BASE PROSPECTUS

TERNA - Rete Elettrica Nazionale S.p.A.

(incorporated with limited liability in the Republic of Italy)

€8,000,000,000
Euro Medium Term Note Programme

Under this €8,000,000,000 Euro Medium Term Note Programme (the **Programme**), TERNA - Rete Elettrica Nazionale S.p.A. (the **Issuer** or **Terna**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €8,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

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

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Risk Factors*".

Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 on prospectuses for securities (the **Prospectus Act 2005**) to approve this document as a base prospectus. By approving this Base Prospectus, CSSF shall give no undertaking as to the economic and financial soundness of the operation or the quality or solvency of the Issuer in accordance with Article 7(7) of the Prospectus Act 2005. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.

References in this Base Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been admitted to the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

The requirement to publish a prospectus under the Prospectus Directive (as defined under "*Important Information*" below) only applies to Notes which are to be admitted to trading on a regulated market in the European Economic Area (the **EEA**) and/or offered to the public in the EEA other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive. References in this Base Prospectus to **Exempt Notes** are to Notes for which no prospectus is required to be published under the Prospectus Directive. The CSSF has neither approved nor reviewed information contained in this Base Prospectus in connection with Exempt Notes.

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to the relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**) will be disclosed in the Final Terms. Such credit rating agency will be included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at *http://www.esma.europa.eu/page/List-registered-and-certified-CRAs*) in accordance with the CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning Rating Agency. Please also refer to "*Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with the investment in those Notes*" in the "*Risk Factors*" section of this Base Prospectus.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will (other than in the case of Exempt Notes, as defined above) be set out in a final terms document (the **Final Terms**) which will be filed with the CSSF. Copies of Final Terms in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). In the case of Exempt Notes, notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche will be set out in a pricing supplement document (the **Pricing Supplement**).

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

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) or any U.S. State securities laws and may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons as defined in Regulation S under the Securities Act unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction.

JOINT ARRANGERS

Citigroup **Deutsche Bank**

DEALERS

Banca IMI	**Banco Bilbao Vizcaya Argentaria, S.A.**	**Barclays**
BNP PARIBAS	**BofA Merrill Lynch**	**Citigroup**
Commerzbank	**Crédit Agricole CIB**	**Credit Suisse**
Deutsche Bank	**Goldman Sachs International**	**J.P. Morgan**
Mediobanca - Banca di Credito Finanziario S.p.A.	**Morgan Stanley**	**MPS Capital Services S.p.A.**
Natixis	**NatWest Markets**	**Nomura**
Société Générale Corporate & Investment Banking	**UBS Investment Bank**	**UniCredit Bank**

The date of this Base Prospectus is 13 October 2017.

IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus in respect of all Notes other than Exempt Notes issued under the Programme for the purposes of Article 5.4 of the Prospectus Directive. When used in this Base Prospectus, Prospectus Directive means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the EEA.

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

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated by reference in it (see "*Documents Incorporated by Reference*"). This Base Prospectus shall be read and construed on the basis that those documents are incorporated and form part of this Base Prospectus. Any websites included in this Base Prospectus are for information purposes only and do not form part of this Base Prospectus.

No representation, warranty or undertaking, express or implied, is made by any of the Dealers or by any of their respective affiliates or the Trustee and no responsibility or liability is accepted by any of the Dealers or by any of their respective affiliates or the Trustee as to the accuracy or completeness of the information contained or incorporated by reference in this Base Prospectus or of any other information provided by the Issuer in connection with the Programme. None of the Dealers or any of their respective affiliates or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

This Base Prospectus contains industry and customer-related data as well as calculations taken from industry reports, market research reports, publicly available information and commercial publications. It is hereby confirmed that (a) to the extent that information reproduced herein derives from a third party, such information has been accurately reproduced and (b) insofar as the Issuer is aware and is able to ascertain from information derived from a third party, no facts have been omitted which would render the information reproduced inaccurate or misleading.

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

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

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

IMPORTANT – EEA RETAIL INVESTORS – If the applicable Final Terms in respect of any Notes (or the applicable Pricing Supplement, in the case of Exempt Notes) specify that "Prohibition of Sales to EEA Retail Investors" is applicable, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (EEA). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in Article 4(1) of Directive 2014/65/EU (MiFID II); (ii) a customer within the meaning of Directive 2002/92/EC (IMD), where that customer would not qualify as a professional client as defined in Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the Prospectus Directive). Consequently no key information document required by Regulation (EU) No 1286/2014 (the PRIIPs Regulation) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS AND OFFERS OF NOTES GENERALLY

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

This Base Prospectus has been prepared on a basis that would permit an offer of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of such Notes with a denomination of less than €100,000 in any Member State of the EEA which has implemented the Prospectus Directive

(each, a *Relevant Member State*) must be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer of such Notes with a denomination of less than €100,000 in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer of Notes with a denomination of less than €100,000.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Unless otherwise indicated, the financial information in this Base Prospectus relating to the Issuer have been derived from the audited consolidated financial statements for the financial years ended 31 December 2016 and 31 December 2015 and the unaudited consolidated interim financial information for the six months ended 30 June 2017 (together, the *Financial Statements*).

The Issuers' financial year ends on 31 December, and references in this Base Prospectus to any specific year are to the 12-month period ended on 31 December of such year. The Financial Statements have been prepared in accordance with International Financial Reporting Standards (*IFRS*) issued by the International Accounting Standards Board.

Certain Defined Terms and Conventions

Capitalised terms which are used but not defined in any particular section of this Base Prospectus will have the meaning attributed to them in "*Terms and Conditions of the Notes*" or any other section of this Base Prospectus. In addition, the following terms as used in this Base Prospectus have the meanings defined below:

All references in this document to euro and € refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, all references to Sterling and £ refer to pounds sterling and all references to U.S. dollars, U.S.$ and $ refer to United States dollars.

References to a *billion* are to a thousand million.

Certain figures and percentages included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

SUITABILITY OF INVESTMENT

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

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

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

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

iv. understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and

v. is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or to review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

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STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) acting as Stabilisation Manager in the applicable Final Terms or Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment shall be conducted by the relevant Stabilisation Manager(s) in accordance with all applicable laws and rules.

RISK FACTORS

In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which, either individually or together could result in the Issuer becoming unable to make all payments due. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deem not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Base Prospectus a list of the factors which could materially adversely affect its business and ability to make payments due.

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

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

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

The interests of the controlling shareholder may differ from those of the other shareholders

As of 5 October 2017, CDP Reti S.p.A. (hereinafter referred to as **CDP RETI)**, a subsidiary of Cassa Depositi e Prestiti S.p.A. (owned by the Ministry of Economy and Finance which holds a 82.77 per cent. stake in it, hereinafter referred to as **CDP**), owns 29.851 per cent. of Terna's share capital (please see also section "*Overview"* and *"Share capital of Terna, major shareholders and related party transactions*" below).

The interests of CDP RETI (or any of its shareholders) in any decisions may differ from those of other Issuer's shareholders.

For a more detailed analysis of each of the above matters, please refer to the following Sections: "*Description of the Issuer – Overview*", "*Description of the Issuer – History and Development*", "*Description of the Issuer – Share Capital of Terna, Major Shareholders and Related Party Transaction*" and "*Description of the Issuer – Special powers of the Italian Government*.

The Issuer's revenues and the conduct of regulated activities substantially depend on the actions and decisions of the regulatory authorities in Europe and Italy

With reference to the first half of 2017, approximately 92 per cent. of the revenues received by the Terna Group derived from activities regulated by the Italian Authority for Electricity, Gas and Water Supply System (*Autorità per l'Energia Elettrica, il Gas ed il Sistema Idrico*, hereinafter referred to as the **AEEGSI**).

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

Within the scope of these regulations there are a number of variables that could impact on the Terna Group's performance including in relation to certain investments of the Terna Group not located in the

Italian territory, such as the interconnection between Italy and Montenegro (for further details please see section "*Regulatory Matters*" below).

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

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

The Issuer may be affected by appeals against provisions adopted by it following Resolutions by the AEEGSI

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

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

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

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

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

Most of the annual fees that distributors pay for the operation, maintenance and development of the National Transmission Grid are apportioned among the Issuer and the remaining owners of the National Transmission Grid according to the actual number and typology of grid assets of each National Transmission Grid's Owner and specific weights ("*parametri fi*") for each asset type. These weights were established in 2001 by AEEGSI Resolution 304/01 and have remained unchanged since then.

The AEEGSI could update these values in the future and the Issuer cannot predict the positive or negative impact of any such updated data.

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

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

Transmission tariff

Resolution 654/15 introduced a binomial tariff for the transmission service. In respect of the tariffs for the year 2016, the binomial tariff method provides that 10 per cent. of recognized costs will be attributed on the basis of an energy-based component, while the remaining 90 per cent. of recognized costs will be attributed on the basis of a power-based component.

The above-mentioned energy-based component is calculated on an annual basis by dividing 10 per cent. of the recognized costs of the transmission service by the energy withdrawn in the last twelve available months at the time the relevant tariff is set. During each year, Terna issues its invoices based on the aforesaid component and the actual volumes of electricity withdrawn during each month of the year. Such volumes (and thus the potential difference between these volumes and the past volumes used to calculate the energy-based component, i.e the "volume effect") depend on factors outside the Group's control. The actual revenues of the Group, therefore, may be higher or lower than expected by virtue of the "volume effect" described above.

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

The above-mentioned power-based component is calculated on an annual basis by dividing 90 per cent. of the recognized costs of the transmission service by a measure of the power at interconnection points in the 12 last available months at the time the relevant tariff is set. During each year, Terna issues its invoices based on the aforesaid fee and the same measure of power at each interconnection point for each month of the year. Since the driver for invoicing the fee calculation coincide with the one used to invoice distributors, there is no "volume effect" on such power-based component.

Dispatching tariff

Resolution 658/15 confirmed the previous framework for the dispatching service fee: the fee is calculated yearly by dividing dispatching service recognised costs for a forecast of the dispatched energy. During each year, Terna issues its invoices to the withdrawal dispatching users based on the aforesaid fee and the actual volumes of electricity withdrawn during each month of the year. Such volumes and the applicable "volume effect" depend on factors outside the Group's control. The actual revenues of the Group, therefore, may be higher or lower than expected by virtue of the "volume effect" described above

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

Risks related to the Concession governing the transmission and dispatching activities conducted by the Issuer

The Issuer conducts the transmission and dispatching activities, including the management of the National Transmission Grid pursuant to article 1, paragraph 1 and article 3, paragraph 5 of Legislative Decree 16 March 1999 No.79 as amended and the 2005 Concession (as defined below) as updated by the New Concession (as defined below) (see also sections "*History and Development*" and "*Regulatory Matters*"). The New Concession will expire in 2030 and may be renewed for the same duration (*i.e.* 20 years). The Ministry of Economic Development can impose suspension or revocation of the New Concession in the case of an event of default or a breach by the Issuer that can seriously affect the performance of the electrical service. It can also order the revocation of the New Concession if it is no longer appropriate for the pursuit of the public interest (see also "*Regulatory Matters*").

The Issuer's inability to retain ownership of the New Concession or a renewal thereof at less favourable terms could adversely affect its future results of operations and cash flows.

Risks connected with failing to meet infrastructure development objectives

The Issuer's ability to develop its infrastructure and to implement its projects is subject to many unforeseeable events linked to operational, economic, and regulatory factors which are outside its control. In addition, the Issuer is unable to guarantee that all the relevant authorisations and permits will be granted or issued within the expected timeframe and that, once granted or issued, these will not be revoked.

Moreover, the Issuer cannot guarantee that any planned projects will be started, completed or lead to the expected benefits in terms of tariffs. Furthermore, any such development projects may require greater investments or longer timeframes than those originally planned, affecting the Issuer's financial position and results.

Public authorities, residents and local communities may oppose new developments or projects to be executed by the Issuer, on the grounds that such developments may generate pollution or otherwise cause adverse effects on health and the environment. Such opposition may take the form of legal proceedings or protests and/or public opposition. The occurrence of any such challenges or protests during the approval process or the execution of new projects could lead to significant delays, increases in investment costs, and, potentially, legal proceedings.

The Issuer may be affected by changes in energy laws, tax laws and public sector laws

The activities of the Terna Group (and accordingly, the revenues deriving from such activities) may be affected by changes in the rules governing the electricity market, strategic infrastructures or the authorisation procedures for transmission infrastructures or having an impact on the relationships between the companies of the Terna Group and other stakeholders (producers, distributors, etc.).

For instance, it is expected that, pursuant to Law 7 August 2015 No. 124 (Public Administration Reform), the Italian Government will pass Legislative Decree aimed at re-organising responsibilities currently shared by Independent Authorities and Government.

The energy industry is subject to the payment of income taxes which can be higher than those payable in many other commercial activities. In addition, in recent years, the Issuer has experienced adverse changes in the tax regimes applicable to electricity companies. These companies are not permitted by law to pass on the increased tax liability to customers via a tariff increase and this therefore may result in additional costs for the Issuer.

Any future adverse changes in the income tax rate or other taxes or charges applicable to the Terna Group would have a negative impact on the Issuer's future results of operations and cash flows.

The Issuer may incur substantial costs to comply with environmental laws

The activities of the Terna Group are also affected by environmental legislation at National, European and International level, including in relation to electromagnetic fields and landscape. In this respect, it is worth noting that further national legislation is expected to be passed to implement in Italy the Directive 2014/52/EU on the environmental impact assessment.

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

Furthermore, in the future, the European Union or the Italian Government may 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 and would result in the Terna Group incurring significant expenditures in order to do so. 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.

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

European institutions are working on the implementation of new European strategy in the framework of the so-called "Energy Union". As a result, further legislative initiatives are expected in 2016-2017 concerning, inter alia, a fully integrated European energy market.

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 "*Legislative framework developments*" and "*Description of the Issuer - Environmental matters*" and "*Description of the Issuer - Litigation and arbitration proceedings*" for a further discussion of environmental matters.

The Issuer may be exposed to financial risks

The Terna Group is exposed to financial risks: market risk (interest rate risk and inflation risk), liquidity risk and credit risk. If such risks materialise, the Issuer's revenue may be affected. In accordance with the policies approved by its Board of Directors, the Issuer has established responsibilities and operational procedures in order to manage such financial risks and agree the measures to be adopted. Terna's risk management policies aim to identify and analyse the risks to which the Terna Group is exposed, setting appropriate limits and controls and monitoring risks and compliance with such limits. These policies and their relevant systems are reviewed on a regular basis in order to reflect any changes in market conditions and in the activities of the Terna Group.

Interest Rate and Credit risk

- *Interest Rate Risk*

Interest rate risk is represented by the uncertainty associated with interest rate fluctuations. This is the risk that a change in market interest rates may produce effects on the fair value or the future cash flows of financial instruments. Terna's main source of interest rate risk is associated with items of net financial debt and the related hedging positions in derivative instruments that generate financial

expenses. As a result, fluctuations in interest rates may adversely affect the market value of the Issuer's financial assets and liabilities and its net financial expense.

Terna's borrowing strategy focuses on long-term loans whose maturities reflect the useful life of company assets. The Issuer pursues an interest rate hedging policy that aims at reconciling this approach with the regulatory framework which every two years establishes the cost of debt as part of the formula to set the return on the Regulatory Asset Base (**RAB**).

In order to reduce the amount of financial debt exposed to the risk of fluctuations in interest rates and to optimise the temporal correlation between the average cost of debt and regulatory rate used in the WACC formula, various types of plain vanilla derivatives are used, such as interest rate swaps. However, there can be no guarantee that the above-mentioned hedging instruments used by the Issuer will actually have the effect of reducing any losses related to fluctuations in interest rates.

- *Credit Risk*

Credit risk related to transactions in financial instruments is the risk that one of the counterparties to a transaction in a financial instrument could cause a financial loss by failing to discharge an obligation. It is mainly generated by trade receivables and the financial investments of the Issuer.

The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal. Furthermore, the fair value of financial derivatives is adjusted with the counterparties credit risk.

Ratings risk

Terna is currently rated by Standard & Poor's Ratings Services (hereinafter referred to as **S&P**), Moody's Investors Service Ltd. (hereinafter referred to as **Moody's**) and Fitch Ratings Ltd (hereinafter referred to as **Fitch**). Generally, a credit rating assesses the creditworthiness of an entity and informs investors about the probability of the entity being able to redeem invested capital. It is not a recommendation to buy, sell or hold securities, it may be revised or withdrawn by the rating agency at any time and does not comment on the market price, marketability, investor preference or suitability of any security.

Credit ratings play a critical role in determining the costs for entities accessing the capital markets in order to borrow funds and the rate of interest they can achieve. A decrease in credit ratings by S&P, Moody's or Fitch may increase borrowing costs or even jeopardise further issuance.

The price of the existing bonds may deteriorate following a downgrade. In addition, the Issuer's credit ratings are potentially exposed to risk in reductions of the sovereign credit rating of the Republic of Italy. On the basis of the methodologies used by S&P, Moody's and Fitch, a potential downgrade of Italy's credit rating may have a potential knock-on effect on the credit rating of Italian issuers such as the Issuer and increase the likelihood that the credit rating of Notes issued under the Programme could be downgraded, with a consequent adverse effect on their market value.

S&P and Moody's currently place Terna's long term rating one notch above that of the Republic of Italy. Based on the methodology adopted by the rating agencies, the downgrade by a notch of the current rating of the Republic of Italy would trigger a downward adjustment of Terna's current rating by at least a notch.

The Issuer may be exposed to risks deriving from non-regulated activities

A significant part of the non-regulated activities of the Terna Group relates to opportunities in the market for the design, implementation and management of high voltage infrastructure, also functional

to connecting production from renewable sources. Possible changes to the relevant legislative or regulatory framework (in Italy or abroad) may, however, make investments in this sector less attractive and, consequently, lead to a decrease in market opportunities for the Terna Group's non-regulated activities, affecting its revenues and results of non-regulated activities.

Following the acquisition of the entire share capital of Tamini Trasformatori S.r.l. (hereinafter referred to as **Tamini**) and of its subsidiaries (together with Tamini hereinafter referred to as **Tamini Group**) on 20 May 2014 and considering the process for the entrepreneurial and corporate integration between corporate groups of Tamini and TES Transformer Electro Service S.r.l., the Terna Group is now active in the business of production of industrial and power transformers (see also "*Description of the Issuer – Overview*" and "*Description of the Issuer – History and Development*").

Although this business is of a relatively small size within the Terna Group, any changes on the market conditions and any possible claims related to the production and/or the supply of industrial and power transformers could have a material adverse effect on the revenues and results of this business.

Acquisitions could have an adverse effect on Terna's business

Terna may expand its business through acquisitions, which may involve significant risks that could have a material adverse effect on its business, financial condition and operations. Such risks include, but are not limited to, difficulties in the assimilation or integration of the operations, services and corporate culture of the acquired companies, failure to achieve expected synergies, adverse operating issues that Terna fails to discover prior to the acquisition, insufficient indemnification from the selling parties for legal liabilities incurred by the acquired companies prior to the acquisitions and the incurrence of significant indebtedness.

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

Until 3 November 2009, the Issuer operated in the Brazilian electricity sector through its direct subsidiary Terna Participações S.A. (hereinafter referred to as **Terna Participações**, the Brazilian holding company listed on the Sao Paolo Stock Exchange) and through its relevant local indirect subsidiaries: TSN Transmissora Sudeste Nordeste S.A., Novatrans Energia S.A., Empresa de Transmissão de Energia do Oeste S.A (ETEO), Empresa de Transmissão do Alto Uruguai S.A. (ETAU) and Brasnorte Transmissora de Energia S.A. On 3 November 2009, the Issuer transferred its shares of Terna Participações to TAESA S.A., a subsidiary of Cemig GT and of FIP (Fundo de Investimentos em Participaçoes) Coliseu, an investment fund formed by Brazilian investors.

In relation to this sale, the Issuer may be required to indemnify and hold harmless Terna Participações to TAESA S.A. from damages suffered by it, as a result of any inaccuracy or breach of any representation or warranty given by the Issuer, any breach of any covenant or agreement or in relation to any claim, contingency or liability of the Issuer resulting from an inaccuracy or dispute regarding withholding income tax calculated by the Issuer or other taxes due by the Issuer's local subsidiaries. Such claims could have a material adverse effect on Terna's financial condition.

As of 31 December 2015, the Issuer released the total provisions set aside for probable charges related to tax obligations arising from the disposal of Terna Participações by the Parent Company for Euro 7.3 million, considering the related currency exchange effect.

Indemnification obligations arising from the sale of Rete Rinnovabile S.r.l. and Nuova Rete Solare S.r.l.

Until 18 October 2010, SunTergrid S.p.A., a subsidiary of the Issuer, was the owner of the entire share capital of Rete Rinnovabile S.r.l which operated in the renewable energy sector and was

entrusted with managing, developing and maintaining photovoltaic plants and collecting the incentive tariff as provided by Italian law.

On 31 March 2011 SunTergrid S.p.A., a subsidiary of the Issuer, sold the entire share capital of Rete Rinnovabile S.r.l. which operated in the renewable energy sector and was entrusted with managing, developing and maintaining photovoltaic plants and collecting the incentive tariff as provided by Italian law to RTR Acquisitions S.r.l., (an affiliate of Terra Firma Investments (GP) 3 Limited which was wholly controlled by Terra Firma Capital Partners III, L.P.).

In the course of 2011, SunTergrid S.p.A. carried out a similar transaction concerning its wholly owned company, Nuova Rete Solare S.r.l. which operated in the renewable energy sector and in the managing, developing and maintaining photovoltaic plants.

On 24 October 2011, SunTergrid S.p.A. sold 100 per cent. of the share capital of Nuova Rete Solare S.r.l. to RTR Holding III S.r.l., a subsidiary of Terra Firma.

As a result of the divestments of Rete Rinnovabile S.r.l. and Nuova Rete Solare S.r.l., the Issuer may be required to indemnify and hold harmless the purchasers and other parties involved in the transactions subject to certain circumstances. In this respect, the Issuer established a provision for contingent liabilities arising from such obligations which, as at 30 June 2017, was Euro 6.4 million.

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

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 seven criminal proceedings. The Terna Group has established a provision for disputes and litigation which, as at 30 June 2017, amounted to Euro 14.9 million (of which Euro 14.4 million was allocated for the Issuer).

This provision does not cover claims brought against the Issuer for which the damages have not been quantified or in relation to which the plaintiffs' prospects are considered by the Issuer to be remote.

Due to their nature, the Issuer is not able to predict the ultimate outcomes of the proceedings currently pending against members of the Terna Group, some of which may be unfavourable and may require the Terna Group to pay damages to the plaintiff, incur costs for the modification of parts of the Terna Group's Grid or temporarily remove parts of the Terna Group's Grid from service (including, in some cases, so that environmental laws regarding electromagnetic radiation are complied with) (see also "*Description of the Issuer – Litigation and Arbitration Proceedings*").

Accordingly, the Issuer's business, financial condition, results of operations or cash flows could be adversely affected by the outcome of one or more of such proceedings. Although the Issuer has taken out insurance policies specifically to cover these risks, such insurance coverage may not be sufficient to cover all of the Issuer's losses, increased costs or liabilities that may arise, or which the Issuer may incur, as a result of these proceedings.

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

The Issuer's operations are strictly regulated by EU and Italian labour laws. More onerous regulations could affect the Issuer's financial performance, and public bodies tasked with the enforcement of

labour laws and regulations, such as INPS and INAIL in Italy, may impose fines in the case of violations or misinterpretations of the applicable laws and regulations, for which the Issuer has not established any specific provision.

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

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

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

Risks associated with Terna Group's transactions involving Countries targeted by sanctions

Following the Terna Group's acquisition of the Tamini Group on 20 May 2014, the Terna Group became aware that the Tamini Group has entered into certain transactions and conducts ("**Sanctioned Country Transactions**") involving, inter alia, third parties located in countries that are targeted by sanctions imposed by United States and the European Union ("**Sanctioned Countries**").

In particular, such Sanctioned Country Transactions have included sales by the Tamini Group, either directly or indirectly through third parties, of transformers (and, in certain cases, reactors, spare parts and related maintenance and/or repair services) to various end-users for installation mainly in steel making plants and electric utilities located mainly in Belarus, Cuba, Democratic Republic of Congo, Egypt, Iran, Iraq, Liberia, Libya, Russia, Tunisia, Ukraine and Venezuela.

For the six months ended 30 June 2017, the amount of revenues generated by the Tamini Group which were derived from Sanctioned Country Transactions was 0.65 per cent. of the consolidated revenues of the Terna Group.

In this regard, Terna's advisers are currently carrying out due diligence activities on the Sanctioned Country Transactions. As at the date of this Base Prospectus, the documentation analysed has not revealed any violation of European Union or United States economic sanctions requirements that would be expected to lead to any material penalty being imposed on the Terna Group. Terna will have an external counsel continue these due diligence efforts to try to resolve whether any of the Sanctioned Country Transactions involved any form of European Union or United States sanctions violation, with a view to determining whether no penalty for a sanctions violation whatsoever can result from any Sanctioned Country Transaction.In addition to the above, the regulatory environment of potentially relevant sanctions is complex, still evolving and may not be consistent across jurisdictions. Changes in the above-mentioned regulatory environment or in the implementation thereof can be unpredictable.

To respond to this challenge, the Terna Group is i) currently developing an internal protocol setting out sanctions compliance procedures and ii) carrying out due diligence activities on an on-going basis in an effort to verify and detect in an advance whether any contemplated transaction could violate sanctions imposed by European Union or United States, thereby minimising the risk that any such violation will occur in connection with future transactions.

If any of the above-mentioned Sanctioned Country Transactions – or any future transactions in which Tamini or any other member of the Terna Group engages – are determined to be prohibited by applicable sanctions laws or regulations, the Tamini Group or the Terna Group could itself be subject

to penalties, in which case the Terna Group's reputation, financial condition and future business prospects could be adversely affected.

The Terna Group is also aware of initiatives by certain U.S. states and U.S. institutional investors, such as pension funds, to adopt laws, regulations or policies requiring divestment from, or reporting of interests in, companies that do business with countries designated as states sponsoring terrorism. If any of the above mentioned transactions or if the Terna Group's activities are determined to fall within the scope of these laws, regulations or policies, resulting sales of the Terna Group's securities could have an adverse effect on the price of the Terna Group's securities. Further, investors in the Terna Group's securities could incur reputational risk or other risks as the result of the Terna Group's dealings in or with countries, including the Sanctioned Countries, or persons that are the subject of sanctions.

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

In the course of recent years, a severe liquidity crisis arose in the global credit markets. These conditions have resulted in decreased liquidity and historic volatility in global financial markets, and continue to affect the functioning of financial markets and impact the global economy. The Italian Government and Central Bank and the European Union have implemented, and continue to implement a number of measures to address the financial crisis, although the situation in the banking system is still not completely secure in some of the 'peripheral' Eurozone countries such as Greece, Ireland, Spain, Portugal, Cyprus and Italy itself. At the moment it is still difficult to predict the effect of these measures on the economy and on the financial system, how long the crisis will exist and whether or to what extent the Issuer's business, results of operations and financial condition may be adversely affected.

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

The Group is exposed to a number of political, social and macroeconomic risks relating to the United Kingdom's potential exit from the European Union.

On 29 March 2017 the United Kingdom notified the European Council of its intention to withdraw from the European Union within the meaning and for the purposes of Article 50(2) of the Treaty on European Union. Article 50(2) requires that, in the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with the United Kingdom, setting out the arrangements for its withdrawal from the European Union, taking account of the framework for its future relationship with the Union. Article 50 requires that such agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union and concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament. Under Article 50(3) of the Treaty, the EU Treaties shall cease to apply to United Kingdom from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in Article 50(2), unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period. Absent such extension, and subject to the terms of any withdrawal agreement, the United Kingdom shall withdraw from the European Union no later than 29 March 2019.

However, at this stage both the terms and the timing of the United Kingdom's exit from the European Union are not clear. Moreover, the nature of the relationship of the United Kingdom with the

remaining EU member states has yet to be discussed and negotiations with the EU on the terms of the exit are likely to take a number of years.

The consequences of United Kingdom's exit from the European Union are uncertain and could result in significant macroeconomic deterioration, including, but not limited to further decreases in global stock exchange indices, increased foreign exchange volatility, decreased GDP in the European Union and a downgrade of sovereign credit ratings. As such, no assurance can be given that such matters would not adversely affect the ability of the Group to satisfy its obligations under the Notes and/or the market value and/or the liquidity of the Notes in the secondary market.

Employees and key personnel

The Issuer's ability to operate its business effectively depends on the capabilities and performance of its personnel. Loss of key personnel or an inability to attract, train or retain appropriately qualified personnel (in particular for technical positions where availability of appropriately qualified personnel may be limited) or if significant disputes arise with employees, may affect the Issuer's ability to implement its long-term business strategy and there may be a material adverse effect on its business, financial condition, results of operations and prospects.

In order to mitigate such risk, the new Terna Group Job Families System has been implemented in order to guarantee an adequate succession planning process and support development activities aimed at ensuring that positions are effectively covered. It represents an integrated management and development system that makes possible to:

- monitor and develop corporate know-how;
- optimize the mobility process between different job families; and
- respond to business and organization developments, effectively and quickly.

Connected to the Job Families System, the training model is based on the transfer of specialist know-how that is entrusted to the most experienced staff of the internal Faculty and external collaborations (with universities and business schools) in order to ensure multiple teaching inputs.

Moreover, to support the process of finding new resources and create a virtuous circle of exchange between the Company and the outside world, Terna has entered into agreements with leading Italian universities and business schools, funding the creation of specialised Masters courses.

There is a risk that an employee or an individual acting on behalf of the Issuer may breach anti-bribery legislation or otherwise breach the Issuer's internal controls or internal governance framework. This could impact on the Issuer's results of operations, its reputation and, as a consequence, its ability to meet its obligations on the Notes. The risk is however mitigated i) by the Corporate governance system of Terna described in the Report on Corporate Governance and Ownership Structure that is in line with the principles contained in the Corporate Governance Code drawn up by the Corporate Governance Committee of listed companies promoted by Borsa Italiana and ii) by the adoption of an organizational, managing and controlling model for the purpose of the detection and prevention of criminal offences as per Legislative Decree No. 231 dated June 8, 2001. Furthermore, the Issuer has implemented a Special Section of the Model (Special Section A – Crimes Against the Public Administration) with the aim of preventing bribery crimes.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features, distinguishing between factors which may occur in relation to any Notes and those which might occur in relation to certain types of Exempt Notes:

Risks applicable to all Notes

If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.

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

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally will not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed, and may only be able to do so at a significantly lower rate. Potential investors should consider the risk of reinvestment in light of other investments available at that time.

If the Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned.

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market in, and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to result in a lower overall cost of borrowing for the Issuer. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.

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

Risks relating to Inflation Linked Notes

The Issuer may issue Inflation Linked Notes (being either an Inflation Linked Interest Note, an Inflation Linked Redemption Note or a combination of the two) where the amount of principal and/or interest or the settlement amount payable are dependent upon the level of an inflation/consumer price index or indices.

Potential investors in any such Notes should be aware that depending on the terms of the Inflation Linked Notes (i) they may receive no interest or a limited amount of interest, (ii) payment of principal, interest or the settlement amount may occur at a different time than expected and (iii) they may lose all or a substantial portion of their investment. In addition, the movements in the level of the inflation/consumer price index or indices may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices and the timing of changes in the relevant level of the index or indices may affect the actual return to investors, even if the average level is consistent with their expectations.

Inflation Linked Notes may be subject to certain disruption provisions or extraordinary event provisions. Relevant events may relate to an inflation/consumer price index publication being delayed or ceasing or such index being rebased or modified. If the Calculation Agent (as defined in the Conditions) determines that any such event has occurred this may delay valuations under, and/or settlements in respect of, the Notes and consequently adversely affect the value of the Notes. Any such adjustments may be by reference to a Related Bond, as defined in the applicable Final Terms or Pricing Supplement, as the case may be if so specified therein. In addition certain extraordinary or disruption events may lead to early termination of the Notes which may have an adverse effect on the value of the Notes. Whether and how such provisions apply to the relevant Notes can be ascertained by reading the Inflation Linked Notes Conditions in conjunction with the applicable Final Terms or Pricing Supplement, as the case may be.

If the amount of principal and/or interest or the settlement amount payable are determined in conjunction with a multiplier greater than one or by reference to some other leverage factor, the effect of changes in the level of the inflation/consumer price index or the indices on principal or interest payable will be magnified.

