



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

€8,000,000,000

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 15 December 2015 (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 €8,000,000,000 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, and (iv) the “*Regulatory Matters – Tariff System*” 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 16 December 2015 (relating to deposit of documentation);
- press release dated 17 December 2015 (relating to the signing of an agreement for a 153 million euro loan with the European Investment Bank);
- press release dated 18 December 2015 (relating to the signing of a revolving credit facility for 800 million euro);
- press release dated 23 December 2015 (relating to the completion of the acquisition of S.EL.F. – Società Elettrica Ferroviaria S.r.l.);
- press release dated 29 December 2015 (relating to the publication by the Authority for Electricity and Gas of the resolutions on regulating transmission, dispatching activities and service quality for 2016-2023);

- press release dated 30 December 2015 (relating to the new 2016-2023 tariff system for the Terna Group and acquisition of the Italian railways HV grid);
- press release dated 29 January 2016 (relating to the 2016 calendar of corporate events);
- press release dated 15 February 2016 (relating to the update of the 2016 calendar of corporate events);
- press release dated 17 February 2016 (relating to the presentation of the 2016-2019 Strategic Plan);
- press release dated 17 February 2016 (relating to the presentation of the 2015 preliminary consolidated results)

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

The Issuer confirms that:

- (i) the results as at 31 December 2015 referred to in the press release dated 17 February 2016 (relating to the presentation of the 2015 preliminary consolidated results) and
- (ii) the figures referred to in section “2016 outlook” of the last page of the press release dated 17 February 2016 (relating to the presentation of the 2016-2019 Strategic Plan)

have been compiled on the basis of the established financial reporting process of the Issuer using the same accounting principles, criteria and assumptions as have been used in the annual financial report of Terna and of the Terna Group for the business year 2015.

II. RISK FACTORS

FACTORS THAT MAY AFFECT THE ISSUER’S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME

The Risk Factor “***THE ISSUER’S REVENUES AND THE CONDUCT OF REGULATED ACTIVITIES SUBSTANTIALLY DEPEND ON THE ACTIONS AND DECISIONS OF THE REGULATORY AUTHORITIES IN EUROPE AND ITALY***” on page 8 of the Base Prospectus is hereby replaced in its entirety as follows:

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

With reference to the first half of 2015, approximately 92 per cent. of the revenues received by the Terna Group derived from activities regulated by the Italian Authority for Electricity, Gas and Water Supply System (*Autorità per l’Energia Elettrica, il Gas ed il Sistema Idrico*, hereinafter referred to as the **AEEGSI**).

With Resolutions 583/15, 653/15, 654/15 and 351/07 as subsequently updated, the AEEGSI established, with reference to the fifth regulatory period of 2016-2023, remuneration criteria for electricity transmission, distribution, metering and dispatching services and the regulation of the transmission service quality. The unit costs of the transmission and dispatching fees for the year 2016 were set by AEEGSI in accordance with Resolutions 654/15 and 658/15 (see also section “Regulatory Matters”, below).

Within the scope of these regulations there are a number of variables that could impact on the Terna Group’s performance including in relation to certain investments of the Terna Group not located in the Italian territory, such as the interconnection between Italy and Montenegro.

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

The Terna Group is also required to comply with the guidelines and directives of the Ministry of Economic Development relating to the operation, maintenance and development of the Terna Group's Grid, including the level of capital expenditure required for such activities. Future guidelines or directives by the Ministry of Economic Development (over which the Issuer has no control), including those requiring investments or the incurrence of capital expenditures, may increase the Terna Group's costs or, otherwise, adversely affect its financial condition and results of operations.

The Risk Factor “***THE FAILURE OF THE TERNA GROUP'S GRID OR ANY IMPAIRMENT IN THE QUALITY OF THE ISSUER'S SERVICES MAY ADVERSELY AFFECT THE ISSUER'S REVENUES AND EXPOSE THE ISSUER TO UNCAPPED LIABILITIES***” on page 9 of the Base Prospectus is hereby replaced in its entirety as follows:

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

The Terna Group's operations are exposed to the risk of unexpected service interruptions caused by external events that are beyond Terna's control, such as accidents, defects or breakdowns involving control systems or other equipment, deteriorating plant performance, natural disasters, terrorist attacks and other extraordinary events of such kind. Repairs to the sections of the National Transmission Grid owned by the Terna Group and any claims for compensation by third parties as a result of such events could give rise to expenses if the Terna Group is found to be responsible.

