**BASE PROSPECTUS**

# TERNA — Rete Elettrica Nazionale S.p.A.

*(incorporated with limited liability in the Republic of Italy)*

## €4,000,000,000
## Euro Medium Term Note Programme

Under this €4,000,000,000 Euro Medium Term Note Programme (the **Programme**), TERNA — Rete Elettrica Nazionale S.p.A. (the **Issuer** or **Terna**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €4,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Description of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer**, and together, the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Risk Factors*". This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a Member State of the European Economic Area).

Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July, 2005 on prospectuses for securities to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (the **CRA Regulation**) will be disclosed in the Final Terms. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning Rating Agency.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a final terms document (the **Final Terms**) which, with respect to Notes to be listed on the Official List of the Luxembourg Stock Exchange, will be filed with the CSSF, on or before the date of listing of such Tranche.

Copies of this Base Prospectus can be obtained free of charge from the registered office of the Issuer, from the specified office of the Paying Agent (as defined under "*Terms and Conditions of the Notes*") for the time being in Luxembourg and from the website of the Luxembourg Stock Exchange, www.bourse.lu.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Issuer may agree with any Dealer and the Trustee (as defined under "*Terms and Conditions of the Notes*") that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplement to the Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

**JOINT ARRANGERS**

| | |
|---|---|
| **Citi** | **Deutsche Bank** |

**DEALERS**

| | | |
|---|---|---|
| **Banca IMI** | **Barclays Capital** | **BNP PARIBAS** |
| **BofA Merrill Lynch** | **Citi** | **Commerzbank** |
| **Crédit Agricole – CIB** | **Credit Suisse** | **Deutsche Bank** |
| **HSBC** | **J.P. Morgan** | **Mediobanca – Banca di Credito Finanziario S.p.A.** |
| **Morgan Stanley** | **MPS Capital Services S.p.A.** | **Natixis** |
| **Nomura** | **Société Générale Corporate & Investment Banking** | **The Royal Bank of Scotland** |
| **UBS Investment Bank** | | **UniCredit Bank** |

The date of this Base Prospectus is 20 May, 2011.

**The Issuer (the *Responsible Person*) accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.**

**Copies of Final Terms will be available from the registered office of the Issuer and the specified office set out below of each of the Paying Agents (as defined below).**

**This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus.**

**No representation, warranty or undertaking, express or implied, is made by any of the Dealers or any of their respective affiliates or the Trustee and no responsibility or liability is accepted by any of the Dealers or by any of their respective affiliates or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or of any other information provided by the Issuer in connection with the Programme. None of the Dealers or any of their respective affiliates or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. This Base Prospectus contains industry and customer-related data as well as calculations taken from industry reports, market research reports, publicly available information and commercial publications. It is hereby confirmed that (a) to the extent that information reproduced herein derives from a third party, such information has been accurately reproduced and (b) insofar as the Issuer is aware and is able to ascertain from information derived from a third party, no facts have been omitted which would render the information reproduced inaccurate or misleading.**

**Subject as provided in the applicable Final Terms, the only persons authorised to use this Base Prospectus in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers, as the case may be.**

**No person is or has been authorised by the Issuer, any Dealer or the Trustee to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, any of the Dealers or the Trustee.**

**Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, any of the Dealers or the Trustee that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.**

**Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Base Prospectus when deciding whether or not to purchase any Notes.**

**The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the *Securities Act*), and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see "*Subscription and Sale*").**

**This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Dealers and the Trustee do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Dealers or the Trustee which would permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom, France and the Republic of Italy (*Italy*)) and Japan (see "*Subscription and Sale*").**

**This Base Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a *Relevant Member State*) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.**

**All references in this document to *euro* and € refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, all references to *U.S. dollars*, *U.S.$* and *$* refer to United States dollars and all references to *BRL* and *real* are to Brazilian Real.**

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**In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment shall be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.**

## RISK FACTORS

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Note are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

*Before making an investment decision with respect to any Notes, prospective investors should consult their own stockbroker, bank manager, lawyer, accountant or other financial, legal and tax advisers and carefully review the risks entailed by an investment in the Notes and consider such an investment decision in the light of the prospective investor's personal circumstances.*

*Words and expressions defined in the sections headed "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meaning in this section.*

### Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme

***As of 31 March, 2011, CDP held 29.86 per cent. of the Issuer's issued and outstanding shares and is able to exercise substantial influence over the Issuer's shareholders' resolutions.***

As of 31 March, 2011, Cassa Depositi e Prestiti S.p.A. (**CDP**) held 29.86 per cent. of the outstanding shares in the Issuer. CDP, which is controlled by the Ministry of Economy and Finance, is in a position to appoint the majority of the Issuer's Board of Directors, to influence dividend policies and generally to determine the outcome of any matter put to a vote of the Issuer's shareholders. The interests of CDP in any decisions may differ from those of other shareholders.

***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.***

The Terna Group's business is subject to EU and Italian laws and regulations. For the year ending 31 December, 2010, 93 per cent. of the Issuer's consolidated revenues were represented by grid transmission fees and other energy revenues in Italy. Payments due to the Issuer, as well as those due to the other owners of the Italian grid for the conduct of activities that remained with the latter after the transfer to the Issuer of the management of the Italian grid, are determined by the Italian Energy Authority and are collected directly by the Issuer invoicing the Italian electricity distributors. From such proceeds, the Issuer must then deduct and pay the portions attributable to the other owners of the Italian grid and to Terna itself. Accordingly, any failure or delay in collecting tariffs from the Italian electricity distributors may have an adverse effect on the Issuer'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 Issuer's annual fees related to the recalculation period may be reduced as a result and/or such recalculation may have an adverse effect on the Issuer's revenues, financial position or results of operations. In addition, the Issuer is 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 the Issuer to make investments or incur capital expenditures, may increase the Issuer's costs

or otherwise adversely affect the Issuer's financial condition and results of operations. See "*Regulatory Matters — Tariff System*".

The Italian government is preparing legislation implementing EU Directive 2009/72/EC concerning common rules on the internal market in electricity which envisages the separation of production and import, transmission, distribution and sales of electricity. The Issuer cannot predict the impact, if any, of such legislation which may affect the Issuer's financial condition and results of operations.

***The Issuer may be affected by appeals against provisions adopted by it following resolutions by the Italian Energy Authority.***

The Issuer, as concessionaire of transmission and dispatching activities, may adopt measures or undertake actions in order to comply with resolutions of the Italian Energy Authority. Third parties affected by such measures and actions may seek to appeal against such measures and actions in administrative proceedings. In the event that such proceedings lead to the annulment of measures and actions taken by the Issuer, the Issuer is unable to predict the impact of such judgments on its business, financial situation or performance, even if the relevant economic costs may be recognised, under certain conditions, by the Italian Energy Authority.

***The failure of the Terna Grid or any impairment to the quality of the Issuer's services may adversely affect the Issuer's revenues and expose the Issuer to uncapped liabilities.***

There are risks associated with the Issuer's activities and with the operation of complex electricity transmission networks and systems, such as operational hazards and unforeseen interruptions caused by events beyond the Issuer's control. These include accidents, the breakdown or failure of equipment or processes, the performance below expected levels of capacity and efficiency of the Issuer's electricity transmission systems and assets, and catastrophic events such as explosions, fires, earthquakes, landslides, sabotage or other similar events. Liabilities and interruptions to the operation of the Terna Grid and/or the Italian grid that are caused by any such events could reduce the Issuer's revenues and increase the Issuer's costs.

In addition, the Issuer adheres to incentive mechanisms related to transmission service quality and availability, demand forecast accuracy, wind production accuracy and reduction of energy volumes for the dispatching activities. Such incentive mechanisms, which are regulated by specific resolutions of the Italian Energy Authority, can result - depending on the outcome of each incentivised activity - either in extra revenue or in capped penalties for the Issuer.

On 28 September, 2003, an interruption of the electricity supplied via the Italian grid resulted in a blackout throughout almost all of Italy. In resolution 151/07 dated 25 June, 2007, the Italian Energy Authority declared its inquiry closed without any operating prescription having been addressed to Terna. However, the Issuer cannot predict the outcome of other claims or the actions that it may be required to take as a result of related findings. Also, the Issuer cannot predict whether the outcome of such other claims will have a material adverse effect on its business, financial condition or results of operations.

In resolution VIS 171/09 dated 22 December, 2009, the Italian Energy Authority closed its investigation started with the Resolution 177/07 concerning anomalies encountered in the calculation of the volumes of electricity taken from the national transmission grid and not properly charged to dispatching users. The Authority subsequently launched a formal investigation against the Issuer to determine whether there have been any violations of the Italian Energy Authority's provisions relating to the supply of transmission, dispatching and metering services. If any violation is determined, the Italian Energy Authority may impose administrative fines on the Issuer and the Issuer cannot predict whether this will have a material adverse effect on its financial position and on the results of its operations.

***The Terna Grid's proportion of the Italian grid may deviate from the Italian Energy Authority's latest estimate and the Issuer cannot predict the impact of any update of that estimate on future tariff rates.***

Most of the annual fees that distributors pay for the operation, maintenance and development of the National Transmission Grid are apportioned among the Issuer and the remaining owners of the National Transmission Grid according to: (i) the actual number and typology of grid assets of each National Transmission Grid owner; and specific weights ("*parametri fi*") for each asset type. The weights referred to above have been established in Resolution 304/01 and have remained unchanged since then. The Italian Energy Authority may update the relative weights. The Issuer cannot predict the positive or negative impact of any such updated data. See "*Regulatory Matters — Tariff System — Procedures used for calculating tariff rates and Terna's remuneration*".

***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.***

The Issuer's revenues attributable to its regulated activity depend largely on the transmission tariff rates (**CTR**) which are updated every year by the Italian Energy Authority by dividing the Issuer's allowed transmission costs by the forecast of the amount of electricity subject to the tariff payment. If the actual energy subject to the tariff payment is higher or lower than the forecast, the Issuer's revenues and results of operations will be higher or lower (volume effect). The volume of electricity subject to the tariff payment (a proxy of the energy that is transmitted on the Italian grid) depends on factors outside the Issuer's control.

In resolution 188/08 dated 19 December, 2008, the Italian Energy Authority introduced a mechanism which mitigates the volume effect for the period 2009-2011: although the Issuer has adhered to this mechanism, there is no guarantee that the same mechanism will be available after 2011. See "*Regulatory Matters — Tariff System — Procedures used for calculating tariff rates and Terna's remuneration*".

***The Issuer may incur substantial costs to comply with environmental laws regulating electromagnetic fields.***

The Issuer's operations are highly regulated by EU and Italian environmental laws governing electromagnetic fields.

The Issuer may incur substantial costs in complying with environmental regulations requiring the Issuer to implement preventative or remedial measures for which the Issuer may not be adequately indemnified.

Furthermore, in the future, the EU or the Italian Government may adopt stricter laws that would require the Issuer to upgrade, relocate or make other changes to some of the Issuer's existing electricity transmission networks and systems and incur significant expenditures in order to do so. The Issuer cannot assure that such costs will not arise in the future. These costs may adversely impact the Issuer's financial performance and results of operations. For example, in Italy, the DPCM of 8 July, 2003 established new electromagnetic emissions limits for electricity transmission lines. In respect of the Terna Grid, the costs of compliance will be borne by the Issuer and the Issuer may not be adequately indemnified for such costs. At this stage the Issuer is unable to estimate the time and expense needed in order to adapt the Issuer's electricity transmission networks and systems to comply with these new emissions limits.

Also, local opposition to these required actions could further increase the Issuer's costs due to delays in the completion of the necessary upgrades, relocations or other changes described above.

Prospective Noteholders should read "*Description of the Issuer — Environmental matters*" and "*Description of the Issuer — Litigation and arbitration proceedings*" for a further discussion of environmental matters.

***Acquisitions could have an adverse effect on Terna's business.***

Terna may expand its business through acquisitions, which may involve significant risks that could have a material adverse effect on its business, financial condition and operations. Such risks include, but are not limited to, difficulties in the assimilation or integration of the operations, services and corporate culture of the acquired companies, failure to achieve expected synergies, adverse operating issues that Terna fails to

discover prior to the acquisition, insufficient indemnification from the selling parties for legal liabilities incurred by the acquired companies prior to the acquisitions and the incurrence of significant indebtedness.

***Indemnification obligations arising from the sale of the Brazilian Subsidiaries could have an adverse effect on Terna's business.***

Until 3 November, 2009, the Issuer operated in the Brazilian electricity sector through its direct subsidiary Terna Participações S.A. (**Terna Participações**) and through its relevant local indirect subsidiaries: TSN Transmissora Sudeste Nordeste S.A. (TSN), Novatrans Energia S.A. (Novatrans), Empresa de Transmissão de Energia do Oeste S.A (ETEO), Empresa de Transmissão do Alto Uruguai S.A (ETAU) and Brasnorte Transmissora de Energia S.A (Brasnorte) (together the **Brazilian Subsidiaries**). On 3 November, 2009, the transfer of the shares of Terna Participações (the Brazilian holding company listed at the Sao Paolo Stock Exchange) from the Issuer to TAESA S.A. (TAESA) (the **Buyer**), a subsidiary of Cemig GT and of FIP (Fundo de Investimentos em Participaçoes) Coliseu – an investment fund formed by Brazilian investors - was finalised. In relation to this sale, the Issuer may be required to indemnify and hold harmless the Buyer from damages suffered by the Buyer itself, as a result of any inaccuracy or breach of any representation or warranty given by the Issuer, any breach of any covenant of agreement or in relation to any claim, contingency or liability of the Issuer resulting from an inaccuracy or dispute regarding withholding income tax calculated by the Issuer or other taxes due by the Issuer's local subsidiaries. Such claims could have a material adverse effect on Terna's financial condition. The Issuer has established a provision for contingent liabilities arising from such obligations which, as of 31 December, 2010, amounted to €48.0 million.

***The Issuer is investing in the photovoltaic generation business. There is a risk that such investment may have an adverse effect on the Issuer's future results.***

The Issuer has invested in photovoltaic generation through a special purpose vehicle. This initiative may be considered a low-risk business: feed-in tariffs are regulated and apply for the first 20 years of the relevant power plant's commercial operation on the basis of Italy's regulatory framework for solar generation; construction and operations are simple and the relevant contribution of the special purpose vehicles to the Group's Ebitda is not expected to exceed five per cent. during the next two years. However, the envisaged reduction of the feed-in tariff rates, construction, operation and maintenance, physical damage, theft and meteorological risks could potentially affect returns on the Issuer's photovoltaic investment and consequently Terna's future results. In addition, Decree 28/2011, adopted in March 2011, envisages a reform of renewable energy sources incentives. The new incentives which will be assigned to solar power plants running after 31 May, 2011 have been recently established by decree. A further decree has to be adopted before 29 September, 2011 to provide details of new incentives and new assigning procedures applicable to the renewable plants running after 31 December, 2012. Consequently, the legal framework of renewable incentives is currently uncertain.

***Indemnification obligations arising from the sale of Rete Rinnovabile S.r.l. to RTR Acquisitions S.r.l.***

Until 18 October, 2010, SunTergrid S.p.A., a subsidiary of the Issuer, was the owner of the entire share capital of Rete Rinnovabile S.r.l which operated in the renewable energy sector and was entrusted with managing, developing and maintaining photovoltaic plants and collecting the incentive tariff as provided by Italian law.

On 18 October, 2010, a preliminary quota sale and purchase agreement for the transfer of the entire quota of Rete Rinnovabile S.r.l. by SunTergrid S.p.A. to RTR Aquisitions S.r.l., (the **Purchaser**) (an affiliate of Terra Firma Investments (GP) 3 Limited which is wholly controlled by Terra Firma Capital Partners III, L.P.) was signed and then finalised with a subsequent closing on 31 March, 2011, there having been satisfied, inter alia, the condition precedent that Rete Rinnovabile S.r.l. was to be financed by a pool of banks (the **Lending Banks**) by way of a facilities agreement.

The Issuer may be required to indemnify and hold harmless the Purchaser and the Lending Banks and to pay any sums that may be payable as a consequence of any default made by SunTergrid S.p.A. in the

performance of its obligations arising from both the preliminary quota sale and purchase agreement and the facilities agreement.

Such obligations could have an adverse effect on Terna's financial condition.

***The Issuer is party to a number of active litigation matters which, if decided unfavourably, could have an adverse effect on the Issuer's financial condition and results of operations.***

The Issuer is involved, both as plaintiff and defendant, in a substantial number of civil and administrative proceedings, including contractual, human resources, environmental, regulatory and health matters that arise in the ordinary course of the Issuer's business, and five criminal proceedings. The Issuer has established a provision for contingent liabilities arising from such proceedings which, as of 31 December, 2010, amounted to €15.3 million. This provision does not cover claims brought against the Issuer for which the damages have not been quantified or in relation to which the plaintiffs' prospects are considered by the Issuer to be remote.

Due to their nature, the Issuer is not able to predict the ultimate outcomes of the proceedings currently pending against the Issuer, some of which may be unfavourable to the Issuer and may require the Issuer to pay damages to the plaintiff, incur costs for the modification of parts of the Terna Grid or temporarily remove parts of the Terna Grid from service (including, in some cases, so that the Issuer can comply with environmental laws regarding electromagnetic radiation). Accordingly, the Issuer's business, financial condition, results of operations or cash flows could be adversely affected by the outcome of one or more of such proceedings. Although the Issuer has taken out insurance policies specifically to cover these risks, such insurance coverage may not be sufficient to cover all of the Issuer's losses, increased costs or liabilities that may arise, or which the Issuer may incur, as a result of these proceedings.

***The Issuer may incur substantial costs due to labour litigation and in compliance with labour laws, should the EU and/or the Italian government increase taxes and contributions to be applied on employment.***

The Issuer's operations are strictly regulated by EU and Italian labour laws. More onerous regulations could affect the Issuer's financial performance, and public bodies tasked with the enforcement of labour laws and regulations, such as INPS and INAIL in Italy, may impose fines in case of violations or misinterpretations of the applicable laws and regulations, for which the Issuer has not established any specific provision.

***International political and economic developments or terrorist incidents may adversely affect the results of the Issuer.***

Recent years have been marked by a series of negative geopolitical, economic and financial events. The potential effects of these events on economic growth in Europe may result in lower consumption of electricity by industrial users in Italy, thus adversely affecting the Issuer's revenues and prospects for growth.

Moreover, the Issuer's electricity systems and assets are vulnerable to acts of terrorism. Terrorist incidents could have a material adverse effect on the Issuer's financial condition and results of operations, and the Issuer's insurance coverage may not cover or be sufficient for any losses incurred.

In addition, the events mentioned above may increase the volatility of equity valuations and share trading prices, including the market price of any Notes issued pursuant to the Programme.

***Risks connected to the effects of the international financial crisis on the Issuer's business, results of operations and financial condition.***

In the second half of 2007, a severe liquidity crisis arose in the global credit markets. These conditions have resulted in decreased liquidity and historic volatility in global financial markets, and continue to affect the functioning of financial markets and impact the global economy. The Italian government and central bank and the European Union have implemented, and continue to implement a number of measures to address the financial crisis. European growth is proceeding at a pace which is better than expected, although the situation in the banking system is still not completely secure in some of the 'peripheral' euro zone countries such as Greece, Ireland, Spain and Portugal. At the moment it is still difficult to predict the effect of these measures

on the economy and on the financial system, how long the crisis will exist and whether or to what extent the Issuer's business, results of operations and financial condition may be adversely affected.

As a result, the Issuer's ability to access the capital and financial markets and to refinance debt to meet financial requirements of the Issuer and its group may be adversely impacted and costs of financing may significantly increase. This could materially and adversely affect the Issuer's business, results of operations and financial condition.

**Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme**

***The Notes may not be a suitable investment for all investors.***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement to the Base Prospectus;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, what the resulting effects on the value of the Notes will be and what impact this investment will have on the potential investor's overall investment portfolio.

***Risks related to the structure of a particular issue of Notes***

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

*Notes subject to optional redemption by the Issuer*

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally will not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed, and may only be able to do

so at a significantly lower rate. Potential investors should consider the risk of reinvestment in light of other investments available at that time.

*Index Linked Notes and Dual Currency Notes*

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or to other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) they may lose all or a substantial portion of their principal;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The Issuer has no control over a number of matters, including economic, financial and political events, that are important in determining the existence, magnitude and longevity of such risks and their results. In recent years, values of certain indices and formulas have been volatile, and volatility in those and other indices and formulas may be expected in the future.

*Partly-paid Notes*

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

*Variable rate Notes with a multiplier or other leverage factor*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those of securities that do not include those features.

*Inverse Floating Rate Notes*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than the market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further lowers the market value of these Notes.

*Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the

secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate may at any time be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

*Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

***Risks related to Notes generally***

Set out below is a brief description of certain risks relating to the Notes generally:

*Modification and waivers*

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend or vote at the relevant meeting and Noteholders who voted against the majority.

As provided under Article 2415, first paragraph, number 2, of the Italian Civil Code, the Noteholders may, by an Extraordinary Resolution passed by a specific majority, modify the Conditions of the Notes (these modifications may relate to, without limitation, the maturity of the Notes or the dates on which interest is payable on them; the principal amount of, or interest on, the Notes; or the currency of payment of the Notes). These and other changes to the Conditions of the Notes may adversely impact Noteholders' rights and may adversely impact the market value of the Notes.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such, in the circumstances described in Condition 10 of the Conditions of the Notes, including in respect of any amendment to the Notes.

*EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, 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).

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

Italy has implemented the EU Savings Directive through Legislative Decree No. 84 of 18 April, 2005 (**Decree No. 84**). Under Decree No. 84, subject to a number of important conditions being met, in the case of interest paid to individuals who 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.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

*Change of law*

The conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus.

*Trading in the clearing systems*

In relation to any issue of Notes which have a minimum denomination and are tradeable in the clearing systems in amounts above such minimum denomination which are smaller than it, should definitive Notes be required to be issued, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Notes unless and until such time as his holding becomes an integral multiple of the minimum denomination.

***Risks related to the market generally***

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

*The secondary market generally*

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

*Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

*Interest rate risks*

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

*Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings will be disclosed in the Final Terms.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## DESCRIPTION OF THE PROGRAMME

The following description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Notes only and if appropriate, a supplement to the Base Prospectus will be published.

This description constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive.

Words and expressions defined in "*Form of the Notes*" and "*Terms and Conditions of the Notes*" shall have the same meanings in this general description.

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| Issuer: | TERNA — Rete Elettrica Nazionale S.p.A. |
| Description: | Euro Medium Term Note Programme |
| Joint Arrangers: | Citigroup Global Markets Limited<br>Deutsche Bank AG, London Branch |
| Dealers: | Banca IMI S.p.A.<br>Barclays Bank PLC<br>BNP Paribas<br>Citigroup Global Markets Limited<br>Commerzbank Aktiengesellschaft<br>Crédit Agricole Corporate & Investment Bank<br>Credit Suisse Securities (Europe) Limited<br>Deutsche Bank AG, London Branch<br>HSBC Bank plc<br>J.P. Morgan Securities Ltd.<br>Mediobanca - Banca di Credito Finanziario S.p.A.<br>Merrill Lynch International<br>Morgan Stanley & Co. International plc<br>MPS Capital Services S.p.A.<br>Natixis<br>Nomura International plc<br>Société Générale<br>The Royal Bank of Scotland plc<br>UBS Limited<br>UniCredit Bank AG<br><br>and any other Dealers appointed in accordance with the Programme Agreement. |
| Certain Restrictions: | Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*"), including the following restrictions applicable at the date of this Base Prospectus. |

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| | **Notes having a maturity of less than one year** |
| | Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent (see "*Subscription and Sale*"). |
| Trustee: | Deutsche Trustee Company Limited |
| Issuing and Principal Paying Agent: | Deutsche Bank AG, London Branch |
| Paying Agent: | Deutsche Bank Luxembourg S.A. |
| Programme Size: | Up to €4,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement. |
| Distribution: | Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. |
| Currencies: | Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer. |
| Redenomination: | The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4. |
| Maturities: | The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency. |
| Issue Price: | Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par. |
| Form of Notes: | The Notes will be issued in bearer form as described in "*Form of the Notes*". |
| Fixed Rate Notes: | Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer. |

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| Floating Rate Notes: | Floating Rate Notes will bear interest at a rate determined:<br>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or<br>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or<br>(c) on such other basis as may be agreed between the Issuer and the relevant Dealer.<br>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes. |
| Index Linked Notes: | Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree. |
| Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes: | Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.<br>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer. |
| Dual Currency Notes: | Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree. |
| Zero Coupon Notes: | Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest. |
| Redemption: | The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an |

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| | Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.<br><br>The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.<br><br>Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, (see "*Certain Restrictions — Notes having a maturity of less than one year*" above). |
| Denomination of Notes: | The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer, save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, (see "*Certain Restrictions — Notes having a maturity of less than one year*" above), and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency). |
| Taxation: | All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction, subject to certain exceptions as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted. |
| Negative Pledge: | The terms of the Notes will contain a negative pledge provision as further described in Condition 3. |
| Cross Default: | The terms of the Notes will contain a cross default provision as further described in Condition 10. |
| Status of the Notes: | The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for such obligations as may be preferred by mandatory provisions of law) equally with all other unsecured |

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| | and unsubordinated obligations of the Issuer, from time to time outstanding, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights. |
| Rating: | The rating of the Notes to be issued under the Programme may be specified in the applicable Final Terms.<br><br>Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (the **CRA Regulation**) will be disclosed in the Final Terms. |
| Listing, Approval and Admission to Trading: | Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.<br><br>Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.<br><br>The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets. |
| Governing Law: | The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law. |
| Selling Restrictions: | There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom, France and Italy) and Japan, and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see "*Subscription and Sale*"). |

## DOCUMENTS INCORPORATED BY REFERENCE

The auditors' report and the audited consolidated annual financial statements of the Issuer as at and for the financial years ended 31 December, 2008, 31 December, 2009 and 31 December, 2010, the unaudited interim consolidated financial statements of the Issuer as at and for the three months ended 31 March, 2011 and the auditors' review report and unaudited interim consolidated financial statements of the Issuer as at and for the three months ended 31 March, 2010, all of which have previously been published and have been filed with the CSSF, shall be incorporated in, and form part of, this Base Prospectus.

Following the publication of this Base Prospectus a supplement to the Base Prospectus may be prepared by the Issuer and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement to the Base Prospectus (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.

Copies of documents incorporated by reference in this Base Prospectus 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, and from the website of the Luxembourg Stock Exchange, www.bourse.lu.

The following documents shall be incorporated in, and form part of, this Base Prospectus:

| Document | Information incorporated | Page number |
|---|---|---|
| Issuer's Audited Consolidated Financial Statements as at and for the Financial Year Ended 31 December, 2010 | Directors' Report | 12 |
| | Consolidated income statement | 119 |
| | Consolidated statement of comprehensive income | 120 |
| | Consolidated statement of financial position | 121 |
| | Statement of changes in consolidated equity | 123 |
| | Consolidated statement of cash flows | 125 |
| | Notes to the consolidated financial statements | 126-211 |
| | Corporate Governance | 310-373 |
| | Auditors' report | 214 |
| Issuer's Audited Consolidated Financial Statements as at and for the Financial Year Ended 31 December, 2009 | Directors' Report | 11 |
| | Consolidated income statement | 188 |
| | Consolidated statement of comprehensive income | 189 |
| | Consolidated statement of financial position | 190 |
| | Statement of changes in consolidated equity | 194 |
| | Consolidated statement of cash flows | 196 |
| | Notes to the financial statements | 197-278 |
| | Corporate Governance | 285-338 |
| | Auditors' report | 283-284 |

| Document | Information incorporated | Page number |
|---|---|---|
| Issuer's Audited Consolidated Financial Statements as at and for the Financial Year Ended 31 December, 2008 | Directors' Report | 43 |
| | Consolidated income statement | 118 |
| | Consolidated balance sheet | 120 |
| | Statement of changes in consolidated equity | 122 |
| | Consolidated cash flow statement | 124 |
| | Notes to the financial statements | 127-189 |
| | Auditors' report | 196-197 |
| Issuer's Unaudited Interim Financial Report as at and for the Three Months Ended 31 March, 2011 | Consolidated income statement | 35 |
| | Consolidated statement of comprehensive income | 36 |
| | Consolidated statement of financial position | 37-38 |
| Issuer's Unaudited Interim Consolidated Financial Statements as at and for the Three Months Ended 31 March, 2010 | Interim Financial Report | 4 |
| | Consolidated income statement | 33 |
| | Consolidated statement of comprehensive income | 34 |
| | Consolidated statement of financial position | 35 |
| | Statement of changes in consolidated equity | 37 |
| | Consolidated statement of cash flows | 39 |
| | Notes to the consolidated financial statements | 40-78 |
| | Auditors' review report | 79-80 |

Any information not listed in the cross-reference list above, but included in the documents incorporated by reference, is given for information purposes only.

## FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a temporary global note (a **Temporary Global Note**) or, if so specified in the applicable Final Terms, a permanent global note (a **Permanent Global Note**) which, in either case, will:

(a) if the Global Notes are intended to be issued in new global note (**NGN**) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**); and

(b) if the Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear and Clearstream, Luxembourg.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg, and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent (as defined under "*Terms and Conditions of the Notes*").

On and after the date (the Exchange Date) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either (a) for interests in a Permanent Global Note of the same Series or (b) for definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached either (a) upon not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg, (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg, have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Trustee is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) or the Trustee may give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Agent and the Trustee.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure is continuing.

