considered for setting the tariffs for the year 2012) has been determined by AEEG by applying the revalued historical cost criteria and a mixed methodology: parametric for all investments up to year 2003 and exact for all investments from year 2004 to year 2010. The introduction of the parametric methodology for investments up to year 2003 is neutral, according to AEEG, on tariff levels.

Annual rate of return on RAB (**RR**). AEEG determined the RR applicable to the electricity transmission sector (before taxes) as 7.4 per cent., up from the 6.9 per cent recognised in the previous regulatory period (2008-2011). Resolution 199/11 prescribes to update the RR value for the period 2014-2015, based on the average return of long term Italian bonds (ten years BTP) between November 2012 and October 2013, as measured by Banca d'Italia. The Authority introduced this updating mechanism on the RR value considering the current macro scenario characterised by a significant markets volatility. According to the updating mechanism described above, with Resolution 607/2013/R/eel the RR value has been fixed at 6,3% for the last two tears of the regulatory period (2014 and 2015).

On top of the base return on RAB all investments made from 2012 onwards will benefit from an additional 1 per cent in order to offset the "regulatory lag", namely the delay with which tariffs remunerate Terna's investments (the tariff related to the year "n" reflects all investments up to the end of year "n-2").

(c) ***Depreciation***:

AEEG set the depreciation component for the first year of the new regulatory period 2012-2015 as follows:

(i) Depreciation related to investments until 2010, including deflator effect: as per the corresponding RAB, the depreciation has been calculated with a parametric mechanism for all investments up to 2003 and exactly for all investments from 2004 to 2010;

(ii) Annual roll-over coherent with RAB annual adjustment;

(iii) Regulatory useful life of assets categories have been confirmed by Resolution 199/11.

Adjustment of tariff rates in the subsequent years of the fourth regulatory period

With respect to the yearly tariff update mechanism, Resolution 199/11 also set the criteria for the yearly adjustments, in the subsequent years of the four-year regulatory period, of the recognised costs (and hence tariffs) for transmission activity. For the year "n", the recognised costs components are adjusted in compliance with the following criteria:

(a) with regards to the allowed costs related to **operating costs**, by applying:

(i) the average annual rate of variation of the consumer price index;

(ii) the X-factor rate (3 per cent.)

(iii) a variation factor in case of exceptional and unpredictable events, change in the regulatory framework or variations of the universal service obligations.

(b) with regards to the allowed costs related to **RAB remuneration**, by applying:

(i) the average annual rate of variation of the deflator for fixed investments of the last four available quarters as published by ISTAT;

(ii) the rate of variation related to the net realised investments in year (n-2), taking the effect of the increase in accumulated depreciation, disposals and completion of the standard useful life of assets into account;

(iii) the rate of variation linked to additional incentives for incentivised net investments in year (n-2).

(c) With regards to the allowed costs related to **depreciation**, by applying:

(i) the average annual rate of variation of the deflator for fixed investments of the last four available quarters as published by ISTAT;

(ii) the rate of variation related to decrease of gross invested capital due to disposals and to the end of the standard useful life of assets in year (n-2);

(iii) the rate of variation related to the new investments entered into operation in year (n-2).

The above mentioned criteria have been applied to calculate and set 2013 transmission tariff by Resolution 565/12 and 2014 transmission tariff by Resolution 607/13

Resolution 607/2013 also specifies that the remuneration of certain investments of Terna Group not located in Italian territory and related to the interconnection between Italy and Montenegro is recognized through a specific tariff (UC_3^{NIL}). This remuneration is subject to an opinion -still to be requested - of the Consiglio di Stato.

Mitigation mechanism on energy volumes and binomial tariff

In order to maintain continuity in the infrastructural investments that are planned for the development of the National Electricity Grid, AEEG established for the period 2009-2011, with Resolution 188/08, an optional "mitigation" mechanism for the negative effects of the reduced electricity consumption trend. In particular, should the consumption, by the end of each year, be lower or higher by more than 0.5 per cent. compared to the forecast considered as a basis for establishing the tariffs, the effect for Terna's revenues of the energy difference exceeding that threshold will be neutral, through a compensation covered by the Equalization Fund. AEEG confirmed the above-mentioned volume mitigation mechanism:

- for 2012 and 2013 with Resolutions 199/11 and 565/12;
- for 2014 and 2015 with Resolution 607/13

