

# Report

of the Board of Statutory Auditors  
to the Annual General Meeting of Terna SpA's shareholders

---

Board of Statutory Auditors' Report to the Annual General Meeting of Terna SpA's shareholders pursuant to article 153 Legislative Decree 58 of 24 February 1998 (the Consolidated Law on Finance) and article 2429, paragraph three of the Italian Civil Code

Dear Shareholders,

During the year ended 31 December 2017, the Board of Statutory Auditors di Terna SpA (also the "Company") fulfilled its statutory duties in accordance with the law, complying with the code of conduct for the Statutory Auditors of listed companies issued by the Italian Accounting Profession (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*), the recommendations of the CONSOB (the *Commissione Nazionale per le Società e la Borsa*, Italy's Securities and Exchange Commission) regarding corporate controls and the activities of the Board of Statutory Auditors and the guidelines in the Corporate Governance Code published by Borsa Italiana (the "Corporate Governance Code").

Responsibility for the statutory audit required by Legislative Decree 39 of 27 January 2010 (Legislative Decree 39/2010) has been assigned to the independent auditors, PricewaterhouseCoopers SpA, appointed by the Annual General Meeting of 13 May 2011 for nine years from 2011 to 2019.

The Board, which also took into account the indications contained in CONSOB announcement DEM/1025564 of 6 April 2001, as amended, reports the following.

- We verified compliance with the law and the By-laws.
- We attended the meetings of the Board of Directors and specific preparatory meetings regarding the agenda items, as well as meetings of the Audit and Risk, Corporate Governance and Sustainability Committee. We periodically obtained information from the Directors on the overall operating performance, the outlook for the Company and on the most significant transactions, in terms of their impact on the results of operations and financial position, carried out by the Company, satisfying ourselves that the decisions taken and implemented were compliant with the law and the By-laws and were not manifestly imprudent, risky or in potential conflict of interest or in contrast with resolutions approved by General Meeting, or such as to compromise the value of the Company. In the course of our activities, we found no evidence of transactions of an atypical and/or unusual nature. In carrying

out our duties, we analysed information flows from the various departments and also conducted interviews with the Company's senior management, with the independent auditors and with the oversight bodies of subsidiaries.

- At the meeting of 21 March 2018, the Board of Directors, on the recommendation of the Remuneration Committee, approved the "Annual Remuneration Report", prepared in accordance with article 123-ter of the Consolidated Law on Finance and in compliance with the provisions of article 6 of the Corporate Governance Code.
- We monitored compliance with and effective application of the "Procedure for Related Party Transactions", recently revised by the Board of Directors on 15 December 2016 and compliant with article 4 of the CONSOB Regulation referred to in Resolution 17221 of 12 March 2010, as amended.
- The Company has prepared the financial statements for the year ended 31 December 2017 in compliance with International Financial Reporting Accounting Standards (IFRS). These financial statements were audited by PricewaterhouseCoopers SpA, which issued its report on 9 April 2018 without any qualification or emphasis of matter. The financial statements, together with the Directors' report on operations, was made available to us within the deadline required by law and we have no particular comments in this regard.
- The Company also prepared the consolidated financial statements for the year ended 31 December 2017 in compliance with International Financial Reporting Accounting Standards (IFRS). These financial statements were also audited by PricewaterhouseCoopers SpA, which issued its report on 9 April 2018 without any qualification or emphasis of matter.
- Among the most significant transactions carried out in 2017, we note the following, referring you to the report on operations for more detailed information:
  - issue of bonds with a value of €1 billion at a rate of 1.375%;
  - the merger of the subsidiaries, Terna Rete Italia Srl and Terna Storage Srl, with and into Terna SpA;
  - renewal of the €8 billion Euro Medium Term Notes (EMTN) programme.
- We oversaw, within the scope of our responsibilities, the adequacy of the Company's organisational structure, compliance with the principles of good governance and the adequacy of the instructions issued by the Company to its subsidiaries pursuant to article 114, paragraph 2 of the Consolidated Law on Finance, by obtaining information from the heads of the relevant departments, through meetings with the independent auditors and with the oversight bodies of the most important subsidiaries in terms of size. With regard to the provisions of article 15, paragraph one of the Markets

Regulation adopted by CONSOB Resolution 20249 of 28 December 2017, the Company's non-EU subsidiaries are not of material importance as defined by the articles in Chapter II, Section VI, Part III of the Regulations for Issuers adopted by CONSOB Resolution 11971 of 14 May 1999, as amended.