## APPLICABLE FINAL TERMS

*Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme with a denomination of at least €100,000 (or its equivalent in another currency).*

[*Date*]

**TERNA – Rete Elettrica Nazionale S.p.A.**

**Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]**
**under the**
**€4,000,000,000 Euro Medium Term Note Programme**

**PART A - CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated 20 May, 2011 [and the supplement to the Base Prospectus dated [*date*]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a Member State of the European Economic Area). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus [and the supplement to the Base Prospectus] [is/are] available for viewing at [*website*] and during normal business hours at [*address*] and copies may be obtained from [*address*]. The Base Prospectus and, in the case of Notes admitted to trading on the regulated market of the Luxembourg Stock Exchange, the applicable Final Terms will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated [*original date*] [and the supplement to the Base Prospectus dated [*date*]]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a Member State of the European Economic Area) and must be read in conjunction with the Base Prospectus dated [*current date*] [as so supplemented] which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [*original date*] [and the supplement to the Base Prospectus dated [*date*]] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated [*current date*] and [*original date*] [and the supplement to the Base Prospectus dated [*date*]]. Copies of such Base Prospectuses [and the supplement to the Base Prospectus dated [*date*]] are available for viewing at [*website*] and during normal business hours at [*address*] and copies may be obtained from [*address*]. The Base Prospectus and, in the case of Notes admitted to trading on the regulated market of the Luxembourg Stock Exchange, the applicable Final Terms will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).]

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.*]

[*When adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination [must/may need to] be £100,000 or its equivalent in any other currency.*]

| | | | |
|---|---|---|---|
| 1. | Issuer: | | [ ] |
| 2. | (a) | Series Number: | [ ] |
| | (b) | Tranche Number: | [ ]<br><br>(*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*) |
| 3. | Specified Currency or Currencies: | | [ ] |
| 4. | Aggregate Nominal Amount: | | |
| | (a) | Series: | [ ] |
| | (b) | Tranche: | [ ] |
| 5. | Issue Price: | | [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)] |
| 6. | (a) | Specified Denominations: | [ ]<br><br>*(N.B. Following the entry into force of the 2010 PD Amending Directive on 31 December 2010, Notes to be admitted to trading on a regulated market within the European Economic Area with a maturity date which will fall after the implementation date of the 2010 PD Amending Directive in the relevant European Economic Area Member State (which is due to be no later than 1 July 2012) must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities. Similarly, Notes issued after the implementation of the 2010 PD Amending Directive in a Member State must have a minimum denomination of €100,000 (or equivalent) in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.)*<br><br>(*Note - where multiple denominations above [€100,000] or equivalent are being used the following sample wording should be followed:*<br><br>*"[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000]."*)<br><br>(*N.B. If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the [€100,000] minimum denomination is not required.*) |

| | | | |
|---|---|---|---|
| | (b) | Calculation Amount: | [ ]<br><br>(*If only one Specified Denomination, insert the Specified Denomination.*<br><br>*If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.*) |
| 7. | (a) | Issue Date: | [ ] |
| | (b) | Interest Commencement Date: | [*specify/Issue Date*/Not Applicable]<br><br>(*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.*) |
| 8. | | Maturity Date: | [*Fixed rate – specify date/Floating rate* - Interest Payment Date falling in or nearest to [*specify month*]] |
| 9. | | Interest Basis: | [ ] per cent. Fixed Rate]<br>[[LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate]<br>[Zero Coupon]<br>[Index Linked Interest]<br>[Dual Currency Interest]<br>[*specify other*]<br>(further particulars specified below) |
| 10. | | Redemption/Payment Basis: | [Redemption at par]<br>[Index Linked Redemption]<br>[Dual Currency Redemption]<br>[Partly Paid]<br>[Instalment]<br>[*specify other*]<br><br>(*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*) |
| 11. | | Change of Interest Basis or Redemption/Payment Basis: | [*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis.*] |
| 12. | | Put/Call Options: | [Investor Put]<br>[Issuer Call]<br>[(further particulars specified below)] |
| 13. | (a) | Status of the Notes: | [Senior/[Dated/Perpetual] Subordinated] |
| | (b) | Date Board approval for issuance of Notes obtained: | [ ] |
| 14. | | Method of distribution: | [Syndicated/Non-syndicated] |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

| | | | |
|---|---|---|---|
| 15. | Fixed Rate Note Provisions | | [Applicable/Not Applicable]<br><br>(*If not applicable, delete the remaining subparagraphs of this paragraph.*) |
| | (a) | Rate(s) of Interest: | [ ] per cent. per annum [payable [annually/semi-annually/quarterly/other (*specify*)] in arrear]<br><br>(*If interest is payable other than annually, consider amending Condition 5 (Interest)*) |
| | (b) | Interest Payment Date(s): | [[ ] in each year up to and including the Maturity *Date*]/[*specify other*]<br><br>(*N.B. This will need to be amended in the case of long or short coupons.*) |
| | (c) | Fixed Coupon Amount(s): (*Applicable to Notes in definitive form*) | [ ] per Calculation Amount |
| | (d) | Broken Amount(s): (*Applicable to Notes in definitive form*) | [ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ] |
| | (e) | Day Count Fraction: | [30/360 or Actual/Actual (ICMA) or [*specify other*]] |
| | (f) | [Determination Date(s): | [ ] in each year<br><br>(*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.*<br><br>*N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration.*<br><br>*N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)*)] |
| | (g) | Other terms relating to the method of calculating interest for Fixed Rate Notes: | [None/*Give details*] |
| 16. | Floating Rate Note Provisions | | [Applicable/Not Applicable]<br><br>(*If not applicable, delete the remaining subparagraphs of this paragraph.*) |
| | (a) | Specified Period(s)/Specified Interest Payment Dates: | [ ] |
| | (b) | Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ [*specify other*]] |
| | (c) | Additional Business Centre(s): | [ ] |

| | | |
|---|---|---|
| (d) | Manner in which the Rate of Interest and Interest Amount are to be determined: | [Screen Rate Determination/ISDA Determination/ *specify other*] |
| (e) | Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): | [ ] |
| (f) | Screen Rate Determination: | |
| | (i) Reference Rate: | [ ]<br>(*Either LIBOR, EURIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement*) |
| | (ii) Interest Determination Date(s): | [ ]<br>(*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR, and second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*) |
| (iii) | Relevant Screen Page: | [ ]<br>(*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately.*) |
| (g) | ISDA Determination: | |
| | (i) Floating Rate Option: | [ ] |
| | (ii) Designated Maturity: | [ ] |
| | (iii) Reset Date: | [ ] |
| (h) | Margin(s): | [+/-][ ] per cent. per annum |
| (i) | Minimum Rate of Interest: | [ ] per cent. per annum |
| (j) | Maximum Rate of Interest: | [ ] per cent. per annum |
| (k) | Day Count Fraction: | [Actual/Actual (ISDA)<br>Actual/365 (Fixed)<br>Actual/365 (Sterling)<br>Actual/360<br>30/360<br>30E/360<br>30E/360 (ISDA)<br>*Other*]<br>(*See Condition 5 (Interest) for alternatives*) |
| (l) | Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: | [ ] |

| | | | |
|---|---|---|---|
| 17. | Zero Coupon Note Provisions | | [Applicable/Not Applicable]<br><br>(*If not applicable, delete the remaining subparagraphs of this paragraph.*) |
| | (a) | Accrual Yield: | [ ] per cent. per annum |
| | (b) | Reference Price: | [ ] |
| | (c) | Any other formula/basis for determining amount payable: | [ ] |
| | (d) | Day Count Fraction in relation to Early Redemption Amounts and late payment: | [Conditions 7.5 (*Redemption and Purchase - Early Redemption Amounts*) and 7.10 (*Redemption and Purchase – Late payment on Zero Coupon Notes*) *apply/specify other*]<br><br>(*Consider applicable day count fraction if not U.S. dollar denominated.*) |
| 18. | Index Linked Interest Note Provisions | | [Applicable/Not Applicable]<br><br>(*If not applicable, delete the remaining subparagraphs of this paragraph.*)<br><br>(*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*) |
| | (a) | Index/Formula: | [*Give or annex details.*] |
| | (b) | Calculation Agent | [*Give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address).*] |
| | (c) | Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): | [ ] |
| | (d) | Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: | [*Need to include a description of market disruption or settlement disruption events and adjustment provisions.*] |
| | (e) | Specified Period(s)/Specified Interest Payment Dates: | [ ] |
| | (f) | Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ *specify other*] |
| | (g) | Additional Business Centre(s): | [ ] |
| | (h) | Minimum Rate of Interest: | [ ] per cent. per annum |
| | (i) | Maximum Rate of Interest: | [ ] per cent. per annum |

(j) Day Count Fraction: [ ]

19. Dual Currency Interest Note Provisions [Applicable/Not Applicable]

(*If not applicable, delete the remaining subparagraphs of this paragraph.*)

(*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*)

(a) Rate of Exchange/Method of calculating Rate of Exchange: [*Give or annex details*]

(b) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): [ ]

(c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [*Need to include a description of market disruption or settlement disruption events and adjustment provisions.*]

(d) Person at whose option Specified Currency(ies) is/are payable: [ ]

**PROVISIONS RELATING TO REDEMPTION**

20. Issuer Call: [Applicable/Not Applicable]

(*If not applicable, delete the remaining subparagraphs of this paragraph.*)

(a) Optional Redemption Date(s): [ ]

(b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[ ] per Calculation Amount/*specify other/see* Appendix]

(c) If redeemable in part:

(i) Minimum Redemption Amount: [ ]

(ii) Maximum Redemption Amount: [ ]

(d) Notice period (if other than as set out in the Conditions): [ ]

(*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee.*)

21. Investor Put: [Applicable/Not Applicable]

(*If not applicable, delete the remaining subparagraphs of this paragraph.*)

| | | | |
|---|---|---|---|
| | (a) | Optional Redemption Date(s): | [ ] |
| | (b) | Optional Redemption Amount and method, if any, of calculation of such amount(s): | [[ ] per Calculation Amount/*specify other/see* Appendix] |
| | (c) | Notice period (if other than as set out in the Conditions): | [ ]<br><br>(*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee.*) |
| 22. | | Final Redemption Amount: | [[ ] per Calculation Amount/*specify other/see* Appendix]<br><br>(*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*) |
| 23. | | Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5 (*Redemption and Purchase – Early Redemption Amounts*)): | [[ per Calculation Amount/*specify other/see* Appendix] |

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

| | | | |
|---|---|---|---|
| 24. | | Form of Notes: | |
| | (a) | Form: | [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]<br><br>[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]<br><br>[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]<br><br>(*Ensure that this is consistent with the wording in the "Form of the Notes" section in the Base Prospectus and the Notes themselves. N.B. The exchange upon notice/at any time options should not be said to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect:* "[€100,000] *and integral multiples of* [€1,000] *in excess thereof up to and including* |

| | | |
|---|---|---|
| | | [€199,000]." *Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.*) |
| | (b) New Global Note: | [Yes] [No] |
| 25. | Additional Financial Centre(s) or other special provisions relating to Payment Days: | [Not Applicable/*give details*]<br><br>(*Note that this paragraph relates to the place of payment and not to the Interest Period end dates to which sub-paragraphs 16(c) and 18(g) relate.*) |
| 26. | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): | [Yes/No. *If yes, give details.*] |
| 27. | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | [Not Applicable/*give details. N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues.*] |
| 28. | Details relating to Instalment Notes: | |
| | (a) Instalment Amount(s): | [Not Applicable/*give details*] |
| | (b) Instalment Date(s): | [Not Applicable/*give details*] |
| 29. | Redenomination applicable: | Redenomination [not] applicable<br><br>[(*If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates*)).]<br><br>[(*If Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms*).] |
| 30. | Other final terms: | [Not Applicable/*give details*]<br><br>[(*When adding any other final terms, consider whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive*).]<br><br>(*Consider including a term providing for tax certification if required to enable interest to be paid gross by issuer.*) |

**DISTRIBUTION**

| | | |
|---|---|---|
| 31. | (a) If syndicated, names of Managers: | [Not Applicable/*give names*]<br><br>(*If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies,* |

| | | |
|---|---|---|
| | | *include names of the entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.*) |
| | (b) Date of [Subscription] Agreement: | [ ]<br><br>(*The above is only relevant if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies*). |
| | (c) Stabilising Manager(s) (if any): | [Not Applicable/*give name*] |
| 32. | If non-syndicated, name of relevant Dealer: | [Not Applicable/*give name*] |
| 33. | U.S. Selling Restrictions: | [Reg. S Compliance Category [2]; TEFRA D/TEFRA C/TEFRA not applicable] |
| 34. | Additional selling restrictions: | [Not Applicable/*give details*] |

**PURPOSE OF FINAL TERMS**

These Final Terms comprise the final terms required for issue and admission to trading on [*specify relevant regulated market (for example the regulated market of the Luxembourg Stock Exchange, the London Stock Exchange's regulated market or the Regulated Market of the Irish Stock Exchange) and, if relevant, listing on an official list (for example, the Official List of the Luxembourg Stock Exchange)*] of the Notes described herein pursuant to the €4,000,000,000 Euro Medium Term Note Programme of TERNA - Rete Elettrica Nazionale S.p.A.

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms. [*Relevant third party information, for example in compliance with Annex XII to the Prospectus Directive Regulation in relation to an index or its components*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of TERNA - Rete Elettrica Nazionale S.p.A.:

By: .....

*Duly authorised*

## PART B - OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

| | | |
|---|---|---|
| (i) | Listing and admission to trading: | [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market (for example the regulated market of the Luxembourg Stock Exchange, the London Stock Exchange's regulated market or the Regulated Market of the Irish Stock Exchange) and, if relevant, listing on an official list (for example, the Official List of the Luxembourg Stock Exchange)*] with effect from [ ].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market (for example the regulated market of the Luxembourg Stock Exchange, the London Stock Exchange's regulated market or the Regulated Market of the Irish Stock Exchange) and, if relevant, listing on an official list (for example, the Official List of the Luxembourg Stock Exchange)*] with effect from [ ].] [Not Applicable.] |
| (ii) | Estimate of total expenses related to admission to trading: | [ ] |

### 2. [RATINGS

| | |
|---|---|
| Ratings: | [The Notes to be issued [[have been]/[are expected to be]] rated *[insert details]* by *[insert credit rating agency name(s)]*.<br><br>(*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)]<br><br>[*[Insert credit rating agency]* is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]<br><br>[*[Insert credit rating agency]* is established in the European Union and is registered under Regulation (EC) No. 1060/2009.]<br><br>[*[Insert credit rating agency]* is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009.]<br><br>[*[Insert credit rating agency]* is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. However, the application for registration under Regulation (EC) No. 1060/2009 of *[insert the name of the relevant EU CRA affiliate that applied for registration]*, which is established in the European Union, disclosed the |

intention to endorse credit ratings of *[insert credit rating agency]*.]

[*[Insert credit rating agency]* is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. The ratings [[have been]/[are expected to be]] endorsed by *[insert the name of the relevant EU-registered credit rating agency]* in accordance with Regulation (EC) No. 1060/2009. *[Insert the name of the relevant EU-registered credit rating agency]* is established in the European Union and registered under Regulation (EC) No. 1060/2009.]

[*[Insert credit rating agency]* is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.]

**3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – *Amend as appropriate if there are other interests.*]

[(*When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*)]]

**4. [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

| | | |
|---|---|---|
| [(i) | Reasons for the offer: | [ ] |
| [(ii)] | [Estimated net proceeds: | [ ] |
| [(iii)] | Estimated total expenses: | [ ]] |

(*N.B.: Delete unless the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, in which case (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.*)]

**5. [YIELD** *(Fixed Rate Notes only)*

Indication of yield: [ ]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

**6. [PERFORMANCE OF INDEX/FORMULA AND OTHER INFORMATION CONCERNING THE UNDERLYING** (*Index Linked Notes only*)

[*Need to include details of where past and future performance and volatility of the index/formula can be obtained.*]

[*Where the underlying is an index, need to include the name of the index and a description if composed by the Issuer, and if the index is not composed by the Issuer, need to include details of where the information about the index can be obtained.*]

[*Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.*]

[(*When completing the above paragraphs, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*)]

The Issuer [intends to provide post-issuance information [*specify what information will be reported and where it can be obtained*]] [does not intend to provide post-issuance information].

(*N.B. This paragraph 6 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.*)]

**7.** [**PERFORMANCE OF RATE[S] OF EXCHANGE** *(Dual Currency Notes only)*

[*Need to include details of where past and future performance and volatility of the relevant rates can be obtained.*]

[(*When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*)]

(*N.B. This paragraph 7 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.*)]

**8. OPERATIONAL INFORMATION**

| | | |
|---|---|---|
| (i) | ISIN Code: | [ ] |
| (ii) | Common Code: | [ ] |
| (iii) | Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme*, and the relevant identification number(s): | [Not Applicable/*give name(s) and number(s)*] |
| (iv) | Delivery: | Delivery [against/free of] payment |
| (v) | Names and addresses of additional Paying Agent(s) (if any): | [ ] |
| (vi) | Intended to be held in a manner which would allow Eurosystem eligibility: | [Yes] [No]<br><br>[Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] [*Include this text if "yes" selected, in which case the Notes must be issued in NGN form.*] |

## SCHEDULE 1 TO THE FINAL TERMS

### Further Information Relating to the Issuer

[*The information set out in this Schedule may need to be updated if, at the time of the issue of the Notes, any of it has changed since the date of the Base Prospectus.*]

| | | |
|---|---|---|
| 1. | Name: | TERNA - Rete Elettrica Nazionale S.p.A. |
| 2. | Objects: | The corporate purpose of the Issuer, as set out in Article 4 of its By-laws, is the transmission and dispatch of electricity including management of the Italian transmission grid, transportation lines and transformation plants, which it may own.<br><br>Moreover, the Issuer carries on the following activities:<br><br>(a) design, realisation, management, development and maintenance activities relating to the network structures and other infrastructures connected to such networks, as well as plants and equipment functional thereto;<br><br>(b) research, advice and assistance in the above mentioned sectors;<br><br>(c) any other activities, which enables a better utilisation and enhancement of the network, structures, resources and competencies which may be used.<br><br>For such purpose, the Issuer may operate, both in Italy and abroad and perform any other connected, instrumental, similar, complementary activities or any activity, however, useful to the achievement of the corporate object. |
| 3. | Registered office: | Viale Egidio Galbani 70, 00156 Rome, Italy |
| 4. | Company's registered number: | Companies' Register of Rome, no. 05779661007 |
| 5. | Paid-up share capital and reserves at the date thereof: | Paid-up share capital of €442,088,020, divided into no. 2,009,491,000 ordinary shares of €0.22 each and reserves of €812.8 million. |
| 6. | Prospectus: | Base Prospectus dated 20 May, 2011, as supplemented from time to time. |
| 7. | Date of resolution authorising the issue of the Notes and its registration: | Resolution dated [ ], filed with the Companies' Register of Rome on [ ].<br><br>[*any other information required pursuant to article 2414 of the Italian Civil Code*] |

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes, which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by TERNA — Rete Elettrica Nazionale S.p.A. (the **Issuer**) constituted by a Fourth Supplemental Trust Deed (such Fourth Supplemental Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 20 May, 2011 and made between the Issuer and Deutsche Trustee Company Limited (the **Trustee**, which expression shall include any other trustee or successor as Trustee).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

(a) in relation to any Notes represented by a global Note (a **Global Note**), units of the lowest Specified Denomination in the Specified Currency;

(b) any Global Note; and

(c) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of a Fourth Amended and Restated Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 20 May, 2011 and made between the Issuer, the Trustee, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

Interest-bearing definitive Notes have interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note, which supplement these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Final Terms** are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

The Trustee acts for the benefit of the holders for the time being of the Notes (the **Noteholders**, which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below), the holders of the Receipts (the **Receiptholders**) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available to the Noteholders for inspection during normal business hours at the principal office for the time being of the Trustee being at the date of this Base Prospectus at Winchester House, 1 Great Winchester Street, London EC2N 2DB, England and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at Viale Egidio Galbani 70, 00156 Rome, Italy and www.terna.it and at the website of the Luxembourg Stock Exchange, www.bourse.lu, and copies may be obtained from Viale Egidio Galbani 70, 00156 Rome, Italy save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a Member State of the European Economic Area), the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the Trustee or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

## 1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes, in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer, the Paying Agents and the Trustee will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the following paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of

Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error or proven error) shall be treated by the Issuer, the Paying Agents and the Trustee as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, any Paying Agent and the Trustee as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note, and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly. Without limitation to the foregoing, in determining whether a particular person is entitled to a particular nominal amount of notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error or proven error, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Agent and the Trustee.

## 2. STATUS OF THE NOTES

The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations as may be preferred by mandatory provisions of law) equally with all other unsecured and unsubordinated obligations of the Issuer, from time to time outstanding, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

## 3. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding, the Issuer will not, and will ensure that none of its Material Subsidiaries will, create or permit to subsist any Security upon the whole or any part of its assets or revenues, present or future, to secure any Indebtedness, except for Permitted Encumbrances, unless:

(a) the same Security shall forthwith be extended equally and rateably to secure all amounts payable under the Notes, any related Receipts and Coupons and the Trust Deed to the satisfaction of the Trustee; or

(b) such other Security or guarantee (or other arrangement) as (i) the Trustee in its absolute discretion deems not materially less beneficial to the interests of the Noteholders or (ii) shall be approved by an Extraordinary Resolution, shall previously have been or shall forthwith be extended equally and rateably to secure all amounts payable under the Notes, any related Receipts and Coupons and the Trust Deed.

As used herein:

**Group** means the Issuer and its Subsidiaries;

**Indebtedness** means any present or future indebtedness for borrowed money which is in the form of, or represented by, bonds, notes, debentures or other securities and which is or are intended to be quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or regulated securities market;

**Material Subsidiary** means any consolidated Subsidiary of the Issuer, located or domiciled in an OECD Member Country:

(a) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries; or

(b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately before the transfer is a Material Subsidiary of the Issuer.

A report by two Directors of the Issuer addressed to the Trustee and stating that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest or (to the satisfaction of the Trustee) proven error, be conclusive and binding on all parties;

**OECD Member Country** means a country that is a member of the Organisation for Economic Cooperation and Development or any successor organisation thereof (or, to the extent that the Organisation for Economic Cooperation and Development or a successor organisation no longer exists, that was a member thereof at the time the relevant organisation ceased to exist);

**Permitted Encumbrances** means:

(a) any Security arising pursuant to any mandatory provision of law other than as a result of any action taken by the Issuer; or

(b) any Security in existence as at the date of issuance of the Notes; or

(c) in the case of any entity which becomes a Subsidiary of any member of the Group after the date of issuance of the Notes, any Security existing over such entity's assets at the time it becomes such a Subsidiary, provided that the Security was not created in contemplation of, or in connection with, its becoming such a Subsidiary and provided further that the amounts secured have not been increased in contemplation of, or in connection with, its becoming such a Subsidiary; or

(d) any Security securing Project Finance Indebtedness; or

(e) any Security which is created in connection with, or pursuant to, a limited-recourse financing, securitisation or other like arrangement where the payment obligations in respect of the indebtedness secured by the relevant Security are to be discharged solely from the revenues generated by the assets over which such Security is created (including, without limitation, receivables) provided that the aggregate book value of the assets over which such Security is created shall not exceed at any time €400,000,000 (or its equivalent in any other currency) or, if greater, 10 per cent. of the consolidated net worth of the Group, in each case as shown in the then latest audited consolidated accounts of the Issuer and its Subsidiaries; or

(f) any Security created after the date of issue of the Notes on any asset acquired by the person creating the Security and securing only Indebtedness incurred for the sole purpose of financing or re-financing that acquisition, provided that the principal amount of such Indebtedness so secured does not exceed the overall cost of that acquisition;

**Person** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

**Project Finance Indebtedness** means any present or future Indebtedness incurred in financing the ownership, acquisition, construction, development, leasing, maintenance and/or operation of an asset or assets, whether or not an asset of a member of the Group:

(a) which is incurred by a Project Finance Subsidiary; or

(b) in respect of which the Person or Persons to whom any such Indebtedness is or may be owed by the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group (other than a Project Finance Subsidiary) for the repayment thereof other than:

(i) recourse for amounts limited to the cash flow or the net cash flow (other than historic cash flow or historic net cash flow) from such asset or assets or the income or other proceeds deriving therefrom; and/or

(ii) recourse for the purpose only of enabling amounts to be claimed in respect of such Indebtedness in an enforcement of any Security given by such borrower over such asset or assets or the income, cash flow or other proceeds, deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such Indebtedness,

provided that (a) the extent of such recourse is limited solely to the amount of any recoveries made on any such enforcement, and (b) such Person or Persons is or are not entitled, by virtue of any right or claim arising out of or in connection with such Indebtedness, to commence any proceedings of whatever nature against any member of the Group (other than a Project Finance Subsidiary);

**Project Finance Subsidiary** means any Subsidiary of the Issuer either:

(a) (i) which is a single-purpose company whose principal assets and business are constituted by the ownership, acquisition, construction, development, leasing, maintenance and/or operation of an asset or assets; and

(ii) none of whose Indebtedness in respect of the financing of such ownership, acquisition, construction, development, leasing, maintenance and/or operation of an asset or assets is subject to any recourse whatsoever to any member of the Group (other than such Subsidiary or another Project Finance Subsidiary) in respect of the repayment thereof, except as expressly referred to in subparagraph (b)(ii) of the definition of Project Finance Indebtedness; or

(b) at least 70 per cent. in principal amount of whose Indebtedness is Project Finance Indebtedness;

**Security** means any mortgage, lien, pledge, charge or other security interest;

**Subsidiary** means, in respect of any Person (the **first Person**) at any particular time, any other Person (the **second Person**):

(a) whose majority of votes in ordinary shareholders' meetings of the second Person is held by the first Person; or

(b) in which the first Person holds a sufficient number of votes giving the first Person a dominant influence in ordinary shareholders' meetings of the second Person; or

(c) whose accounts are required to be consolidated with those of the first Person pursuant to article 26 of Law 127 of 1991;

in the case of (a) and (b), pursuant to the provisions of Article 2359, first paragraph, no. 1 and no. 2, of the Italian Civil Code.

## 4. REDENOMINATION

### 4.1 Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, but after prior consultation with the Trustee, on giving prior notice to the Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

(a) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of €0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent and the Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;

(b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes held (or, as the case may be, in respect of which Coupons are presented for payment) by the relevant holder and the amount of such payment shall be rounded down to the nearest €0.01;

(c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer: (i) in the case of Relevant Notes in the denomination of €100,000 and/or such higher amounts as the Agent may determine and notify to the Noteholders, and any remaining amounts less than €100,000 shall be redeemed by the Issuer and paid to the Noteholders in euro in accordance with Condition 6; and (ii) in the case of Notes which are not Relevant Notes, in the denominations of €1,000, €10,000, €100,000 and (but only to the extent of any remaining amounts less than €1,000 or such smaller denominations as the Agent and the Trustee may approve) €0.01 and such other denominations as the Agent shall determine and notify to the Noteholders;

(d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;

(e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or to any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;

(f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:

  (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and

  (ii) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding; and

(g) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

**4.2 Definitions**

In the Conditions, the following expressions have the following meanings:

**Established Rate** means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

**euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

**Redenomination Date** means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to Condition 4.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union;

**Relevant Notes** means all Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least €100,000 and which are admitted to trading on a regulated market in the European Economic Area; and

**Treaty** means the Treaty on the Functioning of the European Union, as amended.

**5. INTEREST**

**5.1 Interest on Fixed Rate Notes**

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1:

(a) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(b) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

**Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

**sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

**5.2 Interest on Floating Rate Notes and Index Linked Interest Notes**

**(a) Interest Payment Dates**

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date, and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means a day which is both:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Additional Business Centre specified in the applicable Final Terms; and

(b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified

Currency (if other than any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

**(b) Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

**(i) ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent or other party specified in the Final Terms under an interest rate swap transaction if the Agent or that other party were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms;

(B) the Designated Maturity is a period specified in the applicable Final Terms; and

(C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the London interbank offered rate (LIBOR) or on the Euro-zone interbank offered rate (EURIBOR), the first day of that Interest Period or (b) in any other case, as specified in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

**(ii) Screen Rate Determination for Floating Rate Notes**

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent or other party as specified in the Final Terms. If five or more of such offered quotations are available on the Relevant

Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent or that other party for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

**(c) Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

**(d) Determination of Rate of Interest and calculation of Interest Amounts**

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the **Interest Amount)** payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

(A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

(i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$Y_1$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$Y_2$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$M_1$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$M_2$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$D_1$" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case $D_1$ will be 30; and

"$D_2$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and $D_1$ is greater than 29, in which case $D_2$ will be 30;

(vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$Y_1$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$Y_2$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$M_1$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$M_2$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$D_1$" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case $D_1$ will be 30; and

"$D_2$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case $D_2$ will be 30;

(vii) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$Y_1$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$Y_2$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$M_1$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$M_2$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$D_1$" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case $D_1$ will be 30; and

"$D_2$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case $D_2$ will be 30.

**(e) Notification of Rate of Interest and Interest Amounts**

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed to the Trustee and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than

a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

**(f) Determination or Calculation by Trustee**

If for any reason at any relevant time the Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or subparagraph (b)(ii) above or as otherwise specified in the applicable Final Terms, as the case may be, and in each case in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent or the Calculation Agent, as applicable.

**(g) Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2, whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error or proven error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent, if applicable, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

**5.3 Interest on Dual Currency Interest Notes**

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

**5.4 Interest on Partly Paid Notes**

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

**5.5 Accrual of interest**

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused or default is otherwise made in the payment thereof. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) as provided in the Trust Deed.

## 6. PAYMENTS

### 6.1 Method of payment

Subject as provided below:

(a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

(b) payments in euro will be made by credit or transfer to a euro account (or to any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

### 6.2 Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 6.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A Long Maturity Note is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

**6.3 Payments in respect of Global Notes**

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes or otherwise in the manner specified in the relevant Global Note, where applicable, against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note either by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

**6.4 General provisions applicable to payments**

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or of Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;

(b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or by other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences for the Issuer.