According to resolution 199/11, starting from 2013 the transmission tariff was supposed to become binomial, taking into account both the net energy withdrawn from the NTG and the available capacity at the interconnection points, but some difficulties of implementation led the Authority (with Resolution 565/2012) to postpone the introduction of the binomial tariff, maintaining for 2013 both the monomial structure and the mitigation mechanism on energy volumes. The planned effect of the

introduction of the binomial tariff is to further mitigate the impact of energy volume volatility on transmission revenues. According to Resolution 607/13 the introduction of the binomial tariff during the IV regulatory period has been definitely abandoned: for the last two years of the regulatory period transmission tariff is determined according to the usual monomial structure (cent.€/kWh)

Determination of allowed costs and tariff values: dispatching service

With regards to the remuneration criteria of the dispatching service for the period 2012-2015, Resolution 351/07 (as subsequently updated by Resolution 204/11) envisaged continuity with the regulation in force in the third regulatory period: valuation and remuneration of the allowed costs takes place in accordance with rules established for the transmission service, so that operating costs, RAB remuneration and depreciation will be defined in compliance with the same criteria outlined in Resolution 199/11 (described above), despite two main differences:

- The "productivity recovery factor" (X-factor rate) is lower for dispatching (0,6 per cent.);
- The yearly tariff update mechanism for the dispatching service does not provide for any revaluation (based on the variation of the deflator for fixed investments) for the costs related to the remuneration of the RAB corresponding to the costs of the acquisition of GRTN (Gestore della Rete di Trasmissione Nazionale S.p.A.).
- Dispatching tariff for the year 2013 has been set by Resolution 576/12, whilst for the year 2014 it has been set by Resolution 636/13.

Main incentive mechanisms related to transmission and dispatching activities

(a) Extra WACC for development investments

In order to empower the electricity market unbundling and to offset a long period of underinvestment in transmission, since 2004 the Italian energy regulator introduced extra remuneration for development (e.g. new) investments. In the current regulatory period:

- all incentivised development investments made up to 2011 will benefit from the residual additional remuneration (2 – 3 per cent) as per previous Resolutions 5/04 and 348/07;
- development investments of category I3 (aimed at reducing congestions between Italian market zones or at increasing the Net Transfer Capacity as well as other primary strategic investments selected by the Regulator) made from 2012 onwards will benefit from an additional remuneration of 2 per cent for 12 years from their entry into service. All such investments, as approved by the Energy Authority with Resolution 40/13, are subject to the incentive mechanism for accelerating the development of strategic project (see the *ad-hoc* paragraph below).
- development investments of category I4 (pilot energy storage systems) made from 2012 onwards will benefit from an additional remuneration of 2 per cent. for 12 years from their entry into service; these pilot projects have been selected with Resolutions 43/13 and 66/13. In details:
    - Res. 43/13 approved power intensive energy storage pilot systems, limiting their I4 extra remuneration to the amount indicated in Terna's proposal, and subjecting it to Terna's compliance to the data publishing obligations set forth in art. 3 of the same Resolution;

- Res. 66/13 approved energy intensive energy storage pilot systems, limiting their I4 extra remuneration to the amount indicated in Terna's proposal and requiring a Regulator pre-approval of any overspending exceeding 5% of the planned amount.

- other development investments not included in category I3 (category I2) made from 2012 onwards will benefit from an additional remuneration of 1.5 per cent for 12 years from their entry into service.

With reference to development investments (categories I2, I3 and I4) AEEG confirmed the pre-existing threshold for the recognition of full remuneration for investment costs related to compensatory and environmental requirements. If the percentage of these costs with respect to infrastructural investment costs is higher than 6 per cent, the total remuneration rate (RR plus extra remuneration of 2 or 3 per cent) decreases progressively up to the recognised cost of debt (set at 5.69 per cent).

(b) Acceleration of development investments

AEEG, with Resolution 199/11, as subsequently updated by Resolution 40/13, confirmed the incentive system to accelerate development investments introduced on an experimental basis by Resolution 87/10.

According to Resolution 199/11, Terna's adherence to this incentive system is a condition for the investment projects being admitted to the "I3" incentive scheme: in other words, an "I3" investment can receive the extra remuneration on top of the base RR only if it has been included, as a development investment, in the incentive system conceived to accelerate investments.

