



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 of and should be read and construed in conjunction with, the Base Prospectus dated 19 October 2016 (the **Base Prospectus**). This Supplement constitutes a supplement for the purposes of Article 16 of Directive 2003/71/EC, as amended (the **Prospectus Directive**) 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 and/or amend, respectively: (i) certain paragraphs of section “*Risk Factors*” of the Base Prospectus; (ii) section “*Documents Incorporated by Reference*” of the Base Prospectus to incorporate by reference the Issuer’s annual report as at 31 December 2016, the consolidated interim financial report as at 31 March 2017 and recent press releases relating to Terna; (iii) certain paragraphs of section “*Description of the Issuer*” of the Base Prospectus; (iv) certain paragraphs of section “*Regulatory Matters*” of the Base Prospectus; (v) section “*Taxation*” of the Base Prospectus; and (vi) a paragraph of section “*General Information*” of the Base Prospectus.

I. RISK FACTORS

The first and second paragraph of section “*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 9 of the Base Prospectus is hereby replaced as follows:

“With reference to 2016, approximately 90 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 2017 were set by AEEGSI in accordance with Resolutions 779/16 and 815/16 (see also section “*Regulatory Matters*”, below).”

The first paragraph of section “*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*”, sub-section “*Transmission tariff*”, on page 11 of the Base Prospectus is hereby replaced as follows:

“Resolution 654/15 enacted a binomial tariff for the transmission service. The binomial tariff method provides that 10% of recognized costs are attributed on the basis of an energy-based component, while the remaining 90% of recognized costs are attributed on the basis of a power-based component.”.

The second paragraph of section “*The Issuer may be affected by changes in energy laws, tax laws and public sector laws*” on page 12 of the Base Prospectus is hereby deleted.

The section “*The Issuer may incur substantial costs to comply with environmental laws*” on page 13 of the Base Prospectus is hereby replaced as follows:

“The activities of the Terna Group are also affected by legislation at national, European and international level on environment, including electromagnetic fields and landscape.

The Terna Group may incur increased costs due to the implementation of, and compliance with, environmental regulations imposing preventive measures or other requirements.

If, in the future, the European Union or the Italian Government adopt stricter laws that would require the Terna Group to upgrade, relocate or make other changes to some of its existing electricity transmission networks and systems, this would result in the Terna Group incurring significant expenditures to comply with such stricter laws. The Issuer cannot ensure that such costs will not arise in the future. These costs may adversely impact the Issuer’s financial performance and results of operations.

Furthermore, additional costs may be also incurred if the required actions or the completion of the necessary upgrades, relocations or any other changes as described above are delayed due to local opposition or civil actions.

The European Commission published at the end of November 2016 the so called “Clean energy Package”: such package includes eight legislative proposals covering energy efficiency, renewable energy, the design of the electricity market, security of electricity supply and governance rules for the Energy Union. In addition, the Commission proposes a new way forward for ecodesign as well as a strategy for connected and automated mobility. The package also includes actions to accelerate clean energy innovation and to renovate Europe’s buildings. It provides measures to encourage public and private investment, promote EU industrial competitiveness and mitigate the societal impact of the clean energy transition.

Such legislative package is still under discussion in the context of tripartite meetings attended by representatives of the European Parliament, the Council and the Commission (trilogue), being the beginning of the legislative process before the European competent authorities.

As of the date of this Base Prospectus, the Terna Group cannot predict what effect, if any, such developments may have on its business.

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.”

The first paragraph of section “*The Terna Group 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*” on page 16 of the Base Prospectus is hereby replaced as follows:

“The Terna Group 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 Terna Group’s business, as well as in six criminal proceedings. The Terna Group has established a provision for disputes and litigation which, as of 31 December 2016, amounted to Euro 14.6 million (of which Euro 12.8 million for the Issuer).”

The third paragraph of section “*Risks associated with Terna Group’s transactions involving Countries targeted by sanctions*” on page 17 of the Base Prospectus is hereby replaced as follows:

“For the three months ended 31 March 2017, the amount of revenues generated by the Tamini Group which were derived from Sanctioned Country Transactions was 0.63 per cent. of the consolidated revenues of the Terna Group.”

II. DOCUMENTS INCORPORATED BY REFERENCE

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

Document	Information incorporated by reference	Page number
Issuer’s Audited Consolidated Financial Statements as at and for the Financial Year Annual report as at 31 December 2016	Management’s Report	8-157
	Consolidated Income Statement	160
	Consolidated statement of comprehensive income	161
	Consolidated statement of financial position	162-163
	Statement of changes in consolidated equity	164-165
	Consolidated statement of cash flows	166
	Notes to the consolidated financial statements	167-223
	Auditor’s report	226-227
Issuer’s Unaudited Consolidated Interim Financial Report as at and for the Three Months Ended on 31 March 2017	Group reclassified income statement	26-29
	Group reclassified statement of financial position	30-32

	Cash flows	32
	Net financial debt	33

and copies of the following press releases, each of them in its entirety:

- joint press release by Terna and F2i SGR S.p.A. dated 21 October 2016 (relating to the submission of a binding offer by the consortium Terna - F2i SGR S.p.A. for the acquisition of 24% of the capital of ADMIE),
- press release dated 28 October 2016 (relating to the filing and publishing of the decision of the CEO of the Issuer dated 5 October 2016 relating to the issue of a twelve-year Euro 750 million bond issue),
- press release dated 4 November 2016 (relating to the approval of the Issuer's results as of 30 September 2016 by the Board of Directors),
- press release dated 11 November 2016 (relating to the filing and publishing by the Issuer of the Consolidated Interim Financial Report as at 30 September 2016 and the 2016 Interim Dividend Report),
- joint press release by Terna and Rete Ferroviaria Italiana S.p.A. dated 17 November 2016 (relating to the collaboration by Terna and Rete Ferroviaria Italiana S.p.A. for sustainable energy),
- press release dated 6 December 2016 (relating to the signing by Terna of an agreement with the European Investment Bank for a loan of Euro 200 million),
- press release dated 12 December 2016 (relating to the rating of Terna),
- press release dated 15 December 2016 (relating to the passing by the Issuer's Board of Directors of the resolution relating to the merger by incorporation of Terna Rete Italia S.r.l. and Terna Storage S.r.l. into Terna),
- press release dated 20 December 2016 (relating to the filing of the resolution for merger by incorporation of Terna Rete Italia S.r.l. and Terna Storage S.r.l. into Terna),
- joint press release by Eni and the Terna Group dated 21 December 2016 (relating to the signing by Eni of a cooperation agreement with Terna Group for the development of innovative and sustainable energy systems),
- press release dated 30 January 2017 (relating to Terna's 2017 calendar of corporate events),
- press release dated 2 February 2017 (relating to the signing by Terna Plus of the agreement for the acquisition of two concessions for the construction and operation of grids in Brazil),
- press release dated 20 February 2017 (relating to the analysis by the Issuer's Board of Directors of the 2016 preliminary consolidated results and to the call of an Extraordinary Shareholders' Meeting),

- press release dated 20 February 2017 (relating to the presentation of the Terna Group's 2017-2021 Strategic Plan),
- press release dated 2 March 2017 (relating to the filing of the Board of Director's Report illustrating the matter on the agenda of the Extraordinary Shareholders' Meeting of the company called for 23 March 2017),
- press release dated 6 March 2017 (relating to Terna's rating),
- press release dated 15 March 2017 (relating to the approval by the Issuer's Board of Directors of results as of 31 December 2016),
- press release dated 17 March 2017 (relating to the filing of the Board of Director's Report illustrating the items on the agenda of the Issuer's Shareholders' Meeting called for 27 April 2017),
- press release dated 22 March 2017 (relating to the effectiveness of the merger by incorporation of Terna Rete Italia S.r.l. and Terna Storage S.r.l. into Terna),
- press release dated 23 March 2017 (relating to the Issuer's Extraordinary Shareholders' Meeting held on 23 March 2017 and to the approval of certain changes to Terna's by-laws),
- press release dated 27 March 2017 (relating to the filing of the minutes of the Issuer's Extraordinary Shareholders' Meeting held on 23 March 2017 and the publishing of the updated by-laws),
- press release dated 3 April 2017 (relating to the filing of the lists of candidates for renewal of the Issuer's Board of Directors and Board of Statutory Auditors),
- press release dated 5 April 2017 (relating to the filing of the Issuer's 2016 Annual Financial Report, Annual Report on Corporate Governance and the Ownership Structure, reports of the Board of Statutory Auditors and of the Independent Auditing Company and Annual Remuneration Report),
- press release dated 6 April 2017 (relating to the publishing of the lists of candidates for the renewal of the Issuer's Board of Directors and Board of Statutory Auditors),
- press release dated 27 April 2017 (relating to the Issuer's Ordinary Shareholders' Meeting held on 27 April 2017, the approval of the 2016 Financial Statements, the resolution of a dividend set at Euro 0.206 relative to the entire year and the appointment of the new Board of Directors and the new Board of Statutory Auditors),
- press release dated 27 April 2017 (relating to the first meeting of the Issuer's new Board of Directors, the appointment of Luigi Ferraris as CEO and general manager, the granting of powers to the Chairman and to the CEO and the constitution of Board Committees),
- press release dated 2 May 2017 (relating to certain changes to Terna's 2017 calendar of corporate events),
- press release dated 9 May 2017 (relating to the approval by the Issuer's Board of Directors of results as of 31 March 2017),