Moreover, the Terna Group may incur penalties (according to AEEGSI Res. 199/11 as subsequently amended by Resolutions 40/13, 397/15 and 654/15) for any potential delay higher than 12 months of I=3 investments whose date of entry into operation was expected by the end of 2015 (see also “Regulatory Matters”, below).

Finally, the Terna Group may incur penalties and damage requests with reference to the quality of the transmission services (see also “Regulatory Matters”, below).

The Risk Factor “***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 AEEGSI***” on page 11 of the Base Prospectus is hereby deleted in its entirety and replaced by the following “***FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME – THE ISSUER'S RESULTS MAY BE ADVERSELY AFFECTED BY THE DYNAMICS OF THE VOLUME OF ELECTRICITY TRANSMITTED AND/OR DISPATCHED BY THE NATIONAL TRANSMISSION GRID***”

The Issuer's results may be adversely affected by the dynamics of the volume of electricity transmitted and/or dispatched by the National Transmission Grid

The revenues attributable to the management, operation and development of the National Transmission Grid and to the management of dispatching activities are regulated by tariffs set by the AEEGSI.

Transmission tariff

Resolution 654/15 introduced a binomial tariff for the transmission service. According to the binomial tariff method, considering 2016 tariffs, 10% of recognized costs are to be collected via an energy-based fee, while the remaining 90% of recognized costs are to be collected via a power-based tariff.

The energy fee for transmission service is determined annually by dividing 10% of the recognized costs of the transmission service by the energy withdrawn in the last twelve available months at the time of setting the fee. During each year, Terna issues its invoices based on the aforesaid fee and the actual volumes of electricity withdrawn during each month of the year. Such volumes (and thus the potential difference between these volumes and the past volumes used to calculate the unit fee) depend on factors outside the Group's control. The Group revenues may thus prove higher or lower than expected on account of this “volume effect”.

Resolution 654/15 abolished the volume mitigation mechanism introduced by the earlier AEEGSI's Resolution 188/08 which limited to +/- 0.5 per cent the impact on Group revenues caused by possible variations in electricity volumes withdrawn from the transmission grid.

The power fee for transmission service is determined annually by dividing 90% of the recognized costs of the transmission service by a measure of the power at interconnection points in the 12 last available months at the time of setting the fee. During each year, Terna issues its invoices based on the aforesaid fee and the same measure of power at each interconnection point for each month of the year. Since the driver for invoicing the fee calculation coincide with the one used to invoice distributors, there is no “volume effect” on the power part.

Dispatching tariff

Resolution 658/15 confirmed the previous framework for the dispatching service fee: the fee is calculated yearly by dividing dispatching service recognized costs for a forecast energy. During each year, Terna issues its invoices based on the aforesaid fee and the actual volumes of electricity withdrawn during each month of the year. Such volumes (and thus the potential difference between these volumes and the forecast volumes used to calculate the unitary fee) depend on factors outside the Group's control. The Group revenues may thus prove higher or lower than expected because of this “volume effect”.

The volume mitigation mechanism introduced by the earlier AEEGSI's Resolution 188/08 (and recently abolished for the transmission service) was confirmed for the dispatching service. Resolution 658/15 establishes that any impact on Group revenues caused by possible variations in dispatched electricity volumes is limited to +/- 0.5 per cent.

III. DESCRIPTION OF THE ISSUER

The fifth paragraph of Section entitled “**DESCRIPTION OF THE ISSUER - Overview**” on page 111 of the Base Prospectus is hereby replaced as follows:

As of 11 February 2016, on the basis of (i) the shareholders' book, (ii) the communications received pursuant to CONSOB Regulation No. 11971 of 14 May 1999 as amended and (iii) the available information, each of CDP Reti S.p.A. (a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. in which the Ministry for the Economy and Finance of the Italian Republic holds 80.1 per cent. stake) and Norges Bank owns, respectively, 29.851 per cent. and 2.014 per cent. in the Terna's share capital while the remaining shares are held by institutional and retail investors.