- We monitored the adequacy of the administrative and accounting system, assessing its reliability in providing a true and fair view of operations; this activity was carried out by obtaining information from the heads of the various departments, by examining company documents and analysing the results of the work carried out by the independent auditors, PricewaterhouseCoopers SpA. The Chief Executive Officer and the Manager responsible for the Company's financial reporting have, with in reports attached to the financial statements for 2017, attested to: a) the adequacy and effective application of accounting and administrative procedures; b) the compliance of the financial reports with international financial reporting standards; c) the consistency of the documents with the underlying accounting books and records and their ability to provide a true and fair view of the financial position and results of operations of the Company. A similar attestation is attached to the Terna Group's consolidated financial statements.
- We assessed and oversaw the adequacy of the internal audit system through: a) examination of the report prepared by the Head of Internal Audit on the internal audit system; b) examination of the Internal Audit reports, as well as information on the results of monitoring; c) meetings with the oversight bodies of the most important subsidiaries pursuant to the first and second paragraphs of article 151 of the Consolidated Law on Finance; d) participation in the meetings of the Audit and Risk, Corporate Governance and Sustainability Committee and acquisition of the relevant documents; e) meetings with the Manager responsible for financial reporting and the Chief Risk Officer. Attending the Audit and Risk, Corporate Governance and Sustainability Committee meetings allowed the Board of Statutory Auditors to coordinate its activities with those of this Committee in performing our functions as the "Internal Audit and Accounting Committee", assigned to us on the basis of article 19 of Legislative Decree 39/2010 and, in particular, to oversee: a) the financial reporting process; b) the effectiveness of the internal quality control, risk management and internal audit systems; c) the statutory audit of the accounts; and d) matters relating to the independence of the audit firm.

On the basis of the activities carried out and considering the evolving nature of the Internal Audit System, in the view of the Board of Statutory Auditors the system is adequate overall and we have no observations to report to shareholders.

The independent auditors have notified their overall fees for auditing Terna SpA's separate and consolidated financial statements for the year ended 31 December

2017, and for their review of the half-year report, assessment of the regular nature of accounting systems, and for the other tasks assigned to them; the fees for these other tasks (inclusive of expenses) amount to €237,353, as follows:

– audit of the unbundling for ARERA (formerly AEEGSI)	40,535
– audit of the reporting packages	17,600
– opinion on payment of the interim dividend	35,200
– assurance of the sustainability report/non-financial statement	63,600
– issue of the EMTN comfort letter and other documents	76,330
– other tasks	3,888

Moreover, Pricewaterhouse Coopers has notified us that, based on the best information available, and taking into account the regulatory and statutory requirements for auditors, it has, in the period in question, maintained a position of independence and objectivity towards Terna SpA and that there have been no changes regarding the absence of any form of incompatibility with reference to the situations and persons provided for in article 17 of Legislative Decree 39/2010 and the articles referred to in Chapter I-*bis* of Section VI of the Regulations for Issuers.

