

**REPORT OF THE BOARD OF DIRECTORS
ON THE ITEMS ON THE AGENDA**

AGENDA

1. Financial Statement as of December 31, 2017. Reports by the Board of Directors, the Board of Statutory Auditors and the Independent Auditors. Related resolutions. Presentation of the Consolidated Financial Statement as of December 31, 2017; Presentation of the Consolidated Non-Financial Statement as of December 31, 2017;
2. Allocation of the net income of the fiscal year;
3. Annual report on remuneration: consultation on the Remuneration Policy pursuant to Art. 123ter, paragraph 6 of Legislative Decree no. 58/1998 (Consolidated Law on Finance);
4. Phantom Stock 2018-2021 Plan. Related resolutions.

*(This is a translation of the original Italian text.
For any difference in meaning between the original Italian text and its translation, the Italian text will prevail)*

REPORT OF THE BOARD OF DIRECTORS

ON THE FIRST ITEM ON THE AGENDA

Financial Statement as of December 31, 2017. Reports by the Board of Directors, the Board of Statutory Auditors and the Independent Auditors. Related resolutions. Presentation of the Consolidated Financial Statement as of December 31, 2017; Presentation of the Consolidated Non-Financial Statement as of December 31, 2017;

Dear Shareholders,

The dossier titled “2017 Annual Financial Report of TERNA S.p.A. and of the Terna Group”, made available to you via the methods and terms specified by current law on the subject, includes the illustration of TERNA S.p.A. Financial Statement and Consolidated Financial Statement as of December 31, 2017 and the relative Report of the Board of Directors who, exercising the discretion allowed by the Legislative Decree of February 2, 2007 no. 32, which amended art. 40 (Management Report) of Legislative Decree of April 9, 1991, no. 127, have prepared it in one single document. This report refers to the above-mentioned document.

In addition to the foregoing, using the same procedures and the same terms, also the following documents have been made available to you: (i) the "Annual Report on Corporate Governance and Ownership Structures" and (ii) the "Sustainability Report 2017 - Consolidated Non-Financial Statement", the latter document has been prepared also pursuant to Legislative Decree December 30, 2016 no. 254 (the "D. Lgs. 254/2016"). It should be noted that these documents, as well as the Consolidated Financial Statement, are represented to the Shareholders' Meeting for information purposes only, because they are not subject to its approval.

The above having been stated, we submit for your approval the following

proposal

“TERNA S.p.A.’s Shareholders’ Meeting, having examined the illustrative report by the Board of Directors,

resolves

to approve TERNA S.p.A.’s

financial statement as at December 31, 2017 which closed with a profit of € 640,042,877.77.”

**REPORT OF THE BOARD OF DIRECTORS
ON THE SECOND ITEM ON THE AGENDA**

Allocation of the net income of the fiscal year

Dear Shareholders,

Considering the results obtained, the Board of Directors proposes to allocate a dividend per share for the whole of 2017 of € 0.22, corresponding to a total amount of € 442,198,240.00, recalling that TERNA S.p.A. already distributed an interim dividend equal to € 0.074263 (7.4263 euro cents) per share in November 2017 for a total amount of €149,268,035.90.

The above having been stated, we submit for your approval the following

proposal

“TERNA S.p.A.’s Shareholders’ Meeting, having examined the illustrative report by the Board of Directors,

resolves

to allocate TERNA S.p.A.’s profit for 2017, equal to €640,042,877.77, as follows:

- € 149,268,035.90 to cover the interim dividend paid since November 22, 2017;
- € 292,930,204.10 as a final dividend to be distributed in the amount of € 0.145737 for each one of the 2,009,992,000 ordinary shares outstanding to be paid – gross of any law deductions – on June 20, 2018, with the record date of coupon no. 28 set for June 18, 2018 (pursuant to Art. 83-*terdecies* of Legislative Decree no. 58 of February 24, 1998, the "TUF": June 19, 2018);
- € 197,844,637.77 as retained earnings.”

REPORT OF THE BOARD OF DIRECTORS

ON THE THIRD ITEM ON THE AGENDA

Annual Report on remuneration: consultation on the Remuneration Policy pursuant to Art. 123ter, paragraph 6 of Legislative Decree no. 58/1998 (Consolidated Law on Finance)

Dear Shareholders,

Following the entry into force of the regulatory provisions implementing Art. 123ter of Legislative Decree no. 58 of February 24, 1998 (Consolidated Law on Finance) issued by Consob (with resolution no. 18049 of December 23, 2011 in the Official Journal no. 303 of December 30, 2011, and in force since December 31, 2011), the Shareholders' Meeting convened annually for approval of the Financial Statement is called to resolve on the policy adopted by the Company with reference to the remuneration of members of the administrative bodies, General Managers and Senior Managers with Strategic Responsibilities.

This Policy is illustrated in the first section of a Remuneration Report that is approved by the Board of Directors and published by listed companies, in compliance with Art. 123ter of the Consolidated Law on Finance, at least twenty-one days prior to the date of the Shareholders' Meeting.

In implementing the above-mentioned provisions, TERNA's Board of Directors, in the meeting held on March 21, 2018, approved the "Annual Remuneration Report" (the "Report") that includes all details regarding the topic contained in this item of the agenda and, therefore, reference should be made to said Report for any additional information.