- press release dated 11 May 2017 (relating to the approval by the Inter-American Investment Corporation of a USD 56 million financing for the construction of transmission lines in Uruguay),
- press release dated 15 May 2017 (relating to the filing of the Interim Financial Report as at 31 March 2017),
- press release dated 23 May 2017 (relating to the filing of the minutes of the Issuer’s Ordinary Shareholders’ Meeting held on 27 April 2017),
- press release dated 26 June 2017 (relating to the signing of the closing documents for the acquisition of two Brazilian licences),
- press release dated 27 June 2017 (relating to the signing by Terna of an agreement with the European Investment Bank for a loan of Euro 85 million),
- press release dated 4 July 2017 (relating to the signing by the Terna Group and the “Interconnector Italia S.C.p.A.” syndicate of the Italy-France Interconnector agreements); and
- press release dated 14 July 2017 (relating to the signing of USD 81 million project finance for the construction of the 500 kV transmission line between the Uruguayan cities of Melo and Tacuarembó),

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 the results as at 31 December 2016 referred to in the press release dated 15 March 2017 (relating to the approval of the 2016 financial results by the Board of Directors) 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 2016.

Any other information incorporated by reference that is not included in the cross-reference list or in the list of the press releases above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of the Prospectus Regulation.

III. DESCRIPTION OF THE ISSUER

The title of section “*Dispatching, operation, maintenance and development of the National Transmission Grid*” on page 130 of the Base Prospectus is hereby modified as follows: “*Dispatching, operation and maintenance of the National Transmission Grid*”.

The last sentence of the section “*Dispatching, operation, maintenance and development of the National Transmission Grid – Dispatching*” on page 130 of the Base Prospectus is hereby replaced as follows:

“The National Transmission System is managed by, respectively, the National Control Centre and three local dispatching centres”.

The first sentence of section “*Dispatching, operation, maintenance and development of the National Transmission Grid – Operation*” on page 130 of the Base Prospectus is hereby replaced as follows:

“The operation of the National Transmission Grid is carried out by TRI S.p.A. through the National Control Centre and the local dispatching centres.”.

Section “*Dispatching, operation, maintenance and development of the National Transmission Grid – Operation – Plant management and control*” on page 131 of the Base Prospectus is hereby replaced as follows:

“(a) Plant management and control

TRI S.p.A determines the configurations and the sequences for the switches, known as “breaker switches”, that connect the various components of the National Transmission Grid. TRI S.p.A is required to take all necessary actions to implement and maintain the configurations and sequences as applicable to the Terna Group’s Grid. TRI S.p.A. also determines the configurations and sequences for the switches for other National Transmission Grid owners.

Furthermore, TRI S.p.A. formulates the unavailability plans for the Terna Group’s Grid and coordinates the unavailability plans of the producers and of the other users of the National Transmission Grid with its own plans and with those of the other owners of the National Transmission Grid in accordance with criteria of security, reliability and efficiency as well as the maintenance of security, continuity of supply of electrical energy and cost control.”.

The fourth and fifth paragraphs of section “*Dispatching, operation, maintenance and development of the National Transmission Grid – Maintenance*” on page 132 of the Base Prospectus are hereby replaced as follows:

“In order to keep the Terna Group’s Grid efficient and available, TRI S.p.A. carries out plant checks and inspections to monitor the technical conditions of the components and to collect current information that is not automatically obtained through SCTI-Net. Recently Tri S.p.A. has introduced monitoring and inspection by helicopter for monitoring up to 50 per cent. of OHL of the Terna Group’s Grid.

These inspections also aim at ensuring that the components are not subject to interference from vegetation, construction by third parties, activities on or near the sites on which networks and systems exist and other potential hazards or activities that may cause a malfunction of the Terna Group’s Grid. Checks and inspections are conducted on a scheduled basis, on condition and whenever failures or malfunctions occur on the Terna Group’s Grid. On the basis of the results, maintenance activities (both ordinary and extraordinary) are scheduled (condition based maintenance).”.

The section “**Legislative framework developments**” on page 147 of the Base Prospectus is hereby integrated by including the following sentence:

“Legislative decree 104/2017 amended the regulation on the environmental impact assessment (EIA) by enacting two alternative procedures: (i) a simplified EIA procedure which results in a single EIA decision and (ii) a coordinated procedure which results in the joint release of the EIA and other decisions by the other authorities.”

The section “*Management Systems*” on page 150 of the Base Prospectus is hereby replaced as follows:

“Terna and its subsidiaries Terna Rete Italia S.p.A. and Terna Plus S.r.l. have adopted an integrated management system which serves as the main management system for all three companies.

The Management Systems Function ensures the implementation of all activities related to its certified management system and to the processes involved in accordance with the UNI EN ISO 9001:2015 (Quality Management System), UNI EN ISO 14001:2004 (Environmental Management System) and BS OHSAS 18001:2007 (Health & Safety Management System) standards. With regard to the Information Security Management System, the awarded certification, in accordance with the UNI CEI ISO/IEC 27001:2013 standard, is restricted under the scope of TIMM “*Testo Integrato del Monitoraggio del Mercato*”.

Other duties of the Management Systems Function include monitoring industry trends and evolution with regard to new norms and standards. In addition, a multi-site energized equipment testing laboratory is accredited according to ISO/IEC 17025:2005. In December 2015, Terna S.p.A. and its subsidiaries Terna Rete Italia S.p.A., Terna Plus S.r.l. and the foreign subsidiary Terna Crna Gora d.o.o. were awarded the Management System Certification according to the UNI CEI EN ISO (Energy Management System) 50001:2011 standard. The Energy Manager of Terna S.p.A., Terna Rete Italia S.p.A. and Terna Plus S.r.l. carried out an energy management project including the completion of the “Initial Energy Review”, which takes into account the energy consumption of both electrical substations and office buildings.

Finally, in January 2017 Terna S.p.A. and its subsidiaries Terna Rete Italia S.p.A. and Terna Plus S.r.l. were awarded the Management System Certification according to the UNI CEI EN ISO (Anti-bribery management systems) 37001:2016 standard, becoming the first Group in Italy receiving such certification.

The Management Systems Function deals with the Italian National Accreditation Body (Accredia) and the Certification Body (IMQ S.p.A.). It organises and carries out management system internal audits, controls action plans and supports top management in assessing the opportunity of new certification and accreditation.”.

The fourth paragraph of section “**Physical Security**” on page 151 of the Base Prospectus is hereby replaced as follows:

“At present, it is technically feasible to monitor 185 plants by means of the PSIS system which represents the most important device for power stations monitoring. Terna has also engineered and implemented a flexible, cost-effective and easy to install prototype surveillance light (the so called “VideoBox”). The remarkable reliability of this technical solution has prompted its implementation in 48 sites. Currently, VideoBox is in the process of being adopted in a growing number of installations and is experiencing further improvement of its overall structure. In 2016, thanks to these systems, 11 break-ins were thwarted and 13 arrests were carried out by the police.”.

The third paragraph of section “**Information and Cyber Security**” on page 152 of the Base Prospectus is hereby replaced as follows:

“In order to effectively face the challenges of cyber security (first of all the increasing number and complexity of the cyber-threats as confirmed, in 2017, by many international bodies as well as by technical and scientific institutions in this field), Terna updates, on an annual basis, its own security programme and improves the practices on Information Risk Management (**IRM**). The goal of Terna’s annual cyber security programme is to enhance the preventive protection of its systems and networks with a particular focus on those events that could negatively affect the so-called “critical infrastructure” grid operations, thereby having harmful consequences on the national level while ensuring the continuous monitoring of cyber risk.”.

The fifth paragraph of section “**Information and Cyber Security**” on page 152 of the Base Prospectus is hereby replaced as follows:

“In 2017, Terna continued to develop its cyber security programme along four main directions: (i) the defence of the communications network and of its critical segments with the purpose of combating the new types of threats known as APTs (Advanced Persistent Threats) or 0-Day Attacks, (ii) the research to “*secure by design*” the ICT systems, components, services or applications also within the substations (station computer and IED), (iii) the development of processes defined to strengthen and maintain the security systems in operation, including the real-time monitoring activities and (iv) the compliance with mandatory legal rules and standards regarding data protection, computer crimes and related aspects (privacy and other issues)”.

The first and second paragraphs of section “**Litigation and arbitration proceedings**” on page 153 of the Base Prospectus is hereby replaced as follows:

“In the ordinary course of its business, as of 31 December 2016, the Terna Group was party to approximately 1,080 civil and administrative proceedings both as plaintiff and defendant as well as to six 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 a party to one arbitration proceeding. The principal civil and administrative proceedings to which Terna is a party fall within the categories of annulment of authorisations, annulment of AEEGSI decisions, annulment of acts performed by Terna as Transmission System Operator (TSO), enforcement of AEEGSI decisions, damage to health and requests for modification of the location or operating conditions of the Terna Group’s Grid, lawsuits related to easements, labour rights and non-payment for the performance of contract work.

