First Supplement dated 22 January 2015 to the Base Prospectus dated 16 December 2014

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

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

This first supplement (the **Supplement**) is supplemental to, forms part and should be read and construed in conjunction with, the Base Prospectus dated 16 December 2014 (the **Base Prospectus**). The Supplement constitutes a supplement for the purposes of Article 16 of Directive 2003/71/EC (the **Prospectus Directive**), as amended, and is prepared in connection with the €6,000,000,000 Euro Medium Term Note Programme (the **Programme**) established by TERNA - Rete Elettrica Nazionale Società per Azioni (the **Issuer** or **Terna**). Unless otherwise defined in this Supplement, the terms defined in the Base Prospectus have the same meaning when used in this Supplement.

The Issuer accepts responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Supplement is in accordance with the facts and contains no omissions likely to affect its import.

Purpose of the Supplement

The purpose of this Supplement is to update (i) the "Documents Incorporated by Reference" Section of the Base Prospectus to incorporate by reference recent press releases relating to Terna, (ii) the "Risk Factors" Section of the Base Prospectus, (iii) certain paragraphs of the "Description of the Issuer" Section of the Base Prospectus, (iv) the "Regulatory Matters – Tariff System – Revenue Structure" Section of the Base Prospectus, and (v) the "Taxation - Italian Taxation" Section of the Base Prospectus.

I. DOCUMENTS INCORPORATED BY REFERENCE

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

- Press release dated 18 December 2014 (relating to amendments approved to adapt Terna's by-laws to new legislation on the special powers of the Italian State in strategic sectors);
- Press release dated 30 December 2014 (relating to the signing of a non-binding Memorandum of Understanding regarding the project for the acquisition of the high voltage electricity grids of Ferrovie dello Stato Italiane S.p.A., RFI – Rete Ferroviaria Italiana S.p.A. (RFI) and S.EL.F. – Società Elettrica Ferroviaria S.r.l.);
- Press release dated 21 January 2015 (relating to the 2015 calendar of corporate events); and
- Press release dated 21 January 2015 (relating to the co-opting of a new director)

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

II. RISK FACTORS

The Risk Factor "***Montenegro***" in the Section entitled "***FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME-***" on pages 9 and 10 of the Base Prospectus is hereby deleted.

III. DESCRIPTION OF THE ISSUER

(i) The following paragraph is hereby added at the end of the Section entitled "***DESCRIPTION OF THE ISSUER - Recent Developments - Significant events occurred after 30 September 2014***" on page 125 of the Base Prospectus:

"On 16 January 2015, People's Bank of China, in accordance with article 120 of TUF, informed Terna and CONSOB by letter that its participation in the share capital of Terna was equal to 2.010per cent. and therefore in excess of the major holdings thresholds indicated by CONSOB Regulation 14 May 1999 No. 11971, as amended. Therefore, based on the data recorded in the Shareholders' Register, the shareholders with a stake exceeding a major holding threshold are (i) CDP RETI (a subsidiary of CDP, owned by the Ministry of Economy and Finance which holds a 80.1 per cent. stake in it), owns 599,999,999 shares representing 29.85 per cent. of Terna's share capital and (ii) People's Bank of China owns 40,394,130 shares representing 2.010 per cent. of Terna's share capital."

(ii) The following paragraph is hereby added at the end of the Section entitled "***DESCRIPTION OF THE ISSUER - Recent Developments***" on page 125 of the Base Prospectus:

"Changes to the by-laws - Information available

Since 2 January 2015 the minutes of the Board of Directors of 18 December 2014, concerning the changes to the by-laws including those resulting from the enforcement of the provisions of Law Decree 21 of 15 March 2012, converted into law by Article 1, paragraph 1, of Law 56 of 11 May 2012, as well as the updated Company by-laws, are available to the public at Terna's headoffice, on Terna's website (www.terna.it) and on the website of the authorised storage service "1Info" (www.1info.it), and have also been filed with the stock exchange management company Borsa Italiana S.p.A. (www.borsaitaliana.it) ."

(iii) The following paragraph is hereby added to the section entitled "***DESCRIPTION OF THE ISSUER - SHARE CAPITAL OF TERNA, MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS - Major Shareholders***" on page 165 of the Base Prospectus:

"***People's Bank of China***

People's Bank of China owns 40,394,130 shares representing 2.010 per cent. of Terna's share capital as communicated, in accordance with article 120 of TUF, to Terna and CONSOB by letter on 16 January 2015."