For this purpose, please note that the Report is divided into two section and includes:

- in the first section, the description of the Policy adopted by the Company on the specific matter and the procedures used for adopting and implementing this Policy;
- in the second section, all the information established by paragraph 4 of the above-mentioned article of the Consolidated Law on Finance, regarding the assigned remuneration and additional information established by Art. 84quater of the "Regulation implementing Legislative Decree no. 58 of February 24, 1998, concerning the regulation of issuers" adopted by Consob (Issuers Regulations) regarding shares held directly or indirectly in the Company by Directors, Auditors, General Managers and Senior Managers with Strategic Responsibilities.

With respect to said Report, the Shareholders' Meeting is called to resolve, pursuant to paragraph 6 of Art. 123~~ter~~, of the Consolidated Law on Finance, in favour of or against the first section of the Report. The resolution is not binding.

The above having been stated, we submit for your approval the following

proposal

“TERNA S.p.A.’s Shareholders’ Meeting, having examined TERNA’s “Annual Remuneration Report” approved by the Board of Directors

resolves

pursuant to and in compliance with the provisions of Art. 123~~ter~~, paragraph 6, of Legislative Decree no. 58 of February 24, 1998, favourably the first section of the Report that illustrates the Remuneration Policy adopted by TERNA S.p.A. and the procedures used for adopting and implementing said Policy.”

REPORT OF THE BOARD OF DIRECTORS

ON THE FOURTH ITEM ON THE AGENDA

Phantom Stock 2018-2021 Plan. Related resolutions

Dear Shareholders,

with reference to the present item on the agenda, you are convened – in accordance with the provisions of Art. 114*bis* of Italian Legislative Decree No. 58 of February 24, 1998 (“Consolidated Law on Finance”) - to resolve upon the proposal to adopt a Long-Term Incentive Plan called “Phantom Stock 2018-2021 Plan” (“Incentive Plan”), described in the Information Document drawn up in compliance with the provisions of Scheme no. 7 of Annex 3A of the Consob Issuers Regulation and reserved for the Chief Executive Officer of TERNA S.p.A. as General Manager and for the Senior Managers with Strategic Responsibilities, for the Senior Managers and for a selection of Middle Managers of TERNA S.p.A. and of its subsidiaries under the terms of Art. 2359 of the Italian Civil Code, as identified on the occasion of implementation of the said Incentive Plan.

The Incentive Plan, the scheme of which was defined by the Board of Directors on the proposal of the Remuneration Committee, recognises in the context of the remuneration structure of the beneficiaries the right to receive, at the end of the vesting period, Phantom Stocks linked to the value of the shares, subject to the achievement of predetermined performance targets.

Although it does not provide for assignment of TERNA S.p.A. financial instruments to the beneficiaries, the Incentive Plan on one hand implies the assignment of instruments (Phantom Stocks) that virtually represent a TERNA share and follow its market value in a time-lapse, on the other hand the number of Phantom Stocks to be assigned to the beneficiaries are subordinated, for 30%, according to the positioning of the “Total Shareholder Return” (TSR) generated by the TERNA stock in the period of reference (2018-2020 and 2019-2021) compared to a peer group made up of the main European listed companies of the utilities sector which have a business model equivalent to that of TERNA (Snam, Red Electrica, Enagas, National Grid, Severn Trent, United Utilities). For this reasons, the Incentive Plan can be qualified as a “remuneration plan based on financial instruments” under the terms of Art. 114*bis*, paragraph 1, of the Consolidated Law on Finance.

Taking into account its structure characteristics, as well as the performance identified targets, the Incentive Plan is aimed at strengthening the alignment of management interests with the priority target of generating sustainable value for shareholders over a medium / long-term horizon.

On the basis of the provisions of Art. 84 *bis*, paragraph 1, of Consob Resolution No. 11971 of May 14, 1999, (Consob Issuers Regulation) the characteristics of the Incentive Plan are described in detail in the Information Document, made available at the same time as the present report and to which you are expressly referred.

The above having been stated, we submit for your approval the following

proposal

“The Shareholders' Meeting of TERNA S.p.A., after examining the illustrative report by the Board of Directors prepared under the terms of Art. 114*bis* of the Consolidated Law on Finance, and of Art. 84*ter* of the Consob Issuers Regulation and the Information Document on the 2018-2021 Incentive Plan published under the terms of Art. 84*bis* of the said Consob Issuers Regulation

resolves

1. to approve the Long-Term Incentive Plan for the period 2018-2021 (“Phantom Stock 2018-2021 Plan”) for the General Manager, as well as the managers of TERNA S.p.A. and of its subsidiaries under the terms of Art. 2359 of the Italian Civil Code, the characteristics of which are described in the Information Document prepared for the purpose;

2. to attribute to the Board of Directors, with the option to subdelegate, each and every ample power necessary or opportune for implementation of the Phantom Stock 2018-2021 Plan, to be exercised in observance of what is indicated in the related Information Document, and in particular, merely by way of example and not exhaustively, to act - where provided for after consulting the Remuneration Committee - (i) to approve and/or modify and/or supplement the Regulation of the above-said Phantom Stock 2018-2021 Plan; (ii) to identify the Beneficiaries by name; (iii) to determine the amount of the Incentive to be attributed to each Beneficiary; (iv) to carry out all actions, duties, formalities, communications that are necessary or opportune for the purposes of managing and/or implementing the Phantom Stock 2018-2021 Plan, including its amendment in accordance with the provisions of the Information Document”.