The Terna Group established a provision for disputes and litigation which, as of 31 December 2016, amounted to Euro 14.6 million (of which Euro 12.8 million for Terna). This provision does not cover the approximately 935 civil and administrative claims and the arbitration proceeding brought against the Terna Group for which the damages have not been quantified or in relation to which the plaintiffs’ prospects are considered by Terna to be remote.”.

The penultimate paragraph of section “**Directors, Senior Management, Statutory Auditors and Employees**” on page 154 of the Base Prospectus is hereby replaced as follows:

“A detailed description of Terna’s corporate governance is provided in the Report on Corporate Governance and Ownership Structure published jointly with Terna’s annual report for the year ended on 31 December 2016, incorporated by reference in this Base Prospectus.”

Furthermore, the last paragraph of the same section on page 158 of the Base Prospectus is hereby replaced as follows:

“The members of Terna’s current Board of Directors were elected at the Shareholders’ General Meeting held on 27 April 2017. Based on the By-laws, the Board of Directors should remain in office until the approval of the financial statements for the year ended 31 December 2019. Currently six of the nine members of the Board of Directors qualify as independent under the rules of the Corporate Governance Code and the By-laws. Three of those six independent Directors have been extracted from the lists of the candidates submitted by CDP.”

Moreover, the remaining paragraphs on pages 159-163 of the Base Prospectus are hereby entirely replaced as follows:

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

Name	Position with Terna	Shareholder list	Year of initial appointment
Catia Bastioli	Chairwoman non-Executive	CDP	2017
Luigi Ferraris	Chief Executive Officer and General Director	CDP	2017
Elena Vasco	Independent non-Executive Director	CDP	2017
Fabio Corsico	Independent non-Executive Director	CDP	2017
Luca Del Fabbro	Independent non-Executive Director	Group of shareholders constituted by asset management companies and other institutional investors	2017
Yunpeng He	Non-Independent non-Executive Director	CDP	2017
Gabriella Porcelli	Independent non-Executive Director	Group of shareholders constituted by asset management companies and other institutional investors	2017
Stefano Saglia	Independent non-Executive Director	CDP	2017
Paola Giannotti	Independent non-Executive Director	Group of shareholders constituted by asset management companies and other institutional investors	2017

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

- **Catia Bastioli, Chairwoman**

Born in Foligno (Perugia) on 3 October 1957.

She has a Chemistry degree from Perugia University and in 1985 attended the Business Management school “Montedison High Potential” at Bocconi University. Since May 2014, she has been Chairwoman of Terna S.p.A.

She worked on materials science, environmental sustainability and renewable raw materials at the Guido Donegani Institute, Montedison Corporate Research Centre, until 1988. She was one of the founders of the Fertec research centre on renewable raw materials, which then became Novamont S.p.A., a company in which she holds the position of Chief Executive Officer and where she has worked since 1999 holding various positions, most notably Technical Manager and later General Manager. Within Novamont she is Chief Executive Officer of Matrìca S.p.A. and Mater-Biotech S.p.A. Catia Bastioli is Chairwoman of Mater-Biopolymer S.r.l.

A member of the Executive Committee and the Management Committee of Federchimica, of the Management Committee of PlasticsEurope Italia and Chairwoman of the Kyoto Club Association. Since May 2013, she has been a Director of the Cariplo Foundation.

She is a member of important Advisory Boards at the European level, namely the High Level Group on Key Enabling Technologies and the Bioeconomy Panel, the strategic platform whose aim is to support implementation of the bioeconomy strategy in Europe.

She is Chairwoman of SPRING - Sustainable Processes and Resources for Innovation and National Growth, National Technological Cluster of Green Chemistry. Since 2014, she has also been a member of: the Financial Advisory Board of the Symbola Foundation for Italian Quality; the Presiding Committee of the Foundation for Sustainable Development; the Presiding Committee of the Civita Association; and the Evaluation Board of the Raul Gardini Foundation. Since 2014, she has been a Full Member of the global think tank The Club of Rome.

She developed and tested the third-generation Biorefinery model. The author of significant scientific contributions in the form of both publications and international patents, she has contributed to creating an industrial culture particularly sensitive to the problems of environmental impacts and eco-sustainability of production processes and, for these reasons, in 2008 she received the Specialist Degree Honoris Causa in Industrial Chemistry from Genoa University. She has received numerous awards and recognitions and has been given the title of merit “Cavaliere Al Merito della Repubblica Italiana” by the Italian State. In 2013, she received the “Eureka Prize” for technological innovation and in 2007 the “European Inventor of the Year” award for her inventions related to bioplastics between 1991 and 2001 and for managing to translate her research results into industrial products.

- **Luigi Ferraris, CEO**

Born in Legnano (Milan) on 23 February 1962.

He has a degree in Political Economics from the University of Genoa. He lectures on Corporate Strategy at the Department of Economics of the “Luiss Guido Carli” University of Rome, where he has also taught numerous courses, such as that on Energy Management, as part of the Masters in Business Administration, Business Strategy, Planning and Control and Management Control Systems. He was made CEO in April 2017 and became General Manager of Terna S.p.A on 1 May 2017.

He started his career in the auditing sector of PriceWaterhouse Coopers in 1988 and from 1990 onwards held various managerial positions followed by senior management positions in major Italian and multinational industrial companies, starting out with businesses like Agusta, Piaggio VE, Sasib Beverage and Elsag Bailey Process Automation, at the time a member of the Finmeccanica Group and listed on the NYSE. From 1998 to 1999, he was Chief Financial Officer (CFO) for Elsacom, a company of the Finmeccanica Group operating in the field of satellite telephony.

In 1999, he joined the Enel Group where, until 2001, he was CFO of Eurogen, Elettrogen and Interpower, generation companies intended to be sold off as part of the liberalisation of the Italian electricity market. He then went on to hold numerous offices of increasing importance in the administration of important subsidiaries, as CFO. More specifically: from 2002 to early 2004, he was Head of Planning, Control, Administration and Services of the “Infrastructures and Networks” and “Markets” Divisions; from December 2004, Sole Director of ENEL Servizi, a company of which he was then made Chairman with delegations from 2007 to March 2014; from 2004 to 2005, he was Head of Planning and Control of the Enel group and from June 2005 he was Manager of the Administration, Planning and Control Function; from June 2009 to November 2014, he was then made CFO of the Enel Group, at this time guiding both the listing of Enel Green Power S.p.A., a company he chaired from 2009 to 2014 and all the Group’s important capital market activities, as well as the rationalisation of the Latin American subsidiaries, strategic planning and M&A operations. From November 2014 to January 2015, he was Head of the Latin America Area and CEO of the Chilean Enersis S.A., lead company in the Group’s investments in the Area. Under the scope of the listed companies of the Enel Group, from 2007 to December 2014, he was also Director on the Board of Endesa S.A., a company listed on the Madrid stock exchange, and from May 2013 to November 2014, Director on the Board of the Chilean subsidiary Enersis S.A., a company listed on the Santiago Stock Exchange of Chile and on the NYSE.

In February 2015, he joined the Posteitaliane Group and as CFO, led it through the stock market listing process. With the Posteitaliane Group, he also launched and successfully implemented the group Management Control and Risk Management system and was Director on the Board of Banca del Mezzogiorno-Mediocredito Centrale. He has also been a Director on the Board of Gruppo PSC S.p.A., a leading company in the infrastructure systems sector in Italy, as well as of ERG S.p.A.

- **Fabio Corsico, Director**

Born in Turin on 20 October 1973.

He has a degree in Political Science, is a manager, and has held prestigious public positions and management positions in important Italian companies. Since February 2005, he has been External Relations, Institutional Affairs and Development Manager of the Caltagirone Group within which he is also a Director of Cementir Holding S.p.A. In addition, he is Director of “Il Gazzettino”, of NTV and, since 2009, has been Senior Advisor for Italy at Credit Suisse. Furthermore, he is a Director of the CRT Foundation (of which he is the Chairman of the Investments Committee) and Deputy Chairman of the Sviluppo e Crescita (Development and Growth) Foundation, as well as Deputy Chairman of Equiter, an investment fund invested in by Banca Intesa, Compagnia di San Paolo and the CRT Foundation. He has been a Director of Terna S.p.A. since May 2014, and Coordinator of the Remuneration Committee since 27 April 2017. Until 27 April 2017 he was a member of the Related-Party Transactions Committee of the Remuneration Committee of Terna S.p.A.

Among his past professional experience we can mention: his role as head of the Technical Secretariat of the Ministry for the Economy and Finance (2001) and member of the Committee for the Introduction of the Euro, the work on preparing international dossiers carried out within the Ministry of Defence at the Office of the Diplomatic Advisor to the Minister and at the Military Strategic Studies Centre (1997) and, in Enel, the role of head of Institutional Affairs, Relations with the Territory and Relations with Confindustria (2003).

