

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 2014/65/EU).

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 “*Risks related to the Market Generally – Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an 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.

Amounts payable under the Notes may be calculated by reference to either EURIBOR, LIBOR, CMS or such other Reference Rate as specified in the relevant Final Terms.

As at the date of this Base Prospectus, the EMMI (European Money Market Institute), as administrator of EURIBOR and the ICE Benchmark Administration, as administrator of LIBOR and CMS, are included in register of administrators maintained by the European Securities and Markets Authority (**ESMA**) under Article 36 of the Regulation (EU) No. 2016/1011 (the **Benchmarks Regulation**).

Amounts payable on Inflation Linked Notes will be calculated by reference to CPI or HICP (each as defined below). As at the date of this Base Prospectus, the administrators of CPI and HICP are not included on ESMA’s register of administrators under Article 36 of the

Benchmarks Regulation. As far as the Issuer is aware, CPI and HICP do not fall within the scope of the Benchmarks Regulation by virtue of Article 2 of that Regulation.

JOINT ARRANGERS

Citigroup

Deutsche Bank

DEALERS

Banca IMI

**Banco Bilbao Vizcaya
Argentaria, S.A.**

Barclays

BNP PARIBAS

BofA Merrill Lynch

Citigroup

Credit Suisse

Deutsche Bank

Goldman Sachs International

J.P. Morgan

**Mediobanca - Banca di
Credito Finanziario S.p.A.**

Morgan Stanley

Natixis

NatWest Markets

**Société Générale
Corporate & Investment
Banking**

UniCredit Bank

The date of this Base Prospectus is 11 July 2019.

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 or superseded) 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 (as amended, **MiFID II**); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, 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.

MiFID II product governance / target market – The Final Terms in respect of any Notes may 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 II Product Governance rules under EU Delegated Directive No. 2017/593 (the **MiFID II 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 II Product Governance Rules.

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*”).

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 on 31 December 2018 and 31 December 2017 and the unaudited consolidated interim financial information for the three months ended on 31 March 2019 (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.

CONTENTS

	Page
Risk Factors	10
General Description of the Programme	32
Documents Incorporated by Reference.....	39
Form of the Notes	41
Applicable Final Terms.....	44
Applicable Pricing Supplement	62
Terms and Conditions of the Notes.....	78
Use of Proceeds.....	124
Description of the Issuer	125
Taxation	177
Subscription and Sale.....	188
General Information.....	192
Annex 1 – Further Information Related to Notes linked to an Index.....	195

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 30 June 2019, 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 sections "*Description of the Issuer – Overview*" and "*Description of the Issuer – Share capital of Terna, major shareholders and related party transactions*").

The interests of CDP RETI (or any of its shareholders) in any decisions may differ from those of other Issuer's shareholders and may have an impact on the Issuer's business decisions.

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 transactions*" and "*Description of the Issuer – Share capital of Terna, major shareholders and related party transactions – Limitations on shareholding – Shares granting special powers*".

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 year 2018, approximately 90.5 per cent. of the revenue received by the Terna Group (excluding pass-through items) derived from activities regulated by the Regulatory Authority for Energy, Networks and the Environment (*Autorità di Regolazione per Energia Reti e Ambiente*, hereinafter referred to as the **ARERA**, ex **AEEGSI**). With Resolutions 583/15, 653/15, 654/15 and 351/07 as subsequently updated, the ARERA 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 ARERA in accordance with Resolutions 654/15 and 658/15 (see also section "*Description of the Issuer – Tariff System*").

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 “*Description of the Issuer – Tariff System*”).

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 ARERA.

The Issuer, as concessionaire of transmission and dispatching activities, may adopt measures or undertake actions in order to comply with Resolutions of the ARERA. 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 ARERA.

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 “*Description of the Issuer – Tariff System*”).

The Terna Grid’s proportion of the Italian grid may deviate from the ARERA 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 ARERA Resolution 304/01 and have remained unchanged since then.

The ARERA 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.

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 “*Description of the Issuer – History and development*” and “*Description of the Issuer – Legislative and Regulatory Framework*”). 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 “*Description of the Issuer – Legislative and Regulatory Framework*”).

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

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 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.).

In 2018 a new regulation on public debate has been adopted. This requires the submission of great infrastructure projects to a public debate, i.e. a process which implies the local communities

consultation and involvement on the initiative, at an early stage, before starting the permitting procedure.

Furthermore, at the end of 2018, the Italian government finally prepared a Proposal for an Integrated National Plan for Energy and Climate (PNIEC), carried out by the Ministry of Economic Development, the Ministry of the Environment and Protection of Land and Sea, and the Ministry of Infrastructure and Transport, which provides key guidelines on the development policies for the national Energy System and which is based on the new targets set at EU level (laid down in the Clean Energy Package and the Renewable Energy Source Directive), in the view of the adoption of the national Climate and Energy Plan.

The plan aims at accelerating the GHG's emissions reduction, in line with the long-term objective of a deep decarbonisation by 2050, also through the phasing-out of coal in power generation and the development of Renewable Energy Sources and the required infrastructures. The Plan is due to be approved by the end of 2019.

In the meanwhile, European institutions have recently completed a new legal framework for the energy union, the so-called "Clean Energy Package". As a result, further legislative initiatives at national level are expected in the near future to transpose the EU regulation.

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

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.

The Directive 2014/52/EU on the Environmental Impact Assessment has been transposed in 2017, although further modifications to the national EIA law are under consideration.

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.

The Issuer may be exposed to financial risks.

The Terna Group is exposed to financial risks: market risk (interest rate risk, exchange rate risk and inflation risk), liquidity risk and credit risk. If such risks materialise, the Issuer's cash flows 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 on the future cash flows of financial instruments. Terna's main source of interest rate risk is associated with its borrowings and related hedges in the form of derivative instruments that generate financial expenses.

Terna's borrowing strategy focuses on long-term loans whose maturities reflect the useful life of company assets. The Issuer pursues an interest rate risk hedging policy that aims at guaranteeing that the percentage of debt represented by fixed rate liabilities is at least 40%, as provided for in the relevant policies.

Interest rate risk is mitigated through derivatives, which hedge the risk connected with movements in interest rates relating to long-term borrowing.

•Credit Risk

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

The credit risk originated by open positions on transactions in derivatives is considered to be marginal since the counterparties, in compliance with the financial risk management policies adopted, are leading international banks with high ratings.

Terna provides its services essentially to counterparties considered solvent by the market, and therefore with a high credit standing, and does not have high concentrations of credit risk.

Credit risk management on trade receivables is driven by the provisions of ARERA Resolution 111/06, which, in art. 49, introduced instruments designed to limit the risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of an actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their turnover); the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees); and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee to be fixed by ARERA.

Exchange risk

Although the focus of the Group is investing in the domestic grid, Terna aims to take advantage of opportunities for international expansion by leveraging its core competencies developed in Italy as a

TSO, where such competencies are of significant importance in its home country. Due to these activities, Terna has a marginal exposure to the exchange rate risks in relation to cash flows related to investments, revenues, costs, financial income or expenses denominated in foreign currencies, such as cash flows related to the purchase or sale of equity participations. Such exposure is mitigated through highly liquid and easy-to-price derivatives, such as forwards and options.

Inflation risk

As regards inflation risk, the rates established by the regulator to provide a return on Terna's activities are determined to cover the allowed costs. Such cost components are updated on an annual basis to take into account the impact of inflation. Having used an inflation-linked bond issue in 2007, Terna has put in place a hedge to mitigate this risk.

Ratings risk

Terna is currently rated by S&P Global Ratings Europe Limited (hereinafter referred to as **S&P**), Moody's Investors Service Ltd. (hereinafter referred to as **Moody's**), Fitch Ratings Ltd (hereinafter referred to as **Fitch**) and Scope Ratings AG (hereinafter referred to as **Scope**). 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, Fitch or Scope 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, Fitch and Scope, 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.

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

By non-regulated activities, Terna Group is oriented to support energy transition. In particular, thanks to an industrial approach based on the Group's distinctive skills, the Issuer plays its role as an Energy Solution Provider developing services for businesses and seizing market opportunities with high added value for traditional and renewable customers. In the TLC sector, Terna's business will be directed at pursuing opportunities based on making the most of the Group's infrastructure.

Finally, it's worth mentioning the role of Tamini, whose business relates to construction, repair and sales of electrical machinery and of ATEI (Avvenia The Energy Innovator) engaged in Energy Efficiency services.

Regarding the international activities, the Issuer, directly or indirectly, has started the construction of power lines in Uruguay, Peru and has completed two projects in Brazil, for a total length of over 850 km and a total invested capital of around Euro 270 million for the 2017-2019 period (the **Projects**). In relation to the above-mentioned activities, the Terna Group/Issuer has acquired, and will acquire, the necessary financial resources executing the relevant project finance documentation. In this respect, it is worth noting that the Issuer may be required to compensate, indemnify and hold harmless the counterparties involved in the Projects, from damages suffered by them, as result of any inaccuracy or breach of any representation or warranty given by the Issuer and/or of any breach of any covenant or

agreement or in relation to any claim, contingency or liability of the Terna Group/Issuer. Such claims could materially and adversely affect the Issuer's business, results of operations and financial condition and reputation.

In addition, 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.

Although the businesses summarised above are 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 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 31 December 2018, was Euro 2 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, four of which relate to deadly or serious work incidents involving employees and two relating to the destruction or alteration of natural resources in protected areas.

The Terna Group has established a provision for disputes and litigation which, as at 31 December 2018, amounted to Euro 19.0 million (of which Euro 18.3 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.

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 and related matters

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 (**Original Sanctioned Country Transactions**) involving, inter alia, third parties located in countries that are targeted by sanctions imposed by the United States and/or the European Union (**Sanctioned Countries**).

After the acquisition, the Tamini Group, with a view of preserving its market shares and commercial reputation, continued its commercial activities in some of the Sanctioned Countries acquiring new contracts, (jointly, together with the Original Sanctioned Country Transactions, the **Sanctioned Country Transactions**).

In particular, such Sanctioned Country Transactions have included and include 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 manufacturing plants and electric utilities located mainly in Belarus, Cuba, Democratic Republic of Congo, Egypt, Iran, Iraq, Libya, Moldova, Russia, Tunisia, Ukraine, Venezuela and Zimbabwe.

For the first quarter of 2019, the amount of revenues generated by the Tamini Group and derived from Sanctioned Country Transactions was less than 0.5 per cent. of the consolidated revenues of the Terna Group.

In this regard, Terna has been carrying out, with the support of legal advisors but also specialised consultants, a continuous due diligence process on the Sanctioned Country Transactions. As of 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 also adopted an internal compliance policy (the **Trade Compliance Policy**) (see "*Description of the Issuer*") which prescribes detailed due diligence, on a subjective and objective basis, of the involved and involving conducts and activities and the relevant counterparties.

In light of the continuous evolution of any legislation applicable to Terna Group in any area of interest of the Terna Group and any related transaction and activity (the **Activities**), the Issuer is investigating the complex legislation not always consistent across jurisdictions (for example, to the extent that these provisions would not result in a violation of the EU Blocking Regulation under Council Regulation (CE) 2271/1996 and/or any associated and applicable national law, instrument and regulation related thereto) and is conducting a constant monitoring of the Activities – or any future transactions or activity in which Tamini or any other member of the Terna Group engages – that the Issuer cannot exclude to be determined to be prohibited by applicable laws or regulations, for which 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.

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 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. Furthermore, 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.

Changes in the above-mentioned regulatory environment or in the implementation thereof are unpredictable and consequently the potential effects of these events on the Issuer's business, financial condition, results of operations or cash flows cannot be foreseen.

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 an increase of the historic volatility in global financial markets, that continue to affect the functioning of financial markets and to impact the global economy, although the situation is improving, due to the measures implemented by the European Union and its Member States. In the near future the stability of the European financial system might be adversely impacted also by uncertainties of Italian politics. Furthermore, the European Central Bank announced that its "expanded asset purchase programme" will be withdrawn gradually and it is difficult to predict the effects of this measure. In any event, the European Central Bank has confirmed its commitment to continue promoting financial stability.

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 23 June 2016, the United Kingdom voted, in a referendum, to leave the European Union (**Brexit**). On 29 March 2017, the British Prime Minister gave formal notice to the European Council under Article 50 of the Treaty on European Union of the intention to withdraw from the European Union, thus triggering the two-year period of withdrawal, during which the United Kingdom is negotiating with the EU the terms of its withdrawal and of its future relationship with the EU (the **Article 50 Withdrawal Agreement**). As of the date of this Base Prospectus, this withdrawal of two years has been extended until 31 October 2019.

If the parties fail to reach an agreement within this timeframe, all EU treaties and global trade agreements negotiated by the EU on behalf of its members cease to apply to the UK, unless the European Council, in agreement with the UK, unanimously decides to extend this period. As part of these negotiations, a transitional period has been agreed in principle which would extend the application of EU law and provide for continuing access to the EU single market, until the end of 2020. Absent such extension and subject to the terms of any article 50 withdrawal agreement, the UK will withdraw from the EU no later than the 31 October 2019. There are a number of uncertainties in connection with such negotiations, including their timing, and the future of the UK's relationship with the EU. It therefore remains uncertain whether the Article 50 Withdrawal Agreement will be finalised and ratified by the UK and the EU ahead of the 31 October 2019 deadline.

Regardless of the timeframe and the term of the United Kingdom's exit from the European Union, the result of the referendum in June 2016 created significant uncertainties with regard to the political and economic outlook of the United Kingdom and the European Union.

The exit of the United Kingdom from the European Union; the possible exit of Scotland or Northern Ireland from the United Kingdom; the possibility that other European Union countries could hold referendums similar to the one held in the United Kingdom and/or call into question their membership of the European Union; and the possibility that one or more countries that adopted the Euro as their national currency might decide, in the long term, to adopt an alternative currency; or prolonged periods of uncertainty connected to these eventualities could have significant negative impacts on global economic conditions and the stability of international financial markets. These could include further falls in equity markets, a further fall in the value of the pound and, more generally, increase in financial markets volatility, reduction of global markets liquidities, with possible negative consequences on the asset prices, operating results and capital and/or financial position of the Issuer and/or the Group.

In addition to the above and in consideration of the fact that at the date of this Base Prospectus there is no legal procedure or practice aimed at facilitating the exit of a Member State from the Euro, the consequences of these decisions are exacerbated by the uncertainty regarding the methods through which a Member State could manage its current assets and liabilities denominated in Euro and the exchange rate between the newly adopted currency and the Euro. A collapse of the Eurozone could be accompanied by the deterioration of the economic and financial situation of the European Union and could have a significant negative effect on the entire financial sector, creating new difficulties in the granting of sovereign loans and loans to businesses and involving considerable changes to financial activities both at market and retail level. This situation could therefore have a significant negative impact on the operating results and capital and financial position of the Issuer and/or the Group.

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 it 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.

Furthermore, Management and People Review processes are being implemented through which evaluating and tracking the talent pool in order to support the definition of targeted development plans and identify resources for succession plans to main managerial positions.

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 8 June 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. The Issuer has implemented a comprehensive program to prevent corruption in its business activities and its "Anti-bribery Guidelines" provide rules and guidance regarding the Group's anti-corruption program.

Information and cyber risk

Information and cyber risk is the risk of incurring operating losses, market share losses or suffering reputational damage as a result of the use of information and communications technology or as a consequence of cyber attacks.

The Issuer depends on its IT and data processing systems to operate its business, as well as on their continuous maintenance and constant updating. The Issuer is exposed to the risk that data could be damaged or lost, removed, or disclosed by unauthorised parties.

This would have a negative impact on the Issuer's business and reputation, and could subject the Issuer to fines, with consequent negative effects on its business, results of operations or financial condition.

Risks faced by the Issuer relating to the management of IT systems include possible violations of its systems due to unauthorised access to the corporate network or IT resources, the introduction of viruses into computers or any other form of abuse committed via the Internet. Like attempted hacking, such violations have become more frequent over the years throughout the world and therefore can threaten the protection of information relating to the Issuer and its customers and can have negative effects on the integrity of the Issuer's IT systems, as well as on the confidence of the customers and on the Issuer's reputation, with possible negative effects on the Group's capital and financial condition.

In order to prevent such risks, Terna has had an Information Security Governance Model, which enables it to identify the most significant cyber risks, based on policies and procedures, combined with a coordinated Information Risk Management ("IRM") operating programme, led and coordinated by the Group's CISO (Chief Information Security Officer). During 2018, the framework for the security measures used to mitigate this risk was updated to Revision 5 of the NIST 800.53 standard, this ensuring alignment with best international practices. A pilot project involving Cyber Risk Quantitative Analysis was also completed. This was used to survey the market prices quoted by insurance brokers for Cyber Risk Assurance policies for certain forms of cyber risk. In addition, Terna's Computer Emergency Readiness Team (CERT) was sued to implement a structured process for identifying and rapidly containing security breaches, minimising any data loss and working to restore the affected services. At the beginning of 2019, an additional task of risk analysis was performed with the aim of enhancing the security of information exchanges between Terna and European TSOs.