According to the same Resolution 199/11, these projects I3 become goals for Terna if the following steps are completed: 1) Terna proposes the projects with their milestones and delivery dates; 2) the Italian Authority defines the projects with their milestones and delivery dates; 3) Terna adheres to the incentive mechanism.

Terna's adherence to the incentive scheme triggers two distinct mechanisms:

- every year, if Terna completes at least 70 per cent of the planned milestones (weighted by the expected system benefit of their respective projects and by their importance for the project), Terna receives an extra remuneration of 2 per cent of "I=3" projects work in progress stock at the end of year (n-2);

- for each project included in the mechanism, if its completion date falls outside of a grace period of +12 months, Terna pays a penalty equal to 2 per cent of the total project value, increased by 10 per cent, for each year or fraction of year of delay.

(c) Pilot energy storage systems

With Resolution 43/2013, AEEG amended Resolution 288/2012, which set the criteria for the selection of pilot energy storage systems. According to Resolution 43/2013, the Authority:

- distinguishes the pilot energy storage systems between "energy intensive" systems and "power intensive" systems;

- admits to the "I4" incentive scheme two power intensive pilot projects included in the Defense Plan 2012-2015, as approved by the Ministry of Economic Development;

- identifies rules and defines timing for the experimentation of these pilot projects.

Moreover, with Resolution 66/2013, the Authority admits to the "I4" incentive scheme six energy intensive storage pilot projects included in the 2011 National Development Plan, as approved by the Ministry of Economic Development. According to the Resolution, these projects are allowed to receive the additional 2% remuneration for 12 years, following conditions and limits set forth in the same Resolution.

(d) Quality of the transmission service

With reference to the regulatory period 2012-2015, AEEG determined, with Resolution 197/11, the criteria for the regulation of quality of transmission service and established corrective measures in relation to the mitigation services. This Resolution, as amended by Resolutions 136/2012, 492/2012, 530/2012 and 28/2013, in order to assess the quality of transmission service, confirms a framework based on premium/penalty mechanism linked to the quality of service on transmission. Differently from the third regulatory period, grid quality is now monitored by the sole Energy Not Supplied Index (ENSR) and a gradual application of this mechanism to the entire NTG (including Terna Rete Italia) is planned. With such mechanism, the quality targets are based on historical values and the maximum potential impact is estimated for the Terna Group as ranging between -€12/+€30 million per year.

Responsibilities related to electricity metering services

AEEG, with Resolution 199/11 (as subsequently updated and integrated), introduced some changes with respect to the previous regulation concerning the metering service, above all as far the matter of assigning service responsibilities is concerned. According to these Resolutions, Terna will become responsible for: (a) the collection/registration as well as the validation of the energy withdrawn from end-customers on the NTG and the energy exchange on the interconnection points; (b) the collection of measurements relating to the input points on the NTG. In order to carry out those activities, Resolution 199/11 (as amended) consequently reviewed the methods by which this service is remunerated, despite referring to a subsequent provision to be issued during the fourth regulatory period to complete the regulatory framework of the metering service."

VI. ITALIAN TAXATION

The Section entitled "Taxation – Italian Taxation" on pages 170-176 of the Base Prospectus shall be deemed deleted and replaced with the following:

"ITALIAN TAXATION

Tax treatment of the Notes

Legislative Decree No. 239 of 1 April, 1996, as subsequently amended, (**Decree 239**) provides for the applicable regime with respect to the tax treatment of interest, premium and other income (including the difference between the redemption amount and the issue price) from notes falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) issued, *inter alia*, by Italian companies with shares traded on a regulated market or multilateral trading facility (**MTF**) of an EU or EEA Member State which exchanges information with the Italian tax authorities. For this purpose, bonds and debentures similar to bonds are securities that incorporate an unconditional obligation to pay, at redemption, an amount not lower than their nominal value and which do not grant the holder any direct or indirect right of participation to (or control of) to management of the Issuer.

(A) Italian resident Noteholders

Where an Italian resident Noteholder is (a) an individual not engaged in an entrepreneurial activity to which the Notes are connected (unless he has opted for the application of the *risparmio gestito* regime - see under "Capital gains tax" below); (b) a non-commercial partnership; (c) a non-commercial private or public institution; or (d) an investor exempt from Italian corporate income taxation, interest, premium and other income relating to the Notes, are subject to a withholding tax, referred to as "*imposta sostitutiva*", levied at the rate of 20 per cent. In the event that the Noteholders described under (a) and (c) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax.