IV. REGULATORY MATTERS

The Section entitled "***REGULATORY MATTERS – Tariff System – Revenue Structure***" on pages 180 to 185 of the Base Prospectus shall be deemed deleted and replaced with the following:

"*Tariff System*

Revenue Structure

As of 30 June 2014, Terna Group's total consolidated revenues (excluding pass-through items) amounted to 950.4 million euro. The majority of the revenues (over 96 per cent.) come from annual fees and incentive mechanism paid for the provision of services regulated by the AEEGSI whereas the remainder derives from non-traditional activities.

Regulated revenue

Regulated revenue is generated by the fees for transmission and dispatching[1] and by incentive mechanisms relating to specific spheres of the service and aimed at improving the same. As implicit with incentive mechanisms, upon reaching the relevant objectives, the benefit to service users will be a multiple of the incentive paid to Terna. These mechanisms can be divided into: a) tariff incentive mechanisms, implemented in the calculation of unit tariffs; and b) non-tariff incentive mechanisms, such as bonuses/penalties for the quality of the transmission service.

Transmission service

The income linked to the payment for the transmission service (CTR) represents the main item of the regulated revenue. It is invoiced by Terna to the distribution firms which take energy from the National Transmission Grid, in proportion to the respective energy quantities taken from the National Transmission Grid.

This payment is to remunerate Terna (and the other subjects which hold residual portions of the National Transmission Grid) for the activities directly connected to the transmission service, and it also includes certain incentives aimed at promoting investment in infrastructure.

The AEEGSI, with Resolution 199/11, following a consultation process, set out (i) the criteria and formulae for calculating the grid transmission fee, valid for the entire regulatory period 2012-2015,

[1]Regulated revenue also includes revenue that Terna receives for the metering service, although the relative tariff is of a negligible amount for the purposes of the results of the period.

and (ii) the rules for the annual updating of the unit value of the grid transmission fee during such regulatory period.

The unit value of the grid transmission fee is therefore determined annually by the AEEGSI on the basis of rules defined at the beginning of every four-year regulatory period. For the years 2013, 2014 and 2015, the unit amount of the grid transmission fee was updated, respectively, by AEEGSI's Resolutions 565/12, 607/13 and 653/14.

The unit amount of the grid transmission fee for the energy transport service absorbed by the National Transmission Grid Distributors during the course of the year "Y" is determined at the end of every year "Y-1" as the ratio between:

A. the costs recognized to Terna and to the other holders of residual portions of the National Transmission Grid for the transmission service in the year "Y-2"; and

B. the forecast of the quantity of energy transported on the National Transmission Grid in the year "Y" (year in which the unit tariff is applied).

The components of costs borne, considered when determining the transmission rates, belong to three main categories:

- Costs used to cover the **RAB remuneration**, which is the value of the RAB (Regulated Asset Base) is revalued annually on the basis of Istat (the Italian National Statistical Institute) data regarding the change in the gross-fixed-investment deflator and is updated to account for net investments made by Terna and decommissioning carried out during the year. The RAB remuneration is composed of:

    - *Base remuneration*

      Pursuant to AEEGSI's Resolution 199/11, as subsequently updated, the RAB is remunerated by AEEGSI at a base return rate (**WACC**) linked to that of the market:

      - 2013 tariff: WACC at 7.4per cent.;
      - 2014 and 2015 tariffs: pursuant to Art. 2 of 99/11, the WACC has been updated by the AEEGSI to 6.3per cent.; it is also contemplated that all the investments made after 31/12/2011 should benefit from an additional 1per cent., recognized by the AEEGSI in order to compensate the "regulatory lag", i.e. the delay with which the tariffs remunerate investments (as indicated above, the tariffs relative to the year "Y" reflect the return on investments up to the year "Y-2"). Therefore, the base return of the RAB on such investments (starting from the 2014 tariff) is 7.3per cent. (6.3per cent., +1per cent.).