In addition to the above, with an innovative approach to risk reduction policies, Terna cooperates with institutional partners (national and international regulatory bodies and authorities) with which to share the risks resulting from its activities. These include the Department of Domestic Affairs, the Italian

Tax Police, the Firefighters Service, the National Association of Italian Municipalities, Prefectures and CNAIPIC (the National Centre for Combating Cyber Crime and for the Protection of Critical Infrastructure). More specifically, in 2018, Terna and the Civil Protection Department signed a Memorandum of Understanding with a view to achieving maximum operating efficiency and effectiveness in relation to predicting, preventing and mitigating the related risks and managing and overcoming emergencies.

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 Notes include a feature to convert the interest basis 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 bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Such a feature to convert the interest basis, and any conversion of the interest basis, may affect the secondary market in, and the market value of, such Notes as the change of interest basis may result in a lower interest return for Noteholders. Where the Notes convert from a fixed rate to a floating rate, 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. Where the Notes convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on those Notes and could affect the market value of an investment in the relevant Notes.

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.

In respect of the Notes issued as “Green Bonds”, there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor

The Issuer’s intention is to allocate the net proceeds from the issue of Notes issued as “Green Bonds” to the financing and/or refinancing of the Eligible Green Projects which meet the Eligibility Criteria (such terms as defined in the “Use of Proceeds” section). Prospective investors should determine for themselves the relevance of such information for the purpose of any investment in such Notes, together with any other investigation such investor deems necessary. In particular, no assurance is given that the use of such net proceeds for any Eligible Green Projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Green Projects. Furthermore, it should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a “green” or “sustainable” or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as “green” or “sustainable” or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses which are the subject of, or related to, any Eligible Green Projects will meet any or all investor expectations regarding such “green”, “sustainable” or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses which are the subject of, or related to, any Eligible Green Projects.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by the Issuer) which may be made available in connection with the issue of the Notes and in particular with any Eligible Green Projects to fulfil any environmental, sustainability, social and/or other criteria. For the avoidance of doubt, any such opinion or certification is not, nor shall be deemed to be, incorporated in to and/or form part of the Base Prospectus. Any such opinion or certification is not, nor should be deemed to be, a recommendation by the Issuer or any other person to buy, sell or hold the Notes. Any such opinion or certification is only current as of the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in the Notes. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

In the event that any such Notes are listed or admitted to trading on any dedicated “green”, “environmental”, “sustainable” or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Issuer or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Green Projects. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Issuer or any other person that any such listing or admission to trading will be obtained in respect of

any such Notes or, if obtained, that any such listing or admission to trading will be maintained during the life of the Notes.

While it is the intention of the Issuer to apply the net proceeds of Notes issued as “Green Bonds” so specified for Eligible Green Projects in, or substantially in, the manner described in the Base Prospectus, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Eligible Green Projects will be capable of being implemented in or substantially in such a manner and/or accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Eligible Green Projects. Nor can there be any assurance that such Eligible Green Projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer. Any such event or failure by the Issuer will not constitute an Event of Default under the Notes.

Any such event or failure to apply the proceeds of any issue of Notes for any Eligible Green Projects as aforesaid and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Notes no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value of such Notes and also potentially the value of any other Notes which are intended to finance Eligible Green Projects and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

No Dealer makes any representation as to the suitability of the Notes to fulfil environmental and sustainability criteria required by prospective investors. The Dealers have not undertaken, nor are responsible for, any assessment of the Eligibility Criteria, any verification of whether the Eligible Green Projects meet the Eligibility Criteria, or the monitoring of the use of proceeds. Investors should refer to the Issuer’s website (www.terna.it), the green bond framework of the Issuer and the second party opinion for information. The second party opinion provider has been appointed by the Issuer. The second party opinion and the green bond framework will be made available on the Issuer's website (www.terna.it).

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 (*Events of Default and Enforcement*), 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. Dividend Equivalent Withholding

Section 871(m) of the U.S. Internal Revenue Code of 1986 (the **Code**) causes 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 (such instruments, **Specified Securities**). 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 "*Taxation – U.S. Dividend Equivalent Withholding*".

For purposes of withholding under the U.S. Foreign Account Tax Compliance Act, commonly known as FATCA, Specified Securities are subject to a different grandfathering rule than other Notes. Prospective investors should refer to the section "*Taxation – Foreign Account Tax Compliance Act*".

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 and international 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 referencing such a “benchmark”, such as Floating Rate Notes. The Benchmarks Regulation was published in the Official Journal of the EU on 29 June 2016 and has applied since 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, among other things, (i) requires 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) prevents certain uses by EU supervised entities 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”, including any Floating Rate Notes linked to or referencing LIBOR and/or EURIBOR, 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 or national 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. 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 or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a “benchmark”.

As an example of such benchmark reforms, on 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forwards. This may cause LIBOR to perform differently than it did in the past and may have other consequences which cannot be predicted. Other interbank offered rates such as EURIBOR (together with LIBOR, the **IBORs**) suffer from similar weaknesses to LIBOR and as a result (although no deadline has been set for their discontinuation), they may be discontinued or be subject to changes in their administration.

Investors should be aware that, if an IBOR were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes which reference such IBOR will be determined for the relevant period by the fall-back provisions applicable to such Notes. Depending on the manner in which the relevant IBOR rate is to be determined under the Conditions, this may (i) if ISDA Determination applies, be reliant upon the provision by reference banks of offered quotations for the relevant IBOR rate which, depending on market circumstances, may not be available at the relevant time or (ii) if Screen Rate Determination applies, result in the effective application of a fixed rate based on the rate which applied in the previous period when the relevant IBOR was available. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Notes which reference the relevant IBOR.

The Conditions provide for certain fallback arrangements in the event that a published benchmark (including any page on which such benchmark may be published (or any successor service)) becomes unavailable, including the possibility that the rate of interest could be set by reference to a Successor Rate or an Alternative Rate determined by an Independent Adviser in consultation with the Issuer and that such Successor Rate or Alternative Rate may be adjusted (if required) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark. The application of a Successor Rate or an Alternative Rate or an Adjustment Spread may result in the relevant Notes performing differently (which may include payment of a lower interest rate) than they would do if the relevant Original Reference Rate were to continue to apply in its current form. If no Adjustment Spread is determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the rate of interest. In certain circumstances the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of Successor Rates and Alternative Rates and the involvement of an Independent Adviser, the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have an adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes. Investors should consider these matters with their own independent advisers when making their investment decision with respect to any Floating Rate 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.
Issuer Legal Entity Identifier (LEI):	8156009E94ED54DE7C31
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 Ireland PLC Barclays Bank PLC BNP Paribas BofA Securities Europe SA Citigroup Global Markets Europe AG Citigroup Global Markets Limited 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 Natixis NatWest Markets Plc Société Générale 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
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 (<i>Redenomination</i>).
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, as specified in the applicable Final Terms.

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 5.4 (*Inflation Linked Note provisions*) and Conditions 7.10 (*Inflation Linked Redemption Notes*) and 7.11 (*Calculation of Inflation Linked Redemption*).

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 5.4 (*Inflation Linked Note provisions*) and Conditions 7.10 (*Inflation Linked Redemption Notes*) and 7.11 (*Calculation of Inflation Linked Redemption*).

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 (*Taxation*). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8 (*Taxation*), 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 (*Negative Pledge*).

Cross Default:

The terms of the Notes will contain a cross default provision as further described in Condition 10 (*Events of Default and Enforcement*).

Status of the Notes:

The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3 (*Negative Pledge*)) 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.

Benchmark discontinuation:

If the Issuer determines that a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5.3(b) (*Successor Rate or Alternative Rate*)) and, in either case, an Adjustment Spread if any (in accordance with Condition 5.3(c) (*Adjustment Spread*)) and any Benchmark Amendments (in accordance with Condition 5.3(d) (*Benchmark Amendments*)).

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 (*Meetings of Noteholders, Modification and Waiver*) 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 12 October 2018, including the relevant Terms and Conditions of the Notes at pages 75-115 (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 on 31 December 2017 and 31 December 2018 and the unaudited consolidated interim financial report of the Issuer as at and for the three months ended 31 March 2019, 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 12 October 2018 prepared by the Issuer in connection with the Programme	Terms and Conditions	75-115
Issuer's Audited Consolidated Financial Statements as at and for the Financial Year Ended on 31 December 2017	Integrated Report	6-155
	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
Issuer's Audited Consolidated Financial Statements as at and for the Financial Year Ended on 31 December 2018	Notes to the consolidated financial statements	168-221
	Auditors' report	224 – 230
	Integrated Report	8 – 140
	Consolidated income statement	146
	Consolidated statement of comprehensive income	147
	Consolidated statement of financial position	148 – 149
	Consolidated statement of changes in equity	150 – 151
	Consolidated statement of cash flows	152
	Notes to the consolidated financial statements	154 – 216
	Auditors' report	221 – 226
Issuer's Unaudited Condensed Consolidated Interim Financial Report as at and for the three months ended on 31 March 2019	Group's reclassified income statement	24-25
	Cash flow	26
	The group's reclassified statement of financial position	26 – 27
	Debt	28 – 30
	Consolidated income statement	24 – 25

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 12 October 2018 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), 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 (*Events of Default and Enforcement*)) has occurred and is continuing or (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 (*Notices*) 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, (i) fails so to do within a reasonable period, or (ii) is unable for any reason so to do, and the failure or inability shall be 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 (as amended, **MiFID II**); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, 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

[MiFID II product governance / Professional investors and ECPs only target market] – Solely for the purposes of [the/each] 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**)]**[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 manufacturer['s/s'] 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 manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[Date]

TERNA - Rete Elettrica Nazionale S.p.A.

Legal entity identifier (LEI): 8156009E94ED54DE7C31

**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 11 July 2019 [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).

¹ Legend to be included on front of the Final Terms 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”.

[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 12 October 2018 which is incorporated by reference in the Base Prospectus dated 11 July 2019. 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 11 July 2019 [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 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 subparagraphs (in which case the subparagraphs 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 lower than 100 per cent. of the nominal value or depends on an underlying, 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 [] [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): [] per Calculation Amount
for Notes in definitive form (and in relation to Notes in global form see Conditions):
- (d) Broken Amount(s): [[] 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 [], subject to adjustment in accordance with

- Interest Payment Dates: 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)*

(N.B. The fall-back provisions applicable to ISDA Determination under the 2006 ISDA Definitions are reliant upon the provision by reference banks of offered quotations for LIBOR and/or EURIBOR which, depending on market circumstances, may not be available at the relevant time)

- | | | |
|-----|---------------------------|---|
| (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: | [] |
|-----|--------------------------|-----|
- [Amounts payable under the Notes will be calculated by reference to [CPI/HICP] which is provided by [●]. [As at [●], [●] [appears/does not appear] on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 of the Regulation (EU) 2016/1011 (the **Benchmarks Regulation**).] [As far as the Issuer is aware, [CPI/HICP] [does/do] not fall within the scope of the Benchmarks Regulation by virtue of Article 2 of that

- Regulation.]]
- (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 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/[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 (Payment 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 *(Redemption for tax reasons)*: 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) Redeemable in part: [Applicable/Not Applicable/[provide details]]
- (i) Minimum Redemption Amount: []
- (ii) Maximum Redemption Amount: []
- (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 (*Inflation Linked Redemption Notes*)]
- (N.B. If the Final Redemption Amount is lower than 100 per cent. of the nominal value or depends on an underlying, 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 above 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 paragraph 14(c) above 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 TERN - 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) 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) 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 the fees [of [*insert relevant fee disclosure*]] 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: [General corporate purposes/To [finance/refinance] Eligible Green Projects (*See “Use of Proceeds” wording in the Base Prospectus*)]

[(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 paragraph (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 paragraph (i) above, disclosure of net proceeds and total expenses at paragraphs (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 RISKS²

(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) (<i>Rate of Interest – Inflation Linked Interest Notes</i>)/As per Condition 7.10 (<i>Inflation Linked Redemption Notes</i>)] |
| (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) | CFI: | [[<i>include code</i>] ³ , as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available] |
| (iv) | FISN: | [[<i>include code</i>] ³ , as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available] |
| (v) | Any clearing system(s) other | [Not Applicable/ <i>give name(s), address(es) and</i> |

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

³ The actual code should only be included where the issuer is comfortable that it is correct.

than Euroclear and Clearstream Luxembourg, and the relevant identification number(s):

- | | | |
|--------|---|--|
| (vi) | Delivery: | Delivery [against/free of] payment |
| (vii) | Names and addresses of additional Paying Agent(s) (if any): | [] [Not Applicable] |
| (viii) | Deemed delivery of clearing system notices for the purposes of Condition 14 (<i>Notices</i>): | Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the <i>[insert]</i> [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg. |
| (ix) | Intended to be held in a manner which would allow Eurosystem eligibility: | <p>[Yes.</p> <p>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.]</p> <p>[No.</p> <p>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.]</p> |

9. DISTRIBUTION

- | | | |
|------|-----------------------------------|---|
| (i) | Method of distribution: | [Syndicated/Non-syndicated] |
| (ii) | If syndicated, names of Managers: | <p>[Not Applicable/give names]</p> <p><i>(If the Notes are derivative securities to which</i></p> |

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.]]⁴ *(The Notes will not be Specified Securities if they (i) are issued prior to 1 January 2021 and are not delta-one for U.S. tax purposes 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 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 and (i) are issued prior to 1 January 2021 and provide a return that does not differ significantly from the return on an investment in the underlying or (ii) are issued on or after 1 January 2021, further analysis would*

⁴ 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.

be required.))]

- (viii) Prohibition of Sales to EEA [Applicable/Not Applicable]
Retail Investors:

(If the Notes clearly do not constitute “packaged” products or the Notes do constitute “packaged” products and a key information documents will be prepared, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)

- (ix) [EU Benchmarks Regulation: [Applicable: Amounts payable under the Notes are calculated by reference to *[insert name[s] of benchmark(s)]*, which [is/are] provided by *[insert name[s] of the administrator[s] – if more than one specify in relation to each relevant benchmark]*.

EU Benchmark Regulation: [As at the date of these Final Terms, *[insert name[s] of the administrator[s]]* [is/are] [not] included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority [(ESMA)] pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) [(the **BMR**)]. [As far as the Issuer is aware, *[[insert name of the benchmark]* does not fall within the scope of the BMR by virtue of Article 2 of the BMR.]/[the transitional provisions in Article 51 of the BMR apply, such that the administrator is not currently required to obtain authorisation/registration]]. *(repeat as necessary)]]*

(if Not Applicable, delete this subparagraph)

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 (as amended, **MiFID II**); (ii) or a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, 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.]⁵

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.

[MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] 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**)] [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 manufacturer['s/s'] 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 manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

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.

Legal entity identifier (LEI): 8156009E94ED54DE7C31

**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

⁵ Legend to be included on front of the Pricing Supplement 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”.

the Prospectus Directive or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.]⁶

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Base Prospectus dated 11 July 2019 [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 12 October 2018, which is incorporated by reference in the Base Prospectus.]

[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 Do not include if the "Prohibition of Sales to EEA Retail Investors" legend is included (because the Notes potentially constitute "packaged" products and no key information document will be prepared) and the related selling restriction is specified to be "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) 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)/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 paragraph (b) below/, not subject to adjustment, as the Business Day Convention in paragraph (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)
- (N.B. The fall-back provisions applicable to ISDA Determination under the 2006 ISDA Definitions are reliant upon the provision by reference banks of offered quotations for LIBOR and/or EURIBOR which, depending on market circumstances, may not be available at the relevant time)
- (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 (Interest) 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 (Payment 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 *(Redemption for tax reasons)*: [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) Redeemable in part: [Applicable/Not Applicable/[provide details]]
- (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 (*Early Redemption Amounts*)): ☐ ☐ 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 paragraphs 15(c) and 17(g) above 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 the fees [of *[insert relevant fee disclosure]*] 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) CFI: *[[include code]*⁷, as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]
- (iv) FISN: *[[include code]*⁷, as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]
- (v) 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)]

⁷ The actual code should only be included where the issuer is comfortable that it is correct.

- | | | |
|--------|---|--|
| (vi) | Delivery: | Delivery [against/free of] payment |
| (vii) | Names and addresses of additional Paying Agent(s) (if any): | [] |
| (viii) | Deemed delivery of clearing system notices for the purposes of Condition 14 (<i>Notices</i>): | Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the <i>insert</i> [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg. |
| (ix) | [Intended to be held in a manner which would allow Eurosystem eligibility: | <p>[Yes.</p> <p>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.]</p> <p>[No.</p> <p>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.]</p> |

5. DISTRIBUTION

- | | | |
|-------|---|--------------------------------------|
| (i) | Method of distribution: | [Syndicated/Non-syndicated] |
| (ii) | If syndicated, names of Managers: | [Not Applicable/ <i>give names</i>] |
| (iii) | Stabilising Manager(s) (if any): | [Not Applicable/ <i>give name</i>] |
| (iv) | If non-syndicated, name of relevant Dealer: | [Not Applicable/ <i>give name</i>] |

- | | | |
|-------|--|--|
| (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/ <i>give details</i>]
(<i>Additional selling restrictions are only likely to be relevant for certain structured Notes, such as commodity-linked Notes</i>) |
| (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 [<i>provide appropriate contact details or location of such information</i>].] [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 [<i>provide appropriate contact details or location of such information</i>].] ⁸ (<i>The Securities will not be Specified Securities if they (i) are issued prior to 1 January 2021 and are not delta-one for U.S. tax purposes 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 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 and (i) are issued prior to 1 January 2021 and provide a return that does not differ significantly from the return on an investment in the underlying or (ii) are issued on or after 1 January 2021, further analysis would be required.</i>)] |

⁸ 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.