Where an Italian resident Noteholder is a company or similar commercial entity, a commercial partnership, or a permanent establishment in Italy of a foreign company to which the Notes are effectively connected, and the Notes are deposited with an authorised intermediary, interest, premium and other income from the Notes will not be subject to *imposta sostitutiva*, but must be included in the relevant Noteholder's income tax return and are therefore subject to general Italian corporate taxation (and, in certain circumstances, depending on the "status" of the Noteholder, also to the regional tax on productive activities (**IRAP**)).

Where an Italian resident Noteholder is an individual engaged in an entrepreneurial activity to which the Notes are connected, interests, premium and other income relating to the Notes, are subject to *imposta sostitutiva* and will be included its relevant income tax return. As a consequence, interests, premium and other income will be subject to the ordinary income tax and the *imposta sostitutiva* may be recovered as a deduction from the income tax due.

Under the current regime provided by Law Decree No. 351 of 25 September 2001, as amended and supplemented, converted into Law No. 410 of 23 November, 2001 (**Decree 351**), as clarified by the Italian tax authorities through - among others - Circular No. 47/E of 8 August 2003 and Circular No. 11/E of 28 March 2012, Italian real estate funds (complying with the definition as amended pursuant to Law Decree No. 78 of 31 May 2010, converted into Law n. 122 of 30 July 2010) created under Article 37 of the Consolidated Financial Act and Article 14-*bis* of Law No. 86 of 25 January 1994 (**Real Estate Funds**) are not subject to *imposta sostitutiva*.

If the investor is resident in Italy and is an open-ended or closed-ended investment fund or a SICAV (an investment company with variable capital) established in Italy and either (i) the fund or SICAV or (ii) their manager is subject to the supervision of a regulatory authority (the **Fund**), and the relevant Notes are held by an authorised intermediary, as clarified by the Italian tax authorities through Circular No. 11/E of 28 March 2012, interest, premium and other income accrued during the holding period on such Notes will not be subject to *imposta sostitutiva*, but must be included in the management results of the Fund. The Fund will not be subject to taxation on such results but a withholding or a substitute tax of 20 per cent. will apply, in certain circumstances, to distributions made in favour of unitholders or shareholders (the **Collective Investment Fund Substitute Tax**).

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by article 17 of the Legislative Decree No. 252 of 5 December, 2005 – the **Pension Fund**) and the Notes are deposited with an authorised intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to an 11 per cent. substitute tax.

Pursuant to Decree 239, *imposta sostitutiva* is applied by banks, SIMs, fiduciary companies, SGRs, stockbrokers and other entities identified by a decree of the Ministry of Finance (each an **Intermediary**).

An Intermediary must (a) be resident in Italy or be a permanent establishment in Italy of a non-Italian resident financial intermediary and (b) intervene, in any way, in the collection of interest or in the transfer of the Notes. For the purpose of the application of the *imposta sostitutiva*, a transfer of Notes includes any assignment or other act, either with or without consideration, which results in a change of the ownership of the relevant Notes or in a change of the Intermediary with which the Notes are deposited.

Where the Notes are not deposited with an Intermediary, the *imposta sostitutiva* is applied and withheld by any entity paying interest to a Noteholder.

(B) Non-Italian resident Noteholders

Where the Noteholder is a non-Italian resident without a permanent establishment in Italy to which the Notes are connected, an exemption from the *imposta sostitutiva* applies provided that the non-Italian resident beneficial owner is either (a) resident, for tax purposes, in a country which allows for a satisfactory exchange of information with Italy; or (b) an international body or entity set up in accordance with international agreements which have entered into force in Italy; or (c) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (d) an institutional investor which is resident in a country which allows for a satisfactory exchange of information with Italy, even if it does not possess the status of taxpayer in its own country of residence.

The *imposta sostitutiva* will be applicable at the rate of 20 per cent. (or at the reduced rate provided for by the applicable double tax treaty, if any) to interest, premium and other income paid to Noteholders who are resident, for tax purposes, in countries which do not allow for a satisfactory exchange of information with Italy and/or not comply with the requirements set forth in Decree 239 and the relevant application rules (see below) in order to benefit from the exemption fro the *imposta sostitutiva*.