- We held periodic meetings with representatives of the independent auditors, Pricewaterhouse Coopers SpA, pursuant to article 150, paragraph 3 of the Consolidated Law on Finance, and there are no matters worthy of mention in this Report. We also note that on 9 April 2018 the independent auditors issued its report pursuant to the third paragraph of article 19 of Legislative Decree 39/2010, and the additional report required by article 11 of the European Regulation (EU) 537/2014, in which the auditors do not report on significant issues or shortcomings relating to the system of internal controls over financial reporting and which we have submitted to the Board of Directors without observation.
- On 9 April 2018, the independent auditors issued their report on the consolidated non-financial statement prepared pursuant to article 3, paragraph ten of Legislative Decree 254 of 30 December 2016 and article 5 of CONSOB Regulation adopted with Resolution 20267 of 18 January 2018, which states that no matters have been brought to the attention of the independent auditors that would cause them to conclude that the Terna Group's consolidated non-financial statement for the year ended 31 December 2017 has not been prepared, in all material aspects, in compliance with the requirements of articles 3 and 4 of the above decree and the Global Reporting Initiative Standards (GRI Standards).
- The Terna Group's consolidated non-financial statement constitutes a separate report with respect to the Directors' report on operations, as permitted by article 5, paragraph three of the above decree.

- We monitored the procedures adopted to ensure effective implementation of the Corporate Governance Code adopted by the Company, as set forth in the Report on Corporate Governance and Ownership Structures approved by the Board of Directors on 21 March 2018. With reference to the recommendations falling within the purview of the Board of Statutory Auditors, we state that:
  - we have verified the correct application of the criteria and procedures for assessing independence, adopted by the Board of Directors;
  - with regard to the self-assessment of the independence requirements for members of the Board of Statutory Auditors, we have verified their existence during our meeting of 24 January 2018, in keeping with the procedures adopted by the Directors;
  - we have complied with the provisions of the regulation governing the management and handling of confidential and privileged company information.

Finally, it should be noted that the independent auditors has expressed its opinion regarding the consistency of the information provided, in accordance with paragraph 4 of article 123-*bis* of the Consolidated Law on Finance, in the Report on Corporate Governance and Ownership Structures with the separate and consolidated financial statements.

- With reference to Legislative Decree 231 of 8 June 2001, the Company has, for some time, adopted an organisational and management model, which is regularly revised and which is compliant with best practices. Similar models have been adopted by the subsidiaries. During the year, the Board of Statutory Auditors regularly exchanged information with members of the Supervisory Board. The information gathered did not reveal any critical issues with respect to the proper implementation of the organizational model, requiring mention in this report.
- We have not received any complaints pursuant to article 2408 of the Italian Civil Code, nor are we aware of any events or petitions requiring mention during the Annual General Meeting.
- We have verified compliance with the laws regarding the preparation of separate and consolidated financial statements and the report on operations, directly and with the collaboration of the heads of departments and through information obtained from the independent auditors, and we have nothing significant to report.
- We expressed the opinion required from the Board of Statutory Auditors by the third paragraph of article 2389 of the Italian Civil Code (the remuneration of executive Directors).
- The independent auditors issued the opinion referred to in paragraph 5 of article 2433-*bis* of the Italian Civil Code (the interim dividend).

- The members of the Board of Statutory Auditors have complied with the obligation to notify directorships and appointments as statutory auditors in Italian companies within the deadlines and according to the procedures provided for in article 148-*bis* of the Consolidated Law on Finance and the articles in Chapter II, Section V-*bis*, Part III of the Regulations for Issuers.
- During 2017, the Board of Statutory Auditors met eight times, attended the twelve meetings of the Board of Directors, the nine meetings of the Audit and Risk, Corporate Governance and Sustainability Committee and the general meetings of shareholders held on 23 March and 27 April 2017.

On the basis of our activities and the information obtained, the Board of Statutory Auditors is not aware of any omissions, shortcomings, irregularities or any other circumstances that require reporting to the supervisory authorities or mention in this report.

Having reviewed the financial statements for the year ended 31 December 2017, the Board of Statutory Auditors has no objections to raise as regards the proposed resolutions submitted by the Board of Directors.

Rome, 9 April 2018

For the Board of Statutory Auditors  
The Chairman  
Riccardo Schioppo