From 1998 to 2001 he worked for Olivetti/Mannesmann, at the Company Infostrada in the communication and Human Resources sectors, before taking on the role of Public Affairs Manager. In the same period, he represented the Company in Assinform and AIP.

He was a member of the Board of Directors of Grandi Stazioni S.p.A. (2007-2016) and led the process of strengthening and subsequently privatising the company together with the CEO of FS, on behalf of Eurostazioni (Pirelli, Benetton, Caltagirone). He was also a member of the Board of Directors of Avio (2009-2010), Biverbanca and Consum.it (2008-2012), Alleanza Assicurazioni (2009-2011), Alleanza Toro Assicurazioni (2011-2013), CUIEM-CRT (2010-2013), the Teatro Regio of Turin (2010-2013), Energia (2012-2014), Perseo (2013-2014), and Chairman of Orione Investimenti (2010-2012).

He was a founding member of Aspen Junior Fellows, the Council for the United States and Italy Juniors and is on the Board of Rivista Zero and Rivista Formiche. He is the administrative director of the Centro Studi Americani.

He has edited a number of publications for the Franco Angeli's Strategic Studies series and on the subject of banking foundations. He is the co-author of a text for "il Sole 24 Ore" on business management and management decisions in family run businesses.

- **Luca Dal Fabbro, Director**

Born in Milan on 8 February 1966.

He graduated in Chemical Engineering from Rome "La Sapienza" University with full marks. He obtained a Master's in International Policy at the Université Libre de Brussels and completed the Advanced Management course at the MIT Sloane School of Management in Boston. He is CEO of GRT Group S.A., a leading Swiss company in the circular economy and green tech, and he has been Chairman of the companies Proil S.r.l. He has been a member of the Board of Directors and Chairman of the Appointments Committee of Terna S.p.A. since May 2014 and he has also been a member of the Related-Party Transactions Committee since 27 April 2017. Until 27 April 2017, he was a member of the Audit and Risk, Corporate Governance and Sustainability Committee of Terna S.p.A.

In the area of associations, he is a Member in Italy of the Advisory Board of Aspen Friends Association. Since 2016, he has been an adjunct professor at LUISS University in Rome.

He gained significant experience in the electricity and gas industry as well as in the infrastructure, finance and industrial sectors, with long periods working abroad (Brussels, London, Lausanne, Beijing). In particular, as the Chairman he supervised the listing of Electro Power Systems S.A. on the Paris stock market (2015). He served on the Board of Directors of Tamini Trasformatori S.r.l. until February 2017; in the E.ON Group he has held important positions as Chief Executive Officer of E.ON Italia S.p.A. (2009-2011) and previously in companies responsible for marketing and services: Chief Executive Officer E.ON Energia S.p.A., Director of AMGA - Azienda Multiservizi S.p.A. and Chairman of Somet, a company working in the sale and distribution of gas. Within the Enel Group, of which he was also Marketing Manager - Market Division of Enel S.p.A. (2001-2009), he was Chief Executive Officer of Enel Energia S.p.A., Director of Enel Gas S.p.A. and Marketing, Development and Structuring Manager of Enel Trade S.p.A. In the international context, he also worked for Enron Capital & Trade as Development Manager London (1999-2001) and, in the Tenaris Group, he was Strategic Marketing and Development Manager of Techint S.p.A. (1997-1999). He was Consultant in Coopers & Lybrand Management Consultants (1996-1997) and Business Development Manager China/Far East of CTIP S.p.A. (1994-1996). In Brussels, he held the post of European Product Projects Manager in Procter & Gamble (1991-1994).

He did academic work and presentations at SAIS John Hopkins of Bologna and the Rome campus of St John's University. He collaborated with the Institute of International Affairs (IIA) as manager of the Far-East desk. He represented Italy at the first "Asian-European Young Leaders Meeting" in Japan and took part as a speaker at UN conferences in Geneva at the UNCTAD and in various conferences and meetings on energy in Italy and abroad. Named Italian Talent by the Forum of Meritocracy in 2012. He has attended a number of continuing education sources in the areas of Corporate Governance and Compliance, International Politics, Finance and Administration, Corporate Organization and Business Development.

- **Paola Giannotti, Director**

Born in Alessandria on 13 July 1962.

She has a degree cum laude in Political Economics from the Bocconi University of Milan. Since 2016, she has been a Director on the Supervisory Committee, Chairwoman of the Risks Committee and a member of the Related Parties Committee in UBI Banca S.p.A. She has been a Board Member and member of the Audit and Risk, Corporate Governance and Sustainability Committee of Terna S.p.A. since 27 April 2017.

From 2015 to 2016, she was Director on the Board of Ansaldo STS S.p.A., as well as a member of the Audit and Risk Committee, also acting on the Related-Party Transactions Committee.

She has held various managerial roles throughout her thirty years of experience both in Italy and internationally, in the financial sector, in the Corporate and Investment Banking area, working in corporate finance, as well as in the capital-markets, extraordinary-operations and project-financing sectors. Her company experience includes the role of financial analyst for Montedison (1986-1987) and Sviluppo Finanziaria Milano (1988-1989), as well as business analyst at The Mac Group (1987-1988). From 1989 to 1998, she worked at the London office of Morgan Stanley as corporate finance analyst first and thereafter as head of operations in Portugal, followed by New York, in the equity-capital-markets sector, and Milan developing the Italian customer base. Later, at the London Citigroup, from 1998 to 2001, she was made Managing Director and Head of the Italian Investment Banking business in Italy, while from 2001 to 2003, she was Managing Director at Dresdner Kleinwort Wasserstein of London, responsible for the bank's business in Italy, member of the European Committee, Managing Director and member of the European Council of Country Heads as well as member of the Board of Directors of Dresdner Kleinwort Wasserstein SGR. At BNP Paribas, in Milan from 2003 to 2013, she was Managing Director responsible for the management and development of the Key Accounts portfolio, which included Terna S.p.A., and she was Head of the Energy, Gas and Oil sector. She has also been a member of the European Senior Banker Committee and the Italian Executive Committee.

- **Yunpeng He, Director**

Born in Baotou City (Inner Mongolia, China) on 6 February 1965.

Degree and Master's Degree in Electrical and Automation Systems at Tianjin University. Master's Degree in Technology Management at the Rensselaer Polytechnic Institute (RPI).

He currently holds the position of Director of CDP Reti S.p.A., Snam S.p.A., and Italgas S.p.A. Since 21 January 2015, he has been a Director of Terna S.p.A. and a member of the Appointments Committee since 27 April 2017.

He served as the Deputy General Manager of the State Grid Corporation of the China European Representative Office from January 2013 to December 2014. He has also held the following main positions in the State Grid Tianjin Electric Power Company: Vice Chief Technical Officer (CTO) from December 2008 to September 2012, Manager of the economic and legal department from June 2011 to September 2012, Manager of the planning and development department from October 2005 to December 2008 and Manager of the planning and design department from January 2002 to October 2005. He was also Head of the Tianjin Binhai Power Company from December 2008 to March 2010 and Chairman of the Tianjin Electric Power Design Institute from June 2000 to January 2002.

- **Gabriella Porcelli, Director**

Born in Rome on 10 March 1965.

A lawyer and industrial business manager, she has a degree cum laude in Law from Rome “La Sapienza” University with a Master's in Common Law (“European Young Lawyers Scheme” promoted by the British Council). She later completed further study of an international nature and in the field of commercial and company law. Since 2009, she has been Legal Affairs Manager (Senior Counsel Italy) of Philip Morris Italia S.r.l. (Philip Morris International Group). Director of the Italian Association of Company Lawyers (Associazione Italiana Giuristi d’Impresa – AIGI) and a member of the Competition Committee of the International Chamber of Commerce – Italian Section. She is also a member of the Nedcommunity association (Italian Association Non-Executive and Independent Directors), and the ACC – Europe (Association of Corporate Counsel) as well as a member of the Association of Women Corporate Directors (WCD) and Deputy Chairwoman of Associazione Valore D. She teaches on the Master's in Company Law at the Rome LUISS University. She has been a Director of Terna since 27 May 2014, and a member of the Remuneration Committee and since 27 April 2017 she has been a Coordinator of the Related-Party Transactions Committee, in which she was already a member.

Her experience in companies includes the role of Deputy Legal Affairs Manager of Pfizer Italia S.r.l. (1998-2008), Senior Legal Advisor ENI-Agip S.p.A. and, subsequently, of Agip Petroli S.p.A. (1994-1998). In the professional field, her experience was gained in the sector of legal advice and assistance of an international nature, involving commercial and corporate matters and in competition and Corporate Governance law, and she did legal work at Italian and British courts and law offices (1991-1994). As part of these activities, she edited publications and was a speaker at conferences. She was also an Official of Confcommercio (1989-1991) in Public Affairs relations with the EU area, regulations on structural funds for the tourism industry (tertiary).