Please note that according to the Law No. 244 of 24 December, 2007 (**Budget Law 2008**) a Decree still to be issued will introduce a new "white list" replacing the current "black list" system, so as to identify those countries which (i) allow for a satisfactory exchange of information; and (ii) do not have a more favourable tax regime.

In order to ensure gross payment, non-Italian resident Noteholders must be the beneficial owners of the payments of interest, premium or other income and (a) deposit, directly or indirectly, the Notes with a resident bank or SIM or a permanent establishment in Italy of a non-Italian resident bank or SIM or with a non-Italian resident entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economy and Finance and (b) file with the relevant depository, prior to or concurrently with the deposit of the Notes, a statement of the relevant Noteholder, which remains valid until withdrawn or revoked, in which the Noteholder declares to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. Such statement, which is not requested for international bodies or entities set up in accordance with international agreements which have entered into force in Italy nor in case of foreign Central Banks or entities which manage, *inter alia*, the official reserves of a foreign State, must comply with the requirements set forth by Ministerial Decree of 12 December, 2001, as subsequently amended.

(C) Atypical securities

Interest payments relating to Notes that are not deemed to fall within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) may be subject to a withholding tax, levied at the rate of 20 per cent. For this purpose, debentures similar to bonds are securities that incorporate an unconditional obligation to pay, at maturity, an amount not lower than their nominal value.

Where the Noteholder is (a) an Italian individual engaged in an entrepreneurial activity to which the Notes are connected; (b) an Italian company or a similar Italian commercial entity; (c) a permanent establishment in Italy of a foreign entity; (d) an Italian commercial partnership; or (e) an Italian commercial private or public institution, such withholding tax is a provisional withholding tax. In all other cases the withholding tax is a final withholding tax. For non-Italian resident Noteholders, the 20 per cent. withholding tax rate may be reduced by any applicable tax treaty.

(D) Capital gains tax

Any gain obtained from the sale or redemption of the Notes would be treated as part of the taxable income (and, in certain circumstances, depending on the "status" of the Noteholder, also as part of the net value of the production for IRAP purposes) if realised by an Italian company or a similar commercial entity (including the Italian permanent establishment of foreign entities to which the Notes are connected) or Italian resident individuals engaged in an entrepreneurial activity to which the Notes are connected.

Where an Italian resident Noteholder is an (i) an individual holding the Notes not in connection with an entrepreneurial activity, (ii) a non commercial partnership, (iii) a non commercial private or public institution, any capital gain realised by such Noteholder from the sale or redemption of the Notes would be subject to an *imposta sostitutiva*, levied at the current rate of 20 per cent. Noteholders may set off losses with gains.

In respect of the application of *imposta sostitutiva,* taxpayers may opt for one of the three regimes described below.

Under the tax declaration regime (*regime della dichiarazione*), which is the default regime for Italian resident individuals not engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss, realised by the Italian resident individual Noteholder holding the Notes not in connection with an entrepreneurial activity pursuant to all sales or redemptions of the Notes carried out during any given tax year. Italian resident individuals holding the Notes not in connection with an entrepreneurial activity must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax return and pay *imposta sostitutiva* on such gains together with any balance income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realised in any of the four succeeding tax years.

As an alternative to the tax declaration regime, Italian resident individual Noteholders holding the Notes not in connection with an entrepreneurial activity may elect to pay the *imposta sostitutiva* separately on capital gains realised on each sale or redemption of the Notes (the *risparmio amministrato* regime). Such separate taxation of capital gains is allowed subject to (a) the Notes being deposited with Italian banks, SIMs or certain authorised financial intermediaries and (b) an express election for the *risparmio amministrato* regime being timely made in writing by the relevant Noteholder. The depository is responsible for accounting for *imposta sostitutiva* in respect of capital

gains realised on each sale or redemption of the Notes (as well as in respect of capital gains realised upon the revocation of its mandate), net of any incurred capital loss, and is required to pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the Noteholder or using funds provided by the Noteholder for this purpose. Under the *risparmio amministrato* regime, where a sale or redemption of the Notes results in a capital loss, such loss may be deducted from capital gains subsequently realised, within the same securities management, in the same tax year or in the following tax years up to the fourth. Under the *risparmio amministrato* regime, the Noteholder is not required to declare the capital gains in the annual tax return.