- (viii) Prohibition of Sales to EEA [Applicable/Not Applicable]
Retail Investors:

(If the Notes clearly do not constitute “packaged” products or the Notes do constitute “packaged” products and a key information document will be prepared, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)

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 an Eleventh Supplemental Trust Deed (such Eleventh Supplemental Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 11 July 2019 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 an Eleventh Amended and Restated Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 11 July 2019 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 SA/NV (**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 (*Negative Pledge*)) 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 paragraphs (a) and (b) above, 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

(*Notices*), 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 (*Payments*); 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 (*Redenomination*) 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) below, 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 paragraph (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 to Condition 5.3 (*Benchmark Discontinuation*) and 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 paragraph (A) above, no such offered quotation appears or, in the case of paragraph (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 paragraph (i) above, no offered quotation appears or, in the case of paragraph (i) above, 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:

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

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):

$$DIR(0) = \text{Inflation Index}(t - \text{Lookback Period 1}) + [\text{Inflation Index}(t - \text{Lookback Period 2}) - \text{Inflation Index}(t - \text{Lookback Period 1})] * [(\text{DayOfMonth} - 1) / \text{DaysInMonth}],$$

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:

$$DIR(t) = \text{Inflation Index}(t - \text{Lookback Period 1}) + [\text{Inflation Index}(t - \text{Lookback Period 2}) - \text{Inflation Index}(t - \text{Lookback Period 1})] * [(\text{DayOfMonth} - 1) / \text{DaysInMonth}],$$

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 1 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) above 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) above 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 $\text{DIR}(t)/\text{DIR}(0)$ (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:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

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 D_1 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:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

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:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

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 D_2 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 (*Notices*) 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 (*Notices*). 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) Certificates to be final

All certificates, communications, opinions, determinations, calculations 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, fraud or manifest error or proven error) be binding on the Issuer, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents, the Trustee and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default and fraud) no liability to the Issuer, the Noteholders, the Receiptholders, the Couponholders or the Trustee shall attach to the Principal Paying Agent, or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5.3 Benchmark Discontinuation

This Condition 5.3 is applicable to Notes only if the Floating Rate Note Provisions are specified in the form of Final Terms as being applicable.

(a) Independent Adviser

If the Issuer determines that a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5.3(b) (*Successor Rate or Alternative Rate*)) and, in either case, an Adjustment Spread if any (in accordance with Condition 5.3(c) (*Adjustment Spread*)) and any Benchmark Amendments (in accordance with Condition 5.3(d) (*Benchmark Amendments*)).

An Independent Adviser appointed pursuant to this Condition 5.3(a) shall act in good faith and in a commercially reasonable manner and in consultation with the Issuer. In the absence of bad faith, fraud and gross negligence, the Independent Adviser shall have no liability whatsoever to the Issuer, the Paying Agents, the Trustee, the Noteholders or the Couponholders for any determination made by it pursuant to this Condition 5.3.

If (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 5.3(a) prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding

Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. If no Adjustment Spread is determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the rate of interest. For the avoidance of doubt, this Condition 5.3(a) shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 5.3(a).

(b) Successor Rate or Alternative Rate

If the Independent Adviser determines that:

- (i) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 5.3(c) (*Adjustment Spread*)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5.3); or
- (ii) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 5.3(c) (*Adjustment Spread*)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5.3).

(c) Adjustment Spread

If the Independent Adviser determines (i) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (ii) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(d) Benchmark Amendments

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 5.3 and the Independent Adviser determines (i) that amendments to these Conditions, the Trust Deed and the Agency Agreement, including but not limited to Relevant Screen Page, are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the **Benchmark Amendments**) and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5.3(e) (*Notices*), without any requirement for the consent or approval of Noteholders, vary these Conditions, the Trust Deed and the Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such variation in accordance with this Condition 5.3(d), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two Directors of the Issuer pursuant to Condition 5.3(e) (*Notices*), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the

Noteholders or Couponholders, be obliged to concur with the Issuer using its reasonable endeavours to effect any Benchmark Amendments (including, inter alia, by the execution of a deed supplemental to or amending the Trust Deed), provided that the Trustee shall not be obliged to agree to any Benchmark Amendments which, in the sole opinion of the Trustee, would have the effect of: (i) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction; or (ii) increasing the obligations, responsibilities or duties, or decreasing the protections, of the Trustee under the Trust Deed and/or the Conditions in any way.

Notwithstanding any other provision of this Condition 5, if in the Calculation Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 5, the Calculation Agent shall promptly notify the Issuer thereof and the Issuer shall direct the Calculation Agent in writing as to which alternative course of action to adopt. If the Calculation Agent is not promptly provided with such direction, or is otherwise unable to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Calculation Agent shall be under no obligation to make such calculation or determination and shall not incur any liability for not doing so.

(e) Notices

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 5.3 will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Principal Paying Agent and each Paying Agent and, in accordance with Condition 14 (*Notices*), the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two Directors:

- (i) confirming (x) that a Benchmark Event has occurred, (y) the Successor Rate or, as the case may be, the Alternative Rate and (z) where applicable, any Adjustment Spread and/or the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 5.3;
- (ii) certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread; and
- (iii) certifying that the Issuer has duly consulted with an Independent Adviser with respect to each of the matters above.

The Trustee shall be entitled to rely on such certificate (without inquiry and without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the party responsible for determining the Rate of Interest (being the Principal Paying Agent, the Calculation Agent or such other party specified in the form of Final Terms, as applicable), the Paying Agents and the Noteholders and Couponholders.

(f) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 5.3(a) (*Independent Adviser*) to Condition 5.3(d) (*Benchmark Amendments*), the Original Reference Rate and the fallback provisions provided for in Condition 5.2(B)(ii) (*Screen Rate Determination for Floating Rate Notes*) will continue to apply unless and until a Benchmark Event has occurred.

(g) **Definitions**

For the purposes of this Condition 5.3:

Adjustment Spread means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Independent Adviser determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders and Couponholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);
- (b) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Rate, the relevant Independent Adviser or the Issuer (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Original Reference Rate, where such rate has been replaced by such Successor Rate or Alternative Rate (as applicable);
- (c) the Independent Adviser determines, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); (or if the Issuer determines that no such industry standard is recognised or acknowledged);
- (d) the Independent Adviser determines (acting in good faith and in a commercially reasonable manner) to be appropriate;

Alternative Rate means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 5.3(b) (*Successor Rate or Alternative Rate*) is customary in market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes and with an interest period of a comparable duration to the relevant Interest Period;

Benchmark Amendments has the meaning given to it in Condition 5.3(d) (*Benchmark Amendments*);

Benchmark Event means:

- (a) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or

- (b) a public statement by the administrator of the Original Reference Rate that it will, by a specified date within the following six months, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (c) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will, by a specified date within the following six months, be permanently or indefinitely discontinued; or
- (d) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes, in each case within the following six months; or
- (e) it has become unlawful for the Paying Agents, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using the Original Reference Rate;

provided that in the case of sub-paragraphs (b), (c) and (d), the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate, the discontinuation of the Original Reference Rate, or the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement.

Independent Adviser means an independent financial institution of international repute or an independent financial adviser with appropriate expertise in the international debt capital markets appointed by the Issuer under Condition 5.3(a) (*Independent Adviser*);

Original Reference Rate means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes;

Relevant Nominating Body means, in respect of a benchmark or screen rate (as applicable):

- (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (ii) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (iii) a group of the aforementioned central banks or other supervisory authorities, or (iv) the Financial Stability Board or any part thereof;

Successor Rate means the rate that the Independent Adviser determines is a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

5.4 Inflation Linked Note provisions

5.4.1 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.

5.4.2 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 paragraph (i) above, the Calculation Agent shall determine the Substitute Index Level by reference to the following formula:

$$\text{Substitute Index Level} = \text{Base Level} \times (\text{Latest Level} / \text{Reference Level}); \text{ or}$$

- (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 (*Notices*) 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 5.4), 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 paragraph (ii), (iii) or (iv) below;
- (ii) if a Successor Inflation Index has not been determined pursuant to paragraph (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 paragraph (i) or (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 (iii), the Calculation Agent will proceed to paragraph (iv) below; or
- (iv) if no replacement index or Successor Inflation Index has been determined under paragraph (i), (ii) or (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 (*Notices*).

(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 (*Notices*) 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.

5.4.3 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.

5.5 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 (*Interest on Floating Rate Notes and Inflation Linked Interest Notes*) 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) (*Rate of Interest – Inflation Linked Interest Notes*) and 5.4 (*Inflation Linked Note provisions*) or as otherwise specified in the applicable Pricing Supplement.

5.6 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 (*Taxation*) 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 (*Taxation*)) 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.

Payments on the Notes that reference 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 (*Method of payment*) 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 (*Specific provisions in relation to payments in respect of certain types of Exempt Notes*)) 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 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9 (*Prescription*)) 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 (*Method of payment*) 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 (*Method of payment*) 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 (*Prescription*)) 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; and
 - (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 (*Taxation*) 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; and
- (F) 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 (*Taxation*) 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 5.4 (*Inflation Linked Note provisions*).

7.2 Redemption for tax reasons

Subject to Condition 7.5 (*Early Redemption Amounts*), 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 (*Notices*), 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 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8 (*Taxation*)) 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 7.2, 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 (*Early Redemption Amounts*) 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 (*Notices*); and
- (B) not less than 15 days before the giving of the notice referred to in paragraph (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 (*Notices*) 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 (*Notices*) 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 (*Notices*) 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 7.4 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 (*Events of Default and Enforcement*), 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 (*Redemption for tax reasons*) and Condition 10 (*Events of Default and Enforcement*), 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 its Early Redemption Amount calculated in accordance with the following formula:

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

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 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 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 (*Redemption for tax reasons*), 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 7.6 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 (*Inflation Linked Redemption Notes*) and 7.11 (*Calculation of Inflation Linked Redemption*) 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. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any 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 any Notes purchased and cancelled pursuant to Condition 7.7 (*Purchases*) (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 (*Redemption at maturity*), 7.2 (*Redemption for tax reasons*), 7.3 (*Redemption at the option of the Issuer (Issuer Call)*) or 7.4 (*Redemption at the option of the Noteholders (Investor Put)*) or upon its becoming due and repayable as provided in Condition 10 (*Events of Default and Enforcement*) 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) 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 (*Notices*).

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 (*Notices*).

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:

$$\text{FinalRedemptionAmount} = \text{Specified Denomination} * \text{Max} \left[100\%; \left[\text{RedemptionAmountMultiplier} \right] * \left(\frac{DIR(T)}{DIR(0)} \right) \right]$$

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 7.11 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:

$$DIR(t) = \text{Inflation Index}(t - \text{Lookback Period } 1) + [\text{Inflation Index}(t - \text{Lookback Period } 2) - \text{Inflation Index}(t - \text{Lookback Period } 1)] * [\text{DayOfMonth} - 1] / \text{DaysInMonth}$$

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 5.4 (*Inflation Linked Note provisions*) 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 (*General provisions applicable to payments*)); 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); or
- (E) where such withholding or deduction is required pursuant to Italian Law Decree No. 512 of 30 September 1983, converted into Law No. 649 of 25 November 1983 as amended from time to time;
- (F) 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

- (G) 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 (*Notices*).

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 (*Taxation*)) 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 (*Presentation of definitive Notes, Receipts and Coupons*) or any Talon which would be void pursuant to Condition 6.2 (*Presentation of definitive Notes, Receipts and Coupons*).

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 (C), (D), (F) and (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, (i) fails to do so within 60 days or (ii) is unable for any reason so to do and the failure or inability 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 (*Specific provisions in relation to payments in respect of certain types of Exempt Notes*). 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 (*Notices*).

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, Receipholder 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 (*Prescription*).

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

15.1 Meetings of Noteholders

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.

15.2 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.

15.3 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. In addition, the Trustee shall be obliged to concur with the Issuer in using its reasonable endeavours to effect any Benchmark Amendments in the circumstances and as otherwise set out in Condition 5.3(d) (*Benchmark Amendments*) without the consent of Noteholders or Couponholders.

15.4 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 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

15.5 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 (*Notices*).

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 (*Meetings of Noteholders, Modification and Waiver*) 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) 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.

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

An amount equal to the net proceeds from each issue of Notes will be allocated by the Issuer, as indicated in the applicable Final Terms, either:

- (i) for its general corporate purposes; or
- (ii) to refinancing and/or financing, in whole or in part, of existing and/or future Eligible Green Projects which meet the Eligibility Criteria (as defined below).

Use for Eligible Green Projects

Eligible Green Projects means (i) projects aimed at increasing the production from renewable energies, (ii) projects aimed at reducing system CO₂ emissions through the reduction of grid losses and (iii) projects aimed at reducing soil use and the impact on terrestrial biodiversity.

Eligibility Criteria means the criteria prepared by the Issuer as per its Green Bond Framework. A second party consultant appointed by the Issuer has reviewed the Green Bond Framework and has issued a Second Party Opinion.

The Green Bond Framework and the Second Party Opinion will be made available on the Issuer's website (www.terna.it). None of these documents are incorporated into, or form part of, the Base Prospectus.

The net proceeds of the Green Bonds issued will be credited to the Treasury liquidity portfolio of the Issuer. The Issuer will track the net proceeds via its internal accounting system and will monitor the allocation to prevent any double counting in the allocation of proceeds. Pending the allocation to the Eligible Green Projects, unallocated proceeds will temporally be invested in accordance with the Issuer's investment guidelines in cash or cash equivalents. An external auditor appointed by the Issuer will verify, on an annual basis, the allocation of proceeds to the Eligible Green Projects and the remaining balance of unallocated proceeds, until full allocation of the funds occurs.

The Issuer is expected to issue a report annually until full allocation occurs, and as necessary thereafter in the event of material developments on: (i) allocated amounts by Eligible Green Projects, including a brief description of the largest and most representative projects from each category; (ii) main technical data referring to the single project, when available (e.g. peak power of wind or solar plants connected); (iii) division of the allocation between refinancing and new projects; and (iv) the balance of unallocated cash and/or cash equivalents still held by the Issuer. Where feasible, the Issuer will also report project impacts and environmental benefits linked to the single Eligible Green Project or aggregated by the three categories of eligibility. The report will be integrated into the Issuer's annual Sustainability Report or Annual Report, and will be made available on the Issuer's website (www.terna.it). The report will be reviewed by an external auditor.

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 responsible for planning, development and maintenance of the grid, contributing our expertise, technology and innovation (as the Transmission Operator). In addition, Terna is responsible for the transmission and dispatching of electricity (as the System Operator), with the aim of ensuring access to electricity for everyone with the highest level of quality and at the lowest possible cost.

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 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 31 March 2019, 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 discretionary asset management) and the remaining shares are held by institutional and retail investors.

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 Rete 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, O&M, Energy Efficiency, TLC), 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 31 December 2018, the Terna Group's Grid consisted of 74.442 kilometres of electricity lines and 881 substations.

As of 31 December 2018, the Terna Group's total consolidated revenues (excluding pass-through items) amounted to Euro 2,197.0 million (as of 31 December 2017 these amounted to Euro 2,162.8 million)⁹ while Ebitda (Gross Operating Profit) was Euro 1,650.6 million increasing by 2.9 per cent. as compared to the same period of the previous year (Euro 1,603.9 million) (see also "*Alternative Performance Measures (APMs)*" below).

⁹ The comparative amounts, with particular reference to revenue from construction services performed under concession in Italy (included in Regulated Activities in Italy) and from International Activities, directly including the margin earned on overseas concessions and overseas contract revenue, have been reclassified in order to improve presentation, without changing the comparative result.

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*” below.

HISTORY AND DEVELOPMENT

Terna’s principal activities are rooted in Italy’s history: Law No. 1643 of 1962 paves the way for nationalisation of the electricity industry, handing ENEL responsibility for all stages of the electricity supply chain, previously in private hands. The monopoly operator is able to complete electrification of the Italian Peninsula, but the driving force behind the changes that have led to the current operating environment is the process of deregulation promoted by the European Union aimed at making grid management independent. In implementation of Decree 79 of 16 March 1999, focused on separation of ownership the National Transmission Grid from management of the grid itself (involving transmission and dispatching) along the lines of the so-called “Independent System Operator” model, two new companies are established: Terna, owner of the Italian transmission grid, and GRTN (the national transmission grid operator).

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 “*Legislative and Regulatory Framework*” 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 “*Legislative and Regulatory Framework*” 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 “*Legislative and Regulatory Framework*” below).

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 “*Legislative and Regulatory Framework*” below). 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.

In 2009, Terna acquired 18,600 km of high voltage lines from Enel, thereby becoming the leading independent grid operator in Europe and the seventh largest in the world. Terna now owns 98.6% of Italy's national grid. In the same year, Terna sold 66% of the Brazilian subsidiary, Terna Participações, to Cemig, recording a gain of over €400 million, some of which is invested in development of the Italian electricity network and some is returned cash to shareholders.