The following paragraph is hereby added at the end of the Section entitled “**DESCRIPTION OF THE ISSUER - Recent Developments**” on page 129 of the Base Prospectus:

Resolution 583/2015/R/com on WACC

On 2 December 2015, the AEEGSI published Resolution 583/2015/R/com named “*Rate of return on invested capital for infrastructures in the electric and gas sectors: criteria for determination and update*”. The Resolution sets the rules and all common parameters for calculating and updating recognized WACC for the regulated services in the electricity and gas sectors for the period 2016-2021. The remaining, service-specific parameters, are to be set by separate Resolutions (in case of the transmission and dispatching electricity services, they have been set by the subsequent Resolution 654/15).

Resolution 653/2015/R/EEL on output-based regulation for the transmission service

On 23 December 2015, the AEEGSI published Resolution 653/2015/R/EEL named “*Integrated text on output-based regulation of electricity transmission, for the period 2016-2023*”. The Resolution mainly confirms the previous regulation framework for the transmission service quality, introducing some limited changes (e.g. by changing the annual improvement rate of the target energy not supplied KPI from the previous 2% to 3,5%, by introducing some rules for the aggregation of interruptions, etc.). The Resolution also foresees some future output-based incentive mechanisms for the transmission service to be introduced after a consultation procedure in 2016.

Resolution 654/2015/R/EEL on tariff regulation for the transmission, distribution and measurement services for the period 2016-2023

On 23 December 2015, the AEEGSI published Resolution 654/2015/R/EEL named “*Tariff regulation for the transmission, distribution and measurement services for the period 2016-2023*”. The Resolution sets the allowed real, pre-tax WACC for transmission and dispatching services for the period 2016-2018 at 5.3%, sets the regulatory period duration to eight years 2016-2023 and splits it in two sub-periods (2016-2019, a.k.a. NPR1 and 2020-2023, a.k.a. NPR2; during this NPR2, the adoption of a Totex-based regulation is envisaged after a consultation procedure) (see also section “*Regulatory Matters*”, below). On 4 February 2016, the AEEGSI published Resolution 39/2016/R/EEL approving certain minor adjustments and corrections to Resolution 654/2015/R/eel and its annexes.

On December 23rd, 2015, Terna acquired the entire capital of SELF, a company fully owned by Ferrovie dello Stato Italiane S.p.A.. In the context of the same acquisition, the extraordinary Shareholders’ Meeting of SELF also approved a change in the company’s name to Rete S.r.l. (hereinafter referred to as **Rete**).

Terna is the parent company of the Terna Group (hereinafter referred to as the **Terna Group**), which includes as of February 9th, 2016 Terna Rete Italia S.r.l. (ex Terna Linee Alta Tensione S.r.l. or Telat – hereinafter referred to as **TRI S.r.l.**), Terna Rete Italia S.p.A. (hereinafter referred to as **TRI S.p.A.**), Terna Interconnector S.r.l. (hereinafter referred to as **Terna Interconnector**), Terna Storage S.r.l. (hereinafter referred to as **Terna Storage**), Terna Crna Gora d.o.o. (hereinafter referred to as **Terna Crna Gora**), Terna Plus S.r.l. (hereinafter referred to as **Terna Plus**), Tamini Trasformatori S.r.l. (hereinafter referred to as **Tamini**) which includes its subsidiaries (V.T.D. Trasformatori S.r.l. (hereinafter referred to as **V.T.D. Trasformatori**), Tamini Transformers USA L.L.C. (hereinafter referred to as **Tamini Transformers USA**), T.E.S. TRANSFORMER ELECTRO SERVICE S.r.l. (hereinafter referred to as **TES**) and Tes Transformer Electro Service Asia Private Limited (hereinafter referred to as **TES ASIA** and together, hereinafter referred to as **Tamini Group**), Terna Chile S.p.A. (hereinafter referred to as **Terna Chile**), Piemonte Savoia S.r.l. (hereinafter referred to as **PLSA.**), Monita Interconnector S.r.l. (hereinafter referred to as **Monita**), Rete S.r.l. (hereinafter referred to as **Rete**), ELMED Etudes S.a.r.l. (hereinafter referred to as **Elmed**), CESI S.p.A. (hereinafter referred to as **CESI**), CORESO S.A. (hereinafter referred to as **CORESO**) and Crnogorski Elektroprenosni Sistem AD (hereinafter referred to as **CGES**).