Any capital gains realised by Italian resident individuals holding the Notes not in connection with an entrepreneurial activity who have entrusted the management of their financial assets, including the Notes, to an authorised intermediary and have opted for the so-called "*risparmio gestito*" regime will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a 20 per cent. substitute tax, to be paid by the managing authorised intermediary. Under the *risparmio gestito* regime, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *risparmio gestito* regime, the Noteholder is not required to declare the capital gains realised in the annual tax return.

Any capital gains realised by a Noteholder who is an Italian real estate fund to which the provisions of Decree 351 as subsequently amended apply will be subject neither to *imposta sostitutiva* nor to any other income tax at the level of the real estate investment fund.

Any capital gains realised by Noteholders who are Funds will be included in the management results of the Fund. Such result will not be subject to taxation at the level of the Fund, but subsequent distributions in favour of unitholders of shareholders may be subject to the Collective Investment Fund Substitute Tax.

Any capital gains realised by a Noteholder who is an Italian Pension Fund will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 11 per cent. substitute tax.

Capital gains realised by non-Italian-resident Noteholders, not having a permanent establishment in Italy to which the Notes are connected, from the sale or redemption of Notes issued by an Italian resident issuer, which are traded on regulated markets (and, in certain cases, subject to filing of required documentation) are neither subject to the *imposta sostitutiva* nor to any other Italian income tax.

Capital gains realised by non-Italian resident Noteholders, not having a permanent establishment in Italy to which the Notes are connected, from the sale or redemption of Notes not traded on regulated markets are not subject to the *imposta sostitutiva*, provided that the effective beneficiary: (a) is resident in a country which allows for a satisfactory exchange of information with Italy; or (b) is an international entity or body set up in accordance with international agreements which have entered into force in Italy; or (c) is a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (d) is an institutional investor which is resident in a country which allows for a satisfactory exchange of information with Italy, even if it does not possess the status of taxpayer in its own country of residence. The list of countries which allow for an exchange of information with Italy should be amended as pointed out above.

If none of the conditions above is met, capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes not traded on regulated markets are subject to the *imposta sostitutiva* at the current rate of 20 per cent. On the contrary, should the Notes be traded on regulated markets, capital gains realised by non-Italian resident Noteholders would not be subject to Italian taxation.

In any event, non-Italian resident individuals or entities without a permanent establishment in Italy to which the Notes are connected that may benefit from a double taxation treaty with Italy providing that capital gains realised upon the sale or redemption of Notes are to be taxed only in the country of tax residence of the recipient, will not be subject to *imposta sostitutiva* in Italy on any capital gains realised upon the sale or redemption of Notes.

Inheritance and gift taxes

Pursuant to Law Decree No. 262 of 3 October, 2006, converted into Law No. 286 of 24 November, 2006, as subsequently amended, the transfers of any valuable asset (including shares, notes or other securities) as a result of death or donation are taxed as follows:

(i) transfers in favour of spouses and direct descendants or direct ancestors are subject to an inheritance and gift tax applied at a rate of 4 per cent. on the value of the inheritance or the gift exceeding , for each beneficiary, €1,000,000;

(ii) transfers in favour of relatives to the fourth degree or relatives-in-law to the third degree are subject to an inheritance and gift tax at a rate of 6 per cent. on the entire value of the inheritance or the gift. Transfers in favour of brothers/sisters are subject to the 6 per cent. inheritance and gift tax on the value of the inheritance or the gift exceeding, for each beneficiary, €100,000; and

(iii) any other transfer is, in principle, subject to an inheritance and gift tax applied at a rate of 8 per cent. on the entire value of the inheritance or the gift.

If the transfer is made in favour of persons with severe disabilities, the tax is levied at the rate mentioned above in (i), (ii) and (iii) on the value exceeding, for each beneficiary, €1,500,000.

Transfer tax

Following the repeal of the Italian transfer tax, contracts relating to the transfer of securities are subject to the following registration tax: (i) public deeds and notarised deeds are subject to fixed registration tax at a rate of €200; (ii) private deeds are subject to registration tax only in the case of voluntary registration.