**6.5 Payment Day**

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

(i) in the case of Notes in definitive form only, the relevant place of presentation;

(ii) each Additional Financial Centre specified in the applicable Final Terms; and

(b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

**6.6 Interpretation of principal and interest**

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Notes redeemable in instalments, the Instalment Amounts;

(f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5); and

(g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

**7. REDEMPTION AND PURCHASE**

**7.1 Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

**7.2 Redemption for tax reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Trustee and the Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

(a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept the certificate and legal opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

**7.3 Redemption at the option of the Issuer (Issuer Call)**

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

(a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and

(b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Trustee and to the Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg, as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

### 7.4 Redemption at the option of the Noteholders (Investor Put)

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 7.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and the Trustee has declared the Notes to be due and payable pursuant to Condition 10, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 7.4.

### 7.5 Early Redemption Amounts

For the purpose of Condition 7.2 above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

(c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

Early Redemption Amount = RP x $(1 + AY)^{y}$

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield expressed as a decimal; and

**y** is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

**7.6 Instalments**

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.5.

**7.7 Partly Paid Notes**

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

**7.8 Purchases**

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. All Notes so purchased will be surrendered to a Paying Agent for cancellation.

**7.9 Cancellation**

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to Condition 7.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

**7.10 Late payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 7.1, 7.2, 7.3 or 7.4 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 14.

**8. TAXATION**

All payments in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessment or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts

or Coupons after such withholding or deduction shall equal the respective amounts which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) presented for payment by or on behalf of a holder who is liable for such Taxes in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

(b) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by making a declaration or any other statement, including but not limited to a declaration of residence or non-residence, but fails to do so; or

(c) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or

(d) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.5); or

(e) where such withholding or deduction is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(f) in relation to any payment or deduction of any interest, principal or other proceeds of any Notes, Receipts or Coupons on account of *imposta sostitutiva* pursuant to Italian Legislative Decree No. 239 of 1 April, 1996 and any related implementing regulations (as the same may be amended or supplemented from time to time); or

(g) in the event of payment to a non-Italian resident legal entity or a non-Italian resident individual, to the extent that interest or other amounts are paid to a non-Italian resident legal entity or a non-Italian resident individual which is resident in a country which does not allow for a satisfactory exchange of information with the Republic of Italy; or

(h) having an original maturity of less than 18 months where such withholding or deduction is required to be made pursuant to Legislative Decree No. 600 of 29 September, 1973, as amended.

As used herein:

(i) **Tax Jurisdiction** means the Republic of Italy or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes, Receipts and Coupons; and

(ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee or the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

## 9. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless demand for payment in respect of principal and/or interest is made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

## 10. EVENTS OF DEFAULT AND ENFORCEMENT

### 10.1 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction (but in the case of the happening of any of the events described in paragraphs (c), (d), (f) and (g) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders), give notice in writing to the Issuer that each Note is, and each Note shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (each an **Event of Default**) shall occur:

(a) if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of ten calendar days; or

(b) if the Issuer fails to perform or to observe any of its other obligations under the Conditions or the Trust Deed and (except in any case where, in the opinion of the Trustee, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may agree in writing) next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(c) if any Indebtedness for Borrowed Money of the Issuer becomes due and repayable prematurely by reason of an event of default (however described), or the Issuer fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment (as extended by any originally applicable grace period) or default is made by the Issuer in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person (as extended by any originally applicable grace period), provided that no such event shall constitute an Event of Default so long as and to the extent that the Issuer is contesting, in good faith, in a competent court in a recognised jurisdiction or before a competent arbitration panel that the relevant Indebtedness for Borrowed Money or any such guarantee and/or indemnity shall be due or enforceable, as appropriate, and provided further that no such event shall constitute an Event of Default unless the aggregate Indebtedness for Borrowed Money relating to all such events which shall have occurred and be continuing shall exceed at any time €20,000,000 (or its equivalent in any other currency); or

(d) any Security (other than any Security securing Project Finance Indebtedness), present or future, created or assumed on or against all or a material part of the property, assets or revenues of the Issuer, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) which is not discharged within 30 days of such enforcement; or

(e) if the Issuer shall be wound up or dissolved (otherwise than for the purpose of a solvent amalgamation, merger, de-merger or reconstruction (a **Solvent Reorganisation**) (i) to be adopted or implemented pursuant to any mandatory provisions of law or (ii) on terms approved in writing by the Trustee or by an Extraordinary Resolution, and (in the case of (i) and (ii)) under which the assets and liabilities of the Issuer are assumed by the entity resulting from such Solvent Reorganisation and such entity assumes all the obligations of the Issuer in respect of the Notes, the Coupons and the Trust Deed and an opinion of an independent legal adviser of recognised standing in the Republic of Italy has been delivered to the Trustee confirming the same prior to the effective date of such Solvent Reorganisation); or

(f) if the Issuer shall cease or announce that it shall cease to carry on all or substantially all of its business or shall dispose of all or substantially all of its assets (in each case otherwise than for the purpose of a Solvent Reorganisation (i) to be adopted or implemented pursuant to any mandatory provisions of law or (ii) on terms approved in writing by the Trustee or by an Extraordinary Resolution, and (in the case of (i) and (ii)) under which the assets and liabilities of the Issuer are assumed by the entity resulting from such Solvent Reorganisation and such entity assumes all the obligations of the Issuer in respect of the Notes, the Coupons and the Trust Deed and an opinion of an independent legal adviser of recognised standing in the Republic of Italy has been delivered to the Trustee confirming the same prior to the effective date of such Solvent Reorganisation); or

(g) if the Issuer fails to pay a final judgment (*sentenza passata in giudicato*, in the case of a judgment issued by an Italian court) of a court of competent jurisdiction within 60 days from the receipt of a notice that a final judgment in excess of an amount equal to the value of a substantial part of the assets or property of the Issuer has been entered against it or an execution is levied, enforced upon or sued out against the whole or any substantial part of the assets or property of the Issuer pursuant to any such judgment; or

(h) if the Issuer shall be adjudicated or becomes insolvent or shall stop payment or announce that it shall stop payment or shall be found unable to pay all or substantially all of its debts, or any order shall be made by any competent court or other competent body for, or any resolution shall be passed by the Issuer for judicial composition proceedings with its creditors or for the appointment of a receiver, administrative receiver or trustee or other similar official in insolvency proceedings in relation to the Issuer.

**10.2 Enforcement**

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes, the Receipts or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

**10.3 Definitions**

For the purposes of the Conditions:

**Indebtedness for Borrowed Money** means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

**11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS**

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## 12. PAYING AGENTS

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

(a) there will at all times be an Agent;

(b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;

(c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(d) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.4. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## 13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or of any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

## 14. NOTICES

All notices regarding the Notes will be deemed to be validly given if published (a) in a leading English language daily newspaper of general circulation in London, and (b) if and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the regulated market of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg or the Luxembourg Stock Exchange's website, www.bourse.lu. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for

such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the day after the day on which the said notice has been given to Euroclear and/or Clearstream, Luxembourg.

Without prejudice to the above, the Issuer shall give notice in the manner required by the Issuer's by-laws and the law and regulations applicable from time to time.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## 15. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The directors of the Issuer and/or the Noteholders' Representative (as defined below) at their discretion may, and if so requested in writing by the holders of not less than one-twentieth of the principal amount of the Notes for the time being outstanding shall, convene a meeting. To be validly held, each such meeting must be quorate which shall mean (i) in the case of a first meeting, there are one or more persons present being or representing Noteholders holding at least one half in aggregate principal amount of the Notes for the time being outstanding, (ii) in the case of an adjourned meeting, there are one or more persons present being or representing Noteholders holding more than one third in aggregate principal amount of the Notes for the time being outstanding and (iii) in the case of a further adjourned meeting, there are one or more persons present being or representing Noteholders holding at least one fifth in aggregate principal amount of the Notes for the time being outstanding. The majority required to pass an Extraordinary Resolution at any meeting (including any adjourned meeting) will be one or more persons holding or representing at least two thirds in aggregate principal amount of the Notes represented at the meeting; provided, however, that certain proposals, as set out in Article 2415, first paragraph, number 2, of the Italian Civil Code (including any proposal to modify the maturity of the Notes or the dates on which interest is payable on them; to reduce or cancel the principal amount of, or interest on, the Notes; or to change the currency of payment of the Notes) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders (including any adjourned meeting) by one or more persons holding or representing not less than one half in aggregate principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not, and on all Couponholders and Receiptholders.

### 15.1 Noteholders' Representative

A representative of the Noteholders (*rappresentante comune*) (the **Noteholders' Representative**) (who might, subject to the mandatory provisions of Italian law, also be the same legal entity as the Trustee) may be appointed pursuant to Article 2417 of the Italian Civil Code in order to represent the Noteholders' interests under these Conditions and to give effect to resolutions passed at a meeting of the Noteholders. If the Noteholders' Representative is not appointed by a meeting of Noteholders, the Noteholders' Representative shall be appointed by a decree of the Court where the Issuer has its registered office at the request of one or more Noteholders or at the request of the directors of the Issuer. The Noteholders' Representative shall remain appointed for a maximum period of three years but may be re-appointed again thereafter.

### 15.2 Modification, Waiver, Authorisation and Determination

The Trustee may agree, without the consent of the Noteholders or Couponholders or Receiptholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or the Notes, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders, or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven.

### 15.3 Trustee to have Regard to Interests of Noteholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof, and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

### 15.4 Notification to the Noteholders

Any modification, abrogation, waiver, authorisation or determination shall be binding on the Noteholders, the Couponholders and the Receiptholders and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

## 16. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

## 17. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

## 18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## 19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

### 19.1 Governing law

The Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

### 19.2 Submission to jurisdiction

The Issuer irrevocably agrees, for the benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with them) and accordingly submits to the exclusive jurisdiction of the English courts.

The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee, the Noteholders, the Receiptholders and the Couponholders may take any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons (including any Proceedings relating to any non-contractual obligations arising out of or in connection with them) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

### 19.3 Appointment of Process Agent

The Issuer appoints Law Debenture Corporate Services Limited at its registered office at 100 Wood Street, London EC2V 7EX as its agent for service of process, and undertakes that, in the event of Law Debenture Corporate Services Limited ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Trustee as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

### 19.4 Other documents

The Issuer has in the Trust Deed and the Agency Agreement submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

## USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes. If, in respect of any particular issue of Notes which are derivative securities for the purposes of Article 15 of the Commission Regulation No. 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## DESCRIPTION OF THE ISSUER

### OVERVIEW

TERNA - Rete Elettrica Nazionale S.p.A. (**Terna**) is the Italian electricity transmission company which conducts electricity transmission and dispatching over the high-voltage (**HV**) and very-high-voltage grid throughout Italy.

Terna is the parent company of the Terna group (the **Terna Group**), which includes Telat Linee Alta Tensione S.r.l. (**Telat**), SunTergrid S.p.A. (**SunTergrid**), Rete Solare S.r.l. (**RTS**), Nuova Rete Solare S.r.l. (**NRTS**), ELMED Etudes S.a.r.l. (**Elmed**), CESI S.p.A. (**CESI**), CORESO S.A. (**CORESO**) and Crnogorski Elektroprenosni Sistem AD (**CGES**).

Terna was incorporated as a joint-stock company under the laws of the Republic of Italy on 31 May, 1999 and, pursuant to its by-laws, its term ends on 31 December, 2100, unless such term is extended by a resolution of the shareholders' general meeting. Terna's registered address is Viale Egidio Galbani 70, 00156 Rome, Italy, telephone number +39 06 8313 8111 and it is registered with the Register of Enterprises in Rome under number 05779661007.

Terna's share capital of €442,088,020 consisted, as of 31 March, 2011, of 2,009,491,000 ordinary shares with a nominal value of €0.22 each. Terna's shares are listed on the Italian stock exchange (Borsa Italiana S.p.A.). As of 31 March, 2011, on the basis of the shareholders' book, communications received pursuant to CONSOB Regulation of 14 May, 1999, No. 11971, as amended, and available information, Terna's share capital is divided as follows: Cassa Depositi e Prestiti S.p.A. (a public limited company in which the Italian Ministry of Economy and Finance of the Italian Republic has a 70 per cent. interest) owns 29.86 per cent. of share capital; Enel S.p.A. owns 5.1 per cent. of share capital; Romano Minozzi (directly and indirectly) owns 4.4 per cent. of share capital; Pictet Funds (Europe) S.A (directly and indirectly) owns 2.83 per cent. of share capital; BlackRock Inc. (through BlackRock Investment Management (UK) Ltd) owns 2.18 per cent. of share capital; Assicurazioni Generali (directly and indirectly) owns 2.00 per cent. of share capital.

The remaining shares are held by institutional and retail investors. On 19 April, 2007, CDP notified Terna that, based on an assessment of (i) the composition and breakdown of the shareholding structure; (ii) events at particularly significant shareholders' general meetings; and (iii) the composition of the board of directors, Terna is effectively controlled by CDP. As of the date of this Base Prospectus, no coordination activity by CDP has been formalised.

The Terna Group's principal business is the operation, maintenance and development of its portion (the **Terna Grid**) of Italy's National Transmission Grid (**NTG**) and the management of the transmission and dispatch of electricity over the entire NTG, which Terna and, following the acquisition of Telat, Telat report in their financial statements as revenues from regulated activities in Italy. Terna also offers certain other (unregulated) services in Italy including: (a) engineering, construction and operation and maintenance services to third parties which own or use high and very high voltage power systems, (b) remote network management and control services and (c) support structure and equipment housing services for the fibre optic infrastructure of Wind group companies and third parties in the telecommunications sector. The activity described in (c) is also carried out by Telat.

Terna owns, directly or indirectly, more than 98 per cent. of NTG. As of 31 December, 2010, the Terna Grid consisted of 63,578 kilometres of electricity lines, which included 11,759 kilometres of 380kV connections, 12,089 kilometres of 220kV connections and 431 substations.

Terna's total consolidated operating revenues (excluding pass-through items) for the year ended 31 December, 2010 amounted to €1,589.2 million (in 2009[1] these amounted to €1,390.2 million as restated in accordance with IFRIC 12), wholly registered in Italy. Ebitda[2] (Gross Operating Profit) stood at €1,174.9 million increasing by 17.1 per cent. compared to 2009 (€1,003.2 million in 2009).

Terna has been consolidating its position in the Italian transmission sector since the end of 2005, in connection with the integration of the ownership and management of the NTG pursuant to the Decree of the President of the Council of Ministers of 11 May, 2004 (the **DPCM**). In 2005, Terna acquired the transmission and dispatching sector of the Italian Independent System Operator (Gestore della Rete di Trasmissione

Nazionale S.p.A.), an entity wholly-owned and controlled by the Ministry of Economy and Finance (the **Italian ISO**).

On 1 April, 2009, Terna acquired the entire capital of Enel Linee Alta Tensione S.r.l. (**Elat**), a company fully owned by Enel Distribuzione S.p.A. (**Enel Distribuzione**) to which the latter, prior to the closing, had transferred a company branch formed by the high voltage lines (18,583 kilometres) and the relative legal obligations. In the context of the same acquisition, the extraordinary shareholders' meeting of Elat also approved a change in the company's name to Terna Linee Alta Tensione S.r.l. (**Telat**).

On 23 December, 2009, as part of an internal reorganisation and in order to maximise resources and potential for the photovoltaic project, SunTergrid (a company based in Rome, established on 10 September, 2007 under the name *in*TERNA*tional* S.p.A. and subsequently renamed SunTergrid on 7 July, 2009, and with a share capital of €120,000) established Rete Rinnovabile S.r.l. (**RTR**), with a capital equal to €50,000. The corporate purpose of RTR includes the planning, implementation, management, development and maintenance of networks and other infrastructure for the transmission, dispatching and production of electricity, including renewable energy, and related research, consulting and assistance activities. On 29 January, 2010, the Board of Directors of SunTergrid resolved to inject capital of €5.0 million in RTR, which was effected in February 2010.

On 8 September, 2010, Terna provided a loan of €500 million to RTR which was refinanced by means of a refinancing agreement signed on 28 January 2011 with a pool of 7 banks, for an 18-year term and a total maximum amount of €593.8 million, with the purpose of financing investments to develop the photovoltaic plant portfolio held by RTR on the basis of project financing.

On 18 October, 2010, Terna, SunTergrid and Terra Firma Investments (GP) 3 Limited (wholly-owned by Terra Firma Capital Partners III, L.P.) signed a preliminary agreement for the transfer of 100 per cent. of the quota capital of RTR. The compensation for the operation was agreed in a modular fashion (in terms of enterprise value) on the basis of the plants which, on the closing date of 31 March, 2011, benefited from the incentives of the 2010 Energy Account or the Energy Account of the first quarter of 2011.

On 31 March, 2011, in executing the preliminary agreement signed on 18 October, 2010, the transfer of 100 per cent. of the share capital of RTR to RTR Acquisition S.r.l. (an indirect subsidiary of Terra Firma Investment (GP) 3 Limited) was completed. At the time of transfer RTR owned 62 photovoltaic plants, located in 11 Italian regions, for a total generation capacity of 143.7 MWp. The enterprise value of the transaction amounted to €641 million, equivalent to an average EV/MWp of €4.46 million. In addition to renting lands, Terna will also provide RTR with plant maintenance, surveillance and monitoring services, according to multiyear contracts defined in the context of the sale. At the end of the individual rental contracts, Terna will regain possession of the leased areas.

On 20 April, 2009, the Tunisia-registered firm ELMED Études S.a.r.l. was established. This limited liability company is a joint venture between Terna and Société Tunisienne de l'Electricité et du Gaz (**STEG**) whose main purpose is the study and preliminary consultation concerning the preparation of documents in response to the Tunisian government's call for tenders for the construction and management of the power generation hub in Tunisia for the Italy-Tunisia interconnection project.

On 30 September, 2010, Terna subscribed, through a capital increase, to the ownership structure of DESERTEC Industrial Initiative (**DII**), with a stake of 5.6 per cent. and a subscription price of €130,000. The DESERTEC project aims to study and facilitate the production and transmission of solar and wind power in the areas of the Middle East and North Africa (MENA), both to fulfil local demand and to be destined, in large part, to the European market.

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1 The 2009 corresponding figures included in the consolidated financial statements as at 31 December, 2010 of Terna for comparative purposes were restated in accordance with the interpretation IFRIC 12 – Service Concession Arrangements, that became effective as at 1 January, 2010. Accordingly, property, plants and equipment as well as intangibile assets identified as being part of the field of activity subject to IFRIC 12 regarding dispatching activities have been classified in a specific item "Infrastructure rights" as part of intangible assets. Moreover, costs and revenues relative to investment activities for dispatching are indicated as construction costs and revenues.

2 Ebit (operating profit): it is calculated as difference between total revenue and total expenses; Ebitda (gross operating profit) is an indicator of operating performance; it is calculated by adding the operating profit (EBIT) to amortisation, depreciation and impairment losses.

On 10 November, 2010, Terna subscribed, together with grid operators for Switzerland, Austria, Slovenia and Greece, a capital increase of the Capacity Allocation Service Company (**CASC**), a service company which manages and implements the auctions for the allocation of cross border capacity between 12 European countries, including Italy. The subscription price for the 8.3 per cent. stake in the share capital of CASC was €285,000.

On 26 November, 2010, Terna joined the ownership structure of CORESO, a service company incorporated under the laws of Belgium and with registered office in Brussels, with a 22.485 per cent. stake. The ownership structure of the company includes operators for France (RTE), Belgium (Elia) and Great Britain (National Grid), each holding an equal share to that of Terna, and the German operator, 50Hertz Transmission, with 10 per cent. CORESO prepares daily forecasts and analyses in real time energy flows in Central-Western Europe, identifying possible critical issues and duly informing the Transmission System Operators (**TSOs**) concerned in a timely manner. The total value of the transaction was €281,082.

On 9 December, 2010, Terna made an initial payment of €100,000 toward the constitution of MEDGRID, a company which was incorporated under French law on 7 January, 2011 with registered office in Paris, together with 19 partners, each holding a 5 per cent. stake. MEDGRID aims to develop, in France and abroad, studies and analyses aimed at the establishment and transport of 20 Giga watts by 2020 of electricity generated from renewable sources.

On 20 December, 2010, Terna finalised the acquisition from Ansaldo Trasmissione & Distribuzione S.p.A. of a 9 per cent. share in the capital of CESI S.p.A. (307,800 shares), a company which develops and manages plants and laboratories for tests, studies and experimental research. As a result of this transaction, Terna's equity interest in CESI reached 39.906 per cent., having previously increased its equity stake in CESI S.p.A. from 24.4 per cent. to 30.91 per cent. through the acquisition of the stakes held by A2A S.p.A. (1.87 per cent.) and Siemens S.p.A. (4.68 per cent.) in October 2009.

On 25 January, 2011, according to the definitive agreement signed on 23 November, 2010, and as a result of the approval of the share capital increase in favour of Terna and the adoption of new articles of association by the shareholders meeting, Terna became shareholder of the transmission operator of Montenegro, CrnoGorski Elektroprenosni Sistem AD (**CGES**), with 22.09 per cent. of the share capital, and signed the shareholders' agreement relative to the new governance of the company.

## HISTORY AND DEVELOPMENT

The Terna Group operates its Italian businesses through Terna, Telat and SunTergrid.

In 1999, Enel established Terna as a wholly-owned subsidiary and subsequently transferred all of its electricity transmission systems and other assets that formed the Terna Grid (as it then existed) to Terna. The management and operation of the NTG were entrusted to the Italian ISO, pursuant to Legislative Decree No.79 dated 16 March, 1999 (the **Bersani Decree**).

The Bersani Decree, which required the separation of the ownership and management of the NTG, was reversed by Law Decree no. 239 of 29 August, 2003 (**Decree 239/2003**), as converted with amendments into law by Law no. 290 of 27 October, 2003 (**Law 290/2003**) and the implementing measures of the DPCM. Law 290/2003 and the DPCM require the integration of the ownership and management of the NTG and place certain restrictions on the ownership of the entity resulting from the integration as well as on the voting rights of the shareholders of the resulting entity. See *"Regulatory Matters- Regulation under the DPCM"*.

On 29 April, 2004, in order to achieve more efficient management of Terna's financial structure, the share capital was reduced, pursuant to Article 2445 of the Italian Civil Code, from €2,036.1 million to €440 million by means of (i) a return of capital in the amount of €1,200 million, (ii) the allocation of €396.1 million to "Other reserves" and (iii) the reduction of the par value of each ordinary share from €1.00 to €0.22.

On 23 June, 2004, Enel launched an initial public offering of Terna's ordinary shares to retail investors in Italy and a private placement with certain institutional investors in accordance with Rule 144A and Regulation S under the United States Securities Act of 1933, as amended. After the initial public offering, Enel's stake of Terna's share capital was reduced to 50 per cent. Pursuant to Law 290/2003 and the DPCM,

which provides for the integration of the ownership and management of the NTG and imposes certain restrictions on control of the resulting entity, Enel was required to reduce its shareholding in Terna to 20 per cent. or less by 1 July, 2007. On 31 March, 2005, Enel completed the sale of 13.86 per cent. of the share capital of Terna through an accelerated book-building procedure. In addition, on 15 September, 2005, CDP acquired its 29.99 per cent. controlling stake in Terna from Enel.

In connection with the integration of the ownership and management of the NTG pursuant to the DPCM, the Ministry of Productive Activities (now Ministry of Economic Development) issued a new electricity transmission and dispatching concession on 20 April, 2005 (the **2005 Concession**), which governs the responsibilities and obligations of Terna in respect of the management of the entire NTG. The 2005 Concession came into force on 1 November, 2005, when Terna, after acquiring the Italian ISO, implemented the integration of the ownership and management of the NTG, and has a duration of 25 years from that date. The "Network transmission, dispatch, development and safety code" (the **Grid Code**) defining the rules governing relations between Terna and the users of the NTG, came into force on 1 November, 2005, when Terna acquired the transmission and dispatching lines of business, including the concession, from the Italian ISO.

As a further consequence of the DPCM, Terna has purchased additional portions of NTG since 30 September, 2005. Pursuant to the DPCM, the Italian Energy Authority (*Autorità per l'Energia Elettrica e il Gas*) may grant certain incentives to Terna and owners of other portions of the NTG that sold their portions to Terna. In its decision 73/2006 dated 10 April, 2006, the Italian Energy Authority set the total amount of such incentives at €14 million, to be divided between Terna and the other owners of the NTG that sold their portions of NTG to Terna in accordance with a 30/70 per cent. ratio. Only transactions agreed between 11 May, 2004 and 30 April, 2006 are eligible for such incentives.

On 30 September, 2005, Terna acquired from Acea S.p.A. (**Acea**) all the issued and outstanding shares in Acea Trasmissione S.p.A., which was renamed R.T.L. - Rete di Trasmissione Locale S.p.A. on the same date. RTL owned approximately 0.7 per cent. of the NTG.

On 24 November, 2006, following the approval of the Italian Antitrust Authority (*Autorità Garante della Concorrenza e del Mercato*), RTL acquired from Edison S.p.A. the entire share capital of Edison Rete S.p.A. (which held approximately 4.2 per cent. of the NTG) for a total net cash outflow of €304.5 million, and from AEM Milano S.p.A. 99.99 per cent. of AEM Trasmissione S.p.A. (which held approximately 1.5 per cent. of the NTG) for a total net cash outflow of €120.7 million. Both values should be taken as net of the incentives which were set by the Italian Energy Authority and respectively to €6.7 million for Edison Rete S.p.A. and €2.4 million for AEM Trasmissione S.p.A.

Edison Rete S.p.A. (renamed Rete Trasmissione Milano 1 S.p.A., (**RTM1**)), owned at that time 2,763 kilometres of high voltage transmission lines and 29 electrical substations. AEM Trasmissione S.p.A. (renamed Rete Trasmissione Milano 2 S.p.A., (**RTM2**)) owned at that time 1,095 kilometres of high voltage transmission lines and 12 electrical substations. These acquisitions allowed Terna to increase its grid by 11 per cent. in terms of kilometres of lines and 14 per cent. in terms of stations. Edison Rete S.p.A. and AEM Trasmissione S.p.A. together represented 5.7 per cent. of sector revenues at that time, so that, as a result of these acquisitions, the Terna Group's share of sector revenues in the Italian transmission sector increased from 91.9 per cent. to 97.6 per cent, based on sector revenues in 2005.

On 4 April, 2007, RTL acquired from Metropolitana Milanese S.p.A the remaining 0.0013 per cent. of AEM Trasmissione S.p.A. for a total consideration of €1,575. As a result, Terna reached 100 per cent. ownership of AEM Trasmissione S.p.A.

On 28 June, 2007, with effect from 30 June, 2007, RTL acquired from Iride Energia S.p.A. the entire share capital of AEM Trasporto Energia S.r.l. (**AEM TE**), which at that time owned 0.7 per cent. of the NTG and the Moncalieri 220 kV electrical substation forming part of the NTG, for an aggregate final purchase price of €48.7 million (this includes an adjustment at closing of €0.7 million). AEM TE was renamed RTT S.r.l. (**RTT**) with effect from 30 June, 2007. RTT owned approximately 220 kilometres of transmission lines and four electrical substations. This acquisition increased the Terna Grid by 0.5 per cent. in terms of kilometres of lines and 1.4 per cent. in terms of stations, and increased the Terna Group's share of sector revenues by

0.7 per cent., from 97.6 per cent. to 98.3 per cent., based on sector revenues in 2005.

With effect from 31 July, 2007, RTM1 and RTM2 were merged by absorption into RTL, which also incorporated RTT with effect from 31 December, 2007.

On 27 June, 2008, following approval by the Italian Antitrust Authority, Terna acquired a share of the NTG owned by Enipower Trasmissione S.p.A. for a total consideration of €8.7 million. On the same date, RTL signed a contract with Società Enipower Ferrara S.r.l. for the sale of the electricity substation SS-1 located in Ferrara for a total amount of €6.1 million.

Enipower Trasmissione S.p.A. owns 17.8 kilometres of high voltage transmission lines; the acquisition of its portion of the NTG allowed Terna to increase its grid by 0.05 per cent. in terms of kilometres of lines while the Terna Group's share of sector revenues in the Italian transmission sector increased by 0.07 per cent.

The sale of the Ferrara substation resulted in a 0.3 per cent. decrease in the Terna Grid in terms of number of substations and a reduction of 0.11 per cent. in terms of the share of sector revenues.

On 29 July, 2008, following the approval of the Italian Antitrust Authority, Terna acquired the NTG assets of Seledison S.p.A. for a total amount of €8.2 million with effect from 1 October, 2008. The terms of the transaction also included the acquisition of the respective lands for a total consideration of €1.9 million.

Seledison S.p.A. owned two electricity substations; the acquisition of its portion of the NTG allowed Terna to increase its grid by 0.5 per cent. in terms of number of stations, while the Terna Group's share of sector revenues in the Italian transmission sector, increased by 0.10 per cent., reaching 98.2 per cent., based on sector revenues in 2007. The transaction was completed on 1 October, 2008.

On 30 July, 2008, RTL acquired from Iride Energia S.p.A. three new stalls of the Moncalieri station, for a total amount of €2.5 million. The transaction completed the acquisition of the 220 kV electrical substation of Moncalieri signed on 28 June, 2007 between RTL and Iride Energia S.p.A. This acquisition increased by 0.05 per cent. the Terna Group's share of sector revenues in the Italian transmission sector, reaching 98.3 per cent, based on 2007 NTG total revenues.

On 1 October, 2008, Terna's board of directors approved the merger by incorporation of RTL into Terna. The merger plan had been approved by the board of directors on 17 September, 2008 and was approved by the RTL shareholders' meeting held on 1 October, 2008.