The paragraph entitled “*Lazard Asset Management*” in the Section entitled “**DESCRIPTION OF THE ISSUER - SHARE CAPITAL OF TERNA, MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS - Major Shareholders**” on page 171 of the Base Prospectus is hereby deleted.

IV. REGULATORY MATTERS

The Section entitled "**REGULATORY MATTERS – Tariff System**" on pages 184 to 192 of the Base Prospectus shall be deemed deleted and replaced with the following :

Revenue structure

As of 30 June 2015, the Terna Group's total consolidated revenues (excluding pass-through items) amounted to Euro 1,002.0 million. The majority of these revenues (approximately 92 per cent.) derives from activities regulated by the AEEGSI whereas the remainder derives from non-regulated activities.

Regulated revenues

Regulated revenues are meant to cover recognized costs (including market-based allowed returns on equity and debt) for the transmission and dispatching services, and to incentivize Terna through various mechanisms relating to specific spheres of these services, aimed at improving them.

Regulated revenues also include revenues that Terna receives for the metering service, although the relative tariff is of a negligible amount compared to transmission and dispatching revenues.

Transmission service

The income for the transmission service represents the main part of the regulated revenues. The corresponding fees are invoiced by Terna to distributors connected to the National Transmission Grid, according to a binomial tariff composed of a power part (CTR_P), calculated on a quota of 90% of transmission allowed costs, and an energy part (CTR_E), calculated on the remaining 10% quota of transmission allowed costs. CTR_P is invoiced to distributors in proportion of a proxy of the maximum power used at each interconnection points or aggregation thereof, whilst CTR_E is invoiced in proportion to the respective energy quantities withdrawn from the National Transmission Grid.

The fees are calculated in order to remunerate Terna and the other operators 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 timely and effective investments in infrastructure.

The AEEGSI, with Resolution 654/15, following a consultation process, set out (i) the criteria and formulae for calculating the grid transmission fees, valid for the first four years (2016-2019, a.k.a. NPR1) of the regulatory period (2016-2023), and (ii) the rules for the annual updating of the unit values of the grid transmission fees during the same period.

The unit values of the grid transmission fees are therefore determined annually by the AEEGSI on the basis of rules defined in Annex A to Resolution 654/15.

The unit amounts of the transmission fees for the transmission 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 follows:

- CTR_P is the ratio between 90% of the recognized costs (to Terna and to the other holders of residual portions of the National Transmission Grid for the transmission service) and the average of the monthly maximum power absorbed by each interconnection point (or aggregation thereof) to the National Transmission Grid in the last available 12 months at the moment of the calculation.
- CTR_E is the ratio between 10% of the recognized costs (to Terna and to the other holders of residual portions of the National Transmission Grid for the transmission service) and the energy withdrawn from the National Transmission Grid in the last available 12 months at the moment of the calculation.

The components of recognized costs belong to three categories:

□ **Recognized costs to cover the RAB remuneration.** The RAB (Regulated Asset Base), is the recognized net value of investments in the transmission service up to year "Y-1" (i.e. 2016 tariffs consider investments up to year 2015), 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 annually

updated to account for yearly transmission investments, D&A and decommissioning. The RAB remuneration is composed of:

○ *Base remuneration*

Pursuant to AEEGSI's Resolution 654/15, the RAB is remunerated at a base return rate (WACC); for years 2016 to 2019 the regulated base WACC is set to 5.3 per cent.;

○ *Time-lag compensation*

Up to 2015, tariffs included only investments up to year "Y-2"; such delay (a.k.a. "time-lag") in investments recognition had a financial cost for transmission operators and therefore the regulation recognized, from 2012 tariffs onwards, an additional WACC to compensate it. From 2016 tariffs onwards, the RAB remuneration for year Y include preliminary figures for "Y-1" investments, therefore such measure is no more necessary, but all investments made in years 2012 to 2014 are still entitled for an additional WACC to compensate for time-lag.