In 2011, Terna developed infrastructure of international excellence. The SA.PE.I. line (Sardinia to the mainland) starts operating, as does the Chignolo Po-Maleo line in Lombardy. Work begins on the Sorgente-Rizziconi line (linking Sicily and Calabria). Two new operating companies were established in 2012: Terna Rete Italia S.p.A., responsible for regulated activities, and Terna Plus S.r.l., with responsibility for expanding the Non-regulated services.

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 29.851 per cent. of Terna (see also “*Overview*” above and “*Share capital of Terna, major shareholders and related party transactions*” below).

In the context of the reorganisation of the Terna Group, from 1 April 2012, Terna became 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.

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. 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. On 30 October 2015, under the scope of Non-Regulated Activities, Terna finalised the business combination process between Tamini, a subsidiary of Terna Plus, and TES (which owns TES Asia as defined below, 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 Tamini. Following the agreement, Terna Plus held 70 per cent. of the share capital of Tamini while Holdco TES held the remaining 30 per cent. In fact, after the demerger of Terna Plus, the ownership of Tamini is held by Terna Energy Solutions S.r.l. (as better explained below).

In 2015, Terna acquired the Ferrovie dello Stato group's high voltage grid for €757 million, consolidating its leadership in Europe with approximately 72,600 km of grid managed. In 2016, Terna focuses on strategic power lines. The Villanova-Gissi and Sorgente-Rizziconi lines enter service. The latter is a record-breaking power line, connecting Sicily and Calabria and the Italian Peninsula with the rest of Europe via the country's high voltage electricity system.

In 2017, a new Board of Directors is elected, with Luigi Ferraris appointed as the new Chief Executive Officer and General Manager, new managers appointed to key roles, and Catia Bastioli reappointed as Chairwoman.

In 2018, in line with the guidance provided by the United Nations (COP21), EU guidelines and the objectives set out in the National Energy Strategy (Strategia Energetica Nazionale or “SEN”), Terna

has stepped up the pace of investment, focusing on development of the national transmission grid in order to facilitate the integration of renewable sources and improve the system's security. At the same time, it intends to renew the Group's asset base in order to mitigate the risk of interruptions to supply, boost environmental sustainability, and improve the performance of maintenance activities through the use of digital grid technologies, all to the benefit of the quality of the electricity service. The new corporate strategies, presented for the first time in March 2018 by the CEO and General Manager, Luigi Ferraris, have been revised at the meeting with investors held on 21 March 2019 (please make reference to Paragraph "2019-2023 Strategic Plan").

In order to optimise and integrate dispatching and long-term planning activities, on the one hand, and maximise the operational efficiency of design, implementation, operations and maintenance, on the other, two key organisational structures, reporting directly to the Chief Executive Officer, have been redesigned. Terna thus plays two core roles: as System Operator, embodied in the "Strategy, Development and Dispatching" structure, and as Transmission Operator of the "National Transmission Grid".

In August 2018, the partial demerger of Terna Plus S.r.l. and the transfer of the demerged assets to a newly established company named Terna Energy Solutions S.r.l., came into effect. The latter's business is focused on non-regulated activities and energy solutions activities. Terna Plus will now be responsible for the Group's development and plant construction activities in South America, and more generally for the development of new businesses around the world.

ORGANISATIONAL STRUCTURE

Terna is the parent company of the Terna Group.

The structure of the Terna Group includes, as of 30 May 2019, the following companies:

SUBSIDIARIES

- Terna Rete Italia S.p.A. (hereinafter referred to as **TRI S.p.A.**),
- Rete S.r.l. (hereinafter referred to as **Rete S.r.l.**),
- Terna Plus S.r.l. (hereinafter referred to as Terna Plus) which includes the following subsidiaries:
 - Terna Chile S.p.A. (hereinafter referred to as **Terna Chile**),
 - 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**),
- Terna Energy Solutions S.r.l. (hereinafter referred to as Terna Solutions) which includes the following subsidiaries:
 - 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**),
- Avvenia the Energy Innovator S.r.l. (hereinafter referred to as **ATEI**),
- Tamini Trasformatori S.r.l. (hereinafter referred to as **Tamini**) which includes the following subsidiaries:
 - Tamini Transformers USA L.L.C. (hereinafter referred to as **Tamini Transformers USA**),
 - Tamini Trasformatori India Private Limited (hereinafter referred to as **TES Asia**, together with Tamini and Tamini Transformers USA hereinafter referred to as **Tamini Group**),
- Terna Interconnector S.r.l. (hereinafter referred to as **Terna Interconnector**),
- Monita Interconnector S.r.l. (hereinafter referred to as **Monita**),
- Resia Interconnector S.r.l. (hereinafter referred to as **Resia**),
- P.I.S.A. 2 S.r.l. (hereinafter referred to as **Pisa2**),
- Terna Crna Gora d.o.o. (hereinafter referred to as **Terna Crna Gora**),
- Difebal S.A. (hereinafter referred to as **Difebal**).

JOINT CONTROLLED

- ELMED Etudes S.a.r.l. (hereinafter referred to as **Elmed**).

AFFILIATES

- CESI S.p.A. (hereinafter referred to as **CESI**),
- Crnogorski Elektroprenosni Sistem AD (hereinafter referred to as **CGES**),
- CORESO S.A. (hereinafter referred to as **CORESO**).

ISSUER'S BUSINESS

The Terna Group's identified operating segments are described below:

- Regulated;
- Non-Regulated; and
- International.

The Regulated segment includes the development, operation and maintenance of the National Transmission Grid, in addition to dispatching and metering, and the activities involved in the construction of storage systems. These activities have been included in one operating segment, as they are all regulated by ARERA and have similar characteristics, in terms of the remuneration model and the method for setting the related tariffs.

The non-regulated segment includes activities and specific business initiatives for third parties, above all relating to the provision of services in the areas of Energy Solutions, consisting of EPC (Engineering, Procurement and Construction) services, operation and maintenance of infrastructure and plants, and the supply of energy efficiency services, broadly attributable to the subsidiary, Avvenia The Energy Innovator S.r.l., acquired during 2018.

This segment also includes Connectivity (dark fibre contracts, housing services for third TLC operators).

Finally, this segment also includes the activities carried out in relation to the private interconnectors launched by Law 99/2009, legislation that assigned Terna responsibility for selecting undertakings (the “**selected undertakings**”), on the basis of public tenders, willing to finance specific interconnectors in exchange for the benefits resulting from a decree granting a third-party access exemption with regard to the transmission capacity provided by the new infrastructure. The Non-regulated segment also includes the operations of the Tamini Group, relating essentially to the construction and commercialisation of electrical equipment, above all power transformers.

The International segment includes the results deriving from opportunities for international expansion, which the Group aims to exploit by leveraging its core competencies developed in Italy as a TSO, where such competencies are of significant importance in its home country. Overseas investment focuses on countries with stable political and regulatory regimes and a need to develop their electricity infrastructure. This segment includes the results of the two Brazilian companies, SPE Santa Lucia Trasmisora de Energia S.A. and SPE Santa Maria Trasmisora de Energia S.A., the Peruvian company Terna Peru S.A.C., the Uruguayan company Difebal S.A. and the Chilean company Terna Chile S.p.A.

ALTERNATIVE PERFORMANCE MEASURES (APMs)

In accordance with the ESMA/2015/1415 guidelines, Terna Group uses Alternative Performance Measures which management considers useful in assessing the performance of the Group, and representative of the business’s operating results and financial position.

EBITDA (Gross Operating Profit)

EBITDA (Gross Operating Profit/(loss)) is an indicator of operating performance obtained by adding “Amortisation, depreciation and impairment losses” to Operating profit/(loss) (EBIT).

EBIT (Operating profit/(loss)) is an indicator of operating performance, representing “Profit for the period” before “Income tax expenses for the period” and “Net financial income/(expenses)”.

The following table sets forth the calculation of EBITDA (Gross Operating Profit) for the years ended on 31 December 2018 and 31 December 2017 and for the quarters ended on 31 March 2019 and 31 March 2018, respectively:

					per cent. Change (years 2017- 2018)	per cent. Change (Q1 2018- 2019)
<i>Data in million euros</i>	2018	2017	Q1 2019	Q1 2018		
EBITDA (Gross Operating Profit)	1,650.6	1,603.9	420.2	409.3	2.9 per cent.	2.7 per cent.

Amortisation, depreciation and impairment losses	554.1	526.5	140.4	132.5	5.2 per cent.	6 per cent.
EBIT (Operating Profit)	1,096.5	1,077.4	279.8	276.8	1.8 per cent.	1.1 per cent.
Net financial expenses	(-88.8)	(-88.8)	-15.9	-24.6	0 per cent.	-35.4 per cent.
Income tax expenses	296.1	294.4	77.9	68.5	0.6 per cent.	13.7 per cent.
Profit for the period	711.6	694.2	186.0	183.7	2.5 per cent.	1.3 per cent.
Profit/(Loss) attributable to non-controlling interests	5.0	5.9	0.0	1.0	-15.3 per cent.	-100 per cent.
Profit for the period attributable to owners of the parent	706.6	688.3	186.0	182.7	2.7 per cent.	1.8 per cent.

Regulated Activities

The Terna Group's main regulated activities are the transmission and dispatching of electricity in Italy. Terna performs these activities in its role as the Italian TSO (Transmission System Operator) and ISO (Independent System Operator), under a monopoly arrangement and a government concession.

Electricity Transmission

Terna's main activities in the context of the electricity transmission includes planning for development of the National Transmission Grid, the performance of construction services and the maintenance of electricity infrastructure are the three areas of responsibility included in the regulated electricity transmission business.

In respect of the planning process of the national electricity grid, the analysis of the state of the grid enables Terna to identify critical issues and development opportunities and, consequently, to plan the new works required to ensure that the system is adequate, including in the medium to long term with regard to meeting demand, operational safety, reducing congestion and improving service quality and continuity.

The new works to be carried out are included in the National Transmission Grid Development Plan (**NTG Development Plan**), which sets out the grid development initiatives envisaged over the next ten years, as well as the state of progress of the development works planned in previous years. In addition, the NTG Development Plan contains all the investments that Terna is committed to carrying out in order to guarantee the efficiency of the grid, the security of supply and of the service and the integration of production from renewable sources in keeping with the objectives identified in the recent Proposal for an Integrated National Plan for Energy and Climate (**PNIEC**), provided for by Regulation 2016/0375 of the European Parliament and of the Council on the Governance of the Energy Union.

All investment in development of the grid is subject to a prior cost-benefit analysis, comparing the related expenditure with the resulting benefits, expressed in monetary terms, resulting from its implementation.

Infrastructure Maintenance

Maintenance of electricity grid infrastructure is essential in order to guarantee quality of service, security of the assets managed and extension of their useful lives. These operations are carried out by Terna on the basis of a predictive and conditional approach. The tools used to support maintenance activities are subject to continuous innovation. In particular, the maintenance engineering “engine” is the expert decision support system (DSS) called MBI (Monitoring and Business Intelligence) whose engineering models are continuously updated. For scheduling and execution of operations (WFM – Work Force Management) software is used, and aerial inspection techniques for the electricity grid have now been consolidated.

The maintenance activities include 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”).

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.

Dispatching of electricity

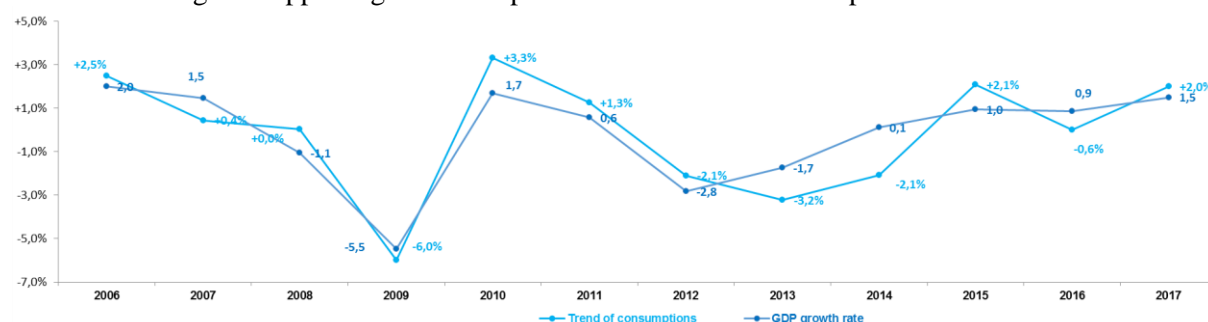
“Dispatching” is the set of activities necessary to ensure that there is a balance between supply and demand in the country’s electricity system. The high degree of complexity and coordination necessary to guarantee the correct operation of the system require the presence of a central coordinator, the provider of the dispatching service. This coordinator has control over a high number of both supply-side and demand-side players, and in the last few years also over production from non-programmable renewable sources. Dispatching includes planning for the unavailability of the grid and of production plants over different timeframes, forecasting national demand for electricity, comparing demand for consistency with planned production in the free energy market (the Power Exchange and over-the-counter contracts), the acquisition of resources for dispatching and monitoring power transfers for all the power lines that make up the grid.

Dispatching includes planning for the unavailability of the grid and of production plants over different timeframes, forecasting national demand for electricity, comparing demand for consistency with planned production in the free energy market (the Power Exchange and over-the-counter contracts), the acquisition of resources for dispatching and monitoring power transfers for all the power lines that make up the grid.

This area of operation also includes management of the Dispatching Services Market (**DSM**), through which the resources for dispatching services are procured. In particular, “real-time” control of the

National Electricity System is ensured by the National Control Centre, the nerve centre for Italy's National Electricity System, which coordinates the other centres around the country, monitors the system and dispatches electricity. The Centre intervenes, by issuing instructions to producers and Remote Centres, in order to modify supply and capacity on the grid. To avoid the risk of prolonged power outages, it may also intervene in an emergency to reduce demand.

With a view to ensuring ever greater flexibility in the management of our assets, in line with the activities carried out in 2017, the National Dispatching department and the North-west and Central-South Offices studied new Dynamic Thermal Rating (**DTR**) applications in 2018. By exploiting the cool conditions of the lines concerned, above all during the winter when loads are highest, the DTR is able to increase load capacity so as to meet demand in the short term. The increase in capacity also has the advantage of supporting increased production from renewables plants.



On 1 January 2019, the new zonal configuration came into force. Compared to the past, the new arrangement has combined the production nodes with limited capacity in Brindisi, Foggia and Priolo with neighbouring zones (the South and Sicily zones, respectively), as well as transferring the Gissi node from the South to the Central-South zone. This change was made in accordance with the European CACM Regulation, which all the regulatory authorities and TSOs of European Union member states must comply with. In particular, the changes made are aimed at ensuring safe operation of the transmission system, as well as boosting the efficiency and cost-effectiveness of the electricity market.

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	31/12/2018	31/12/2017	Δ	Δ%
380 kV					
Substations	No.	164	164	0	0.00
Power transformed	MVA	115,258	114,008	1,250	1.10
220 kV					
Substations	No.	150	150	0	0.00
Power transformed	MVA	31,417	31,317	100	0.32
Lower voltages (≤150kV)					
Substations	No.	567	557	10	1.80
Power transformed	MVA	3,914	3,890	24	0.62
Total					

Substations	No.	881	871	10	1.15
Power transformed	MVA	150,589	149,215	1,374	0.92

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

	Unit of measurement	31/12/2018	31/12/2017	Δ	Δ%
380 kV					
Circuit length	km	12,496	12,487	9	0.07
Line length	km	11,315	11,305	10	0.09
220 kV					
Circuit length	km	11,915	11,915	0	0.00
Line length	km	9,549	9,549	1	0.01
Lower voltages (≤150kV)					
Circuit length	km	50,031	50,123	(92)	(0.18)
Line length	km	46,806	46,852	(46)	(0.10)
Total					
Circuit length	km	74,442	74,525	(83)	(0.11)
Aerial	km	71,043	71,182	(139)	(0.20)
Underground cable	km	1,945	1,880	65	3.47
Undersea cable	km	1,454	1,463	(9)	(0.61)
Line Length	km	67,671	67,706	(35)	(0.05)
Aerial	km	64,271	64,363	(91)	(0.14)
Underground cable	km	1,945	1,880	65	3.47
Undersea cable	km	1,454	1,463	(9)	(0.61)
Proportion of DC connections (200-380-500kV)					
Circuits	km	2,077	2,077		
% of total	%	2.79	2.79		
Lines	km	1,757	1,757		
% of total	%	2.60	2.60		

(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.

Operation and development of the National Transmission Grid

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.

TRI S.p.A. has currently three local integrated centres, named CCT, in Turin, Scorzè (Venice) and Naples for dispatching and operation activities.

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;
- identification of network developments that allow renewable source integration in to the decarbonisation scenario in accordance with National and European energy policy target;
- costs/benefits analysis 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 of the interconnections with foreign countries;
- increasing operating flexibility and resilience of grid;

- preventive environmental assessments so as to ensure that network developments are consistent with the maximum respect for the environment.

The development activities for the National Transmission Grid concern mainly the planning, the design and the construction of projects. They are included in the National Transmission Development Plan (hereinafter referred to as NTDP), prepared annually in compliance with the Concession governed by the relevant Convention issued by Ministerial Decree on 15 December 2010 (hereinafter referred to as the Concession; see also “*Legislative and Regulatory Framework*” below) and the Legislative Decree 93/2011.