- **Stefano Saglia, Director**

Born in Milan on 1 February 1971.

A strategic consultant in the industrial and financial sectors, he has worked for the company “2S CONSULTING S.r.l.” since March 2013. He is a professional Journalist registered with the Order of Journalists of Lombardy, and an accountant. Currently he is also a member of the Experts Group of the Ideas for Sustainable Development Committee of ENEA and of the Scientific Committee of the Magna Carta Foundation. Since 2015, he has been the Secretary General of the Associazione Parlamentari per lo Sviluppo Sostenibile (Association of MPs for Sustainable Development). He has been a member of the Board of Directors of Terna S.p.A. since May 2014, and since 27 April 2017 he has been Chairman of the Audit and Risk, Corporate Governance and Sustainability Committee of Terna S.p.A. as well as a member of the Remuneration Committee. Until 27 April 2017, he was

Chairman of the Related-Party Transactions Committee and member of the Appointments Committee of Terna S.p.A.

He began his career as a professional journalist (from 1993) in various newspapers and, from 1995 to 2000 was Senior Manager of the President's Office of Lombardy Regional Council.

He has held numerous posts and important institutional positions, including: Deputy of the Chamber of Deputies from 2001 to 2013; Undersecretary at the Ministry of Economic Development with delegated powers for Energy, technical regulations, cooperatives and protection of competition at the Chairman's Office of the National Consumers' Council from 2009 to 2011; Chairman of the "Public and Private Work" Commission at the Chamber of Deputies; Deputy Chairman of the Enquiry Commission on the waste cycle within the Chamber of Deputies Production Commission. He has held directorships in a number of Italian companies such as Immobiliare Fiera S.p.A. of Brescia from 2000 to 2002 and Consorzio INN.TEC S.r.l., of which he was also Deputy Chairman. As part of his parliamentary work he held the role of Rapporteur at the liaison stage for numerous legislative measures and was the promoter of important reforms, including: the reorganisation of the fuels network, the reform of gas distribution areas, incentive schemes for high-energy-consumption companies, reorganisation of hydroelectric concessions, tariffs on biomasses, high-yield cogeneration subsidies, promotion of incentives for renewable energy sources, and decommissioning of the Italian nuclear power stations. At the international level, he was the Head of numerous diplomatic economic missions and took part in the sessions of the European Energy Council and of the International Energy Agency.

- **Elena Vasco, Director**

Born in West Hartford (USA) on 31 December 1964.

She has a degree in Economics and Business from "Federico II" University of Naples and a Masters in Economic Sciences from the Northeastern University of Boston (USA).

She has been Secretary General for the Milan Chamber of Commerce since May 2015, although she has been working there since 2009, and as manager of the body, was initially made Head of Administration, Finance, Audit, Purchasing and Logistics. She has been an independent director on the Board of Parmalat S.p.A. since February 2016 and of Dea Capital S.p.A. since April 2016, both companies for which she chairs the Appointments and Remuneration Committee, as well as being a Director on the Board of InfoCamere Consortile S.p.A. since July 2016 and of Fondazione Fiera Milano S.p.A. since April 2017. Moreover, since February 2016, she has been a member of the liquidation panel of Expo 2015. She has been a Board Member and member of the Audit and Risk, Corporate Governance and Sustainability Committee of Terna S.p.A. since 27 April 2017.

Previously, from 1992 to 1997, she worked at Mediobanca in the Equity Investments and Special Affairs Service (consultancy, M&A and corporate finance), offering consultancy services to businesses involved in extraordinary finance operations, and from 1997 to 2002 in the holding company of Partecipazioni Industriali S.p.A., where she was made head of the Strategic Planning and Audit Department. From 2002 to 2003, she was Chief Executive Officer for RCS Broadcast, also holding various offices as Director in group companies and, from 2003 to 2004, she was Head of Strategic Management and Special Affairs for RCS MediaGroup S.p.A.

In 2006, she was made Chief Financial Officer of Milano Serravalle Milano Tangenziali S.p.A., a role she held until 2009, also having been appointed as chairwoman of the motorway concession-holder,

Sabrom. Her experience also includes numerous administrative appointments, including in RCS Editori, Valentino, GFT, RCS Libri, Rai Sat, Isagro, Banca Carige, Gtech and Orizzonte Sgr.”

The paragraph “**Senior Management**” of section “*Directors, Senior Management, Statutory Auditors and Employees*” on page 166 of the Base Prospectus is hereby replaced as follows:

“The table below sets out Terna’s Executive Officers who are not also Directors, their ages and their positions as of 31 March 2017 as well as the year they joined Terna:

Name	Date of birth	Age	Position	Employed since
Luciano di Bacco	22/05/1956	60	Human Resources and Organisation	October, 2003
Francesca Covone	23/08/1970	46	Corporate and Legal Affairs	January, 2015
Giovanni Buttitta	10/06/1952	54	External Relations and CSR	December, 2005
Luigi de Francisci	30/12/1956	58	European Affairs	November, 2005
Giuseppe Lasco	18/05/1960	56	Corporate Affairs	December, 2006
Marcello Grosso	22/11/1974	43	Corporate Security	February, 2007
Fabio Bulgarelli	01/06/1972	44	Regulatory Affairs	May, 2016
Enrico Maria Carlini	07/06/1965	48	Grid Planning and Interconnections	November, 2005
Alberto Ponti	15/06/1968	48	Strategy and Market Analysis	June, 2016
Fulvio De Luca	31/03/1961	56	Internal Audit	March, 2004
Tiziano Ceccarani	21/10/1973	43	CFO	December, 2005
Stefano Corti	13/05/1953	58	Institutional Affairs and Authorizations	November, 2005
Luigi Michi	04/11/1958	58	Strategy and Development	May, 2015

The table below sets forth TRI S.p.A.'s Executive Officers, their ages and their positions as of 31 March 2017 and the year they joined Terna (or other Terna Group Companies).

Name	Date of birth	Age	Position	Employed since
Pier Francesco Zanuzzi	27/03/1970	47	CEO	Terna's incorporation
Alessandro Fiocco	16/12/1966	50	Procurement	May, 2003
Evaristo Di Bartolomeo	15/08/1957	59	Engineering	Terna's incorporation
Guido Guida	20/09/1964	52	Dispatching and Energy Operations	Terna's incorporation
Alessandro Trebbi	23/03/1970	47	Information & Communication Technology	November, 2005
Francesco Bonci	03/03/1962	55	Centre-Sud Operations Area	Terna's incorporation
Maurizio Fischetti	06/05/1961	55	Nord-West Operations Area	Terna's incorporation
Dino Capotosti	01/01/1961	56	North-East Operations Area	Terna's incorporation

In addition to the above, further organisational revisions during 2017 are related to:

- Mr. Luigi de Francisci, who left the Company on 31 March 2017;
- Mr. Giuseppe Lasco, who left the Company on 27 April 2017;
- Mr. Marcello Grosso, who left the Company on 14 June 2017;
- Mr. Bernardo Quaranta, who joined the Company on 1 June 2017, and is currently in charge of Corporate Affairs division (replacing Mr. Giuseppe Lasco).

The last paragraph on page 169 and the table on such page, as well as the entirety of page 170 and the first three paragraphs on page 171 of the Base Prospectus are entirely replaced as follows:

“The current Members of the Board of Statutory Auditors, who were elected by Terna’s general Shareholders’ Meeting held on 27 April 2017, and who will remain in office until the approval of the financial statements for the year ending on 31 December 2019, are the following:

Name	Position	Year of initial appointment
Riccardo Enrico Maria Schioppo.....	Chairman of the Board of Statutory Auditors	2017
Vincenzo Simone.....	Standing Auditor	2017
Maria Alessandra Zunino de Pignier.....	Standing Auditor	2017
Davide Attilio Rossetti	Alternate Auditor	2017
Renata Maria Ricotti	Alternate Auditor	2017
Cesase Felice Mantegazza	Alternate Auditor	2017

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

- **Riccardo Enrico Maria Schioppo, Chairman**

Born in Milan on 20 July 1950.

He is a Chartered Accountant registered in the Order of Milan and in the Register of Legal Auditors. He practises as a professional in the sectors of administration and auditing of joint-stock companies. He is a Chairman of the Board of Statutory Auditors of Banca Esperia S.p.A. and Duemme Sgr S.p.A. (Banca Esperia Group). Custodian of the Esperia Philanthropy Onlus trust. For the Mediobanca Group, he is the Chairman of the Board of Statutory Auditors of Che Banca! S.p.A., SelmaBipiemme Leasing S.p.A. and Spafid S.p.A. In the Roche Group, he is a Standing Auditor of Roche S.p.A., Roche Diagnostics S.p.A. and of Roche Diabetes Care Italy S.p.A. He is also Alternate Auditor of Telecom Italia S.p.A. He has been Chairman of the Board of Statutory Auditors of Terna S.p.A. since May 2014.