○ *Incentive remuneration (tariff incentive mechanisms)*

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

- all incentivised development investments made up to 2011 benefit from additional remuneration (2 – 3 per cent. WACC on top of base WACC for 12 years from their entry into service) as per previous AEEGSI's Resolutions 5/04, 348/07;
- all incentivised development investments made from 2012 to 2015 will benefit from the remuneration (1.5 – 2 per cent. WACC on top of base WACC for 12 years from their entry into service) as per previous AEEGSI's Resolutions 199/11, 40/13, 43/13, 66/13 and their respective updates, provided that they fulfill specific conditions; in particular, it should be noted that according to Resolution 654/14 and 654/15, two development projects previously included in highest incentive category (I=3) by Resolution 40/13 are currently suspended from that list, pending further evaluation by the AEEGSI.
- investments approved by the AEEGSI pursuant to Resolution 40/13 (a.k.a. "acceleration of investments"), as updated by Resolution 397/15, with a target completion date by the end of 2015, may be subject to the penalties provided for in Article 25 of Annex A of Resolution 199/11 in case their actual completion date is delayed by more than one year (ref. art 19.4 of Annex A to Resolution 654/15). The remaining future effects of the acceleration of investments have been cancelled by Resolution 654/15.
- new regulation for development investments: by the 31 January 2017, Terna will propose to the AEEGSI a list of development projects not previously included in the former I=3 incentivized list (as of Resolution 40/13 and updates) and satisfying a number of conditions (cfr. art. 20 of Annex A to Resolution 654/15). Within 150 days of receiving the proposal, the AEEGSI will approve a list of so-called O-NPR1 projects, with estimated costs and completion dates. By the same deadline, the AEEGSI will also approve and publish a further list of so-called I-NPR1 development projects previously included in the I=3 incentivized list, respecting a number of conditions, with estimated costs for each sub-project (each project may be composed of more self-standing parts) and completion dates. All projects included in the O-NPR1 and I-NPR1 lists will be entitled to an additional WACC of 1% for 12 years on the investment costs (up to the cost estimate approved by the AEEGSI), provided they are completed within 6 months of the estimated completion dates. Moreover, it is possible to get an additional output-based premium for O-NPR1 and I-NPR1 if ex-post actual cost (i.e. project actual cost registered after the entry into operation) is lower than the cost estimate to be approved by the AEEGSI: the premium will be 20% of the savings (ref. art. 21 of Annex A to Res. 654/15).

The portion of RAB remuneration represented approximately 51 per cent. of the total recognized costs in 2014.

□ Recognized costs to cover **amortization/depreciation** which is the recognized depreciation and amortization, adjusted in accordance with the useful life of assets and new investments which have come into operation. They are re-valued annually according to changes in the deflator of gross fixed investments. Tariffs for year Y include recognized amortization/depreciation for investments up to year “Y-2”.

The portion of amortization/depreciation remuneration represented approximately 31 per cent. of the total recognized costs in 2014.

□ Recognized costs to cover **operating costs**: the component covering these costs, which in 2014 came to about 18 per cent., is based on the actual annual operating costs of a reference year (i.e. 2014 actual value for the regulatory sub-period 2016-2019) and on the residual portions – temporarily left to Terna – of the extra-efficiencies achieved in the two preceding regulatory periods. The entire amount is revalued annually with inflation and reduced by an efficiency factor aimed at completing, over time, the transfer to the final users of the achieved extra-efficiencies.

Grid transmission revenue sharing

The grid transmission fee is meant to remunerate all holders of portions of the NTG, and it is therefore calculated by the AEEGSI based on the recognized costs of the entire transmission sector. The transmission fees are entirely collected by Terna, which later, after deducting certain parts exclusively due to Terna, shares it out according to competence between all the holders of NTG portions.

Dispatching service

The fee for the dispatching service (**DIS**) remunerates Terna for the activities directly related to the dispatching service, and Terna invoices it to the withdrawal dispatching users (subjects that have signed a dispatching service contract with Terna) in proportion to the respective quantities of energy dispatched. The related revenues are entirely due to Terna, as the only subject responsible for this service.