On 1 April, 2009, Terna acquired the entire capital of Enel Linee Alta Tensione S.r.l. (**Elat**), a company fully owned by Enel Distribuzione S.p.A. (**Enel Distribuzione**) to which the latter, prior to the closing, had transferred a company branch formed by the high voltage lines (18,583 kilometres) and the relative legal obligations. In the context of the same acquisition, the extraordinary shareholders' meeting of Elat also approved a change in the company's name to Terna Linee Alta Tensione S.r.l. The price for the sale, equal to €1,152 million, was subject to adjustment based on the change in the equity of Telat in the first quarter of 2009 (€12.3 million); after the determination of grid transmission fees related to the part of the NTG owned by Telat, Enel Distribuzione refunded Terna an amount of €11 million. The total amount of the acquisition was therefore equal to €1,157.7 million including charges directly attributable to the transaction (€4.4 million). On 28 May, 2009, the extraordinary shareholders' meeting of Telat approved the reduction of its share capital from €843,577,544 to €243,577,554 for an amount of €600,000,000. Terna financed the entire transaction with debt, using existing credit lines.

On 20 April, 2009, the Tunisia-registered firm ELMED Études S.a.r.l. was established. This limited liability company is a joint venture between Terna and Société Tunisienne de l'Electricité et du Gaz (**STEG**) whose main purpose is the study and preliminary consultation concerning the preparation of documents in response to the Tunisian government's call for tenders for the construction and management of the power generation hub in Tunisia for the Italy-Tunisia interconnection project.

On 22 October, 2009, Terna implemented the resolution approved by its board of directors on 28 July, 2009, with a payment of €10.0 million to SunTergrid (established by Terna on 10 September, 2007 and initialiy named *in*TERNA*tional* S.p.A., then Sungrid S.p.A., based in Rome and with a share capital of €120,000) by way of capital contributions from shareholders.

In November 2009, Terna granted a loan to Telat for a total amount of €500 million.

On 5 August, 2010, in accordance with the purchase contract signed on 22 December, 2009, and as a result of the approval by the Antitrust Authorities, Terna and Telat finalised the purchase of the entire share capital of Reti Trasmissione Energia Elettrica ASM S.r.l. (**Retrasm**) from A2A S.p.A. The stipulation of the agreement occurred after the transfer to Retrasm - by way of the partial demerger of A2A Reti Elettriche S.p.A. (**A2A Reti Elettriche**), a company entirely controlled by A2A - of the high-voltage lines classified as distribution lines and owned by A2A Reti Elettriche S.p.A. The assets transferred included 108 kilometres of power lines (at 132 kilovolts) and the bays related to those lines which were included in the NTG further to a Decree of the Minister of Economic Development dated 26 April, 2010.

The amount paid for Retrasm's entire share capital was €28.0 million.

Retrasm, which was renamed Rete Trasmissione Brescia S.r.l., owns a portion of the Rete di Trasmissione Nazionale (**RTN**) of approximately 288 km of lines and relative bays, and 220/130 kV power station.

On 10 November, 2010, the merger by incorporation of Rete Trasmissione Brescia S.r.l. into Telat became effective, as approved by the administrative bodies of the companies on 22 September, 2010. The accounting and fiscal effects are retroactive to the date of acquisition of the share capital of the incorporated company, i.e. 5 August, 2010.

On 30 September, 2010, Terna S.p.A. subscribed, through a capital increase, the entrance into the ownership structure of DESERTEC Industrial Initiative (**DII**), a company incorporated under the laws of Germany and with registered office in Munich, with a stake of 5.6 per cent., equal to that of the other shareholders. The subscription price was €130,000 (of which €10,000 for the nominal value and €120,000 allocated as equity-related reserve).

The DESERTEC project aims to study and facilitate the production and transmission of solar and wind power in the areas of the Middle East and North Africa (MENA), both to fulfil local demand and to be destined, in large part, to the European market.

On 10 November, 2010, Terna, together with grid operators for Switzerland (Swissgrid), Austria (Verbund-APG), Slovenia (Eles) and Greece (HTSO), subscribed for a capital increase of Capacity Allocation Service Company CWE S.A. (**CASC**) in equal shares with the founding members (which include TSO RTE, Tennet, Elia, EnBW and Amprion). CASC is a service company that was founded in 2008 and has its registered office in Luxembourg. Through a single platform, it will manage and implement auctions for the allocation of cross border transport capacity between 12 European countries, including Italy. The operation will benefit both the power system concerned and the market operators involved in the auctions, facilitating access procedures to the individual markets.

The subscription price for the 8.3 per cent. share in the share capital of CASC was €285,000.

On 23 November, 2010, Terna signed the definitive agreement for the strategic partnership with the transmission operator of Montenegro, CrnoGorski Elektroprenosni Sistem AD (**CGES**) and the government of Montenegro, acting in the capacity of majority shareholder of CGES. This agreement refers to the construction of the new electrical connection between Italy and Montenegro, and the strategic Terna-CGES partnership. The transaction was completed in January 2011. The transaction was completed following the approval by CGES's shareholders, of the share capital increase for Terna and the adoption of new articles of association. Terna became a shareholder of CGES with 22.09 per cent. of the share capital and, in its capacity as new shareholder, signed the shareholders' agreement relative to the new governance system and the construction contract for investments.

On 26 November, 2010, Terna became part of the ownership structure of CORESO, a service company incorporated under the laws of Belgium and with registered office in Brussels, with a 22.485 per cent. share. The ownership structure of the company includes operators for France (RTE), Belgium (Elia) and Great Britain (National Grid), each holding an equal share to that of Terna, and the German operator, 50Hertz Transmission, with 10 per cent. More specifically, CORESO prepares daily forecasts and analyses in real

time of energy flows in Central-Western Europe, identifying possible critical issues and duly informing the TSOs concerned in a timely manner. The total value of the transaction was €281,082.

On 9 December, 2010 Terna made an initial payment of €100,000 towards the constitution of the service company MEDGRID, a company incorporated under French law on 7 January, 2011 with registered office in Paris, together with 19 partners, all holding equal 5 per cent. stakes in the share capital. MEDGRID develops, in France and abroad, studies and analyses aimed at the establishment and transport of 20 Giga watts by 2020 of electricity generated from renewable sources, mainly solar, under the scope of the Plan Solaire Méditerranéen (**PSM**) launched in July 2008 by the Union Pour la Méditerranéen (**UPM**).

On 20 December, 2010 Terna finalised the acquisition from Ansaldo Trasmissione & Distribuzione S.p.A. of the 9 per cent. share in the capital of CESI S.p.A. (307,800 shares). As a result of this transaction, Terna's equity interest in CESI reached 39.906 per cent. CESI S.p.A. develops and manages plants and laboratories for testing, studies and experimental research.

On 23 December, 2009, as part of an internal reorganisation and in order to maximise resources and potential for the photovoltaic project, SunTergrid established Rete Rinnovabile S.r.l. (**RTR**), with capital equal to €50,000. The scope of the company includes the planning, implementation, management, development and maintenance of networks and other infrastructure for the transmission, dispatching and production of electricity, including renewable energy, and related research, consulting and assistance activities. On 29 January, 2010, the Board of Directors of SunTergrid resolved to inject capital of €5.0 million to the subsidiary, which was effected in February 2010.

On 22 July, 2010, RTR completed the purchase of the entire share capital of Reno Solar S.r.l. (**Reno Solar**), a company established on 25 January, 2010. Reno Solar was the owner of a project for constructing and running a solar energy plant of approximately 35 MWp and relative concessions to the NTG in the Alfonsine Municipality (RA). On 23 December, 2010, the deed was stipulated for the merger by incorporation of Reno Solar S.r.l. into RTR, with effect from 28 December, 2010, in accordance with that established by the merger project approved on 2 August, 2010 by the Board of Directors of RTR and the Sole Director of Reno Solar.

On 8 September, 2010, Terna provided a loan of €500 million to RTR which was refinanced by means of a refinancing agreement dated 28 January 2011 with a pool of 7 banks, for an 18-year term and an amount of €593.8 million (of which €521.3 million for cash and €72.5 million for signature) with the purpose of refinancing investments to develop the photovoltaic plant portfolio held by RTR on the basis of a non-recourse project financing.

On 18 October, 2010, Terna, SunTergrid and Terra Firma Investments (GP) 3 Limited (wholly-owned by Terra Firma Capital Partners III, L.P.) signed a preliminary agreement for the transfer of 100 per cent. of the quota capital of RTR. The compensation for the operation was agreed in a modular fashion (in terms of enterprise value) on the basis of the plants which, on the closing date of 31 March, 2011, benefited from the incentives of the 2010 Energy Account or the Energy Account of the first quarter of 2011.

On 25 October, 2010, RTR completed the acquisition of a 98.5 per cent. stake of the share capital (equal to €1,118,106.99) of Valmontone Energia S.r.l. from Troiani & Ciarrocchi S.r.l. and C.I.EL. S.p.A. The object of Valmontone Energia S.r.l. is to design, install and manage a solar power network. Valmontone Energia S.r.l. is the owner of the project relative to constructing and running a solar energy plant of approximately 7 MWp and relative licenses to the NTG in the Valmontone Municipality (RM).

On 8 November, 2010, the Board of Directors of RTR resolved to finance Valmontone Energia S.r.l. for an amount of up to €25 million. To this end, on the same date, RTR injected capital of €10 million in Valmontone Energia S.r.l.

On 19 November, 2010, with reference to the photovoltaic plant under construction in Brindisi 1 (with authorised power of 8.4672 MWp) and the photovoltaic plant under construction in Brindisi 2 (with authorised power of 10.080 MWp), RTR acquired the following from Eva Solare S.r.l.: land rental contracts; projects for the design, development and operation of photovoltaic plants and related intellectual property rights, economic exploitation rights and rights for the use, reproduction and processing of the drawings, designs, layouts, specifications and other documents relating to the photovoltaic plants and the consolidated authorisations, which RTR successfully took over on 25 November, 2010. The price of the above transaction

amounted to approximately €2.4 million for the Brindisi 1 photovoltaic plant and €0.6 million for the Brindisi 2 photovoltaic plant.

On 4 February, 2011, RTR completed a payment of a further €10.0 million to Valmontone Energia S.r.l. as a capital contribution payment in order to complete the photovoltaic plant.

On 8 March, 2011, SunTergrid formed Nuova Rete Solare S.r.l. (**NRTS**) with a share capital of €10,000. The corporate purpose of this new company is to design, install, manage, develop and maintain grids and other infrastructure connected to such grids, as well as plant and equipment for the transmission and dispatching of electricity, and for other segments of the energy sector and similar, related or connected sectors, together with plant for the generation of electricity from renewable or other sources, for self consumption or for sale.

On 31 March, 2011, in executing the preliminary agreement signed on 18 October, 2010, the transfer of 100 per cent. of the share capital of RTR to RTR Acquisition S.r.l. (an indirect subsidiary of Terra Firma Investment (GP) 3 Limited) was completed. At the time of transfer RTR owned 62 photovoltaic plants, located in 11 Italian regions, for a total generation capacity of 143.7 MWp. The Enterprise Value of the transaction amounted to €641 million, equivalent to an average EV/MWp of €4.46 million. In addition to renting lands, Terna will also provide RTR with plant maintenance, surveillance and monitoring services, according to multiyear contracts defined in the context of the sale. At the end of the individual rental contracts, Terna will regain possession of the leased areas.

Until 3 November, 2009, the Terna Group also operated in the Brazilian electricity sector through its subsidiaries Terna Participações S.A. (**Terna Participações**), TSN Transmissora Sudeste Nordeste S.A. (**TSN**), Novatrans Energia S.A. (**Novatrans**), Empresa de Transmissão de Energia do Oeste S.A. (**ETEO**), Empresa de Transmissão do Alto Uruguai S.A. (**ETAU**) and Brasnorte Transmissora de Energia S.A. (**Brasnorte**) (the **Brazilian Subsidiaries**).

On 31 December, 2003, Terna began operating in the electricity transmission sector in Brazil through its acquisition of 99.74 per cent. of the issued and outstanding shares of TSN, and all of the issued and outstanding shares of Novatrans from Enelpower S.p.A. On 10 November, 2004, Terna acquired from Inepar Energia S.A. the remaining 0.26 per cent. of the issued and outstanding shares of TSN, resulting in TSN becoming a wholly-owned subsidiary of Terna.

On 31 March, 2006, TSN acquired all the issued and outstanding shares of Munirah, which was merged into TSN on the same date. On 13 March, 2006, Terna acquired all the issued and outstanding common shares in Donnery Holdings S.A., a Brazilian joint-stock company, which was renamed Terna Participações on 3 April, 2006. On 11 April, 2006, Terna applied to the Brazilian energy authority Agência Nacional de Energia Elétrica (**ANEEL**) for approval to contribute the shares it held in TSN and Novatrans to Terna Participações, which, on 2 May, 2006, applied to the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliário, CVM) and the São Paulo Stock Exchange for listing.

Terna Participações' shares started trading on the Nivel 2 Segment of the São Paulo Stock Exchange on 27 October, 2006. On 9 November, 2006 Terna announced that Banco UBS S.A. had informed it that it would fully exercise the greenshoe option (3,315,717 Units in secondary offering) at the same price established for the global offering. Terna's gross proceeds deriving from the greenshoe option were approximately 70 million reais (approximately €26 million). Taking into account the full exercise of the greenshoe the global offering involved 29,841.453 Units, equal to 34 per cent. of the share capital of Terna Participações, for a total value of approximately 627 million reais (approximately €232 million).

On 7 November, 2007, Terna announced that Brasnorte won the right to explore for 30 years the concession of two transmission lines representing 401 kilometres of 230kV lines. Terna Participações held a 35 per cent. stake in the Brasnorte.

On 30 November, 2007, Terna Participações, through its wholly-owned subsidiary, TSN, acquired the entire stock capital of Goiana Transmissora de Energia S.A., a privately held company and the entire stock capital of Paraíso-Açu Transmissora de Energia S.A. These two companies were merged into TSN at the same date and both held 30-year concessions for transmission lines, together representing 186 kilometres of 230 kV lines. On 17 September, 2007, Terna Participações signed an agreement to acquire, through a subsidiary, the

entire share capital of ETEO, which held a 30-year concession for 502 kilometres of 440kV transmission lines in the state of São Paulo. The closing of the transaction occurred on 31 May, 2008.

On 28 December, 2007, the acquisition of the capital stock of 52.58 per cent. of ETAU, a privately-held company was completed by Terna Participações. The company was the concessionaire of the 230kV - 180 kilometre line between Campos Novos and Santa Marta.

On 25 January, 2008 Terna Serviços Ltda. was established. Its objective was to provide services or technical support in the area of electrical energy.

On 24 April, 2009, Terna, Cemig Geração e Transmissão S.A. (**Cemig**) and Companhia Energética de Minas Gerais signed an agreement for the transfer of 173,527,113 common shares, representing approximately 85.27 per cent. of the voting capital and approximately 65.86 per cent. of the outstanding capital of Terna Participações. The purchase price for each purchased share was 13.43 reais (about €4.66), totalling 2,330 million reais (approximately €809 million) for all the shares. The purchase price for each share deposit certificate (each composed of one common and two preferred shares) was, therefore, 40.29 reais (about €13.99). Following the signing of the agreement, the transaction - already approved by the board of directors of Cemig - was ratified by Cemig's general shareholders' meeting as required by Brazilian law.

On 3 November, 2009, the transfer of the shares of Terna Participações from Terna to TAESA S.A. (**TAESA**), a subsidiary of Cemig and of FIP (Fundo de Investimentos em Participações) Coliseu, an investment fund formed by Brazilian investors, was finalised. The transaction generated an overall amount for Terna of 2,347.6 million reais. The proceeds, including dividends, and net of hedging carried out since the signing, were equal to €797.5 million. The impact on the consolidated net income of Terna exceeded €400 million. The closing of the transaction occurred after approval by ANEEL. In compliance with Brazilian law and with Terna Participações' by-laws, the change of control of Terna Participações is subject to TAESA making a public tender offer for the remaining shares of Terna Participações, at the same price per share. As Terna owned an additional 10,000 shares which were tendered during the public tender offer on 6 May 2010, Terna deconsolidated €553.4 million of net debt. The net proceeds of the sale of Terna Participações and the repayment of debt by Terna contributed to a reduction in Terna's consolidated net financial position of €1,265.9 million.

On 28 October, 2009, Terna received the repayment of an intercompany loan disbursed by Terna to Terna Participações in February 2009, for an amount of 540.1 million reais (equal to, net of Brazilian taxes and hedging, approximately €180.3 million). With this repayment, all business relationships between Terna Participações and Terna were terminated.

## RECENT DEVELOPMENTS

The Terna Group's consolidated results in the first quarter of 2011, compared to those in the first quarter of 2010, confirmed Terna's constant growth and ongoing commitment in developing the NTG, which is necessary to strengthen the entire electricity system and increasing its safety and reliability.

**Consolidated Financial Results**[1]

| *(Million €)* | **First Quarter 2011** | **First Quarter 2010** | **Change** |
|---|---|---|---|
| **Revenue** | 384.7 | 364.7 | +5.5% |
| **Ebitda (Gross Operating Profit)** | 294.7 | 273.9 | +7.6% |
| **Ebit (Operating Profit)** | 199.5 | 190 | +5% |
| **Profit for the period from continuing operations** | 114.4 | 107 | +6.9% |

1 Ebitda (gross operating profit) represents an operating performance indicator and is calculated by adding the operating profit (EBIT) to amortisation, depreciation and impairment losses; Ebit (operating profit) is calculated as difference between total revenue and total expenses; Net financial debt represents an indicator of the company's financial structure: it is determined as the result of short and long term loans, cash and cash equivalents, non current financial liabilities, non current financial assets for the value of the FVH derivatives.

Revenue in the first quarter of 2011, equal to €384.7 million (€347.9 million for Terna) registered an increase of €20 million (+5.5 per cent. compared to €364.7 million euros in the first quarter of 2010). This increase was mainly due to higher grid fees, equal to €20.8 million, mainly attributable to Terna (€19.1 million).

Operating costs, equal to €90 million (€88.1 million for Terna), were almost in line (€-0.8 million) with the same period last year, mainly related to the combined effect of higher charges regarding ordinary grid management reported last year (€-3 million and of lower consumption of materials (€1.4 million) partially offset by the trend of personnel expenses (€3.5 million).

Ebitda (Gross Operating Profit) stood at €294.7 million, with an increase of €20.8 million (+7.6 per cent.) compared to the results in the first quarter of 2010.

Ebitda margin rose from 75.1 per cent. in the first quarter of 2010 to 76.6 per cent. in the same period in 2011.

Ebit (Operating Profit) equal to €199.5 million, rising by €9.5 million (+5 per cent.) compared to the first three months in 2010, reflecting an increase in amortizations of €11.3 million (+13.5 per cent.) mainly due to the entrance into operation of new plants.

Net financial expenses for the period, stood at €25.1 million (entirely attributable to Terna), were for the most part in line (€-1.1 million) with the first quarter of 2010.

Income taxes for the period equaled €60 million (€+1 million compared to the first quarter of 2010). The tax rate was equal to 34.4 per cent. compared to 35.5 per cent. of the first three months of 2010.

Profit for the period from continuing operations stood at €114.4 million, rising by 6.9 per cent. compared to €107 million in the first quarter of 2010. The Terna Group profit for the period stood at €173.6 million, increasing by €66.5 million (equal to 62.1 per cent.) compared to the first quarter of last year and included €59.2 million of nearly €204 million in total from the sale of Rete Rinnovabile S.r.l..

The consolidated statement of financial position as of 31 March, 2011 registered a total equity attributable to shareholders of Terna equal to €2,941.1 million compared to €2,760.6 million as of 31 December, 2010. The actual net financial debt from continuing operations stood at €4,548.9 million, decreasing by €173.5 million compared to €4,722.4 (considering Terna's positive net financial position versus Rete Rinnovabile S.r.l.) as of 13 December, 2010.

The debt/equity ratio as of 31 March, 2011 stood at 1.55 reflecting the proceeds from the sale of Rete Rinnovabile S.r.l.

Total investments in traditional activities in the first quarter of 2011 were equal to €257.4 million, with an increase of 36.2 per cent. compared to €189 million in the same period of last year.

Group headcount, as of the end of March 2011, equaled 3,524, increasing by 56 employees compared to the end of 2010.

On 13 May, 2011, Terna's shareholder's meeting approved Terna's financial statements as of 31 December, 2010. Upon proposal by the Board of Directors, a dividend was resolved for 2010 equal to 21 eurocents per share (+ 10.5 per cent. compared to 2009), and the distribution – gross of any withholdings according to the law – of 13 eurocents per share as a final dividend on the interim dividend of 8 eurocents already paid in November 2010. The final dividend will be paid as of 23 June, 2011, with a "registration date" of coupon No.14 on 20 June, 2011.

On 18 May, 2011, Giuseppe Saponaro, the present Director of Business Development and Head of Finance was appointed Terna's Chief Financial Officer.

## BUSINESS OVERVIEW

### The electricity market in Italy

The demand for electricity in Italy in 2010 was 326TWh, with an increase of 1.8 per cent. over 2009 (320TWh).

From 2004 to 2006, the growth in demand for electricity in Italy outpaced the real Gross Domestic Product (GDP) growth rate for Italy, as shown in the following table[(1)]. In 2007 the growth in GDP was higher than the growth in demand for electricity, reflecting in part the lower consumption due to higher winter temperatures, while both 2008 and 2009 showed a negative trend due to unfavourable economic conditions. In 2010 there was an interruption of this negative trend, with an increase both in GDP and demand in electricity (of 1.3 per cent. and 1.8 per cent. respectively). The demand for electricity in Italy in 2009 was 318TWh, with a decrease of 6.4 per cent. compared to 2008 (339TWh).

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| Growth in demand for electricity in Italy[(2)] .. | 1.5% | 1.6% | 2.1% | 0.7% | -0.1% | -6.4% | +1.8% |
| Growth in the real GDP of Italy[(3)] ..... | 1.5% | 0.7% | 2.0% | 1.5% | -1.3% | -5.2% | +1.3% |

(1) There is a correlation between GDP and electricity demand. Energy intensity is an indicator that represents the quantity of electric energy (kWh) used by each sector, weighted by reference to the related contribution to GDP.

(2) Source: Terna, Bilanci energia elettrica.

(3) Source: Istituto Nazionale di Statistica (National Institute of Statistics) (**ISTAT**). Differences with the previously published data are due to changes in the National Accounting System (as of March 2011).

## PRINCIPAL ACTIVITIES

Terna operates the electricity transmission business in Italy and is the principal owner of the high voltage and very-high voltage electricity transmission networks and systems of the Italian grid. Terna currently owns, directly or indirectly, over 98.5 per cent. of the NTG.

Terna's principal activities consist of the transmission and dispatch of electricity in Italy and the operation, maintenance and development of the NTG pursuant to the terms of the 2005 Concession.

### *The Terna Grid*

As of 31 December, 2010, the Terna Grid consisted of:

- approximately 11,759 kilometres of 380kV, 400kV or 500kV (very high voltage) connections, including those connecting Italy to Greece, and Sardinia to the Italian mainland;
- approximately 12,033 kilometres of 200kV or 220kV (very high voltage) connections, including those connecting Sardinia, Corsica and the Italian mainland;
- approximately 21,914 kilometres of connections of 150kV, 132kV or less (high voltage);
- 383 substations; and
- certain other fixed assets.

The electricity transmission networks and systems which comprised the Terna Grid as of 31 December, 2009 and 2010, are as follows:

| | As of 31 December, | |
|---|---|---|
| **Type of facility** | **2009** | **2010**[1] |
| Primary transformer/switching substations | 372 | 401 |
| Other substations[2] | 11 | 11 |
| Total substations | 383 | 412 |
| Transformers | 620 | 632 |
| Transforming capacity in MVA | 121,501 | 125,251 |
| Bays | 4,537 | 4,706 |
| 380kV (or greater) transmission lines[3] | 11,212 | 11,759 |
| 220kV transmission lines[4] | 12,083 | 12,033 |
| 150kV (or less) transmission lines | 21,265 | 21,914 |
| Total transmission lines (in kilometres) | 44,560 | 45,707 |

(1) Excludes TELAT transmission grid consisting of approximately 17,871 kilometres of overhead transmission lines of 150-132kV;

(2) Facilities owned by Terna which are not included in the NTG but connect the Terna Grid with HV customers or connect long distance overhead lines to underground or underwater cables. Although Terna believes that these substations are necessary for the optimal performance of the NTG, Terna cannot be certain that all of these substations meet the requirements for their inclusion in the NTG. Currently Terna does not receive an annual fee for these facilities.

(3) (a) Includes the 400kV Italy-Greece DC connection (both in 2008 and 2009)

(b) Includes the 500kV Sardinia-Italian mainland DC connection (both in 2009 and 2010).

(4) Includes the 200kV Sardinia-Corsica-Italian mainland DC connection.

The Terna Grid's 45,707 kilometres of transmission lines include 10,555 380kV connections (one of which consists of double-circuit transmission lines), 11,171 220kV connections, 862 200kV DC connections, 255 400kV DC connections and 949 500kV DC. The 200kV DC line connects Sardinia, Corsica and the Italian mainland, while the 400kV DC line connects the NTG to Greece via the Otranto Channel in the Mediterranean Sea, while the 500kV DC line connects Sardinia to the Italian mainland.

Terna guarantees high standards in network performance: for the year 2010 Terna reported 99.22 per cent. availability of the system and 0.94 min/year average interruption time, in line with international best practices.

**Operation, maintenance and development of the NTG**

Operation of the NTG is regulated by the National Control Centre and by the territorial centres.

*(a) Plant management and control*

Terna determines the configurations and sequences for the switches, known as "breaker switches", that connect the various components of the NTG. Terna is required to take all necessary actions to implement and maintain the configurations and sequences, as applicable to the Terna Grid. Terna also determines the configurations and sequences for the switches for other NTG owners.

Terna manages and controls the transmission network and systems as follows:

- The plant management and control personnel are located in three management centres: Bari, Dolo (Venice) and Rondissone (Turin). The plant management and control personnel are able to configure and control the sequences for the breaker switches at remote locations on the Terna Grid through a telecommunications network known as SCTI-Net (owned and built by Wind Telecomunicazioni S.p.A. in collaboration with Terna using a fibre-optic technology platform known as E-Net), which is supplemented by radio links and, to a limited extent, by connections provided by Telecom Italia S.p.A. SCTI-Net is also used to receive and transmit signals, measurements and data regarding the status of the Terna Grid. This system of continuous monitoring is designed to promptly alert the plant management and control personnel of any actual or potential malfunctions or failures of any part on the Terna Grid.

- Each of the three management centres is specifically responsible for designated parts of the Terna Grid as follows: Bari: south-central region (Lazio, Umbria, Abruzzo, Campania, Basilicata, Molise, Puglia and Calabria) and Sicily; Dolo (Venice): north-central region (Tuscany, Emilia-Romagna and Marche) and north-eastern region (Veneto, Friuli Venezia Giulia and Trentino Alto Adige); and Rondissone (Turin): north-western region (Lombardy, Piedmont, Valle d'Aosta and Liguria) and Sardinia.

- If any of the management centres is temporarily out of service, the SCTI-Net system, through its "multisite" software, automatically routes signals, measurements and data from the part of the Terna Grid for which that management centre is responsible to another management centre which is then able to remotely monitor and manage that part of the Terna Grid (in addition to those parts of the Terna Grid for which it is specifically responsible).

*(b) Response operations*

Terna is required to promptly respond to all hazardous conditions that arise from any failure or malfunction of any part of the Terna Grid and, if possible, rectify such failure or malfunction.

*(c) Temporary placement out of service for maintenance*

If a part of the Terna Grid is required to be temporarily taken out of service for maintenance or other projects, Terna specialist personnel (i) implement certain procedures to create safe conditions for maintenance or other projects to be conducted, and (ii) implement procedures for resumption of service.

*(d) Plant inspections*

Terna's personnel make plant inspections to monitor the technical conditions of the components of the Terna Grid and to collect current information that is not automatically obtained through SCTI-Net. These inspections also aim to ensure that the components are not subject to interference from vegetation, construction by third parties, activities on or near the sites on which Terna networks and systems exist and other potential hazards or activities that may cause a malfunction of the Terna Grid. Inspections are conducted on a scheduled basis, and whenever failures or malfunctions occur on the Terna Grid.

***Maintenance***

Maintenance includes all the actions performed on the NTG and its components in order to preserve or restore their effective and proper operations, without making changes to their technical or functional characteristics (known as "routine maintenance") or to renew or extend the useful life of any component by making changes to its technical (but not functional) characteristics (known as "extraordinary maintenance").

Terna is responsible for maintenance operations of the NTG and performs routine maintenance and extraordinary maintenance of the Terna Grid.

Maintenance activities are aimed at:

- maintaining an adequate level of functioning of the system and its components, and reducing the probability of the occurrence of anomalies and faults at the NTG plants;

- ensuring the fulfilment of conditions for the continuity of service and, in case of any malfunction, reinstating, in as short a time as possible, the correct functioning of the system; and

- guaranteeing the safety of the plants, their operating personnel and third parties.

Furthermore, Terna formulates the unavailability plans for the Terna Grid and coordinates the unavailability plans of the producers and other users of the NTG with its own plans and with those of the other owners of

the NTG, according to the criteria of security, reliability and efficiency, as well as the maintenance of security, continuity of supply of electrical energy and cost control.

In order to keep the NTG efficient and available, Terna carries out checks and maintenance works (ordinary and extraordinary). The checking and maintenance criteria are defined by Terna according to principles including the technical code of practice, standards and indications from building constructors, the technical conditions of the components and equipment and Terna's own past experience and best practices. Terna has developed a proprietary integrated maintenance management system (MBI - Monitoring and Business Intelligence) to support the asset management process for the High Voltage transmission system, and has established maintenance policies and plans setting its performance targets and budget controls.

***Development***

Terna also engages in development activities related to the expansion and upgrade of the NTG. Development activities for the NTG include:

- varying the transmission capacity or the interconnection capacity of the NTG;
- extending the NTG geographically through the construction of new electrical lines or new electrical stations;
- increasing operating flexibility;
- decommissioning elements of the NTG to the extent necessary for the rationalisation of the NTG; and
- downgrading or upgrading power lines and stations.