    - *Incentive remuneration (tariff incentive mechanisms)*

      For some specific types of investments, incentives are contemplated aimed at promoting investment in infrastructure:

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

        - all incentivised development investments made up to 2011 will benefit from the residual additional remuneration (2–3 per cent.) as per previous AEEGSI's Resolutions 5/04 and 348/07;

- development investments of category I3 (aimed at reducing congestions between Italian market zones or at increasing the Net Transfer Capacity as well as other primary strategic investments selected by the Regulator) made from 2012 onwards will benefit from an additional remuneration of 2 per cent. for 12 years from their entry into service. All such investments, as approved by the AEEGSI with Resolution 40/13, are subject to the incentive mechanism for accelerating the development of strategic project (see the ad-hoc paragraph below);

- development investments of category I4 (pilot energy storage systems) made from 2012 onwards will benefit from an additional remuneration of 2 per cent. for 12 years from their entry into service; these pilot projects have been selected with AEEGSI's Resolutions 43/13 and 66/13. In detail:

    - Resolution 43/13 approved power intensive energy storage pilot systems, limiting their I4 extra remuneration to the amount indicated in Terna's proposal, and subjecting it to Terna's compliance to the data publishing obligations set forth in art. 3 of this Resolution;

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

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

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

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

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

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

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

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

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

With Resolution 654/14, the AEEGSI, following Terna's update proposal according to Art. 26 of Annex A to Resolution 199/11, set the updated milestones and target dates for the incentive scheme and temporarily suspended from the incentive scheme the following projects: (i) "*Rationalization 380 kV between Venice and Padua*", pending the new preliminary planning necessitated by the State Council annulment of the project authorization, and (ii) "*Interconnection Italy – Montenegro*", pending the request of additional information on the project to be supplied by Terna to AEEGSI by the end of May 2015.

- Cost used to cover **amortization/depreciation** which is the recognized depreciation and amortization are adjusted in accordance with the useful life of assets and the effect of net new investments. They are also re-evaluated annually according to changes in the deflator of gross fixed investments.

The share of amortization/depreciation remuneration represented approximately 30per cent. of the total recognized costs in 2013.

- Cost used to cover **operating costs***:* The component covering these costs, which in 2013 came to about 21per cent., is based on annual operating costs, valid for the entire regulatory period (i.e. 2010 for the regulatory period 2012-2015) and on the residual portions – temporarily left to Terna – of the extra-efficiency achieved in the two preceding regulatory periods. The entire amount is revalued annually on the basis of inflation and reduced by an efficiency factor aimed at completing, over time, the transfer to the final users of the extra-efficiency achieved (price cap mechanism).

The grid transmission fee is for the transmission of all the holders of portions of the National Transmission Grid, and it is therefore calculated by the AEEGSI on the basis of the costs recognized by the entire transmission sector. The transmission revenues are entirely collected by Terna and, after deducting certain parts exclusively due to it, Terna splits it between all the holders of National Transmission Grid portions, according to competence.

Revenue guarantee mechanism

Once the unit amounts of the transmission and dispatch tariffs have been established (recognized costs divided by the reference quantity), the returns gained by Terna depend on the actual dynamic of the physical quantities concerned, and particularly on the energy transported by the National Transmission Grid and the energy dispatched. The sharp decline in consumption that began in the second half of 2008, together with the increase in the energy input into the distribution networks due to the incentives for the production of renewable energy, have rendered the trend in energy transported by the National Transmission Grid less predictable and led the AEEGSI to confirm, for the fourth regulatory period (i.e. the four year period 2012-2015), the mechanism to partially neutralize the volume effect, introduced by AEEGSI's Resolution ARG/elt 188/08. According to this mechanism:

- if the final energy total is less than that used to calculate the tariffs, Terna's remuneration is increased for the portion of volumes which exceed the 0.5per cent. exemption;

- if the final energy total is greater than that used to calculate the tariffs, Terna is required to return the excess earnings for the portion of volumes which exceed the 0.5per cent. exemption.

Pilot energy storage systems

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

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

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

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

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

Interconnection Italy – Montenegro

With Resolution 607/13 the AEEGSI recognized the remuneration of Terna's investments relating to the Italy-Balkans interconnection works (the so-called Network Interconnection Link, hereinafter referred to as the **NIL**) located outside Italian territory making this conditional to the opinion to be expressed by the State Council (this is related to the fact that the Intergovernmental Agreement made between the Italian and Montenegrin governments on 6 February 2010 – on the basis of which the works relative to the NIL are to be performed by Terna as part of the National Transmission Grid – constitutes sufficient grounds for recognizing the costs related to performance of the NIL works beyond the national border).

On the basis of the above-mentioned Resolution, such works are recognized by means of a specific increase of the UC3 component: the relative sums will be paid to Terna at two-month intervals by the Cassa Conguaglio for the Electricity Sector and will be subsequently considered for the purposes of the application of the revenue guarantee mechanism.