Resolution 658/15 sets the DIS fee for the year 2016 by dividing the recognized costs for Terna’s dispatching activities (calculated with the same criteria used for the transmission service) by a forecast of the dispatched energy for the tariff year.

Exposure to volumes dynamics

Terna invoices distributors and dispatching users (respectively for the transmission and dispatching services) based on unitary fees (respectively CTR and DIS, calculated by the AEEGSI before the beginning of each year) and actual energy and power used; this implies some exposure of regulated revenues to the so-called volume effect, which is detailed below.

Transmission

Once the energy component of the transmission tariff (CTR_E) has been established by dividing the 10% quota of the transmission recognized costs by the reference energy, the correspondent return for Terna depends on the actual trend of the energy withdrawn from the National Transmission Grid. For example, in 2016 Terna will invoice to distributors CTR_E times the number of kWh actually withdrawn by each one of them from the NTG: Terna will invoice: $CTR_E * [\text{total energy withdrawn from the NTG in 2016}] = [10\% \text{ of transmission recognized costs}] * [\text{total energy withdrawn from the NTG in 2016}] / [\text{energy withdrawn from the NTG in the period (Nov. 2014 – Oct. 2015)}]$. Consequently, 10% of the transmission recognized costs are exposed to volume effect.

The power component of the transmission tariff (CTR_P), covering the remaining 90% quota of the transmission recognized costs, is not exposed to volume effect, as the time period used to invoice distributors and the one used to calculate the power component of the transmission tariff (CTR_P) are coincident.

Dispatching

The dispatching tariff is monomial, wholly calculated and invoiced on energy only; the AEEGSI calculates the dispatching tariff (DIS) by dividing 100% of recognized costs for Terna’s dispatching activity by a forecast dispatched energy; Terna invoices withdrawal

dispatching users DIS times the actual energy dispatched to each one of them. Any difference between forecast and actual energy determines a difference between dispatching recognized costs and dispatching revenues. Such volume exposure is limited to a $\pm 0,5\%$ by a mitigation mechanism (ref. art. 3.6 of Res. 351/07 as updated by Res. 658/15), where Terna is compensated for missing revenues up to 99.5% of recognized costs or returns the revenues exceeding 100.5%.

Incentive schemes

Over time, the AEEGSI introduced specific bonus and penalty schemes aimed at encouraging service improvement, in terms of system development, technical reliability and cost. As it is implicit with incentive mechanisms, when objectives are achieved, the benefit to service users will be a multiple of the incentive paid to Terna. Incentive mechanisms can be divided into:

- a) tariff incentive mechanisms, whose economic outcome for the Terna Group is included in the calculation of unitary tariffs;
- b) non-tariff incentive mechanisms, such as bonuses/penalties for the quality of the transmission service, which are paid or collected separately.

Terna's future accounting periods will be impacted both by the economic consequences of past incentive mechanisms (mainly the additional WACC for a number of residual years for development projects commissioned in years 2004-2015) and potentially by the economic consequences of current incentive mechanism. Among them, the main ones are:

- ☐ for the promotion of significant investments (tariff incentive mechanisms: additional WACC described above for O-NPR1 and I-NPR1 projects);
- ☐ for the efficiency of investments in the transmission service: in case O-NPR1 and I-NPR1 projects investment costs will be lower than estimate costs (as established by the AEEGSI), and provided completion dates will be within six months of estimate completion dates (as established by the AEEGSI), Terna will be entitled to an incentive of 20% of the savings (tariff incentive mechanism, ref. art. 21 of annex A to Resolution 654/15);
- ☐ for the quality of the transmission service: non-tariff incentive mechanism, see details below;

The bonuses/penalties connected to the achievement of the objectives established as part of the incentive schemes are included in Terna's total regulated revenue.

Transmission quality regulation

The regulatory framework for the current (fifth) regulatory period is set in Resolution 653/15, which substantially confirms the previous regulatory framework.

The regulation for the fourth regulatory period (2012-2015), as set by Resolution 197/11, still applies for all outstanding economic items related to the 2015 quality performance.