Terna is particularly conscientious about National and European energy policy objectives, in particular about the integration of renewable energy sources, the integration of the electricity market and the security of supply guaranteeing sustainable grid development; these goals represent the four main drivers of the TDP: decarbonisation, market efficiency, safety of supply and sustainability.

Terna is also part of ENTSO-E, the European Network of Transmission System Operators composed of 43 European Transmission System Operators from 36 countries. 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 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. Last ENTSO-E TYNDP, TYNDP 2018, was published on 28 November 2018.

Terna is also a member of MEDTSO: the association that brings together the TSOs from 19 Mediterranean countries, with the aim of promoting the standardisation of development plans and the coordinated management of grids. Terna hosts the association’s registered office and operational headquarters in Rome and appoints its Secretary General.

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.

As of 31 December 2018, not regulated and international revenue amounted totally to Euro 207.4 million, showing an increase of Euro 11.8 million compared to 31 December 2017. The increase in Non-Regulated revenue, totalling Euro 5.8 million, reflects revenue growth at the Tamini Group, after a reduction in revenue linked to the private Italy-France interconnector project (reflecting one-off proceeds booked in 2017). International revenue is up Euro 6.0 million, reflecting revenue generated by investment in assets held under concession in Brazil (up Euro 12.4 million), after the loss recognised on the contract for construction of the power line in Uruguay (down Euro 5.4 million).

Non-Regulated Activities

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.

The main areas in which these activities are developed are:

- Connectivity;
- Energy Solutions;
- Private Interconnectors pursuant to Law 99/2009; or
- Transformers through Tamini Group.

Connectivity

As Terna is not a telecommunications operator, the Issuer offers its services on the market in a neutral way, merely providing passive infrastructure (rental of space on pylons or in substations, dark fibre).

Terna Connectivity business is evolving into a fully integrated model mainly based on dark fibre trade. The key drivers of Terna TLC strategy can be summarised as follows:

- Selling "dark fibre" right of use to TLC operators
- Increasing the business coming from the pylons that Terna has in Italy, both for the digitalisation of the country (e.g. hosting antennas for 5G and wireless connectivity) and for the advanced monitoring through IoT technology (weather monitoring, fire prevention)
- Evaluating additional TLC opportunities strictly related to our assets and our core competences (basic services related to connectivity and distributed lean data centre)

For example, Terna is developing an important project for Open Fiber which involves Terna's sale of an IRU (Indefeasible Right of Use) and the provision of ancillary services. The national backbone has been delivered, the regional rings have been partially delivered.

Energy Solutions

Terna is developing projects to provide customers with a wide range of technical solutions aimed at enabling them to catch the opportunities arising from the new Energy Paradigma based on renewable distributed generation and the evolution from consumer/producer to prosumer. Energy Solutions include:

- Grid infrastructure, i.e. solutions to manage connection to electric grid
- Energy efficiency, i.e. solutions to optimise energy consumption via high efficiency technology adoption and demand management (leveraging Avvenia acquisition)
- Smart solutions, including integration of distributed generation, storage and active demand response
- Services, including energy performance contracts and maintenance of energy infrastructure (PV plants, substations)

Private Interconnectors pursuant to Law 99/2009

Terna is developing the creation of interconnectors with other countries. Specifically, five interconnectors are planned for the borders with France, Montenegro (both in an advanced stage of completion), Austria, Switzerland and Slovenia (currently under permitting).

The new "Italy-France" high voltage direct current interconnector will increase cross-border transmission capacity on Italy-France border by 1200 MW (out of which 350 MW exempted for a period of ten years in favour of private investors in accordance to L.99/2009).

Approximately 24,6 km of civil works and 13 km of cable laid for the Upper and Lower sections along the A32 motorway were completed in the first quarter of 2019. With regard to the Middle section, by March 2019, approximately 19,7 km of cable had been laid and around 22,8 km of civil works had been completed. As far as concerns the converter station in Piosasco, erection of the main buildings has been completed in the first quarter of 2019.

The "Italy-Montenegro Interconnector Project" regards construction of a 500 kV direct current connection, part in submarine cable and part in terrestrial cable, between the substations of Villanova (IT) and Lastva (ME), covering a distance of approximately 445 km. Entry into service of the first module of the interconnection will result in interconnection capacity of 600 MW by the end of 2019.

A portion of the 600 MW associated with the first module, will be available under a third party access exemption to private investors for a period of ten years in accordance to L.99/2009. In 2018 the laying and protection of the first pole of the submarine cable between Italy (Pescara) and Montenegro (Kotor) was completed, as well as the laying of the terrestrial cables. The converter stations in both Italy (Cepagatti) and Montenegro (Kotor) are at an advanced stage of completion.

Italy-Austria interconnector (the **Reschenpass project**) concerns the construction of a new 220-kV AC interconnection between the Glorenza (Italy) and Nauders (Austria) substations. This will consist of 26 km of underground cable and the necessary upgrade of the internal grid. The project will increase cross-border interconnection capacity between Italy and Austria by around 300 MW, which will almost double the currently available capacity. Regarding the related permitting process on the

Italian side, on 18 April 2019 the competent Ministries signed the authorisation necessary to Terna to build and operate the 220 kV underground cable Passo Resia-Val Venosta (Glorenza). On 16 July 2018, the Terna Group set up the special purpose vehicle company, Resia Interconnector S.r.l., which, on behalf of the private investors selected in accordance with Law 99/09, is to prepare and submit the third party access exemption request.

The “Italy-Switzerland Interconnector Project”, concerning the development of new transmission lines to increase total transmission capacity between Italy and Switzerland, is currently under review to take into account territorial requests, including evaluation of improved solutions from the environmental and technical point of view.

The “Italy-Slovenia Interconnector Project” regards the realisation of a high voltage direct current line, partially undersea cable, between the substations of Salgareda (IT) and Bericevo (SL). On the Italian side the project is currently under permitting. The project will contribute to increase transmission capacity on Italy-Slovenia border up to 1 GW.

Transformers through Tamini Group

Tamini Group operates in the electromechanical sector and is a leader in the design, production, commercialisation and repair of power transformers for electricity transmission and distribution grids, of industrial transformers for the steel and metals industry and of special transformers for convertors used in electrochemical production.

With a hundred years of experience, Tamini has a well-established name in Italy and overseas, thanks to its technological and engineering capabilities, combined with the degree of customisation and production flexibility it can offer.

Tamini has six production plants in northern Italy – in Melegnano, Legnano, Ospitaletto, Valdagno, Novara and Rodengo – and two trading companies in the United States and India. The Rodengo plant specialises in services, whilst the Novara production plant continues to manufacture coils, operating as a service centre for all the production sites that manufacture for both the Power and Industrial sectors.

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.

As to the International Activities, Terna is committed to focusing its position within the European continent by strengthening Italy’s role as the electricity hub between Europe and the Mediterranean.

Moreover, activities in South America are focused on completing the following ongoing projects:

- in Uruguay, construction of the 213 km Melo-Tacuarembò 500kV transmission line;
- in Peru, the construction of 132 km of new 138kV lines between Aguaytia and Pucallpa.

In Brazil, Terna has completed the construction of the lines and substations for the two concessions, Santa Maria Transmissora de Energia (**SMTE**) in the State of Rio Grande do Sul and Santa Lucia Transmissora de Energia (**SLTE**) in the State of Mato Grosso.

Overseas initiatives of interest to Terna are the acquisition and operation of transmission systems abroad by taking part in international concession, the provision of consulting and technical assistance services, energy solutions such as high value-added non-traditional activities and Project management.

RESEARCH AND DEVELOPMENT

The role of the electric energy vector is crucial to enable the energy transition; all renewable generation technologies are based on the conversion of mechanical or thermal energy (wind, sun, geothermal, waves, etc) into electricity and energy efficiency technologies are almost exclusively based on electric vector (heat pumps, e-mobility, induction cooking etc.).

To do so, priorities are: making Europe (and World) more energy efficient by accelerating investments and interconnections, building more and more integrated energy markets by constructing the necessary transmission lines, protecting consumer rights and achieving high safety standards in the energy sector.

In this context, Innovation & Digitalisation will also be crucial during this path and the reinforcement of R&D activities is a priority for Terna Group; in order to accomplish his mission as a TSO, Terna has to guarantee the fulfilment of key system needs (RES integration, adequacy, reliability) at the lowest possible cost for the system with high quality standards.

A single solution does not exist: a full set of coordinated measures is needed to accomplish this challenging task.

By Terna's point of view, the most relevant "enablers" appear to be:

- **Capacity Remuneration Mechanisms:** CRM is a fundamental tool to guarantee system adequacy (through fair long-term price signals) and protect final customers from huge price variations, in a global energy market based only on system marginal prices.
- **Network Development:** High, Medium and Low voltage grids will need continuous targeted investments coherent with the evolution of generation (the RES and DER evolution do not remove the locational issue). Network investments are needed both for the national grid and for European interconnections, to guarantee resilience of the whole energy system at the lowest cost. It is fundamental to support these network investments with accelerated authorisation processes being progressively oriented to involve local citizens.
- **Storage:** In order to allow for the integration of high shares of RES a new wave of storage capacity is key. Each country has to find the right mix between utility scale and distributed storage solutions, as well as the right mix of storage technologies (hydro pumped storage, electrochemical, compressed air etc.).
- **Demand Response:** New IOT technologies, distributed generation and distributed storage solutions allow to imagine a near future where flexibility resources can be supplied by the consumers/prosumers.
- **Smart Grids:** in addition to a new wave of storage applications, important investments are needed for real-time management of voltage levels and power flows on the grid (synchronous compensators, phase shift transformers, condensers, reactors etc.). Full observability and real-time controllability of the grid and of all grid-connected resources shall be unlocked via the implementation of new digital and big data technologies.

- **Market Evolution:** market reform is another key piece of the puzzle, in order to stimulate investments to unlock the potential of flexibility services from Distributed Energy Resources (DER).
- **Data Management:** last but not least, all network connected devices shall be managed via an integrated platform in order to guarantee system security. Reliable and low-cost real-time metering systems are key enablers of the energy transition, in order to ensure a massive market participation of DER.

Digitalisation, in particular, contributes to further market facilitation and enables new actors and new roles, centering around prosumers and active system management.

A cyber physical grid is in the making. It is composed of the physical part on the one hand – towers, cables, wires, substations etc. – and the increasing digital grid on the other.

The latter will allow for the integration of models, tools, platforms and information.

The Digital Grid will enable not only the automated and coordinated decision-making inside the power system and all the other parties that constitute the electricity value chain. In such context, as a point of reference, Terna has launched several innovative projects:

- Dedicated solutions for **Transmission operator** activities, which include:
 - **Full digitisation** of transmission network, which already counts over 200 digital stations, enabling the application of Big Data and Advanced Analytics tools
 - **Robotisation of grid inspection and monitoring.** Currently are in pilot phase new technologies such as **drones** and **magnetic-inductive robots**
 - **New solutions** to improve monitoring of underground cables health, both for AC and DC High Voltage cable systems (including joints and terminations, the most "delicate" components of a cable system)
- Terna is investing heavily also for the System Operator activities, which include:
 - Enhance accuracy of **forecasting for Renewable generation** through state-of-art **probabilistic models**
 - Continuously improve **real-time operations** through **advance analytics applications**. The extensive penetration of distributed resources requires indeed a **increasingly quicker intervention capability** for the TSO
 - Innovative solution for the **observability on the real-time behaviour of Distributed Energy Resources**
 - Several pilot projects on **new flexibility resources**, as a **brand new** testing field for **utility scale storage system**, currently operating in Sardinia and Sicily. Terna has also already **designed** and **regulated** the participation of **aggregators** to ancillary service market, including also **aggregators of electrical vehicles** (in other words the **Vehicle 2 Grid**)

STRATEGY AND BUSINESS PLAN

2019-2023 Strategic Plan

Terna's Strategic Plan for the period 2019-2023 provides for an important contribution of the Terna Group aimed at the further development and integration of renewable energy sources and the overall energy efficiency of the electricity system.

A key driver of this strategy will be investment in the innovation and digital solutions needed to facilitate proactive management of the system. Attention will also be paid to the development and insourcing of the strategic skills required to cope with projects of growing size and complexity.

The strategic guidelines for the various areas (i.e. Regulated Activities, Non-regulated Activities, International Activities) of the Terna Group have been identified.

Regulated Activities

In the 2019-2023 Strategic Plan, Terna will invest a total of Euro 6.2 billion in the Italian national electricity grid, an amount that represents the highest financial commitment ever to the development of the country. This will enable Terna to play an active role in the ongoing energy transition and Italy to securely, efficiently and sustainably cope with the challenges of the electricity sector, that is increasingly interconnected, decarbonised and renewable.

More than 60 per cent. of the new power lines that will enter into operation over the Plan period will be 'invisible', being underground or undersea cables, with low environmental impact.

Over Euro 3 billion will go towards investment in developing the national electricity grid, with projects to strengthen the connections between market zones, rationalise the grids in the main metropolitan areas of the country and increase interconnections. The main projects to increase the interconnection capacity among the different zones of the Italian electricity market include the Colunga-Calenzano (between Tuscany and Emilia-Romagna) and Gissi-Foggia (between Abruzzo and Apulia) power cables. The rationalisation of the electricity grids in the main metropolitan areas such as Milan, Rome and Naples will mostly involve replacing old infrastructure with new sustainable, high-technology lines. With regard to interconnections, works will start on the new SA.CO.I.3 project (strengthening the connection between Sardinia, Corsica and the Italian Mainland).

Over Euro 2 billion are related to asset renewal and efficiency, mainly to improve the quality of service and the digitisation of the grid.

Approximately Euro 1 billion for the Defence Plan mainly dedicated to creating and installing devices to increase grid security and stability, such as synchronous compensators, at the most critical points for managing energy flows. In addition, over the Plan period, we expect the entry into operation of the two Italy-Montenegro and Italy-France interconnections.

Within the three categories of investment mentioned above, approximately Euro 700 million will be related to digitisation and innovation, developing solutions and projects with high technological performance to cope with the growing complexity of the system. The variability of demand and ever-increasing production from non-programmable renewable sources, in fact, require investments in innovation and digitisation, fundamental to ensure secure, efficient and reliable management of the electricity flows on the grid. In particular, Terna is planning to further develop its optical fibre network with a targeted new installation plan, new digital systems for both grid and surrounding environment control and diagnostics, as well as innovative solutions for monitoring lines and substations, including remote technologies.

The search for innovative solutions and technologies for the development and modernisation of the national transmission grid will be even more closely shared with all the main stakeholders in the territory, especially the local communities, the authorities and institutions involved in the projects. A proactive approach based on listening and dialogue, which foresees the active participation of local communities. For Terna, attention to the environment and sustainability are extraordinary strategic enablers in generating value for Italy and its communities.

The Regulated Asset Base (RAB) will reach Euro 18.5 billion by 2023, with a CAGR in the Plan period higher than 4 per cent., compared with the Euro 15.7 billion envisaged for 2019. At the end of 2018, the RAB stood at Euro 15.2 billion.

Non-Regulated Activities

In continuity with previous years, also in the 2019-2023 Strategic Plan, Domestic Non-Regulated activities will be oriented to supporting the energy transition with innovative services. Specifically, Terna will consolidate its role as Energy Solutions Provider, developing high value-added services, leveraging market opportunities for energy players. The company will scout opportunities in the field of connectivity leveraging its dark fibre infrastructure.

It is expected that Domestic Non-Regulated activities will contribute approximately Euro 400 million cumulated to the Group's EBITDA in the period.

International Activities

International activities will be committed to strengthening Terna's role at European level and scouting new growth opportunities, leveraging the distinctive industrial know-how acquired.

Specifically, activities in South America will be focused on the management of existing projects in Brazil and on the completion of ongoing activities in Uruguay and Peru.

Regarding projects to be identified, on top of the above-mentioned projects in execution, the 2019-2023 Strategic Plan foresees a maximum cumulated capital allocation lower than Euro 300 million for activities characterised by a low risk profile and limited capital absorption.

Overall, International activities will bring to the Group a total contribution in terms of EBITDA of Euro 150 million cumulated in the Plan period.

Main results expected in the 2019-2023 Strategic Plan

Terna Group's revenues are expected to be approximately Euro 2.7 billion and EBITDA will reach approximately Euro 2 billion in 2023, with a CAGR higher than 4 per cent. for both figures starting from 2018. The investment in the period, gross of EU contributions, amount to Euro 6.8 billion.

Terna's Net Profit is also expected to improve, leading to Earnings Per Share (EPS) of approximately Euro 0.42 in 2023, with a CAGR higher than 3 per cent. over the Plan period. As a result of the optimisation of financial efficiency, the 2019-2023 Strategic Plan average cost of net debt is expected to be 1.6 per cent.

These results will guarantee an Operating Cash Flow, which will contribute to the necessary flexibility to support the planned investment, whilst at the same time offering an attractive dividend policy.

Terna's financial structure will remain solid, and the Net Debt/RAB ratio will remain below 60 per cent. in the five-year period.

Sustainability objectives and targets

A relevant part of the 2019-2023 Strategic Plan is dedicated to sustainability objectives, aimed at guaranteeing the sustainability of the business and value creation in the medium-long term. The set of targets is structured around four dimensions – Human Resources; Stakeholders and the territory; Integrity, responsibility and transparency; Environment – divided into 14 objectives associated with more than 120 activities distributed over the entire Plan period.