Resolution 607/13 further specifies that investments relative to any works on Montenegro territory other than the NIL, performed by Terna Crna Gora d.o.o. may not be recognized in the tariff.

In March 2014, Terna challenged this Resolution only for the part in which it has conditioned the remuneration for the part of NIL on Montenegro territory to the State Council's opinion.

With Resolution 653/14, the AEEGSI recognized (i) that the above-mentioned State Council's opinion is no longer required, (ii) that the works relating to the NIL are a legitimate part of the National Transmission Grid, and, as a consequence, and (iii) that from 2015 onwards their remuneration is included in the Italian transmission tariff components CTR and TRAS (as any other transmission investment).

Dispatching service

The fee for the dispatching service (**DIS**) remunerates Terna for the activities directly connected to the dispatch service, and it is invoiced by Terna to the dispatch users in proportion to the respective quantities of energy dispatched. The relative revenues are entirely due to Terna as the only subject responsible for this service.

AEEGSI's Resolution 204/11 calculated the DIS fee for the year 2012 and decided on the annual updating with the same criteria and methods as contemplated by AEEGSI's Resolution 199/11 for the grid transmission fee.

For the years 2013, 2014 and 2015, the unit amount of the DIS fee has been updated, respectively, by AEEGSI's Resolutions 576/12, 636/13 and 658/14.

2013 Incentive schemes

The AEEGSI has introduced specific bonus and penalty schemes aimed at encouraging service improvement, both in terms of technical reliability and cost. As is implicit with incentive mechanisms, upon reaching objectives, the benefit to service users will be a multiple of the incentive paid to Terna. In particular, in 2013, incentive mechanisms were provided:

- for the quality of the transmission service (non-tariff incentive mechanism); and
- to promote particularly important investments (tariff incentive mechanisms: beyond WACC and investment acceleration).

The bonuses earned for achieving the objectives established in 2013 as part of the incentive schemes are included in Terna's total regulated revenue.

Objective	AEEG Resolution	Period applicable
Quality of transmission service	Resolution 197/11	2012-2015
Promotion of particularly important investments (beyond WACC and investment acceleration)	Resolution 199/11	2012-2015

The above-mentioned scheme also applies to years 2014 and 2015.

Pass-through items

In addition to regulatory revenues and to those generated from non-traditional activities, Terna manages income to cover costs relating to the transactions necessary for the execution of TSO activities: these are the "pass through" items, i.e. those which do not influence the net income on the Terna Group's Income Statement (revenues equal costs).

These items include payments such as the capacity payment which Terna collects from withdrawal dispatching users and grants to the producers who make the capacity available on the market. It also includes the payment that Terna collects from the withdrawal dispatching users and grants to the operators which supply the load interruption service.

A significant proportion of pass-through items consist of uplift, a tariff component which includes various system costs, including covering the net expenses incurred to procure resources on the Dispatching Service Market (DSM). In 2013, pass-through revenues and costs for the Terna Group totalled 5,807.3 million euro (6,326.8 million euro in 2012).

With Resolution 483/2014/R/EEL, the AEEGSI formally started the process (i) for the definition of acts regarding tariffs and quality of service for electricity transmission, distribution and metering and (ii) for the technical and financial conditions for the supply of connections services, for the regulatory period starting from 1 January 2016.

With the consultation document 5/2015/R/eel, the AEEGSI describes the general framework and the criteria on the lines of action that it will develop over the course of the proceedings aimed at reviewing the regulation for transmission tariffs and quality, distribution and metering and technical and economic conditions for the connection service for the fifth regulatory period commencing from 1 January 2016. The document considers, among other:

- the possible extension of the regulatory period from four to six years (with infra-period WACC updates);

- the possible gradual introduction of cost recognition based on total expenditure (opex + capex);
- the possible speed-up of the transfer to end-users of the additional productivity gains already achieved by regulated companies during the fourth regulatory period;
- a review of the WACC setting
- the review of the procedures for determining and updating the WACC with the unification of all the parameters used for determining the WACC for regulated services in the electricity and gas sectors, with the only exception of those parameters which are specific to individual services, including β and (D/E);
- the possible introduction of output-based incentive mechanisms for infrastructure development, in order to pursue a more selective compensation of such investments;
- the possible introduction of new mechanisms allowing different criteria for allocating the volume risk between users and operators, by introducing regulatory choices trading-off risk exposure with remuneration levels.

Further consultation documents will be issued by the AEEGSI throughout 2015 in order to finalize the process before the start of the next regulatory period."