Stamp duty

Pursuant to Article 19(1) of Decree No. 201 of 6 December, 2011 (**Decree 201**), a proportional stamp duty applies on an annual basis to the periodic reporting communications sent by financial intermediaries to their clients for the Notes deposited in Italy. The stamp duty applies at a rate of 0.2 per cent. and, as of 2014, it cannot exceed €14,000, for taxpayers different from individuals; this stamp duty is determined on the basis of the market value or - if no market value figure is available - the nominal value or redemption amount of the Notes held.

The communication is deemed to be sent to the customers at least once a year, even for instruments for which it is not mandatory. Based on the wording of the law and the implementing decree issued by the Italian Ministry of Economy on 24 May 2012, the stamp duty applies to any investor who is a client

(as defined in the regulations issued by the Bank of Italy on 9 February 2011) of an entity that exercises in any form a banking, financial or insurance activity within the Italian territory.

Wealth Tax on securities deposited abroad

Pursuant to Article 19(18) of Decree 201, Italian resident individuals holding the Notes outside the Italian territory are required to pay an additional tax at a rate of 0.2 per cent.

This tax is calculated on the market value of the Notes at the end of the relevant year or - if no market value figure is available - the nominal value or the redemption value of such financial assets held outside the Italian territory. Taxpayers are entitled to an Italian tax credit equivalent to the amount of wealth taxes paid in the State where the financial assets are held (up to an amount equal to the Italian wealth tax due).

Italian Financial Transaction Tax

Italian shares and other participating instruments, as well as depository receipts representing those shares and participating instruments irrespective of the relevant issuer (cumulatively referred to as **In-Scope Shares**), received by a Noteholder upon physical settlement of the Notes may be subject to a 0.2% (reduced to 0.1% for shares traded in a regulated market or an MTF) Italian Finance Transaction Tax (**IFTT**) calculated on the higher of the exercise value of the Notes and the normal value of the In-Scope Shares (which for listed securities is generally equal to the 30 day prior average market price).

Non-principal protected debt securities mainly having as underlying or mainly linked to In-Scope Shares are subject to IFTT at a rate ranging between €0.01875 and €200 per counterparty, depending on the notional value of the relevant transaction calculated pursuant to Article 9 of Ministerial Decree of 21 February 2013. IFTT applies upon subscription, negotiation or modification of the relevant debt securities.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **Savings Directive**), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Savings Directive.

The European Commission has proposed certain amendments to the Savings Directive which, if implemented, may amend or broaden the scope of the requirements described above.

Implementation in Italy of the Savings Directive

Italy has implemented the Savings Directive through Legislative Decree No. 84 of 18 April, 2005 (**Decree 84**). Under Decree 84, subject to a number of important conditions being met, in the case of interest paid to individuals which qualify as beneficial owners of the interest payment and are resident

for tax purposes in another Member State, Italian qualified paying agents shall report to the Italian Tax Authorities details of the relevant payments and personal information on the individual beneficial owner and shall not apply the withholding tax. Such information is transmitted by the Italian Tax Authorities to the competent foreign tax authorities of the State of residence of the beneficial owner. Prospective purchasers of the Notes are however advised to consult their own tax advisers in order to better evaluate Italian tax consequences connected to the application of the Savings Directive."

VII. SIGNIFICANT OR MATERIAL CHANGE

The Section entitled "General Information - Significant or Material Change" on page 185 of the Base Prospectus shall be deemed to be deleted and substitute by the following:

"There has been no significant change in the financial or trading position of the Group since 30 September, 2013 and there has been no material adverse change in the financial position or prospects of the Group since 31 December, 2012."

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Copies of this Supplement and the documents incorporated by reference in this Supplement can be obtained free of charge from the registered office of the Issuer, from the specified office of the Paying Agent for the time being in Luxembourg, from the website of the Issuer (*www.terna.it*) and from the website of the Luxembourg Stock Exchange *www.bourse.lu*.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Base Prospectus by this Supplement and (b) any other statement in or incorporated by reference into the Base Prospectus, the statements in (a) above will prevail.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus has arisen or been noted, as the case may be, since the publication of the Base Prospectus.

In accordance with article 13 paragraph 2 of the Prospectus Act 2005, investors who have already agreed to purchase or subscribe for securities to which the Base Prospectus relates before this Supplement is published have the right, exercisable before the end of the period of two working days beginning with the working day after the publication of this Supplement, to withdraw their acceptances, such period expiring at the close of business on 4, February 2014.

The date of this Supplement to the Base Prospectus is 31, January 2014.