Terna decides on the development of the NTG in compliance with the 2005 Concession. The development activities for the NTG concern mainly the planning, the design and the realisation of the projects.

In the next Transmission Development Plan, Terna will refer to the new concession (Law of 15 December 2010).

In addition, Terna is sensitive to European energy objectives, especially to the integration of renewable energy sources, the integration of the electricity market and the security of supply. Therefore Terna also aims to plan appropriate projects for the development of the national transmission grid that can drive the development of renewable energy.

In particular, in the Terna Transmission Development Plan a specific chapter contains the development projects for the integration of renewable energy sources in accordance with the targets of the National Action Plan.

Terna also formulates a legal and regulatory compliance plan addressing environmental issues (including Law 36/01 and its subsequent modifications), and verifies implementation of this plan by other NTG owners.

***Dispatching***

Since 1 November, 2005, Terna has conducted dispatching activities in respect of the NTG, to ensure the coordinated use and operation of generation plants, transmission grid and ancillary services on an economic basis, and to maintain the balance between the input and output of electricity, with the necessary reserve margins.

The dispatching service consists of:

- managing of the electricity system under security conditions; and
- providing for the availability of resources to deal with congestion, to acquire reserve capacity and to guarantee the balance of the system through the market of dispatching services.

The dispatching activities are carried out in accordance with the 2005 Concession and on the basis of the economic and technical rules set by the Italian Energy Authority. On the basis of these regulations Terna has

set up the "Dispatching Rules" (contained in the Grid Code) establishing the rights and obligations of users, the technical and economic procedures to be followed and the type of resources required for dispatch service.

The electricity system is managed by the National Control Centre and by eight territorial centres.

***Other businesses***

In Italy, Terna Group also offers certain unregulated services to third parties. The services include engineering, construction, operation and maintenance of high voltage and very-high voltage networks and systems and telecommunications services.

The revenues from these services and other revenues, as at 31 December, 2010, amounted to €113.1 million, or 7.1 per cent. of Terna's total consolidated revenues.

**Engineering, construction, operation and maintenance**

The gradual liberalisation of laws and regulations regarding the production and sale of electricity in Italy has led to greater demand from independent power producers for services relating to the engineering, construction, operation and maintenance of high voltage and very-high voltage networks and systems for connection to the NTG.

With reference to activities designed to increase the connection capacity of the NTG with the electricity systems of neighbouring countries, the so-called "merchant lines", the Ministry of Productive Activities' Decree of October, 2005 clarifies that concession owners may not participate in merchant lines, in compliance with EU Regulation 1228/2003. Terna will evaluate the possibility of contributing to certain merchant line initiatives as a general contractor.

Terna also provides engineering services to Enel group companies and independent power producers.

Terna's operations and maintenance services are, for the most part, provided to industrial companies or other power companies that own high voltage and very-high voltage transmission networks and systems.

Terna's revenues from specialised high- and very high-voltage services provided to third-party customers as at 31 December, 2010 were €46.2 million and revenues for requests to connect to the National Transmission Grid were €4.9 million.

**Telecommunication sector services**

*Installation, maintenance and development of fibre-optic cable networks*

Terna offers services for the installation, maintenance and development of fibre-optic cables and network infrastructure.

Terna provides these services to group companies of Wind Telecomunicazioni S.p.A. for the installation, maintenance and development of the fibre-optic cables and network infrastructure for its E-Net system. Terna's revenues from these services for the year ended 31 December, 2010 were €2.2 million.

*Support structures and equipment housing*

Terna leases out space on the Terna Grid for the installation of support structures (such as towers, masts, poles, and other supports) for antenna systems and for the installation of telecommunications housing equipment. The primary user of this type of service is Wind Telecomunicazioni S.p.A. Revenues earned from these services for the year ended 31 December, 2010, totalled approximately €15.3 million.

In 2007 Terna and Enel Distribuzione entered into an agreement for the use of Terna infrastructures for conveyed waves communication. Revenues earned from this agreement for the year ended 31 December, 2010 totalled approximately €2.0 million.

### Research and Development

Terna focuses on Research and Development with the aim of introducing technological solutions for plants, instruments and methods in order to boost plant reliability and, consequently, service quality, while making Terna's processes more efficient.

A group of engineering experts monitors the functioning of the equipment, with the support of a specialised IT system (MBI), and constantly looks for improvements to be made to equipment.

In particular, in 2009, the following projects were identified and implemented:

- Definition, design and testing of new transformers with the aim of eliminating gas losses and explosion risks.
- Completion of tests and definition of new design requirements for mechanical stress on electrical components as a consequence of short circuit current.

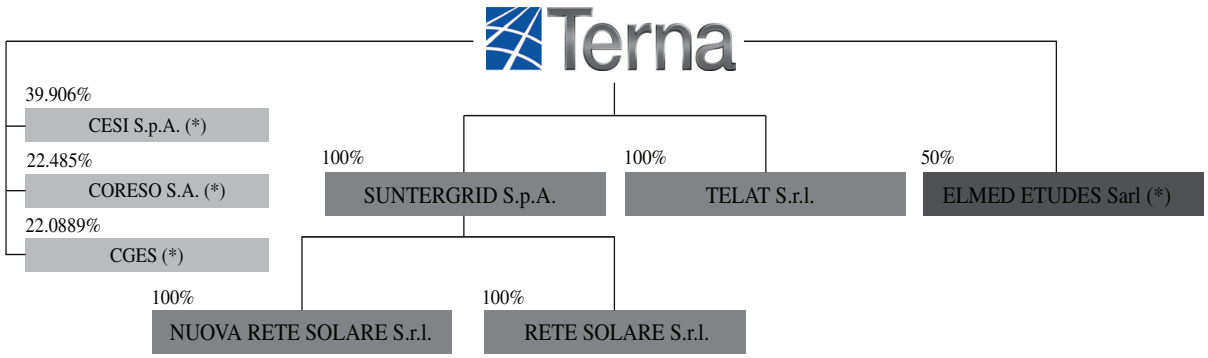
Research and Development activities are pursued using internal resources and for the most part, by teams organised into work groups in order to disseminate knowledge throughout the company. Specialist support is drawn from developers, universities and the associated company CESI.

The innovative solutions developed by Terna's research and development programme have led to substantial improvements to Terna's business, decision-making processes, technology and work methods.

## ORGANISATIONAL STRUCTURE

The chart below illustrates the structure of the Terna Group and Terna's position within the group.

As of 31 March, 2011, the Group was organised as follows:




(*) Companies measured using equity method.

Terna is the controlling entity and parent company of the Terna Group. Terna currently holds the entire share capital of Telat and SunTergrid. Furthermore, Terna holds a 39.906 per cent. stake in CESI, a 22.485 per cent. stake in CORESO S.A., a 22.089 per cent. stake in CGES and a 50 per cent. stake in Elmed.

## STRATEGY AND BUSINESS PLAN

Terna's mission is to guarantee the reliability, quality and economic efficiency of the NTG over time, to develop new business opportunities and to create value for its shareholders by pursuing the strategies outlined below.

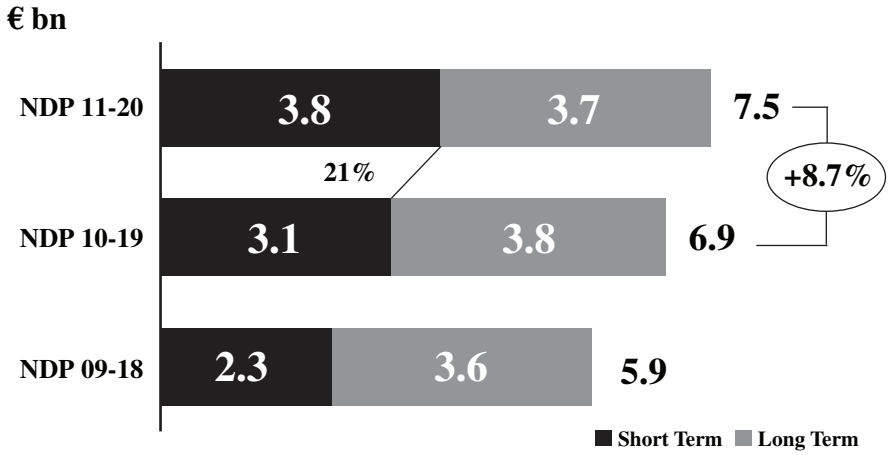
### Sustainable growth

The National Development Plan (**NDP**) for the 2011-2020 period provides for a total of €7.5 billion of investments with an increase of €600 million in additional investments concentrated in the first five years with respect to the NDP for 2010-2019.

This increase is mainly due to the inclusion in the NDP of the Italy – Montenegro and Sardinia – Corsica (**SA.COI**) interconnections and of approximately €400 million of grid rationalisation.

Investments continue to address congestion between zones and bottlenecks in the Grid, while the nuclear programme impact on the Grid has not yet been included in the NDP.

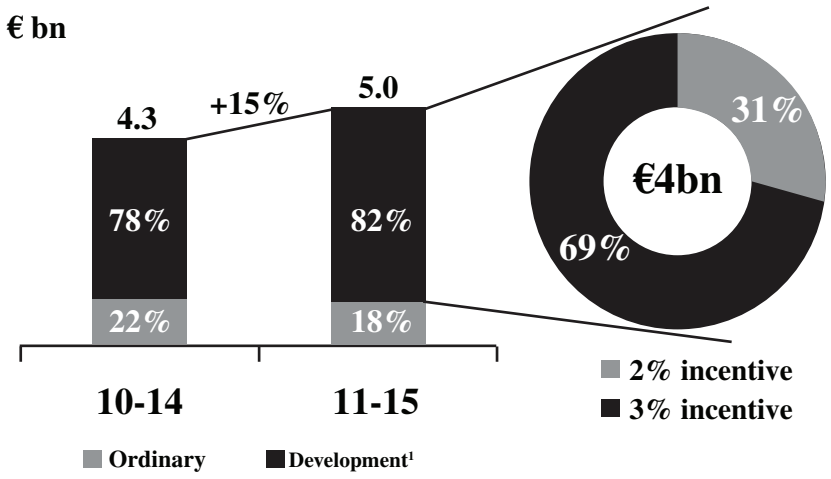
**National Grid Development Plan (ten years)**




Source: Terna's 2011-2015 strategic plan, 14 February 2011

The NDP has been used as the reference for the capital expenditure figures in Terna's five year 2011-2015 industrial plan.

**Regulated Capital Expenditure Plan (five years)**




Source: Terna's 2011-2015 strategic plan, 14 February 2011

In the next five years, Terna will invest a total of €5.0 billion (average annual spending of approximately €1000 million), mainly for the development of the Terna Grid, representing an increase of €700 million or 15 per cent. compared to the previous business plan (which provided for €4.3 billion in investments). In order to reduce congestion between zones and bottlenecks in the Terna Grid and resolve market constraints, the key development projects foreseen in Terna's industrial plan are:

- Trino – Lacchiarella (Piemonte – Lombardia)
- Italy – France interconnection
- Dolo – Camin Fusina (Veneto)
- Chignolo Po – Maleo (Lombardia)
- Foggia - Benevento (Puglia – Campania)

Moreover, as for submarine cable projects, Terna will realise interconnections between Italy-Montenegro, Sardinia - Corsica and the Sorgente-Rizziconi (Sicilia - Calabria) cable.

Incentivised capital expenditures represent 82 per cent. of the total, and have increased from €3.3 billion to €4.1 billion, over 80 per cent. of which will be spent in central and southern Italy. Investments for interconnections with foreign countries will increase from approximately €650 million to approximately €1 billion.

As a consequence of the acceleration in capital expenditure, the Regulated Asset Base (**RAB**) is expected to increase from €9.0 billion to €12.4 billion at the end of 2015, with a compound average annual growth in excess of 6.6 per cent.

**Margin Enhancement**

Terna Group's average annual revenue growth will be approximately 4 per cent. in the period 2011-2015, mainly driven by capital expenditure.

The average annual growth in the Terna Group's costs for the period 2011 to 2015 is expected to equal 0.4 per cent., with decreasing costs relating to regulated activities despite the significant increase in investments.

Higher revenues and cost control are expected to lead to enhanced margins for the Terna Group, that are projected to go from the current 74 per cent. to 78 per cent. at the end of 2015.

**Financial Discipline**

During the 2011-2015 period, Terna expects a net debt to regulatory asset base (**RAB**) ratio of below 60 per cent. even with the above mentioned increase in capital expenditures.

**Diversified Activities**

In order to maximise the exploitation of its assets and their profitability, in 2011 Terna will continue to develop photovoltaic project opportunities in nearby existing substations with a target of 50 MWp of generation capacity.

Terna is also investigating new business opportunities in the energy storage system and energy efficiency markets to take advantage of markets trends and core competencies and skills.

**Quality of Service**

Terna guarantees quality transmission service, in line with the levels established by the Grid Code and with international best practices.

Recently approved regulations offer the opportunity to create value for shareholders through incentive mechanisms on dispatching activities and quality of service. With respect to dispatching, the Italian Energy Authority has defined an incentive scheme lasting three years (2010-2012) which grants premia based on the ability to reduce volumes traded in the dispatching market. In 2010 Terna received a premium equal to €77 million. Other incentive schemes added approximately €9.2 million to company revenues.

**Efficient capital structure**

On 24 November, 2010, Terna signed an agreement with the European Investment Bank for a €300 million loan aimed at strengthening the Italian electricity transmission system in order to guarantee the safety and efficiency standards required from a transmission service. The loan has a 20 year maturity and will be repaid in six-month instalments starting from the fifth year.

On 8 March, 2011, Terna launched an issue of €1.25 billion fixed rate notes with a maturity of ten years under its Euro Medium Term Note Programme. The notes were issued at an issue price equal to 99.245 per cent., will mature on 15 March, 2021, and pay an annual coupon of 4.750 per cent. The notes were priced

with a spread of 130 basis points over the midswap at launch. The notes are listed on the Luxembourg Stock Exchange, and are intended for institutional investors.

Terna intends to continue managing its capital structure as efficiently as possible, taking into account its expected cash flows from operating activities and its future investment programmes. The Industrial Plan 2011-2015 envisages that cash absorption generated by the investment plan and by the dividend policy will lead to a €2.6 billion increase in net financial debt by the end of 2015.

**Environmental Matters**

Terna and its subsidiaries hold all material environmental licences required to carry on their businesses and to install connections for electrical transmission networks.

Terna pursues the most appropriate solutions for guaranteeing the transmission service at the best reliability, cost and environmentally sustainable conditions. This means focusing on the environment both in managing the existing lines and in planning and building new ones.

Terna gives priority to searching for solutions that are coordinated with the territory's institutions such as modalities for considering and examining the environmental aspects of its projects. In building new electricity lines, Terna involves stakeholders that are fundamental with respect to the relevant territory by using the SEA procedure (Strategic Environmental Assessment) to share with the relevant Ministries, Regions and Local Administrations the electricity system's development needs.

Terna also carries out grid rationalisation activities: complex projects that allow old lines to be replaced with new ones. Among the lines to be removed, priority is given to those located in urban areas where the presence of power lines is a critical issue.

Terna carries out various initiatives for the reduction of the environmental impact of its plants. In particular, the following initiatives have been undertaken:

- Terna signed an agreement with important environmental associations pursuant to which:
  - LIPU (Italian League for Bird Protection) and Terna are carrying out a monitoring project to study, for the first time, the interactions between bird population and power lines of the NTG;
  - the WWF (World Wildlife Fund) and Terna, in accordance with an agreement signed in January 2009, are implementing the first action plan for sustainable development of the NTG in areas of high environmental value for the national territory. This plan includes both mitigated actions, environmental monitoring and improving the natural fruition in some of the WWF oasis, and remedial measures in national parks where the disposal of existing lines is expected;
- Terna is evaluating the possibility of using the lines of the NTG in support of environmental monitoring: the installation of special sensors on support lines allows to initiate programs to collect environmental data, agreed with park authorities and local authorities. Terna could make a significant contribution to monitoring and management of biodiversity and land use. A first application could be realised in the territory of the Pollino National Park, installing antifire sensors on existing NTG lines;
- protection of the bird population through the monitoring of nests on its pylons in collaboration with the *Istituto Superiore di Sanità* (National Institute of Health);
- Terna launched "An idea transmits energy": an international competition for creating and building new pylons;
- construction of new Foster pylons (winner of the "*Sostegni per l'ambiente* - Pylons for the environment" award), which has been placed on the new 380 kV Tavernuzze - Casellina long distance line;
- construction sites for important reorganisations are about to open, for example in Val d'Ossola Sud and Valcamonica (in the north of Italy), where the existing lines are being demolished and new lines are constructed adopting recent technologies and upgraded routes and set-ups, using underground

cables; in particular, in Val d'Ossola low land occupation and environmental impact pylons are being installed;

- continued experimentation of high temperature conductors, allowing better use of existing lines without further land occupation, track modifications or bigger pylons;
- Terna outlined a low acoustic emission pylon project; in particular, four-bundle conductors will be used, thus allowing the abatement of losses due to the so-called "corona effect" and subsequent abatement of acoustic emissions, which become particularly disturbing in certain humidity or pollution conditions.

Terna has established and maintains an integrated management system relating to QHSE - Quality, Environment and Health & Safety. The certifications of this system, in conformity with UNI EN ISO 9001:2008, UNI EN ISO 14001:2004 and BS OHSAS 18001:2007 standards, confirms the attention in improving the quality level of processes and services, assessing and managing the environmental aspects and impacts as well as the risks related to health and safety at work.

*Uncertain factors related to environmental matters*

With reference to electromagnetic aspects, Italian law (Law 36/2001 and the Decree of the President of the Council of Ministers of 8 July, 2003) provides for general environmental recovery of the electricity grid in order to monitor compliance with emission limits. The Government is working on a new decree, whose adoption is contemplated in general law, on electromagnetic aspects. Terna and other operators have been consulted.

*Uncertain factors related to the Energy sector*

Applicable legislation (Decree 239/2003 as modified by Law 290/2003) and the Environmental Law (Legislative Decree no. 152 of 3 April, 2006) established a procedure for transmission grid development projects that should last for 180 days; instead, the time limit is usually extended (even to two or three years), since required binding advice (in particular, the Environmental Impact Assessment) is not issued within the applicable deadline. Such delays represent a loss of revenue for Terna and difficulties in investment planning.

Decree 28/2011, adopted in March 2011, envisages a reform of renewable energy sources incentives. The new incentives which will be assigned to solar power plants running after 31 May, 2011 have been recently established by decree. A further decree has to be adopted before 29 September, 2011 to provide details of new incentives and new assigning procedures applicable to the renewable plants running after 31 December, 2012. Consequently, the legal framework of renewable incentives is currently uncertain.

Furthermore, legislation related to golden shares is subject to review by the Minister of Economy and Finance, after the EU Court of Justice judgment of 26 March, 2009, and the partial abrogation of the Italian decree of 10 June, 2004, concerning the criteria to exercise golden shares.

**Company security**

Terna manages the electricity system's vulnerability and that of its critical infrastructures with updated solutions of a high technical and organisational level implemented through internal processes and systems as well as through procedures and provisions required for all operators participating in the national electricity system.

In order to implement an integrated "risk management" system, in 2007 Terna established the Corporate Security Department, which joined together its safety operations and defined a comprehensive system for identifying, analysing and controlling company risks. In particular, the security measures implemented are aimed at protecting the company's infrastructures as well as actions focused on preventing and managing corporate fraud.

To manage and monitor in real time the critical situations affecting the most important infrastructures, Terna created a Security Operations Centre (**SOC**) capable of preventing, dealing with and managing critical

situations. The SOC control room became operational in 2009. In particular in conjunction with the Carabinieri Police Force and the National Police Force, Terna has adopted cooperative arrangements with these two forces for the exchange of information in this field in order to improve the management of security events such as break-ins.

**Electricity Market Risk management**

The Italian Energy Authority, with resolution no. 115/08 "Integrated text for monitoring the wholesale electricity market and the dispatching service market" (**TIMM**), defined the general criteria and principles for monitoring markets for Terna, for Gestore dei Mercati Energetici S.p.A. (**GME**) and for Gestore dei Servizi Energetici - GSE S.p.A., establishing for each one an appropriate Monitoring Office.

Electricity Market Risk Management is Terna's monitoring unit, which is responsible for the TIMM data warehouse and sees to the acquisition, organisation and storage of data in order to monitor the volumes and indicators related to the Ancillary Services Market.

The activity in question is particularly important under the scope of the Terna incentives scheme envisaged by Authority Resolution no. 213/09 in relation to the provisioning of resources for the dispatching service.

In order to analyse the main risks relating to the electricity market in 2010 the SIMM (Security Index Market Monitor) was set up. This is a managerial "dashboard" devoted to monitoring the electricity market.

**Electricity System Risk management**

Terna is responsible for the coordinated operation of the entire electricity system even if it directly manages only the part constituted by the transmission grid. Therefore, the proper operation of the plants connected to the grid and of external operations outside of Terna's field of activity requires adequate risk management.

**Fraud Management**

In 2010, the Fraud Management Unit continued with its prevention of company fraud. Its main objective is to carry out all necessary actions for the protection and safeguard of company assets (tangible and non-tangible resources, direct and induced benefits) and to support all departments and divisions in compliance activities aiming at verifying their correct implementation of laws, regulations, procedures, codes of conduct, and best practices with the aim at reducing and/or preventing risks of fines and protecting the company's image.

**Control of Management Systems**

In 2010, through an audit by the Certifying Body (**IMQ**), Terna obtained certifications UNI EN ISO 9001:2008, UNI EN ISO 14001:2004 and BS OHSAS 18001:2007.

**Physical Security**

Terna has established new protection and surveillance systems that are consistent with their level of importance for the operation of the electricity system and which are sufficient in relation to the number and types of hostile events which Terna is actually or potentially exposed to.

With this objective, for the first time in Italy, Terna has adopted risk assessment methodology for each of those stations concerned in order to analyse the related physical risk by way of assigning a risk index to each station based on their respective critical importance.

In 2010, the programme that began in 2009 was continued, with the aim of protecting the entire electrical asset, comprising more than 400 stations, by means of the use of technology calibrated on real electrical and environmental risk.

During 2010, a further 20 anti break-in systems were developed.

**Information Security**

Terna's Information Security aims at improving the security of data and company systems in parallel with the constant, ongoing compliance with applicable regulatory framework obligations and requirements.

Under the scope of the initiatives aimed at improving security processes, in the second half of 2010 Terna began the process of certification to standard ISO/IEC 27001:2005 in relation to the specific information technology environment of Terna. This is represented by the TIMM (Market Monitoring Integrated Text) applications. This decision has been shared with the AEEG and aims to make Terna even more efficient in terms of the governance of data security and to improve trust between the company and its stakeholders.

## LITIGATION AND ARBITRATION PROCEEDINGS

In the ordinary course of its business, as of 31 December, 2010, Terna is a party to approximately 1090 civil and administrative proceedings both as plaintiff and defendant, and five criminal proceedings relating to deadly or serious work incidents involving employees or crimes relating to the destruction or alteration of natural resources in protected areas. Terna is not a party to any arbitration proceedings. The principal civil and administrative proceedings to which Terna is a party fall in the categories of annulment of authorisations, annulment of decisions of the Italian Energy Authority, annulment of acts performed by Terna as Transmission System Operator (**TSO**), enforcement of decisions issued by the Italian Energy Authority, damage to health and requests for modification of the location or operating conditions of the Terna Grid, lawsuits related to easements, labour rights and lawsuits regarding non-payment for the performance of contract work.

Terna has established a provision for litigation and contingent liabilities which, as of 31 December, 2010, totalled €15.3 million. This provision does not cover approximately 940 civil and administrative claims brought against Terna for which the damages have not been quantified or, in relation to which the plaintiffs' prospects are considered by Terna to be remote.

Due to their nature, Terna is not able to predict the ultimate outcome of the proceedings currently pending against Terna, some of which may be unfavourable to Terna and may require Terna itself to pay damages to the plaintiff(s), incur costs for modifying parts of the Terna Grid or temporarily remove parts of the Terna Grid from service. However, Terna does not believe that a negative outcome in any of these proceedings would compromise the operation of the Terna Grid as a whole and when taken as a whole, Terna believes its provisions for litigation and contingent liabilities are adequate.

Terna does not expect the outcome of the pending proceedings to have, individually or in the aggregate, a material adverse effect on its financial position or results of operations.

## DIRECTORS, SENIOR MANAGEMENT, STATUTORY AUDITORS AND EMPLOYEES

Corporate governance rules for Italian joint stock companies (*società per azioni*) such as Terna whose shares are listed on the Italian stock exchange are set forth in the Italian Civil Code, in Legislative Decree No. 58 of 24 February, 1998, as amended (the Italian Financial Services Act (*Testo unico delle disposizioni in materia di intermediazione finanziaria*) or **TUF**) and in the set of disciplinary rules of corporate governance for listed Italian companies adopted by Borsa Italiana S.p.A. (the **Code of Conduct**) that have been drafted by its Corporate Governance Committee, and were last amended in March 2006.

In order to comply with the Code of Conduct, Terna's Board of Directors has approved various amendments to the corporate governance system (the **Corporate Governance Code**):

- a Board of Directors responsible for company management which may delegate some of its powers to an Executive Committee and/or one of its members. As recommended by the Corporate Governance Code, Terna's Board of Directors has set up Internal Committees which have proposal and advisory duties, such as the Internal Control Committee and the Compensation Committee (see also below);
- a Board of Statutory Auditors responsible for monitoring: (i) that the company complies with the law, the memorandum of association and the principles of correct administration in performing company

activities, and (ii) the adequacy of the company's organisational structure, internal control system and administrative/accounting system. It is also responsible for carrying out all duties assigned to the Board of Statutory Auditors by law and the code of conduct for listed companies;

- the shareholders' ordinary and extraordinary meetings that resolve on, *inter alia*, (i) the appointment and revocation of members of the Boards of Directors and Statutory Auditors and their fees and duties, (ii) the approval of the financial statements and allocation of the profit for the year, (iii) the purchase and sale of treasury shares, (iv) amendments to the by-laws, and (v) the issuance of convertible bonds.

Auditing activities are conferred on a specialised company registered with Commissione *Nazionale per le Società la Borsa* (**CONSOB**), which was appointed by a shareholders' general meeting, on a proposal of the Board of Statutory Auditors.

A detailed description of Terna's corporate governance is provided in the Corporate Governance Code attached to Terna's annual report for the year ended 31 December, 2010.

The members of Terna's Board of Directors and Board of Statutory Auditors, as well as Terna's external auditors, are directly and separately appointed by the shareholders at a general meeting.

The business address of the members of Terna's Board of Directors, Senior Management and Board of Statutory Auditors is Viale Egidio Galbani 70, 00156 Rome, Italy.

**Board of Directors**

Terna's Board of Directors is responsible for the management of the company and has the power to take all actions consistent with the corporate purpose described in Terna's by-laws, including to resolve upon (a) any merger and/or spin-off, in the events provided for by the applicable provisions of Italian law; (b) the opening or closing of branches; (c) the indication of which Directors may represent Terna; (d) the reduction of the share capital in the event of withdrawal of one or more shareholders; e) the adjustment of the by-laws to provisions of Italian law; and (f) the moving of the registered office elsewhere within the domestic territory.

On 18 October, 2010, Terna's Board of Directors approved amendments to the by-laws necessary to adjust the by-laws to changes introduced by legal provisions regarding shareholders' rights of listed companies aimed at favouring the participation of shareholders in the company (Directive 2007/36/EC and relative implementing legislative decree no. 27 dated 27 January, 2010). Among other things, amendments involved art. 14.3 of the by-laws regarding the appointment procedure for the Board of Directors and the terms and modalities for depositing lists of proposed directors.

Such amendments were applied for the first time on the occasion of the 2011 annual meeting, which also resolved on the renewal of the corporate bodies and the approval of the 2010 financial statements.

On the basis of the changes and in accordance with the by-laws, the deposit and publication of lists are ruled by existing applicable laws.

Such appointment system, which does not apply to the appointment of a Director possibly indicated by the Italian government, states (in line with the provisions of art. 4, paragraph 1-bis of Legislative Decree no. 332 dated 31 May, 1994 converted into Law no. 474/94 (the so called **Privatisation Law**), modified by Legislative Decree no. 27, dated 27 January, 2010, by art. 147-ter of the TUF and by the implementing rules of the above-mentioned law provisions, included in art. 144-ter and following of CONSOB Regulation of 14 May, 1999, No.11971, as amended (the **Issuers Regulation**)), that lists of candidates may be submitted by the outgoing Board of Directors or by shareholders who, alone or with other shareholders, represent at least 1 per cent. of the share capital, according to the law, or a lower amount, as established by the law, of shares with voting right in the meeting. On this matter CONSOB (implementing the provisions of art. 147-ter of the TUF and of art. 144-ter and following of the Issuers Regulation, with Resolution no. 17633 dated 26 January 2011 and for the year ended on 31 December 2010), established the stake necessary for submitting candidate lists for the appointment of Terna's administration and control bodies at 1 per cent. of the share capital, taking into account Terna's capitalisation, floating capital and owned assets and without prejudice to the lower share contemplated by the by-laws.

The lists shall be submitted and filed at the company's registered office at least 25 days prior to the day set for the shareholders' meeting on first call.

Ownership of the minimum share required to submit lists shall be determined by taking into account the shares that are registered in the name of the shareholder(s) on the day in which the lists are filed with Terna.

In order to prove the legitimacy of presentation of the lists, the relevant shareholders must present and/or deliver the documentation proving the ownership of the number of shares required, even after the lists have been filed but within the time period set for the publication of the lists (i.e., at least 21 days prior to the day set for the shareholders' meeting on first call).