V. TAXATION

The Section entitled "***TAXATION – ITALIAN TAXATION***" on pages 186 to 193 of the Base Prospectus shall be deemed deleted and replaced with the following:

"**Tax treatment of the Notes**

*On 22 December 2014, the Italian Parliament definitively approved Law No. 190 of 23 December 2014, published on the Official Gazette No. 300 of 29 December 2014, so-called "2015 stability law" (**Finance Act 2015**).*

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 issued, *inter alia*, by Italian listed companies, falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) issued, *inter alia*, by Italian companies with shares traded on a regulated market or multilateral trading facility of an EU or EEA Member State which exchanges information with the Italian tax authorities. For this purpose, bonds and debentures similar to bonds are securities that incorporate an unconditional obligation to pay, at redemption, an amount not lower than their nominal value and which do not grant the holder any direct or indirect right of participation to (or control of) to management of the Issuer.

Italian resident Noteholders

Where an Italian resident Noteholder is (a) an individual not engaged in an entrepreneurial activity to which the Notes are connected (unless he has opted for the application of the *risparmio gestito* regime - see under "Capital gains tax" below); (b) a non-commercial partnership; (c) a non-commercial private or public institution; or (d) an investor exempt from Italian corporate income taxation, interest, premium and other income relating to the Notes, are subject to a withholding tax, referred to as "*imposta sostitutiva*", levied at the rate of 26 per cent. In the event that the Noteholders described under (a) and (c) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax.

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

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

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

Pursuant to Art. 9 of Legislative Decree No. 44 of 4 March 2014, the same regime is applicable to Italian real estate SICAFs qualified as such from a civil law perspective.

If the investor is resident in Italy and is an open-ended or closed-ended investment fund, a SICAV (an Italian investment company with variable capital), or a SICAF (an Italian investment company with fixed share capital) established in Italy and either (i) the fund, SICAV or SICAF or (ii) their manager is subject to the supervision of a regulatory authority (the **Fund**), and the relevant Notes are held by an authorised intermediary, interest, premium and other income accrued during the holding period on such Notes will not be subject to *imposta sostitutiva*, but must be included in the management results of the Fund, of the SICAV or of the SICAF. The Fund, SICAV or SICAF will not be subject to taxation on such results but a withholding or a withholding tax of 26 per cent. will apply, in certain circumstances, to distributions made in favour of unitholders or shareholders (the **Collective Investment Fund Tax**).

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by article 17 of the Legislative Decree No. 252 of 5 December 2005 – the **Pension Fund**) and the Notes are deposited with an authorised intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to an 20 per cent. substitute tax (as increased by Finance Act 2015, which, however, provides for certain adjustments for fiscal year 2014).

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

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

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

Non-Italian resident Noteholders

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

The *imposta sostitutiva* will be applicable at the rate of 26 per cent. (or at the reduced rate provided for by the applicable double tax treaty, if any) to interest, premium and other income paid to Noteholders who are resident, for tax purposes, in countries which do not allow for a satisfactory exchange of information with Italy and/or not comply with the requirements set forth in Decree 239 and the relevant application rules (see below) in order to benefit from the exemption from the *imposta sostitutiva*.

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

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

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 26 per cent. For this purpose, debentures similar to bonds are securities that incorporate an unconditional obligation to pay, at maturity, an amount not lower than their nominal value.

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

Capital gains tax

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

are connected) or Italian resident individuals engaged in an entrepreneurial activity to which the Notes are connected.

Where an Italian resident Noteholder is an (i) an individual holding the Notes not in connection with an entrepreneurial activity, (ii) a non commercial partnership, (iii) a non-commercial private or public institution, any capital gain realised by such Noteholder from the sale or redemption of the Notes would be subject to an *imposta sostitutiva*, levied at the current rate of 26 per cent. Noteholders may set off losses with gains.

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

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

As an alternative to the tax declaration regime, Italian resident individual Noteholders holding the Notes not in connection with an entrepreneurial activity may elect to pay the *imposta sostitutiva* separately on capital gains realised on each sale or redemption of the Notes (the *risparmio amministrato* regime). Such separate taxation of capital gains is allowed subject to (a) the Notes being deposited with Italian banks, SIMs or certain authorised financial intermediaries and (b) an express election for the *risparmio amministrato* regime being timely made in writing by the relevant Noteholder. The depository is responsible for accounting for *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of the Notes (as well as in respect of capital gains realised upon the revocation of its mandate), net of any incurred capital loss, and is required to pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the Noteholder or using funds provided by the Noteholder for this purpose. Under the *risparmio amministrato* regime, where a sale or redemption of the Notes results in a capital loss, such loss may be deducted from capital gains subsequently realised, within the same securities management, in the same tax year or in the following tax years up to the fourth. Under the *risparmio amministrato* regime, the Noteholder is not required to declare the capital gains in the annual tax return.