A relevant consumer price index or other formula linked to a measure of inflation to which the Notes are linked may be subject to significant fluctuations that may not correlate with other indices. Any movement in the level of the index may result in a reduction of the interest payable on the Notes (if applicable) or, in the case of Notes with a redemption amount or settlement amount linked to inflation, in a reduction of the amount payable on redemption or settlement which in some cases could be less than the amount originally invested or zero.

The timing of changes in the relevant consumer price index or other formula linked to the measure of inflation comprising the relevant index or indices may affect the actual yield to investors on the Notes, even if the average level is consistent with their expectations.

An inflation or consumer price index to which interest payments and/or the redemption amount or settlement amount of Inflation Linked Notes are linked is only one measure of inflation for the relevant jurisdiction or area, and such Index may not correlate perfectly with the rate of inflation experienced by Noteholders in such jurisdiction or area.

The market price of Inflation Linked Notes may be volatile and may depend on the time remaining to the maturity date or expiration and the volatility of the level of the inflation or consumer price index or indices. The level of the inflation or consumer price index or indices may be affected by the economic, financial and political events in one or more jurisdictions or areas.

Risks applicable to certain types of Exempt Notes

There are particular risks associated with an investment in certain types of Exempt Notes, such as Index Linked Notes and Dual Currency Notes. In particular, an investor might receive less interest than expected or no interest in respect of such Notes and may lose some or all of the principal amount invested by it.

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

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

(ii) they may receive no interest;

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

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

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

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

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

The historical experience of an index or other Relevant Factor should not be viewed as an indication of the future performance of such Relevant Factor during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to a Relevant Factor and the suitability of such Notes in light of its particular circumstances.

Where Notes are issued on a partly paid basis, an investor who fails to pay any subsequent instalment of the issue price could lose all of his investment.

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

Notes which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor are likely to have more volatile market values than more standard securities.

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

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Risks related to Notes generally

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

The Conditions contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders.

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

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

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

The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes

U.S. Foreign Account Tax Compliance Act Withholding

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (hereinafter referred to as **FATCA**) impose a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Notes are in global form and held within Euroclear Bank SA/NV or Clearstream Banking, S.A. (together, hereinafter referred to as the **ICSDs**), in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the ICSDs (see "*Taxation – Foreign Account Tax Compliance Act*"). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be

necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Notes are discharged once it has made payment to, or to the order of, the common depositary or common safekeeper for the ICSDs (as bearer of the Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an **IGA**) are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make. On 10 January 2014 the United States has entered into an IGA to facilitate the implementation of FATCA with Italy and then ratified on 18 June 2015.

U.S. Hiring Incentives to Restore Employment Act Withholding

The U.S. Hiring Incentives to Restore Employment Act (the **HIRE Act**) imposes a 30 per cent. withholding tax on amounts attributable to U.S. source dividends that are paid or "deemed paid" under certain financial instruments if certain conditions are met. If the Issuer or any withholding agent determines that withholding is required, neither the Issuer nor such withholding agent will be required to pay any additional amounts with respect to amounts so withheld. Prospective investors should refer to the section "*U.S. Hiring Incentives to Restore Employment Act Withholding* " in the Taxation section.

The value of the Notes could be adversely affected by a possible judicial decision, a change in English law or administrative practice

The Conditions are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change in English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Investors who purchase Notes in denominations that are not an integral multiple of the Specified Denomination may be adversely affected if definitive Notes are subsequently required to be issued

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Trading in the clearing systems

In relation to any issue of Notes which have a minimum denomination and are tradable in the clearing systems in amounts above such minimum denomination which are smaller than it, should definitive Notes be required to be issued, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not

receive all of his entitlement in the form of definitive Notes unless and until such time as his holding becomes an integral multiple of the minimum denomination.

The regulation and reform of "benchmarks" may adversely affect the value of Notes linked to or referencing such "benchmarks".

Interest rates and indices which are deemed to be "benchmarks", are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a "benchmark".

Regulation (EU) 2016/1011 (the **Benchmarks Regulation**) was published in the Official Journal of the EU on 29 June 2016 and will apply from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities (such as the Issuer) of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to a rate or index deemed to be a "benchmark", in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the "benchmark".

More broadly, any of the international, national or other proposals for reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. For example, the sustainability of the London interbank offered rate (**LIBOR**) has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the **FCA Announcement**). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark (including but not limited to floating rate Notes whose interest rates are linked to LIBOR). Such factors may have the following effects on certain "benchmarks": (i) discourage market participants from continuing to administer or contribute to the "benchmark"; (ii) trigger changes in the rules or methodologies used in the "benchmark"; or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international, national or other proposals for reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked or referencing to a "benchmark".

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Notes linked to or referencing a "benchmark".

RISKS RELATED TO THE MARKET GENERALLY

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

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes

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

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

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

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

Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes

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

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or

certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the European Securities and Markets Authority (hereinafter referred to as **the ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

Legal investment considerations may restrict certain investments

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

Potential conflicts of interest with the Calculation Agent

Potential conflicts of interest may exist between the Calculation Agent (if any) and Noteholders (including where a Dealer acts as a calculation agent), including with respect to certain determinations and judgments that such Calculation Agent may make pursuant to the Conditions that may influence amounts receivable by the Noteholders during the term of the Notes and upon their redemption.

GENERAL DESCRIPTION OF THE PROGRAMME

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

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

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

Issuer:	TERNA - Rete Elettrica Nazionale S.p.A.
Description:	Euro Medium Term Note Programme
Joint Arrangers:	Citigroup Global Markets Limited Deutsche Bank AG, London Branch
Dealers:	Banca IMI S.p.A. Banco Bilbao Vizcaya Argentaria, S.A. Barclays Bank PLC BNP Paribas Citigroup Global Markets Limited Commerzbank Aktiengesellschaft Crédit Agricole Corporate and Investment Bank Credit Suisse Securities (Europe) Limited Deutsche Bank AG, London Branch Goldman Sachs International J.P. Morgan Securities plc Mediobanca - Banca di Credito Finanziario S.p.A. Merrill Lynch International Morgan Stanley & Co. International plc MPS Capital Services S.p.A. Natixis Nomura International plc Société Générale The Royal Bank of Scotland plc (trading as NatWest Markets) UBS Limited UniCredit Bank AG and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines,

	regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*"), including the following restrictions applicable at the date of this Base Prospectus. **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (**FSMA**) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent (see "*Subscription and Sale*")
Trustee:	Deutsche Trustee Company Limited
Issuing and Principal Paying Agent:	Deutsche Bank AG, London Branch
Paying Agent:	Deutsche Bank Luxembourg S.A.
Programme Size:	Up to €8,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Redenomination:	The applicable Final Terms (or, in the case of Exempt Notes, the Pricing Supplement) may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

Issue Price:	Notes may be issued on a fully-paid or, in the case of Exempt Notes, a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer form as described in "Form of the Notes".
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of the reference rate set out in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement). Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Notes. Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.
Inflation Linked Notes:	Payments in respect of interest and/or principal in respect of Inflation Linked Notes will be calculated by reference to one or more inflation indices as set out in Condition 5.3 and Conditions 7.10 and 7.11.

Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Exempt Notes:	The Issuer may issue Exempt Notes which are Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes, Index Linked Notes, Inflation Linked Notes, Dual Currency Notes, Partly Paid Notes or Notes redeemable in one or more instalments (Instalment Notes).
Redemption and interest in respect of Exempt Notes:	***Index Linked Notes***: Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree. ***Inflation Linked Notes****:* Payments in respect of interest and/or principal in respect of Inflation Linked Notes will be calculated by reference to one or more inflation indices as set out in Condition 5.3 and Conditions 7.10 and 7.11. ***Dual Currency Notes***: Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree. ***Partly Paid Notes***: The Issuer may issue Notes in respect of which the issue price is paid in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree. ***Notes redeemable in instalments (Instalment Notes)***: The Issuer may issue Notes which may be redeemed in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree. The Issuer may agree with the Trustee and any Dealer that Exempt Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event the relevant provisions will be included in the applicable Pricing Supplement. The applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement) will indicate either that the relevant Notes cannot be

	redeemed prior to their stated maturity (other than in specified instalments in the case of Exempt Notes, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, (see "*Certain Restrictions - Notes having a maturity of less than one year*" above).
Denomination of Notes:	The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer, save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, (see "*Certain Restrictions - Notes having a maturity of less than one year*" above), and save that the minimum denomination of each Note (other than an Exempt Note) will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction, subject to certain exceptions as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Notes will contain a negative pledge provision as further described in Condition 3.
Cross Default:	The terms of the Notes will contain a cross default provision as further described in Condition 10.
Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for such obligations as may be preferred by mandatory provisions of law) equally with all other unsecured and unsubordinated obligations of the Issuer, from time to time outstanding, but, in the event of insolvency, only to the extent permitted by

	applicable laws relating to creditors' rights.
Rating:	The rating of the Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**) will be disclosed in the Final Terms. Such credit rating agency is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation.
Listing, Approval and Admission to Trading:	Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued. The applicable Final Terms (or applicable Pricing Supplement, in the case of Exempt Notes) will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law. Condition 15 and Schedule 3 of the Trust Deed are subject to compliance with the laws of the Republic of Italy.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the EEA (including the United Kingdom, France and Italy) and Japan, and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see "*Subscription and Sale*").

United States Selling Restrictions:	Regulation S, Category 2. TEFRA C or D or TEFRA not applicable, as specified in the applicable Final Terms (or applicable Pricing Supplement, in the case of Exempt Notes).

DOCUMENTS INCORPORATED BY REFERENCE

The previous Base Prospectus dated 19 October 2016, including the relevant Terms and Conditions of the Notes at pages 71-111 (inclusive) of the same, prepared by the Issuer in connection with the Programme, the auditors' reports and the audited consolidated annual financial statements of the Issuer as at and for the financial years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the unaudited interim consolidated financial statements of the Issuer as at and for the six months ended 30 June 2017, all of which have previously been published and have been filed with the CSSF, shall be incorporated by reference in, and form part of, this Base Prospectus. Following the publication of this Base Prospectus a supplement to the Base Prospectus may be prepared by the Issuer and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement to the Base Prospectus (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

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

This Base prospectus will be published on the website of the Luxembourg Stock Exchange, www.bourse.lu. Copies of documents incorporated by reference in this Base Prospectus can be obtained free of charge from the registered office of the Issuer, from the specified office of the Paying Agent for the time being in Luxembourg, and from the website of the Luxembourg Stock Exchange, www.bourse.lu.

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

Document	Information incorporated by reference	Page number
Base Prospectus dated 19 October 2016 prepared by the Issuer in connection with the Programme	Terms and Conditions	71-111
Issuer's Audited Consolidated Financial Statements as at and for the Financial Year Ended 31 December 2016	Management' Report	8-156
	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

Document	Information incorporated by reference	Page number
	Notes to the consolidated financial statements	167-222
	Corporate Governance	27
	Auditors' report	226-227
Issuer's Audited Consolidated Financial Statements as at and for the Financial Year Ended 31 December 2015	Management' Report	4-183
	Consolidated income statement	186
	Consolidated statement of comprehensive income	187
	Consolidated statement of financial position	188-189
	Statement of changes in consolidated equity	190-191
	Consolidated statement of cash flows	192
	Notes to the consolidated financial statements	193-256
	Corporate Governance	31
	Auditors' report	260-261
Issuer's Audited Consolidated Financial Statements as at and for the Financial Year Ended 31 December 2014	Management' Report	21-157
	Consolidated income statement	164
	Consolidated statement of comprehensive income	165
	Consolidated statement of financial position	166-167
	Statement of changes in consolidated equity	168-169
	Consolidated statement of cash flows	170
	Notes to the consolidated financial statements	173-237
	Corporate Governance	329-388
	Auditors' report	240-241
Issuer's Unaudited	Interim financial report on operations	6-95

Document	Information incorporated by reference	Page number
Consolidated Interim Financial Statements as at 30 June 2017		
	Consolidated income statement	60
	Consolidated statement of comprehensive income	61
	Consolidated statement of financial position	62-63
	Statement of changes in consolidated equity	64-65
	Consolidated statement of cash flows	66
	Notes to the consolidated financial statements	67-100
	Auditors' report	102-103

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

The documents incorporated by reference in the Base Prospectus dated 19 October 2016 prepared by the Issuer in connection with the Programme are not incorporated by reference in the Base Prospectus because these are not considered to be relevant for investors.

FORM OF THE NOTES

Any reference in this section to "applicable Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" where relevant.

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

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

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

Where the Global Notes issued in respect of any Tranche are in NGN form, the applicable Final Terms will also indicate whether or not such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

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

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

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the

case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification.

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

The following legend will appear on all Notes (other than Temporary Global Notes), receipts and interest coupons relating to such Notes where TEFRA D is specified in the applicable Final Terms:

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

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

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

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

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

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

The Issuer may agree with any Dealer and the Trustee that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event, other than where such Notes

are Exempt Notes, a new Base Prospectus will be made available which will describe the effect of the agreement reached in relation to such Notes.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes which are not Exempt Notes and which have a denomination of at least €100,000 (or its equivalent in any other currency) or more issued under the Programme.

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (*EEA*). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in Article 4(1) of Directive 2014/65/EU (*MiFID II*); (ii) a customer within the meaning of Directive 2002/92/EC (*IMD*), where that customer would not qualify as a professional client as defined in Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the *Prospectus Directive*). Consequently no key information document required by Regulation (EU) No 1286/2014 (the *PRIIPs Regulation*) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.][1]

[*Date*]

TERNA - Rete Elettrica Nazionale S.p.A.

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]
under the
€8,000,000,000 Euro Medium Term Note Programme
PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the **Conditions**) set forth in the Base Prospectus dated 13 October 2017 [and the supplement[s] to it dated [*date*] [and [*date*]] which [together] constitute[s] a base prospectus for the purposes of Article 5.4 of the Prospectus Directive (the **Base Prospectus**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated 19 October 2016 which is incorporated by reference in the Base Prospectus dated 13 October 2017. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus dated 13 October 2017 [and the supplement[s] to it dated [*date*] and [*date*]] which [together] constitute[s] a base prospectus for the purposes of Article 5.4 of the Prospectus Directive (the **Base Prospectus**), including the Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Notes is only

[1] Legend to be included on front of the Final Terms (i) for offers concluded on or after 1 January 2018 if the Notes potentially constitute "packaged" products and no key information document will be prepared or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable" (ii) for offers concluded before 1 January 2018 at the option of the parties.

available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the Luxembourg Stock Exchange (www.bourse.lu).]

[*Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs (in which case the sub-paragraphs which are not applicable can be deleted). Italics denote directions for completing the Final Terms.*]

1.	(a)	Series Number:	[ ]
	(b)	Tranche Number:	[ ]
	(c)	Date on which the Notes will be consolidated and form a single Series:	[The Notes will be consolidated and form a single Series with [provide issue amount/ISIN/maturity date/issue date of earlier Tranches] on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 23 below, which is expected to occur on or about [*date*]]][Not Applicable]
2.	Specified Currency or Currencies:		[ ]
3.	Aggregate Nominal Amount:		
	(a)	Series:	[ ]
	(b)	Tranche:	[ ]
4.	Issue Price:		[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
5.	(a)	Specified Denominations:	[ ] (*N.B. Notes must have a minimum denomination of at least €100,000 (or equivalent).)* (*Note - where multiple denominations above [€100,000] or equivalent are being used the following sample wording should be followed:* *"[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000]."*)
	(b)	Calculation Amount (in relation to calculation of interest in global form see Conditions):	[ ] (*If only one Specified Denomination, insert the*

			Specified Denomination. *If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.*)
6.	(a)	Issue Date:	[ ]
	(b)	Interest Commencement Date:	[*specify/Issue Date*/Not Applicable] (*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.*)
7.		Maturity Date:	[*Specify date or for Floating rate notes* - Interest Payment Date falling in or nearest to [*specify month and year*]]
8.		Interest Basis:	[[ ] per cent. Fixed Rate] [[[ ] month [LIBOR/EURIBOR]] +/- [ ] per cent. Floating Rate] [Zero Coupon] [Inflation Linked] (see paragraph [13]/[14]/[15]/[16] below)
9.		Redemption/Payment Basis:	[100 per cent.] [●] (*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*)
10.		Change of Interest Basis:	[*Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs 15 and 16 below and identify there*][Not Applicable]
11.		Put/Call Options:	[Not Applicable] [Investor Put] [Issuer Call] [(see paragraph [18]/[19] below)]
12.		Date Board approval for issuance of Notes obtained:	[ ] [and [ ], respectively] [registered in the Companies' Register of Rome on [●]]]/[Not Applicable] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13.	Fixed Rate Note Provisions:		[Applicable/Not Applicable] (*If not applicable delete the remaining subparagraphs of this paragraph.*)
	(a)	Rate(s) of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(b)	Interest Payment Date(s):	[ ] in each year up to and including the Maturity Date (*N.B. Amend appropriately in the case of irregular coupons.*)
	(c)	Fixed Coupon Amount(s): for Notes in definitive form (and in relation to Notes in global form see Conditions):	[ ] per Calculation Amount
	(d)	Broken Amount(s): for Notes in definitive form (and in relation to Notes in global form see Conditions):	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]]
	(e)	Day Count Fraction:	[30/360] [Actual/Actual (ICMA)]
	(f)	Determination Date(s):	[[ ] in each year][Not Applicable] (*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.)*
14.	Floating Rate Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)]
	(a)	Specified Period(s)/Specified Interest Payment Dates:	[ ][, subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
	(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] [Not Applicable]
	(c)	Additional Business Centre(s):	[ ]/[Not Applicable]

(d)	Manner in which the Rate of Interest and Interest Amount are to be determined:		[Screen Rate Determination/ISDA Determination]
(e)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):		[ ]/[Not Applicable]
(f)	Screen Rate Determination:		[Applicable]/[Not Applicable]
	(i)	Reference Rate:	[ ] month [LIBOR as applicable to the currency of the issue/EURIBOR].
	(ii)	Interest Determination Date(s):	[ ] (*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR, and second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
	(iii)	Relevant Screen Page:	[ ] (*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately.*)
(g)	ISDA Determination:		[Applicable]/[Not Applicable]
	(i)	Floating Rate Option:	[ ]
	(ii)	Designated Maturity:	[ ]
	(iii)	Reset Date:	[ ] (*In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period*)
(h)	Margin(s):		[+/-][ ] per cent. per annum
(i)	Minimum Rate of Interest:		[[ ] per cent. per annum]/[Not Applicable]
(j)	Maximum Rate of Interest:		[[ ] per cent. per annum]/[Not Applicable]
(k)	Day Count Fraction:		[Actual/Actual (ISDA)][Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360]

			[30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] 30E/360 (ISDA)]
15.	Zero Coupon Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph.*)
	(a)	Accrual Yield:	[ ] per cent. per annum
	(b)	Reference Price:	[ ]
	(c)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[30/360] [Actual/360] [Actual/365]
16.	Inflation Linked Interest Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Inflation Index/Indices:	[ ]
	(b)	Inflation Index Sponsor(s):	[ ]
	(c)	Reference Source(s)	[ ]
	(d)	Related Bond:	[Applicable]/[Not Applicable] The Related Bond is: [ ] [Fallback Bond] The issuer of the Related Bond is: [ ]
	(e)	Fallback Bond:	[Applicable]/[Not Applicable]
	(f)	Reference Month:	[ ]
	(g)	Cut-Off Date:	[ ]/[Not Applicable]
	(h)	End Date:	[ ]/[Not Applicable] (*This is necessary whenever Fallback Bond is applicable*)
	(i)	Additional Disruption Events:	[Change of Law] [Increased Cost of Hedging] [Hedging Disruption] [None]
	(j)	Party responsible for calculating the Rate(s) of Interest and/or	[*name*] shall be the Calculation Agent (*no need to specify if the Principal Paying Agent is to*

	Interest Amount(s) (if not the Principal Paying Agent):	*perform this function*)]
(k)	DIR(0):	[ ]
(l)	Lookback Period 1:	[*insert number of months/years*]
(m)	Lookback Period 2:	[*insert number of months/years*]
(n)	Initial Ratio Amount:	[ ]/[Not Applicable]
(o)	Trade Date:	[ ]
(p)	Minimum Rate of Interest:	[ ] per cent. per annum/[Not Applicable]
(q)	Maximum Rate of Interest:	[ ] per cent. per annum/[Not Applicable]
(r)	Rate Multiplier:	[Not Applicable]/[[ ] per cent.]
(s)	Interest Determination Date(s):	[ ]
(t)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
(u)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] (*Note that this item adjusts the end date of each Interest Period (and, consequently, also adjusts the length of the Interest Period and the amount of interest due). In relation to the actual date on which Noteholders are entitled to receive payment of interest, see also* Condition *6.6 (Payments Day).*)
(v)	Additional Business Centre(s):	[ ]/[Not Applicable]
(w)	Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] [30E/360 (ISDA)]

PROVISIONS RELATING TO REDEMPTION

17.	Notice periods for Condition 7.2:	Minimum period: [ ] days Maximum period: [ ] days

18. Issuer Call: [Applicable/Not Applicable]

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

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

(b) Optional Redemption Amount: [ ] per Calculation Amount]

(c) If redeemable in part:

(i) Minimum Redemption Amount: [ ]/[Not Applicable]

(ii) Maximum Redemption Amount: [ ]/[Not Applicable]

(d) Notice periods: [ ]/[Not Applicable]

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

19. Investor Put: [Applicable/Not Applicable]

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

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

(b) Optional Redemption Amount: [ ] per Calculation Amount

(*NB: If the Optional Redemption Amount is other than a specified amount per Calculation Amount, the Notes will need to be Exempt Notes*)

(c) Notice periods: [ ]/[Not Applicable]

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

20.	Inflation Linked Redemption Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Inflation Index:	[ ]
	(b)	Inflation Index Sponsor(s):	[ ]
	(c)	Related Bond:	[Applicable]/[Not Applicable] The Related Bond is: [ ] [Fallback Bond] The issuer of the Related Bond is: [ ]
	(d)	Fallback Bond:	[Applicable]/[Not Applicable]
	(e)	Reference Month:	[ ]
	(f)	Cut-Off Date:	[ ]/[Not Applicable]
	(g)	End Date:	[ ]/[Not Applicable] (*This is necessary whenever Fallback Bond is applicable*)
	(h)	Additional Disruption Events:	[Change of Law] [Increased Cost of Hedging] [Hedging Disruption] [None]
	(i)	Party responsible for calculating the Redemption Amounts (if not the Principal Paying Agent):	[*name*] shall be the Calculation Agent (*no need to specify if the Principal Paying Agent is to perform this function*)]
	(j)	DIR(0):	[ ]
	(k)	Lookback Period 1:	[*insert number of months/years*]
	(l)	Lookback Period 2:	[*insert number of months/years*]
	(m)	Trade Date:	[ ]
	(n)	Redemption Determination Date:	[ ]
	(o)	Redemption Amount Multiplier:	[ ] per cent.
21.	Final Redemption Amount:		[[ ] per Calculation Amount / (*in the case of Inflation Linked Notes:)* as per Condition 7.10]

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

22. Early Redemption Amount payable on redemption for taxation reasons or on event of default: [ ] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

23. Form of Notes:

(a) Form: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]

[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]

(*Ensure that this is consistent with the wording in the "Form of the Notes" section in the Base Prospectus and the Notes themselves. N.B. The exchange upon notice/at any time options should not be said to be applicable if the Specified Denomination of the Notes in paragraph* 5 *includes language substantially to the following effect:* "[€100,000] *and integral multiples of* [€1,000] *in excess thereof up to and including*[€199,000]."

Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)

(b) New Global Note: [Yes] [No]

24. Additional Financial Centre(s) [Not Applicable/*give details*]

(*Note that this paragraph relates to the date of payment and not to the end dates of Interest Periods for the purposes of calculating the amount of interest, to* which sub-paragraph *14(c)*

		relates.)
25.	Talons for future Coupons to be attached to Definitive Notes:	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made /No.]
26.	Redenomination applicable:	Redenomination [not] applicable [(*If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)*).] [(*If Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms.*)]

THIRD PARTY INFORMATION

[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.

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

By: .....
Duly authorised

PART B - OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

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

2. RATINGS

	Ratings:	[The Notes to be issued [[have been]/[are expected to be]] rated]/[The following rating reflect ratings assigned to Notes of this type issued under the Programme generally]: *[insert details by insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms*]. Each of [*defined terms*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). Each of [*defined terms*] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at *http://www.esma.europa.eu/page/List-registered-*

and-certified-CRAs) in accordance with the CRA Regulation.

(*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

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

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business - *Amend as appropriate if there are other interests.*]

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

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

[Not Applicable]

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

(*N.B. "Not Applicable" unless the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, in which case (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.*)]

5. YIELD *(Fixed Rate Notes only)*

Indication of yield: [ ] [Not Applicable]

6. HISTORIC INTEREST RATES *(Floating Rate Notes only)*

[Details of historic [LIBOR/EURIBOR] rates can be obtained from Reuters.] [Not Applicable]

7. PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING UNDERLYING, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS[2]

(N.B. The requirements below only apply if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies)

(i)	The exercise price or the final reference price of the underlying:	[As per Condition 5.2(C)/As per Condition 7.10]
(ii)	An indication where information about the past and the further performance of the underlying and its volatility can be obtained	[ ]
(iii)	The name of the index:	[CPI - ITL / HICP] as defined in Annex 1 to the Base Prospectus
(iv)	The place where information about the index can be obtained:	the place where information about the index can be obtained [Bloomberg Page ITCPIUNR or its replacement / Eurostat's internet site]

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

8. OPERATIONAL INFORMATION

(i)	ISIN:	[ ]
(ii)	Common Code:	[ ]
(iii)	Any clearing system(s) other than Euroclear and Clearstream Luxembourg, and the relevant identification number(s):	[Not Applicable/*give name(s), address(es) and number(s)*]
(iv)	Delivery:	Delivery [against/free of] payment
(v)	Names and addresses of additional Paying Agent(s) (if any):	[ ][Not Applicable]
(vi)	Deemed delivery of clearing system notices for the purposes of Condition 14:	Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the [*insert*] [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg.

[2] Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

(vii)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] [Include this text if "yes" selected, in which case the Notes must be issued in NGN form.] [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

9. DISTRIBUTION

(i)	Method of distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated, names of Managers:	[Not Applicable/give names] (If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)
(iii)	Date of [Subscription] Agreement:	[ ]
(iv)	Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
(v)	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]

(vi)	U.S. Selling Restrictions:	[Reg. S Compliance Category 2; TEFRA D/TEFRA C/TEFRA not applicable]]
(vii)	United States Tax Considerations	[The Notes are [not] Specified Securities for purposes of Section 871(m) of the U.S. Internal Revenue Code of 1986. [Additional information regarding the application of Section 871(m) to the Notes will be available from [*give name(s) and address(es) of Issuer contact*].]] [As at the date of these Final Terms, the Issuer has not determined whether the Notes are Specified Securities for purposes of Section 871(m) of the U.S. Internal Revenue Code of 1986; however, indicatively it considers that they will [not] be Specified Securities for these purposes. This is indicative information only, subject to change, and if the Issuer's final determination is different then it will give notice of such determination. [Please contact [*give name(s) and address(es) of Issuer contact*] for further information regarding the application of Section 871(m) to the Notes.]][3] (*The Notes will not be Specified Securities if they (i) are issued prior to January 1, 2019 and provide a return that differs significantly from the return on an investment in the underlying or (ii) do not reference any U.S. equity or any index that contains any component U.S. equity or otherwise provide direct or indirect exposure to U.S. equities. If the Notes are issued on or after January 1, 2019 and reference a U.S. equity or an index that contains a component U.S. equity or otherwise provide direct or indirect exposure to U.S. equities, further analysis would be required.*)]
(viii)	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (*If the offer of the Notes is concluded prior to 1 January 2018, or on and after that date the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the offer of the Notes will be concluded on or after 1 January 2018 and the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.*)

[3] This formulation to be used if the Issuer has not made a determination regarding whether the Notes are Specified Securities as of the date of the Final Terms.

APPLICABLE PRICING SUPPLEMENT

EXEMPT NOTES OF ANY DENOMINATION

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in Article 4(1) of Directive 2014/65/EU (**MiFID II**); (ii) a customer within the meaning of Directive 2002/92/EC (**IMD**), where that customer would not qualify as a professional client as defined in Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the **Prospectus Directive**). Consequently no key information document required by Regulation (EU) No 1286/2014 (the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.][4]

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Exempt Notes, whatever the denomination of those Notes, issued under the Programme.

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF NOTES DESCRIBED BELOW.

[*Date*]

TERNA - Rete Elettrica Nazionale S.p.A.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the
€8,000,000,000 Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Any person making or intending to make an offer of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Base Prospectus dated 13 October 2017 [as supplemented by the supplement[s] dated [*date[s]*]] (the **Base Prospectus**). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Base Prospectus. Copies of the Base Prospectus may be obtained from [Viale Egidio Galbani, 70, 00156 Rome, Italy].

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated 19 October 2016, which is incorporated by reference in the Base Prospectus.]

[4] Legend to be included on front of the Pricing Supplement (i) for offers concluded on or after 1 January 2018 if the Notes potentially constitute "packaged" products or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable" (ii) for offers concluded before 1 January 2018 at the option of the parties.

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

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

1.	Issuer:		TERNA - Rete Elettrica Nazionale S.p.A.
2.	(a)	Series Number:	[ ]
	(b)	Tranche Number:	[ ]
	(c)	Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated and form a single Series with [*provide issue amount/ISIN/maturity date/issue date of earlier Tranches*] on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 26 below, which is expected to occur on or about [*date*]][Not Applicable]
3.	Specified Currency or Currencies:		[ ]
4.	Aggregate Nominal Amount:		
	(a)	Series:	[ ]
	(b)	Tranche:	[ ]
5.	Issue Price:		[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
6.	(a)	Specified Denominations:	[ ]
	(b)	Calculation Amount (in relation to calculation of interest in global form see Conditions):	[ ] (*If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.*)
7.	(a)	Issue Date:	[ ]
	(b)	Interest Commencement Date:	[*specify*/Issue Date/Not Applicable] (*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.*)
8.	Maturity Date:		[*Specify date or for Floating rate notes* - Interest

			Payment Date falling in or nearest to [*specify month and year*]] [*specify other*]
9.	Interest Basis:		[[ ] per cent. Fixed Rate] [[*specify Reference Rate*] +/- [ ] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Inflation Linked] [Dual Currency Interest] [*specify other*] (further particulars specified below)
10.	Redemption/Payment Basis:		[Redemption at par] [Index Linked Redemption] [Inflation Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [*specify other*]
11.	Change of Interest Basis or Redemption/Payment Basis:		[*Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs 15 and 16 below and identify there*][Not Applicable]
12.	Put/Call Options:		[Investor Put] [Issuer Call] [(further particulars specified below)] [Not Applicable]
13.	(a)	Status of the Notes:	Senior
	(b)	[Date [Board] approval for issuance of Notes obtained:	[ ] [and [ ], respectively] [registered in the Companies' Register of Rome on [●]]] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Rate(s) of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(b)	Interest Payment Date(s):	[ ] in each year up to and including the Maturity Date (*Amend appropriately in the case of irregular coupons*)
	(c)	Fixed Coupon Amount(s)	[ ] per Calculation Amount

		for Notes in definitive form (and in relation to Notes in global form see conditions):	
	(d)	Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions):	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
	(e)	Day Count Fraction:	[30/360/Actual/Actual (ICMA)/*specify other*]
	(f)	[Determination Date(s):	[[ ] in each year][Not Applicable] (*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*]
	(g)	Other terms relating to the method of calculating interest for Fixed Rate Notes which are Exempt Notes:	[None/*Give details*]
15.	Floating Rate Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Specified Period(s)/Specified Interest Payment Dates:	[ ][, subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
	(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[*specify other*]] [Not Applicable]
	(c)	Additional Business Centre(s):	[ ]
	(d)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
	(e)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	[ ]
	(f)	Screen Rate Determination:	
		• Reference Rate:	Reference Rate: [ ] month [LIBOR/EURIBOR].

		• Interest Determination Date(s):	[ ] (*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
		• Relevant Screen Page:	[ ] (*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
	(g)	ISDA Determination:	
		• Floating Rate Option:	[ ]
		• Designated Maturity:	[ ]
		• Reset Date:	[ ] (*In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period*)
	(h)	Margin(s):	[+/-] [ ] per cent. per annum
	(i)	Minimum Rate of Interest:	[ ] per cent. per annum
	(j)	Maximum Rate of Interest:	[ ] per cent. per annum
	(k)	Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] 30E/360 (ISDA) *Other*] (*See Condition 5 for alternatives*)
16.	Zero Coupon Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Accrual Yield:	[ ] per cent. per annum
	(b)	Reference Price:	[ ]
	(c)	Any other formula/basis of determining amount payable for Zero Coupon Notes which are Exempt Notes:	[ ]

	(d)	Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/360] [Actual/365] [*specify other*]
17.	Index Linked Interest Note:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Index/Formula:	[*give or annex details*]
	(b)	Calculation Agent:	[*give name*]
	(c)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent):	[ ]
	(d)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(e)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(f)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/*specify other*]
	(g)	Additional Business Centre(s):	[ ]
	(h)	Minimum Rate of Interest:	[ ] per cent. per annum
	(i)	Maximum Rate of Interest:	[ ] per cent. per annum
	(j)	Day Count Fraction:	[ ]
18.	Inflation Linked Interest Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Inflation Index/Indices:	[ ]
	(b)	Inflation Index Sponsor(s):	[ ]
	(c)	Reference Source(s):	[ ]

(d)	Related Bond:	[Applicable]/[Not Applicable] The Related Bond is: [ ] [Fallback Bond] The issuer of the Related Bond is: [ ]
(e)	Fallback Bond:	[Applicable]/[Not Applicable]
(f)	Reference Month:	[ ]
(g)	Cut-Off Date:	[ ]/[Not Applicable]
(h)	End Date:	[ ]/[Not Applicable] (*This is necessary whenever Fallback Bond is applicable*)
(i)	Additional Disruption Events:	[As per Conditions]/[*specify other*]
(j)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Principal Paying Agent):	[*name*] shall be the Calculation Agent (*no need to specify if the Principal Paying Agent is to perform this function*)]
(k)	DIR(0)	[ ]
(l)	Lookback Period 1:	[*insert number of months/years*]
(m)	Lookback Period 2:	[*insert number of months/years*]
(n)	Initial Ratio Amount:	[ ]/[Not Applicable]
(o)	Trade Date:	[ ]
(p)	Minimum Rate of Interest:	[ ] per cent. per annum
(q)	Maximum Rate of Interest:	[ ] per cent. per annum
(r)	Rate Multiplier:	[Not Applicable]/[[ ] per cent.]
(s)	Interest Determination Date(s):	[ ]
(t)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
(u)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] /[*specify other*] (*Note that this item adjusts the end date of each Interest Period (and, consequently, also adjusts the length of the Interest Period and the amount of interest due). In relation to the actual date on*

			which Noteholders are entitled to receive payment of interest, see also Condition *6.6 (Payments Day).*)
	(v)	Additional Business Centre(s):	[ ]/[Not Applicable]
	(w)	Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] [30E/360 (ISDA)] [*specify other*]
19.	Dual Currency Interest Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Rate of Exchange/method of calculating Rate of Exchange:	[*give or annex details*]
	(b)	Party, if any, responsible for calculating the principal and/or interest due (if not the Principal Paying Agent):	[ ]
	(c)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(d)	Person at whose option Specified Currency(ies) is/are payable:	[ ]

PROVISIONS RELATING TO REDEMPTION

20.	Notice periods for Condition 7.2:		[Applicable/Not Applicable]
21.	Issuer Call:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other*/see Appendix]
	(c)	If redeemable in part:	
		(i) Minimum Redemption Amount:	[ ]

	(ii)	Maximum Redemption Amount:	[ ]
(d)		Notice periods:	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee.*)
22.	Inflation Linked Redemption Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(a)		Inflation Index:	[ ]
(b)		Inflation Index Sponsor(s):	[ ]
(c)		Related Bond:	[Applicable]/[Not Applicable] The Related Bond is: [ ] [Fallback Bond] The issuer of the Related Bond is: [ ]
(d)		Fallback Bond:	[Applicable]/[Not Applicable]
(e)		Reference Month:	[ ]
(f)		Cut-Off Date:	[ ]/[Not Applicable]
(g)		End Date:	[ ]/[Not Applicable] (*This is necessary whenever Fallback Bond is applicable*)
(h)		Additional Disruption Events:	[As per Conditions]/[*specify other*][Not Applicable]
(i)		Party responsible for calculating the Redemption Amounts (if not the Principal Paying Agent):	[*name*] shall be the Calculation Agent (*no need to specify if the Principal Paying Agent is to perform this function*)]
(j)		DIR(0):	[ ]

	(k)	Lookback Period 1:	[*insert number of months/years*]
	(l)	Lookback Period 2:	[*insert number of months/years*]
	(m)	Trade Date:	[ ]
	(n)	Redemption Determination Date:	[ ]
	(o)	Redemption Amount Multiplier:	[ ] per cent.
23.	Investor Put:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other*/see Appendix]
	(c)	Notice periods:	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee.*)
24.	Final Redemption Amount:		[[ ] per Calculation Amount/*specify other*/see Appendix]
25.	Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5):		[[ ] per Calculation Amount/*specify other*/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26.	Form of Notes:		
	(a)	Form:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Global Note exchangeable for

		Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]] (*Ensure that this is consistent with the wording in the "Form of the Notes" section in the Base Prospectus and the Notes themselves*.)
	(b) New Global Note:	[Yes][No]
27.	Additional Financial Centre(s):	[Not Applicable/*give details*] (*Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraphs 15(c) and 17(g) relate*)
28.	Talons for future Coupons to be attached to Definitive Notes:	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]
29.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment.	[Not Applicable/*give details. N.B. A new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
30.	Details relating to Instalment Notes:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Instalment Amount(s):	[*give details*]
	(b) Instalment Date(s):	[*give details*]
	(c) Redenomination applicable:	Redenomination [not] applicable [(*If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates*)).] [(*If Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms*).]
31.	Other final terms:	[Not Applicable/*give details*]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [[*Relevant third party information*] has been extracted from [*specify source*].] [The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of [name of the Issuer]:

By: .....

Duly authorised

PART B – OTHER INFORMATION

1. RATINGS

Ratings:	[The Notes to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies)*]. *(The above disclosure is only required if the ratings of the Notes are different to those stated in the Base Prospectus*)

2. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business - *Amend as appropriate if there are other interests*]

3. USE OF PROCEEDS

Use of Proceeds:	[ ]] (*Only required if the use of proceeds is different to that stated in the Base Prospectus*)

4. OPERATIONAL INFORMATION

(i)	ISIN:	[ ]
(ii)	Common Code:	[ ]
(iii)	Any clearing system(s) other than Euroclear and Clearstream Luxembourg, *société anonyme* and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
(iv)	Delivery:	Delivery [against/free of] payment
(v)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
(vi)	Deemed delivery of clearing system notices for the purposes of Condition 14:	Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the *insert*] [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg.

(vii)	[Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] [No. Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

5. DISTRIBUTION

(i)	Method of distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated, names of Managers:	[Not Applicable/*give names*]
(iii)	Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
(iv)	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
(v)	U.S. Selling Restrictions:	Reg. S Compliance Category 2; [TEFRA D/TEFRA C/TEFRA not applicable]
(vi)	Additional United States selling restrictions:	[Not Applicable/*give details*] (*Additional selling restrictions are only likely to be relevant for certain structured Notes, such as commodity-linked Notes*)
(vii)	United States Tax Considerations:	[The Notes are [not] Specified Securities for the purposes of Section 871(m).] [Additional information regarding the application of Section

		871(m) to the Notes will be available [*provide appropriate contact details or location of such information*].] [As at the date of this Pricing Supplement, the Issuer has not determined whether the Notes are Specified Securities for purposes of Section 871(m) of the U.S. Internal Revenue Code of 1986; however, indicatively it considers that they will [not] be Specified Securities for these purposes. This is indicative information only, subject to change, and if the Issuer's final determination is different then it will give notice of such determination. Further information regarding the application of Section 871(m) to the Notes will be available [*provide appropriate contact details or location of such information*].][5] (*The Securities will not be Specified Securities if they (i) are issued prior to January 1, 2019 and provide a return that differs significantly from the return on an investment in the underlying or (ii) do not reference any U.S. equity or any index that contains any component U.S. equity or otherwise provide direct or indirect exposure to U.S. equities. If the Securities are issued on or after January 1, 2019 and reference a U.S. equity or an index that contains a component U.S. equity or otherwise provide direct or indirect exposure to U.S. equities, further analysis would be required.*)]
(viii)	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] *(If the offer of the Notes is concluded prior to 1 January 2018, or on and after that date the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the offer of the Notes will be concluded on or after 1 January 2018 and the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.)*

[5] This formulation to be used if the Issuer has not made a determination regarding whether the Notes are Specified Securities as of the date of the Pricing Supplement.

TERMS AND CONDITIONS OF THE NOTES

Any reference in these Terms and Conditions to "Applicable Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" where relevant.

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

This Note is one of a Series (as defined below) of Notes issued by TERNA - Rete Elettrica Nazionale S.p.A. (the **Issuer**) constituted by a Tenth Supplemental Trust Deed (such Tenth Supplemental Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 13 October 2017 and made between the Issuer and Deutsche Trustee Company Limited (the **Trustee**, which expression shall include any other trustee or successor as Trustee).

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

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

(b) any Global Note; and

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

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of a Eighth Amended and Restated Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 13 October 2017 and made between the Issuer, the Trustee, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents). The Principal Paying Agent and the Paying Agents, together hereinafter referred to as the **Agents**.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms (or of the Pricing Supplement, in the case of Exempt Notes) attached to or endorsed on this Note which supplement these Terms and Conditions (the **Conditions**) and, in the case of a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered to the public in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (an **Exempt Note**), may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the applicable Final Terms are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Interest-bearing definitive Notes have interest coupons (**Coupons**) and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Exempt Notes in definitive form which are repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

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

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

Copies of the Trust Deed and the Agency Agreement are available to the Noteholders for inspection during normal business hours at the principal office for the time being of the Trustee being at the date of this Base Prospectus at Winchester House, 1 Great Winchester Street, London EC2N 2DB, England and at the specified office of each of the Paying Agents. If the Notes are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*). If this Note is an Exempt Note, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the Trustee or, as the case may be, the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

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

1. FORM, DENOMINATION AND TITLE

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

Unless this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Inflation Linked Note (being either an Inflation Linked Interest Note, an Inflation Linked Redemption Note or a combination of the two) or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

If this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Inflation Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

If this Note is an Exempt Note, this Note may also be an Index Linked Redemption Note, an Instalment Note, an Inflation Linked Redemption Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

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

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

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

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

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

2. STATUS OF THE NOTES

The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations as may be preferred by mandatory provisions of

law) equally with all other unsecured and unsubordinated obligations of the Issuer, from time to time outstanding, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

3. NEGATIVE PLEDGE

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

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

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

As used herein:

Group means the Issuer and its Subsidiaries;

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

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

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

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

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

OECD Member Country means a country that is a member of the Organisation for Economic Cooperation and Development or any successor organisation thereof (or, to the extent that the Organisation for Economic Cooperation and Development or a successor

organisation no longer exists, that was a member thereof at the time the relevant organisation ceased to exist);

Permitted Encumbrances means:

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

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

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

(d) any Security securing Project Finance Indebtedness; or

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

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

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

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

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

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

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

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

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

Project Finance Subsidiary means any Subsidiary of the Issuer either:

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

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

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

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

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

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

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

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

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

4. REDENOMINATION

4.1 Redenomination

Where redenomination is specified in the applicable Final Terms or Pricing Supplement, as the case may be, as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, but after prior consultation with the Trustee, on giving prior notice to the Principal Paying Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 14, elect

that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

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

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

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

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

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

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

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

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

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

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

4.2 Definitions

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

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

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

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

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

5. INTEREST

5.1 Interest on Fixed Rate Notes

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

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

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

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

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or

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

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

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

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

(A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

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

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

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

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

In these Conditions:

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

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

5.2 Interest on Floating Rate Notes and Inflation Linked Interest Notes

(A) General

Each Floating Rate Note and Inflation Linked Interest Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date, and such interest will be payable in arrear on either:

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

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

Such interest will be payable in respect of each Interest Period.

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

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

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

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

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

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

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

a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Additional Business Centre (other than TARGET2 System) specified in the applicable Final Terms;

b) if TARGET2 System is specified as an Additional Business Centre in the applicable Final Terms, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open; and

c) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(B) Rate of Interest – Floating Rate Notes

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

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest

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

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

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

(C) the relevant Reset Date is the day specified in the applicable Final Terms.

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

Investors should consult the Issuer should they need to consult the 2006 ISDA Definitions.

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

(ii) Screen Rate Determination for Floating Rate Notes

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

(A) the offered quotation; or

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

(expressed as a percentage rate per annum) for the Reference Rate (being either the London interbank offered rate (**LIBOR**) as applicable to the currency of issue and or the Euro-zone interbank offered rate (**EURIBOR**), as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent or other party as specified in the Final Terms. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest

quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent or that other party for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph. In particular, if the Relevant Screen Page is not available or if, in the case of subclause 5.2(B)(i), no offered quotation appears or, in the case of subclause 5.2(B)(i), fewer than three offered quotations appear, in each case as at the Specified Time, the Financial Adviser shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

Definitions

For the purposes of the Conditions:

Financial Adviser means an independent and internationally recognised financial adviser selected by the Issuer;

Reference Banks means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Financial Adviser.

(C) Rate of Interest – Inflation Linked Interest Notes

The Rate of Interest payable from time to time in respect of Inflation Linked Interest Notes, for each Interest Period, shall be determined by the Calculation Agent, or other party specified in the Final Terms, on the relevant Interest Determination Date in accordance with the following formula:

$$\text{Rate of Interest} = [Rate\,Multiplier] * \left(\frac{DIR(t)}{DIR(0)} \right)$$

subject to the Minimum Rate of Interest or the Maximum Rate of Interest if, in either case, designated as applicable in the applicable Final Terms in which case the provisions of paragraph (D) below shall apply as appropriate.

The Rate of Interest and the result of DIR(*t*) divided by DIR(0) shall be rounded (if necessary) to the fifth decimal place, with 0.000005 being rounded upwards.

Definitions

For the purposes of the Conditions:

DayOfMonth means the actual number of days since the start of the relevant month;

DaysInMonth means the number of days in the relevant month;

DIR(0) means the value specified in the applicable Final Terms and being the value as calculated in accordance with the following formula (where month "t" is the month and year in which the Trade Date falls):

DIR(0) = Inflation Index(t - Lookback Period 1) + [Inflation Index(t - Lookback Period 2) – Inflation Index(t - Lookback Period 1)]*[(DayOfMonth – 1)/DaysInMonth],

rounded (if necessary) to the fifth decimal place, with 0.000005 being rounded upwards;

DIR(t) means in respect of the Specified Interest Payment Date falling in month "t", the value calculated in accordance with the following formula:

DIR(t) = Inflation Index(t - Lookback Period 1) + [Inflation Index(t - Lookback Period 2) – Inflation Index(t - Lookback Period 1)]*[(DayOfMonth – 1)/DaysInMonth],

rounded (if necessary) to the fifth decimal place, with 0.000005 being rounded upwards;

Inflation Index means the relevant inflation index set out in Annex I to this Base Prospectus specified in the applicable Final Terms;

Inflation Index (t-Lookback Period 1) means the value of the Inflation Index for the month that is the number of months in the Lookback Period 1 prior to the month (t) in which the relevant Specified Interest Payment Date falls;

Inflation Index (t-Lookback Period 2) means the value of the Inflation Index for the month that is the number of months in the Lookback Period 2 prior to the month in which the relevant Specified Interest Payment Date falls; and

Rate Multiplier has the meaning given to it in the applicable Final Terms, provided that if Rate Multiplier is specified as "Not Applicable", the Rate Multiplier shall be deemed to be equal to one.

(D) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specify a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (B) or, as the case may be, paragraph (C) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specify a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (B) or, as the case may be, paragraph (C) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(E) Determination of Rate of Interest and calculation of Interest Amounts

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

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

(i) in the case of Floating Rate Notes or Inflation Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or

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

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

If an Initial Ratio Amount is specified in the applicable Final Terms as applicable, the amount payable on the first Interest Payment Date in respect of the relevant Aggregate Nominal Amount of the Notes shall be the sum of the relevant Interest Amount (in respect of the period from and including the Interest Commencement Date to but excluding the first Interest Payment Date) plus an amount equal to the product of the Initial Ratio Amount multiplied by DIR(t)/DIR(0) (or in the event the Interest Amount referred to above is calculated in respect of Notes in definitive form, a pro rata proportion of such amount) (such sum shall be rounded (if necessary) to the nearest euro cent with half a euro cent being rounded upwards).

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

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

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

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

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

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D1)}{360}$$

where:

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

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

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

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

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

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D_2 will be 30;

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D1)}{360}$$

where:

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

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

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

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

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

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

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D1)}{360}$$

where:

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

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

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

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

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

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

Initial Ratio Amount means the value specified in the applicable Final Terms, if applicable; and

(F) Notification of Rate of Interest and Interest Amounts

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

notified to each stock exchange on which the relevant Floating Rate Notes or Inflation Linked Interest Notes are for the time being listed to the Trustee and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(G) Determination or Calculation by Trustee

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

(H) Certificates to be final

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

5.3 Inflation Linked Note provisions

5.3.1 Definitions

For the purposes of the Inflation Linked Interest and Redemption Notes:

Additional Disruption Event means any of Change of Law, Hedging Disruption and/or Increased Cost of Hedging, in each case if specified in the applicable Final Terms.

Change in Law means that, on or after the Trade Date (as specified in the applicable Final Terms):

(a) due to the adoption of or any change in any applicable law or regulation (including, without limitation, any tax law), or

(b) due to the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law or regulation (including any action taken by a taxing authority),

the Calculation Agent determines in its discretion that (i) it has become illegal to hold, acquire or dispose of any relevant hedging arrangements in respect of the Inflation Index or (ii) any Hedging Party will incur a materially increased cost in performing its obligations in relation to the Notes (including, without limitation, due to any increase in tax liability, decrease in tax benefit or other adverse effect on the tax position of the Issuer, any of its Affiliates or any other Hedging Party).

Cut-Off Date means, in respect of a Determination Date, five (5) Business Days prior to any due date for payment under the Notes for which valuation on the relevant Determination Date is relevant, unless otherwise stated in the applicable Final Terms.

Delayed Index Level Event means, in respect of any Determination Date and an Inflation Index, that the relevant Inflation Index Sponsor fails to publish or announce the level of such Inflation Index (the **Relevant Level**) in respect of any Reference Month which is to be utilised in any calculation or determination to be made by the Issuer in respect of such Determination Date, at any time on or prior to the Cut-Off Date.

Determination Date means each of the Interest Determination Date and the Redemption Determination Date, as the case may be, specified as such in the applicable Final Terms.

End Date means each date specified as such in the applicable Final Terms.

Fallback Bond means, in respect of an Inflation Index, a bond selected by the Calculation Agent and issued by the government of the country to whose level of inflation the relevant Inflation Index relates and which pays a coupon or redemption amount which is calculated by reference to such Inflation Index, with a maturity date which falls on (a) the End Date specified in the applicable Final Terms, (b) the next longest maturity after the End Date if there is no such bond maturing on the End Date, or (c) the next shortest maturity before the End Date if no bond defined in (a) or (b) is selected by the Calculation Agent. If the relevant Inflation Index relates to the level of inflation across the European Monetary Union, the Calculation Agent will select an inflation-linked bond that is a debt obligation of one of the governments (but not any government agency) of France, Italy, Germany or Spain and which pays a coupon or redemption amount which is calculated by reference to the level of inflation in the European Monetary Union. In each case, the Calculation Agent will select the Fallback Bond from those inflation-linked bonds issued on or before the Issue Date and, if there is more than one inflation-linked bond maturing on the same date, the Fallback Bond shall be selected by the Calculation Agent from those bonds. If the Fallback Bond redeems, the Calculation Agent will select a new Fallback Bond on the same basis, but notwithstanding the immediately prior sentence, selected from all eligible bonds in issue at the time the original Fallback Bond redeems (including any bond for which the redeemed bond is exchanged).

Hedging Disruption means that any Hedging Party is unable, after using commercially reasonable efforts, to (a) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the relevant price risk of the Issuer issuing and performing its obligations with respect to the Notes, or (b) freely realise, recover, remit, receive, repatriate or transfer the proceeds of any such transaction(s) or asset(s), as determined by the Calculation Agent.

Hedging Party means at any relevant time, the Issuer, or any of its Affiliates or any other party providing the Issuer directly or indirectly with hedging arrangements in relation to the Notes as the Issuer may select at such time.

Increased Cost of Hedging means that any Hedging Party would incur a materially increased (as compared with circumstances existing on the Trade Date) amount of tax, duty, expense or fee (other than brokerage commissions) to (a) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the market risk (including, without limitation, price risk, foreign exchange risk and interest rate risk) of the Issuer issuing and performing its obligations with respect to the Notes, or (b) realise, recover or remit the proceeds of any such transaction(s) or asset(s), provided that any such materially increased amount that is incurred solely due to the deterioration of the creditworthiness of the Issuer and/or any of its Affiliates shall not be deemed an Increased Cost of Hedging.

Interest Determination Date means the date specified in the applicable Final Terms, if applicable.

Inflation Index Sponsor means, in relation to an Inflation Index, the entity that publishes or announces (directly or through an agent) the level of such Inflation Index which, as of the Issue Date, is the Inflation Index Sponsor specified in the applicable Final Terms.

Redemption Determination Date means the date specified in the applicable Final Terms, if applicable.

Reference Month means the calendar month for which the level of the Inflation Index is reported as specified in the applicable Final Terms, regardless of when this information is published or announced, except that if the period for which the Relevant Level was reported is a period other than a month, the Reference Month shall be the period for which the Relevant Level is reported.

Related Bond means, in respect of an Inflation Index, the bond specified as such in the applicable Final Terms. If the Related Bond specified in the applicable Final Terms is "Fallback Bond", then, for any Related Bond determination, the Calculation Agent shall use the Fallback Bond. If no bond is specified in the applicable Final Terms as the Related Bond and "Fallback Bond: Not Applicable" is specified in the applicable Final Terms, there will be no Related Bond. If a bond is specified as the Related Bond in the applicable Final Terms and that bond redeems or matures before the End Date (i) unless "Fallback Bond: Not Applicable" is specified in the applicable Final Terms, the Calculation Agent shall use the Fallback Bond for any Related Bond determination and (ii) if "Fallback Bond: Not Applicable" is specified in the applicable Final Terms, there will be no Related Bond.

Relevant Level has the meaning set out in the definition of "Delayed Index Level Event" above.

5.3.2 Inflation Index delay and disruption provisions

(a) Delay in publication

If the Calculation Agent determines that a Delayed Index Level Event in respect of an Inflation Index has occurred with respect to any Determination Date, then the Relevant Level for such Inflation Index with respect to the relevant Reference Month subject to such Delayed Index Level Event (the **Substitute Index Level**) shall be determined by the Calculation Agent as follows:

i. if "Related Bond" is specified as applicable for such Inflation Index in the relevant Final Terms, the Calculation Agent shall determine the Substitute Index Level by reference to the corresponding index level determined under the terms and conditions of the relevant Related Bond; or

ii. if (I) "Related Bond" is not specified as applicable for such Inflation Index in the relevant Final Terms, or (II) the Calculation Agent is not able to determine a Substitute Index Level under (i) above, the Calculation Agent shall determine the Substitute Index Level by reference to the following formula:

Substitute Index Level = Base Level x (Latest Level/Reference Level); or

iii. in the case of Inflation Linked Notes which are Exempt Notes, in accordance with any formula specified in the applicable Pricing Supplement,

in each case as of such Determination Date,

where:

Base Level means, in respect of an Inflation Index, the level of such Inflation Index (excluding any "flash" estimates) published or announced by the relevant Inflation Index Sponsor in respect of the month which is 12 calendar months prior to the month for which the Substitute Index Level is being determined.

Latest Level means, in respect of an Inflation Index, the latest level of such Inflation Index (excluding any "flash" estimates) published or announced by the relevant Inflation Index Sponsor prior to the month in respect of which the Substitute Index Level is being determined.

Reference Level means, in respect of an Inflation Index, the level of such Inflation Index (excluding any "flash" estimates) published or announced by the relevant Inflation Index Sponsor in respect of the month that is 12 calendar months prior to the month in respect of the Latest Level.

The Issuer shall give notice to Noteholders, in accordance with Condition 14 of any Substitute Index Level calculated pursuant to this Inflation provision.

If the Relevant Level (as defined above) is published or announced at any time on or after the relevant Cut-off Date, such Relevant Level will not be used in any calculations. The Substitute Index Level so determined pursuant to this Condition 5 will be the definitive level for that Reference Month.

(b) Cessation of publication

If the Calculation Agent determines that the level for the Inflation Index has not been published or announced for two (2) consecutive months, or the Inflation Index Sponsor announces that it will no longer continue to publish or announce the Inflation Index or the Inflation Index Sponsor otherwise cancels the Inflation Index, then the Calculation Agent shall determine a successor inflation index (the **Successor Inflation Index**) (in lieu of any previously applicable Inflation Index) for the purposes of the Inflation Linked Notes by using the following methodology:

i. if at any time (other than after an early redemption or cancellation event has been designated by the Calculation Agent pursuant to this Condition 5.3), a successor

inflation index has been designated by the calculation agent (or equivalent) pursuant to the terms and conditions of the Related Bond, such successor inflation index shall be designated a "Successor Inflation Index" notwithstanding that any other Successor Inflation Index may previously have been determined under paragraphs 5.3.2(b)(ii), 5.3.2(b)(iii) or 5.3.2(b)(iv) below;

ii. if a Successor Inflation Index has not been determined pursuant to paragraph 5(b)(i) above, and a notice has been given or an announcement has been made by the Inflation Index Sponsor, specifying that the Inflation Index will be superseded by a replacement Inflation Index specified by the Inflation Index Sponsor, and the Calculation Agent determines that such replacement index is calculated using the same or substantially similar formula or method of calculation as used in the calculation of the previously applicable Inflation Index, such replacement index shall be the Inflation Index for purposes of the Inflation Linked Notes from the date that such replacement Inflation Index comes into effect;

iii. if a Successor Inflation Index has not been determined pursuant to paragraphs 5.3.2(b)(i) or 5.3.2(b)(ii) above, the Calculation Agent shall ask five leading independent dealers to state what the replacement index for the Inflation Index should be. If four or five responses are received and, of those four or five responses, three or more leading independent dealers state the same index, this index will be deemed the "Successor Inflation Index". If three responses are received and two or more leading independent dealers state the same index, this index will be deemed the "Successor Inflation Index". If fewer than three responses are received or no Successor Inflation Index is determined pursuant to this paragraph 5.3.2(b)(iii), the Calculation Agent will proceed to paragraph 5.3.2(b)(iv) below; or

iv. if no replacement index or Successor Inflation Index has been determined under paragraphs 5.3.2(b)(i), 5.3.2(b)(ii) or 5.3.2(b)(iii) above by the next occurring Cut-Off Date, the Calculation Agent, subject as provided below, will determine an appropriate alternative index from such Cut-Off Date, and such index will be deemed a "Successor Inflation Index"; or

v. If the Calculation Agent determines that there is no appropriate alternative inflation index to Inflation Linked Interest Notes, the Issuer may redeem the Notes early at the Early Redemption Amount.

(c) Rebasing of the Inflation Index

If the Calculation Agent determines that the Inflation Index has been or will be rebased at any time, the Inflation Index as so rebased (the **Rebased Index**) will be used for purposes of determining the level of the Inflation Index from the date of such rebasing; provided, however, that the Calculation Agent shall make adjustments as are made by the calculation agent (or equivalent) pursuant to the terms and conditions of the Related Bond, if "Related Bond" is specified as applicable in the applicable Final Terms, to the levels of the Rebased Index so that the Rebased Index levels reflect the same rate of inflation as the Inflation Index before it was rebased, or, if "Related Bond" is not specified as applicable in the applicable Final Terms, the Calculation Agent shall make adjustments to the levels of the Rebased Index so that the Rebased Index levels reflect the same rate of inflation as the Inflation Index before it was rebased.

(d) Material modification prior to last occurring Cut-Off

If, on or prior to the last occurring Cut-Off Date, the Inflation Index Sponsor announces that it will make a material change to the Inflation Index then the Calculation Agent shall make any such adjustments, if "Related Bond" is specified as applicable in the applicable Final Terms, consistent with adjustments made to the Related Bond, or, if "Related Bond" is not specified as applicable in the applicable Final Terms, only those adjustments to the Inflation Index necessary for the modified Inflation Index to continue as the Inflation Index.

(e) Manifest Error in publication

With the exception of any corrections published after the day which is fifteen (15) Business Days prior to the relevant Redemption Determination Date, if, within thirty (30) calendar days of publication, the Calculation Agent determines that the Inflation Index Sponsor has corrected the level of the Inflation Index to remedy a manifest error in its original publication, the Calculation Agent may, in its discretion, make such adjustments to the terms of the Inflation Linked Notes as it determines appropriate to account for the correction and will notify the Noteholders of any such adjustments in accordance with Condition 14.

(f) Consequences of an Additional Disruption Event

If the Calculation Agent determines that an Additional Disruption Event has occurred, the Issuer may at its option:

(a) require the Calculation Agent to determine in its sole and absolute discretion the appropriate adjustment, if any, to be made to any terms of the Conditions and/or the applicable Final Terms to account for the Additional Disruption Event and determine the effective date of that adjustment; or

(b) redeem or cancel, as applicable, all but not some of the Inflation Linked Notes on the date notified by the Calculation Agent to Noteholders in accordance with Condition 14 by payment of the relevant Early Redemption Amount, as at the date of redemption or cancellation, as applicable, taking into account the relevant Additional Disruption Event.

5.3.3 Inflation Index disclaimer

The Notes are not sponsored, endorsed, sold or promoted by the Inflation Index or the Inflation Index Sponsor and the Inflation Index Sponsor does not make any representation whatsoever, whether express or implied, either as to the results to be obtained from the use of the Inflation Index and/or the levels at which the Inflation Index stands at any particular time on any particular date or otherwise. Neither the Inflation Index nor the Inflation Index Sponsor shall be liable (whether in negligence or otherwise) to any person for any error in the Inflation Index and the Inflation Index Sponsor is under no obligation to advise any person of any error therein. The Inflation Index Sponsor is not making any representation whatsoever, whether express or implied, as to the advisability of purchasing or assuming any risk in connection with the Notes. The Issuer shall not have liability to the Noteholders for any act or failure to act by the Inflation Index Sponsor in connection with the calculation, adjustment or maintenance of the Inflation Index. Except as disclosed prior to the Issue Date specified in the applicable Final Terms, neither the Issuer nor its Affiliates has any affiliation with or control over the Inflation Index or the Inflation Index Sponsor or any control over the computation, composition or dissemination of the Inflation Index. Although the Calculation Agent will obtain information concerning the Inflation Index from publicly available sources it believes reliable, it will not independently verify this information. Accordingly, no representation,

warranty or undertaking (express or implied) is made and no responsibility is accepted by the Issuer, its Affiliates or the Calculation Agent as to the accuracy, completeness and timeliness of information concerning the Inflation Index.

5.4 Exempt Notes

The rate or amount of interest payable in respect of Exempt Notes which are not also Fixed Rate Notes or Floating Rate Notes shall be determined in the manner specified in the applicable Pricing Supplement, provided that where such Notes are Index Linked Interest Notes the provisions of Condition 5.2 shall, save to the extent amended in the applicable Pricing Supplement, apply as if the references therein to Floating Rate Notes and to the Agent were references to Index Linked Interest Notes and the Calculation Agent, respectively, and provided further that the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period promptly after calculating the same.

Partly Paid Notes

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

Inflation Linked Interest Notes

In the case of Inflation Linked Interest Notes which are Exempt Notes interest will be paid as set out in Conditions 5.2(C) and 5.3 or as otherwise specified in the applicable Pricing Supplement.

5.5 Accrual of interest

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

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

(B) as provided in the Trust Deed.

6. PAYMENTS

6.1 Method of payment

Subject as provided below:

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

(B) payments in euro will be made by credit or transfer to a euro account (or to any other account to which euro may be credited or transferred) specified by the payee.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto, and (iii) any withholding or deduction required pursuant to Section 871(m) of the Code (871(m) Withholding). In addition, in determining the amount of 871(m) Withholding imposed with respect to any amounts to be paid on the Notes, the Issuer shall be entitled to withhold on any "dividend equivalent" (as defined for purposes of Section 871(m) of the Code) at the highest rate applicable to such payments regardless of any exemption from, or reduction in, such withholding otherwise available under applicable law.

With respect to Notes that provide for net dividend reinvestment in respect of either an underlying U.S. security (i.e.¸a security that pays U.S. source dividends) or an index that includes U.S. securities, all payments on the Notes that reference such U.S. securities or an index that includes U.S. securities may be calculated by reference to dividends on such U.S. securities that are reinvested at a rate of 70 per cent.. In such case, in calculating the relevant payment amount, the holder will be deemed to receive, and the Issuer will be deemed to withhold, 30 per cent. of any dividend equivalent payments (as defined in Section 871(m) of the Code) in respect of the relevant U.S. securities. The Issuer will not pay any additional amounts to the holder on account of the Section 871(m) amount deemed withheld.

6.2 Presentation of definitive Notes, Receipts and Coupons

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

Fixed Rate Notes in definitive form (other than Long Maturity Notes (as defined below) and save as provided in Condition 6.4) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether

or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A Long Maturity Note is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

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

6.3 Payments in respect of Global Notes

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

6.4 Specific provisions in relation to payments in respect of certain types of Exempt Notes

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

Upon the date on which any Dual Currency Note or Index Linked Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

6.5 General provisions applicable to payments

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

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

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

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

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

6.6 Payment Day

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

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

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

(ii) each Additional Financial Centre (other than TARGET2 System) specified in the applicable Final Terms;

(iii) if TARGET2 System is specified as an Additional Financial Centre in the applicable Final Terms, a day on which the TARGET2 System is open; and

(B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open

6.7 Interpretation of principal and interest

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

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

(B) the Final Redemption Amount of the Notes;

(C) the Early Redemption Amount of the Notes;

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

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

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

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

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

7. REDEMPTION AND PURCHASE

7.1 Redemption at maturity

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

Inflation Linked Interest Notes

With regards to Inflation Linked Interest Notes which are not Exempt Notes please see Condition 5.3.

7.2 Redemption for tax reasons

Subject to Condition 7.5, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Inflation Linked Interest Note) or on any Interest Payment Date (if this Note is a Floating Rate Note or an Inflation Linked Interest Note), on giving not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Trustee and the Principal Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

(A) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes

effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

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

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

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

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

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

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

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

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

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

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

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

7.5 Early Redemption Amounts

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

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

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

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

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

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

7.6 Specific redemption provisions applicable to certain types of Exempt Notes

The Final Redemption Amount, any Optional Redemption Amount and the Early Redemption Amount in respect of Index Linked Redemption Notes and Dual Currency Redemption Notes may be specified in, or determined in the manner specified in, the applicable Pricing Supplement. For the purposes of Condition 7.2, Index Linked Redemption Notes and Dual Currency Redemption Notes may be redeemed only on an Interest Payment Date.

Instalment Notes

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Pricing Supplement. In the case of early redemption, the Early Redemption Amount of Instalment Notes will be determined in the manner specified in the applicable Pricing Supplement.

Partly Paid Notes

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

Index Linked Notes and other Structured Notes

The Issuer may, as indicated in the applicable Pricing Supplement, be entitled to redeem Index Linked Notes or other structured Notes, including where the amount of principal and/or interest in respect of such Notes is based on the price, value, performance or some other factor relating to an asset or other property (the **Reference Asset**), by physical delivery of all or part of the Reference Asset or of some other asset or property (the **Physically-Settled Notes**).

Inflation Linked Redemption Notes

Inflation Linked Redemption Notes which are Exempt Notes will be redeemed as set out in Conditions 7.10 and 7.11 or as otherwise specified in the applicable Pricing Supplement.

7.7 Purchases

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

7.8 Cancellation

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

7.9 Late payment on Zero Coupon Notes

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

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

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

7.10 Inflation Linked Redemption Notes

In respect of Inflation Linked Redemption Notes which are not Exempt Notes, the Calculation Agent will calculate such Final Redemption Amount or Early Redemption Amount (as the case may be) promptly after each time such amount is capable of being determined and will notify the Agent thereof promptly after calculating the same. The Agent will promptly thereafter notify the Issuer and any stock exchange on which the Notes are for the time being listed thereof and cause notice thereof to be published in accordance with Condition 14).

7.11 Calculation of Inflation Linked Redemption

The Final Redemption Amount payable in respect of each Note shall be determined by the Calculation Agent on the Redemption Determination Date (utilising the DIR(T) value applicable to the Final Redemption Amount) in accordance with the following formula:

$$\text{Final Redemption Amount} = \text{Specified Denomination} * Max\left[100\%; \left[\text{Redemption Amount Multiplier}\right] * \left(\frac{DIR(T)}{DIR(0)}\right)\right]$$

The result of DIR(*T*) divided by DIR(0) shall be rounded (if necessary) to the fifth decimal place, with 0.000005 being rounded upwards and the Final Redemption Amount shall be rounded (if necessary) to the nearest euro cent with half a euro cent being rounded upwards.

The Early Redemption Amount payable in respect of each Note shall be the sum of (i) a principal amount determined by the Calculation Agent promptly after the time the Early Redemption Amount is capable of being determined in accordance with the formula set out above, provided that the reference to "Final Redemption Amount" shall be replaced by a reference to "Early Redemption Amount" and the DIR(*T*) value applicable to the Early Redemption Amount shall be utilised; and (ii) interest accrued but unpaid in respect of the period from, and including, the most recent Interest Payment Date to, but excluding, the date for redemption of the Notes where the Rate of Interest for such period shall be calculated in accordance with the applicable Final Terms.

Defined terms used in this Condition shall have the same meanings as set out in Condition 5.2(C) provided that, DIR(*T*) means the value of the Inflation Index for (i) in the case of the calculation of the Final Redemption Amount, the Maturity Date and (ii) in the case of the calculation of the Early Redemption Amount, the date for redemption of the Notes, in each case calculated in accordance with the following formula where month "t" is the month and year of the Maturity Date in the case of (i) above and the month and year in which the date for redemption falls in the case of (ii) above:

DIR(t)=Inflation Index(t-Lookback Period 1)+[Inflation Index(t-Lookback Period 2)-Inflation Index(t-Lookback Period 1)]*[DayOfMonth-1)/DaysInMonth]

Rounded (if necessary) to the fifth decimal place, with 0.000005 being rounded upwards

If the date for redemption occurs prior to the first Interest Payment Date, a pro rata proportion of an amount equal to the product of the Initial Ratio Amount multiplied by DIR(T)/DIR(0) shall be added to the relevant Interest Amount (in respect of the period from and including the Interest Commencement Date to but excluding the date of redemption of the Notes) (such sum shall be rounded (if necessary) to the nearest euro cent with half a euro cent being rounded upwards).

Redemption Amount Multiplier has the meaning given to it in the applicable Final Terms, provided that if Redemption Amount Multiplier is specified as "Not Applicable", the Redemption Amount Multiplier shall be deduced to be equal to 100 per cent.

The provisions of Condition 5.3 shall apply *mutatis mutandis*.

8. TAXATION

All payments in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessment or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

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

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

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

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

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

(F) where such withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to (i) Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, or official interpretations thereof, or (ii) Section 871(m) of the Code. .

As used herein:

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

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

9. PRESCRIPTION

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

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

10. EVENTS OF DEFAULT AND ENFORCEMENT

10.1 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction (but in the case of the happening of any of the events described in paragraphs 10.1(C), 10.1(D), 10.1(F) and 10.1(G) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders), give notice in writing to the Issuer that each Note is, and each Note shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (each an **Event of Default**) shall occur:

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

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

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

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

(E) if the Issuer shall be wound up or dissolved (otherwise than for the purpose of a solvent amalgamation, merger, de-merger or reconstruction (a **Solvent Reorganisation**) (i) to be adopted or implemented pursuant to any mandatory provisions of law or (ii) on terms approved in writing by the Trustee or by an Extraordinary Resolution, and (in the case of (i) and (ii)) under which the assets and liabilities of the Issuer are assumed by the entity resulting from such Solvent Reorganisation and such entity assumes all the obligations of the Issuer in respect of

the Notes, the Coupons and the Trust Deed and an opinion of an independent legal adviser of recognised standing in the Republic of Italy has been delivered to the Trustee confirming the same prior to the effective date of such Solvent Reorganisation); or

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

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

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

10.2 Enforcement

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

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

10.3 Definitions

For the purposes of the Conditions:

Indebtedness for Borrowed Money means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any notes,

bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

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

12. AGENTS

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

(A) there will at all times be a Principal Paying Agent;

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

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

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.4. Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders by the Issuer in accordance with Condition 14.

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

13. EXCHANGE OF TALONS

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

14. NOTICES

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

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) or such websites the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published on the website of the relevant stock exchange or relevant authority and/or in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on such day as is specified in the applicable Final Terms after the day on which the said notice has been given to Euroclear and/or Clearstream, Luxembourg.

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

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

15. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

The Trust Deed contains provisions consistent with the laws, legislation, rules and regulations of the Republic of Italy (including without limitation Legislative Decree No. 58 of 24 February 1998, as amended) for convening meetings of the Noteholders to consider any matter affecting their interests, including any modifications of the Conditions or of any provisions of the Trust Deed. According to the laws, legislation, rules and regulations of the Republic of Italy: (a) if Italian law and the Issuer's by-laws provide for multiple calls, such meetings will be validly held if (i) in the case of a first meeting, there are one or more persons present being or representing Noteholders holding not less than one-half in nominal amount of the Notes for the time being outstanding; (ii) in case of an adjourned meeting, there are one

or more persons present being or representing Noteholders holding more than one-third in nominal amount of the Notes for the time being outstanding; and (iii) in the case of any further adjourned meeting, one or more persons present being or representing Noteholders holding more than one-fifth in nominal amount of the Notes for the time being outstanding, provided that the Issuer's by-laws may in each case (to the extent permitted under the applicable laws and regulations of the Republic of Italy) provide for a higher quorum; and (b) if Italian law and the Issuer's by-laws provide for a single call, the quorum under (iii) above shall apply, provided that a higher majority may be required by the Issuer's bylaws. The majority to pass a resolution at any meeting (including, where applicable, an adjourned meeting) will be not less than two-thirds of the nominal amount of the Notes represented at the meeting; provided however that (A) in order to adopt certain proposals, as set out in Article 2415 of the Italian Civil Code the favourable vote of the higher of (i) one or more persons holding or representing not less than one half of the aggregate principal amount of the outstanding Notes and (ii) one or more persons holding or representing not less than two thirds of the Notes represented at the meeting pursuant to paragraph 3 of Article 2415 of the Italian Civil Code shall also be required and (B) if the Issuer's by-laws in each case (to the extent permitted under applicable Italian law) provide for higher majorities, such higher majorities shall prevail. Resolutions passed at any meeting of the Noteholders shall be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

15.1 Noteholders' Representative

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

15.2 Modification, Waiver, Authorisation and Determination

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

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

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or

Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof, and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

15.4 Notification to the Noteholders

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

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

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

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

17. FURTHER ISSUES

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

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

19.1 Governing law

The Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by, and

shall be construed in accordance with, English law. Condition 15 and Schedule 3 of the Trust Deed are subject to compliance with the laws of the Republic of Italy.

19.2 Submission to jurisdiction

(A) Subject to Condition 19.2(C) below, the English courts are to have exclusive jurisdiction to settle any dispute arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them (a **Dispute**) and accordingly each of the Issuer and the Trustee and any Noteholders, Receiptholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.

(B) For the purposes of this Condition 19.2, each of the Issuer and the Trustee and any Noteholders, Receiptholders or Couponholders in relation to any Dispute waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

(C) This Condition 19.2(C) is for the benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders only. To the extent allowed by law, the Trustee, the Noteholders, the Receiptholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court of competent jurisdiction and (ii) concurrent proceedings in any number of jurisdictions.

19.3 Appointment of Process Agent

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

19.4 Other documents

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

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes. If, in respect of an issue of Notes which are derivative securities for the purposes of Article 15 of the Prospectus Regulation, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

DESCRIPTION OF THE ISSUER

OVERVIEW

TERNA - Rete Elettrica Nazionale Società per Azioni (hereinafter referred to as **Terna** or the **Issuer**) is the Italian electricity transmission company which conducts electricity transmission and dispatching over the high voltage and very high voltage grid throughout Italy.

Terna is the parent company of the Terna Group (hereinafter referred to as the **Terna Group**), which includes as of 5 October 2017, respectively: Rete S.r.l. (hereinafter referred to as **Rete S.r.l.**), Terna Rete Italia S.p.A. (hereinafter referred to as **TRI S.p.A.**), Terna Interconnector S.r.l. (hereinafter referred to as **Terna Interconnector**), Terna Crna Gora d.o.o. (hereinafter referred to as **Terna Crna Gora**), Terna Plus S.r.l. (hereinafter referred to as **Terna Plus**), Tamini Trasformatori S.r.l. (hereinafter referred to as **Tamini**) which includes its subsidiaries (Tamini Transformers USA L.L.C., hereainafter referred to as **Tamini Transformers USA** and Tes Transformer Electro Service Asia Private Limited, hereainafter referred to as **TES Asia**, together hereinafter referred to as **Tamini Group**), Terna Chile S.p.A. (hereinafter referred to as **Terna Chile**), Monita Interconnector S.r.l. (hereinafter referred to as **Monita**), Difebal S.A. (hereinafter referred to as **Difebal**), SPE Santa Maria Transmissora de Energia S.A. (hereinafter referred to as **Santa Maria**), SPE Santa Lucia Transmissora de Energia S.A. (hereinafter referred to as **Santa Lucia**), Terna Peru S.A.C. (hereinafter referred to as **Terna Peru**), Rete Verde 17 S.r.l. (hereinafter referred to as **Rete Verde 17**), Rete Verde 18 S.r.l. (hereinafter referred to as **Rete Verde 18**), Rete Verde 19 S.r.l. (hereinafter referred to as **Rete Verde 19**), Rete Verde 20 S.r.l. (hereinafter referred to as **Rete Verde 20**), ELMED Etudes S.a.r.l. (hereinafter referred to as **Elmed**), CESI S.p.A. (hereinafter referred to as **CESI**), CORESO S.A. (hereinafter referred to as **CORESO**) and Crnogorski Elektroprenosni Sistem AD (hereinafter referred to as **CGES**) (see also "*History and Development"* and *"Organisational Structure*").

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

Terna's share capital of Euro 442,198,240 consisted, as of 30 June 2017, of 2,009,992,000 ordinary shares with a nominal value of Euro 0.22 each. Terna's shares are listed on the Italian Stock Exchange (Borsa Italiana S.p.A.).

As of 5 October 2017, on the basis of (i) the shareholders' book, (ii) the communications received pursuant to CONSOB Regulation No. 11971 of 14 May 1999, as amended, and (iii) available information, Terna's share capital is divided as follows: CDP Reti S.p.A.,(hereinafter referred to as **CDP RETI** a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. - hereinafter referred to as CDP – which is, in turn, owned 82.77 per cent. by the Ministry of Economy and Finance of the Italian Republic) owns 29.851 per cent. of the share capital, Lazard Asset Management Llc owns 5.122 per cent. of the share capital (as discretional asset management) and the remaining shares are held by institutional and retail investors.

On 19 April 2007, Cassa Depositi e Prestiti S.p.A. (hereinafter referred to as **CDP**) notified Terna that, based on an assessment of (i) the composition and the breakdown of the shareholding structure, (ii) events at particularly significant Shareholders' General Meetings and (iii) the composition of the Board of Directors, Terna is effectively controlled by CDP.

On 30 October 2014, CDP confirmed to Terna by letter that the relationship of *de facto* control notified on 19 April 2007 was still subsisting as of that date. As of the date of this Base Prospectus, no coordination activity by CDP (or by CDP Reti S.p.A. hereinafter referred to as **CDP RETI**) has been formalised (see also "*Share Capital of Terna, Major Shareholders and Related Party Transaction*").

On 31 July 2014, CDP entered into an agreement with State Grid International Development Limited (hereinafter referred to as **SGID**), a company whose ultimate owner is the State Grid Corporation of China (hereinafter referred to as **SGCC**) and State Grid Europe Limited (hereinafter referred to as **SGEL**), a company wholly owned by SGID, as a result of which CDP: i) on 27 October 2014, transferred to CDP RETI its 29.851 per cent. stake in Terna and, ii) on 27 November 2014 sold 35 per cent. of its stake in CDP RETI to SGEL. On 27 November 2014 CDP, SGEL and SGID signed an agreement granting SGEL certain corporate governance rights to protect its investment in CDP RETI. On the same date, Cassa Nazionale di Previdenza e Assistenza Forense and 33 banking foundations acquired from CDP a stake totalling, respectively, 2.6 per cent. and 3.3 per cent. in CDP RETI (see also "*Share Capital of Terna, Major Shareholders and Related Party Transaction*"). Consequently, with a letter dated 2 December 2014, CDP gave notice of the previous undertakings and confirmed that "*no change in the other data previously communicated in relation to the above equity investments*" has occurred. In this regard, in the context of shareholders' agreements signed by CDP, SGEL and SGID on 27 November 2014 and in relation to CDP RETI, Snam S.p.A. and Terna, CDP confirmed that it had exclusive right of control over CDP RETI. The essential information relating to the shareholders' agreements 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.

The Terna Group's main business comprises grid operation and dispatching, infrastructure maintenance, grid development planning and carrying out of development projects of its portion of Italy's National Transmission Grid (hereinafter referred to as the Terna Group's Grid) as well as management of transmission and dispatching of electricity over the entire National Transmission Grid which Terna and TRI S.r.l. report in their financial statements as revenues from regulated activities in Italy. The Terna Group also carries out other non-regulated activities including services for third parties in the Italian market (EPC, TLC, O&M), initiatives abroad (EPC, Technical Assistance, BOOT, Concessions), interconnectors, energy transformer production (Tamini Group).

Terna is the main owner of the National Transmission Grid. As of 30 June 2017, the Terna Group's Grid consisted of 72,841 kilometres of electricity lines and 861 substations. For the six months ended 30 June 2017, the Terna Group's total consolidated revenues (excluding pass-through items) amounted to Euro 1,046.9 million (for the six months ended 30 June 2016 these amounted to Euro 1,039.9 million) while Ebitda (Gross Operating Profit) was Euro 794.8 million increasing by 2.3 per cent. as compared to the same period of the previous year (Euro 777 million) (see also "*Alternative Performance Measures*").

Terna has been consolidating its position in the Italian transmission sector since the end of 2005 in connection with the integration of the ownership and management of the National Transmission Grid pursuant to the Decree of the President of the Council of Ministers 11 May 2004 (hereinafter referred to as the **DPCM**). In 2005, Terna acquired the transmission and dispatching sector of the Italian Independent System Operator (*Gestore della Rete di Trasmissione Nazionale S.p.A.*), an entity wholly-owned and controlled by the Ministry of Economy and Finance (hereinafter referred to as **the Italian ISO**). Please see also section "*History and development*".

HISTORY AND DEVELOPMENT

In 1999, Enel established Terna as a wholly-owned subsidiary and subsequently transferred all of its electricity transmission systems and other assets that formed the Terna Group's grid (as it then existed) to Terna. The management and the operation of the National Transmission Grid were

entrusted to the Italian ISO (as defined in section "*Regulatory Matters*" below) pursuant to Legislative Decree 16 March 1999 No. 79 (hereinafter referred to as the **Bersani Decree**).

The Bersani Decree, which required the separation of the ownership and management of the National Transmission Grid, was reversed by Law Decree 29 August 2003 No. 239 (hereinafter referred to as **Decree 239/2003**), as converted with amendments into law by Law 27 October 2003 No. 290 (hereinafter referred to as **Law 290/2003**) and the implementing measures of the DPCM (as defined in section "*Regulatory Matters*" below). Law 290/2003 and the DPCM require the integration of the ownership and management of the National Transmission Grid and place certain restrictions on the ownership of the entity resulting from the integration as well as on the voting rights of the shareholders of the resulting entity. The current regulatory structure of the electricity sector is determined also by Legislative Decree 93/2011 implementing EU Directive 2009/72/EC concerning common rules on the internal market in electricity (see also *"Regulatory Matters"*).

On 23 June 2004, Enel launched an initial public offering of Terna's ordinary shares to retail investors in Italy and a private placement with certain institutional investors in accordance with Rule 144A and Regulation S under the United States Securities Act of 1933 as amended. After the initial public offering, Enel's stake of Terna's share capital was reduced to 50 per cent. Pursuant to Law 290/2003 and the DPCM, which provides for the integration of the ownership and management of the National Transmission Grid and imposes certain restrictions on control of the resulting entity, Enel was required to reduce its shareholding in Terna to 20 per cent. or less by 1 July 2007 (see also "*Regulatory Matters*"). On 31 March 2005, Enel completed the sale of 13.86 per cent. of the share capital of Terna through an accelerated book-building process. In addition, on 15 September 2005, CDP acquired its 29.99 per cent. controlling stake in Terna from Enel. On 2 February 2012, Enel completed the sale of its remaining 5.1 per cent. of the share capital of Terna through an accelerated book-building procedure and, as at the date of this Base Prospectus, Enel no longer holds any stake in the share capital of Terna. On 27 October 2014, CDP announced that its entire interest in Terna, composed of 599,999,999 shares, equal to 29.851 per cent. of the share capital, was transferred to CDP RETI. As a result of this transfer, CDP RETI currently controls 29.85 per cent. of Terna (see also "*Overview*" and "*Share Capital of Terna, Major Shareholders and Related Party Transaction*").

In connection with the integration of the ownership and management of the National Transmission Grid pursuant to the DPCM, the Ministry of Productive Activities (now the Ministry of Economic Development) issued a new electricity transmission and dispatching concession on 20 April 2005 (hereinafter referred to as the **2005 Concession**) which governs the responsibilities and obligations of Terna in respect of the management of the entire National Transmission Grid. The 2005 Concession came into force on 1 November 2005 when Terna, after acquiring the Italian ISO, implemented the integration of the ownership and the management of the National Transmission Grid and has a duration of 25 years from that date. The 2005 Concession was amended by the Ministry of Economic Development on 15 December 2010 (see also "*Regulatory Matters*").

The "Network transmission, dispatch, development and safety code" (hereinafter referred to as the **Grid Code**), defining the rules governing relations between Terna and the users of the National Transmission Grid, came into force on 1 November 2005 when Terna acquired the transmission and dispatching lines of business, including the concession, from the Italian ISO.

As a further consequence of the DPCM, Terna has purchased additional portions of National Transmission Grid since 30 September 2005.

From 1 April 2012, the Terna Group implemented a new organisational structure (see also *"Organisational Structure"*). Pursuant to this new organisational structure, Terna becomes the parent company of the group providing guidelines and coordinating activities of the operating companies of the Terna Group such as TRI S.p.A., being the operating company in charge of the core business

activities of the Terna Group, and Terna Plus, being the operating company in charge of carrying out projects which are not core business activities of the Terna Group**.**

The Terna Group's new organisational structure allows greater focus on both core business and new business which may be developed as well as on increased efficiency and effectiveness of the operating/management processes at the level of the subsidiaries operating in compliance with Terna's strategic guidelines.

In the context of the reorganisation of the Terna Group, on 23 February 2012, Terna established the company named TRI S.p.A. with a share capital of Euro 120,000 and with the corporate purpose to design, create, manage, develop, operate and maintain grid lines and structures and other infrastructures connected with such grids, plants and equipment functional to such activities in the segments of electricity transmission and dispatching or in analogous, related or connected segments. On the same date, Terna leased to TRI S.p.A. a business unit comprising human resources, goods and relationships related to operational activities, ordinary and extraordinary maintenance and development of the National Transmission Grid. The contract, which is for four years and renewable for a further period of four years, is effective from 1 April 2012 and provides for a yearly lease instalment of Euro 23.7 million.

On 9 May 2012, Terna made an equity contribution amounting to Euro 3 million in order to provide TRI S.p.A. with the necessary resources to carry on its business

During the year 2012, TRI S.p.A. signed a series of contracts with Terna and its affiliates TRI S.r.l., Terna Plus, Terna Storage and Terna Crna Gora, in each case for the provision of technical and administrative services.

During the above-mentioned reorganisation, the Shareholders' Meeting of Terna Plus, by a resolution dated 19 July 2012 (as modified on 31 October 2012), approved a capital increase of Euro 16 million with a premium of Euro 2.3 million. The capital increase was fully subscribed and paid-up by Terna through the transfer, effective on 1 August 2012, of a business unit which constructs temporary connections using rapid installation electricity stations (SCRI) and carries out other services. This transfer, subject to an assessment made by an independent expert pursuant to article 2465 of the Italian Civil Code, increased the investment by Terna in Terna Plus to an amount of Euro 18.3 million.

In order to allow Terna Plus to pursue its mission, with effect from 1 May 2012 and 1 November 2012 onwards, Terna and TRI S.p.A. respectively, transferred to Terna Plus, among other things, the individual employment contracts of 12 employees.

On 23 March 2012, Terna Plus established a wholly owned limited liability company named Terna Storage with a share capital of Euro 10,000 with the corporate purpose to design, create, manage, develop and maintain diffused electricity accumulation systems (including batteries) and pumping and/or storage systems. On 13 November 2012, Terna Plus made an equity contribution amounting to Euro 20,000 in order to give Terna Storage the necessary resources to carry on its business.

On 14 November 2012, and following the inclusion of storage systems in the scope of regulated activities pursuant to the AEEGSI Resolutions 228/2012, 43/2013 and 66/2013 (see also "*Regulatory Matters*"), Terna Plus transferred to Terna its stake representing the entire corporate capital of Terna Storage against payment of a purchase price of Euro 30,000.

On 14 February 2013, the parent company Terna paid in Euro 2 million as a capital grant in order to provide the subsidiary Terna Storage with the resources necessary to carry out its business.

Until 2013, the entire share capital of Rete Solare S.r.l. (hereinafter referred to as **RTS**) (another company of the Terna Group in charge of construction and maintenance of electricity transmission grids) was held by SunTergrid (established on 18 May 2010). Afterwards, on 24 July 2013, SunTergrid, in accordance with the decision of its Board of Directors of 18 July 2013, completed the transfer to Tozzi Sud S.p.A., a company wholly controlled by Tozzi Industries S.r.l., of 100 per cent. of the share capital of RTS (holder of the "Single Authorisation" for the construction and operation of a photovoltaic plant to be built in Aranova in the Municipality of Ferrara, Italy) for a price of Euro 4,523,247.00. Consequently, on 7 August 2013, Terna signed a deed with RTS regarding termination of the rental contract previously in force for the land relating to the project aimed at creating the photovoltaic system of Aranova and the establishment of a leasehold on the same site.

On 18 October 2013, the deed of merger by incorporation of SunTergrid into its associate Terna Plus was signed, with legal effectiveness from 21 October 2013, according to the provisions of the merger project approved on 6 June 2013 by the respective Boards of Directors, after the sole shareholder Terna waived the need to prepare a statement of financial position of each of the companies taking part in the merger under the terms of article 2501 *quater*, section 3, of the Italian Civil Code, and subsequently resolved on 10 June 2013 by the relevant Shareholders' Meetings. In accordance with the provisions of the deed of merger, the operations carried out by the company being incorporated, SunTergrid, are recognised in the financial statements of the incorporating company Terna Plus, and the accounting and fiscal effects of the merger start from 1 January 2013. The aim of the merger operation is to increase the Group's synergies by rationalising the non-traditional activities within the scope of Terna Plus as SunTergrid operates in the same sector and does similar and complementary work so as to pursue greater efficiency in managing the non-traditional activities.

On 20 December 2013, in line with the current regulatory framework, the subsidiary Terna Storage sold the entire lot of projects relating to the storage systems under construction to the parent company. The price agreed was Euro 33,181,976.82 and the operation came under the scope of the new intercompany service contract stipulated late 2013. The amount agreed allows for the all-inclusive coverage of costs incurred by Terna Storage up until the date on which the above-mentioned intercompany contract came into force (1 December 2013) for the development of the storage system projects.

On 20 May 2014, the Terna Group signed the closing for the acquisition, by Terna Plus, of the entire capital of Tamini and of its subsidiaries. The deal followed the transaction announced by Terna Plus on 25 February 2014. Tamini is a group of companies that produces and sells electrical transformers for industrial applications (e.g. steel and aluminium production plants) as well as for the electrical utilities (power transformers, mainly targeted to transmission and distribution networks) in Italy and in other international markets. Tamini owns four production facilities in Italy (Legnano, Melegnano, Novara and Valdagno) and sells its products either directly to the end customer or through Engineering and Construction (EPC) companies. Tamini is also present in the USA through a wholly owned subsidiary. In 2013 Tamini registered total Value of Production[6] for Euro 106.238.999,00. At the end of year 2014 Tamini recorded revenues of Euro 106.3 million. As from 1 January 2015, the company Verbano Trasformatori S.r.l., (already controlled by Tamini) was incorporated in Tamini.

On 30 October 2015, under the scope of Non-Regulated Activities, Terna completed the operation relating to the acquisition of Tamini, a subsidiary of Terna Plus, and TES (which owns TES Asia, an Indian company, considering that one share is held by Antonio Fasano on behalf of TES as a "nominee" under the Indian legislation about "one person companies"). The operation, announced to the market on 16 September 2015, has been carried out through an increase in Tamini's share capital of around Euro 26.4 million, reserved for Holdco TES S.r.l. (controlled by the Xenon Private Equity V fund, Riccardo Reboldi and Giorgio Gussago) and the consequent transfer of all TES shares to

[7] 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.

Tamini. Following the agreement, Terna Plus will hold 70 per cent. of the share capital of Tamini while Holdco TES will hold the remaining 30 per cent.

On 14 July 2014 the subsidiary TRI S.r.l. acquired the business unit Brulli Trasmissione after a bankruptcy auction procedure organised by the Court of Reggio Emilia. As part of the business unit, the ownership of nine Brulli Trasmissione's National Transmission Grid stations (for a value of Euro 11.1 million), covered by specific leasing contracts, was transferred to the subsidiary along with an electrical station under construction at the Cassano d'Adda site (for a value of Euro 2.2 million) and the warehouse (for a value of Euro 1.5 million) in addition to the related contractual relationships. The purchase price of the business unit, fully paid, was Euro 3.7 million.

On 23 July 2014, as part of the process of carrying out the Group's activities with particular reference to the creation and management of infrastructures for interconnections with other countries, the parent company Terna and the subsidiary TRI S.p.A. incorporated the company Terna Interconnector with share capital of Euro 10,000, 95 per cent. of which subscribed by Terna and the remainder by the aforesaid subsidiary. The purpose of Terna Interconnector is to design, create, manage, develop, operate and maintain, also on behalf of third parties, lines and network structures and other related infrastructures, plants and equipment functional to the said activities in the sector of electricity transmission or in analogous, related or connected sectors. Terna Interconnector may also carry out research and provide advice and assistance in the sectors listed above as well as any other activity that enables better use and enhancement of the grids, structures, resources and skills employed.

On 24 July 2014, Terna Plus signed the closing for the acquisition of the entire capital of Helio Atacama and of its subsidiaries Pampa Solar Norte Uno S.p.A., Pampa Solar Norte Dos S.p.A. and Pampa Solar Norte Cuatro S.p.A.

On 4 December 2014, Terna Plus signed the closing for the sale of the entire capital of Helio Atacama and of its subsidiaries Pampa Solar Norte Uno S.p.A., Pampa Solar Norte Dos S.p.A. and Pampa Solar Norte Cuatro S.p.A. to Enel Green Power Chile Limitada (see also "*Overview"*).

On 4 June 2015, Terna Plus established Terna Chile with a share capital of a million Chilean pesos fully paid-in. The company's main purpose is to carry out design, construction, administration, development, operation and maintenance activities relating to electrical structures, plants, equipment and infrastructures, including those of interconnections.

On 13 April 2015, Monita was incorporated, with a share capital of Euro 10,000subscribed 95 per cent. by Terna and for the remainder by TRI S.p.A. The new company was established, amongst others, to operate, in particular, in the field of developing and implementing the "Italy-Montenegro Interconnector" Project. The financing of the project and its ownership will be partly assumed by certain Selected Entities. Following the issuance of the exemption, the company is expected to be fully transferred to the relevant Selected Entities and will act as the special purpose vehicle which will be mandated to build and operate the private interconnection infrastructure. Upon receipt of a specific mandate from the relevant Selected Entities, Monita has filed an exemption request with the Ministry of Economic Development in 2015. The document was filed with the European Commission for the necessary approval.

On 11 May 2015, Enel and Terna signed a memorandum of understanding to cooperate in the identification, assessment and development of integrated initiatives and opportunities, both greenfield (for the creation of new assets) and/or brownfield (for the acquisition of existing assets) projects, related to transmission grids in countries other than Italy, where both Enel and Terna have a strategic or commercial interest.

In August 2015, Terna signed an agreement with the French grid operator RTE to enhance technical cooperation in various areas. In addition to the project for the new cross-border electricity line

between Italy and France, the relevant agreement provides that the parties will strengthen their commitment to develop electricity transmission infrastructure in Central – Southern Europe and the future European electricity system.

On 30 December 2014 Terna, Ferrovie dello Stato Italiane S.p.A. (FS), RFI – Rete Ferroviaria Italiana S.p.A. (RFI) and S.EL.F. – Societa Elettrica Ferroviaria S.r.l. (SELF), (all companies within the FS Group), entered into a non-binding memorandum of understanding to evaluate the potential purchase by Terna of the "High and Very High Voltage" electricity transmission grids currently owned by the FS Group.On 23 December 2015, Terna acquired the entire capital of SELF. On the same date the extraordinary Shareholders' Meeting of SELF also approved the change of the corporate denomination into Rete.

On 13 October 2016 Terna acquired the Uruguayan company Difebal S.A. The company's main purpose is the design, construction and maintenance of electricity infrastructure in Uruguay. The tender issued by UTE (the Uruguayan transmission system operator) was awarded to Terna and the rights have been assigned to Difebal.

On 17 November 2016, Terna and RFI signed a letter of intent with the aim of collaborating to identify and implement initiatives of common interest in the renewable-energy field in Italy. In particular, the agreement will see the two companies develop a project aimed at constructing photovoltaic plants. Pursuant to the agreement, the companies plan to identify areas on which the photovoltaic plants can be constructed, up to a maximum power of 200 MW, which will guarantee RFI up to approximately 300 GWh of clean energy per year. Potential plant construction sites include some Sardinian locations in the areas of Sassari (Porto Torres) and Nuoro (Bolotana). The project that Terna and RFI are planning could constitute the first large-scale operation (more than 70 MW) in the photovoltaic sector to achieve "grid parity" in Italy, i.e. without state incentives and, therefore, unlike in the past, without additional costs for businesses and families. The initiative is set in the context of wider collaboration between the two companies, which began in 2015 when Terna acquired the Gruppo di Ferrovie dello Stato Italiane S.p.A. (Italian railways) high-voltage grid. This will lead to the development of numerous activities aimed at harnessing existing synergies, particularly with regard to border and interface areas and infrastructure.

On 21 December 2016, Eni and Terna signed a memorandum of understanding, for the identification and evaluation of opportunities for the development and implementation of energy systems, with a focus on sustainability and supporting production from renewable sources.

In the context of its international activities, on 2 February 2017, Terna Plus signed an agreement with Planova, a Brazilian company engaged in civil and infrastructural works, for the acquisition of two concessions relating to the creation and operation of approximately 500 kilometers of transmission infrastructures in that country. The two concessions, each having a term of thirty years, provide for the construction of, respectively, 158 kilometers of new lines in the State of Rio Grande do Sul and 350 kilometers of transmission lines in the State of Mato Grosso.The total value of the contract is around 180 million dollars. For the Terna Group the agreement involves holding the concession and operating the line, while all the engineering, procurement and construction (EPC) activities will be entrusted to Planova, as 'contractor' on Terna's behalf. The deal will make it possible to make the most of Terna's industrial role through a project of dimensions and characteristics in keeping with the corporate strategy, supporting growth and value creation in the long term. The closing of the contract signed by Terna Plus and Planova was made subject to fulfilment of the following conditions: Planova had to obtain all the permits and licences essential to construct and operate the infrastructures, as well as authorisation from the Brazilian Antitrust body (CADE - Conselho Administrativo de Defesa Econômica) and Regulator (ANEEL - Agência Nacional de Energia Elétrica). This agreement falls within the strategic context of Terna's initiatives and projects for developing electrical grids and infrastructures abroad, leveraging the skills and know-how gained in the core business of electricity transmission.

Terna Storage S.r.l. and Terna Rete Italia S.r.l. were merged by incorporation into Terna as of 31 March 2017.

On 10 May 2017, the subsidiary Terna Plus established two limited-liability companies, Rete Verde 17 S.r.l. and Rete Verde 18 S.r.l., aimed at the development of renewable-energy initiatives in accordance with the above-mentioned agreement between Terna and RFI dated 17 November 2016.

On 19 May 2017, Proinversiòn, a state agency for infrastructural investment controlled by the Peruvian Ministry of Energy and Mines, awarded Terna Plus with a contract for the construction of a power line in Peru, extending 132 km, between Aguaytìa and Pucallpa in the context of a tender procedure.

On 2 June 2017, Terna and Rosseti, a Russian company, signed a non-binding memorandum of understanding having a term of 36 months providing for the exchange of know-how, best practices and cooperation in certain key technological areas in the electricity-transmission sector, including storage and the integration of renewables, as well as the identification of advanced solutions in the context of planning and constructing high-voltage networks and their management by automatic systems.

In the context of the Tamini Group, T.E.S. Transformer Electro Service S.r.l. and V.T.D. Trasformatori S.r.l. were merged by incorporation into Tamini as of 8 June 2017.

On 13 June 2017, Terna Plus and Terna Chile established Terna Peru S.A.C. under Peruvian law, with a shareholding of 99.99 per cent. and 0.01 per cent. respectively, for the construction of the above-mentioned power line.

On 26 June 2017, in Brazil an agreement with the Planova Group (a Brazilian company operating in the construction of civil works and infrastructure) was finalised with the aim of acquiring two concessions for the construction and operation for a 30-year period of approximately 500 km of electricity infrastructure. Following the signing of the agreement on 2 February 2017, the operation was completed through the subsidiary Terna Plus and resulted in the acquisition of two Brazilian vehicle companies (SPVs), "SPE - Santa Maria Transmissora de Energia S.A." and "SPE - Santa Lucia Transmissora de Energia S.A.". According to the agreement, the Terna Group will be responsible for holding the concession and operating the line, while all engineering, procurement and construction (EPC) activities will be entrusted to Planova. Expected investments of Euro 180 million.The shareholding of Terna Plus S.r.l. is 99.9 per cent., while the remaining 0.01 per cent. is held by Terna Chile S.p.A.

On 4 July 2017, the Terna Group and the "Interconnector Italia S.C.p.A." consortium, which gathers "energy-intensive" private companies (industrial consumers mainly in the steel, paper and chemical sectors), signed the agreements for the construction and operation of the private part of the 320 kV DC interconnection project which will connect Italy with France ("**Italy-France Interconnector Project**"). In the context of this transaction, the Interconnector Italia consortium acquired the entire capital of Piemonte Savoia S.r.l. (**PI.SA.**) formerly controlled by the Terna Group through Terna Interconnector S.r.l. PI.SA. holds the exemption right for third-party access (TPA) - for a capacity of 350 MW and for a period of 10 years - on behalf of the Italy-France Interconnector. Mandate contracts for a total amount of about Euro 415 million and related to the construction (EPC) and the operation (O&M) of the Italy-France Interconnector were also signed. The Italy-France Interconnector, which provides a total (public part and private part) cross-border exchange capacity of 1,200 MW available starting from 2020 (entry into operation envisaged by the end of 2019), represents a unique project worldwide for engineering and technological solutions, and it is identified by the European Commission as a Project of Common Interest (PCI). With a total length of 190 km (equally distributed between Italy and France), this project will be the longest DC underground power line in the world, fully integrated within the transport infrastructure system and utterly "invisible". In fact, in order to minimize its impact on the landscape, the line will be fully integrated with the

existing road and motorway infrastructures and it will cross the border through the Frejus safety tunnel. Once operational, the connection will provide a roughly 40 per cent. increase in the electricity trading capacity between Italy and France, in line with the European strategy to strengthen electricity interconnections between member states aimed at increasing security of supply and improving market competition.

On 14 July 2017 Terna Plus incorporated two new companies, Rete Verde 19 S.r.l. and Rete Verde 20 S.r.l., entirely owned by Terna Plus.

On 25 July 2017 Terna Plus and Avvenia entered into a partnership agreement to identify and implement new commercial opportunities for services and work involving energy efficiency.

On 8 September 2017 Terna, through its subsidiary Terna Plus, closed a deal for the construction of the above-mentioned 138-kV power line, 132 km long which will connect the substations of Aguaytía and Pucallpa, in the region of Ucayali in Peru. The license mentioned above which Terna was awarded in May 2017 following the call for tender issued by Proinversion has a duration of thirty years and a value of around 9 million US dollars.

ALTERNATIVE PERFORMANCE MEASURE

Terna Group monitors and evaluates its operating and financial performance using, inter alia, EBITDA (Gross Operating Margin) as an alternative performance measure (the **Alternative Performance Measure**). The Terna Group believes that this Alternative Performance Measure provides useful and relevant information to assess the financial performance of the Terna Group. This Alternative Performance Measure also facilitates management's ability to identify operational trends, as well as make decisions regarding future spending, resource allocations and other operational decisions. While similar measures are widely used in the industry in which the Terna Group operates, the Alternative Performance Measure used by the Terna Group may not be comparable to other similarly titled measures used by other companies nor is it intended to be a substitute for measures of financial performance as prepared in accordance with IFRS.

EBITDA (Gross Operating Margin)

EBITDA (Gross Operating Margin) is calculated as the EBIT plus amortisation, depreciation and impairment.

EBIT is an operating performance measure, identifies the operation profit and is calculated as the profit before taxes plus net financial expenses/income.

EBITDA (Gross Operating Margin) is presented by management to assist investors in their analysis of the performance of the Terna Group and to facilitate the comparison of the Terna Group's performance with that of other companies.

The following table sets forth the calculation of EBITDA (Gross Operating Margin) for the six months ended 30 June 2017 and 2016:

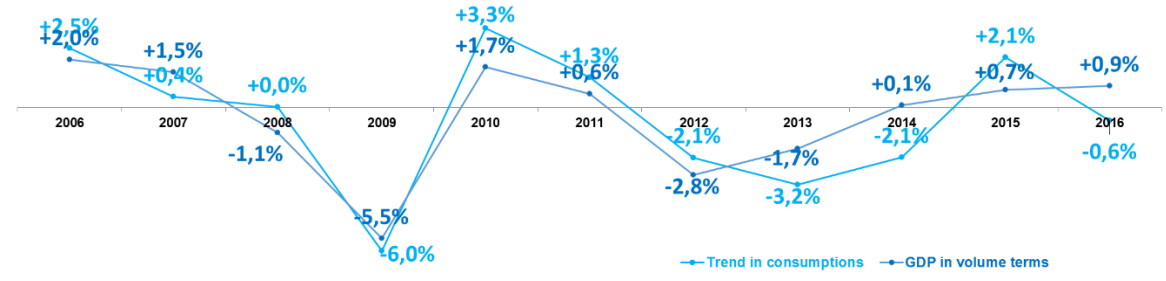
Data in million euros	**H1 2017**	**H1 2016**	**per cent. Change**
EBITDA (Gross Operating Margin)	**794.8**	**777**	**+2.3 per cent.**
Amortisation, depreciation and impairment	260.8	267.2	**-2.4 per cent.**

Net financial expenses	39.6	36.2	**+9.4 per cent.**
Income taxes	143.9	150.7	**-4.5 per cent.**
Net profit	**350.5**	**322.9**	**+8.5 per cent.**

BUSINESS OVERVIEW

The demand for electricity in Italy in 2016 amounted to 314.3 TWh decreasing by 0.8 per cent. compared to 2015 (316.9 TWh). In 2017, from January to June, the demand for electricity amounted to 154.5 TWh (provisional data) which is comparable to the same period of the previous year (154.8 TWh).

The evolution in consumption for electricity in Italy is basically in line with the real Gross Domestic Product (GDP) trend for Italy, as shown in the following figure (1). Following the highly negative trends in the electricity consumption and the GDP of 2008 and 2009, particularly due to the severity of the financial crisis, a recovery in both indicators occurred in the years 2010 and 2011. In 2010 and 2011 the growth in consumption for electricity was higher than the GDP growth. Similarly, in 2012 the electricity consumption drop was less severe than the GDP decrease. On the contrary, in both 2013 and 2014 the decrease in consumption for electricity exceeded the decrease in GDP. As in recovery years 2010 and 2011, in 2015 the growth in consumptionfor electricity was nearly twice the GDP growth.



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

PRINCIPAL ACTIVITIES

Terna operates the electricity transmission business in Italy and is the principal owner of the high voltage and very high voltage electricity transmission networks and systems of the Italian grid. Terna currently owns, directly or indirectly, approximately 99 per cent. of the National Transmission Grid.

Terna's principal activities consist of the transmission and dispatching of electricity in Italy and the operation, maintenance and development of the National Transmission Grid pursuant to the terms of the 2005 Concession as updated and amended on 15 December 2010.

Terna Group's Grid

A general overview of the number of NTG owned by the Terna Group is reported in the table below:

DETAILS OF ELECTRICAL SUBSTATIONS OWNED BY THE TERNA GROUP(20)

	Unit of measurement	30/06/2017	31/12/2016	Δ	Δ%
380 kV					
Substations	No.	163	161	+2	+1.24
Power transformed	MVA	112,808	110,708	+2,100	+1.90
220 kV					
Substations	No.	148	150	(2)	(1.33)
er transformed	MVA	31,067	30,837	+230	+0.75
Lower voltages (≤150kV)					
Substations	No.	550	544	+6	+1.10
Power transformed	MVA	3,972	3,911	+61	+1.56
Total					
Substations	No.	861	855	+6	+0.70
Power transformed	MVA	147,847	145,456	+2,391	+1.64

DETAILS OF POWER LINES OWNED BY THE TERNA GROUP(21)

	Unit of measurement	30/06/2017	31/12/2016	Δ	Δ%
380 kV					
Circuit length	km	12,335	12,314	+21	+0.17
Line length	km	11,259	11,238	+21	+0.19
220 kV					
Circuit length	km	11,700	11,698	+2	+0.01
Line length	km	9,369	9,363	+5	+0.06
Lower voltages (≤150kV)					
Circuit length	km	48,806	48,832	(26)	(0.05)
Line length	km	45,761	45,765	(4)	(0.01)
Total					
Circuit length	km	72,841	72,844	(3)	-
Aerial	km	69,556	69,618	(61)	(0.09)
Underground cable	km	1,822	1,804	+17	+0.96
Undersea cable	km	1,463	1,422	+41	+2.86
Line Length	km	66,389	66,366	+23	+0.03
Aerial	km	63,105	63,140	(35)	(0.06)
Underground cable	km	1,822	1,804	+17	+0.96
Undersea cable	km	1,463	1,422	+41	+2.86
Proportion of DC connections (200-380-500kV)					
Circuits	km	2,077	2,066		
% of total	%	2.85	2.84		
Lines	km	1,757	1,746		
% of total	%	2.65	2.63		

(20) MVA calculated to three decimal and rounded to the unit. Percentage calculated to five decimal places and rounded to two decimal places.
(21) km calculated to three decimal places and rounded to the unit. Percentage calculated to five decimal places.

Dispatching, operation and maintenance of the National Transmission Grid

The Terna Group's principal business is the operation, maintenance and development of the Terna Group's Grid and the management of the transmission and dispatching of electricity over the entire National Transmission Grid.

The activities related to transmission and dispatching of electricity over the National Transmission Grid as well as the operation, maintenance and development of the Terna Group's Grid are carried out by TRI S.p.A.

Dispatching

Since 1 November 2005, Terna has conducted dispatching activities with respect to the National Transmission Grid in order to ensure secure and coordinated use and operation of generation plants, transmission grid and ancillary services on an economic basis as well as to maintain a balance between input and output of electricity observing relevant margins.

The dispatching services currently carried out by TRI S.p.A. consist of:

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

The dispatching activities are carried out in accordance with the 2005 Concession as updated by the Concession governed by the relevant Convention issued with Ministerial Decree on 15 December 2010 (the New Concession and the New Convention; see also "*History and Development*" and *Regulatory Matters*") and on the basis of the economic and technical rules set by the AEEGSI. Pursuant to these regulations, Terna has issued the "Dispatching Rules" contained in the Grid Code, establishing the rights and obligations of users, the technical and economic procedures to be followed and the type of resources required for dispatching services.

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

Operation

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.

(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. defines the unavailability plans for the Terna Group's Grid and coordinates the unavailability plans of the producers and other users of the National Transmission Grid with its own plans and with the ones 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.

(b) Response operations

TRI S.p.A. is required to promptly respond to all hazardous conditions that arise from any failure or malfunction of any part of the Terna Group's Grid and, if possible, rectify such failure or malfunction.

(c) Temporary placement out of service for maintenance

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

During 2017 TRI S.p.A. has completed the reorganisation of its territorial centres with a view to coordinate and integrate the dispatching activities and operation activities. By implementing such reorganisation, TRI S.p.A. aims to: (i) combine skills and responsibilities, (ii) integrate the monitoring activities on the network and (iii) increase physical security with widespread disaster recovery sites. TRI S.p.A. has currently three local integrated centres, named CCI, in Turin, Dolo (Venice) and Naples for dispatching and operation activities.

Maintenance

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

TRI S.p.A. is responsible for maintenance operations and performs routine maintenance and extraordinary maintenance of the Terna Group's Grid.

Maintenance activities are aimed at:

- maintaining an adequate level of functioning of the system and its components and reducing the probability of the occurrence of anomalies and faults at the National Transmission Grid's plants;

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

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

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 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 checking and maintenance criteria are defined by TRI S.p.A. according to principles including the technical code of practice, standards and indications from building constructors, the technical conditions of the components and equipment and Terna's own past experience and best practices. Terna, also through TRI S.p.A., has developed a proprietary integrated maintenance management

system (MBI - Monitoring and Business Intelligence) to support the asset management process for the high voltage transmission system and has established maintenance policies and plans setting its performance targets and budget controls.

Development

Terna and TRI S.p.A. also engage in development activities related to the expansion and the upgrade of the National Transmission Grid. Development activities for the National Transmission Grid include:

- identification of network developments aimed at the resolution of the current criticalities of the National Transmission Grid as well as possible problems envisaged in future scenarios of load demand, generation and interconnection with other Countries;

- identification of network developments that offer benefits for the electrical system allowing greater use of more competitive generation plants limited in production for network bottlenecks;

- costs/benefits evaluations in order to quantify the benefits of network developments on the National Transmission Grid and to prioritize those that lead to greater benefits;

- increasing the transmission capacity or the interconnection capacity of the National Transmission Grid;

- extending the National Transmission Grid geographically through the construction of new electrical lines or new electrical stations;

- increasing operating flexibility;

- preventive environmental assessments so as to ensure that network developments are consistent with the maximum respect for the environment;

- decommissioning elements of the National Transmission Grid to the extent necessary for the rationalisation of the National Transmission Grid; and

- downgrading or upgrading power lines and stations in order to optimize electrical benefits and minimize environmental impacts.

The development of the National Transmission Grid is decided in compliance with the Concession governed by the relevant Convention issued by Ministerial Decree on 15 December 2010 (hereinafter referred to as the **New Concession**; see also "*Regulatory Matters*"). The development activities for the National Transmission Grid concern mainly the planning, the design and the realisation of projects.

In the next Transmission Development Plan (hereinafter referred to as **TDP**), the New Concession Laws 93/2011 and Law 28/2011 will be observed.

Terna is particularly conscientious about National and European energy policy objectives, especially about the integration of renewable energy sources, the integration of the electricity market and the security of supply. Therefore, Terna also aims at planning appropriate projects for the development of the National Transmission Grid that can drive the development of renewable energy.

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

Terna is also part of ENTSO-E, the European Network of Transmission System Operators composed of 43 European Transmission System Operators from 36 countries , including Turkey. ENTSO-E has been given legal mandates by the EU's Third Legislative Package for the Internal Energy Market in 2009 which aims at further liberalizing the gas and electricity markets in the EU. The main objectives of ENTSO-E are to to set up the internal energy market and to ensure its optimal functioning, to promote reliable operation as well as optimal management and development of the European electricity transmission network. Part of these objectives are achieved by ENTSO-E through the non-binding European Ten-Years Network Development Plan (hereinafter referred to as **TYNDP**), which is the most comprehensive and up-to-date European-wide reference for the transmission network. TYNDP points to significant investments in the European power grid in order to help achieve the European energy policy goals. The TYNDP includes European investments in transmission infrastructures and monitors developments in the capacity of transmission networks to promptly identify possible gaps, particularly with regard to cross border capacities.

Major investments planned by Terna in the short-medium term and long term are included in the TYNDP. Furthermore, the above-mentioned development plan recognizes the central and strategic position of Italy in the Mediterranean basin in particular with reference to the integration of European electric systems of the Balkans and the North African shore. A new version of ENTSO-E TYNDP is expected by the end of 2018.

Other businesses

In Italy, the Terna Group also offers certain unregulated services to third parties. The services include (i) engineering, construction, operation and maintenance of high voltage and very high voltage networks and systems as well as (ii) telecommunication sector services and (iii) construction, repair and sales of electrical transformers.

The revenues from these services and other revenues, for the six months ended 30 June 2017, amounted to Euro 79.4 million, such being 7.6 per cent. of the Terna Group's total consolidated revenues.

Engineering, construction, operation and maintenance

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

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

A further step towards defining opportunities within the sphere of non-traditional activities in Italy was the signing of the Memorandum of Understanding (hereinafter referred to as **the MoU**) on 16 December 2013 with several trade federations, in the presence of the Minister for Economic Development and of Confindustria. The MoU regards the construction and management of interconnection infrastructure with foreign countries ("Interconnections or Interconnector") pursuant

to article 32 of Italian Law 99/2009 and aimed at providing a basis for negotiation for future agreements with the parties winning the tender procedures held by Terna in 2009 and 2010.

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

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

For the six months ended 30 June 2017, other revenue from sales and services amounted to Euro 68.2 million showing a decrease of Euro 8.4 million compared to the first half of 2016 mainly due to the effect of the reduction in sales of transformers made in the period by the Tamini Group (Euro -7.9 million). It is to be noted, however, that in the first half of the year the Tamini Group's transformer order book grew by 13 per cent. compared to the same period of the previous year. With reference to EPC contracts, it is also worth noting the higher revenues of the first half of 2016 connected with an order in Chile (Euro -1.7 million). It also includes higher revenues for the service of connecting plants to the NTG (Euro +1.3 million).

Telecommunication sector services

Support structures and equipment housing

Terna leases out space on the Terna Group's Grid for the installation of support structures (such as towers, masts, poles, and other supports) for antenna systems and for the installation of telecommunications housing equipment; rental income for the first half of 2017 was equal to Euro 10.9 million. The primary user of this type of service is Wind Telecomunicazioni S.p.A.

Installation, maintenance and development of optical fibre cable networks

Terna offers services for the installation, maintenance and development of optical fibre cables and network infrastructure. In particular, Terna provides these services to companies of the Wind Telecomunicazioni S.p.A. group.

In addition to the above and within the framework of non-regulated activities, it is worth mentioning (i) initiatives abroad and (ii) activities within the field of Interconnector.

Initiatives abroad

Terna pursues development business in other countries with a view to diversify the domestic activities. Such development is carried out also in collaboration with other energy operators with a consolidated presence abroad. By carrying out initiatives abroad, Terna aims to create value for the Group by diversifying risk and selecting opportunities with an attractive risk/return ratio.

In the context of initiatives carried out abroad, Terna focuses on geographic areas requiring investments in transmission infrastructures and which, at the same time, have stable political and regulatory structures.

Such initiatives abroad encompass:

- EPC;
- technical assistance by providing engineering and regulatory consultancy services for third parties operating in the electricity sector, also through participation in public tenders;

- BOOT (Build, Own, Operate, Transfer) pursuant to which Terna designs, constructs and operates transmission infrastructures and acquires the relevant ownership for a defined period of time and, at the end of the period, the ownership of the assets is transferred to another pre-agreed entity; and

- concessions pursuant to which Terna acquires and manages transmission systems abroad by taking part in international concession tenders.

Interconnector

EU Regulation No. 1228/2003 and Regulation (EC) No. 714/2009 laid down guidelines for the creation of interconnections with other countries by entities which are not grid operators to support the development of a single electricity market by realizing new cross-border transmission infrastructures.

Italian legislation transposed the above-mentioned European legislation by enacting Law 99/2009. Pursuant to such piece of legislation, Terna was assigned the task of carrying out public tenders to select private investors (the **Selected Entities**) among large industrial electricity consumers willing to finance specific interconnections. The Selected Entities will finance the new interconnectors against the benefits and revenues deriving to them from obtaining a decree of exemption from access by third parties on the transfer capacity that the related infrastructures would make available. In particular, the law states that these Selected Entities will give Terna a mandate for planning, construction and operation of the new interconnections.

The Italy – France Interconnector (which is in an advanced stage of development and has recently received the exemption decree from the Italian Ministry of the Economic Development) and the Italy-Montenegro Interconnector are in an advanced stage of development and the Italy-France Interconnector was financed in the context of the first project finance carried out by the Selected Entities.

Research and Development

Terna, through TRI S.p.A., focuses on research and development mainly with the aim to introduce technological solutions for power systems (OHL, cable lines and substations), instruments and methods, in order to boost plant reliability and, as a consequence thereof, the quality of its service, improving at the same time the efficiency of its processes.

The innovative solutions developed by Terna's research and the development programme (hereinafter referred to as **the R&D Programme**) have led to substantial improvements in Terna's business, including its decision-making processes, technology and methods (*i.e.* live line maintenance working).

A dedicated group of engineering experts is in charge of monitoring continuously the performance of equipment and components, with the support of a specialised IT platform (called MBI), and constantly looks for improvements to be applied to them.

Research and development activities are mostly oriented in involving internal resources and in organising them into specific working groups as well, in order to spread knowledge across the company. A more specialist support in this field is given by universities and research companies (CESI and RSE).

In particular, in recent years, the following innovative projects have been identified and implemented by the R&D Programme:

- **Innovative Towers**: research for innovation in design of High Voltage towers moved in recent years towards more compact solutions and today also passed through beauty contest tenders, resulting in new awarded designs (Foster/Dutton-Rosental pylons).

  Innovative tower solutions also include the design of temporary towers, specially designed for quick installations, offering a lightweight, durable and versatile solution to face emergency situations created by system outages.

- **Innovative Conductors**: research mainly focuses on High Temperature Low Sags (HTLS), which are able to withstand higher current thus increasing the transfer capacity of overhead lines (respecting the minimum distance between the overhead conductors and ground). After the development and the first installation of ultra thermal-resistant aluminium alloy conductors Invar reinforced (ZTACIR), the R&D Programme is currently exploring other types, such as the following: ACSS (Aluminium Conductor Steel Supported), ACCC (Aluminium Conductor Composite Core), ACCR (Aluminium Conductor Composite Reinforced).

- **Cables**: integration of cable lines with motorway infrastructures is being studied (cables installation design and compatibility).

- **Compact Substations for Quick Installation** called **SCRI**: SCRI are mobile 145 – 170 kV substations, characterised by small dimensions, which allow easy transportability, and quick installation. Although SCRI have been developed in order to meet the need of quick connection of renewable power plants to the National Transmission Grid, they are also suitable to reduce the outage of substations in case of refurbishment or to improve the resilience of the grid when faults occur.

- **Transformers research**: due to the fact that reliability, safety and environmental compatibility are even more important drivers for innovation, new specifications aimed at better defining, designing and testing new transformers have been carried out during recent years. The goal of the research activities in this specific field is mainly oriented to increase resilience of transformers by means of i) eliminating gas losses and explosion risks, focusing on the on-line monitoring, tests and new design requirements for mechanical stress on electrical components, as a consequence of short circuit current and ii) improving environmental compatibility (use of vegetable insulating oil).

- **Diagnostics**: the R&D Programme's diagnostic research is one of the strengths of Terna and allows it to improve the reliability of its components, in particular:

  – **Cables**: a Distributed Temperature Sensing (DTS), which is a temperature diagnostic system to improve transfer capacity of cables and to prevent faults, has been implemented in cable lines in order to validate its performance.

  – **OHL**: research solutions are carried out by Terna with the aim to prevent faults and outages of overhead lines, including a continuous monitoring of the performance and reliability of RTV silicone coated and composite insulators, installed in very high polluted areas in Italy. An experimental laboratory to study insulators pollution has been realized.

  – **Dynamic Thermal Rating**: projects are carried out in relation to systems for dynamic determination of transmission capacity of National Transmission Grid's elements, depending on the real environmental conditions and operations.

- **Monitoring networks**: Terna monitors the growing impact of renewables on distribution networks, which implies the need for data and modelling for a detailed view of the load/generation on distribution systems interoperable with the National Transmission Grid.

- **Substation equipment**: in order to improve asset management and maintenance intervention, Terna's research has developed a new concept of on-line diagnostic system, called EDS (Expert Diagnostic System). This system is based on the utilization of simple sensors with the aim of acquiring the most significant parameters from various substation equipment (circuit breakers, CTs, VTs, surge arresters and transformers) to transmit signals trends, in order to automatically schedule the maintenance activities. The system will soon be deployed in a first group of substations.

- **RTDS**: Terna has implemented a test laboratory which, through a real Time Diagnostic System (RTDS), allows to represent and model Electric Grid and all its components and to validate digital protection systems.

- **Environmental Compatibility:** the activities are focused on:

  - Development of new equipment with low environmental impact (e.g. alternative gas to SF6).

  - Development of new power transformers isolated with natural ester transformer oils.

  - Development of new techniques aimed at reducing i) noise ii) low frequency magnetic fields and iii) visual impact of the electric grid.

  - Life Cycle Assessment (LCA) analysis, in order to identify possible critical phases for the environment during the design, the implementation and the management of overhead and cable power lines.

ORGANISATIONAL STRUCTURE

Terna is the parent company of the Terna Group. It owns the Concession relating to electricity dispatching and transmission (issued with the Decree 20 April 2005 of the Ministry of Productive Activities *i.e.* **the 2005 Concession** as amended and integrated by decree dated 15 December 2010) and maintains ownership of the capital assets and responsibility for defining the National Transmission Grid's Development Plan and the Defence Plan.

The structure of the Terna Group includes as of 5 October 2017 Rete, TRI S.p.A., Terna Interconnector, Terna Crna Gora, Terna Plus, Tamini Group, Terna Chile, Monita, Difebal S.A., SPE Santa Maria Transmissora de Energia S.A., SPE Santa Lucia Transmissora de Energia S.A., Terna Peru S.A.C., Rete Verde 17 S.r.l., Rete Verde 18 S.r.l., Rete Verde 19 S.r.l., Rete Verde 20 S.r.l., ELMED, CESI, CORESO and CGES as described above (see also "*Overview*" and "*History and Development*").

Regulated Activities

The Terna Group's core business is mainly associated with traditional activities relating to the transmission and dispatching of electrical energy on the National Transmission Grid in Italy through

TRI S.p.A. and Rete. In addition, similar activities are carried out abroad through **Terna Crna Gora**.

Non-Regulated Activities – New business opportunities in Italy

The Terna Group offers products and services pursuing new business opportunities thanks to the experience, technical skills and innovation capabilities acquired through the management of complex systems.

International Activities – Operator on the international market

The Terna Group offers products and services abroad with a view to diversifying its activities carried out in Italy, and collaborates with energy operators with a consolidated international presence. The development activities focus on geographical areas requiring investments in transmission infrastructures that also have stable political and regulatory frameworks and a risk/return profile in line with that of Terna.

Both the above-mentioned Non-regulated Activities and the above-mentioned International Activities are carried out through the following companies:

- **Terna Plus S.r.l.**
- **Tamini Group**
- **Terna Chile S.p.A.**
- **Terna Interconnector S.r.l.**
- **Monita Interconnector S.r.l.**
- **Difebal S.r.l.**
- **SPE Santa Maria Transmissora de Energia S.A.**
- **SPE Santa Lucia Transmissora de Energia S.A.**
- **Terna Peru S.A.C.**
- **Rete Verde 17 S.r.l.**
- **Rete Verde 18 S.r.l.**
- **Rete Verde 19 S.r.l.**
- **Rete Verde 20 S.r.l.**

Terna also participates in the following associate companies:

- **CESI S.p.A.**
- **CORESO S.A.**
- **CGES AD**

and in the joint venture company **Elmed Etudes.**

STRATEGY AND BUSINESS PLAN

2017-2021 STRATEGIC PLAN

The 2017-2021 strategic plan's main goal is to accelerate grid investments in order to enable the energy transition and to generate greater benefits. While the strategic plan recognises that all targets for 2016 set out in the previous strategic plan have been met, the same plan provides for:

- investments for the development and the modernization of the grid for approximately Euro 4 billion in the following five years, showing an increase of approximately 30 per cent. if compared to the previous strategic plan
- increase in revenues and EBITDA respectively to approximately Euro 2.3 billion and Euro 1.7 billion in 2021, with an average annual growth of 2 per cent.;
- contribution for approximately Euro 350 million to the Group's EBITDA in 5 years from Non-Regulated Activities;
- strong capital structure maintained, due to a robust cash flow generation
- a dividend policy at 3 per cent. annual growth until 2021.

INVESTMENTS IN THE NATIONAL GRID

The reference scenario of the electricity sector in Italy and Europe that is undergoing a steady growth of non-programmable renewables and, at the same time, the decommissioning of traditional plants, makes it necessary to change the development of grids. In particular, also in line with the EU guidelines, all projects aimed at the decarbonisation of energy production, achieving more efficient markets and security of supply have become fundamental.

To this, Terna will focus on new electricity interconnections between neighboring countries and higher technological and smart energy infrastructure, with low environmental impact.
Opportunities and challenges in a context where the Terna Group is a trigger for the change, by increasing its commitment for renewables integration in the grid and for security of the system, strengthening interconnections and accelerating investments to solve local congestions. Terna is at the heart of the energy transition in Italy and in Europe, and therefore confirms its commitment to a greater integration in the electricity system, thanks to advanced technologies with increasing attention to environmental and sustainability issues. Therefore, in the next five years, Terna Group envisages investments in the electricity grid that will reach around Euro 4 billion, showing an increase in the average annual spending about 30 per cent. higher if compared to the previous strategic plan.

The main ongoing electricity infrastructure projects include the interconnections with Montenegro and France that are both expected to be completed in 2019. During the strategic plan period, Terna is expected to commence the new project SACOI3 for the connection of Sardinia, Corsica and Italy and the Italy-Austria interconnection.
Additional projects aimed at improving exchange capacity between the different Italian market zones are Colunga-Calenzano, Foggia-Gissi, Paternò-Pantano-Priolo and Chiaramonte Gulfi-Ciminna.

The "Sorgente-Rizziconi" line became operational in 2016, linking Sicily to the rest of Italy and therefore Europe through the Italian high-voltage electricity system. By means of the "Sorgente-Rizziconi" line, Terna has solved an important bottleneck and eliminatedthe price differential between

Sicily and the rest of the country, with estimated savings for about Euro 600 million, in addition to lower emissions for 700 thousand tons of CO2 every year. The Regulated Asset Base (RAB) will reach Euro 15.6 billion by 2021, with an average annual growth rate over the Plan (CAGR) of around 2 per cent..

NON-REGULATED ACTIVITIES AND INTERNATIONAL DEVELOPMENT

The 2017-2021 Strategic Plan envisages a new industrial approach to Non-Regulated Activities focused on the group's core capabilities, positioning Terna as an Energy Solution Provider. The activities on interconnectors (financed by third-party resources) are ongoing. Within this context, following the acquisition of the Railways high-voltage electricity grid, the Group signed an agreement with Rete Ferroviaria Italiana (RFI) for the construction of photovoltaic plants with a capacity up to 200 MW which will guarantee around 300 GWh of clean energy production per year. Thanks to the expertise gained in the core business, the contribution from these activities to the Group's EBITDA will be about Euro 350 million over the 2017-2021 period In the new strategic plan the annual EBITDA contribution from these activities will increase by 40 per cent. on average if compared to the previous strategic plan. In line with the international strategy announced last year, the new strategic plan foresees approximately Euro 250 million equity commitment for regulated activities abroad to support long term growth and value creation. These initiatives, leveraging on Terna's industrial role, will be selected through evaluation processes that guarantee value creation with a low risk profile and may be also developed through partnerships. See also "*Overview*" and "*History and Development*".

MAIN TARGETS

While Group's revenues are expected to amount to around Euro 2.3 billion, EBITDA is expected to amount to aroundEuro 1.7 billion in 2021, with a 2 per cent. annual average growth of both indicators starting from 2016. Net profit will also improve,with a 3 per cent. annual average growth. These results will guarantee free cash flow of aboutEuro 2 billion during the 2017-2021 period, which will contribute to maintain the flexibility required to support an attractive dividend policy. Terna's financial structure will remain solid and the net debt/RAB ratio willremain below 60 per cent..

DIVIDEND POLICY

With regard to the dividend policy, the assumptions of the previous strategic plan have been confirmed and extended to the broader 2017-2021 period, withan annual 3 per cent. dividend growth in line with the expected evolution of earnings and main capital parameters. This policy reflects, however, a payout ratio that will remain below 70 per cent. during the 2017-2021 period.

On 21 June 2017 the final dividend for 2016 of Euro 269,137,928.80 (Euro 0.1339 for each of the 2,009,992,000 shares) was made payable.

The amount of the 2017 interim dividend will be announced to the market in the coming months. The current projected dates for the 2017 "interim" dividend – notified to the market in a press release of 30 January 2017 – set the payment date as 22 November, with "ex-dividend date" at 20 November 2017 (pursuant to Article 83-terdecies of Italian Legislative Decree no. 58 of 24 February 1998 the "CLF": 21 November 2017)

BUSINESS OUTLOOK

With reference to Non-Regulated and International Activities, Terna plans to consolidate its industrial approach based on the Group's key skills, thus increasing Terna's position as an Energy Solution Provider and focusing on value creation through activities for third-parties in the areas of engineering, construction and maintenance services, mainly for the electricity and telecommunications sectors.

As for international activities, in the second half of the year, Terna will start the construction of power lines in Uruguay, Brazil and Peru, for a total length of over 850 km and a total invested capital of around Euro 260 million for the 2017-2019 period. In addition, the Group will continue to scout for possible international opportunities which may also be developed through partnerships and will be selected through careful evaluation processes to guarantee a low risk profile.

As in previous years, the Group will maintain its focus on cost-excellence programmes, continuing to improve its operating processes and rationalise costs, also regarding the integration of the grid acquired from the FSI Group.

Efficient capital structure - recent events

On 6 December 2016, Terna signed a Euro 200 million loan agreement with the European Investment Bank (EIB), with a term of 22 years, to support planned investments in Italy's electricity transmission grid.

On 27 June 2017, Terna signed a Euro 85 million loan agreement with the European Investment Bank (EIB), having a maturity of 22 years, to support planned investments in the Capri-Continent electrical connection and the restructuring of the grid in the Sorrento Peninsula area, including the construction of a new 150 kV grid to replace the current 60 kV one. The agreement envisages a 1.386 per cent. fixed-rate tranche, amounting to Euro 73.55 million, and EURIBOR 6-month rate + 0.343 per cent. floating-rate tranche, subject to the satisfaction of certain conditions precedent, amounting to Euro 11.45 million.

On 14 July 2017, Terna signed USD 81 million project finance transaction in respect of the construction of a 500-kV transmission line to connect the cities of Melo and Tacuarembó in Uruguay. The funding consists of a 17-year loan of approximately USD 56 million withthe Inter-American Development Bank (IDB) and a 15-year loan of approximately USD 25 million funded through Banco Bilbao Vizcaya Argentaria (BBVA). Vigeo Eiris, an agency specialised in the assessment of sustainability aspects in the field of business strategy and management, classified the above-mentioned funding as "green loan" due to the positive impact of the new transmission line on electricity generation from renewables in Uruguay.

On 19 July 2017, Terna successfully launched a fixed-rate bond issuance for a total amount of Euro 1 billion under this Programme, which has been given a "BBB" rating by Standard and Poor's, a "(P)Baa1" by Moody's and a "BBB+" by Fitch. The notes, with a duration of 10 years and maturity date falling on 26 July 2027, will pay a coupon of 1.375 per cent. and were issued at a price of 99.602 per cent., with a spread of 50 basis points over the midswap. The notes are listed on the Luxembourg Stock Exchange. The operation is part of Terna's financial optimisation programmes serving the Group's investment plan designed to modernise the electricity grid and create a transmission grid that is even more sustainable, efficient and interconnected at European level.

On 21 July 2017**,** Terna and the European Investment Bank (EIB) signed an agreement for a Euro 130 million loan to support investments for the public part of the "Piemonte-Savoia" project, the new 320 kV DC electrical interconnection that will connect Italy and France. The loan, with a duration of 22 years, includes a single tranche at a fixed rate of 1.64 per cent.. The project forms part of the principal EIB lending programmes in the fields of energy and the environment.

Environmental Matters

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

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

Terna gives priority to the search for solutions that are coordinated with the territory's institutions such as modalities for considering and examining the environmental aspects of its projects. In

building new electricity lines, Terna involves stakeholders that are fundamental with respect to the relevant territory by using the SEA procedure (Strategic Environmental Assessment) to share with the relevant Ministries, Regions and Local Administrations the electricity system's development needs.

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

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

- Terna signed agreements with important environmental associations pursuant to which:
  - LIPU (Italian League for Bird Protection, partner of Birdlife Europe) and Terna in 2009 carried out a scientific study on the interaction between high voltage lines and birds which, for the first time, monitored – at a systematic and large-scale level – seven areas within "Natura2000" sites and the risk of collision of birds with power lines;
  - in 2009, WWF Italy and Terna signed a three-year cooperation agreement focused on a more sustainable development of the National Transmission Grid reducing the environmental impacts of infrastructures. A working group was established for a continuous dialogue on: (i) the integration of environmental criteria inside the plan of national electrical grid (guidelines); and (ii) an action plan aimed at mitigating impacts in WWF-protected areas and priority areas (national parks);
- WWF Italy and Terna worked together on specific projects within three of WWF's protected areas and two National Parks. Projects have covered various topics, e.g. measures to facilitate educational and research activities within the protected areas, study and monitoring of local populations of endangered birds and requalification of soil at the base of a nearby powerline;
- in 2011, Terna signed a Memorandum of Understanding with Legambiente in order to promote a culture of energy sustainability that combines the development of the electrical system with that of renewable sources. Terna and Legambiente undertook to promote and to spread the awareness of the world of energy and start-up shared action for environmentally-sustainable energy transport, starting from the reduction of CO2 emissions in the atmosphere. In this context, two types of activities are envisaged: one initiative focuses on the National Transmission Grid Development Plan, aimed at assessing the environmental compatibility of new grid infrastructures and at finding shared solutions and the other initiative focuses on Renewable Energy Sources (hereinafter referred to as RES) in order to elaborate scenarios, to carry out educational activities and organise forums about the RES integration and their connection to the National Transmission Grid;
- In 2013, WWF Italy and Terna signed a new memorandum of understanding with the following objectives: to increase and monitor the integration of environmental criteria in the planning phases of the process of grid development, to harmonise the national grid development with the eco-regional strategy for conservation of WWF and to jointly identify an action plan for sustainability in natural priority areas in order to find points of interest for both the partners within energy/environment regulations. Within this framework, WWF has developed a study on biodiversity and linear marine infrastructures and proposed a "life test" on new techniques to protect both Posidonia oceanica and the cable. WWF is also working on a study to propose new methods for the management of the vegetation under overhead lines, that would be more sustainable both from an environmental and economic point of view (actually it is making a model on the vegetation growth in a sample area in the north east of

Italy). Then WWF and Terna plan to set up an institutional round-table for sustainable environmental planning in areas of high value for biodiversity and landscape and conduct environmental mitigation and restoration projects in areas identified by the WWF Biodiversity Vision for the Alpine and Central Mediterranean Ecoregions and mentioned by the Development Plan of the National Transmission Grid;

- Terna is evaluating the possibility of using the National Transmission Grid lines in support of environmental monitoring: the installation of special sensors on support lines allows to initiate programmes aimed at collecting environmental data, agreed with park authorities and local authorities. Terna could make a significant contribution both to the monitoring and to the management of biodiversity and land use;

- protection of the bird population through the monitoring of nests on its pylons in collaboration with Ornis Italica;

- Terna launched "An idea transmits energy", an international competition for creating and building new pylons;

- construction of new Foster pylons (winner of the "Sostegni per l'ambiente - Pylons for the environment" award) which has been placed on the new 380 kV Tavernuzze - Casellina long distance line;

- use of Rosental pylons, recently engineered to blend into the urbanized landscape, on the new 380kV line Trino - Lacchiarella;

- continued experimentation of high temperature conductors, allowing better use of existing lines without further land occupation, track modifications or bigger pylons;

- consistent reorganisations of the network have been completed; for example, in the Provincia di Lodi and in the Val d'Ossola (Northern Italy), existing lines were demolished and more sustainable new lines were constructed, that reduced the impact on the environment by using alternative routes, underground cables and pylons that are less land consuming and more landscape friendly;

- following the above-mentioned reorganisations, habitat reconstruction project has just started in Val d'Ossola forest, starting with hydraulic forestry management;

- in more sensitive natural environments, new stations have been masked by using innovative soil bioengineering techniques in order to reduce the visual impact, such as the Maleo Station in the Adda Sud Natural Park (Lombard region, Milan area);

- development of a new computer automated procedure based on Geographic Information Software (GIS) (aimed at identifying environmental sustainable corridors for future lines and new power stations);

- experimental radar monitoring aimed at identifying avian migration routes in order that a new line avoids an intercontinental migratory corridor;

- desktop studies about the existing literature and expert interviews aimed at quantifying the possible direct impact on bats and that, at the end, have excluded any potential impact;

- preventive archaeological risk evaluation by using non-invasive technologies, georadar and magnetometry, in collaboration with CNR-ITABC (National Research Institute for historical landmarks);

- Terna completed some environmental monitoring programs (EMP) representing an effective tool to deploy a more sustainable design striking a balance between technical constraints and environmental issues.

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

Terna is part of the Renewables Grid Initiative (RGI), an association of European TSOs and NGOs which advocates at national and EU authorities for an efficient, sustainable, clean and socially accepted development of the European network infrastructure for both decentralized and large-scale renewable energies. Within this framework, Terna signed the "European Grid Declaration" that defines a set of principles in order to build a renewables grid for Europe in line with nature conservation objectives and an expansion of the European grid focusing on participation and transparency, to strengthen the coalition of those stakeholders who support grid expansion to integrate renewables. Terna has participated in the realisation of a volume of Best Practices published by RGI.

Terna has taken part in the EU-funded project "BESTGRID-Testing better practices" (hereinafter referred to as BESTGRID), started in April 2013 and completed on 31 October 2015. During the project, co-ordinated by the Renewables Grid Initiative, four pilot projects for renewables grid expansion have been developed and implemented and new approaches to increase public acceptance and to speed up permit procedures, while respecting or surpassing standards for environmental protection, have been tested. BESTGRID is disseminating the lessons learned widely across Europe and working to establish an intensive exchange of best practices.

In the BESTGRID consortium have worked together grid operators (National Grid, Elia, TenneT, 50Hertz and Terna) and non-governmental organisations (BirdLife Europe, Germanwatch) from across Europe to cooperate in designing, implementing and evaluating the pilot projects in Germany, Belgium and the UK. The renowned International Institute for Applied System Analysis have monitored and evaluated the success of the tested approaches. In May 2015 Terna hosted in Milan an international workshop on landscape and pylons of new design, with a fieldtrip on the power line Trino-Lacchiarella to see the Germogli pylons, and to the Maleo substation to learn about the natural engineering masking techniques. The final conference took place in Brussels on 23 September 2015.

Legislative framework developments

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

In 2016, the Government reformed the "Service Conference" *i.e.* the administrative instrument which is used to collect all the consents and advice required in the permitting procedure. Legislative Decree 30 June 2016 No. 127 has introduced two alternative processes to collect them: i) via an on line platform or, where the complexity of a project recommends it; or ii) in meetings where bodies can discuss the project. The Reform has established that the administrative bodies of the State, the Region and each municipality involved must be represented by a sole officer. The effects of this reform on the efficiency of authorisation procedures can be fully assessed when new permitting procedures will be initiated under new rules.

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.

Furthermore, the 2017 Italian Budget Law (Law 244/16) includes measures to promote industrial investments such as an increase (by 40 per cent. or 150 per cent. in case of innovative investments) in the rate of depreciation charge which can be deducted from earnings for corporate tax purposes. The 2017 Budget Law and the following Decree Law 50/17 have amended the so-called ACE (i.e. Economic Growth Aid, being a fiscal measure which allows to deduct a notional return on equity injections).

With reference to Directive 2013/35/EU on the minimum health and safety requirements regarding the exposure of workers to electromagnetic fields, Legislative Decree 1 August 2016 No.159 has been passed to align the national legal framework.

Moreover, in 2016, Legislative Decree 18 April 2016 No. 50 enacted a substantial reform regarding procurement procedures in order to implement Directives 2014/25/EU, 2014/24/EU and 2014/23/EU. The above mentioned legal framework was further amended by Law Decree 56/2017.

Further provisions have been passed with Law 7 July 2016 No. 122 to fully conform to the Directive 2009/72/CE on Energy Market. As a result, entities which realise new interconnection can apply for designation and certification as a transmission system operator. These operators are subject to the conditions required by Terna for the energy network security.

The review of the discipline of special powers on behalf of the Italian Government with reference to energy companies, pursuant to Law Decree 15 March 2012 No. 21, was enacted by Law on 11 May 2012 No. 56 and entered into force in 2014. The new provisions implement regulations on identified strategic assets in the energy sector (see also *Special powers of the Italian Government*).

Issuer's security

The electric grid may be affected by a variety of external threats and the system operation may experience several vulnerabilities. In order to keep a high level of security for its critical infrastructures, Terna adopts advanced solutions in terms of dedicated organization, suitable systems infrastructures and internal processes as well as procedures aimed at preventing and managing critical scenarios.

In order to implement an integrated risk management system, in 2007 Terna established the Corporate Security Department, which joined together its safety operations and defined a comprehensive system for identifying, analysing and controlling company's risks. In particular, the implemented security measures are aimed at protecting the company's infrastructures as well as at promoting actions focused on the prevention and management of all types of corporate risks, such as fraud risks, information security risks, operational risks, compliance risks in line with the objectives set out in Terna's mission.

In order to manage and monitor in real-time security critical situations affecting the most important infrastructures, Terna has adopted an integrated system for physical and cyber protection establishing a Security Operations Centre (hereinafter referred to as **SOC**), capable of preventing, dealing with and managing these critical situations. In some cases, physical and cyber security turn out to be related, insofar as physical effractions could cause an ICT infrastructure breakdown. The new cyber threats are not easy to contain; therefore, it is necessary to extend the monitoring range to a twenty-four hours a day information security aimed to be ready to detect and to correlate physical break-ins with cyber ones.

In order to reduce this kind of risks, Terna has adopted a new platform that will make it feasible to monitor, in real time, both the physical and the logical status of all critical sites and information systems.

In addition Terna has adopted cooperative arrangements with the Carabinieri Police Force and the National Police Force for the exchange of information in order to improve the management of security events such as break-ins and cyber attacks.

Risk Management

Terna is responsible for the planning, development and maintenance of the National Transmission Grid while, at the same time, respecting the environment and combines expertise and technology in order to improve efficiency and create value both for the shareholders and for those Communities in which it operates. These objectives are pursued by means of two types of processes, primary process and support process, as defined in the Terna *IMSM* manual.

Primary processes are those processes by which final goods are produced *i.e.* the object of the company's mission. Support processes are all those processes that, once generated, enable the correct functioning of the primary processes.

In May 2013, Terna established the role of Chief Risk Officer (hereinafter referred to as the **CRO**). The CRO was appointed by the CEO and has the responsibility to support the Top Management both in the application and in the management of Risk Management Guidelines within Terna Group.

The CRO, as explained in greater detail in the Guide Line document "LG044: Chief Risk Officer Regulations", is also responsible for coordinating the different organisations and departments that are charged with managing sectorial risk areas (such as Information Risks, Compliance Risks, etc.) gathering their results so as to obtain an integrated, unitary and comprehensive overview of the risks at company's level and periodically representing to the Top Management the outcomes of the Enterprise Risk Management (hereinafter referred to as **ERM**).

The CRO is continuously supported by Risk Management, which deals with the definition and the implementation of the ERM methodology for the identification, the assessment and the monitoring of company risks. Risk Management defines and examines the risks identified with the Risk Owner comparing the level of actual risk with acceptable risk, thus defining, together with Management, action plans for the most significant risks in order to provide reasonable assurance regarding the achievement of corporate objectives. In addition, it analyses the information flows from the various corporate structures and processes the summary reports for the CRO.

The risk analysis methodology developed in Terna is based on the more general methodology of the ERM in line with the industry's best practices and it is applied to all Terna's processes, both primary and support. In order to give an idea of the granularity of this process, to date Terna's Operational Risk Catalogue contains more than one thousands risks, all evaluated by Risk Owner and analysed by Risk Managers.

In line with the best practices at the international level, Terna has identified a technological platform named "Archer – GRC for Governance Risk and Compliance" as the most effective device to support the risk management process considered as a whole.

Archer-GRC successfully manages to mitigate risks by:

- improving the quality and the effectiveness of the entire risk management process;

- automating the processes for gathering and reporting the information related to the company's exposure to risks; and

- ensuring a continuous flow of information and a comprehensive overview of the risk exposure at company's level thereby contributing to find the right balance between cost optimization, risk management and innovation capacity.

This platform has been implemented and customized for Terna requirements and needs and contains the Operational Risk Catalogue as well as an integrated dashboard of information security risks, fraud risks, operational risks and compliance risks related to Law n. 262/2005 ("Law on the protection of savings and Corporate Governance") as well as additional and specific stream reports. In particular, the above-mentioned compliance risks related to Law n. 262/2005 derive from potential non-compliance to the obligation, provided for by such Law, for listed companies on the Italian market, to ensure the reliability, completeness, accuracy and timeliness of financial information presented to the market.

Fraud Management

Terna recognises that fraud management represents an essential part of its corporate management and it has implemented a fraud control system in order to improve its corporate security. Considering fraud management as a continuous process, Terna has introduced management tools and prevention measures monitoring, on a daily basis, the effectiveness of the strategies as well as the controls implemented.

The activities of the Fraud Management Unit consist of:

- tools and management facts analysis aimed at identifying critical areas of potential frauds;

- definition of monitoring and control procedures in order to define standards and management tools for maximising effectiveness and efficiency and for preventing misconduct;

- continuous monitoring of the efficiency of the prevention measures in place;

- implementation of protocols with Institutions in order to prevent attempts of criminal infiltration, transmitting data, information and news about contracting and subcontracting firms.

Management Systems

Terna and its subsidiaries TRI 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 and its subsidiaries TRI S.p.A., Terna Plus S.r.l. and the foreign subsidiary Terna Crna Gora were awarded

the Management System Certification according to the UNI CEI EN ISO (Energy Management System) 50001:2011 standard. The Energy Manager of, respectively, Terna, TRI 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 demand of both electrical substations and office buildings.

In January 2017 Terna and its subsidiaries TRI 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.

Physical Security

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

With this purpose, for the first time in Italy, Terna has adopted risk-assessment methodology for each of those stations concerned in order to analyse the physical risk related to them by assigning a risk index to each station on the basis of its respective critical importance.

In 2012 the programme that began in 2009 was extended with the aim of protecting the entire electrical assets, comprising more than 400 stations, by means of the use of technology calibrated on the real electrical and environmental risks.

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

Information and Cyber Security

Network and Information Security (NIS) is known as the ability of an information system to resist fortuitous events that could jeopardize (i) the availability, authenticity, integrity and confidentiality of managed or processed data or information as well as (ii) the services related to the latter which are provided or could be accessible by means of the above-mentioned networks or system.

NIS is now often more synthetically referred to as "Cyber Security" and mainly addresses deliberate attacks launched by disgruntled employees, agents of industrial espionage, terrorists and other adversaries, but also inadvertent compromises of the information infrastructure due to user errors, equipment failures and natural or artificial disasters.

Terna's primary objective is to ensure the security of the whole of company data, networks and IT systems, with particular reference to applications that play a key role for conducting grid operations. At the same time, Terna must comply with the obligations and the requirements provided for by the regulatory framework pursuant to which Terna operates.

In order to achieve this goal, Terna operates by taking into account the security included in all phases of the system development life cycle from design phase through implementation, maintenance and disposition. In particular, systems for critical applications need to withstand Cyber Security events with no loss of critical functions.

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

New projects and initiatives have been launched by the Terna Group with the purpose of increasing the prevention as well improving the ability to react to negative events, both voluntary and involuntary, against the ICT.

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).

During this year, Terna has integrated his process of IRM with other components of Enterprise Risk Management, in order to provide stakeholders with holistic view on risks and the countermeasures in place. The integrated view is provided by a dedicated IT infrastructure, based on market-leading solutions for Governance, Risk and Compliance (GRC). As an output of this Risk Management process, a risk map for major processes has been defined with particular focus on the ICT Risk. This map is updated on an ongoing basis in order to track changes among business processes, organization, regulatory compliance etc.

As part of its initiatives aimed at improving its preventive control processes in the cyber security area, Terna enhanced its vulnerability management platform, with the objective to better assess the actual risk on ICT infrastructural components. Moreover, with specific reference to the activities finalised to the real time monitoring of security, Terna has improved its tools and its procedures related to security incident management, thereby enhancing its ability in the field of the early detection and coordinated resolution of attacks.

In order to collaborate with the institutional bodies, and due to the growing influence of information technologies over energy grid and infrastructure operations, Terna has provided its contribution to support the definition of common approaches for Cyber Security in the energy sector and to promote sharing of best practices and investment in security capabilities.

Finally, by virtue of the contemporary expansion of the Italian Computer Emergency Response Team (National CERT) and pursuant to a law enacted in 2013, aimed at defining the approach to Cyber Security issues on a national level, new relations have been consolidated, both of a technical and an informative nature, between Terna and Government Authorities for an integrated improvement of the whole security strategy and cyber-incident management. Together with CERT and other public entities as well as the most important Italian critical infrastructures operators, Terna also actively

participates in the simulations of a cyber-attack (CybIt 2015 and Cyber Europe 2016) aimed at testing the ability of implementing a cooperative and synergistic action in case of a cyber accidents.

LITIGATION AND ARBITRATION PROCEEDINGS

In the ordinary course of its business, as of 30 June 2017, the Terna Group was party to approximately 1066 civil and administrative proceedings both as plaintiff and defendant as well as to seven 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 30 June 2017, amounted to Euro 14.9 million (of which Euro 14.4 million for Terna). This provision does not cover the approximately 946 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.

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

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

DIRECTORS, SENIOR MANAGEMENT, STATUTORY AUDITORS AND EMPLOYEES

Corporate governance rules for the Italian joint-stock companies (*società per azioni*) like Terna, whose shares are listed on the Italian Stock Exchange, are set forth in the Italian Civil Code, Italian Legislative Decree No. 58 of 24 February 1998 (**TUF**) and implementing rules and regulations thereof and in the set of disciplinary rules of corporate governance for listed Italian companies (hereinafter referred to as the **Code of Conduct**).

In order to comply with the Code of Conduct, Terna's Board of Directors has approved various amendments to the corporate governance system (described in the Report on Corporate Governance and Ownership Structure) also in line with the principles contained in the Corporate Governance Code drawn up by the Corporate Governance Committee of listed companies promoted by Borsa Italiana (hereinafter referred to as the **Corporate Governance Code**), in particular:

- a Board of Directors responsible for company management which may delegate some of its powers to an Executive Committee and/or one of its Members. As recommended by the Corporate Governance Code, Terna's Board of Directors has set up internal committees which have proposal and advisory duties, such as the Audit and Risk, Corporate Governance and Sustainability Committee, the Appointment Committee, the Remuneration Committee and the Related-Party Transactions Committee (see also below);

- a Board of Statutory Auditors responsible for monitoring: (i) that the company complies with the law, the By-laws and the principles of correct administration in performing company activities, (ii) the adequacy of the company's organisational structure, internal control system and administrative/accounting system as well as those of the foreign subsidiaries outside of the EU. It is also responsible for carrying out all duties assigned to the Board of Statutory Auditors by law and the code of conduct for listed companies. Pursuant to the provisions of article 19 of Italian Legislative Decree 39/2010, it is the responsibility of the Board of Statutory Auditors to supervise the financial disclosure process, the efficiency of the internal control systems, of internal reviews and of risk management, the statutory audit of annual and consolidated results and the independence of the auditing company;

- the Shareholders' Ordinary and Extraordinary Meetings that resolve on, *inter alia*, the (i) appointment and revocation of the members of the Boards of Directors and Statutory Auditors and their fees and duties, (ii) approval of the financial statements and allocation of the profit for the year, (iii) purchase and sale of treasury shares, (iv) amendments to the By-laws, (v) issuance of convertible bonds, (vi) authorizations for actions carried out by Directors concerning transactions with related parties for which there was no favourable opinion by the competent independent body, in compliance with governing regulations and based on procedures adopted by the Board of Directors as well as on urgent transactions submitted by the Directors to an advisory vote of the Shareholders' Meeting, and (vii) during consultations pursuant to article 123-*ter*, paragraph 6 of the TUF, on company policy, matters of remuneration of Members of administration bodies, of general Directors and of Executives with strategic responsibilities in compliance with the provisions of said regulations.

Auditing activities are conferred on an auditing firm enrolled in the register of Legal Auditors which was appointed by a Shareholders' General Meeting on a proposal of the Board of Statutory Auditors.

The members of Terna's Board of Directors and Board of Statutory Auditors as well as Terna's External Auditors are directly and separately appointed by the shareholders at a General Meeting.

On 27 April 2017, the Board of Directors approved the re-establishment of certain internal committees and appointed the relevant members in line with the indications of the Corporate Governance Code.

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.

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

Board of Directors

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

Description of certain amendments made to the Terna's By-laws

On 18 October 2010, Terna's Board of Directors approved amendments to Terna's By-laws to reflect the provisions of law regarding shareholders' rights of listed companies to enhance the participation of shareholders in the company (Directive 2007/36/EC and relative implementing Legislative Decree 27 January 2010 No.27). Among other things, such amendments involved article 14.3 of the Terna's By-laws regarding the appointment procedure for the Board of Directors and the terms and modalities for depositing lists of proposed Directors.

Such amendments were applied for the first time during the 2011 annual Meeting which resolved, among other things, on the renewal of the corporate bodies and approved the 2010 financial statements.

At the Shareholders' Meeting of 16 May 2012, amendments to articles 14.3, 14.5, 26.1 and 26.2 and the insertion of article 31 of the Terna By-laws were submitted to the shareholders, in compliance with the provisions of articles 147-*ter*, paragraph 1-*ter*, and 148, paragraph 1-*bis* of the TUF (introduced by Law 12 July 2011 No. 120 (hereinafter referred to as **Law 120/2011**), regarding gender balance in administration and control bodies of listed companies). In particular, the relevant articles of the TUF concerning the election of administration and control bodies were amended by Law 120/2011 provides that the administration bodies and the controlling bodies of listed companies shall meet quota distribution criteria that guarantee a balance between genders for three consecutive mandates. With Resolution 8 February 2012 No.1809, CONSOB approved the proposed regulatory implementation amendments allowing broad autonomy to corporate By-laws to identify the technical methods to be used to ensure compliance with quota distribution criteria. Law 120/2011 provides for a gradual application of the gender quota by establishing that the relevant provisions shall be applied starting from the first renewal after 12 August 2012 of the administration and control bodies of companies listed in regulated markets. The Shareholders' Meeting of Terna, having examined the illustrative report prepared by the Board of Directors and in compliance with the provisions of articles 147-*ter*, paragraph 1-*ter* and 148, paragraph 1-*bis* of the TUF, resolved to amend articles 14.3, 14.5, 26.1 and 26.2 of the Terna By-laws and to introduce a new article 31 (Transitional Clause).

Among other things, the amendments to the Terna By-laws involved article 14.3 which requires that lists with three or more candidate Directors must also include candidates of a different gender.

Following the enactment of Legislative Decree 18 June 2012 No. 91 (hereinafter referred to as **Legislative Decree 91/2012**), certain amendments to articles 9.1 and 14.3 of the By-laws were submitted to the shareholders at the Shareholders' Meeting of 14 May 2013. Such amendments have also reflected the provisions of Legislative Decree 91/2012 amending article 147-*ter* of the TUF with respect to the submission of the list required for the election of the Board Members allowing in particular the filing of the lists of the directors also by remote communication methods.

The Shareholders' Meeting of 27 May 2014 approved amendments to articles 4.1, 10, 14.3, 15.5 and 26.2 of the By-laws to reflect the AEEGSI Resolution ARG/com 153/11 and to the AEEGSI Resolution 142/2013/R/EEL on the certification of the Issuer as an "electricity Transmission System Operator" according to the ownership unbundling model..