The main topics related to electric transmission quality regulation are:

☐ *Premiums and penalties for energy not supplied*

There is an incentive mechanism with bonuses/penalties for the so-called reference energy not supplied (ENSR) Key Performance Indicator. Resolution 653/15 revised the ENSR target annual improvement rate at 3.5% from the previous 2%, and excluded from its calculation the energy not supplied to VHV/HV users (who are subject to a new individual regulation).

The maximum potential impact for the Terna Group deriving from this incentive mechanism lies within a range of Euro -12/+30 million per year.

☐ *Services provided by distribution companies – Mitigation*

Some specific types of power outage or voltage asymmetry conditions which affect VHV/MV or HV/MV transformation plants directly connected to the National Transmission Grid may give rise to mitigation services supplied by the distribution companies. Such services, aimed at providing a service

continuity, are provided by means of reverse current feeding from MV grids and/or by adding mobile generator groups, and entitle distributors to receive a fee from Terna based on the electricity fed by the distribution grid to the NTG (mitigated).

The amounts related to mitigation services are subject to a maximum limit per single outage and, in certain circumstances, to specific deduction mechanisms. The annual amount paid by Terna for mitigation is also subject to a cap of Euro 18 million (for any payments to distribution companies exceeding the annual limit, Terna may request a refund).

☐ *Cost sharing of the penalties/refunds paid by the distribution companies to customers connected to the MV and LV distribution grids*

According to the current regulation, Terna may be called to pay distributors a share of the penalties/refunds paid by them to end customers connected to their grids (MV/LV) when outages exceeding the specific standards established by the AEEGSI are exceeded. When refunds to distributors exceed a maximum annual limit of Euro 70 million, Terna may request the refund of the excess from the “Exceptional Events Fund”. Other specific cases may entitle Terna to request a refund from the EEF.

☐ *Individual regulation of continuity of supply for VHV/HV users*

The new regulatory framework provides a specific regulation for VHV/HV users from 2016. According to this regulation, Terna may be called to pay compensation to VHV/HV users depending on the number and the duration of outages.

With regards to the number of outages, a standard on the maximum annual number of outages under the responsibility of Terna for all VHV/HV users has been introduced: if the standard is exceeded, Terna has to pay an automatic compensation to the final user up to a maximum of three refundable outages per year, per user.

Also with regards to the duration of outages, under specific circumstances, Terna is called to pay a compensation to the final VHV/HV users. The sum of (i) automatic compensation to VHV/HV users for the duration of outages and (ii) the amount paid by Terna to the “Exceptional Events Fund”(see the specific paragraph below) is subject to an annual maximum amount of 7 millions.

In addition to the automatic compensation payment set out above, the VHV/HV final user will be also entitled to claim for further damages before the competent courts.

☐ *Individual regulation of voltage quality for VHV/HV users*

The regulation foresees the future gradual introduction of an individual regulation for voltage quality for VHV/HV users.

☐ *Payments to the “Exceptional Events Fund”*

Terna has to pay yearly a contribution to the “Exceptional Events Fund” depending on the duration of outages under the responsibility of Terna and on the related amount of energy not supplied.

The sum of (i) the amount payed to the “Exceptional Events Fund” and (ii) automatic compensation to VHV/HV users for the outages duration (see paragraph above) is subject to a maximum annual limit of 7 millions.

With regards to the quality of the transmission service regulation, Resolution 38/2016/R/EEL recently updated Resolution 653/15, clarifying the transmission quality of service regulatory treatment of the portion of the transmission grid previously owned by “Ferrovie dello Stato Italiane S.p.a.” (FSI), among which the exclusion of such portion from the premium/penalty mechanism for energy not supplied.

Pass-through items

In addition to regulated revenues and those generated by non-regulated activities, Terna manages cost and revenue items connected to the transactions, completed with electricity market operators, to buy

and sell the energy necessary for the dispatching services: these are the “pass through” items i.e. those which do not influence 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 passes on 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 passes on to the operators which supply the load interruption service.

A significant proportion of pass-through items consists 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 2014, pass-through revenues and costs for the Terna Group totalled €5,882.2 million (the components of these transactions are detailed in the Terna Annual Report 2014).

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.