

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF TERNA SPA.

PURSUANT TO ARTICLE 2429, PARAGRAPH 2 OF THE ITALIAN CIVIL CODE AND ARTICLE 153 OF LEGISLATIVE DECREE 58/1998

To the Shareholders' Meeting of TERNA S.p.A ("TERNA", "Company"),

Shareholders,

pursuant to Article 153 of Legislative Decree 58/98, we inform you on our activity, specifying that during the year that ended on December 31, 2006, we performed the supervisory activity required by the law, according to the code of practice recommended for Statutory Auditors by the National Board of Chartered Accountants. In particular:

- we attended the meetings of the Board of Directors and were regularly informed by the Directors about the activities carried out and about the most significant economic, financial and equity transactions of the Company, and we were satisfied that the resolutions were not only implemented but were also in compliance with law provisions and the Bylaws and were not manifestly imprudent, risky, representing a potential conflict of interest or in contrast with the resolutions passed by the Shareholders' Meeting;
- we gathered information and monitored, as far as our authority allowed, the organizational structure, noting the adequacy of such structure also in view of the modifications that were made following the integration process of the activities acquired (transmission and dispatching) with the TSO business segment (Transmission System Operator);
- we monitored the administrative and accounting system, assessing the reliability of the latter in providing a true and fair view of operations and we also monitored compliance with sound management practices. These activities were carried out both through direct observations and through information collected from the management;
- pursuant to Article 150 of Legislative Decree 58/98, we held meetings with the Independent Auditors

for the purpose of mutually exchanging data and information. During the various meetings, no facts worthy to be mentioned in this Report emerged;

- we assessed and monitored the existing internal control activity through information received from the management. No facts worthy to be mentioned in this Report emerged thus proving the adequacy of the existing control system;
- we monitored the updating and implementation of the law on administrative responsibility of legal persons pursuant to Legislative Decree 231/01;
- we monitored the adequacy of provisions issued by the holding company for its subsidiaries with regard to the communication obligations in compliance with the law;
- we verified, through direct inspections and through information obtained from the Independent Auditors, compliance with the provisions of law regarding the drawing up of the financial statement, with a particular focus on the formats adopted, contents and accounting principles applied. We verified the completeness of the Director's Report prepared according to Article 2428 of the Civil Code and its adequacy in providing information regarding transactions with related parties and atypical and/or unusual transactions carried out in 2006.

The only other aspects regarding the financial statement that the Board of Statutory Auditors deems relevant are the following:

- the increased value of the equity investment in the subsidiary RTL S.p.A., consequent to the contribution of capital, aiming at the acquisition of AEM Transmissione S.p.A. and Edison Rete S.p.A.;
- the increased revenue regarding the remuneration of the electricity grid both owing to the increased new tariffs and to the greater quantity of electricity transported;
- the capital gain obtained with the transfer, through an IPO, of 17,4% of shares owned in Terna Participações.

With regard to the Report of the Independent Auditors concerning the 2006 Financial Statement, no significant facts have emerged.

During the monitoring activities described above, and on the basis of information obtained from the

Independent Auditors and from TERNA executives, no omissions, reproachable facts, or irregularities were found that required reporting to the control bodies or that were worthy to be mentioned in this Report.

Furthermore, we inform you that:

- the Board of Directors held 14 meetings and the Board of Statutory Auditors always attended these meetings. During 2006, the Board of Statutory Auditors held 9 meetings;
- during 2006 the Board of Auditors issued two opinions pursuant to Article 2389, paragraph three of the Civil Code and Article 2386 of the Civil Code. Viceversa, the Independent Auditors issued only one opinion for the distribution of interim dividends, pursuant to Article 2433-*bis* of the Civil Code;
- no reports were received pursuant to Article 2408 of the Civil Code, nor were any complaints filed by third parties;
- the Company adopted the new Code of Self-Governance ("New Code") issued by Borsa Italiana S.p.A.

In particular, Terna adapted its Corporate Governance, through the following:

- defining general criteria on the basis of which the Board of Directors expressed its opinion regarding the maximum number of the positions to be held;
- defining the new guidelines of the Internal Control System in compliance with the New Code;
- adopting, on the part of the administrative body, criteria and procedures for evaluating the independence of its members;
- issuing appropriate regulations for managing and handling company information and for regulating internal management and external communication as far as documents and information regarding the Company are concerned;
- preparing, adopting and implementing appropriate procedures for regulating transactions with related parties, namely, transactions in which a Director bears an interest.

Furthermore, we would also like to point out, as emerged from the Report on Corporate Governance that is enclosed in the Financial Statement, that the Company has fulfilled its obligations as indicated

in the New Code regarding the formation and the activity of the Board of Directors, of the relative internal Committees and of the Board of Statutory Auditors.

Lastly, with reference to the guidelines set forth in the Self-Disciplinary Code, that fall under the competence of this Board of Statutory Auditors, the following is pointed out:

- we verified the correct application of criteria and evaluation procedures for independence adopted by the Board of Directors, with no exception;
- we identified our independence criteria in those envisaged for the Directors, in compliance with the New Code;
- we adopted the transparency regulations and the information obligations set forth for Directors having an interest in a specific transaction;
- we participated in the activity of the Internal Control Committee;
- we monitored the independence of the Independent Auditors KPMG S.p.A.

To comply with the recommendations set forth in Consob notice dated April 6, 2001, and subsequent amendments and integrations, we report the following:

1. during 2006, no atypical or unusual transactions were carried out with related companies or with third parties;
2. with reference to routine transactions with related parties (subsidiaries and associated companies), they essentially concern providing institutional assistance and consulting services (management fee contracts), services for routine operations and maintenance of high voltage lines, financial transactions connected with treasury services, income from renting laboratories and other similar structures for specific uses as well as receiving technical consulting services, study and research services and rental payable for using portions of the National Transmission Grid. Sample checks carried out by the Board of Statutory Auditors and information received indicate that these transactions are in line with the Company's interest.

As far as the economic outcome of the above-mentioned transactions is concerned, they have generated revenues equal to 42,3 million euros and costs equal to 13,3 million euros.

As specifically indicated, in addition to the auditing assignment, KPMG performed also the following services:

- assignment to audit IFRS reconciliation tables for TERNA, for the sum of 15.000 euros;
- assignment to issue an opinion pursuant to Article 2433-*bis* of the Civil Code for the sum of 32.000 euros;
- assignment to issue a comfort letter on the document for the Euro Medium Term Note Program (EMTNP), for the sum of 55.000 euros;
- assignment to audit the half-year financial statement as of June 30, 2006, following the enforcement of the IFRS and of the acquisition of the TSO business segment, for the sum of 21.000 euros;
- assignment for the translation from Italian into English of the 2006 half year report, for the sum of 9.500 euros.

In addition to the activities listed, information obtained has not revealed that further assignments have been entrusted to subjects associated with the Independent Auditors.

In view of the foregoing, the Board of Statutory Auditors, based on its authority, finds no impediment to the approval of the 2006 Financial Statement as prepared by the Board of Directors.

Rome, May 7, 2007

THE BOARD OF STATUTORY AUDITORS

Avv. Giovanni Ferreri

Dott. Giancarlo Russo Corvace

Prof. Roberto Tasca