



# 2014 ANNUAL REPORT

## REPORT ON OPERATIONS



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## 2014 ANNUAL REPORT

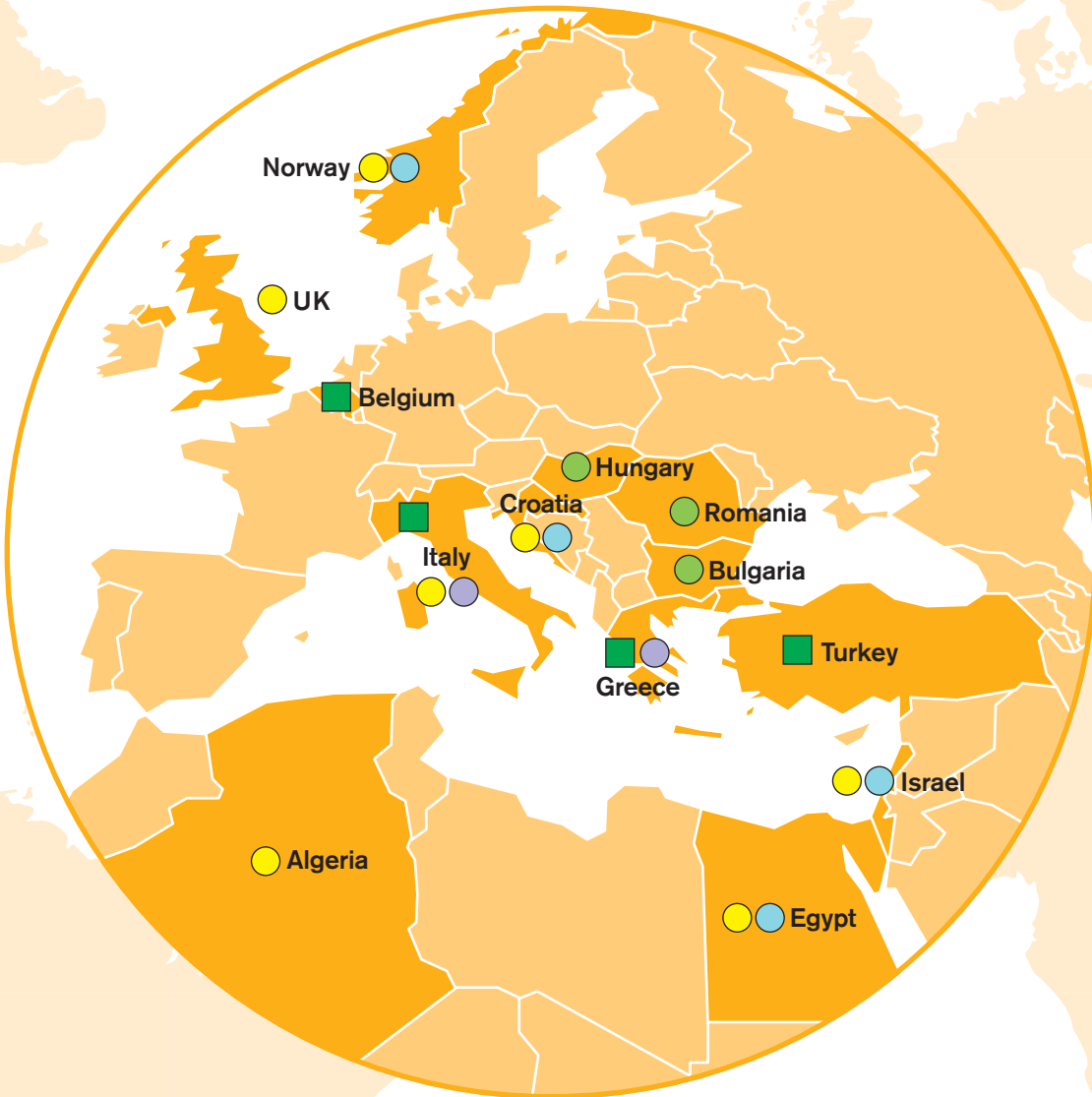
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# EDISON IN ITALY





# EDISON IN THE WORLD



- Edison headquarters and offices
- Hydrocarbon concession/permit
- Power generation facility
- Trading branch
- Hydrocarbon branch

IGI  
Otranto

Falkland Islands

# **2014 ANNUAL REPORT**

## **REPORT ON OPERATIONS**

# LETTER TO SHAREHOLDERS

Dear Shareholders:

Unfortunately, the expected economic growth in Europe and Italy is struggling to materialize. In 2014, GDP growth remained weak in the Eurozone, stalled at 0.8%, and continued to contract by 0.4% in Italy. The impact of this stagnant economic context was even more pronounced on the energy markets. More specifically, consumption of electric power in Europe decreased by 2.7% in 2014, while in Italy the contracting trend of recent years continued closing at -3.0%. Conditions were even worse in the gas market, with consumption in Italy contracting by as much as 11.6%, a much higher rate than for Europe as a whole (decrease of 1.5%) due mainly to an exceptionally high level of hydroelectric production during the year. The impact of stagnant demand is even greater when one looks at the reduction in wholesale prices for the electric power and gas, which in Italy amounted to 17% in just one year. In addition, the second half of 2014 witnessed a slump in international oil prices, which were actually cut in half. The decline in commodity costs will provide momentum for a rebounding of the economy but puts additional pressure on the energy sector. In addition, geopolitical tensions sharpened in 2014, in Ukraine and elsewhere, heightening concern for the reliability of gas supplies in Europe, both over the near term and the long term.

Despite this challenging environment, Edison continued to pursue its missions: hydrocarbon exploration and production, gas procurement, development in the Mediterranean Basin and gas & power activities in Italy.

The Italian government confirmed its commitment to fully realize the benefit of Italy's domestic resources, an objective already stated in the 2013 in the National Energy Strategy, and specifically carried out in the Decree enacted in 2014 to jumpstart the Italian economy by simplifying and accelerating the authorization processes for strategic infrastructures. Our two main development projects in the hydrocarbon sector were finally granted the long awaited environmental permit (VIA Decree) and are now ready for implementation. Both projects, Argo-Cassiopea and Vega B, all located in the Channel of Sicily and are being promoted by Edison together with ENI, a strategic partner. Also with ENI, works continued on the development and optimization of the fields in the Adriatic Sea: the Fauzia field went on stream in November 2014 and the development of the Clara Northwest field is currently underway.

In Egypt, the government is engaged in an intense effort to promote the foreign investments necessary for the country's modernization and development. This translated into a normalization of payments by the Egyptian state company for production from our Abu Qir field. Edison thus started construction of the third platform planned under the concession agreement and was guaranteed the government's full support in studying new projects also in the field of electric power generation.

In the North Sea, after the acquisition of EDF Production UK at the end of 2013, