

Second Supplement dated 13 July 2018 to the Base Prospectus dated 13 October 2017



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

€8,000,000,000

Euro Medium Term Note Programme

This second supplement (the **Supplement**) is supplemental to, forms part of and should be read and construed in conjunction with, the Base Prospectus dated 13 October 2017 as supplemented by the first supplement dated 13 December 2017 (the **Base Prospectus**). This Supplement constitutes a supplement for the purposes of Article 16 of Directive 2003/71/EC, as amended (the **Prospectus Directive**) and is prepared in connection with the €8,000,000,000 Euro Medium Term Note Programme (the **Programme**) established by TERNA – Rete Elettrica Nazionale Società per Azioni (the **Issuer** or **Terna**). Unless otherwise defined in this Supplement, the terms defined in the Base Prospectus have the same meaning when used in this Supplement.

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

Purpose of the Supplement

The purpose of this Supplement is to, respectively: (i) update the cover page of the Base Prospectus to include the disclosure relating to the Regulation (EU) No. 2016/1011 (the “**BMR**”); (ii) amend the section “*Important information*” of the Base Prospectus to include the information required in connection with the product governance regime under Directive 2014/65/EU (“**MiFID II**”); (iii) amend the section “*Documents Incorporated by Reference*” of the Base Prospectus to incorporate by reference the Issuer’s audited annual consolidated financial statements as at 31 December 2017, the unaudited consolidated interim financial report as at 31 March 2018 and some recent press releases relating to Terna; (iv) amend the form of Final Terms set out in the section “*Applicable Final Terms*” of the Base Prospectus to include the information required in connection with the product governance regime under MIFID II; (v) amend the form of Pricing Supplement set out in the section “*Applicable Pricing Supplement*” of the Base Prospectus to include the information required in connection with the product governance regime under MIFID II; (vi) amend certain information relating to the rating given by Moody’s in the section “*Ratings*” of the Base Prospectus; (vii) amend certain paragraphs of the section “*Taxation*” of the Base Prospectus to reflect certain legislative amendments; and (viii) amend certain paragraphs of the section “*General information*” of the Base Prospectus to include references to the audited annual consolidated financial statements as at 31 December 2017 and the unaudited consolidated interim financial report as at 31 March 2018.

I. COVER PAGE

Under the cover of the Base Prospectus, the following paragraph is inserted:

“Amounts payable under the Notes may be calculated by reference to either EURIBOR, LIBOR or such other Reference Rate as specified in the relevant Final Terms. As at the date of this Base Prospectus, the administrator of LIBOR is, and the administrator of EURIBOR is not, included on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to article 36 of the BMR.

As far as the Issuer is aware, the transitional provisions in Article 51 of the BMR apply, such that EMMI (European Money Market Institute), as administrator of EURIBOR, is not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence).”

II. IMPORTANT INFORMATION

Under the section headed “**Important information**” on page 4 of the Base Prospectus, the following paragraph is inserted after the paragraph headed “**IMPORTANT – EEA RETAIL INVESTORS**”:

“**MIFID II product governance / target market** – The Final Terms in respect of any Notes will include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive No. 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Joint Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.”

III. DOCUMENTS INCORPORATED BY REFERENCE

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

Document	Information incorporated by reference	Page number
Issuer's Audited Consolidated Financial Statements as at and for the Financial Year as at 31 December	Management's Report	6 - 155
	Consolidated Income Statement	160

2017	Consolidated statement of comprehensive income	161
	Consolidated statement of financial position	162 - 163
	Consolidated statement of changes in equity	164 - 165
	Consolidated statement of cash flows	166
	Notes to the consolidated financial statements	168 - 221
	Auditor's report	224 - 230
Issuer's Unaudited Consolidated Interim Financial Report as at and for the Three Months Ended on 31 March 2018	Group reclassified income statement	23 - 25
	Group reclassified statement of financial position	26 - 28
	Cash flows	26
	Debt	29

and copies of the following press releases in their entirety:

- (1) press release dated 24 January 2018 (relating to Terna's 2018 calendar of corporate events);
- (2) press release dated 20 February 2018 (relating to the approval of the Issuer's 2017 preliminary consolidated results by the Board of Directors);
- (3) press release dated 22 March 2018 (relating to the approval of the Issuer's 2018-2022 Strategic Plan and the Issuer's 2017 consolidated results by the Board of Directors);
- (4) press release dated 28 March 2018 (relating to the rating of Terna by Fitch Ratings Ltd);
- (5) press release dated 30 March 2018 (relating to an update to the Terna's 2018 calendar of corporate events);
- (6) press release dated 4 April 2018 (relating to the filing and publishing of the Issuer's Annual Report of Remuneration and the Issuer's Information Document of the Phantom Stock plan);
- (7) press release dated 9 April 2018 (relating to the filing with Borsa Italiana S.p.A. and publishing of the Issuer's 2017 Annual Financial Report, the Issuer's Annual Report on

Corporate Governance and ownership structure and the Issuer's 2017 Sustainability Report – Consolidated Non-Financial Statement);

- (8) press release dated 4 May 2018 (relating to the approval of the Issuer's 2017 financial statements by the Issuer's Ordinary Shareholders' Meeting);
- (9) press release dated 9 May 2018 (relating to the approval of the Issuer's results as at 31 March 2018 by the Board of Directors);
- (10) press release dated 9 May 2018 (relating to the filing with Borsa Italiana S.p.A. and publishing of the Consolidated Interim Financial Report at 31 March 2018);
- (11) press release dated 29 May 2018 (relating to the filing with Borsa Italiana S.p.A. and publishing of the minutes of the Issuer's Ordinary Shareholders' Meeting of 4 May 2018); and
- (12) press release dated 30 May 2018 (relating to the rating of Terna by Moody's Investor Service),

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

The Issuer confirms that the results as at 31 December 2017 referred to in the press release dated 20 February 2018 (relating to the approval of the Issuer's 2017 preliminary consolidated results by the Board of Directors) have been compiled on the basis of the established financial reporting process of the Issuer using the same accounting principles, criteria and assumptions as have been used in the audited annual consolidated financial statements of Terna for the financial year ended on 31 December 2017.

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

IV. FORM OF FINAL TERMS

Under the section headed "*Applicable Final Terms*", on page 41 of the Base Prospectus, the following paragraph is inserted after the paragraph headed "*PROHIBITION OF SALES TO EEA RETAIL INVESTORS*":

"MIFID II Product Governance / Professional investors and ECPs only target market – Solely for the purposes of each of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels."

V. FORM OF PRICING SUPPLEMENT

Under the section headed “*Applicable Pricing Supplement*”, on page 57 of the Base Prospectus, the following paragraph is inserted after the paragraph headed “*PROHIBITION OF SALES TO EEA RETAIL INVESTORS*”:

“**MIFID II Product Governance / Professional investors and ECPs only target market** – Solely for the purposes of each of the manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.”

VI. RATINGS

Item (ii) of section “Ratings” on page 172 is hereby replaced in its entirety as follows:

“(ii) Moody’s has issued a senior unsecured long-term rating of “Baa1” and a short-term rating of “Prime-2” in respect of Terna. On 30 May 2018, the long term rating of Terna has been put under review for downgrade; and”.

VII. TAXATION

On page 188 of the Base Prospectus, the second sub-paragraph under the paragraph headed “Italian resident Noteholders” is hereby replaced in its entirety as follows:

“Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not acting in connection with an entrepreneurial activity or social security entities pursuant to Legislative Decree No. 509 of 30 June 1994 and Legislative Decree No. 103 of 10 February 1996 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 individuale di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Law No. 232 of 11 December 2016, as subsequently amended (the **Finance Act 2017**).”

On page 189 of the Base Prospectus, the seventh sub-paragraph under the paragraph headed “Italian resident Noteholders” is hereby replaced in its entirety as follows:

“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. Subject to certain conditions (including minimum holding period requirement) and limitations, interest, premium and other income relating to the Notes may be excluded from the taxable base of the 20 per cent. substitute tax 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.”

On page 190 of the Base Prospectus, the second sub-paragraph under the paragraph headed “Atypical securities” is hereby replaced in its entirety as follows:

“Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not engaged in an entrepreneurial activity or social security entities pursuant to Legislative Decree No. 509 of 30 June 1994 and Legislative Decree No. 103 of 10 February 1996 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 individuale di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Finance Act 2017.”

On page 191 of the Base Prospectus, the third sub-paragraph under the paragraph headed “Capital gains tax” is hereby replaced in its entirety as follows:

“Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not engaged in an entrepreneurial activity or social security entities pursuant to Legislative Decree No. 509 of 30 June 1994 and Legislative Decree No. 103 of 10 February 1996 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 individuale di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Finance Act 2017.”

On page 192 of the Base Prospectus, the tenth sub-paragraph under the paragraph headed “Capital gains tax” is hereby replaced in its entirety as follows:

“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. Subject to certain conditions (including minimum holding period requirement) and limitations, capital gains on the Notes may be excluded from the taxable base of the 20 per cent. substitute tax if the Notes are included in a long-term savings account (*piano indivisuale di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Finance Act 2017.”

VIII. GENERAL INFORMATION

Item (b) and (c) of the paragraph headed “**Documents Available**” on pages 205 of the Base Prospectus are hereby replaced in their entirety as follows:

“(b) the audited consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2017, 31 December 2016 and 31 December 2015 (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 consolidated interim financial report as at and for the three months ended on 31 March 2018 and the unaudited interim consolidated financial statements of the Issuer in respect of the six months ended on 30 June 2017;”.

The paragraph “*Significant or Material Change*” on page 206 of the Base Prospectus is hereby replaced in its entirety as follows:

“There has been no significant change in the financial or trading position of the Group since 31 March 2018 and there has been no material adverse change in the financial position or prospects of the Group since 31 December 2017.”

The first sentence of the paragraph “*Independent Auditors*” on page 206 of the Base Prospectus is hereby replaced in its entirety as follows:

The consolidated financial statements of TERNA S.p.A. and its subsidiaries as of and for the year ended on, respectively, 31 December 2015, 31 December 2016 and 31 December 2017, 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.

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Copies of this Supplement and the documents incorporated by reference in this Supplement

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

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

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