As regards Human Resources, the main objectives concern the culture of employees' health and safety (which will cover 100 per cent. of the personnel of the plant units by 2021), performance assessment (which will involve 85 per cent. of employees), and a training plan to develop digital skills and the implementation of agile working policies. As regards the category Stakeholders and the territory, targets have been set for the involvement of local communities and listening to six communities to ensure wide agreement on infrastructure and social responsibility initiatives. In the area of Integrity, responsibility and transparency, suppliers' certifications were considered (involving 100 per cent. of the "works" segments). Finally, in the Environment dimension, the most significant targets regard the impact of transmission infrastructure, and therefore the new underground and undersea lines, the removal of obsolete lines (more than 350 km in the period of the Plan) and the reduction of CO2 emissions.

2019 Outlook

Total revenues are expected around Euro 2.3 billion, with EBITDA of around Euro 1.72 billion. Consequently, Earnings Per Share (EPS) are expected around Euro 0.36. Investments are expected in the range of about Euro 1.2 billion, gross of EU contributions.

Dividend Policy

From 2019 to 2021, the CAGR of the dividend per share (DPS) is expected at 7 percent., based on the 2018 dividend. For 2022 and 2023, a 75 per cent. payout is expected, with a minimum guaranteed dividend equal to the dividend pertaining to 2021.

RECENT EVENTS

On 10 January 2019, Terna launched a fixed-rate green bond issue in the form of a private placement amounting to Euro 250 million. The issue was assigned ratings of "BBB+" by S&P, "(P)Baa2" by Moody's and "BBB+" by Fitch. The proceeds will be used to finance the Company's eligible green projects, thus confirming the Group's strategy oriented towards combining sustainability with growth, in order to promote the ongoing energy transition and generate ever increasing benefits for Italy and its stakeholders.

On 16 January 2019, Terna was included for the first time in the Bloomberg Gender Equality Index (GEI), an international index that measures companies' performance regarding gender equality issues and the quality and transparency of their public reporting, a decisive factor in the overall assessment. For 2019, Bloomberg analysed over 9,000 companies listed on leading world financial markets, including only 230 of them in the GEI index (in total, there are three Italian companies), from 36 countries and representing ten different sectors (including energy, industry, utilities and finance).

On 3 April 2019 Terna launched a green bond addressed to institutional investors. The issuance is made under Terna's Euro 8,000,000,000 Medium Term Notes Programme (EMTN), which has been rated "BBB+" by S&P, "(P)Baa2" by Moody's and "BBB+" by Fitch for an aggregate amount of Euro 500 million. The green bond has been issued with a tenor of seven years and a maturity date falling on 10 April 2026, will pay a coupon of 1.000 per cent., with an issue price equal to 99.886 per cent., a spread of 78 basis points over the midswap and an indicative spread of approximately 100

basis points lower than the Italian BTP having same maturity. The actual cost for Terna, in respect of such issuance, is therefore equal to 1.02 per cent. as opposed to the aggregate average cost of the consolidated debt equal to 1.6 per cent. over the new Strategic Plan period. The net proceeds from the issuance will be used to finance the company's eligible green projects of the Company.

On 17 May 2019, the rating agency Scope assigned Terna – and the company's unsecured senior debt – a long-term rating of "A-", with a stable outlook, and a short-term rating of "S-1". The rating assigned by Scope confirms the solidity of Terna's financial and equity structure and recognises the Group's strong commitment to integrating sustainability into its business strategy as a strategic trigger for value creation. Scope's rating is therefore more favourable than the current public ratings by S&P (BBB+, Negative), Moody's (Baa2, Stable) and Fitch (BBB+, Stable).

SUSTAINABILITY INITIATIVES

Terna has, since 2002, adopted a voluntary approach designed to foster the involvement of local government in an earlier stage (regional and local authorities, park authorities, etc.). Since 2015, this has been extended to include people from the communities directly affected by Terna's plans through public meetings called "*Terna incontra*". These events focus on listening to local concerns, sharing design ideas and on dialogue, with the aim of ensuring a secure, efficient and sustainable grid.

In particular, 17 such meetings were held during 2018 in eight Italian regions: at Avigliana (TO) in Piedmont; at a Vellezzo Bellini (PV) in Lombardy; at Auronzo di Cadore (BL) in Veneto; at Piombino (LI), San Vincenzo (LI) and Suvereto (LI) in Tuscany; at Codrongianos (SS) and Santa Teresa di Gallura (OT - 2 meetings) in Sardinia; at Bisaccia (AV), Lacedonia (AV), Naples and Sorrento (NA) in Campania; at Alberona (FG), Deliceto (FG) and Troia (FG) in Puglia; and at Cortale (CZ) in Calabria. The main effects of these initiatives have resulted in:

- the memorandum signed with Veneto Regional Authority designed to bring development and innovation to the area at no cost to local people (the most important commitment regards the plan to rationalise the grid between Venice and Padua);
- the plan to modernise the grid in Naples and improve the level of security; and
- the "Green Corridors" project, the first large-scale plan in Italy and Europe to reduce the risks linked to tall trees growing close to power lines.

Terna's commitment to the environment and biodiversity led, in 2009, to the conclusion of partnership agreements with critical stakeholders, such as leading environmental organisations, with the aim of arriving at shared solutions designed to boost the environmental sustainability of the National Transmission Grid (NTG). Growing concerns over the impact of climate change, and the accompanying focus on energy transition initiatives, has led to further cooperation between Terna and these organisations. In particular, in 2016, Terna renewed and expanded its partnerships with Legambiente, the WWF and Greenpeace.

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 aims at promoting the integration of renewable energy sources through the development of electricity grids. RGI is committed to promoting strategic planning and participating in the

construction of new power lines, via a meeting platform involving environmental NGOs and European TSOs.

Approaches to climate change and the energy transition, within the context of this specific sector, have widened calls from numerous institutional investors for major companies to conduct an informed and full assessment of the business risks linked to ESG (environmental, social and governance) issues. Moreover, with the adoption, by European countries, of Directive 2014/95/EU on non-financial disclosures (in Italy with Legislative Decree 254/2016), large companies are now required to publish an annual non-financial statement. Of particular importance, in terms of transparency and reporting, are the recommendations of the Task Force on Climate-related Financial Disclosures (the so-called Bloomberg Task Force) regarding the publication of information on the implications of climate change for business strategies, in terms of risks and opportunities. This is considered of central importance, with regard to both the best possible allocation of investment and efforts to combat climate change. Terna has for some time now implemented these recommendations.

LEGISLATIVE AND REGULATORY FRAMEWORK

After the nationalisation of the electricity industry in 1962, EU Directive 1996/92/CE (hereinafter referred to as the **Electricity Directive**) led to the liberalisation of the electricity industry. The Bersani Decree (as defined above) and subsequent legislation implemented under the Electricity Directive and liberalised the production, import, export, purchase and sale of electricity on the market.

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:

- (a) provided for integration of the ownership and management of the National Transmission Grid; and
- (b) 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.

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 was subject to the approval (including by acquiescence) of the Ministry of Productive Activities (currently Ministry of Economic Development) and the ARERA. The Grid Code is 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 ARERA according to their relevant competences.

- (c) 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 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.

- (d) 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.
- (e) 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.

Terna has been certified as an independent Transmission System Operator according to the “ownership unbundling” model with Resolution of ARERA 142/2013/R/eel.

Applicable legislation (Law 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.

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. According to Legislative Decree 93/2011:

- (a) 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 granted to the Italian ISO and transferred to Terna after the acquisition of the Italian ISO assets on 1 November 2005, as amended on 15 December 2010 by Terna and the Ministry of Economic Development; and
- (b) 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 production plants.

In 2016, the Italian 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 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.

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.

Procurement procedures are governed by the Legislative Decree 18 April 2016 No. 50, which implements Directives 2014/25/EU, 2014/24/EU and 2014/23/EU. The above-mentioned legal framework was further amended by Law Decree 56/2017 and by Law Decree 32/2019 as converted with modifications by Law 55/2019.

In 2017, the Italian Government approved a new National Energy Strategy, setting the long term objectives of Italian energy policies, namely: reducing final energy consumption by a total of 10 Mtoe by 2030; reaching a 28% share of renewables in total energy consumption by 2030, and a 55% share of renewables in electricity consumption by 2030; strengthening supply security; narrowing the energy price gap; furthering sustainable public mobility and eco-friendly fuels; and phasing out the use of coal in electricity generation by 2025. The plan identifies several strategic transmission projects, already included in the Terna's Development Plan, which are closely related to the achievement of the above-mentioned targets.

TARIFF SYSTEM

Revenue structure

As of 31 December 2018, the Terna Group's total consolidated revenues (excluding pass-through items) amounted to Euro 2197.0 million. The majority of these revenues (approximately 90.5 per cent.) derive from activities regulated by the ARERA whereas the remainder derives from non-regulated and international activities.

Regulated revenues

Regulated revenues are meant to cover recognised costs (including market-based allowed returns on equity and debt) for the transmission and dispatching services, and to incentivise 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 (CTRP), calculated on a quota of 90 per cent. of transmission allowed costs, and an energy part (CTRE), calculated on the remaining 10 per cent. quota of transmission allowed costs. CTRP is invoiced to distributors in proportion of a proxy of the maximum power used at each interconnection points or aggregation thereof, whilst CTRE 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 ARERA, 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. Regulatory rules for calculating and updating the transmission fees for the period 2020-23 (a.k.a. NPR2), as well as for regulating the quality of the transmission service, will be approved by ARERA at the end of the review procedure started through the recent 126/19 Resolution.

The unit values of the grid transmission fees are therefore determined annually by the ARERA 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:

- CTRP is the ratio between 90 per cent. of the recognised 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.
- CTRE is the ratio between 10 per cent. of the recognised 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 recognised costs belong to three categories:

- Recognised costs to cover the **RAB remuneration**. The RAB (Regulated Asset Base), which is the recognised net value of investments in the transmission service up to year “Y-1” (e.g. 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 ARERA 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., whilst for years 2019 to 2021 is set to 5.6 per cent.;

Incentive remuneration (tariff incentive mechanisms)

Incentives are aimed at promoting investment in infrastructure for the 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 2019 transmission tariffs, RAB remuneration (base + incentives) constituted approximately 50 per cent. of Terna’s recognised costs.

- Recognized costs to cover **amortisation/depreciation** which is the recognised depreciation/amortisation, 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 recognised amortisation/depreciation for investments up to year “Y-2”.

In 2019 transmission tariffs, amortisation/depreciation remuneration constituted approximately 34 per cent. of Terna’s recognised costs.

- Recognised costs to cover operating costs: the component covering these costs, which in 2019 transmission tariffs came to about 16 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 ARERA based on the recognised 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 705/18 sets the DIS fee for the year 2019 by dividing the recognised 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 ARERA 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 recognised costs by the reference energy, the correspondent return for Terna depends on the actual trend of the energy withdrawn from the National Transmission Grid.

The power component of the transmission tariff (CTRP), covering the remaining 90 per cent. quota of the transmission recognised 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 (CTRP) are coincident.

In 2019, the resolution 670/18 revised the tariff for provision of the electricity transmission service in 2019 and the applications for incentives for specific high-risk projects.

Dispatching

The dispatching tariff is monomial, wholly calculated and invoiced on energy only; the ARERA calculates the dispatching tariff (DIS) by dividing 100 per cent. of recognised 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 recognised costs and dispatching revenues. Such volume exposure is limited to a $\pm 0,5$ 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 recognised costs or returns the revenues exceeding 100.5 per cent.

Incentive schemes

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

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

Various incentives are currently in force; 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 ARERA), and provided completion dates will be within six months of estimate completion dates (as established by the ARERA), 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.

Moreover, Resolutions 884/17 and 129/18 have set a new package of incentives related to:

- the fulfilment of preparatory documents for the implementation of the output-based regulation: from 2017 to 2019 Terna could receive up to 1.5 M€/y as an incentive to develop these documents in time and coherently with specific quality metrics;
- the allowance of "Connecting Europe Facility" (CEF) contributions for financing infrastructure development: for 2018 and 2019 Terna could receive a premium of 15 per cent.

of the total amount of CEF contributions achieved (first 30 M€ of CEF contributions received and CEF contributions for I-NPR1 and O-NPR1 projects are excluded from this incentive measure);

- the development of additional transmission capacity to solve network congestions between internal market zones and interconnections, up to target capacity values to be proposed by Terna and approved by ARERA (these targets have been set in Resolution 698/18): Terna would receive a bonus proportioned to the additional network capacity realised until 2023 (up to the capacity target values) and to the benefits that this new capacity will bring to the system; and
- the development of infrastructure aimed at solving: (a) network constraints within internal market zones; (b) network constraints for voltage regulation; and (c) must-run conditions (the incentive mechanism is not detailed as of yet).

According to Resolution 129/18, for specific network investments which require more than three years between authorisation and commissioning (and after specific requests which are subjected to public consultation), Terna could ask the Regulator for the readmission of these projects to the work in progress remuneration through a rate of return determined by assuming (in the current WACC formula) a D/E ratio equal to 4.

Finally, Resolution 699/18 set a mechanism to incentivise the resolution of: (a) bottlenecks within market zones; (b) network constraints for voltage regulation; and (c) must-run conditions. This mechanism also has a premium cap set at 150 M€ for the period 2019-23. According to Resolution 699/18 Terna can also receive a 200 k€ premium for the implementation of an innovative dispatching model based of optimisation criteria able to consider the uncertainty of renewables and demand.

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 reported below. It's worth mentioning that transmission quality regulation could be updated starting from 2020 according to the completion of the regulatory procedure started through the recent Resolution 126/19.

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 Euro 70 million (if exceeded, Terna may request that the Authority provides reimbursement for the amount exceeding the cap). Terna's share for exceeding the standards on the number of outages is limited according to the provisions of the distribution service quality regulation (Title 5 of Part I of the TIQE). In certain specific cases, Terna may request the "*Exceptional Events Fund*" to refund such payments. It should be also noted that with Resolution 127/17, the Authority made certain changes to the regulation, limiting the possibility for grid operators to access the exceptional events fund when the outage exceeds 72 hours. The same resolution increased the total payable amount to end customers in the event of outages exceeding set duration thresholds.

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 Euro 7 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 consist of uplift, a tariff component which includes various system costs, including covering the net expenses incurred to procure resources on the Dispatching Service Market (**DSM**).

In 2018, pass-through revenues and costs for the Terna Group totalled Euro 5,171,8 million. The components of these transactions are detailed in the Terna Annual Report 2018 (“*Annual Report 2018 – Integrated Report Terna S.p.A. and Terna Group*”).

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 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 specific risks, such as fraud risks, information security 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 at being 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.

Physical Security

The physical security of substations is assured by using devices, systems and units operating 24 hours a day, seven days a week. To safeguard the security of the Issuer's premises and plant, Terna has also developed a surveillance platform called the Integrated Physical Security System for Terna Substations, which allows the dedicated surveillance centre – the Security Operations Centre or SOC – to continuously monitor (VideoBox) any intrusion alarms and video from 212 substations.

Terna has partnered with the Italy's Carabinieri police force to further strengthen its new communications and rapid intervention system, which enables the SOC to quickly alert the police in the event of attempts at forced entry to critical substations, all equipped with video surveillance equipment. The new system has been called "O.D.I.N.O." (Operational Device for Information, Networking and Observation) and is connected, via a secure link, to the centralised operating system used by Carabinieri operations rooms throughout Italy.

In 2018, a technical specification was signed with the State Police, which provided for linking up the video surveillance systems and the SOC to the Police local surveillance technological platform called Mercury NRG. This integration enables reports of geolocalised intrusion events (previously validated by the Terna SOC) to be rapidly and directly sent to the CEN (National Electronic Centre) of the State Police. The reports are then sorted at the Operations Centre of the competent local police headquarters, and passed on to the flying squad in the area.

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 processes and support processes, as defined in the Terna *IMS* 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 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 company policy "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.

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 thousand five hundred 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. The platform has then been implemented and customised for Terna requirements and needs.

Management Systems

Terna and its subsidiaries TRI S.p.A., Terna Plus S.r.l. and Terna Crna Gora have adopted an integrated management system which serves as the main management system for all four 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 14001:2015 (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 and calibration 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.

Moreover, in June 2018 Terna and its subsidiary TRI S.p.A. were awarded the Management System Certification according to the ISO 55001:2014 standard (Asset Management Systems) for tangible goods (electrical lines and stations).

In September 2018, the new company, Terna Energy Solutions S.r.l., was awarded the Management System Certification according to the ISO 9001:2015 standard, in November according to the UNI CEI EN ISO 50001:2011 standard (Energy Management System) and in December 2018 according to the UNI CEI EN ISO 37001:2016 standard (Anti-bribery management systems).

In the first half of 2019, Terna and its subsidiaries, TRI S.p.A., Terna Plus S.r.l., Terna Energy Solutions S.r.l. and Terna Crna Gora, are subjected to checks to get certified according to the new standard UNI ISO 45001:2018 (Health & Safety Management System). It will replace the existing BS OHSAS 18001:2007 standard in 2021.

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.

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.