He has acquired a wealth of qualified professional experience, also related to extraordinary operations, as legal auditing manager of leading Italian groups and companies listed on the Stock Exchange; CFO of Ernst & Young Italia from 2005 to 2013 and Audit Partner of Reconta Ernst & Young from 1984 to 2013. He was also a member of the Italian Commission for Accounting Standards of the Italian Council of Chartered Accountants.

- **Vincenzo Simone, Standing Auditor**

Born in Padula (SA) on 20 November 1960.

He has a degree in Business and Economics from Salerno University and is a Chartered Accountant with an Office in Potenza. He is registered on the Register of Legal Auditors, registered on the List of Technical Consultants of the Court of Potenza and registered on the List of Statutory Auditors of the Puglia and Basilicata Association of Cooperative Banks.

He has practised as a professional since 1990 and is the majority shareholder and consultant of a joint-stock company which has operated, for more than fourteen years, in the sector of fiscal, financial and business consultancy. He is a member of the Evaluation Team of the Municipality of Potenza and Chairman of the Board of Statutory Auditors for the Basilicata Regional Committee of the Lega Nazionale Dilettanti, Federazione Italiana Giuoco Calcio (F.I.G.C.), as well as a standing member of the Board of Statutory Auditors of the Federation of Cooperative Credit Banks of Puglia and Basilicata. He has been a Standing Auditor of Terna S.p.A. since May 2014.

As part of his professional activities he has held Directorships of commercial companies, also with delegated powers, and has been a Member of the Board of Statutory Auditors in various companies, Public Bodies, Economic Public Bodies and banks. He has performed business consultancy activities for Collective Loan Guarantee Consortia, and has been an official receiver, a liquidator, and a technical consultant appointed by the Court of Potenza and the Consortium for Industrial Development. He has also been a Member of the Technical Committee of the loan consortium Consorzio FIDI. He has prepared appraisals and valuations of companies and business units also on the occasion of extraordinary business operations (transformations, mergers, demergers - also of banks, transfers and liquidations).

- **Maria Alessandra Zunino de Pignier, Standing Auditor**

Born in Rome on 1 May 1952.

She has a degree in Business and Economics from the Università Cattolica del Sacro Cuore university in Milan, and is a Chartered Accountant registered on the Register of Legal Auditors. She is a partner of Alezio.net Consulting S.r.l., and as such she is a member of Assosim – Italian Association of Financial Intermediaries. She also deals with private equity and provides advisory services on investment and banking services. In the context of associations, she is also a member of AIAF - Italian Association of Financial Analysts and Financial Advisers (AIAF) and Assiom-Forex - Association of Financial Market Operators.

She practises as a professional and has been a member of the Board of Directors of Mediolanum S.p.A., Veneto Banca S.p.A. as well as statutory auditor in a number of regulated entities. She is currently a member of the Board of Directors of Banca Intermobiliare di Investimenti e Gestioni S.p.A. (BIM) of the Veneto Banca Group. She has been a Standing Auditor of Terna S.p.A. since May 2014.

She is the author of books and articles on rules governing markets, services and financial instruments.”

The paragraph “**Major shareholders**” of section “*Share capital of Terna, major shareholders and related party transactions*” on page 173 of the Base Prospectus is hereby replaced as follows:

“**Major shareholders**¹

I. CDP RETI

CDP RETI is Terna’s main shareholder holding 29.85 per cent. of its share capital. CDP RETI is an investment vehicle established in October 2012 whose shares are owned by: Cassa Depositi e Prestiti

¹ Shareholders participating in the share capital of Terna S.p.A. in excess of the major thresholds indicated by CONSOB Resolution n. 11971/99, on the basis of the information available and CONSOB disclosures.

Spa (59.1 per cent.); State Grid Europe Limited (35 per cent.), a company owned by State Grid Corporation of China; and the remainder by Italian institutional investors (5.9 per cent.).

CDP RETI's mission is to manage the holdings in Snam and Terna monitoring the infrastructure they operate to ensure it is developed and maintained appropriately, and developing the necessary expertise in gas transport, dispatching, distribution, regasification and storage, and electricity transmission, in order to oversee its investments most effectively.

Cassa Depositi e Prestiti S.p.A. (CDP) is a joint-stock company under public control, with the Italian government holding 82.77 per cent. and a broad group of bank foundations holding 15.93 per cent., the remaining 1.3 per cent. in treasury shares. Cassa Depositi e Prestiti manages a major share of the savings of Italians (i.e. postal savings) which represent its main source of funding. CDP uses its resources to pursue its institutional mission to support the growth of the country. CDP is also the controlling shareholder of CdP Equity (97.1 per cent.) which invests in Italian companies of major national interest with a long-term perspective and acquires mainly minority interests in companies with sound finances and business prospects. CDP is the main shareholder of major Italian companies operating in Italy and abroad, such as, for instance, ENI S.p.A. and Fincantieri, and owns 100 per cent. of SACE S.p.A. and 100 per cent. of FINTECNA S.p.A.

On 31 July 2014, CDP entered into an agreement with State Grid Europe Limited (hereinafter referred to as **SGEL**) and State Grid International Development Limited (hereinafter referred to as **SGID**), (wholly-owned subsidiaries of the State Grid Corporation of China, hereinafter referred to as **SGCC**), as a result of which CDP on 27 October 2014 transferred to CDP RETI its 29.851 per cent. stake in Terna and on 27 November 2014 sold 35 per cent. of its stake in CDP RETI to SGEL. On 27 November 2014 a shareholders' agreement was entered into between Cassa Depositi e Prestiti S.p.A. (CDP), on the one hand, and State Grid Europe Limited (SGEL) and State Grid International Development Limited (SGID), in relation to CDP RETI S.p.A. (CDP RETI), SNAM S.p.A. and TERNA S.p.A., then amended and integrated to extend the provisions also in relation to Italgas S.p.A. The essential information relating to such shareholders' agreement are updated from time to time and disclosed in accordance with applicable laws. The last update was made on 23 May 2017 as a result of the transfer of the residual participation held by CDP in SNAM S.p.A. and Italgas S.p.A. to CDP RETI (see also "*Overview*", "*History and Development*" and "*Recent Developments*").

2. LAZARD ASSET MANAGEMENT LLC

On the basis of the information available and CONSOB disclosures, Lazard Asset Management LLC owns 5,122% of the total Terna share capital."

The second sentence of section "*Ratings*" on page 178 of the Base Prospectus is hereby replaced as follows:

"Moody's has issued a senior unsecured rating of "Baa1" and a short-term rating of "Prime-2" in respect of Terna with a negative outlook."

IV. REGULATORY MATTERS

The first paragraph of section "*Tariff System – Revenue structure*" on page 187 of the Base Prospectus is hereby replaced in its entirety as follows:

“For 2016, the Terna Group’s total consolidated revenues (excluding pass-through items) amounted to Euro 2,103.2 million. The majority of these revenues (approximately 90 per cent.) derive from activities regulated by the AEEGSI whereas the remainder derives from non-regulated activities.”.

Section “*Tariff System – Transmission service*” on page 187 of the Base Prospectus is hereby replaced in its entirety as follows:

“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 they also include 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” are 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), which is the recognized net value of investments in the transmission service up to year “Y-1” (*i.e.* 2017 tariffs consider investments up to year 2016), 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 Resolution 654/15, the RAB is remunerated at a base return rate (WACC); for years 2016 to 2018 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 includes preliminary figures for “Y-1” investments, therefore such measure is no longer necessary, but all investments made in the years 2012 to 2014 are still entitled to 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 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 Resolutions 199/11, 40/13, 43/13, 66/13 and their respective updates, provided that they fulfil specific conditions; in particular, it should be noted that according to Resolution 654/14 and 654/15, two development projects previously included in the highest incentive category (I=3) by Resolution 40/13 were suspended from that list, pending further evaluation by the AEEGSI. Through Resolution 335/16, AEEGSI confirmed the suspension of one of these projects from the above mentioned list and definitely excluded the other one from the same list (*i.e.* I=3 category).
- new regulation for development investments: resolution 654/15 provided for a new “transitional incentive” mechanism for the 2016–2019 period. Under this mechanism, the Authority is expected to approve a list of “O-NPR1” development works (not included in the I3 investments approved by Resolution 40/13) and a list of “I-NPR1” development projects (previously included in the I3 investments) entitling them to a 1% increase in their WACC for 12, years subject to certain conditions set out in Annex A to Resolution 654/15. For the projects included in the I-NPR1 and O-NPR1 clusters, the above Resolution also provides for the possibility of additional output-based premium in case of incurred costs will be lower than forecast costs approved by the Regulator; in such case the premium will be 20% of the savings (ref. art. 21 of Annex A to Res. 654/15).

In 2016, RAB remuneration (base + incentives) constituted approximately 50% of Terna’s recognised costs.

- Recognized costs to cover **amortization/depreciation** which is the recognized depreciation /amortization, adjusted in accordance with the useful life of assets and new investments which have come into operation. They are revalued 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”.

In 2016, amortisation/depreciation remuneration constituted approximately 32% of Terna’s recognised costs.

- Recognized costs to cover **operating costs** the component covering these costs, which in 2015 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.”