Each shareholder may present or assist in the presentation of one single list and each candidate may be on one list only or he will be considered ineligible.

The lists must indicate candidates according to a progressive number and which of them are in possession of the independence requirements as provided for by the law and the by-laws, and any other information or statement required by the applicable rules and regulations and the by-laws pertaining to their respective offices. Together with each list, a statement shall be filed, whereby individual candidates accept their candidature and represent, under their responsibility, the inexistence of any of the causes for ineligibility and incompatibility, as well as any other information required by the applicable rules and regulations and the by-laws.

On the basis of a specific clause in the notice of call for the meeting and pursuant to art. 6 of the Code of Conduct, together with the lists, a detailed description of the candidates' personal and professional characteristics must be provided, accompanied by a statement indicating as to whether or not the candidates qualify as independent according to art. 3 of the Code of Conduct.

It is also provided that the lists, together with the information on the characteristics of candidates, are made available to the public at the registered office, on the company's website and based on other modalities as provided for by CONSOB, at least 21 days before the shareholders' meeting, guaranteeing a transparent procedure for the appointment of the Board of Directors as recommended by art. 6.C.1 of the Code of Conduct.

According to the provisions of art. 147-ter, paragraph 3 of the TUF, at least one of the members of the Board of Directors should be appointed by the minority list that has obtained the highest number of votes and is not connected in any way, not even indirectly, with the members who have submitted or voted the list that won for a number of votes. Shareholders that submit a "minority list" are the recipients of CONSOB Communication no. DEM/9017893 dated 26 February, 2009 having as its subject "Appointment of the members of administration and control bodies".

In compliance with the provisions of Prime Minister's Decree dated 11 May, 2004, the by-laws envisage for operators of the electricity sector a limit equal to 5 per cent. of the share capital as regards the exercise of the voting right during the appointment of the Directors according to the abovementioned rules.

The Director must meet the requirements of honourability, professionalism and independence.

Terna's Directors must meet certain honourability and professionalism requirements, similar to those required by Statutory Auditors of listed companies (art. 15.2 of the by-laws). At least a third of the Directors in office possess the independence requirements as provided by law, and executive directors must possess the requirements of independence anticipated by Article 10 of EC Directive 2003/54.

The members of Terna's current Board of Directors were elected at the shareholders' general meeting held on 13 May, 2011. Based on the by-laws, the Board should remain in office until the approval of the financial statements for the year ended 31 December, 2010. No Director has been appointed by the Ministry of Economy and Finance according to its aforesaid special powers. Currently, five of the nine members of the Board of Directors qualify as independent under the rules of the Corporate Governance Code and the by-laws. Two of those five independent Directors have been extracted from the lists of the candidates submitted by CDP.

The Board of Directors is currently composed of the following nine members:

| Name | Position with Terna | Shareholder list | Year of initial appointment |
|---|---|---|---|
| Luigi Piegiuseppe Ferdinando Roth ..... | Chairman | CDP | 2011 |
| Flavio Cattaneo..... | Managing Director | CDP | 2011 |
| Fabio Buscarini..... | Indipendent Non-executive Director | Minozzi | 2011 |
| Andrea Camporese ..... | Non – executive Director | CDP | 2011 |
| Paolo Dal Pino ..... | Independent non-executive Director | CDP | 2011 |
| Matteo Del Fante ..... | Non-executive Director | CDP | 2011 |
| Salvatore Machì ..... | Independent non-executive Director | Minozzi | 2011 |
| Romano Minozzi ..... | Indipendent non executive Director | Minozzi | 2011 |
| Michele Polo..... | Independent non-executive Director | CDP | 2011 |

The principal business activities, experience and other principal directorships, if any, of each of Terna's current Directors are summarised below.

***Luigi Piergiuseppe Ferdinando Roth, 70 years old – Chairman***

*born in Milan on 1 November, 1940*

Mr. Roth holds a degree in Business Administration from the Luigi Bocconi University, Milan, and is a registered auditor. Since November 2005, he has been Chairman of Terna S.p.A. and since November 2009, he has been Chairman of TELAT S.r.l a subsidiary of Terna S.p.A.. Since April 2007, Mr. Roth has been Independent Director at Pirelli & C. S.p.A. and since April 2009 he has been President of Banca Popolare di Roma (CARIFE Group).

Mr. Roth began his career as a business manager with the Pirelli Group, handling activities in Italy and abroad. He then joined Metropolitana Milanese as Director of Planning. Since 1980, he has managed mid-sized companies both in the manufacturing and real estate sectors, in the positions of General Manager and CEO. From 1986 to 1993, he served as CEO at Ernesto Breda S.p.A.; from 1993 to 2001 he was Chairman and CEO of Breda Costruzioni Ferroviarie S.p.A. From April 1996 to January 1998, he was Chairman of Società Ferrovie Nord Milano S.p.A. of which he was CEO from December 1996 to January 1998. From December 1996 to January 1998 he was Chairman and CEO of Società Ferrovie Nord Milano Esercizio S.p.A. From May 1998 to December 2000 he was CEO of Ansaldo Trasporti S.p.A. and transmission agent for Finmeccanica S.p.A. From 2002 to 2006, he was Board Member at the Luigi Bocconi University. From January 2004 to April 2007 he was Deputy Chairman at Cassa Depositi e Prestiti S.p.A. From May 2004 to April 2007 he was Board Member at Telecom Italia S.p.A. and from 2001 to 2009 he was President of the Fondazione Fiera Milano. From May 2006 to November 2009 he was Deputy Chairman of Terna Participações SA, a subsidiary of Terna S.p.A.

***Flavio Cattaneo, 47 years old – CEO***

*born in Rho (Milan) on 27 June, 1963*

Mr. Cattaneo holds a degree in Architecture from the Milan Politecnico. Mr. Cattaneo has also received specialised training in business management. Since November 2005, Flavio Cattaneo has been CEO of Terna S.p.A. Since January 2008 he has been Independent Director in Cementir Holding S.p.A. Since October 2008, he has been Deputy Chairman in Charge of Energy and Environmental Policies at UIR, Union of Industrialists and Companies in Rome.

He has held important managerial and administrative positions in various Italian companies in the radio and television service, new technologies, building, public service and facilities sectors. He became head of the

former Ente Autonomo Fiera Internazionale di Milano as Extraordinary Commissioner in 1999 and went on to oversee its stock market listing as Fiera di Milano S.p.A., serving as Chairman and CEO until 2003. Flavio Cattaneo has been Director of many energy companies (from 1999 to 2001), including AEM S.p.A. of Milan (as Deputy Chairman), Serenissima Gas S.p.A., Triveneta Gas S.p.A., Seneca S.r.l and Malpensa Energia S.r.l. He was appointed head of Italy's public television network RAI S.p.A. in April 2003, in the position of General Manager, which he held until August 2005. He also oversaw the merger with Rai Holding and the unbundling of accounts. From May 2006 to November 2009 he was Chairman of Terna Participações SA, a subsidiary of Terna S.p.A.

***Fabio Buscarini, 63 years old – Director***

*born in Ancona on 6 February, 1948*

Mr. Buscarini holds a degree in Sociology from the University of Trento. He has been with Assicurazioni Generali since 1969 where he held various positions until he was appointed General Manager in April 2005. In April 2006, he was appointed CEO of INA S.p.A. and Assitalia S.p.A., and in May 1, 2006, General Manager. On 1 January, 2007 he became CEO and General Manager of INA Assitalia S.p.A. He holds other important corporate positions in several companies of the Generali Group: Vice President at ImpreBanca Finanziaria d'Impresa S.p.A., Board Member at Banca Generali, Burgo Group S.p.A., Generali Business Solutions S.p.A. and Compass S.p.A.

He has also held the following positions: March 2003 to April 2004, Director of Europ Assistance; March 2003 to April 2004, Director of Finagen; April 2003 to April 2006, Director of Generali Vita; December 2004 to August 2006 President of Risparmio Assicurazioni; February 2006 to July 2008, Director of Banca di Credito dei Farmacisti; December 2006 to April 2009, Director of FATA Assicurazioni Vita e Danni S.p.A. and from 2005 to 2006, Italian Member of International Management Board – sponsor of Operational Excellence.

He is a representative for ANIA at the CONSULTA Association of enterprises, in Rome.

***Andrea Camporese, 42 years old - Director***

*born in Cadoneghe (PD) on 22 September, 1968*

Mr Camporese holds a degree in Philosophy from the University of Padova and has been a professional journalist since 1997. He is President of Associazione degli Enti Previdenziali Privatizzati (Association of Private Social Security Bodies) since July 2010 and since April 2008 President of the Istituto Nazionale di Previdenza Giornalisti Italiani (National Institute for Social Security of Italian Journalists). Since 2001, he has held various editorship positions at the public television company R.A.I. S.p.A., and since 2005 as Assistant Editor-in-Chief, from which he is currently on leave.

He has held institutional positions of increasing responsibility since 1989, such as managing member of the Padova Press Association and, since 1990, of the journalist trade union of Veneto, where, since 1995, he has held the role of Vice Secretary and, from 2003 up to 2005, as secretary. From 1992 to 2006, he was a member of the National Council of the National Italian Press Federation and from 2006 to 2008 Vice President of Autonomous Supplemental Assistance Fund of Italian Journalists. He made various journalistic contributions from 1987 to 2006 with the Group Espresso-Finegil, and from 1992 to 1995 with other important publishers.

***Paolo Dal Pino, 48 years old – Director***

*born in Milan on 26 June, 1962*

Mr. Dal Pino holds a degree in Economics from the University of Pavia. He is presently Senior Advisor of the Private Equity Cyrte Investments fund and Board member at Banijay Holding S.a.S. From January 2006 to June 2007 he has been CEO of Wind Telecomunicazioni after having been CEO at SEAT Pagine Gialle from July 2001 to 2004, and Chairman of Telecom Italia in Latin America and Chairman of Tim Brazil from February 2004 to 2005. From 1990 to 2001 he has held various positions within the Espresso Group, among which - from 1991 to March 1995 - that of Financial Director of Editoriale la Repubblica S.p.A. and from

1995 to July 2001, of General Director of the Gruppo Editoriale L'Espresso, CEO of Kataweb S.p.A. and Director and member of the Executive Committee at ANSA. In 1986, he began his career in the Fininvest Group and from 1987, until 1990, he joined the Mondadori Group where he was CFO of the Verkerke Group in The Netherlands.

***Matteo Del Fante, 43 years old – Director***

*born in Florence on 27 May, 1967*

Mr. Del Fante holds a degree in Economic Policy from the Bocconi University in Milan. He began his career at J.P. Morgan in 1991 holding positions of increasing responsibility for Italy and for foreign countries in the sector of fixed income markets. From 1999 to 2003, as Managing Director in London, he managed significant financial and strategic operations in Europe. Since June 2010 he has been General Director of Cassa Depositi e Prestiti S.p.A., where he previously was Head of the Financial Department and of the Real Estate Department. Since July 2010, having left the position of CEO, he took on the position of president of CDP Investimenti SGR, which is involved in the real estate sector. Since June 2008 he has been Chairman of the Supervisory Board of STMicroelectronics Holding N.V. and since May 2007 he is a Board member of the consulting firm SINLOC, a subsidiary of bank-based foundations.

***Salvatore Machì, 73 years old – Director***

*born in Palermo on 28 May, 1937*

Mr. Machi, holds a degree in Electronic Engineering and has received specialised training at the Istituto Superiore di Telecomunicazioni, in addition to his professional experience with Esso and IBM. He joined Enel in 1965 and held various positions up to 1999, including Manager of the Transmission Department, National Manager of Thermoelectrical Energy Generation and Procurement Manager. He was CEO (from July 1999 to April 2000) and, subsequently, Chairman (up to July 2003) of the Gestore della Rete di Trasmissione Nazionale S.p.A., and Director of Gestore del Mercato Elettrico S.p.A. during that time. He has been Chairman of the Board of Directors of CESI S.p.A. since March 2003, where he previously (from July 1999 to October 2001) served as CEO. He is currently Director of Api Energia S.p.A. and, since September 2004, a Director of Terna S.p.A. as well.

***Romano Minozzi, 76 years old – Director***

*born in Castelnuovo Rangone (Modena) on 6 March, 1935*

Mr. Minozzi holds a degree in Business and Economics from the University of Bologna. He began his career at the Banca Commerciale Italiana. In 1961, he was one of the founders of Iris Ceramica, of which he is still President and principal referent. Apart from his position as President of Iris Ceramica, since April 2004 he has been Director of GranitiFiandre SpA and he is also President of Fincea S.p.A., Sole Director of IRIS Due S.p.A., Sole Director of R.M.Finanziaria S.p.A. and Director of Castellarano Fiandre S.p.A., and Canalfin S.p.A. Romano Minozzi has received several recognition for his activities, including the "Innovazione 2000" prize from the Academy of Ceramics. In the past, he held many position: for 10 years he was director at the Banco S.Geminiano and S.Prospero later incorporated into Banco Popolare; from July 2002 to May 2005 he was designated by Mediobanca as an independent Director at Ferrari Automobili S.p.A. in Maranello (Modena) upon indication of Mediobanca and member of the voting trust of Mediobanca since its formation.

***Michele Polo, 53 years old – Director***

*born in Milan on 7 August, 1957*

Mr. Polo has a degree in Economics from the Luigi Bocconi University in Milan, and graduated in Economic Policy with a Masters in Economic Sciences from the London School of Economics. From 2003 he has been Ordinary Professor of Economic Policy and from 2007, Vice-Chancellor at the Luigi Bocconi University. He is a member of the Board of Directors of the Institute for Economics and Policy of Energy and the Environment (IEFE) of the Bocconi University and carries out other scientific and academic activities: he is

Director of the Journal of Economists and member of the Editors Committee of Economy of Energy Sources and the Environment and of the Editor's Committee of Market, Competition, Regulations. He is scientific advisor of the publishing house "Il Mulino", in Bologna. From 2003 to 2006 he was Economic Advisor of the General Department of Competition of the European Commission. He is also the author of numerous essays and monographs on themes such as antitrust, liberalisation and energy sectors.

**Internal Control, Compensation, Related Party Transaction and Nomination Committees**

As recommended by the Corporate Governance Code, in 2004, Terna's Board of Directors established an Internal Control Committee which is mainly responsible for assessing the adequacy of its internal control system and accounting standards and for relations with outside auditors. It essentially advises, assists and makes proposals to Terna's Board of Directors with respect to all such matters. The Internal Control Committee is currently comprised of non-executive directors, most of whom are independent directors. At least one member has adequate accounting and financial experience. As recommended by the Corporate Governance Code, Terna's Board of Directors has also established a Compensation Committee which is responsible for proposing the compensation of the Chairman of Terna's Board of Directors, the CEO and other members of the Board of Directors and the criteria for remuneration to be allocated to Terna's top management and that of its subsidiaries. The Remuneration Committee is composed of non-executive directors and independent directors.

During 2010, the Board of Directors created another Committee having advisory and consulting tasks, formed by at least three Directors, all independent, according to the provisions of the Corporate Governance Code, with the task of expressing its preliminary opinion necessary for the adoption of the Procedure for Related Party Transactions as established by the "Regulations regarding provisions for related party transactions" issued by CONSOB with Resolution no. 17221 dated 12 March, 2010, subsequently amended by Resolution no. 17389 dated 23 June, 2010.

On 12 November, 2010, the Board of Directors identified in this Committee, which is completely formed by non-executive, independent Directors as established by the Corporate Governance Code, the body in charge of carrying out the role required by the above-mentioned regulations both for approving transactions of greater importance and those of lesser importance as indicated in Terna's Procedure. The Committee is entrusted with preliminary, advisory and consulting tasks and powers for the evaluation and decision-making in the above-mentioned Related Party Transactions as well as regarding possible amendment proposal to the Procedure adopted by Terna.

The Committee for Related Party Transactions is presently composed of non-executive Directors.

Terna does not have a Nomination Committee.

**Manager in charge of drafting financial reports**

In accordance with the TUF, Terna's by-laws provide for the appointment by the Board of Directors, subject to the approval of the Board of Statutory Auditors, of a manager responsible for the preparation of financial reports.

This manager's tasks include the implementation of appropriate administrative and accounting procedures for the preparation of the annual accounts and the consolidated accounts and every other disclosure of a financial nature.

**Internal Auditing System**

As recommended by the Corporate Governance Code, Terna's Board of Directors established an Internal Auditing System aimed at controlling and ensuring the fair management of the company, in line with its corporate purposes.

**Corporate Governance Code/Code of Conduct**

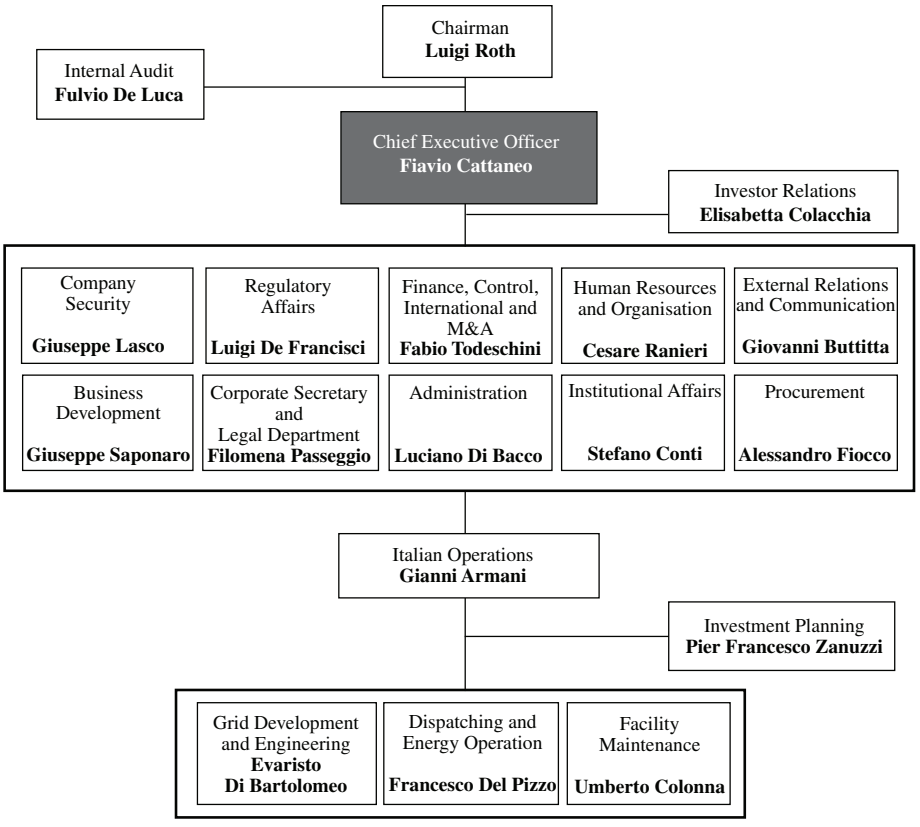
Terna has adopted a corporate governance code (including with respect to its internal control system, significant transactions, management and handling of confidential information and internal dealing), a compliance programme to prevent certain criminal offences and a code of conduct for the directors, employees and others acting on Terna's behalf.

**Senior Management**

The table below sets forth Terna's executive officers who are not also directors, their ages and their positions as of 1 April 2011, and the year they joined Terna:

| Name | Age | Position | Employed at Terna since |
|---|---|---|---|
| Elisabetta Colacchia .... | 36 | Investor Relations | April, 2004 |
| Fabio Todeschini..... | 50 | CFO (*Finance, P&C, International and M&A*) | February, 2004 |
| Giuseppe Saponaro..... | 39 | Business Development | March, 2004 |
| Luciano Di Bacco..... | 54 | Administration | March, 2003 |
| Filomena Passeggio .... | 58 | Corporate Secretary and Legal Department | Terna's incorporation |
| Cesare Stefano Ranieri | 48 | Human Resources and Organisation | October, 2006 |
| Alessandro Fiocco ..... | 44 | Procurement | May, 2003 |
| Gianni Vittorio Armani | 44 | Italian Operations | November, 2005 |
| Evaristo Di Bartolomeo | 53 | Engineering | Terna's incorporation |
| Pier Francesco Zanuzzi | 41 | Investment Planning | Terna's incorporation |
| Giovanni Buttitta ..... | 48 | External Relations and Communication | December, 2005 |
| Luigi De Francisci ..... | 54 | Regulatory Affairs | November, 2005 |
| Umberto Colonna ..... | 60 | Facility Maintenance | Terna's incorporation |
| Francesco Del Pizzo .... | 41 | Dispatching and Facility Operations | November, 2005 |
| Stefano Conti ..... | 52 | Institutional Affairs | November, 2005 |
| Giuseppe Lasco..... | 50 | Company Security | December, 2006 |
| Fulvio De Luca..... | 50 | Internal Audit | March, 2004 |

**Organisational Chart**



**Board of Statutory Auditors**

Pursuant to the Italian Civil Code and TUF, Terna's shareholders are required to elect a Board of Statutory Auditors. Pursuant to the by-laws, the auditors are elected at the shareholders' general meeting for a three-year term on the basis of lists of the candidates submitted by the shareholders who, alone or together with other shareholders, represent at least 1 per cent. of the share capital or a lower amount provided by applicable law.

On 18 October, 2010, Terna's Board of Directors approved the amendments to the by-laws necessary to adjust it to the changes introduced by legal provisions regarding shareholders' rights of listed companies aimed at favouring the participation of shareholders in the company (Directive 2007/36/EC and relative implementing Legislative Decree no. 27 dated 27 January, 2010). Among other things, amendments involved art. 26.2 of the by-laws regarding the appointment procedure for the Board of Statutory Auditors and the terms and modalities for depositing the lists of proposed statutory auditors.

Such amendments were applied for the first time on the occasion of the 2011 annual meeting which also resolved on the renewal of the expiring corporate bodies and the approval of the 2010 financial statements.

On the basis of these amendments and according to the by-laws, the deposit and publication of lists are ruled by the provisions for appointing the entire Board of Directors, in cases where this is compatible with the existing applicable law and the provisions of art. 26 of the by-laws for the appointment of the Board of Statutory Auditors.

This system provides (in line with art. 4, paragraph 1 bis of Legislative Decree no. 332 of 31 May, 1994 converted into Law no. 474/94 (the **Privatisation Law**), modified by Legislative Decree 27 January, 2010, by art 148 of the TUF and by the implementing rules for the above-mentioned provisions included in art. 144-ter and following of the Issuers Regulation) that the lists of candidates can be presented by shareholders that, alone or jointly with other shareholders, hold at least 1 per cent. of the share capital, or a lower amount as envisaged by the law, of shares with voting rights in the meeting. For this purpose CONSOB, implementing the provisions of 148 of the TUF and art. 144 ter and following of the Issuers Regulation, has established (with Resolution n.17633 dated 26 January, 2011 and for the year that ended on 31 December, 2010) the participation stake required for submitting candidate lists to be appointed in Terna's administration and control bodies at 1 per cent. of the share capital, taking into account the company's capitalisation, floating capital and owned assets and without prejudice to the lower share contemplated by the by-laws.

The presentation and filing of lists at the Issuer's registered office must occur at least 25 days from the day established for the meeting on first call.

Ownership of the minimum share required to submit lists shall be determined by taking into account the shares that are registered in the name of the shareholder(s) on the day in which the lists are filed with the Company.

In order to prove the legitimacy of presentation of the lists, the relevant shareholders must present and/or deliver the relative documentation even after the lists have been filed but within the time period set for the publication of the lists.

Pursuant to art. 144 sexies, paragraph 5, of the Issuers Regulation, in the event that on the date due for the submission of the lists for the Board of Statutory Auditors only one list has been filed, that is only lists submitted by members who are connected to each other pursuant to applicable law provisions, lists may be submitted up to the third day following said date; In this case the thresholds set forth above shall be reduced by half.

Each shareholder may present or assist in the presentation of one single list and each candidate may be on one list only or he will be considered ineligible. The lists shall list candidates according to a progressive number and will be divided into two sections, one for the candidates to the office of Standing Auditor and the other for the candidates to the office of Alternate Auditor. The first one of the candidates of each section of the lists must be registered in the register of statutory auditors and must have exercised the activity of legal control of the accounts for a period of at least three years.

Pursuant to art. 148, paragraph 2 of the TUF, at least one standing member is appointed by the minority shareholders who are not connected, not even indirectly, with the shareholders who have introduced or voted the list winning for a number of votes.

In compliance with the Italian legislation for listed companies, the by-laws (art. 26.2) attribute the chairmanship of the Board of Statutory Auditors to the Standing Auditor appointed by the minority list.

To ensure transparency in the procedure for the appointment of the Board of Statutory Auditors, also in line with the provisions of the Code of Conduct, lists are provided, pursuant to art. 144 sexies, paragraph 3 of the Issuers Regulation and also based on the provisions of art. 10.C.1 of the Code of Conduct, with:

a) information on the identity of the shareholders who have submitted the lists, indicating the total percentage of the shares held;

b) a declaration by shareholders other than those who hold, also as a group, a controlling interest or relative majority, indicating the absence of relationships as set forth in art. 144 quinquies of the Issuers Regulation with them. With Communication no. DEM/9017893 dated 26 February 2009, CONSOB recommended shareholders who submit a "minority list" to submit the information indicated in such Communication;

c) an accurate description of the personal and professional characteristics of the candidates and, pursuant to art. 2400, last paragraph of the Civil Code, with the list of administration and control positions held within other companies as well as a statement by the candidates certifying possession of the requirements set by the law (including possession of independence requirements pursuant to art. 148, paragraph 3 of the TUF and their acceptance of the candidacy.

Such documents are deposited at the registered offices of the Company, and are published in the Company's website according to the terms established by CONSOB, at least 21 days before the day of the Shareholders' Meeting (art. 10.C.1 of the Code of Conduct).

For any replacement of the Statutory Auditors, the terms of art. 26.2 of the by-laws will be applied. In case one of the Statutory Auditors is replaced, the Alternate Statutory Auditor first on the list takes his place. If the Chairman of the Board of Statutory Auditors is replaced, this position will be taken by the Alternate Statutory Auditor taken from the same list.

For the appointment of the Statutory Auditors occurring outside the provisions for renewing the entire Board of Statutory Auditors, the Shareholders' Meeting resolves based on the majority envisaged by the Law and without respecting the abovementioned procedure, but nonetheless so as to ensure a composition of the Board of Statutory Auditors in compliance with the requirements of honor and professionalism established by the Law.

Members of the Board of Statutory Auditors are eligible for re-election. The Board of Statutory Auditors' remuneration for the entire term is also determined at the shareholders' general meeting. In accordance with art. 148 of TUF, the chairman of the Board of Statutory Auditors is nominated by the shareholders' general meeting from the members of the Board of Statutory Auditors elected by the minority in accordance with the provisions set out above.

Pursuant to art. 149 of TUF, the Board of Statutory Auditors supervises Terna's compliance with law and with the by-laws, Terna's administration, the adequacy of the organisational structure of the company and of its internal controls and accounting reporting systems, as well as the adequacy of information supplied by Terna's subsidiaries. At the annual shareholders' general meeting, called to approve Terna's financial statements, the Board of Statutory Auditors must inform shareholders of any irregularities found during the course of its supervision. In addition, the Board of Statutory Auditors must promptly report all material irregularities to CONSOB, to the shareholders and to the Italian courts. Pursuant to the by-laws, Terna's Board of Directors is obliged to keep the Board of Statutory Auditors informed of material activities and transactions carried out by Terna and its subsidiaries on an ongoing basis.

According to art. 19 of Legislative Decree 39/2010, it is the responsibility of the Board of Statutory Auditors to supervise the financial information process, the efficiency of the internal control systems, of internal

reviews and risk management, the auditing of annual and consolidated results pursuant to law provisions and the independent of the auditors.

The current members of the Board of Statutory Auditors, who were elected by Terna's general shareholder meeting on 13 May, 2011 and will remain in office until the approval of the financial statements for the year ended 31 December, 2010, are as follows:

| Name | Position | Year of initial appointment |
|---|---|---|
| Luca Aurelio Guarna | Chairman | 2011 |
| Alberto Luigi Gusmeroli | Auditor | 2011 |
| Lorenzo Pozza | Auditor | 2011 |
| Stefania Bettoni | Alternate Auditor | 2011 |
| Flavio Pizzini | Alternate Auditor | 2011 |

The principal business activities, experience and other principal positions, if any, of each of Terna's current Statutory Auditors are summarised below.

***Luca Aurelio Guarna, 38 years old – Chairman of the Board of Statutory Auditors***

*born in Milan on 20 December, 1972*

Mr. Guarna has a degree in Business Administration from the Luigi Bocconi University. He qualified for the title of Tax Consultant in 2000 and since 2002 he has been enrolled as Auditor. He has carried out professional activity with prestigious legal and tax offices and since 2001 he has been a member of the administrative, tax and Corporate consulting Spadaccini office in Milan. He is presently the Chairman of the Board of Statutory Auditors at Gemina S.p.A. and Standing Auditor in other companies such as: Aereoporti di Roma S.p.A., Delmi S.p.A. (company belonging to the A2A Group which is part of Edison S.p.A.'s holding chain), Eagle Pictures S.p.A. and Bieffe Medital S.p.A. He has worked as a Professor for the Arthur Andersen network and for the Foundation of Tax Consultants in Milan.

***Alberto Luigi Gusmeroli, 50 years old – Standing Auditor***

*born in Varese on 27 February, 1961*

Mr. Gusmeroli holds a degree in Economics from the University of Pavia, Faculty of Economics, with a focus on corporate finance and credit. He is a Certified Public Accountant registered with the Internal Auditors Register. He has been President of the Board of Auditors for the publishing house Editoriale Nord soc. coop since 1997 and of Comecor coop a r.l. since 1990, as well as a member of the Board of Auditors for Bancoposta Fondi S.p.A. Sgr (Poste Italiane Group) since 2002 and of Enel Green Power Strambino Solar S.r.l. He is also a member of the Board of Directors of Società Italiana per Azioni per il Traforo del Monte Bianco. Since 2000 he has also been Board Member for Fondazione Salina and, since 2005, of Centro studi sulle lingue parlate locali ed i dialetti. He is a member of the Study Commission on Local Bodies of the National Council of Accountants in Rome, and General Partner of the audit company Fiduciaria Di Revisione S.a.s.