On 18 December 2014, Terna's Board of Directors approved amendments to Terna's By-laws to reflect the provisions of the 'Golden Power Decree' (Italian Decree Law 21 of March 15, 2012, converted into law by Article 1, par. 1, Law 56 of May 11) regarding special powers and to remove a number of outdated transitional measures relating to the final clause of Article 6.4 and the clauses of Article 5 (Articles 5.3, 5.4 and 5.5), that are no longer effective, relative to authorizations for share capital increases at the service of stock option plans.

In particular, through Resolution 5 April 2013 No.142/2013/EEL, the AEEGSI adopted a final resolution on the certification of the Issuer as an "electricity transmission system operator" according to the ownership unbundling model pursuant to article 9, paragraph 1 of Directive 13 July 2009 No.2009/72/EC (hereinafter referred to as **Directive 2009/72/EC**) and article 36 of Legislative Decree 1 June 2011 No.93 (hereinafter referred to as **Legislative Decree 93/2011**) (see also "*Regulatory Matters*").

Pursuant to the above-mentioned AEEGSI Resolution Terna was required to align its By-laws with the provisions of Directive 2009/72/EC and Legislative Decree 93/2011 within 15 months of the publication of the certification resolution on the following issues: (i) responsibilities of the Transmission System Operator, (ii) corporate control and (iii) independence of its Directors. These amendments to the By-laws were approved at the Shareholders' Meeting held on 27 of May 2014. In particular:

(i) *Responsibilities of the Transmission System Operator*: article 4.1 of the By-laws has been amended to include a specific reference to the rules of the Transmission System Operator provided by Directive 2009/72/EC and Legislative Decree 93/2011 and subsequent amendments. Such amendment does not materially change the purpose of the Issuer and does not jeopardize the Issuer's business risk profile;

(ii) *Corporate control*: (1) Articles 10, 14.3 and 26.2 of the By-laws have been amended to comply with the provisions under article 9, paragraph 1, point. d) of Directive 2009/72/EC and point a) of article 36, paragraph 7 of Legislative Decree No. 93/2011 and (2) a new section under article 10 has been introduced to establish the right to participate in the Shareholders' Meeting and to exercise the right to vote. In particular, it is now clear that, without prejudice to the assessments made by the AEEGSI in the context of the Issuer's certification as a Transmission System Operator, a conflict of interest in accordance with that provided under article 2373 of the Italian Civil Code exists when anyone that, directly or indirectly, exercises control of the Issuer or holds a significant shareholding pursuant to article 120 of the TUF to also operate in the sector for the generation or the supply of electricity or gas or, directly or indirectly, controls a company operating in the sector for the generation or the supply of electricity or gas.

In addition, to comply with the provisions of article 9, paragraph 1, point c) of Directive 2009/72/EC and point b) of article 36, paragraph 7 of Legislative Decree 93/2011 article 14.3 (governing the procedures for the appointment of Directors) has been amended by adding a new paragraph f) after the last sentence. Such new paragraph states that it is deemed to be a conflict of interest in accordance with the provisions of article 2373 of the Italian Civil Code for any individual taking part in the session to elect the directors, under any format provided for by the By-laws, to operate in the sector for the generation or the supply of electricity or gas, or, directly or indirectly, to control a company operating in the sector for the generation or the supply of electricity or gas or to hold a significant shareholding pursuant to article 120 of the TUF.

Furthermore, a fifth paragraph under article 26.2 (governing the procedures for the appointment of the Board of Statutory Auditors) has been introduced. According to such new paragraph, the provisions of article 14.3 paragraph f) also apply in the sessions for the election of the Statutory Auditors;

(iii) *Independence of Directors*: directors have to be independent pursuant to Directive 2009/72/EC and Legislative Decree 93/2011 and cannot be Directors or Members of the Supervisory Board or other bodies which legally represent a company that generates or supplies electricity or gas.

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

The procedure for the appointment of the directors, in line with article 147-*ter* of the TUF and the implementing rules of the above-mentioned law provisions, included in article 144-*ter* and following CONSOB Regulation 14 May 1999 No.11971, as amended (hereinafter referred to as the **Issuers Regulation**), provides that the lists of candidates may be submitted by the outgoing Board of Directors or by shareholders who, alone or with other shareholders, represent at least 1 per cent. of the share capital, according to the law, or a lower amount, as established by the law, of shares with voting right in the meeting. On this matter CONSOB (implementing article 147-*ter* of the TUF and article 144-ter and following of the Issuers Regulation, with Resolution 28 January 2016 No. 19499 and for the year ended on 31 December 2015), established the stake necessary for submitting candidate lists for the appointment of Terna's administration and control bodies at 1 per cent. of the share capital taking into account Terna's capitalisation, floating capital and owned assets and without prejudice to the lower share contemplated by the By-laws.

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

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

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

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

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

On the basis of a specific clause in the notice of call for the meeting, along with the lists a detailed description of the candidates' personal and professional background must be provided, together with a statement indicating whether the candidates qualify as independent according to article 3 of the Corporate Governance Code. Furthermore, the lists, together with the information on the candidates, shall be made available to the public at the registered office, on the company's website and in any other manner provided for by CONSOB at least 21 days before the Shareholders' Meeting, in order to guarantee a transparent procedure for the appointment of the Board of Directors.

According to article 147-*ter*, paragraph 3 of the TUF, at least one of the members of the Board of Directors shall be appointed by the minority list that has obtained the highest number of votes and is not connected in any way, not even indirectly, with the members who have submitted or voted the list that won for the number of votes (the relevant regime is set forth in CONSOB Communication No. DEM/9017893 dated 26 February 2009 entitled "Appointment of the Members of administration and control bodies").

In compliance with the provisions of the DPCM, the By-laws envisage for operators of the electricity sector a limit equal to 5 per cent. of the share capital with regards to the exercise of the voting right during the appointment of the Directors according to the abovementioned rules.

As regards the expression of the right to vote at Shareholders' Meetings, the By-laws identify (specifically in Arts 10.2, 14.3 lett. f) and 26.2) a number of cases of conflict of interest for the purposes of article 2373 of the Italian Civil Code under the terms of Directive no. 2009/72/EC of 13 July 2009 and of Italian Legislative Decree no. 93 of 1 June 2011 and subject to the assessments made by the Authority for Electricity, Gas and Water in the process of certifying the Issuer as a transmission system operator according to the ownership unbundling model. In particular, for the purposes of Article 2373 of the Italian Civil Code, the following are considered as having a conflict of interest:

(a) anyone who, directly or indirectly exercising control of the Issuer or holding in it a significant equity investment under the terms of article 120 of TUF, operates in the sector of generating or supplying electricity or gas or, directly or indirectly, controls a business operating in the sector of generating or supplying electricity or gas (article 10.2 of the By-laws); and

(b) anyone who at the moment of election of the directors, in any of the ways provided for in the By-laws, operates in the sector of generating or supplying electricity or gas or, directly or indirectly, controls a business operating in the sector of generating or supplying electricity or gas or holds a significant equity investment in the same under the terms of article 120 of TUF (article 14.3 lett. f) of the By-laws). The same rule is applied at the moment of election of the Statutory Auditors (article 26.2 of the By-laws).

To this end, each participant in the Shareholders' Meeting declares, under his/her own responsibility, as to whether a conflict of interest exists or not.

Terna's Directors must meet certain honourableness and professionalism requirements, similar to those required to Statutory Auditors of listed companies (article 15.2 of the By-laws). At least a third of the Directors in office possess the independence requirements as provided By-laws and Executive Directors must possess the requirements of independence set out under article 10 of EC Directive 2003/54 and article 9 of Directive 13 July, 2009 2009/72/EC and Legislative Decree 93/2011.

The Extraordinary Shareholders' Meeting of TERNA S.p.A. held on 23 March 2017 approved the changes to the Bylaws proposed by the Board of Directors; these seek, in particular, to supplement the rules on slate voting for the appointment of the Board of Directors and Board of Statutory Auditors in the event that the slate obtaining the most votes does not have sufficient candidates to ensure that the number of candidates to be elected is reached.

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

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	CDP	2017

	Director		
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
Yungpeng 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.

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 PricewaterhouseCoopers 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 guidingboth 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 subsidiary 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 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.

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 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.

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 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 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, 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 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 since May 2014, and since 27 April 2017 he has been Chairman of the Audit and Risk, Corporate Governance and Sustainability Committee of Terna 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.

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 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.

Audit and Risk, Corporate Governance and Sustainability Committee, Remuneration Committee, Related-Party Transactions Committees and Appointment Committee

As recommended by the Code of Conduct, in 2004 Terna's Board of Directors established an Internal Control Committee (currently named "Audit and Risk, Corporate Governance and Sustainability Committee") which is mainly responsible for assessing the adequacy of its internal control system and accounting standards as well as for the relations with External Auditors adding to the competences of the latter those relative to the system of corporate governance. It mainly advises, assists and makes proposals to Terna's Board of Directors with respect to all such matters. The Audit and Risk, Corporate Governance and Sustainability Committee is currently composed of non-Executive Directors and all of them are independent Directors.

Since 2004 Terna's Board of Directors has also established a specific "Remuneration Committee". The duties of Remuneration Committee have been identified in line with the provisions of the Corporate Governance Code of reference, and the methods for holding meetings are governed by the specific internal Organisational Regulations adopted by the Board of Directors on 24 January 2007 and thereafter updated on 9 November 2011 and most recently on 19 December 2012, to comply with the new provisions of the Corporate Governance Code. More specifically, the duties of the Committee are: (i) related to the remuneration policy of the Directors and Executives with strategic responsibilities; (ii) related to the proposals and opinions for the remuneration of Executive Directors and other Directors holding specific roles; (iii) related to the fixing of performance objectives linked to the variable part of this remuneration; (iv) monitoring the application of the decisions taken by the Board; and (v) verifying the effective achievement of performance targets.

In particular, on 9 November 2011, the Board of Directors approved amendments to "Terna S.p.A.'s Organizational Rules for the Remuneration Committee" adopted in order to ensure full consistency with the new indications of the Corporate Governance Code. Furthermore, the provisions pertaining to the composition and responsibilities of the Remuneration Committee were updated with particular reference to: (i) the scope of responsibility of the Committee in relation to the general policy adopted for remuneration and (ii) the definition of proposals for remuneration of the Executive Directors and other Directors covering particular offices as well as (iii) the setting of performance objectives associated to the variable component of said remuneration, (iv) the monitoring of the application of decisions taken by the Board of Directors and (v) the verification of the actual achievement of performance objectives.

In the Meeting held on 19 December 2012, the Board of Directors resolved on adjustments to the competences of the committees implementing the new provisions of the Corporate Governance Code, approving the modifications to the related organizational regulations without changing the Members.

As a result, the "Internal Control Committee", already instituted, changed its name into "Control and Risk Committee" and took over the activities provided by the new provisions of the Corporate Governance Code. On 27 May 2014, other amendments were made to update this regulation.

During 2010, the Board of Directors created another committee having advisory and consulting tasks, formed by at least three Directors, all independent, according to the provisions of the Corporate Governance Code with the task of expressing its preliminary opinion necessary for the adoption of the "Procedure for Related Party Transactions" as established in accordance with CONSOB Regulation No. 17221 of 12 March 2010, as amended.

On 12 November 2010, the Board of Directors identified in this committee, which is completely formed by Non-Executive, independent Directors as established by the Corporate Governance Code, the body in charge of carrying out the role required by the above-mentioned regulations both for approving transactions of greater importance and those of lesser importance as indicated in Terna's procedures. The Committee for Transactions with Related Parties is entrusted with preliminary, advisory and consulting tasks and powers for the evaluation and the decision-making in the above-mentioned Transactions with Related Parties as well as regarding possible amendment proposal to the Procedure adopted by Terna.

At present, the Related-Party Transactions Committee is composed of non-executive and independent Directors.

The composition of these Committees is in line with the provisions of the current transitional provisions of the Corporate Governance Code and Code of Conduct.

Manager in charge of drafting financial reports

In accordance with the TUF, Terna's By-laws provide for the appointment of a Manager responsible for the preparation of financial reports by the Board of Directors subject to the approval of the Board of Statutory Auditors.

This Manager's tasks include the implementation of appropriate administrative and accounting procedures for the preparation of the Annual Accounts and the Consolidated Accounts and every other disclosure of a financial nature.

Internal Auditing System

As recommended by the Corporate Governance Code, Terna's Board of Directors established an Internal Auditing System aimed at controlling and ensuring the fair management of the company, in line with its corporate purposes.

Organizational Model under Legislative Decree No.231/2001

Terna has adopted an Organizational and Management Model, a compliance programme in order to prevent certain criminal offences and a Code of Ethics for the Directors, employees and others acting on Terna's behalf.

Senior Management

The table below sets out Terna's Executive Officers who are not also Directors, their ages and their positions as of 1 September 2017 and the year they joined Terna:

Name	Date of birth	Age	Position	Employed since
Silvia Marinari	26/01/1967	50	Human Resources and Organisation	September, 2017
Francesca Covone	23/08/1970	47	Corporate and Legal Affairs	January, 2015
Giovanni Buttitta	10/06/1962	55	External Relations and CSR	December, 2005
Bernardo Quaranta	23/01/1958	59	Corporate Affairs	June, 2017
Luca Marchisio	21/01/1970	47	Business Development	October, 2015
Fabio Bulgarelli	01/05/1972	45	Regulatory Affairs	May, 2016
Enrico Maria Carlini	07/06/1968	49	Grid Planning and Interconnections	November, 2005
Alberto Ponti	15/06/1968	49	Strategy and Market Analysis	June, 2016
Fulvio De Luca	31/03/1961	56	Internal Audit	March, 2004
Agostino Scornajenchi	22/08/1972	45	CFO	August, 2017
Stefaro Conti	13/05/1958	59	Institutional Affairs and Authorizations	November, 2005
Luigi Michi	04/11/1958	58	Strategy and Development	May, 2015
Giovanni Cerchiarini	15/11/1966	50	International Engineering and Construction	October, 2017

The table below sets forth TRI S.p.A.'s Executive Officers, their ages and their positions as of 1 September 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-South Operations Area	Terna's incorporation
Maurizio Fischetti	06/05/1961	56	North-West Operations Area	Terna's incorporation
Dino Capotosti	01/01/1961	56	North-East Operations Area	Terna's incorporation

Starting from 3 August Mr. Agostino Scornajenchi has joined the Terna Group. In the context of the reorganisation of the Group, starting from 1 September 2017, he has assumed the role of Head of Administration, Finance and Control, formerly held by Mr. Tiziano Ceccarani.

Mrs. Silvia Marinari, who joined the Group starting from 1 September 2017, has assumed the role of Head of Human Resources and Organization, formerly held by Mr. Luciano Di Bacco.

As of October, 2nd 2017, Giovanni Cerchiarini has been appointed Head of International Engineering and Construction.

Board of Statutory Auditors

Pursuant to the Italian Civil Code and the TUF, Terna's shareholders are required to elect a Board of Statutory Auditors. Pursuant to the By-laws, the Statutory Auditors are elected at the Shareholders' General Meeting for a three-year term on the basis of lists of candidates submitted by a number of shareholders representing at least 1 per cent. of the share capital or a lower amount provided by applicable law.

On 18 October 2010, Terna's Board of Directors approved the amendments to the By-laws necessary to comply with the legal provisions regarding shareholders' rights of listed companies aimed at favouring the participation of shareholders in the company (Directive 2007/36/EC and relative implementing Legislative Decree 27 January 2010 No.27). Among other things, the amendments involved article 26.2 of the By-laws regarding the appointment procedure for the Board of Statutory Auditors and the terms and modalities for submitting the lists of the proposed Statutory Auditors.

Such amendments were applied for the first time at the 2011 annual Meeting resolving on the renewal of the expiring company bodies and the approval of the 2010 financial statements.

At the Shareholders' Meeting of May 2012, amendments to articles 14.3, 14.5, 26.1 and 26.2 and the insertion of article 31 of the Terna By-laws were submitted to the shareholders, in compliance with the provisions introduced by Law 120/2011 regarding gender balance in administration and control

bodies of listed companies, and with articles 147-*ter*, paragraph 1-*ter*, and 148, paragraph 1-*bis* of the TUF. Law 120/2011 introduced gender quotas in Italy for the composition of corporate bodies of listed companies. In particular, articles of the TUF concerning the elections of administration and control bodies were amended to require listed companies to provide for, within their respective administration and control bodies, quota distribution criteria that guarantee a balance between genders for three consecutive mandates, in the minimum quota provided for by such law (at least one fifth for the first mandate and at least 1/3rd in subsequent mandates). With Resolution 8 February 2012 No. 18098, CONSOB approved the proposed regulatory implementation amendments, allowing broad autonomy to corporate By-laws to identify the technical methods to be used to ensure compliance with quota distribution criteria. Law 120/2011 provides for gradual application of the gender quota by establishing that the relevant provisions shall be applied starting from the first renewal subsequent to 12 August 2012, of the administration and control bodies of companies listed in regulated markets. The Shareholders' Meeting of Terna, having examined the illustrative report by the Board of Directors and in compliance with the provisions of articles 147-*ter*, paragraph 1-*ter* and 148, paragraph 1-*bis* of the TUF and of Law 120/2011 regarding gender balance in administration and control bodies of listed companies, resolved to amend articles 14.3, 14.5, 26.1 and 26.2 of the corporate By-laws and to introduce a new article 31 (Transitional Clause) with the numeration of the single paragraphs 31.1 and 31.2 that form it.

Among other things, the amendments to the Terna's By-laws involved article 26.2 which requires that lists with three or more candidates for Statutory Auditors and Substitute Auditors must also include, for the first two places of each such list, candidates of a different gender.

At the Shareholders' Meeting of 27 May, 2014, amendments to article 26.2 of the By-laws to adapt it to the AEEGSI Resolution ARG/com 153/11 and AEEGSI Resolution 142/2013/R/EEL on the certification of the Issuer as an "electricity transmission system operator" according to the ownership unbundling model were approved.

On the basis of these amendments and according to the By-laws, the deposit and publication of lists are governed by the provisions for appointing the entire Board of Directors in cases where compatible with the existing applicable law and the provisions of article 26 of the By-laws for the appointment of the Board of Statutory Auditors.

This appointment system provides (in line with article 148 of the TUF and by the implementing rules for the above-mentioned provisions included in article 144-*ter* and following of the Issuers Regulation) that the lists of candidates can be presented by a number of shareholders holding at least 1 per cent. of the share capital, or a lower amount as envisaged by the law, of shares with voting rights in the meeting. For this purpose, CONSOB, implementing the provisions of article 148 of the TUF and article 144-*ter* and following of the Issuers Regulation, has established (with Resolution 28 January, 2016 No. 19499 and for the year that ended on 31 December 2015) the participation stake required for submitting candidate lists to be appointed in Terna's administration and control bodies at 1 per cent. of the share capital, taking into account the company's capitalisation, floating capital and owned assets and without prejudice to the lower share contemplated by the By-laws.

The presentation and filing of lists with the Issuer's registered office must occur at least 25 days before the day established for the Meeting on first call.

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

In order to prove the legitimacy of presentation of the lists, the relevant shareholders must present and/or deliver the relative documentation even after the lists have been filed but within the time period set for the publication of the lists.

Pursuant to article 144-*sexies*, paragraph 5, of the Issuers Regulation, in the event that on the date due for the submission of the lists for the Board of Statutory Auditors only one list has been filed, that is only lists submitted by members who are connected to each other pursuant to applicable law provisions, lists may be submitted up to the third day following said date; in this case the thresholds set forth above shall be reduced by half.

Each shareholder may present or assist in the presentation of one single list and each candidate may be on one list only or he will be considered ineligible. The lists shall list candidates according to a progressive number and will be divided into two sections, one for the candidates to the office of Standing Auditor and the other for the candidates to the office of Alternate Auditor. The first one of the candidates of each section of the lists must be registered in the register of Statutory Auditors and must have exercised the activity of legal control of the accounts for a period of at least three years.

Pursuant to article 148, paragraph 2 of the TUF, at least one standing member is appointed by the minority shareholders who are not connected, even indirectly, with the shareholders who have introduced or voted the list winning for number of votes.

In compliance with the Italian legislation for listed companies, the By-laws (article 26.2) attribute the chairmanship of the Board of Statutory Auditors to the Standing Auditor appointed by the minority list.

In order to ensure transparency in the procedure for the appointment of the Board of Statutory Auditors, pursuant to article 144-*sexies*, paragraph 3 of the Issuers Regulation, lists are provided, with:

(a) information on the identity of shareholders who have submitted the lists, indicating the total percentage of the shares held;

(b) a declaration by shareholders other than those who hold, including as a group, a controlling interest or relative majority, indicating the absence of any relationship with them as set forth in article 144-*quinquies* of the Issuers Regulation. With Communication 26 February 2009 No. DEM/9017893, CONSOB recommended shareholders who submit a "minority list" to submit the information indicated in such Communication;

(c) an accurate description of the personal and professional characteristics of the candidates and, pursuant to article 2400, last paragraph of the Italian Civil Code, with the list of administration and control positions held within other companies as well as a statement by the candidates certifying possession of the requirements set by the law (including possession of independence requirements pursuant to article 148, paragraph 3 of the TUF and their acceptance of the candidacy).

Such documents are deposited at the registered offices of the Issuer, and are published on the Issuer's website according to the terms established by CONSOB, at least 21 days before the day of the Shareholders' Meeting.

For any replacement of the Statutory Auditors, article 26.2 of the By-laws applies. In case one of the Statutory Auditors is replaced, the Substitute Statutory Auditor first on the list takes his place. If the Chairman of the Board of Statutory Auditors is replaced, this position will be taken by the Substitute Statutory Auditor taken from the same list.

For the appointment of the Statutory Auditors occurring outside the provisions for renewing the entire Board of Statutory Auditors, the Shareholders' Meeting resolves based on the majority envisaged by the law and without respecting the abovementioned procedure but nonetheless so as to ensure a

composition of the Board of Statutory Auditors in compliance with the requirements of honour and professionalism established by the Law.

Members of the Board of Statutory Auditors are eligible for re-election. The Board of Statutory Auditors' remuneration for the entire term is determined at the Shareholders' General Meeting. In accordance with article 148 of the TUF, the Chairman of the Board of Statutory Auditors is nominated by the Shareholders' General Meeting from the Members of the Board of Statutory Auditors elected by the minority in accordance with the provisions set out above.

The Extraordinary Shareholders' Meeting of TERNA S.p.A. held on 23 March 2017 approved the changes to the Bylaws proposed by the Board of Directors; these seek, in particular, to supplement the rules on slate voting for the appointment of the Board of Directors and Board of Statutory Auditors in the event that the slate obtaining the most votes does not have sufficient candidates to ensure that the number of candidates to be elected is reached.

Pursuant to article 149 of the TUF, the Board of Statutory Auditors supervises Terna's compliance with the law and with the By-laws, Terna's administration, the adequacy of the organisational structure of the company and of its internal controls and accounting reporting systems as well as the adequacy of information supplied by Terna's subsidiaries. At the annual Shareholders' General Meeting, called to approve Terna's financial statements, the Board of Statutory Auditors must inform shareholders of any irregularities found during the course of its supervision. In addition, the Board of Statutory Auditors must promptly report all material irregularities to CONSOB, to the shareholders and to the Italian courts. Pursuant to the By-laws, Terna's Board of Directors is obliged to keep the Board of Statutory Auditors informed of material activities and transactions carried out by Terna and its subsidiaries on an on-going basis.

According to article 19 of Legislative Decree 39/2010, it is the responsibility of the Board of Statutory Auditors to supervise the financial information process, the efficiency of the internal control systems, of internal reviews and risk management, the auditing of annual and consolidated results pursuant to law provisions and the independence of the auditors.

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 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 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 since May 2014.

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

Conflicts of Interest

No potential conflicts of interest have been declared between any duties to Terna of Terna's Board of Directors, Statutory Auditors or Management and the private interest and/or other duties of such persons. No member of Terna's Board of Directors, Board of Statutory Auditors or Management declared to have or have had any interest in any transactions that are or were unusual in their nature or conditions and are or were significant to its business.

EXTERNAL AUDITORS

Under Italian securities regulations, Terna's accounts must be audited by External Auditors appointed by the shareholders. Pursuant to the TUF, the engagement shall last for nine financial years and cannot be renewed if at least three years have not elapsed from the termination of the previous engagement. In the event of renewal, the person responsible for the audit must be replaced by another person.

At the general Shareholders' Meeting of 13 May 2011, PriceWaterhouseCoopers S.p.A. was appointed as accounting auditor for the accounting periods 2011–2019 in accordance with the reasoned proposal of the Board of Statutory Auditors.

Pursuant to Italian law, the external auditors' opinion is made available to Terna's shareholders prior to each annual Shareholders' Meeting.

PriceWaterhouseCoopers S.p.A., holds the same appointment for Terna's principal subsidiaries.

EMPLOYEES

As of 30 June 2017, the employees of the Terna Group numbered at 3,931.

Share ownership by Directors and employees

In April 2005, Terna's shareholders authorised the Board of Directors to increase Terna's outstanding share capital by an amount not exceeding Euro 2.2 million in order to permit the issuance (in one or more tranches over a five-year period ending in March 2010) of a maximum of 10,000,000 new ordinary shares to be reserved for the issuance of options granted to members of Terna's Senior Management selected by Terna's Board of Directors under the terms of executive stock options plans approved by Terna's Board of Directors from time to time.

In December 2005, Terna's Board of Directors approved a stock option incentive plan for the granting of a maximum of 10,000,000 options (representing an equal number of ordinary shares in Terna) to approximately 20 Senior Managers including the Chief Executive Officer. The adoption of the 2006 stock option incentive plan involved the assignment of an aggregate of 9,992,000 options (representing an equal number of ordinary shares in Terna) to 17 Senior Managers. The strike price was set at Euro 2.072 per share. All options vested as Terna in 2006 outperformed the EBITDA target defined by the Board of Directors. Therefore, up to 30 per cent. of the options granted could be exercised from April 2007, up to 60 per cent. from January 2008 and up to 100 per cent. from January 2009. Originally the expiry date was established to be March 2010 and this was later postponed to March 2013.

As a result of the above, all the options have been completely exercised; therefore, the plan is totally expired.

SHARE CAPITAL OF TERNA, MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Share capital

As of 5 October 2017, CDP RETI holds 29.851 per cent. of Terna's share capital and is in a position to appoint the majority of Terna's Board of Directors, to influence dividend policies and, generally, to determine the outcome of any matter put to a vote of the Terna's shareholders.

On 19 April 2007, CDP declared that it had ascertained the existence of a *de facto* control on Terna. By means of a letter dated 30 October 2014, CDP confirmed the subsistence of the relationship of *de facto* control (already notified on 19 April 2007) as of that date, even after the transfer to CDP RETI of its shares in Terna (see also "*Overview*" and "*History and Development*").

Major shareholders[7]

CDP RETI

CDP RETI is Terna's main shareholder holding 29.851 per cent. of Terna's share capital. CDP RETI is an investment vehicle established in October 2012 whose shares are owned by, respectively, Cassa Depositi e Prestiti S.p.A. (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.

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 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. (see also "*Overview*")

Lazard Asset Management LLC

On the basis of the information available and CONSOB disclosures, Lazard Asset Management LLC owns 5.122 per cent. of the total Terna share capital.

Limitations on shareholding

The transfer of Terna's shares is not subject to any restrictions other than those contained in the shareholders' agreement signed by CDP, SGEL and SGID dated 31 July 2014 and in the By-laws or as contemplated by the terms of this document. Pursuant to article 6.3 of the By-laws in force, with the exception of the Italian Government or State or local authorities (or entities controlled by any of them), no one can own, for any purpose, more than 5 per cent. of Terna's share capital. A shareholder who owns, directly or indirectly, shares that in the aggregate constitute more than 5 per cent. of Terna's share capital may not exercise its vote with regards to the excess shares. If a shareholder votes its shares in violation of the By-laws, the relevant resolution of the relevant Shareholders' Meeting

[7] 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.

may be contested if the required majority would not have been reached but for the votes attributed to such excess shares. However, the shares may be counted for the purposes of determining whether the Shareholders' Meeting has achieved a quorum.

Pursuant to the relevant provision of the By-laws, shares that count towards the above limit include shares owned by (i) entities that are directly or indirectly controlled by the shareholder (as well as shares controlled by any of these controlled entities), (ii) fiduciaries and/or intermediary entities, (iii) affiliates of the shareholder and (iv) related persons of the shareholder. Related persons of the shareholder include legal spouses or blood relatives up to the second degree.

Pursuant to the DPCM, the By-laws were amended in order to (i) prohibit any company that is involved in the production, import, distribution, sale or transmission of electricity (or which controls, is controlled by, or is under common control with, any such company) and that owns more than 5 per cent. of the shares of Terna, from voting shares that exceed 5 per cent. of the voting share capital in the election of the Terna's Directors, and (ii) in accordance with Legislative Decree 31 May 1994 No. 332 converted into Law No. 474/94 (hereinafter referred to as the **Privatisation Law**), prohibit any person except for the Italian Government or State or local authorities (or entities controlled by any of them) from holding more than 5 per cent. of Terna's share capital. However, according to the Privatisation Law, this limitation on shareholding does not apply in the case of a public tender offer that has the purpose of acquiring the entire outstanding share capital in accordance with articles 106 and 107 of the TUF. See also "*Regulatory matters - Regulation under the DPCM*".

Special powers of the Italian Government

Pursuant to the Italian privatisation laws and article 6.3 of the By-laws in force, the Ministry of Economy and Finance (in consultation and agreement with the Ministry of Economic Development) could exercise certain special powers (listed below) with respect to Terna's business and shares. These powers could be exercised regardless of whether the Ministry of Economy and Finance holds shares in Terna.

The special powers of the Italian Government in Terna have been subject to review following the entry into force, on 15 May 2012, of Law 11 May 2012 No. 56 converted into law with amendments by Law Decree 15 March 2012 No.21 (hereinafter referred to as the **Golden Power Decree**), providing for amendments to Italian legislation regarding special powers held by the Italian Government in certain companies, including in the energy sector.

More specifically, the Golden Power Decree sets forth new provisions on the special powers of the Italian Government in relation to strategic activities in the energy, transport and communications industries. These provisions were enacted in order to harmonise national legislation with EU legislation assigning to the Italian Government powers of intervention in order to protect the lawful, essential and strategic interests of Italy.

These provisions, set out under articles 2 and 3 of the Golden Power Decree, provide for:

- the issue of specific regulations, to be updated at least once every three years, aimed at identifying the grids and systems, including those needed to ensure the minimum provisioning and operations of essential public services, assets and reports of strategic relevance for the national interests in the fields of energy, transport and communication and the type of acts or operations within a single group to which the restrictions do not apply;

- the obligation to notify the Prime Minister's Office, within 10 days and in any case before the implementation, of resolutions, acts and operations adopted by a company holding one or more of the assets as identified above, which result in:

– changes in the ownership, control or availability of the assets;

– change in their purpose, including resolutions of the Shareholders' Meeting or administrative bodies concerning the merger or demerger of the company;

– transfer of the company's offices abroad;

– change in the company's objects;

– company winding-up;

– amendment of any statutory clauses adopted in accordance with article 2351, third paragraph of the Italian Civil Code, or introduced in accordance with article 3, paragraph 1 of the "Privatisation Law", as most recently amended by article 3 of such Decree;

– transfer of business or business unit encompassing these assets;

– assignment of them by way of guarantee;

and the obligation to notify resolutions passed by the Shareholders' Meeting or administrative bodies concerning the transfer of subsidiaries holding such assets;

- the Prime Minister's power to veto, upon proposal of the Ministry of Economy and Finance and in compliance with the resolution of the Council of Ministers, adopted resolutions, acts or operations notified that give rise to an exceptional situation, not regulated by national and European segment legislation, of a threat for serious damages to the public interests concerning the safety and operation of the grids and systems and the continuity of provisioning. The power to veto can also be exercised in the form of the imposition of specific provisions or conditions where such suffices to ensure the protection of the public interests in relation to the safety and operation of the grids and plants and the continuity of provisions. The veto is notified within 15 days of communication. Such term may be suspended once for a request for information and until receipt of such information, which must be delivered within 10 days.