The second paragraph of section “**Tariff System – Dispatching service**” on page 190 of the Base Prospectus is hereby replaced as follows:

“Resolution 815/16 sets the DIS fee for the year 2017 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.”

The first paragraph of section “**Tariff System – Transmission**” on page 190 of the Base Prospectus is hereby replaced as follows:

“Once the energy component of the transmission tariff (CTRE) 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 2017 Terna will invoice to distributors CTRE times the number of kWh actually withdrawn by each one of them from the NTG: Terna will invoice: $CTRE * [total\ energy\ withdrawn\ from\ the\ NTG\ in\ 2017] = [10\% \text{ of transmission recognized costs}] * [total\ energy\ withdrawn\ from\ the\ NTG\ in\ 2017] / [energy\ withdrawn\ from\ the\ NTG\ in\ the\ period\ (Nov.\ 2015 - Oct.\ 2016)]$. Consequently, 10% of the transmission recognized costs are exposed to volume effect.”

The second paragraph of section “**Tariff System – Transmission quality regulation**” on page 191 of the Base Prospectus is hereby deleted.

The section “**Tariff System – Cost sharing of the penalties/refunds paid by the distribution companies to customers connected to the MV and LV distribution grids**” on page 192 of the Base Prospectus is hereby replaced in its entirety as follows:

“Terna may be called on to share penalties/refunds applied to distribution companies when outages under Terna’s responsibility occur affecting customers connected to MV and LV distribution networks, and such outages involve not complying with the specific standards established by the Authority (in terms of duration/number of outages).

Terna’s share for exceeding the outage duration standards has a maximum annual limit of €70 million (if exceeded, Terna may request that the Authority provides reimbursement for the amount exceeding the cap). Terna’s share for exceeding the standards on the number of outages is limited according to the provisions of the distribution service quality regulation (Title 5 of Part I of the TIQE). In certain specific cases, Terna may request the “*Exceptional Events Fund*” to refund such payments. It should be also noted that with Resolution 127/17, the Authority made certain changes to the regulation, limiting the possibility for grid operators to access the exceptional events fund when the outage

exceeds 72 hours. The same resolution increased the total payable amount to end customers in the event of outages exceeding set duration thresholds.”.

The section “**Tariff System – Individual regulation of continuity of supply for VHV/HV users**” on page 192 of the Base Prospectus is hereby deleted and replaced in its entirety as follows:

“Individual regulation for VHV/HV end customers

As of 2016, a specific regulation was introduced aimed at limiting the number of outages for HV and VHV end customers. In particular, Terna must make automatic payments to HV and VHV end customers if the specific standards, on the number and duration of outages under Terna’s responsibility, are not complied with.

Indemnities for non-compliance with the standards relative to the number of outages have a cap of three indemnifiable outages per year, per customer. Indemnities for lack of compliance with the duration standards, added to payments to the Exceptional Events Fund (pursuant to the section below) have a maximum annual cap of €7 million.

With reference to HV and VHV end customers, the regulation also foresees the future introduction of an individual voltage quality regulation.”

The section “**Tariff System – Individual regulation of voltage quality for VHV/HV users**” on page 193 of the Base Prospectus is hereby deleted.

The section “**Tariff System – Payments to the “Exceptional Events Fund”**” on page 193 of the Base Prospectus is hereby replaced in its entirety as follows:

“Terna shall pay an annual contribution to the “*Exceptional Events Fund*” determined on the basis of the duration of outages under the responsibility of Terna and the related amount of energy not supplied.

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

With regards to the quality of the transmission service regulation (mechanisms outlined above), current regulation also foresees certain peculiarities for the portion of the transmission grid previously owned by Ferrovie dello Stato Italiane S.p.A. and subsequently acquired by Terna, including exclusion of this portion of the grid from the premium/penalty mechanism for energy not supplied.”

The fourth paragraph of the section “**Tariff System – Pass – through items**” on page 193 of the Base Prospectus is hereby replaced as follows:

“In 2016, pass-through revenues and costs for the Terna Group totalled Euro 5,598.5 million. The components of these transactions are detailed in the Terna Annual Report 2016 (“*Terna S.p.A. and the Terna Group 2016 Annual Report*”).”.

The section “**Market coupling on France, Austria and Slovenia**” on page 193 of the Base Prospectus is hereby replaced as follows:

“Market coupling is currently in operation on three out of the five Italian borders (in particular, with regards to the allocation of day-ahead cross border transmission capacity, it started from January 2011 onwards with Slovenia and from February 2015 onwards with France and Austria, and with regards to

the intraday allocation it started from February 2016 onwards with Slovenia). These four national electricity markets are “coupled” by synchronising the respective Power Exchanges and coordinating the respective TSOs, to become included in the broader Multi-Regional Coupling (MRC), which already connects most of the electricity markets of the EU. Market coupling simplifies access to the market for operators and guarantees allocation efficiency, providing the correct price signals: in fact, it guarantees that when an interconnection’s transport capacity is not being fully utilised, the prices for electricity in the bordering markets are identical, whereas if capacity is saturated, prices differ, with electricity flowing from the market with the lower price towards the one with the higher price. In this regard, the benefits to the end consumer result from a more efficient use of cross-border infrastructure. The result falls within the context of the broader integration project in European electricity markets, with the objective of increasing the European Union’s competitiveness.”

The section “**Interconnection Italy – Montenegro**” on page 193 of the Base Prospectus is hereby replaced as follows:

“The HVDC Interconnection between Italy and the Balkans is currently temporarily suspended from the cluster of investment qualified as I=3. Its readmission to the I-NPR1 incentivized investment cluster is subject to some conditions set by the Regulator. Notwithstanding the ongoing dispute with the Italian Regulator concerning the incentive treatment of the Italy-Montenegro interconnection, Terna is working to clear the conditions which would re-entitle the project to the incentive treatment.”

V. TAXATION

The entire section “Taxation” on pages 195 and following of the Base Prospectus is hereby replaced as follows:

“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 Base 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

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.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not acting in connection with an entrepreneurial activity may be exempt from any income taxation, including the *imposta sostitutiva*, on interest, premium and other income relating to the Notes if the Notes are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Law No. 232 of 11 December 2016 (the **Finance Act 2017**), as amended by Article 57 (2) of Law Decree No. 50 of 24 April 2017.

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, interest, 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, converted into Law No. 410 of 23 November 2001 (**Decree 351**), Law Decree No. 78 of 31 May 2010, converted into Law No. 122 of 30 July 2010 and Legislative Decree No. 44 of 4 March 2014, all as amended, Italian real estate investment funds created under Article 37 of Legislative Decree No. 58 of 24 February 1998, as amended and supplemented, and Article 14-*bis* of Law No. 86 of 25 January 1994 and Italian real estate SICAFs (the **Real Estate SICAFs**) are subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the real estate investment fund or the Real Estate SICAF.

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

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

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

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

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 as listed in the Italian Ministerial Decree of 4 September 1996, as amended by Ministerial Decree of 23 March 2017 and possibly further amended by future decree issued pursuant to Article 11(4)(c) of Decree 239 (as amended by Legislative Decree No.147 of 14 September 2015) (the **White List**); (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 included in the White List, even if it does not possess the status of taxpayer in its own country of residence.

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.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not engaged in an entrepreneurial activity may be exempt from Italian withholding tax on proceeds received under Notes classifying as atypical securities, if the Notes are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Finance Act 2017.

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.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not engaged in an entrepreneurial activity may be exempt from Italian capital gain taxes, including the *imposta sostitutiva*, on capital gains realised upon sale or redemption of the Notes, if the Notes are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Finance Act 2017.

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. Pursuant to Law Decree No. 66 of 24 April 2014, as converted into law with amendments by Law No. 89 of 23 June 2014 (**Decree No. 66**), capital losses may be carried forward to be offset against capital gains of the same nature realised after 30 June 2014 for an overall amount of 76.92 per cent. of the capital losses realised from 1 January 2012 to 30 June 2014.

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. Pursuant to Decree No. 66, capital losses realized up to 30 June 2014 may be offset against capital gains realized after that date with the following limitations; for an amount equal to 76.92 per cent., for capital losses realized from 1 January 2012 to 30 June 2014.

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. Pursuant to Decree No. 66, investment portfolio losses accrued up to 30 June 2014 may be set off against investment portfolio profits accrued after that date with the following limitations for an amount equal to 76.92 per cent., for investment portfolio losses accrued from 1 January 2012 to 30 June 2014.

Any capital gains realised by a Noteholder who is an Italian real estate fund to which the provisions of Decree 351, Law Decree No. 78 of 31 May 2010, converted into Law No. 122 of 30 July 2010 and Legislative Decree No. 44 of 4 March 2014, all as amended, apply or a Real Estate SICAF will be subject neither to *imposta sostitutiva* nor to any other income tax at the level of the real estate investment fund or the Real Estate SICAF.

Any capital gains realised by Noteholders which is a Fund will not be subject to *imposta sostitutiva*, but will be included in the management results of the Fund. Such result will not be subject to taxation at the level of the Fund, but subsequent distributions in favour of unitholders of shareholders may be subject to the Collective Investment Fund 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.