He was Board Director from 2000 to 2006 in the company Alberghiera 3S, President of the Board of Auditors of Frigorcoop from 1992 to 2000 and Auditor in Enel Energia S.p.A. from 2005 to 2007. In the municipal company Aspem S.p.A., in Varese, he was first a Director with powers from 1998 to 2002 and then a member of the Board of Auditors from 2003 to 2009. He held various positions as consultant, including at Aero Club d'Italia, and he was Auditor for many Local Bodies, as well as member of the Controlling Committee of the Regional Council of the Region of Lombardy.

***Lorenzo Pozza, 44 years old – Standing Auditor***

*born in Milan on 11 October, 1966*

Mr. Pozza has a degree in Business Administration from the Luigi Bocconi University, tax consultant and auditor. Since 2001, he has been Associate Professor of Business Administration at the Luigi Bocconi University and Professor of Methodology and quantitative standards for companies after having held various positions as a Professor in International Accounting and Accounting and Budget since 1991 at the same university, and since 1992 at the Corporate Management School (SDA) and since 1996 at the University in Italian part of Switzerland. He holds the position of Director or Auditor in various different listed or unlisted companies in the industrial, financial, real estate and insurance sectors, among which: Telecom Italia S.p.A., Gas Plus S.p.A., Bracco Imaging S.p.A. and Leonardo & Co S.p.A. He also carries out professional activity since 1990 and has been a founding member of the Partners S.p.A consulting firm. He is the author of three books on budget and company evaluation as well as of numerous other publications and has also written articles and essays on this subject for national and international magazines.

**Conflicts of Interest**

No potential conflicts of interest exist between any duties to Terna of Terna's Board of Directors, Statutory Auditors or Management and the private interest and/or other duties of such persons. No member of Terna's Board of Directors, Board of Statutory Auditors or Management has or has had any interest in any transactions that are or were unusual in their nature or conditions and are or were significant to its business.

**EXTERNAL AUDITORS**

Under Italian securities regulations, Terna's accounts must be audited by external auditors appointed by the shareholders. Pursuant to the TUF, the engagement shall last for nine financial years and cannot be renewed if at least three years have not elapsed from the termination of the previous engagement. In the event of renewal, the person responsible for the audit must be replaced by another person. The appointment will be communicated to the CONSOB. As of the fiscal years 2004, 2005 and 2006, Terna's external auditor for both consolidated and separate financial statements was KPMG S.p.A.

The general shareholders' meeting of 24 May, 2007 resolved to appoint KPMG S.p.A., according to the provisions of transitory regulations regarding the extension of assignments, as accounting auditor for the years 2007 to 2010, in accordance with the terms and methods proposed by the Board of Statutory Auditors.

The general shareholders' meeting of 13 May, 2011 appointed PricewaterhouseCoopers S.p.A as accounting auditor for the accounting years 2011 to 2019 in accordance with the motivated proposal of the Board of Statutory Auditors.

Pursuant to Italian law, the external auditors' opinion is made available to Terna's shareholders prior to the annual shareholders' meeting.

KPMG S.p.A. is also the external auditor of SunTergrid (for the years 2010, 2011 and 2012), RTR (for the years 2010, 2011 and 2012) and Telat (for the years 2009 to 2010); the general Shareholders' Meeting of Telat, convened on 16 March, 2011, has proceeded to appoint PricewaterhouseCoopers S.p.A as accounting auditor for accounting periods 2011 – 2019 in accordance with the motivated proposal of the Board of Statutory Auditors.

## EMPLOYEES

The table below sets out the number of employees of the Terna Group at 31 December, 2008, 2009 and 2010.

| | Italy | | | Brazil | | | Total | | | Variation |
|---|---|---|---|---|---|---|---|---|---|---|
| | 31 December, | | | 31 December, | | | 31 December, | | | 31 Dec., |
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 | 2010 vs 2009 |
| **Executive officers** | 59 | 65 | 65 | | | | 59 | 65 | 65 | -6 |
| **Managers** | 502 | 488 | 485 | | | | 502 | 488 | 485 | +14 |
| **Employees** | 1,890 | 1,874 | 1,907 | 0 | 0 | 210 | 1,890 | 2,874 | 1,117 | +16 |
| **Blue-collar employees** | 1,017 | 1,020 | 1,067 | | | | 1,017 | 1,020 | 1,067 | -3 |
| **Total** | 3,468 | 3,447 | 3,524 | 0 | 0 | 210 | 3,468 | 3,447 | 3,734 | +21 |

### Share Ownership by Directors and Employees

Additionally, in April 2005, Terna's shareholders authorised the Board of Directors to increase Terna's outstanding share capital by an amount not to exceed €2.2 million, in order to permit the issuance (in one or more tranches over a five-year period ending in March 2010) of a maximum of 10,000,000 new ordinary shares to be reserved for the issuance of options granted to members of Terna's senior management selected by Terna's Board of Directors under the terms of executive stock options plans approved by Terna's Board of Directors from time to time.

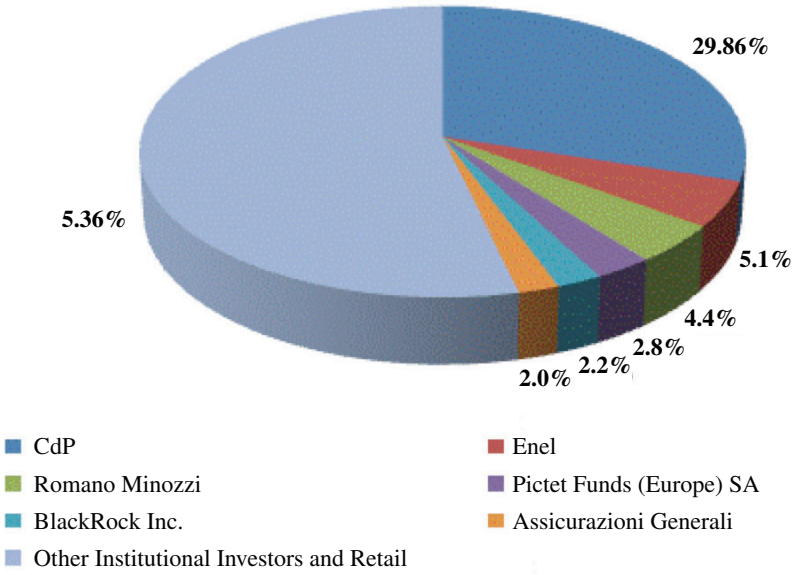
In December 2005, Terna's Board of Directors approved a stock option incentive plan for the granting of a maximum of 10,000,000 options (representing an equal number of ordinary shares in Terna) to approximately 20 senior managers, including the Chief Executive Officer. The adoption of the 2006 stock option incentive plan involved the assignment of an aggregate of 9,992,000 options (representing an equal number of ordinary shares in Terna) to 17 senior managers. The strike price was set at €2.072 per share. All options vested as Terna outperformed, in 2006, the Ebitda target defined by the Board of Directors. Therefore, up to 30 per cent. of the options granted may be exercised from April 2007, up to 60 per cent. from January 2008 and up to 100 per cent. from January 2009. Originally the expiry date was defined to be March 2010, and this was later postponed to March 2013. As of 31 December, 2010, 4,395,700 options have been exercised.

## SHARE CAPITAL OF TERNA, MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### Share Capital

As of 31 March, 2011 CDP held 29.86 per cent. of the outstanding shares of Terna and is in a position to appoint the majority of Terna's Board of Directors, to influence dividend policies and generally to determine the outcome of any matter put to a vote of the Terna's shareholders. On 19 April, 2007, CDP declared that it ascertained the existence of a *de facto* control on Terna.

The following table sets forth Terna's total consolidated share capital based on information in the possession of Terna and the shareholders' book as at 31 March, 2011.




## Major Shareholders

***Cassa Depositi e Prestiti S.p.A.***

CDP is Terna's main shareholder, with 29.86 per cent. of the share capital of Terna.

CDP is an Italian joint-stock company controlled by the Italian Ministry of Economy and Finance (70 per cent.) and by banking foundations (30 per cent.). CDP's mission is to foster the development of public investment, local utility infrastructure works and major public works of national interest, ensuring an adequate return for its shareholders while preserving its long-term financial and economic balance. CDP intends to remain the key financial counterparty for local authorities and for the owners and operators of infrastructure, positioning itself as a centre of excellence in terms of staff professionalism, management methods and quality of customer service.

***Enel S.p.A.***

Enel S.p.A. (Enel) owns 5.1 per cent. of Terna's share capital.

Enel is Italy's largest power company, and Europe's second listed utility by installed capacity. It is an integrated player which produces, distributes and sells electricity and gas. After having completed its international expansion, Enel is now actively engaged in consolidating the acquired assets and further integrating its businesses. The Enel Group has a presence in 40 countries over 4 continents, has around 95,000 MW of net installed capacity and sells power and gas to more than 61 million customers. Listed on the Milan stock exchange since 1999, Enel is the Italian company with the highest number of shareholders, some 1.2 million retail and institutional investors in 2009. Enel is also the second-largest Italian operator in the natural gas market, with approximately 2.7 million customers and a 10 per cent. market share in terms of volumes.

***Minozzi Romano***

Mr. Romano Minozzi owns, as an individual, directly and indirectly, a relevant stake in Terna's share capital of 4.4 per cent.

***Pictet Funds (Europe) SA***

Pictet Funds (Europe) SA owns 2.8 per cent. of Terna's share capital.

Pictet Funds (Europe) SA is part of the Pictet Group, a leading European asset manager, founded in 1805 in Geneva, Switzerland. Pictet Funds (Europe) SA is a market-leading fund management company. Its main clients are universal banks, portfolio managers, insurance companies, financial intermediaries and other types of investors.

***Blackrock Inc.***

Blackrock Inc. owns 2.2 per cent. of Terna's share capital.

BlackRock is one of the world's preeminent asset management firms and a premier provider of global investment management, risk management and advisory services to institutional, intermediary and individual investors around the world.

***Assicurazioni Generali S.p.A.***

Assicurazioni Generali S.p.A. owns 2 per cent. of Terna's share capital.

The Generali Group is one of the most significant participants in the global insurance and financial products market. The Group is leader in Italy and Assicurazioni Generali, founded in 1831 in Trieste, is the Group's Parent and principal operating Company. Characterised from the outset by a strong international outlook and now present in 68 Countries, Assicurazioni Generali has consolidated its position among the world's leading insurance operators. It has in fact a strong position in western Europe, its main area of activity, with significant market shares in Germany, France, Austria, Spain, Switzerland as well as Israel and Argentina. In recent years, the Group has made a significant return to central-eastern European markets and has set up offices in the principal markets of the Far East, among which China and India. In the life business, the Generali Group's offer includes traditional policies as well as savings products and complementary covers combining life and non-life policies. In the non-life business, it offers motor and marine covers, products for the family, health and medical policies, property insurance, leisure covers and policies for production, commercial and professional activities. Generali is one of the leading global players in the assistance sector thanks to the Europ Assistance Group, active in more than 200 countries and territories with services in the motor, travel, healthcare, home and family sectors. For quite some time the Group has widened its product offerings from only insurance to include the entire range of financial and real estate services and asset management.

**Limitations on Shareholding**

The transfer of Terna's shares is not subject to any restrictions other than those contained in the by-laws or as contemplated by the terms of this document. Pursuant to art. 6.4 of the by-laws, with the exception of the Italian Government or state or local authorities (or entities controlled by any of them), no one can own, for any purpose, more than five per cent. of Terna's share capital. A shareholder who owns, directly or indirectly, shares that in the aggregate constitute more than five per cent. of Terna's share capital may not vote the excess shares. If a shareholder votes its shares in violation of the by-laws, the relevant resolutions of the relevant shareholders' meeting may be contested, if the required majority would not have been reached but for the votes attributed to such excess shares. However, the shares may be counted for the purposes of determining whether the shareholders' meeting has achieved a quorum.

Pursuant to the relevant provision in the by-laws, shares that count towards the above limit include shares owned by (i) entities that are directly or indirectly controlled by the shareholder (as well as shares controlled by any of these controlled entities), (ii) fiduciaries and/or intermediary entities, (iii) affiliates of the shareholder and (iv) related persons of the shareholder. Related persons of shareholders include legal spouses or blood relatives up to the second degree.

Pursuant to the DPCM, the by-laws were amended to (i) prohibit any company (such as Enel) that is involved in the production, import, distribution, sale or transmission of electricity (or which controls, is controlled by, or is under common control with, any such company) and that owns more than five per cent. of the shares of the resulting entity, from voting shares that exceed five per cent. of the voting share capital in the election of the resulting entity's directors, and (ii) in accordance with Law no. 474 of 30 July 94 (**Law 474/94**), prohibit

any person except for the Italian Government or state or local authorities (or entities controlled by any of them) from holding more than five per cent. of the resulting entity's share capital (which provision cannot be amended for at least three years from the date of the Integration, provided that such amendments in clauses (i) and (ii) above will be effective from the date of the Integration). However, according to Law 474/94, this limitation on shareholding does not apply in the case of a public tender offer that has the purpose of acquiring the entire outstanding share capital in accordance with art. 106 and art. 107 of TUF. See "*Regulatory matters - Regulation under the DPCM*".

***Special powers of the Italian Government***

Pursuant to Italian privatisation laws and art. 6.3 of the by-laws, the Ministry of Economy and Finance (in consultation and agreement with the Ministry of Economic Development) may exercise certain special powers (listed below) with respect to Terna's business and shares. These powers may be exercised regardless of whether the Ministry of Economy and Finance holds shares in Terna.

(a) The power to object to the acquisition of five per cent. or more of the voting share capital by any person

  (i) The Ministry of Economy and Finance may object, on public interest grounds, to the acquisition by any person (except for the Italian Government or state or local authorities, or entities controlled by any of them) of five per cent. or more of Terna's voting share capital (or a lesser percentage as may be determined by the Ministry of Economy and Finance).

  (ii) The Board of Directors must notify the Ministry of Economy and Finance when the acquirer of shares in excess of the shareholding limit applies to register those shares in the shareholders' register. Upon receipt by the Ministry of such notice, all voting and other rights (other than economic rights) associated with all of the acquirer's shares will be suspended. If the Ministry decides to object to the acquisition, it must do so within 10 days of the notice from the Board of Directors.

  (iii) Upon receiving notification of the Ministry's objection to the acquisition, the acquirer may not exercise any voting or other rights (other than economic rights) with respect to its shares and must dispose of all of its shares within one year. If the transferee fails to do so, the Ministry may apply for a court order for the sale of all of such acquirer's shares. The acquirer may contest the Ministry's decision to object to the acquisition by commencing proceedings before the Lazio regional administrative court within 60 days of receiving notification from the Ministry.

(b) The power to object to material shareholder agreements

  (i) The Ministry of Economy and Finance may object, on public interest grounds, to voting agreements or any other arrangements between or among shareholders who, in the aggregate, hold five per cent. or more of Terna's voting share capital (or a lesser percentage as it may be determined by decree of the Ministry of Economy and Finance) and which relate to the exercise of voting rights in Terna.

  (ii) If the Ministry of Economy and Finance decides to object to the voting agreements or to other arrangements, it must do so within 10 days of receiving notice of such voting agreements or arrangements from CONSOB. Upon receiving notification of the Ministry's objection, shareholders that are party to the voting agreements or arrangements may not exercise any voting or other rights (other than economic rights) relating to the shares that are the subject of the voting agreements or arrangements.

  (iii) If the Ministry of Economy and Finance objects to such voting agreements or arrangements, they will be deemed null and void.

  (iv) The shareholders who are party to such voting agreements or arrangements may appeal the decision of the Ministry of Economy and Finance by commencing proceedings in the Lazio

regional administrative court within 60 days of the date the voting agreements or arrangements were deemed null and void.

(v) If the shareholders' conduct during a shareholders' meeting nevertheless appears to indicate that they continue to act in accordance with such a voting agreement or other arrangement, any resolution adopted at a shareholders' meeting that would not have been adopted but for the votes of those shareholders may be challenged.

(c) The power to object to material changes

(i) The Ministry of Economy and Finance may, on public interest grounds, object to shareholder resolutions to dissolve, merge or demerge, or sell Terna, or transfer its headquarters outside Italy, modify its corporate purpose or remove or modify the provision in the by-laws which governs the special powers of the Ministry of Economy and Finance listed in this section.

(ii) Shareholders may appeal the decision of the Ministry of Economy and Finance by commencing proceedings in the Lazio regional administrative court within 60 days of the objection.

(d) The power to appoint a director without voting rights

(i) The Ministry of Economy and Finance, in consultation and agreement with the Ministry of Economic Development, may appoint a director (without voting rights) to the Board of Directors.

(ii) In the event any such director resigns or is removed, the Ministry of Economy and Finance, in consultation and agreement with the Ministry of Economic Development, may appoint a replacement director.

Any action by the Ministry of Economy and Finance referred to above, which is undertaken in the public interest, must be supported by documented evidence regarding the public interest which is being protected. In particular, the President of the Council of Ministers' decree, dated 10 June, 1994, sets forth the purposes and the circumstances under which the special powers granted to the Ministry of Economy and Finance can be exercised.

The special powers can be exercised only for relevant and unavoidable reasons of general interest, with specific reference to public order, public safety, public health and defence, without prejudice, however, to adherence to the principles of the Italian and EU legal systems and, above all, to the principle of non-discrimination. Such powers shall be used in a manner and to the extent necessary to give effective protection to the above-mentioned interests.

According to Terna's by-laws, the Italian Government may review the scope and duration of the special powers of the Ministry of Economy and Finance taking into consideration, among other things, the extent to which the EU energy sector has been liberalised.

At the shareholders' meeting held on 13 May, 2011, Terna's by-laws were amended to ensure compliance with the provisions introduced by Art. 1 of Legislative Decree No. 27 of 27 January, 2010 (on the exercise of certain rights of shareholders in listed companies) and to implement the provisions governing the Procedure for Related Party Transactions adopted by Terna's Board of Directors, pursuant to the Regulations on provisions relating to Transactions with Related Parties (issued by Consob with Resolution No. 17221 of 12 March, 2010 and as subsequently amended by Resolution No. 17389 of 23 June, 2010).

## REGULATORY MATTERS

### Supervision and Regulation of the Italian Electricity Industry

The Ministry of Economic Development and the Italian Energy Authority 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 as well as for the establishment of strategic guidelines for the development and safety of the electricity industry. The Italian Energy Authority'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. The Italian Energy Authority 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
- the Italian Energy Authority determined the electricity tariff rates annually on an industry "cost-plus" basis.

### Regulation under the Bersani Decree

The enactment of the EU directive of December 1996 (the **Electricity Directive**) led to further liberalisation of the electricity industry in Italy. The Bersani Decree and subsequent legislation implemented the principles contained in the Electricity Directive and sought to liberalise the electricity industry through unbundling the integrated electricity industry into four different sectors: production; transmission; distribution; and supply. 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 total imported and domestically produced electricity in Italy.
- *Transmission.* A requirement that each network owner transfers its own transmission assets to a special purpose subsidiary. In addition, the Italian Energy Authority 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 ISO was established to act as system operator for the electricity dispatching and 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.* From 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 provided for the creation of several new entities, in particular the following:

- *The Italian ISO*. The Italian ISO was established as a wholly owned entity of the Ministry of Economy and Finance, with the purpose of acting as a system operator for the electricity 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.

- *Gestore dei Mercati Energetici* (the **Markets Operator**). The Markets Operator is the entity charged with 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* (the **Single Buyer**). The Single Buyer was established as a central purchaser of electricity from producers on behalf of all Captive 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. Since 1 January, 2004, the Single Buyer has been fully operational.

**Current Regulation**

The current regulatory structure of the electricity sector is determined by Law Decree 239/03, as amended by Law 290/03, and the DPCM (described below), which:

- provides for integration of the ownership and management of the Italian transmission grid; and

- effective from 1 July, 2007, prohibits companies (including Enel) that are involved 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 issued the DPCM (subsequently officially published on 18 May, 2004), which specifies the following implementing measures for Law 290/03:

(a) The Italian ISO must 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 with other owners of the NTG held by the Italian ISO), by no later than 31 October, 2005 (the **Transfer**), except for the following:

  (i) any assets, legal relationships and employees relating to (a) management of the electricity generated by facilities subject to special incentives pursuant to CIP6/92, and (b) 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 must agree on the ISO Assets and the consideration to be paid for the Transfer. The DPCM also provides for a mechanism that applies in case the parties fail to agree by 30 April, 2005 on the ISO Assets and the amount of consideration for the Transfer. On the date of the Transfer, Terna shall assume ownership and the Italian ISO's obligations for the management of the NTG and each of the Italian ISO and Terna shall change their respective corporate names.

(b) The Italian ISO is required to prepare, by no later than 31 December, 2004, a document entitled "Network transmission, dispatch, development and safety code" (the **Grid Code**), which should contain objective and non-discriminatory rules for the use of, and access to, the NTG with respect to the dispatching and management operations of the NTG. The Grid Code shall also provide for the establishment of a technical consulting committee for the users of the NTG. This committee consists of a maximum number of seven members who have responsibility 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) is subject to the approval (including by acquiescence) of the Ministry of Productive Activities and the Italian Energy Authority.

(c) The Italian Energy Authority 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. The Italian Energy Authority also evaluates different mechanisms related to the acquisition of Terna's (or the resulting entity's) shares by other owners of the NTG.

(d) The entity resulting from the integration shall be operated in an objective manner without distinguishing between users or types of users of the NTG. By-laws must be amended (prior to the earlier of Enel losing control of Terna and the integration) to provide for the following:

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

(ii) any company that is involved 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 that owns 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) within 60 days of the integration, the shareholders of the resulting entity shall elect a new board of directors in accordance with the new By-laws and which consists of members that meet 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 elected board of directors shall remain in office until such date as Enel reduces its shareholding in Terna to no more than 20 per cent.; and

(iv) no person except for the Italian Government or state or local authorities (or entities controlled by any of them) may 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 must 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) Article 4 of the DPCM provides that 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 may dispose of the remaining shares it holds in Terna or the resulting entity, through objective and non-discriminatory procedures which are 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:

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

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

(c) on 15 September, 2005, Enel disposed of a 29.99 per cent. controlling stake in Terna by selling it to CDP. Enel reduced its interest in Terna from 50 per cent. to 6.142 per cent. as of 31 December, 2005. As of 24 May, 2007, Enel owns 5.119 per cent. of Terna's share capital;

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

(e) 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

(f) on 10 April, 2006, the Italian Energy Authority 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 grants the Italian Energy Authority the right to attribute certain incentives to Terna and owners of other portions of the NTG that sell their portions to Terna. The Italian Energy Authority set the total amount of such incentives at €14 million, to be divided between Terna and the other owners of the NTG that sell their portions of the NTG to Terna in accordance with a 30 per cent./70 per cent. ratio. Only transactions agreed upon before 30 April, 2006, may benefit from such incentives.

**Regulatory Structure of the Transmission Sector**

The Ministry of Productive Activities 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 purchased the Italian ISO Assets on 1 November, 2005. On 15 December, 2010 Terna and the Ministry of Economic Development agreed an update of the convention related to the Concession (the **New Convention**).

As determined by the New Convention:

- The Issuer, in compliance with the European provisions, laws in force in Italy, specific conventions with Public Authorities, conditions provided by the Concession and guidelines determined by the Ministry of Productive Activities and the Italian Energy Authority: (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 NTG in respect of its own portions of the NTG; (vi) decides on maintenance operations of the NTG and performs the maintenance activity on its portion of the NTG; (vii) advises the Ministry of Productive Activities regarding the realisation of new installations; (viii) sets rules for the dispatch of energy in compliance with conditions determined by the Authority of Electricity and Gas pursuant to Article 3, paragraph 3, of the Decree 79/1999 and the guidelines of the Ministry of Economic Development pursuant to

Article 1, paragraph 2, of the Decree 79/1999; (ix) adopts, pursuant to Article 1, paragraph 4, of the DPCM 11 May 2004, on the basis of the directives of the Italian Energy Authority, non-discriminatory technical rules for 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.

- In order to keep the installations in good condition and to ensure the uninterrupted transmission and dispatch of electricity, the Issuer takes decisions related to the NTG's maintenance and development, for its own account in respect of its own installations, or for the account of the other owners in respect of their installations. The other owners of portions of the NTG must comply with the relevant decisions of the Issuer. The maintenance of the electrical lines of the NTG shall be performed pursuant to Article 3, paragraph 2, of Decree 79/1999.

- The Issuer undertakes activities to keep the electricity system safe and, to this end, presents to the Ministry of Productive Activities, 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 sends 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 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 determined by the Italian Energy Authority on the basis of certainty and adequacy. The Ministry of Productive Activities determines the guidelines of the Italian Energy Authority in order to permit an efficient performance of the service and encourage the development activities.

- If the Issuer fails to perform at least one of the obligations required by the Concession, the Ministry of Economic Development may impose a penalty (between €5,000 and €50,000) for each violation. The Ministry 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 Italian Energy Authority's proposal, suspend or terminate the Concession. 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 engage in activities outside the electricity sector which are instrumental and linked to its corporate objects and which do not conflict with the conduct of the 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 duties of the Issuer.

- In order to inform on the state of dispatching and transmission services, the Issuer notifies to the Ministry of Economic Development 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*

Under current legislation, the Italian Energy Authority determines the tariff mechanism pursuant to which the Italian Transmission System Operator (**TSO**) and the owners of the NTG (including Terna) are remunerated.

As of November 2005, following the acquisition of the Italian ISO Assets, Terna assumed the functions of the Italian TSO. Previously, these functions were carried out by Gestore della rete di trasmissione nazionale S.p.A. (renamed Gestore del sistema elettrico S.p.A., subsequently Gestore dei servizi elettrici S.p.A. and currently Gestore dei Servizi Energetici - GSE S.p.A.), which at present mainly performs activities relating to renewable energy.

Pursuant to Italian law, before the start of each regulatory period, whose duration is currently set to four years, the Italian Energy Authority - after consulting with grid participants - issues the criteria and formulae for calculating tariff rates. Tariff rates are then annually adjusted according to said criteria and formulae.

With resolutions 348/07 and 351/07, the Italian Energy Authority set the remuneration criteria for the regulatory period 2008-2011 and the tariff rates for transmission and for the management of dispatching activities for 2008. The tariffs for the electricity transmission, dispatching, distribution and metering services have been updated (i) for 2009, with resolutions 188/08 and 189/08, (ii) for 2010, with resolutions 203/09 and 204/09 and (iii) for 2011, with resolutions 228/10 and 231/10.

The transmission tariff is paid by Italian electricity distributors for the use of the NTG. The share of such proceeds pertaining to other owners of parts of the NTG is calculated and distributed by the Issuer on the basis of a measure of the NTG ownership share based on a list of unitary asset values established by the Italian Energy Authority with resolution 304/01 for the first regulatory period 2000-2003. The Italian Energy Authority has not provided updates of said list for the regulatory periods 2004-2007 and 2008-2011. The Issuer cannot predict the positive or negative impact of a possible update of said list.

The tariff for the management of dispatching activities is paid by users of the dispatching service and it is fully retained by Terna as the sole responsible for Italian dispatching activities.

The dispatching fees (including unbalancing costs) are paid by the users of the dispatching service and the proceeds from such payments are wholly applied to cover the relevant costs borne by the Italian TSO for carrying out system balancing and dispatching activities.

Terna is responsible for invoicing and collecting both for tariffs due for transmission and management of dispatching activities and for dispatching fees (including unbalancing costs).

Resolution 111/06 of the Italian Energy Authority (as subsequently amended) sets the main rules governing the dispatching services and the calculation of the relevant fees.

*Calculation of electricity transmission tariff rates for the first year of each four-year regulatory period and their adjustment in subsequent years: general criteria*

The electricity transmission tariff mechanism is designed to compensate transmission companies for costs directly related to their activities. Since the tariff mechanism is applicable to all companies operating in this sector, the Italian Energy Authority calculates tariff rates based on the "allowed costs" of the transmission sector which, in turn, are based on the costs of the transmission companies.

In order to calculate the total allowed costs of the transmission sector, the Italian Energy Authority takes into consideration the operating costs (mainly costs for outside services and work, payroll costs and costs associated with the purchase of materials), the depreciation of property, plant and equipment and the remuneration of net invested capital (**RAB**). Thus, with respect to the first year of each four-year regulatory period, the Italian Energy Authority calculates the total amount of the allowed costs by determining:

- the amount of the operating costs;
- the amount of depreciation;
- the value of net invested capital (**RAB**); and
- the rate of return at which RAB is remunerated (**WACC**).

After calculating the total allowed costs, the Italian Energy Authority determines the transmission tariff rates for the first year of each four-year regulatory period in such a way that, based on the estimate of the expected electricity consumption volume for the first year, the application of the tariff rates results in a tariff which in the aggregate should be equal to the total of the allowed costs of the electricity transmission sector. Finally, also in the first year of each four-year regulatory period, the Italian Energy Authority determines the yearly tariff rates' adjustment method which is applied in the second, third, and fourth year of each regulatory period, as described in more detail below in "*Adjustment of tariff rates in subsequent years*".

*Adjustment of tariff rates in subsequent years*

Pursuant to the calculation of the tariff rates for the first year of each four-year regulatory period, the Italian Energy Authority adjusts the tariff rates for each subsequent year by applying an adjustment mechanism (the "price cap" formula) to certain components of the tariff rates. The price cap is calculated as follows:

$$P = I - X + Y$$

where:

"P" is the price cap;

"I" is the average annual fluctuation rate of the consumer price index for the families of workers and office employees recorded by ISTAT for the prior 12 months (i.e. the inflation rate);

"X" is the annual reduction rate of the allowed costs established by the Italian Energy Authority for the entire four-year period (the "productivity recovery factor");

"Y" is the tariff fluctuation rate linked to cost derived from exceptional and unforeseen events, changes in the regulatory framework and in the obligations related to providing universal service.