Any capital gains realised by Italian resident individuals holding the Notes not in connection with an entrepreneurial activity who have entrusted the management of their financial assets, including the Notes, to an authorised intermediary and have opted for the so-called "*risparmio gestito*" regime will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a 26 per cent. substitute tax, to be paid by the managing authorised intermediary. Under the *risparmio gestito* regime, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *risparmio gestito* regime, the Noteholder is not required to declare the capital gains realised in the annual tax return.

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

Any capital gains realised by Noteholders who are Funds a SICAF or a SICAV will be included in the management results of the Fund, the SICAF or the SICAV. Such result will not be subject to taxation

at the level of the Fund, the SICAF or the SICAV, but subsequent distributions in favour of unitholders of shareholders may be subject to the Collective Investment Fund Tax.

Any capital gains realised by a Noteholder who is an Italian Pension Fund will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 20 per cent. substitute tax (as increased by Finance Act 2015, which, however, provides for certain adjustments for fiscal year 2014).

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

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

If none of the conditions above is met, capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes not traded on regulated markets are subject to the imposta sostitutiva at the current rate of 26 per cent.. On the contrary, should the Notes be traded on regulated markets, capital gains realized by non-Italian resident Noteholders would not be subject to Italian taxation.

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

Inheritance and gift taxes

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

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

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

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

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

Transfer tax

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

Stamp duty

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

Based on the wording of the law and the implementing decree issued by the Italian Ministry of Economy on 24 May 2012, the stamp duty applies to any investor who is a client (as defined in the regulations issued by the Bank of Italy on 20 June 2012) of an entity that exercises in any form a banking, financial or insurance activity within the Italian territory. The communication is deemed to be sent to the customers at least once a year, even for instruments for which it is not mandatory.

Wealth Tax on securities deposited abroad

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

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

Italian Financial Transaction Tax

Italian shares and other participating instruments, as well as depository receipts representing those shares and participating instruments irrespective of the relevant issuer (cumulatively referred to as **In-Scope Shares**), received by a Noteholder upon physical settlement of the Notes may be subject to a 0.2per cent. Italian financial transaction tax (**IFTT**) calculated on the value of the Notes as determined according to Article 4 of Ministerial Decree of 21 February 2013, as amended (the **IFTT Decree**).

Investors in certain equity-linked notes mainly having as underlying or mainly linked to In-Scope Shares, are subject to IFTT at a rate ranging between EUR 0.01875 and EUR 200 per counterparty, depending on the notional value of the relevant derivative transaction or transferable securities calculated according to Article 9 of the IFTT Decree. IFTT applies upon subscription, negotiation or modification of the derivative transactions or transferable securities. The tax rate may be reduced to a fifth if the transaction is executed on certain qualifying regulated markets or multilateral trading facilities.

EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive (the **Savings Directive**) amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. The Savings Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Austria is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented.

The end of the transitional period is 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).

Implementation in Italy of the Savings Directive
Italy has implemented the Savings Directive through Legislative Decree No. 84 of 18 April 2005 (**Decree 84**). Under Decree 84, subject to a number of important conditions being met, in the case of interest paid to individuals which qualify as beneficial owners of the interest payment and are resident for tax purposes in another Member State, Italian qualified paying agents shall report to the Italian tax authorities details of the relevant payments and personal information on the individual beneficial owner and shall not apply the withholding tax. Such information is transmitted by the Italian tax authorities to the competent foreign tax authorities of the State of residence of the beneficial owner. Prospective purchasers of the Notes are however advised to consult their own tax advisers in order to better evaluate Italian tax consequences connected to the application of the Savings Directive."

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

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

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

In accordance with article 13 paragraph 2 of the Prospectus Act 2005, investors who have already agreed to purchase or subscribe for securities to which the Base Prospectus relates before this Supplement is published have the right, exercisable before the end of the period of two working days beginning with the working day after the publication of this Supplement, to withdraw their acceptances, such period expiring at the close of business on 26 January 2015.

The date of this Supplement to the Base Prospectus is 22 January 2015.