In particular, with regard to Terna Group's international transactions, Terna Group (i) has developed and adopted an internal compliance policy (the “**Trade Compliance Policy**”) setting out sanctions compliance procedures, granting the relevant disclosure to its own personnel and implementing training programmes and (ii) is carrying out due diligence activities on an ongoing basis in order to verify and detect in advance whether any contemplated transaction could violate sanctions imposed by the applicable legislation of the European Union or the United States (to the extent that the provisions of the latter would not result in violation of the EU Blocking Regulation), thereby minimising the risk that any such violation will occur in connection with future transactions.

In addition, Terna has also hired several external consultants to enhance such due diligence processes on the Sanctioned Country Transactions and the Activities both from a European Union and a United States regulatory perspective (to the extent that the provisions of the latter would not result in violation of the EU Blocking Regulation) constantly providing Terna with updates on the European Union and United States' regulatory framework and with a view to determining whether no penalty for a sanctions violation can result from any Sanctioned Country Transaction and/or any Activity, considering that the framework of potentially relevant sanctions is complex, still evolving and may not be consistent across jurisdictions.

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; and
- implementation of the Trade Compliance Policy and the Terna Group's Anti-bribery Guidelines and development of the due diligence activities, on an ongoing basis, on any transaction.

Management of Supplier Risk

In order to manage the supplier risk, Terna uses a Supplier Qualification System, set up pursuant to the related EU directives (Legislative Decree 50 of 18 April 2016 “*Public contracts code for the supply of works, services and goods*”), for all the main core categories of goods, works and services that Terna intends to procure, established on the basis of strategic importance, degree of competitiveness and annual procurement volumes.

Information and Cyber Security Risk

For some time, Terna has had an Information Security Governance Model, which enables it to identify the most significant cyber risks. It is based on policies and procedures, combined with a coordinated Information Risk Management (“**IRM**”) operating programme, led and coordinated by the Group’s CISO (Chief Information Security Officer).

During 2018, the framework for the security measures used to mitigate this risk was updated to Revision 5 of the NIST 800.53 standard, thus ensuring alignment with best international practices. A pilot project involving Cyber Risk Quantitative Analysis was also completed. This was used to survey the market prices quoted by insurance brokers for Cyber Risk Assurance policies for certain forms of cyber risk.

In addition, Terna’s Computer Emergency Readiness Team (**CERT**) was sued to implement a structured process for identifying and rapidly containing security breaches, minimising any data loss and working to restore the affected services.

In addition to the above, following an innovative approach to risk reduction policies, Terna cooperates with institutional partners (national and international regulatory bodies and authorities) with which to share the risks resulting from its activities. These include the Ministry of the Interior, the Italian tax police, the Fire Service, the National Association of Italian Municipalities, Prefectures and CNAIPIC (the National Centre for Combating Cyber Crime and for the Protection of Critical Infrastructure). In 2018, Terna and the Civil Protection Department signed a Memorandum of Understanding with a view to achieving maximum operating efficiency and effectiveness in relation to predicting, preventing and mitigating the related risks and managing and overcoming emergencies. In the agreement, attention is paid to the prevention and management of natural and man-made risks that may be detrimental to the continuity of the electricity service in Italy, and for which Company resources may need to be used. The agreement provides for the optimisation of procedures and the flow of communications between Terna and the Department under both ordinary and emergency conditions. This may include potential integration of the respective information systems, and the creation of specific training programmes and exercises for staff engaged in managing emergencies.

LITIGATION AND ARBITRATION PROCEEDINGS

In the ordinary course of its business, as of 31 December 2018, the Terna Group was party to approximately 970 civil and administrative proceedings both as plaintiff and defendant as well as to seven criminal proceedings, four of which relating to deadly or serious work incidents involving employees and two relating to the destruction or alteration of natural resources in protected areas. Currently, Terna is not a party to any arbitration proceeding. The principal civil and administrative proceedings to which Terna is a party fall within the categories of annulment of authorisations, annulment of ARERA decisions, annulment of acts performed by Terna as Transmission System Operator (TSO), enforcement of ARERA 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, non-payment for the performance of contract work, environmental matter, legitimacy of construction permits and plant operations, activities carried out under concession and supply contracts.

The Terna Group established a provision for disputes and litigation which, as of 31 December 2018, amounted to Euro 19.0 million (of which Euro 18.3 million for Terna). This provision does not cover the approximately 759 civil and administrative claims and proceedings 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 Control and Risk, Corporate Governance and Sustainability Committee, the Appointments 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; and (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) amendments to the By-laws, (iv) 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 (v) 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 2018, 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.

The members of Terna's current Board of Directors were elected at the Shareholders' General Meeting held on 27 April 2017, except for Mr. Paolo Calcagnini (already co-opted on 15 February 2019) and Mr. Marco Giorgino who have been appointed as new non executive directors by the last shareholders meeting held on 8 May 2019, following the resignation of Mr. Stefano Saglia on 10 August 2018 and of Mr. Luca Dal Fabbro on 22 March 2019. Based on the By-laws, the Board of Directors should remain in office until the approval of the financial statements for the year ending on 31 December 2019. Currently five of the nine members of the Board of Directors qualify as independent under the rules of the Corporate Governance Code and the By-laws. Two of those five 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	2014
Luigi Ferraris	Chief Executive Officer and General Director	CDP	2017
Elena Vasco	Independent non-Executive Director	CDP	2017
Fabio Corsico	Independent non-Executive Director	CDP	2014
Paolo Calcagnini	Non-Independent non-Executive Director	N.A.	2019
Yungpeng He	Non-Independent non-Executive Director	CDP	2015
Gabriella Porcelli	Independent non-Executive Director	Group of shareholders constituted by asset management companies and other	2014

Paola Giannotti	Independent non-Executive Director	institutional investors Group of shareholders constituted by asset management companies and other institutional investors	2017
Marco Giorgino	Independent non-Executive Director	N.A.	2019

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

- **Catia Bastioli, Chairwoman**

Born in Foligno (Perugia) on 3 October 1957.

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

She worked on materials science, environmental sustainability and renewable raw materials at the Guido Donegani Institute, Montedison Corporate Research Centre, until 1988. She was one of the founders of the Fertec research centre on renewable raw materials, which then became Novamont S.p.A., a company in which from 2005 to the present she has held the position of Chief Executive Officer and where she has worked since 1991, holding various positions, most notably Technical Manager and later General Manager. Within the Novamont Group, she is also Chief Executive Officer of Matrica S.p.A. (50/50 joint venture with Versalis) and Mater-Biotech S.p.A., and she is Chairwoman of Mater-Biopolymer S.r.l.

She is a member of the General Council of Federchimica, the Steering 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, including the High Level Group on Key Enabling Technologies and the Bioeconomy Stakeholders Panel (first term: 2013-2015; second term: 2016 - present), or the EU Commission's strategic platform aimed at supporting the implementation of the Bioeconomy strategy in Europe. Since 2016, she has been a member of the High Level Panel on the Decarbonisation Pathways Initiative, an initiative set up by the EU Commission with the aim of bringing together the main European climate, energy and research policy and decision-makers to address the main challenges and pathways towards the decarbonisation of the EU.

She is the 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 Representatives Committee of the Symbola Foundation for Italian Quality and of the Executive Committee of the Foundation for Sustainable Development, of the Executive Committee of the Civita Association and of the Assessment Committee of the Raul Gardini Foundation. Since December 2014 she has been a Full Member of the international NGO The Club of Rome.

Since 2016 she has been a member of the Committee of Experts of Natural Capital for the Ministry of the Environment and the Protection of Land and Sea.

Since 2018, she has been a member of the Advisory Committee of the Group Ethics and Finance Culture of Intesa San Paolo.

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. In November 2016, she was awarded an Honorary Degree in Materials Engineering from the University of Palermo.

In April 2018, she received an honorary degree in Business Administration from the University of Foggia.

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.

In May 2016 she was also awarded the Panda d’Oro – Diploma for the Conservation of Biodiversity – by WWF Italy for her commitment to research in the bio-economy and circular economy sectors. In June 2017, she was awarded the honour of “Cavaliere del Lavoro” by the President of Italy, Sergio Mattarella.

- **Luigi Ferraris, CEO**

Born in Legnano (Milan) on 23 February 1962.

Luigi Ferraris has been the Chief Executive Officer and General Manager of Terna since May 2017. From February 2015 to April 2017, he was Chief Financial Officer at the Poste Italiane Group, where he headed the privatisation and stock market listing process. From October 1999 to January 2015, he was part of the Enel Group in various prominent management positions, including that of Chief Financial Officer of the Group from June 2009 to November 2014, Chairman of Enel Green Power at the same time, where he handled the listing process, as well as a director of the Chilean subsidiary Enersis and subsequently Regional Manager for Latin America and CEO of the company, up until January 2015. He was also on the Board of Directors of the Spanish subsidiary Endesa SA and other major companies in the Group.

From April 2015 to April 2017, he served as the independent director of the publicly listed energy company ERG S.p.A., and Director of the PSC Group S.p.A., the Italian leader in the infrastructure plant engineering sector.

Ferraris began his career in the auditing sector at PriceWaterhouse and has held several managerial positions in several major Italian and international industrial companies, including Agusta, Piaggio VE, Sasib Beverage and Elsag Bailey Process Automation, a company then belonging to the Finmeccanica Group and listed on the NYSE. Between 1998 and 1999, he was the Chief Financial Officer for Elsacom, a Finmeccanica Group company operating in the field of satellite telephony.

He has a degree in Business and 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 and led 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 is married with two children, and loves the great outdoors and classical music.

- **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 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 Terna S.p.A. since May 2014, and Coordinator of the Remuneration Committee since 27 April 2017. Up until 27 April 2017 he was a member of the Related-Party Transactions Committee and the Remuneration Committee of Terna S.p.A.

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

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

He was a member of the Board of Directors of Grandi Stazioni S.p.A. (2007-2016) and led the process of strengthening and subsequently privatising the company together with the CEO of FS, on the account 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.

- **Paolo Calcagnini, Director**

Born in Rome on 12 June 1979.

Since October 2018, he has been Group Chief Financial Officer and Executive in charge of Group Cassa Depositi e Prestiti, with responsibilities in the areas of Finance, Treasury and ALM, Funding, Financial Statements and Supervisory Reporting, Tax, Planning and Management Control.

From September 2015, he was the Planning and Control Manager for the Group, where he was responsible for strategic planning, budgeting, monitoring and reporting, impairment testing and cost management activities. In 2015, he was Principal of Boston Consulting Group, with particular focus on advice to the top management of leading financial institutions on regulatory and supervisory issues, risk management, and asset valuation.

From 2013 to 2015, he was the Strategic Planning and Management Control Manager and a Member of the Board of Directors at Banca Tercas and Banca Caripe, part of the Banca Popolare di Bari Group.

From 2002 to 2013, he worked as an Associate Partner at McKinsey and Company – Mediterranean Complex (Milan).

He graduated in Economics from “La Sapienza” University of Rome and later earned a Master of Business Administration (MBA) from the University of Oxford Business School.

- **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. She specialised in finance at Universitat zu Koln (Cologne, Germany) and the New York University. She is an independent Director in EPS Equita PEP SPAC S.p.A. She has been a Director and member of Audit Committee of TIM S.p.A. She has been a Director and member of the Audit and Risk, Corporate Governance and Sustainability Committee, as well as of the Related Party Transactions Committee of Terna S.p.A. since 27 April 2017.

From 2015 to 2016, she was Director on the Board of Ansaldo STS S.p.A., as well as 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 in Milan developing the Italian customer base. Subsequently, from 1998 to 2001, she served as Managing Director at Citigroup London, responsible for Italian Investment Banking activities in Italy, and from 2001 to 2003, at Dresdner Kleinwort Wasserstein in London, as Managing Director, responsible for the Bank’s activities in Italy, as a member of the European Managing Director Committee and European Country Head Board, and 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 Strategic Customer portfolio, which included Terna S.p.A., and had responsibility for the energy, gas and oil sectors. 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., Italgas S.p.A., and IPTO S.A. Since January 21, 2015 he has been a Director di Terna S.p.A. and since 27 April 2017 a member of the Appointment Committee of Terna S.p.A.

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. From 2009 to 2017, she was Legal Affairs Manager (Senior Counsel Italy) of Philip Morris Italia S.r.l. (Philip Morris International Group) and is currently Legal Affairs Manager of the Company Trans Adriatic Pipeline AG. She is a 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 ACC – Europe (Association of Corporate Counsel) and member of the Association Women Corporate Directors (WCD). Former lecturer Master in Corporate Law at LUISS. Since 2 May 2014, she, has been a Director of Terna S.p.A. and a member of the Remuneration Committee and since 27 April 2017 she has been the Coordinator for the Related-Party Transactions Committee, a committee of which she had previously been 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 has edited publications and taken part as a speaker at conferences. She was also an Official of Confcommercio (1989-1991) in the area of Public Affairs relations with the EU, regulations on structural funds for the tertiary industry.

- **Elena Vasco, Director**

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

Honours degree in Economics and Business from the “Federico II” University of Naples in 1989 and Masters in Economic Science from the Northeastern University of Boston (USA) in 1991.

Since May 2015, she has been Secretary General of the Milan Chamber of Commerce, where she has worked since 2009 as manager of the organisation, after starting as Head of administration, finance, control, purchasing and logistics.

She has been an independent Director of Parmalat S.p.A. since February 2016 and of Dea Capital S.p.A. since April 2016, both of which she is Chairperson of the Appointments and Remuneration Committee, member of the Board of Directors of InfoCamere S. – Consortile p.A. since July 2016 and Chairperson of the Appointments and Remuneration Committee of Fiera Milano S.p.A. since April 2017. In addition, since February 2016, she has served as a member of the Expo 2015 liquidation Board. She has been a Board Member and member of the Audit and Risk, Corporate Governance and Sustainability Committee of Terna S.p.A. since 27 April 2017.

From 1992 to 1997, she worked for Mediobanca Servizio Partecipazioni e Affari Speciali (consulting, M&A and corporate finance), providing consulting services to companies in extraordinary finance operations and, from 1997 to 2002, she was responsible for the Strategic Planning and Control Department of Holding di Partecipazioni Industriali S.p.A. From 2002 to 2003, she was Chief Executive Officer of RCS Broadcast, also serving on numerous Boards of Directors of Group Companies and, from 2003 to 2004, she was Head of the Strategic and Special Affairs Department of RCS MediaGroup S.p.A.

From 2006 to 2009, she was Chief Financial Officer of Milano Serravalle Milano Tangenziali S.p.A. and Chairperson of the motorway operator, Sabrom.

Among her previous experience, she has been a member of the Boards of Directors of: RCS Editori, Valentino, GFT, RCS Libri, Rai Sat, Isagro, Banca Carige, Gtech and Orizzonte SGR.

- **Marco Giorgino, Director**

Born in December 1969; he currently lives in Milan.

He has a degree in Business Administration from Bocconi University in the Academic Year 1990/1991 (110/110). Marco Giorgino is a Full Professor at Politecnico di Milano (QS Ranked, among the Top 20 Universities by subject in the World) where he holds the Chair of Financial Markets & Institutions and Financial Risk Management (since 2004).

Since 1992, he has been Lecturer and then Professor of the courses in "Financial Markets & Institutions", "Global Risk Management", "Corporate Finance" and "Corporate & Investment Banking" in the MSc in Management Engineering at Politecnico di Milano, where he started his academic career as Assistant Professor (1995-2001), Associate Professor (2001-2004) and since 2004 as Full Professor.

Coordinator of the Finance stream in the MSc in Management Engineering at Politecnico di Milano, Senior Professor at MIP Graduate School of Business (FT Ranked, among the Top 50 European Graduate Business Schools), where he is also Scientific Director of the teaching aspect of Banking and Finance and Chair of Finance in several MBA and Executive MBA Programmes. In such business school, he has been and still is Director of several Master Programmes such as MBA, Master in Private Equity, Master in Corporate and Investment Banking, Master in Banking and Master in Financial Risk Management.

During his career, he has coordinated several research projects ending up with more than 120 publications at national and international level, on banking and finance topics and, more recently, on “corporate governance”, “risk management” and “digital innovation”.

Currently, he is Scientific Director of the Fintech & Insurtech Observatory and of the Corporate Governance Observatory at Politecnico di Milano, School of Management.

He is a Certified Statutory Auditor (since 1999).

He has been serving and still serves as Independent Director or Chairman, or as Statutory Auditor, or as Chairman of the Surveillance Body (according 231/2001 law) of listed and non-listed banking or industrial companies. Currently, he is Independent Director and Risk Committee Chairman of Banca Monte dei Paschi di Siena and Independent Director of Terna. In the past, he served as Independent Director of Luxottica Group, Mediolanum and GE Capital Interbanca.

He is also a guest speaker and columnist for television channels (including RAI, SKY, CLASS CNBC, LA7 etc.), press – even international – (including Il Sole 24 Ore, Il Giornale, France Press etc.) and internet media.

He has been speaker and keynote speaker at more than 150 conferences and seminars on corporate and financial markets finance, corporate governance, risk management and digital innovation.