*Payment for the use of the NTG and for dispatching activity*

The tariff rate assigned to cover the cost of dispatching is wholly held by the Italian TSO as the only entity in charge of this activity for the entire system.

**Regulatory Period 2008-2011**

The Italian Energy Authority has established the criteria for the determination of tariff rates related to the regulatory period 2008-2011 with resolutions 348/07 and 351/07, as subsequently updated. These criteria are in accordance with the general principles described above under "*Calculation of electricity transmission*

*tariff rates for the first year of each four-year regulatory period and their adjustment in subsequent years*" even if there are some minor differences from the previous regulatory period and the application of the annual adjustment of the tariff rate also for the dispatching activity.

For the determination of the "allowed sector costs" the Italian Energy Authority has used the following criteria:

(a) ***Operating costs***. The operating costs were fixed as the sum of:

(i) the actual costs for companies operating in the transmission sector during 2006 increased by 1 per cent. due to the estimated rise of energy consumption from 2006 to 2007, adjusted until 2008 (A) upward, taking into account the percentage fluctuation of the consumer price index, and (B) downward, by applying X (the annual cost reduction rate); and

(ii) 50 per cent. of productivity recovery greater than X during 2006 (calculated as the difference between average allowed costs and actual costs for 2006) even if adjusted until 2008 (A) upward, taking into account the percentage fluctuation of the consumer price index, and (B) downward, by applying X (the annual cost reduction rate).

(b) ***Depreciation***. The Italian Energy Authority has confirmed the useful life of assets used for its determination of the depreciation component in the previous regulatory period 2004-2007. In particular, the Italian Energy Authority has determined the depreciation component for the first year of the new regulatory period 2008-2011 as follows:

(i) the depreciation of the previous regulatory period was adjusted until 2006 applying the price cap mechanism but taking into account the assets that had been depreciated on the same date; and

(ii) increasing the depreciation value in order to take into account the investment entered into operation during the period 2004-2006 and reassessed appropriately.

(c) ***Value imputed to RAB***. The value of RAB was determined by the Italian Energy Authority starting from the value fixed for 2007 and adjusting it for:

(i) the annual investment deflator published by ISTAT;

(ii) net investments, disinvestments and the variations of work in progress made in 2006; and

(iii) the value of net working capital (conventionally determined as 1 per cent. of the value of net invested capital) and certain other adjustments.

(d) ***Annual rate of return on RAB*** (**RR**). The Italian Energy Authority has determined the RR applicable to the electricity transmission sector (before taxes) as 6.9 per cent., increasing the 6.7 per cent. related to the previous regulatory period 2004-2007. Furthermore, in order to encourage expansion of the NTG, the Italian Energy Authority has confirmed the incentives for development activities for which the remuneration rate will be higher than 6.9 per cent. In particular, for the development investments entered into operation by 31 December, 2007, the remuneration rate will be 2 per cent. higher than the RR until 2019. For development investments entered into operation after that date, the remuneration rate will be 2 or 3 per cent. higher than the RR for a period of 12 years (therefore the total remuneration rate is equal to 8.9 per cent. or 9.9 per cent.). The extra remuneration of 2 or 3 per cent. is dependent on the finality of development investments. Investments entitled to base remuneration only are defined "I=1", investments entitled to base remuneration +2 per cent. are defined "I=2", investments entitled to base remuneration +3 per cent. are defined "I=3". In order to receive the extra remuneration in the tariff rate related to the year n, such development investments must be completed by 31 December of the year n-2. In addition, with reference to development activities, the Italian Energy Authority has determined a threshold for the recognition of full remuneration for investment costs related to environmental requirements. If the percentage of these investment costs in respect of total investment costs is higher than 6 per cent., the total remuneration rate (RR plus extra remuneration of 2 or 3 per cent.) decreases progressively.

With respect to the adjustment mechanism applicable in subsequent years of the four-year regulatory period, the Italian Energy Authority has decided to adjust yearly, applying the same criteria, the tariff rates for transmission and dispatching activities. For the year n, the tariff rates components are adjusted on the basis of the value for the previous year adopting the following rules:

(a) in relation to the operating cost, applying the price cap formula and in relation to this, setting the annual reduction rate X at 2.3 per cent. for the transmission activity and at 1.1 per cent. for the dispatching activity (with I and Y being determined annually in each subsequent year);

(b) in relation to the depreciation, not applying the price cap formula as was for the transmission tariff rate during the previous regulatory period 2004-2007 but taking into account:

  (i) the reduction due to disinvestments and the end of the asset depreciation period (the end of the useful life of assets);

  (ii) the new investments entered into operation;

  (iii) the annual investment deflator published by ISTAT; and

  (iv) the volume variation of electricity demand in Italy; and

(c) in relation to the RR, applying to the tariff component for the previous year:

  (i) the annual investment deflator published by ISTAT;

  (ii) the volume variation of electricity demand in Italy;

  (iii) the change in net investments made during the year n-2; and

  (iv) the higher remuneration allowed for development activities entered into operation by 31 December of year n-2;

  (v) The contributions received for investments that have to be subtracted from the values of the related assets.

Moreover, with reference to the regulatory period 2008-2011, the Italian Energy Authority determined with resolution 341/07 criteria for the regulation of quality of transmission service. In order to evaluate the quality of transmission service the Italian Energy Authority has defined specific indexes (Energy not supplied and Number of interruptions for NTG users) for which, on the basis of historical data, it has fixed target values for each year of the regulatory period. If the yearly performance is higher than the target values, Terna receives a yearly premium that can reach a maximum value equal to 2 per cent. of yearly regulated revenues for the transmission activity. If the yearly performance is lower than the target values, Terna has to pay a yearly penalty that can reach a maximum value equal to 1.5 per cent. of yearly regulated revenues for the transmission activity. This mechanism will be put into operation by year 2010.

In order to maintain continuity in infrastructural investments that are planned for the National Electricity Grid development, the Italian Energy Authority also established an optional "mitigation" mechanism for the negative effects of the reduced electricity consumption trend. In particular, for the period 2009-2011, in case the actual consumption by the end of each year is 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.

Furthermore, for the regulatory period 2008-2011 the Italian Energy Authority with resolution 351/07 introduced an incentive mechanism for the remuneration of dispatching activity which is also based on a yearly payment of a premium or penalty related to the TSO's capacity to foresee daily electricity energy demand and daily energy produced by wind power plants. This incentive mechanism will be in operation by 2008 and the yearly premium can reach a maximum value of €8 million, whilst the yearly penalty can reach a maximum value of €4 million. Subsequently, the Italian Energy Authority with resolution 213/09 amended the resolution 351/07 in order to provide for an incentive scheme for dispatching activities for the three-year period 2010 - 2012. In this respect, Terna has been provided with incentives to reduce the volumes supplied

by the dispatching services market (MSD), as in the incentive scheme for 2009. The volumes involved are calculated without considering the volumes related to the imbalances and to the offers accepted and then repealed according to the resolution no. 165/06 issued by the Italian Energy Authority. In addition, the resolution confirmed the main conditions which Terna needs to comply with to gain the bonus, that were already in force in 2009.

The most important details established by the resolution for the incentive mechanism are the following:

- Terna has been granted a remuneration of €11 for each MWh that corresponds to a reduction of the volumes dispatched on the MSD for the 2010 target;
- Terna has been granted a remuneration of €7 for 2011 and €3.5 for 2012 for each MWh that corresponds to a reduction of the volumes dispatched on the MSD related to the set target;
- a penalty mechanism has been established according to which the limit to the penalty is equal to €10 million for 2010, and for the following years the penalty is also based on bonuses related to the previous years (2010, 2011).

Throughout the whole three-year period the incentive mechanism takes into consideration the reductions of energy production originated from wind farms, imposed upon the MSD.

Finally, the Italian Energy Authority, with resolution 87/10, introduced an optional incentive system to accelerate development investments.

The incentive requires Terna to propose milestones and delivery dates for a significant subset of projects of the I=3 category; after approval by the regulation authority they become goals for Terna, and trigger 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 3 per cent. of "I=3" projects work in progress of year (n-2);
- starting from 2012, if the completion date of one of the projects included in the mechanism falls outside of a grace period of (-6 to +12 months), Terna is awarded a bonus or pays a penalty equal to 3 per cent. of the project for each year or fraction of year of advance/delay.

## TAXATION

*The statements herein regarding taxation are based on the laws in force in Italy, in the European Union and in Luxembourg as at the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes.*

### ITALIAN TAXATION

#### Tax Treatment of the Notes

*Interest and other proceeds - Notes that qualify as "obbligazioni o titoli similari alle obbligazioni" and have an original maturity of not less than 18 months.*

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 companies listed on an Italian regulated market, provided that the notes are issued for an original maturity of not less than 18 months.

*Italian Resident Noteholders*

Where an Italian resident Noteholder is (i) 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 "*Capital Gains Tax*" below), (ii) a non-commercial partnership, (iii) a non-commercial private or public institution, or (iv) an investor exempt from Italian corporate income taxation, interest, premium and other income relating to the Notes, accrued during the relevant holding period, are subject to a withholding tax, referred to as "*imposta sostitutiva*", levied at the rate of 12.5 per cent. In the event that the Noteholders described under (i) and (iii) above are engaged in an entrepreneurial activity to which the Notes are connected, *imposta sostitutiva* applies as a provisional tax.

Where an Italian resident Noteholder is a company or similar commercial entity 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 at 27.5 per cent. (and, in certain circumstances, depending on the "status" of the Noteholder, also to IRAP **-** the regional tax on productive activities at 3.9 per cent.).

Under the current regime provided by Law Decree No. 351 of 25 September, 2001 converted into law with amendments by Law No. 410 of 23 November, 2001, as clarified by the Italian Ministry of Economics and Finance through Circular No. 47/E of 8 August, 2003, payments of interest in respect of the Notes made to Italian resident real estate investment funds established pursuant to Article 37 of Legislative Decree No. 58 of 24 February, 1998, as amended and supplemented (**Decree No. 58**), and Article 14-*bis* of Law No. 86 of 25 January, 1994 are subject neither to substitute tax nor to any other income tax in the hands of a real estate investment fund.

If the investor is resident in Italy and is an open-ended or closed-ended investment fund (the **Fund**) or a SICAV, and the Notes are held by an authorised intermediary, interest, premium and other income accrued during the holding period on the Notes will not be subject to *imposta sostitutiva*, but must be included in the management results of the Fund accrued at the end of each tax period, subject to an *ad hoc* substitute tax (the **Collective Investment Fund Tax**) applicable at a 12.5 per cent. rate. As of 1 July, 2011, the Collective

Investment Fund Tax will be repealed and substituted by a substitute tax of 12.5 per cent. levied on proceeds distributed by the Fund or the SICAV or received by certain categories of unitholders upon redemption or disposal of the units.

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by Article 17 of Legislative Decree No. 252 of 5 December, 2005) 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 results 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 Economics and Finance (each an **Intermediary**).

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

*Non-Italian Resident Noteholders*

Where the Noteholder is a non-Italian resident, an exemption from the *imposta sostitutiva* applies provided that the non-Italian resident beneficial owner is either (i) resident for tax purposes, in a country which allows for a satisfactory exchange of information with Italy; or (ii) an international body or entity set up in accordance with international agreements which have entered into force in Italy; or (iii) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (iv) an institutional investor that is resident in a country which allows for a satisfactory exchange of information with Italy, even if it does not possess the status of a taxpayer in its own country of residence.

It should be noted that, according to Law No. 244 of 24 December, 2007 (**Budget Law 2008**), a Decree yet to be issued will introduce a new "white list" replacing the current "black list" system, so as to identify those countries which allow for satisfactory exchange of information (thus, the present list of countries allowing an adequate exchange of information is that contained in the Ministerial Decree of 4 September, 1996 - as subsequently amended and supplemented from time to time).

*Imposta sostitutiva* will be applicable at the rate of 12.5 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 that are resident, for tax purposes, in countries which do not allow for a satisfactory exchange of information with Italy.

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 (i) deposit, directly or indirectly, the Notes with (a) a resident bank or SIM or a permanent establishment in Italy of a non-Italian resident bank or SIM; (b) a non-Italian resident entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economics and Finance; (c) with a non-resident entity or company which has an account with a centralised clearance and settlement system (such as Euroclear or Clearstream, Luxembourg) which has a direct relationship with the Italian Ministry of Economy and Finance; or (d) a centralised managing company of financial instruments, authorised in accordance with Article 80 of Legislative Decree No. 58 of 24 February, 1998; (ii) 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 the

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; and (iii) the banks or brokers mentioned above receive all necessary information to identify the non-resident beneficial owner of the deposited debt securities, and all necessary information in order to determine the amount of interest that such beneficial owner is entitled to receive.

*Early Redemption*

Without prejudice to the above provisions, in the event that Notes are redeemed, in full or in part, prior to 18 months from the Issue Date or, under certain conditions, if repurchased by the Issuer within this period (Resolution No. 11 of 31 January 2011 of the Italian Revenue Agency (*Agenzia delle Entrate*)), the Issuer will be required to pay a tax equal to 20 per cent. of the interest and other amounts accrued up to the time of the early redemption. Such payment will be made by the Issuer and will not affect the amounts to be received by the Noteholder by way of interest or other amounts, if any, under the Notes.

*Interest and other proceeds - Notes that qualify as "obbligazioni o titoli similari alle obbligazioni" and have an original maturity of less than 18 months.*

Interest payments relating to Notes falling within the category of bonds (*obbligazioni)* or debentures similar to bonds (*titoli similari alle obbligazioni*) issued with an original maturity of less than 18 months are subject to a withholding tax, levied at the rate of 27 per cent. pursuant to Article 26, first paragraph, of Decree No. 600 of 29 September, 1973, as subsequently amended.

Where the Noteholder is (i) an Italian individual engaged in an entrepreneurial activity to which the Notes are connected, (ii) an Italian company or a similar Italian commercial entity, (iii) a permanent establishment in Italy of a foreign entity, (iv) an Italian commercial partnership, or (v) an Italian commercial private or public institution, such withholding tax is a provisional withholding tax. In all other cases, including when the Noteholder is a non-Italian resident, the withholding tax is a final withholding tax. In the case of non Italian resident Noteholders, the 27 per cent. withholding tax rate may be reduced by the applicable double tax treaty, if any.

*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 27 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 (i) an Italian individual engaged in an entrepreneurial activity to which the Notes are connected, (ii) an Italian company or a similar Italian commercial entity, (iii) a permanent establishment in Italy of a foreign entity to which the Notes are effectively connected, (iv) an Italian commercial partnership or (v) an Italian commercial private or public institution, such withholding tax is a provisional withholding tax. In all other cases, including when the Noteholder is a non-Italian resident, the withholding tax is a final withholding tax. In the case of non-Italian resident Noteholders without a permanent establishment in Italy to which the Notes are effectively connected, the withholding tax rate may be reduced by the applicable double tax treaty, if any.

*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 individual not holding the Notes in connection with an entrepreneurial activity and certain other persons, any capital gain realised by such Noteholder from the sale

or redemption of the Notes would be subject to *imposta sostitutiva*, levied at the current rate of 12.5 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 entrepreneurial activities 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 not holding the Notes 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 not holding the Notes 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 their 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 not holding the Notes 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 (i) the Notes being deposited with Italian banks, SIMs or certain authorised financial intermediaries and (ii) an express election for the *risparmio amministrato* regime being made timely 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 not holding the Notes 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 12.5 per cent. substitute tax, to be paid by the managing authorised intermediary. Under this *risparmio gestito* regime, any depreciation of the managed assets accrued at year end may be carried forward against an 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 which is an Italian open-ended or a closed-ended investment fund or a SICAV will be included in the results of the relevant portfolio accrued at the end of the tax period, to be subject to the Collective Investment Fund Tax. As of 1 July, 2011, the Collective Investment Fund Tax will be repealed and substituted by a substitute tax of 12.5 per cent. levied on proceeds distributed by the Fund or the SICAV or received by certain categories of unitholders upon redemption or disposal of the units.

Any capital gains realised by a Noteholder which is an Italian pension fund (subject to the regime provided for by Article 17 of Legislative Decree No. 252 of 5 December, 2005) will be included in the results 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 without a permanent establishment to which the Notes are effectively connected, from the sale or redemption of Notes issued by an Italian resident Issuer and traded on regulated markets are not subject to *imposta sostitutiva*.

Capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes not traded on regulated markets are not subject to *imposta sostitutiva*, provided that the effective beneficiary: (i) is resident in a country which allows for a satisfactory exchange of information with Italy; (thus, the present list of countries allowing an adequate exchange of information is that contained in the Ministerial Decree of 4 September, 1996 - as subsequently amended and supplemented from time to time); or (ii) is an international entity or body set up in accordance with international agreements which have entered into force in Italy; or (iii) is a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (iv) 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 country of residence.

It should be noted that, according to Budget Law 2008, a Decree yet 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.

If none of the conditions above is met, capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes issued by an Italian resident Issuer not traded on regulated markets are subject to *imposta sostitutiva* at the current rate of 12.5 per cent.

In any event, non-Italian resident individuals or entities without a permanent establishment in Italy to which the Notes are connected, who 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 tax*

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

(a) 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 €1,000,000;

(b) transfers in favour of relatives to the fourth degree or relatives-in-law of a direct lineage or after relatives-in-law of a collated lineage up to the third degree, are subject to an inheritance and gift tax applied 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 €100,000; and

(c) any other transfer, in principle, is 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.

*Transfer Tax*

Article 37 of Law Decree No 248 of 31 December, 2007, converted into Law No. 31 of 28 February, 2008, published in the Italian Official Gazette No. 51 of 29 February, 2008, has abolished Italian transfer tax, provided for by Royal Decree No. 3278 of 30 December, 1923, as amended and supplemented by Legislative Decree No. 435 of 21 November, 1997.

Following the repeal of Italian transfer tax, as from 31 December, 2007 contracts relating to the transfer of securities are subject to registration tax as follows: (i) public deeds and notarised deeds are subject to fixed registration tax at rate of €168; and (ii) private deeds are subject to registration tax only in case of use or voluntary registration.

**EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (**EU 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).

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

***Implementation in Italy of the EU Savings Directive***

Italy has implemented the EU Savings Directive through Legislative Decree No. 84 of 18 April, 2005 (**Decree No. 84**). Under Decree No. 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.

**LUXEMBOURG TAXATION**

*The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.*

*Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax* (impôt sur le revenu des collectivités)*, municipal business tax* (impôt commercial communal)*, a solidarity surcharge* (impôt de solidarité) *as well as personal income tax* (impôt sur le revenu) *generally. Investors may further be subject to net wealth tax* (impôt sur la fortune) *as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident in Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.*

**Taxation of holders of the Notes**

***Withholding Tax***

*(i) Non-resident holders of Notes*

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June, 2005 (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the EC Council Directive 2003/48/EC of 3 June, 2003 on taxation of savings income in the form of interest payments, and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it is currently levied at a rate of 20 per cent. and it will be levied at a rate of 35 per cent. as of 1 July, 2011. Responsibility for withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 20 per cent.

*(ii) Resident holders of Notes*

Under Luxembourg general tax laws currently in force and subject to the law of 23 December, 2005, as amended mentioned below (the **Law**), there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.

***Income Tax***

*(i) Non-resident holders of Notes*

A non-resident corporate holder of Notes or an individual holder of Notes acting in the course of the management of a professional or business undertaking, that has a permanent establishment or permanent representative in Luxembourg to which such Notes are attributable, is subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes and on any gains realised upon the sale or disposal, in any form whatsoever, of the Notes.

*(ii) Resident holders of Notes*

A corporate holder of Notes must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realised on the sale or disposal, in any form whatsoever, of the Notes, in its taxable income for Luxembourg income tax assessment purposes. The same inclusion applies to an individual holder of Notes, acting in the course of the management of a professional or business undertaking.

A holder of Notes that is governed by the law of 11 May, 2007 on family estate management companies, or by the law of 20 December, 2002 on undertakings for collective investment, as amended, or by the law of 13 February, 2007 on specialised investment funds or by the law of 17 December, 2010 on undertakings for collective investment, is neither subject to Luxembourg income tax in respect of interest accrued or received, any redemption premium or issue discount, nor on gains realised on the sale or disposal, in any form whatsoever, of the Notes.

An individual holder of Notes, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax in respect of interest received, redemption premiums or issue discounts, under the Notes, except if (i) withholding tax has been levied on such payments in accordance with the Law; or (ii) the individual holder of the Notes has opted for the application of a 10 per cent. tax in full discharge of income tax in accordance with the Law, which applies if a payment of interest has been made or ascribed by a paying agent established in a EU Member State (other than Luxembourg), or in a Member State of the European Economic Area (other than a EU Member State), or in a state that has entered into a treaty with Luxembourg relating to the Council Directive 2003/48/EC of 3 June, 2003. A gain realised by an individual holder of Notes, acting in the course of the management of his/her private wealth, upon the sale or disposal, in any form whatsoever, of Notes is not subject to Luxembourg income tax, provided this sale or disposal took place more than six months after the Notes were acquired. However, any portion of such gain corresponding to accrued but unpaid interest income is subject to Luxembourg income tax, except if tax has been levied on such interest in accordance with the Law.

***Net Wealth Taxation***

A corporate holder of Notes, whether it is a resident of Luxembourg for tax purposes or, if not, it maintains a permanent establishment or a permanent representative in Luxembourg to which such Notes are attributable, is subject to Luxembourg wealth tax on such Notes, except if the holder of Notes is governed by the law of 11 May, 2007 on family estate management companies, or by the law of 20 December, 2002 on undertakings for collective investment, as amended, or by the law of 13 February, 2007 on specialised investment funds or by the law of 17 December, 2010 on undertakings for collective investment, or is a securitisation company governed by the law of 22 March, 2004 on securitisation, or is a capital company governed by the law of 15 June, 2004 on venture capital vehicles, as amended.

An individual holder of Notes, whether he/she is a resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Notes.

***Other Taxes***

Neither the issuance nor the transfer of Notes will give rise to any Luxembourg stamp duty, value added tax, issuance tax, registration tax, transfer tax or similar taxes or duties.

Where a holder of Notes is a resident of Luxembourg for tax purposes at the time of his/her death, the Notes are included in his/her taxable estate for inheritance tax assessment purposes.

Gift tax may be due on a gift or donation of Notes if embodied in a Luxembourg deed or recorded in Luxembourg.

## SUBSCRIPTION AND SALE

The Dealers have, in a Fourth Amended and Restated Programme Agreement (the **Programme Agreement**) dated 20 May, 2011, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

### Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as

defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

**United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

**Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

**France**

Each of the Dealers and the Issuer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

*(a) Offer to the public in France:*

it has only made and will only make an offer of Notes to the public in France in the period beginning (i) when a prospectus in relation to those Notes has been approved by the *Autorité des marchés financiers* (AMF), on the date of such publication or, (ii) when a prospectus has been approved by the competent authority of another Member State of the European Economic Area which has implemented the EU Prospectus Directive 2003/71/EC, on the date of notification of such approval to the AMF, and ending at the latest on the date which is 12 months after the date of the approval of the base prospectus, all in accordance with Articles L.412-1 and L.621-8 of the *French Code monétaire et financier and the Règlement général* of the AMF; or

*(b) Private placement in France:*

otherwise, it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus, the relevant Final Terms or any other offering material relating to the Notes, and that such offers, sales and distributions have been and shall only be made in France to (i) providers of investment services relating to portfolio management for the account of third parties, and/or (ii) qualified investors (*investisseurs qualifiés*), other than individuals, all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

**Republic of Italy**

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Base Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February, 1998, as amended (the **Financial Services Act**) and Article 34-*ter*, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May, 1999, as amended from time to time (**Regulation No. 11971**); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-*ter* of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of the Base Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October, 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September, 1993, as amended (the **Banking Act**); and

(b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(c) in compliance with any other applicable laws and regulations or requirements imposed by CONSOB or other Italian authority.

**General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Trustee and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

## GENERAL INFORMATION

### Authorisation

The establishment and update of the Programme have been duly authorised by resolutions of the Board of Directors of the Issuer dated 15 March, 2006 and 31 March, 2011, respectively.

### Listing, Approval and Admission to Trading of Notes

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

### Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg:

(a) the By-laws (*statuto*) (with an English translation thereof) of the Issuer;

(b) the audited consolidated financial statements of the Issuer in respect of the financial years ended 31 December, 2010, 31 December, 2009 and 31 December, 2008 (with an English translation thereof), together with the audit reports prepared in connection therewith. The Issuer currently prepares audited consolidated and non-consolidated accounts on an annual basis;

(c) the unaudited interim consolidated financial statements of the Issuer in respect of the three months ended 31 March, 2011 and the unaudited interim consolidated financial statements of the Issuer in respect of the three months ended 31 March, 2010. The Issuer currently prepares unaudited consolidated interim accounts on a quarterly basis;

(d) the Programme Agreement, the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

(e) a copy of this Base Prospectus; and

(f) any future offering circulars, prospectuses, information memoranda, supplements and Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference.

In addition, copies of this Base Prospectus, each Final Terms relating to Notes which are admitted to trading on the Luxembourg Stock Exchange's regulated market and each document incorporated by reference are available on the Luxembourg Stock Exchange's website, www.bourse.lu.

### Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

**Conditions for Determining Price**

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

**Significant or Material Change**

There has been no significant change in the financial or trading position of the Group since 31 December, 2010 and there has been no material adverse change in the financial position or prospects of the Group since 31 December, 2010.

**Litigation**

Save as disclosed in this Base Prospectus, neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

**Independent Auditors**

The consolidated financial statements of TERNA S.p.A. and its subsidiaries as of and for the years ended 31 December, 2008, 2009 and 2010, incorporated by reference in this Base Prospectus, have been audited by KPMG S.p.A., independent accountants, as stated in their reports incorporated by reference herein.

The KPMG S.p.A. audit report covering the consolidated financial statements of TERNA S.p.A. and its subsidiaries as of and for the year ended 31 December, 2008 contains language stating: "The consolidated financial statements present the prior year corresponding figures for comparative purposes. As disclosed in the notes, the parent's directors restated such corresponding figures included in the prior year consolidated financial statements. We audited such financial statements and issued our report thereon on 7 April, 2008. We have examined the methods used to restate the prior year corresponding figures and related disclosures to the extent that we considered to be necessary to express an opinion on the consolidated financial statements at 31 December, 2008".

The KPMG S.p.A. audit report covering the consolidated financial statements of TERNA S.p.A. and its subsidiaries as of and for the year ended 31 December, 2009 contains language stating: "Reference should be made to the report dated 31 March, 2009 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes that have been restated to reflect the changes in the presentation of financial statements introduced by IAS 1".

The KPMG S.p.A. audit report covering the consolidated financial statements of TERNA S.p.A. and its subsidiaries as of and for the year ended 31 December, 2010 contains language stating: "The consolidated financial statements present the prior year corresponding figures and the statement of financial position as at 1 January 2009 for comparative purposes. As disclosed in the notes, following the application of IFRIC 12 *Service Concession Arrangements* to electricity dispatching activities carried out under concession, the parent's directors restated some of the corresponding figures included in the prior year consolidated financial statements and statement of financial position as at 1 January, 2009, which derives from the consolidated financial statements at 31 December, 2008. We audited the 2009 and 2008 consolidated financial statements and issued our reports thereon on 9 April 2010 and 31 March 2009, respectively. We have examined the methods used to restate the prior year corresponding figures and related disclosures for the purposes of expressing an opinion on the consolidated financial statements at 31 December 2010."

With respect to the unaudited interim consolidated financial statements of TERNA S.p.A. and its subsidiaries as at and for the three month period ended 31 March, 2010, incorporated by reference herein KPMG S.p.A. have reported that they applied limited procedures in accordance with professional standards for a review of such statements. However, its report, incorporated by reference herein, states that they did not audit and they do not express an opinion on those interim consolidated financial statements. Accordingly, the degree of reliance on their report on such statements should be restricted in light of the limited nature of the review procedures applied.

In addition, the KPMG S.p.A. review report covering such interim consolidated financial statements of TERNA S.p.A. and its subsidiaries as at and for the three month period ended 31 March, 2010 contains language that states the following: "The interim consolidated financial statements present the corresponding figures included in the annual consolidated financial statements of the previous year for comparative purposes. As disclosed in the notes, following the adoption of IFRIC 12 Service Concession Arrangements relating to electricity dispatching activities, the directors restated some of the corresponding figures included in the prior year consolidated financial statements. We audited such consolidated financial statements and issued our report thereon on 9 April, 2010. We have examined the methods used to restate the corresponding figures and related disclosures for the purposes of preparing this report. We have not reviewed the comparative figures relative to the corresponding period of the previous year. Therefore, our conclusions set out herein do not extend to such data".

KPMG S.p.A. is registered under No. 13 in the Special Register (*Albo Speciale)* maintained by CONSOB and set out at article 161 of the TUF and under No. 70623 in the Register of Accountancy Auditors (*Registro dei Revisori Contabili*), in compliance with the provisions of Legislative Decree of 27 January, 1992, No. 88. KPMG is also a member of ASSIREVI, the Italian association of auditing firms.

**Post-issuance Information**

The Issuer will not provide any post-issuance information, except if required by any applicable laws and regulations.

**Dealers Transacting with the Issuer**

Certain of the Dealers and their affiliates, including parent companies, have engaged, and may in the future engage, in investment banking and/or commercial banking transactions (including the provision of loan facilities) and other related transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business.

**ISSUER**

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**PAYING AGENT**

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**Commerzbank Aktiengesellschaft**
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