  The resolutions, acts or operations adopted or implemented in breach of the obligations to notify information or in breach of the conditions, provisions or veto imposed by the Italian Government are null. The Italian Government may also demand that the company and any counterparty restore the previous situation at their own expense. Anyone not complying with the provisions relating to notification and veto, without prejudice as to whether the fact is a crime, is subject to the administrative sanctions specified in the Golden Power Decree;

- the obligation to notify the Prime Minister's Office, within 10 days, of the acquisitions by any title, by a subject, whether a natural person or legal entity, outside the European Union, or which does not have its residence, usual place of domicile, registered office or administration or main centre of business in a EU or EEA Member State or which is not established therein with majority shareholdings in companies holding assets identified as strategic of relevance such as to determine the permanent establishment of the buyer by virtue of the assumption of control of the company whose investment has been acquired. The notice is accompanied by all information useful to providing a general description of the acquisition project, the buyer and its scope of operations. In calculating the significant shareholding, consideration is also given to investments held by third parties with which the buyer has stipulated shareholders' agreements;

- the power of the Prime Minister, within 15 days from the notification of such acquisitions and to be exercised, at the request of the Ministry of Economy and Finance and pursuant to a resolution of the Council of Ministers sent at the same time to the appointed parliamentary commissions to:

  – subject the effect of the acquisition to the assumption by the buyer of commitments intended to guarantee the protection of the essential interests of the Italian Government in relation to the safety and functioning of the grids and plants and the continuity of provisions where the acquisition entails a threat of serious prejudice to such interests, or

  – oppose the acquisition, in exceptional cases of risk to the protection of the mentioned essential interests of the Italian Government which cannot be eliminated through the assumption of the above commitments.

Once the above terms have expired, the operation can be implemented.

Until notification and expiry of the terms for the potential exercise of the special powers relating to the indicated acquisitions, voting rights and other non-capital rights connected with the shares representing the significant investment are suspended just as such rights are suspended in the event of failure to comply with the commitments as a condition of the admissibility of the acquisition for the entire period for which the breach continues. Any resolutions passed with the determining vote of such shares or in any case resolutions or acts adopted in breach or infringement of the conditions set, are null. Any buyer failing to comply with the required commitments is also subject, without prejudice to the cases where the facts constitute a crime, to the administrative sanctions specified in the Golden Power Decree.

In the event that the power of opposition is exercised, the buyer may not exercise voting rights and, in any case, those rights different from capital rights connected to the shares which represent the significant shareholding. Any Shareholders' Meeting resolutions adopted with the determining vote of such shares are null. Shares must be sold within one year and, in the event of failure to comply, at the request of the Italian Government, the court orders the sale of such shares.

The acquisition, by any title, by a party outside the European Union is permitted on mutual conditions in compliance with the international agreements signed by Italy or by the European Union;

- the special powers of veto and opposition to acquisitions are exercised on the basis of objective criteria, such as:

  – the existence of connections between the operators involved and: (a) third party countries that do not recognise principles of democracy or a state of law, which do not comply with rules of international law, or which have behaved "riskily" with regards to the international community, given the nature of their alliances or (b) criminal organisations or with subjects or entities in any case connected to them;

  – the suitability of the structure resulting from the legal act or the operation to guarantee: (a) the safety and continuity of provisions (b) the maintenance, safety and operations of the grids and systems.

Until adoption of the provisions, which must specify the organisational methods by which to carry out the activities required prior to the exercise of special powers, the competences relating to the proposals for the exercise of special powers set out above are assigned to the Ministry of Economy and Finance for the companies in which it holds an interest.

By virtue of the specified provisions of the Golden Power Decree and with regards to Terna, the following shall in any case cease to have any effect as from the date on which the regulations for the identification of strategic assets come into effect:

- the current legislation on special powers established by Article 2 of the Privatisation Law and the Prime Minister's Decree 10 June 2004 ("*Definition of the criteria for the operation of special powers, pursuant to Article 2 of Italian Law Decree No. 332 of 31 May 1994, converted, with amendments, by Italian Law No. 474 of 30 July 1994*" as subsequently amended and supplemented), the provisions of which are in any case abrogated as from the date on which the last of the regulations that will complete the identification of the energy, transport and communication industries comes into effect;

- the provisions assigning special powers contained in the Prime Minister's Decree 17 September 1999 ("*Provisions for the assignment of special powers to the Ministry for the Treasury, Budgets and Economic planning on the disposal of shareholdings of ENEL S.p.a.*"), in the Decree by the Ministry for the Treasury, Budgets and Economic planning of 17 September 1999 ("*Identification of the contents of statutory clauses to be included in the By-laws of ENEL S.p.a., ENEL Produzione S.p.a., Terna S.p.a. and ENEL Distribuzione S.p.a., which assign the Ministry for the Treasury, Budgets and Economic planning title of special powers in accordance with Article 2 of Italian Law Decree No. 332 of 31 May 1994, converted into Italian Law No. 474 of 30 July 1994*") and in the Decree of the Ministry of Economy and Finance 1 April 2005 No.32578 which, by virtue of the changes made to the "Privatisation Law" by Article 4 of the Law 24 December 2003 No. 350 had updated the content of the statutory clause on special powers already contained in Terna's By-laws;

the current clauses on special powers in Terna's By-laws, without prejudice to the provisions on the maximum limit of shareholding.

On 6 June 2014, the two following decrees were published:

- Decree of the President of the Republic 25 March 2014 No.85 Rules for identification of the assets of strategic importance in the fields of energy, transport and communications, in accordance with Article 2, paragraph 1, of Law Decree 15 March 2012 No. 21 (hereinafter referred to as **Decree No. 85**).

- Decree of the President of The Republic 25 March 2014 No.86 Rules for identification of the procedures for activating special powers in the fields of energy, transport and communications, in accordance with Article 2, paragraph 9 of the Law Decree 15 March 2012 No. 21 (hereinafter referred to as **Decree No. 86**).

Decree No.85 has defined the assets of strategic importance included in the energy sector. In the electric sector, in particular, the following assets of strategic importance have been included:

(a) infrastructure for the supply of electricity and gas from other states;

(b) national network of electricity transmission and related control and dispatching systems;

(c) activities' management related to the use of networks and infrastructure referred to in points a), and b).

With the issuance of these two Decrees the provisions of the Golden Power Decree have entered into force.

RATINGS

As of the date of this Base Prospectus:

(i) S&P has issued a long-term rating of "BBB" and a short-term rating of "A-2" in respect of Terna with a stable outlook;

(ii) 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; and

(iii) Fitch has issued a medium/long term rating of "BBB+" and a short-term rating of "F2" in respect of Terna with a stable outlook.

Each of S&P, Moody's and Fitch is established in the European Union and was registered on 31 October 2011 in accordance with Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended by Regulation (EU) No. 513/2011 of the European Parliament and of the Council of 11 May 2011 (hereinafter referred to as the **CRA Regulation**) and is included in the list of credit rating agencies registered in accordance with the CRA Regulation published on the website of the European Securities and Markets Authority *http://www.esma.europa.eu/page/List-registered-and-certified-CRAs*.

REGULATORY MATTERS

Supervision and Regulation of the Italian Electricity Industry

The Ministry of Economic Development and Regulatory Authority for Electricity, Gas and Water (AEEGSI) are the entities in charge of the overall supervision and regulation of the Italian electricity industry.

The Ministry of Economic Development is mainly responsible for the management (including the granting and revocation) of concessions and authorisations (other than those referring to plants producing energy from renewable sources) as well as for the establishment of strategic guidelines for the development and safety of the electricity industry. The AEEGSI primary responsibilities include determining tariff rates and access charges, issuing service quality-control setting the technical and the economic conditions governing access and interconnections to networks in order to promote competitive markets and to protect the interests of users and consumers. The AEEGSI is an Administrative Independent Authority; therefore it exercises its powers with a high degree of autonomy from the Italian Government.

Regulation before the Bersani Decree of 1999

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

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

- the Italian Government had ultimate authority over the generation, transmission and distribution of electricity. The government licensed such activities to Enel and to municipal electricity utilities;
- power generation was restricted to authorised producers which could only produce electricity for their own consumption, for sale to affiliated companies or for sale to Enel; and
- the AEEGSI (on the basis of Law No. 481 of 14 November 1995) determined the electricity tariff rates annually on an industry "cost-plus" basis.

Regulation under the Bersani Decree

The enactment of the EU Directive 1996/92/CE (hereinafter referred to as **the Electricity Directive**) led to the liberalisation of the electricity industry. The Bersani Decree and subsequent legislation implemented under the Italian law the principles set forth by the Electricity Directive and liberalised the production, import, export, purchase and sale of electricity on the market. The activities of both transmission and dispatching of electric energy have been reserved to the State and are currently carried out by Terna under a Concession released by the Ministry of Economic Development (see also "*Regulatory Structure of the Transmission Sector*"). More specifically, the Bersani Decree and subsequent legislation provided for:

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

- *Transmission.* A requirement that each network owner transfers its own transmission assets to a special purpose subsidiary. In addition, the AEEGSI continued to be responsible for determining the tariff system used to calculate the compensation due to each entity owning electricity transmission assets of the Italian grid. Also, the Italian Independent System Operator System (Gestore della Rete di Trasmissione Nazionale S.p.A., hereinafter referred to as the **Italian ISO**) was established to act as system operator for the transmission and dispatching of electricity and for the management operations of the National Transmission Grid.

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

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

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

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

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

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

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

Subsequent legislation

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

- provided for integration of the ownership and management of the National Transmission Grid; and

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

Regulation under the DPCM

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

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

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

– the ownership interests held in the Markets Operator and the Single Buyer; and

– any liabilities incurred by the Italian ISO prior to the Transfer. In any event, the Italian ISO was required to indemnify and hold Terna harmless for such liabilities incurred prior to the effective date of the Transfer, although Terna had an obligation to mitigate such liabilities,

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

The Italian ISO and Terna were required to agree on the ISO Assets and the consideration to be paid for the Transfer. At the date of the Transfer, Terna would assume ownership and the Italian ISO's obligations for the management of the National Transmission Grid and each of the Italian ISO and Terna would change their respective corporate names.

(b) The Italian ISO was required to draft, by no later than 31 December 2004, a document named "*Network transmission, dispatch, development and safety code*" (hereinafter referred to as the **Grid Code**), which had to contain objective and non-discriminatory rules for the use of, and access to, the National Transmission Grid with respect to the transmission, dispatching and management operations of the same. The Grid Code should also provide for the establishment of a technical consulting committee for the users of the National Transmission Grid,

consisting of a maximum number of seven members, which represents the interests and the positions of the various categories of users of the Italian electricity system. The consulting committee is responsible for (i) updating the rules and specifications contained in the Grid Code and (ii) the resolution of any disputes arising from the application of such rules and specifications. The committee may also express non-binding opinions on the general criteria for (i) the development of the National Transmission Grid (ii) the development and operation of connections, and (iii) the security for the National Transmission Grid.

The Grid Code (including the terms for the appointment and operation of the technical consulting committee) was subject to the approval (including by acquiescence) of the Ministry of Productive Activities (currently Ministry of Economic Development) and the AEEGSI. The Grid Code is regularly amended and updated in order to ensure compliance with the evolution of the legal and regulatory framework, and every modification, addition and change is subject to approval (including by acquiescence) by the Ministry of Economic Development and the AEEGSI according to their relevant competences.

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

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

- consistency of the corporate purposes that are consistent with both the ownership and management of the National Transmission Grid;

- any company operating in the production, importation, distribution, sale or transmission of electricity (or which controlled, was controlled by or was under common control with, any such company) and having a shareholding exceeding 5 per cent. of the shares of the resulting entity would be prohibited from voting, in the election of the resulting entity's Directors, those shares exceeding 5 per cent. of the voting share capital in the resulting entity;

- the shareholders of the resulting entity were requested to appoint, within 60 days from the integration, a new Board of Directors in accordance with the new By-Laws that had to meet certain standards of integrity and independence, to ensure that the National Transmission Grid would be managed objectively, without discriminating between users or categories of users. Such duly appointed Board of Directors was to remain in office until the date Enel's shareholding in Terna fell below 20 per cent.; and

- no person other than the Italian Government or State or local authorities (or entities controlled by any of them) was allowed to hold more than 5 per cent. of Terna's share capital (which provision was not to be amended for at least three years from the integration). In any event, a shareholder with a shareholding, direct or indirect, of more than 5 per cent. of Terna's share capital, would not be entitled to vote those shares exceeding the 5 per cent. threshold. However, according to Law 474/94, this limitation on holding more than 5 per cent. of Terna's share capital did not apply in the case of a public tender offer with the purpose of acquiring the entire outstanding share capital of Terna in accordance with Articles 106 and 107 of the TUF.

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

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

The DPCM was implemented as follows:

(a) Terna's By-Laws were amended on 31 January 2005 by Terna's general meeting of shareholders;

(b) the Ministry of Productive Activities (currently Ministry of Economic Development) issued the new electricity transmission and dispatching concession on 20 April 2005, updated and amended on 15 December 2010;

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

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

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

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

Legislative Decree No. 93/2011

The current regulatory structure of the electricity sector is determined also by Legislative Decree 93/2011 implementing EU Directive 2009/72/EC concerning common rules on the internal market in electricity.

Implementation of Ownership unbundling provisions

According to Legislative Decree 93/2011:

- the activities of both transmission and dispatching of electric energy are reserved to the State, pursuant to Article 1 of the Bersani Decree and are carried out by Terna under a Concession (see also "*Regulatory Structure of the Transmission Sector*").

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

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

The TSO's certification is issued by the AEEGSI on the basis of the following criteria:

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

(b) The same person or persons, natural or legal, is/are not allowed to appoint members of the Supervisory Board, the Administrative Board or Bodies legally representing the undertaking, of a Transmission System Operator or a Transmission System, and directly or indirectly to exercise control or exercise any right over an undertaking performing any of the functions of generation or supply and vice versa;

(c) The same person is not allowed to be a member of the Supervisory Board, the Administrative Board or Bodies legally representing the undertaking, of both an undertaking performing any of the functions of generation or supply and a Transmission System Operator or a Transmission System.

Certification procedure

The AEEGSI, with Resolution ARG/com 153/11, has established the certification procedures of businesses acting as natural gas transport system managers or electricity transmission operators, pursuant to Directive 2009/72/EC as implemented by Legislative Decree 93/2011. The above-mentioned Resolution sets forth a timely certification process of the transmission/transport system operators aimed at attesting compliance by such parties, with the conditions set forth by European Community Regulations for the three models of separation of the transmission/transport activities from the generation/production and supply activities (*i.e.* 1) the ownership unbundling (OU) 2) the institution of an independent transmission operator (ITO) and 3) the institution of an independent system operator (ISO).

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

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

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

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

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

Therefore Terna has been certified according to the "*ownership unbundling*" model: this is the option chosen as "preferable" by the EU Legislator. In certifying Terna, Resolution 142/2013/R/eel also requires some fulfilments to be implemented by the Issuer. In particular, the above-mentioned Resolution has required Terna to modify the conventions in place with the owners of portions of the transmission network and to amend its By-Laws in order to implement current Italian and European legislation regarding tasks of the Transmission System Operators, controlling shareholders and independence of the Directors (see also "*Description of the Issuer – Directors, Senior Management, Statutory Auditors and Employees*").

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

With the Resolution 317/2016/R/com the AEEGSI confirmed Terna certification according to the "ownership unbundling" model, since the Authority did not spot any substantial changes with respect to the conditions assessed during the first certification procedure occurred with Resolution 142/2013/R/eel.

Regulatory Structure of the Transmission Sector

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

Pursuant to the New Convention:

- The Issuer, in compliance with European provisions, laws in force in Italy, specific conventions with Public Authorities, conditions provided by the Concession and guidelines determined by the Ministry of Economic Development and the AEEGSI: (i) manages electricity flow through the National Transmission Grid; (ii) ensures the safety, reliability, efficiency and lower costs of its services and supplies; (iii) manages the National Transmission Grid without any discrimination of consumers; (iv) prepares operational plans in order to ensure the safety and adequacy of the transmission; (v) develops the portions of the National Transmission Grid directly owned; (vi) decides on maintenance operations of the National Transmission Grid and performs the maintenance activity on its portion of the National Transmission Grid; (vii) advises the Ministry of Economic Development on the construction of new installations; (viii) sets out the rules for the dispatch of energy in compliance with the conditions determined by the AEEGSI pursuant to Article 3, paragraph 3, of the Bersani Decree and the guidelines of the Ministry of Economic Development pursuant to Article 1, paragraph 2, of the aforesaid Decree; (ix) issues, pursuant to Article 1, paragraph 4, of the DPCM 11 May 2004, on the basis of the directives of the AEEGSI, non-discriminatory technical rules for the access to the National Transmission Grid, for the dispatch of energy, for the development and defence of the safety of the National Transmission Grid and for the maintenance of the National Transmission Grid; (x) performs all other activities, including those of a regulatory nature, permitted by applicable law; (xi)

builds and operates facilities for energy storage and energy conversion, aimed at ensuring: safety and proper operation of the power system, maximum use of power from renewable sources and supply of resources for the dispatching of electricity; and (xii) performs, in Italy or abroad, related and auxiliary activities useful for the pursuit of its corporate purpose. Pursuant to Legislative Decree 93/2011, the TSO cannot, neither directly, nor indirectly, be engaged in energy production nor supply activities and it cannot manage, neither temporary, energy production infrastructures and plants. The same Legislative Decree provides that the Issuer is allowed to set up and manage energy storage systems through batteries.

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

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

- In order to secure development of the National Transmission Grid in accordance with electricity demand, the Issuer, by 31 December of each year, prepares and approves a Development Plan for the National Transmission Grid and files it within 30 days to the Ministry of Economic Development, which verifies compliance of the plan with laws and guidelines determined by the Ministry itself as required by Law 290/03. The plan is subject to approval by the Ministry of Economic Development. The above mentioned Legislative Decree 93/2011 provides for a public consultation procedure held by the AEEGSI, which assesses the plan, carries out a public consultation and delivers a non-binding advice to the Ministry of Economic Development.

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

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

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

- Failure by the Issuer to perform at least one of the obligations required by the Convention may trigger a penalty (between Euro 5,000 and Euro 50,000) for each violation. The Ministry of Economic Development may also, at the Issuer's expense, perform the unfulfilled obligations. In the cases provided for in Article 2, paragraph 20(c), of Law 481/1995 and where the violations of the Issuer may seriously damage the electricity service, the Ministry

of Economic Development may, on AEEGSI proposal, suspend or terminate the Convention. During the period of suspension the service will be managed by the Italian State. For this purpose the Government will appoint a commissary in order to ensure the regular development of the service. The commissary may use the Issuer's existing infrastructure.

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

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

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

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

Tariff System

Revenue structure

For the six months ended 30 June 2017, the Terna Group's total consolidated revenues (excluding pass-through items) amounted to Euro 1,046.9 million. The majority of these revenues (approximately 92 per cent.) derive from activities regulated by the AEEGSI whereas the remainder derives from non-regulated activities.

Regulated revenues

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

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

Transmission service
The income for the transmission service represents the main part of the regulated revenues. The corresponding fees are invoiced by Terna to distributors connected to the National Transmission Grid, according to a binomial tariff composed of a power part (CTR_P), calculated on a quota of 90 per cent. of transmission allowed costs, and an energy part (CTR_E), calculated on the remaining 10 per cent. 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 per cent. 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 per cent. 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 approved (through resolution 579/17) 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 per cent. increase in their WACC for 12~~,~~ years, subject to certain conditions. 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 per cent. of the savings (ref. art. 21 of Annex A to Res. 654/15.

In 2016, RAB remuneration (base + incentives) constituted approximately 50 per cent. 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 per cent. 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.

Grid transmission revenue sharing

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

Dispatching service

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

Resolution 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

Exposure to volumes dynamics

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

Transmission

Once the energy component of the transmission tariff (CTRE) has been established by dividing the 10 per cent. 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 per cent. 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 per cent. of the transmission recognized costs are exposed to volume effect

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

Dispatching

The dispatching tariff is monomial, wholly calculated and invoiced on energy only; the AEEGSI calculates the dispatching tariff (DIS) by dividing 100 per cent. of recognized costs for Terna's dispatching activity by a forecast dispatched energy; Terna invoices withdrawal dispatching users DIS times the actual energy dispatched to each one of them. Any difference between forecast and actual energy determines a difference between dispatching recognized costs and dispatching revenues. Such volume exposure is limited to a ±0,5 per cent. by a mitigation mechanism (ref. art. 3.6 of Res. 351/07 as updated by Res. 658/15), where Terna is compensated for missing revenues up to 99.5 per cent. of recognized costs or returns the revenues exceeding 100.5 per cent..

Incentive schemes

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

(d) tariff incentive mechanisms, whose economic outcome for the Terna Group is included in the calculation of unitary tariffs;

(e) non-tariff incentive mechanisms, such as bonuses/penalties for the quality of the transmission service, which are paid or collected separately.

Terna's future accounting periods will be impacted both by the economic consequences of past incentive mechanisms (mainly the additional WACC for a number of residual years for development

projects commissioned in years 2004-2015) and potentially by the economic consequences of current incentive mechanism. Among them, the main ones are:

- for the promotion of significant investments (tariff incentive mechanisms: additional WACC described above for O-NPR1 and I-NPR1 projects);

- for the efficiency of investments in the transmission service: in case O-NPR1 and I-NPR1 projects investment costs will be lower than estimate costs (as established by the AEEGSI), and provided completion dates will be within six months of estimate completion dates (as established by the AEEGSI), Terna will be entitled to an incentive of 20 per cent. of the savings (tariff incentive mechanism, ref. art. 21 of annex A to Resolution 654/15);

- for the quality of the transmission service: non-tariff incentive mechanism, see details below;

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

Transmission quality regulation

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

The main topics related to electric transmission quality regulation are:

Premiums and penalties for energy not supplied

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

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

Services provided by distribution companies – Mitigation

Some specific types of power outage or voltage asymmetry conditions which affect VHV/MV or HV/MV transformation plants directly connected to the National Transmission Grid may give rise to mitigation services supplied by the distribution companies. Such services, aimed at providing a service continuity, are provided by means of reverse current feeding from MV grids and/or by adding mobile generator groups, and entitle distributors to receive a fee from Terna based on the electricity fed by the distribution grid to the NTG (mitigated).

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

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

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 Euro70 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.

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 Euro7 million.

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

Payments to the "Exceptional Events Fund"

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.

Pass-through items

In addition to regulated revenues and those generated by non-regulated activities, Terna manages cost and revenue items connected to the transactions, completed with electricity market operators, to buy and sell the energy necessary for the dispatching services: these are the "pass through" items *i.e.* those which do not influence net income on the Terna Group's Income Statement (revenues equal costs).

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

A significant proportion of pass-through items consists of uplift, a tariff component which includes various system costs, including covering the net expenses incurred to procure resources on the Dispatching Service Market (DSM).

In 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*").

Market coupling on France, Austria and Slovenia

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.

Interconnection Italy – Montenegro

The HVDC Interconnection between Italy and the Balkans has been temporarily suspended from the cluster of investment qualified as I=3. Its readmission to the I-NPR1 incentivized investment cluster, which supersedes the former I=3 incentive category in the present regulatory framework, 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.

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) the 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; (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 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.

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 to an individual beneficial owner who is a resident of 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), or in a state or territory that has entered into a treaty with Luxembourg relating to the Directive. 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.

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.[8]

An individual holder of Notes, whether he/she is a resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Notes.

Other Taxes

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)

[8] 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.

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 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 and the U.S. Treasury regulations promulgated thereunder, 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) or (ii). The final U.S. Treasury regulations issued under Section 871(m) (the **Section 871(m) Regulations**) 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, based on tests set forth in the Section 871(m) Regulations and applicable guidance, 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. Additionally, the Issuer may withhold the full 30 per cent. tax on any payment on the Notes in respect of any dividend equivalent arising with respect to such Notes regardless of any exemption from, or reduction in, such withholding otherwise available under applicable law (including, for the avoidance of doubt, where a non-U.S. holder is eligible for a reduced tax rate under an applicable tax treaty with the United States). A non-U.S. holder may be able to claim a refund of any excess withholding provided the required information is timely furnished to the U.S. Internal Revenue Service. Refund claims are subject to U.S. tax law requirements and there can be no assurance that a particular refund claim will be timely paid or paid at all. 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 on or after 1 January 2017. If the terms of a Note are subject to a "significant modification" (as defined for U.S. tax purposes), the Note generally would be treated as retired and reissued on the date of such modification for purposes of determining, based on economic conditions in effect at that time, whether such Note is a Specified Security. Similarly, if additional Notes of the same series are issued (or deemed issued for U.S. tax purposes, such as certain sales of Notes out of inventory) after the original issue date, the

IRS could treat the issue date for determining whether the existing Notes are Specified Securities as the date of such subsequent sale or issuance. Consequently, a previously out of scope Note might be treated as a Specified Security following such modification or further issuance.

In addition, with respect to Notes that provide for net dividend reinvestment in respect of either an underlying U.S. security or an index that includes U.S. securities, all payments on the Notes that reference such U.S. securities or an index that includes U.S. securities may be calculated by reference to dividends on such U.S. securities that are reinvested at a rate of 70 per cent. In such case, in calculating the relevant payment amount, the holder will be deemed to receive, and the Issuer will be deemed to withhold, 30 per cent. of any dividend equivalent payments (as defined in Section 871(m) of the Code) in respect of the relevant U.S. securities. The Issuer will not pay any additional amounts to the holder on account of the Section 871(m) amount deemed withheld.

The applicable Final Terms or Pricing Supplement will indicate whether the Issuer has determined that Notes are Specified Securities and may specify contact details for obtaining additional information regarding the application of Section 871(m) to Notes. If Notes are Specified Securities, a non-U.S. holder of such 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 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.

SUBSCRIPTION AND SALE

The Dealers have, in a Tenth Amended and Restated Programme Agreement (the **Programme Agreement**) dated 13 October 2017, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

SELLING RESTRICTIONS

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Final Terms (or Pricing Supplement, in the case of Exempt Notes) will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Exempt Notes which are also Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

Prohibition of Sales to EEA Retail Investors

If the applicable Final Terms in respect of any Notes (or the applicable Pricing Supplement, in the case of Exempt Notes) specify that "Prohibition of Sales to EEA Retail Investors" is applicable, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(i) the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or

(b) a customer within the meaning of Directive 2002/92/EC (as amended, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in Article 4(1) of MiFID II; or

(c) not a qualified investor as defined in the Prospectus Directive; and

(ii) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the applicable Final Terms in respect of any Notes (or the applicable Pricing Supplement, in the case of Exempt Notes) specify that "Prohibition of Sales to EEA Retail Investors" is not applicable, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

- the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to

decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and

- the expression **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

France

Each of the Dealers and the Issuer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

It has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus, the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes) or any other offering material relating to the Notes, and that such offers, sales and distributions have been and shall only be made in France to (a) providers of investment services relating to the portfolio management for the account of third parties and/or (b) qualified investors

(*investisseurs qualifiés*), all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 of the French *Code monétaire et financier*.

Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Base Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34-*ter*, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (**Regulation No. 11971**); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-*ter* of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of the Base Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

(a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Banking Act**); and

(b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including, the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Trustee and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

The establishment and update of the Programme have been duly authorised by resolution's of the Board of Directors of the Issuer dated 15 March 2006 and 27 July 2017, respectively.

Listing, Approval and Admission to Trading of Notes

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available, by physical means, from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg:

(a) the By-laws (*statuto*) (with an English translation thereof) of the Issuer;

(b) the audited consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014 (with an English translation thereof), together with the audit reports prepared in connection therewith. The Issuer currently prepares audited consolidated and non-consolidated accounts on an annual basis;

(c) the unaudited interim consolidated financial statements of the Issuer in respect of the six months ended 30 June 2017;

(d) the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

(e) a copy of this Base Prospectus; and

any future base prospectuses, prospectuses, information memoranda, supplements, Final Terms and Pricing Supplements (in the case of Exempt Notes) (save that Pricing Supplements will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference.

Furthermore the above-mentioned documents are also available on the Issuer's website: www.terna.it.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms (or Pricing Supplement, in the case of Exempt Notes). If the Notes are to clear

through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms or Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for Determining Price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial or trading position of the Group since 30 June 2017 and there has been no material adverse change in the prospects of the Group since 31 December 2016.

Litigation

Save as disclosed on page 146 of this Base Prospectus, neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

Independent Auditors

The consolidated financial statements of TERNA S.p.A. and its subsidiaries as of and for the year ended on, respectively, 31 December 2014, 31 December 2015 and 31 December 2016, incorporated by reference in this Base Prospectus, have been audited by PricewaterhouseCoopers S.p.A., independent accountants, as stated in their reports incorporated by reference herein.

PricewaterhouseCoopers S.p.A. is registered under No. 119644 in the Register of Accountancy Auditors (*Registro Revisori Legali*) by the Italian Ministry of Economy and Finance, in compliance with the provisions of the Legislative Decree of 27 January 2010, No. 39. PricewaterhouseCoopers S.p.A., which is located at Via Monte Rosa 91, 20149 Milan, Italy, is also a member of ASSIREVI (the Italian association of audit firms).

Post-issuance Information

The Issuer will not provide any post-issuance information, except if required by any applicable laws and regulations.

Dealers Transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in financing, in investment banking and/or commercial banking transactions (including the provision of loan facilities) and other related transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business.

Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. For the purpose of this paragraph the term "affiliates" includes also parent companies.

ANNEX 1 - FURTHER INFORMATION RELATED TO NOTES LINKED TO AN INDEX

FURTHER INFORMATION RELATED TO NOTES LINKED TO AN INDEX

The Issuer can issue Notes which are linked to an index pursuant to the Programme, where the underlying index is CPI or the Eurozone Harmonised Index of Consumer Prices excluding Tobacco as defined below. The following information provides a clear and comprehensive explanation to prospective investors about how the value of Index Linked Notes is affected by the value of the underlying index.

"**CPI**" or "**ITL – Inflation for Blue Collar Workers and Employees - Excluding Tobacco Consumer Price Index Unrevised**" means, subject to the Conditions, the "Indice dei prezzi al consumo per famiglie di operai e impiegati (FOI), senza tabacchi" as calculated on a monthly basis by the ISTAT - Istituto Nazionale di Statistica (the Italian National Institute of Statistics) (the "Index Sponsor") which appears on Bloomberg Page ITCPIUNR (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying the level of such index), provided that for the purposes of the calculation of the Rate of Interest and the Final Redemption Amount, the first publication or announcement of a level of the Index (excluding estimates) by the Index Sponsor for a given month shall be final and conclusive and later revisions of the level for such month will not be used in any calculations.

Eurostat Eurozone Harmonised Indices of Consumer Prices excluding Tobacco Unrevised Series Non Seasonal Adjusted

The Eurozone Harmonised Index of Consumer Prices excluding Tobacco (HICP), as calculated and published by EUROSTAT and the national statistical institutes in accordance with harmonised statistical methods (the **HICP**) is an economic indicator constructed to measure the changes over time in the prices of consumer goods and services acquired by households in the Eurozone. Following the Maastricht Treaty, the HICPs have been used as convergence criteria and the main measure for monitoring price stability by the European Central Bank in the Euro area, as well as for use on international comparison.

HICP is the aggregate of the Member States' individual harmonised index of consumer prices excluding tobacco (**Individual HICP**). Each country first publishes its Individual HICP in conjunction with its consumer price index. Thereafter, Eurostat aggregates the Individual HICPs and publishes an HICP for the Eurozone, as well as a breakdown by item and by country. In any specific year, each country's weight in the HICP for the Eurozone equals the share that such country's final household consumption constitutes within that of the Eurozone as a whole for the year that is prior to that specified year. These weights are re-estimated every year in the January publication of the HICP.

HICP is said to be harmonised because the methodology and nomenclatures for the index of prices are the same for all of the countries in the Eurozone and the European Union. This makes it possible to compare inflation among different Member States of the European Union. Emphasis is placed on the quality and comparability of the various countries' indices.

HICP is calculated as an annual chain-index, which makes it possible to change the weights every year. This also makes it possible to integrate new entrants, as in the case of Greece in January 2001. If a new entrant is integrated in a specific year, it is included in the Eurozone HICP starting from January of that year. The new Member State's weight is included in the annual revaluation of the HICP.

HICP is published every month on Eurostat's internet site, according to a pre-determined official timetable. Publication generally occurs around the 14th – 16th day of the following month. If a revision is made, it is published with the HICP of the following month.

Base Year Change

In Europe, the national statistics institutes change the base year of their price indices every 5 to 10 years. This procedure is necessary to ensure that the index follows changes in the consumption pattern through a new consumer spending nomenclature. The resetting of the base generally accompanies changes in the definition of household consumption that occur when the national accounting system is modified. Since 2006, the index reference period has been set to 2005 = 100. In order to obtain a common price reference period, too, the weights for each year are "price updated" to December of the previous year.

More information on the HICP, including past and current levels, can be found at: *http://epp.eurostat.ec.europa.eu/portal/page/portal/hicp/introduction*.

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