Control and Risk, Corporate Governance and Sustainability Committee, Remuneration Committee, Related-Party Transactions Committees and Appointments Committee

As recommended by the Code of Conduct, in 2004 Terna's Board of Directors established an Internal Control Committee (currently named "Control 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 Control 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. Following the renewal of the entire Board of Directors, in the meeting of 27 May 2014, with a view to continuous improvement of the corporate governance system, the Board of Directors expanded the duties of the Control and Risk Committee, adding to the latter's duties those related to the corporate governance system and making the consequent changes to the Organisational Regulation appointing the Members in keeping with the indications of the Corporate Governance Code according to what was communicated to the market on the same date. Consequently, the "Control and Risk Committee" was renamed the "Control, Risk and Corporate Governance

Committee”. The responsibilities indicated were subsequently added to said Committee and the Committee was also assigned tasks relative to Sustainability. A resolution on 15 December 2016 made the consequent amendments to the Committee’s Organisational Regulations (now known as “Organisational Regulations of the Terna S.p.A. Audit and Risk, Corporate Governance and Sustainability Committee”).

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.

Board of Statutory 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	2014
Vincenzo Simone	Standing Auditor	2014
Maria Alessandra Zunino de Pignier	Standing Auditor	2014
Davide Attilio Rossetti	Alternate Auditor	2017
Renata Maria Ricotti	Alternate Auditor	2014
Cesare Felice Mantegazza	Alternate Auditor	2014

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. In the Mediobanca Group, he is the Chairman of the Board of Statutory Auditors of CheBanca! S.p.A., Mediobanca Sgr S.p.A., SelmaBipiemme Leasing S.p.A. and Spafid S.p.A. In the Roche Group, he is the standing Statutory Auditor of Roche S.p.A., Roche Diabetes Care Italy S.p.A. and Roche Diagnostics S.p.A. He has been Chairman of the Board of Statutory Auditors of Terna S.p.A. since May 2014.

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

- **Vincenzo Simone, Standing Auditor**

Born in Padula (SA) on 20 November 1960. He has a degree in Business and Economics from Salerno University, and is a Chartered Accountant with an Office in Potenza. He is registered on the Register of Legal Auditors, registered on the List of Technical Consultants of the Court of Potenza and registered on the List of Statutory Auditors of the Puglia and Basilicata Association of Cooperative Banks.

He has been a professional since 1990 and since 2002 he has been the majority shareholder and consultant of a joint-stock company which has operated in the sector of fiscal, financial and business consultancy. He is a member of the Evaluation Team of the Municipality of Potenza, as well as a standing member of the Board of Statutory Auditors for the Federation of Cooperative Credit Banks of Puglia and Basilicata. He has been a standing Auditor of Terna S.p.A since May 2014.

As part of his professional activities he has held Directorships of commercial companies, also with delegated powers, and has been a Member of the Board of Statutory Auditors in various companies,

Public Bodies, Economic Public Bodies and Banks. He has performed business consultancy activities for Collective Loan Guarantee Consortia, and has been an official receiver, a liquidator, and a technical consultant appointed by the Court of Potenza and the Consortium for Industrial Development. He has also been a Member of the Technical Committee of the loan consortium Consorzio FIDI. He has prepared appraisals and valuations of companies and business units also on the occasion of extraordinary business operations (transformations, mergers, demergers - also of banks, transfers and liquidations).

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

Born in Rome on 1 May 1952.

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

She works as a professional in private practice and was a member of the Board of Directors of Mediolanum S.p.A., Veneto Banca S.p.A. and Banca Intermobiliare and is a statutory auditor in a number of regulated entities. She currently holds the position of Director at DB Mutui S.p.A. in the Deutsche Bank group and Chairman of the Board of Statutory Auditors of Sidera S.r.l. She has been a Standing Auditor of Terna S.p.A. since May 2014.

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 four 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 external 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.

At the general Shareholders' Meeting of 8 May 2019, Deloitte & Touche S.p.A. was appointed as external statutory auditor for the financial years 2020 to 2028 in accordance with the proposal of the Board of Statutory Auditors.

SENIOR MANAGEMENT AND EMPLOYEES

As of 31 March 2019, the employees of the Terna Group numbered 4,280.

Share ownership by Directors and employees

Currently, Terna S.p.A. has no stock options plans in place.

SHARE CAPITAL OF TERNA, MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Share capital

As of 31 March 2019, 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 Terna's shareholders.

Terna S.p.A. is subject to the *de facto* control of Cassa Depositi e Prestiti S.p.A., as ascertained in 2007.

Major shareholders¹⁰

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, Italgas 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 Ministry of Economy and Finance 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.

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, last updated on 23 May 2017 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

¹⁰ 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.

shareholder votes its shares in violation of the By-laws, the relevant resolution of the relevant Shareholders' Meeting 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 "*Legislative and Regulatory Framework*" above.

Shares granting special powers

As a result of abrogation of the rules contained in Art. 2, paragraph 1 of the Privatisation Law on the subject of "special powers" exercisable by the Italian State (represented, to this end, by the Ministry for the Economy and Finance, irrespective of the quantity of any Terna shares held by such Ministry), which occurred with entry into force from 7 June 2014 of both Presidential Decree no. 85 of 25 March 2014 (containing "Regulations for the identification of assets of strategic relevance in the energy, transport and communications sector, pursuant to Article 2, paragraph 1, of Law Decree no. 21 of 15 March 2012") and the provisions of Law Decree no. 21 of 15 March 2012, converted into law by Art. 1, paragraph 1 of Italian Law No. 56 of 11 May 2012 (the **Golden Power Decree**), the clauses on the subject of "special powers" present in Terna's By-laws ceased to have effect, and were eliminated with a resolution of Terna's Board of Directors of 18 December 2014.

On the basis of the provisions of the Golden Power Decree, parliament in fact laid down new provisions on the special powers of the government in relation to strategic activities in the energy, transport and communications industries, in order to standardise national legislation with the legislation of the European Union, assigning the Government powers of intervention to protect the lawful, essential and strategic interests of the country. The Golden Power Decree was last modified by Law Decree no. 148 of 16 October 2017, converted with amendments into Law no. 172 of 4 December 2017 (the **Taxation Decree**).

The provisions set out under Articles 2 and 3 of the Golden Power Decree primarily state that:

- 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 regulations of this Article do not apply. On the basis of the amendments introduced by the Taxation Decree, further regulations will have to be adopted for technology-intensive sectors, including: (a) critical or sensitive infrastructures, including data storage and management and financial infrastructure;

(b) critical technologies, including artificial intelligence, robotics, semiconductors, technologies with potential dual-use applications, network security, space or nuclear technology; (c) security of supply of critical inputs; and (d) access to sensitive information or the ability to control sensitive information;

- the obligation to notify the administrative coordination department of the Prime Minister's Office within 10 days and in any case before implementation of resolutions, acts and operations adopted by a company holding one or more of the assets as identified above, which result in:
 - changes to the ownership, control or availability of the assets;
 - the change in their purpose, including resolutions of the Terna shareholders' meeting or administrative bodies concerning the merger or spin-off of the company;
 - the transfer of the company's offices abroad;
 - a change to the company's purpose;
 - winding-up of the company;
 - the 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 the same Decree;
 - the transfer of the business or a business unit encompassing these assets; and
 - the 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 adopted – on the proposal of the Ministry for the Economy and Finance and in compliance with the resolution of the Council of Ministers – on 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 public interests concerning the safety and operation of the grids and systems and the continuity of service provision". Furthermore, the Taxation Decree introduced a further (and alternative) requirement for exercising these special powers, namely the existence of a danger to security or public order; it was also specified that, in order to determine whether a foreign investment could impact security or public order, consideration should be taken of the circumstances under which the foreign investor is controlled by the Italian government of a country outside the EU, and also through significant funding. 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 service provision. The veto is announced within 15 days of communication; said terms may be suspended once only for a request for information and until receipt of such, which must be within 10 days.

The resolutions, acts or operations adopted or implemented in breach of the disclosure obligations or in breach of the conditions, provisions or veto established by the Italian government are null. The Italian government may also demand that the company and any counterparty restore the previous situation at its own expense. Anyone not complying with the

provisions relating to notification and veto, unless the action is a crime, is subject to the administrative sanctions specified in the Golden Power Decree;

- the obligation to notify the administrative coordination department of the Prime Minister's Office within 10 days of acquisitions for any reason, by a subject, whether natural person or legal entity, external to the European Union, or which does not have residence, usual place of domicile, registered office or administration or main centre of business in a European Union Member State or State of the European Economic Area or which is not in any case established therein of majority shareholdings in companies holding the assets identified as strategic of relevance such as to determine the permanent establishment of the buyer by virtue of the assumption of control over 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 operational scope". In calculating the significant shareholding, consideration is also taken of the investment held by third parties with which the buyer has stipulated shareholders' agreements;
- within 15 days from the notification of such acquisitions, the power of the Prime Minister, to be exercised, at the request of the Ministry for the Economy and Finance, in accordance with paragraph 8 of said Article, and in compliance with the 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 service provision 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 these 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 set 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 commitments required is also subject, unless the action is 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 with a different nature to that of the capital rights connected with shares, which represent the significant shareholding. Any 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.

Without prejudice to the provisions commented on above, the acquisition, on any basis, by a party outside the European Union is permitted at 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 the rule of law, which do not comply with rules of international law, or which have presented risk with regard to the international community, given the nature of their alliances; or (b) criminal organisations or subjects or entities connected to them;
- the suitability of the structure resulting from the legal act or the operation to guarantee: (a) the security and continuity of service provision; and (b) the maintenance, security and operation of grids and systems.

The procedures for notifications and for activating the “special powers” were regulated by Presidential Decree no. 86 of 25 March 2014 (the “**Procedure**”) and by Prime Ministerial Decree of 6 August 2014, registered at the Italian Court of Auditors on 26 September 2014, containing rules on coordination activities of the Prime Minister’s Office preparatory to the exercise of special powers on corporate structures in the defence and national security sectors, and on activities of strategic importance in the energy, transport and telecommunications sectors pursuant to the notice of publication that appeared in O.J. No. 229 of 2 October 2014, which implemented the rules of the Procedure identifying the competent offices involved. The By-laws do not provide for multiple-vote shares (under the terms of Art. 127-sexies of TUF) or increased-vote shares (under the terms of Art. 127-quinquies of TUF).

RATINGS

As of the date of this Base Prospectus:

- (i) S&P has issued a long-term rating of “BBB+” with a negative outlook and a short-term rating of “A-2” in respect of Terna;
- (ii) Moody’s has issued a senior unsecured long-term rating of “Baa2” and a short-term rating of “Prime-2” in respect of Terna, all ratings with a stable outlook;
- (iii) Fitch has issued a medium/long term rating of “BBB+” with a stable outlook and a short-term rating of “F2” in respect of Terna; and
- (iv) Scope has issued a medium/long term rating of “A-” with a stable outlook and a short-term rating of “S-1” in respect of Terna.

Each of S&P, Moody’s, Fitch and Scope 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>.

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 (hereinafter collectively referred to as **Interest**), 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 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 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**) and in Article 1(210-215) of Law No. 145 of 30 December 2018 (the **Finance Act 2019**), as implemented by the Ministerial Decree 30 April 2019.

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 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 (**IRES**) (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 relating to the Notes is subject to *imposta sostitutiva* and will be included in its relevant income tax return. As a consequence, such Interest 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**), Article 32 of 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 (together, 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 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 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 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 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 individuale di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Finance Act 2017 and in Article 1(210-215) of Finance Act 2019, as implemented by the Ministerial Decree 30 April 2019.

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

An Intermediary must: (a) be (i) resident in Italy or (ii) be a permanent establishment in Italy of a non-Italian resident financial intermediary or (iii) an entity or company not resident in Italy, acting through a system of centralised administration of notes and directly connected with the Department of Revenue of the Italian Ministry of Finance having appointed an Italian representative for the purposes of Decree 239; 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**); or (b) an international entity or body set up in accordance with international agreements which have entered into force in Italy; or (c) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (d) an institutional investor which is resident in a country 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 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.

The *imposta sostitutiva* will be applicable at the rate of 26 per cent. (or at the reduced rate provided for by the applicable double tax treaty) to Interest paid to Noteholders who are resident, for tax purposes, in countries which do not allow for a satisfactory exchange of information with Italy.

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 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 and in Article 1(210-215) of Finance Act 2019, as implemented by the Ministerial Decree 30 April 2019.

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 (i) an individual holding the Notes not in connection with an entrepreneurial activity, (ii) a non commercial partnership or (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 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 and in Article 1(210-215) of Finance Act 2019, as implemented by the Ministerial Decree 30 April 2019.

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 Noteholders under (i) to (iii) above, 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. The relevant Noteholder must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax return and pay *imposta sostitutiva* on such gains together with any balance income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realised in any of the four succeeding tax years.

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

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

Any capital gains realised by a Noteholder who is 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. 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 individuale di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Finance Act 2017 and in Article 1(210-215) of Finance Act 2019, as implemented by the Ministerial Decree 30 April 2019.

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.

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 with amendments 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 paragraphs (i), (ii) and (iii) above 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; and (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, converted with Law No. 214 of 22 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.

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.¹¹

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.

¹¹ 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.

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

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, withholding may be required on, among other things, (i) certain payments made by “foreign financial institutions” (“foreign passthru payments”) and (ii) dividend equivalent payments (as described below in “*U.S. Dividend Equivalent Withholding*”), in each case, to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including Italy) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes.

Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. If withholding would be required pursuant to FATCA or an IGA with respect to foreign passthru payments, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or before the relevant grandfathering date would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. The grandfathering date for (A) Notes that give rise solely to foreign passthru payments, is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register and (B) 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. If additional notes (as described under Condition 17 (*Further Issues*)) that are not distinguishable from such previously issued grandfathered Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

U.S. DIVIDEND EQUIVALENT WITHHOLDING

Section 871(m) of the U.S. Internal Revenue Code of 1986 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 which 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 dividend equivalent payments. 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, payments may be calculated by reference to dividends on underlying 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 an Eleventh Amended and Restated Programme Agreement (the **Programme Agreement**) dated 11 July 2019, 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 the expression "retail investor" means a person who is one (or more) of the following:

- (i) a retail client as defined in Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or
- (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in Article 4(1) of MiFID II.

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 paragraphs (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 or superseded), 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 paragraph (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. 20307 of 15 February 2018 (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 19 June 2019, 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 2014/65/EU).

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 on 31 December 2018 and 31 December 2017 (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 three months ended 31 March 2019;
- (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; and
- (e) a copy of this Base Prospectus,

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 31 March 2019 and there has been no material adverse change in the financial position or prospects of the Group since 31 December 2018.

Litigation

Save as disclosed on pages 159 and 160 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 2017 and 31 December 2018, 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>.

ISSUER

TERNA - Rete Elettrica Nazionale S.p.A.

Viale Egidio Galbani, 70
00156 Rome
Italy

TRUSTEE

Deutsche Trustee Company Limited

Winchester House
1 Great Winchester Street
London EC2N 2DB
England

ISSUING AND PRINCIPAL PAYING AGENT

Deutsche Bank AG, London Branch

Winchester House
1 Great Winchester Street
London EC2N 2DB
England

LEGAL ADVISERS

To the Issuer as to Italian law

Chiomenti

Via G. Verdi 2
20121 Milan
Italy

Chiomenti

Via Ventiquattro Maggio 43
00187 Rome
Italy

To the Dealers as to English and Italian law

Allen & Overy

Studio Legale Associato

Corso Vittorio Emanuele II, 284
00186 Rome
Italy

Allen & Overy

Studio Legale Associato

Via Nino Bixio, 31
20129 Milan
Italy

To the Trustee as to English law

Allen & Overy LLP

One Bishops Square
London E1 6AD
England

AUDITORS

PricewaterhouseCoopers S.p.A.

Via Monte Rosa
91 – 20149 Milan
Italy

DEALERS

Banca IMI S.p.A.

Largo Mattioli, 3
20121 Milan
Italy

Banco Bilbao Vizcaya Argentaria, S.A.

Ciudad BBVA
Edificio ASIA, Calle Saucedo, 28
28050 Madrid

Barclays Bank Ireland PLC

One Molesworth Street
Dublin 2
DO2RF29
Ireland

Barclays Bank PLC

5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

BNP Paribas

10 Harewood Avenue
London NW1 6AA
United Kingdom

BofA Securities Europe SA

51 rue la Boétie
75008 Paris
France

Citigroup Global Markets Europe AG

Reuterweg 16
60323 Frankfurt am Main
Germany

Citigroup Global Markets Limited

Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

Credit Suisse Securities (Europe) Limited

One Cabot Square
London E14 4QJ
United Kingdom

Deutsche Bank AG, London Branch

Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

GOLDMAN SACHS INTERNATIONAL

Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

J.P. Morgan Securities plc

25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

**Mediobanca - Banca di Credito Finanziario
S.p.A.**

Piazzetta Enrico Cuccia, 1
20121 Milan
Italy

Merrill Lynch International

2 King Edward Street
London EC1A 1HQ
United Kingdom

Morgan Stanley & Co. International plc

25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

Natixis

30 avenue Pierre Mendès France
75013 Paris
France

NatWest Markets Plc

250 Bishopsgate
London EC2M 4AA
United Kingdom

Société Générale

29 Boulevard Haussmann
75009 Paris
France

UniCredit Bank AG

Arabellastrasse 12
81925 Munich
Germany

LISTING AGENT

Deutsche Bank Luxembourg S.A.

2, Boulevard Konrad Adenauer
L-1115 Luxembourg