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 included in the White List; 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 included in the White List, 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, Euro 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, Euro 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, Euro 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 0.2 per 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 (the Savings Directive), 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.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). 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).

On 10 November 2015, the Council of the European Union adopted a Council Directive repealing the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under the Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Cooperation and Development in July 2014, Council Directive 2011/16/EU (as amended) is generally broader in scope than the Saving Directive, although it does not impose withholding taxes.

Implementation in Italy of the Directive

Italy has implemented the Saving 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 EU 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.

Council Directive (EU) 2015/2060 of 10 November 2015, repealed the Savings Directive with effect from 1 January 2016, to prevent overlap between the Savings Directive and a new automatic exchange of information regime implemented under Council Directive 2011/16/EU on Administrative Cooperation in the Field of Taxation as amended by Council Directive 2014/107/EU of 9 December 2014. With Law No. 114 of 9 July 2015, the Italian Parliament delegated the Government to implement Council Directive 2014/107/EU into domestic legislation (Council Directive 2011/16/EU has already been implemented in Italy through Legislative Decree No. 29 of 4 March 2014). The Minister of Economy and Finance issued the Decree of 28 December 2015 (published in the Official Gazette No. 303 of 31 December 2015) to implement Directive 2014/107/EU.

Finally, Decree 84 has been repealed with effect from 1 January 2016 by Article 28 of Law No. 122 of 7 July 2016, in order to implement the Council Directive 2015/2060/EU. Transitional rules have been introduced to deal with certain obligations arising from the previous legislation.

LUXEMBOURG TAXATION

The following information is of a general nature only and 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 (*contribution au fonds pour l'emploi*) 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

(a) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force 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.

(b) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005, as amended (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 will be subject to a withholding tax of 20 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. Accordingly, payments of interest under the Notes coming within the scope of the Law would be subject to a withholding tax at a rate of 20 per cent.

Income Taxation

(i) Non-resident holders of Notes

A non-resident holder of the Notes, not having a permanent establishment or permanent representative in Luxembourg to which/whom such Notes are attributable, is not subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes. A gain realised by such non-resident holder of the Notes on the sale or disposal, in any form whatsoever, of the Notes is further not subject to Luxembourg income tax.

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/whom 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

Holders of Notes who are residents of Luxembourg will not be liable to any Luxembourg income tax on repayment of principal.

(a) Luxembourg resident corporate 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.

A corporate holder of Notes that is governed by the law of 11 May 2007 on family estate management companies, as amended, or by the law of 13 February 2007 on specialised investment funds, as amended, or by the law of 17 December 2010 on undertakings for collective investment, as amended, or by the law of 23 July 2016 on reserved alternative investment funds and which does not fall under the special tax regime set out in article 48 thereof 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.

(b) Luxembourg resident individual holders of Notes

An individual holder of Notes, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax at progressive rates 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 20 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). 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.

An individual holder of Notes acting in the course of management of a professional or business undertaking must include this interest in its taxable basis. If applicable, the tax levied in accordance with the Law will be credited against his/her final tax liability.

3. 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, as amended, or by the law of 13 February 2007 on specialised investment funds, as amended, or by the law of 17 December 2010 on undertakings for collective investment, as amended, or by the law of 23 July 2016 on reserved alternative investment funds, or is a securitisation company governed by the law of 22 March 2004 on securitisation, as amended, or is a capital company governed by the law of 15 June 2004 on venture capital vehicles, as amended. Please however note that securitisation companies governed by the law of 22 March 2004 on securitisation, as amended, or capital companies governed by the law of 15 June 2004 on venture capital vehicles, as amended, or reserved alternative investment funds governed by the law of 23 July 2016 and which fall under the special tax regime set out under article 48 thereof may, under certain conditions, be subject to minimum net wealth tax.

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.

4. Other Taxes

In principle, neither the issuance nor the transfer, repurchase or redemption of Notes will give rise to any Luxembourg registration tax, or similar taxes.

However, a fixed or *ad valorem* registration duty may be due upon registration of the Notes in Luxembourg in the case where the Notes are physically attached to a public deed or to any other document subject to mandatory registration, as well as in the case of a registration of the Notes on a voluntary basis.

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.

THE PROPOSED FINANCIAL TRANSACTIONS TAX (FTT)

On 14 February 2014, the European Commission published a proposal (the Commission's Proposal) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the participating Member States). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of the Notes should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the

Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "foreign financial institution", or **FFI** (as defined by FATCA)) that does not become a "**Participating FFI**" by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer (a **Recalcitrant Holder**). The Issuer does not expect to be classified as an FFI.

The new withholding regime is in effect for payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 1 January 2019. This withholding would potentially apply to payments in respect of (i) any Notes characterised as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued after the "**grandfathering date**", which (A) with respect to Notes that give rise solely to foreign passthru payments, is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register and (B) with respect to Notes that give rise to a dividend equivalent pursuant to section 871(m) of the U.S. Internal Revenue Code of 1986 as discussed below, is six months after the date on which obligations of its type are first treated as giving rise to dividend equivalents, or (in each case) which are materially modified after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes are issued on or before the grandfathering date, and additional Notes of the same series are issued after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

The United States and a number of other jurisdictions have entered into intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and Italy have entered into an agreement (the **U.S.-Italy IGA**) based largely on the Model 1 IGA.

If the Issuer is deemed to be an FFI under FATCA, the Issuer expects to be treated as a Reporting FI pursuant to the U.S.-Italy IGA and does not anticipate being obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. Accordingly, the Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if (i) any FFI through or to

which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Notes are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent and the Common Depositary or Common Safekeeper, given that each of the entities in the payment chain between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Notes will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Notes.

U.S. HIRING INCENTIVES TO RESTORE EMPLOYMENT ACT WITHHOLDING

The U.S. Hiring Incentives to Restore Employment Act introduced Section 871(m) of the U.S. Internal Revenue Code of 1986 which treats a "dividend equivalent" payment as a dividend from sources within the United States. Under Section 871(m), such payments generally would be subject to a 30 per cent. U.S. withholding tax that may be reduced by an applicable tax treaty, eligible for credit against other U.S. tax liabilities or refunded, provided that the beneficial owner timely claims a credit or refund from the IRS. A "**dividend equivalent**" payment is (i) a substitute dividend payment made pursuant to a securities lending or a sale-repurchase transaction that (directly or indirectly) is contingent upon, or determined by reference to, the payment of a dividend from sources within the United States, (ii) a payment made pursuant to a "specified notional principal contract" that (directly or indirectly) is contingent upon, or determined by reference to, the payment of a dividend from sources within the United States, and (iii) any other payment determined by the IRS to be substantially similar to a payment described in (i) and (ii). Recently published final U.S. Treasury regulations issued under Section 871(m) (the **Section 871(m) Regulations**) will, when effective, require withholding on certain non-U.S. holders of the Notes with respect to amounts treated as attributable to dividends from certain U.S. securities. Under the Section 871(m) Regulations, only a Note that has an expected economic return sufficiently similar to that of the underlying U.S. security, as determined on the Security's issue date based on tests set forth in the Section 871(m) Regulations, will be subject to the Section 871(m) withholding regime (making such security a **Specified Security**). The Section 871(m) Regulations provide certain exceptions to this withholding requirement, in particular for instruments linked to certain broad-based indices.

Withholding in respect of dividend equivalents will generally be required when cash payments are made on a Specified Security or upon the date of maturity, lapse or other disposition by the non-U.S. holder of the Specified Security. If the underlying U.S. security or securities are expected to pay dividends during the term of the Specified Security, withholding generally will still be required even if the Specified Security does not provide for payments explicitly linked to dividends. If the Issuer or any withholding agent determines that withholding is required, neither the Issuer nor any withholding agent will be required to pay any additional amounts with respect to amounts so withheld.

The Section 871(m) Regulations generally apply to Specified Securities issued beginning 1 January 2017. If the terms of a Security are subject to a "significant modification" such that the Security is treated as retired and reissued, it could lose its "grandfathered" status and might become a Specified Security based on economic conditions in effect at that time.

Upon the issuance of a series of Notes, the Issuer will state in the Final Terms if it has determined that they are Specified Securities, in which case a non-U.S. holder of the Notes should expect to be subject

to withholding in respect of any dividend-paying U.S. securities underlying those Notes. The Issuer's determination is binding on non-U.S. holders of the Notes, but it is not binding on the IRS. The Section 871(m) Regulations require complex calculations to be made with respect to Notes linked to U.S. securities and their application to a specific issue of Notes may be uncertain. Prospective investors should consult their tax advisers regarding the potential application of Section 871(m) to the Notes.”

VI. GENERAL INFORMATION

The paragraph “*Significant or Material Change*” on page 212 of the Base Prospectus is hereby replaced in its entirety as follows:

“There has been no significant change in the financial or trading position of the Group since 31 March 2017 and there has been no material adverse change in the financial position or prospects of the Group since 31 December 2016.”

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.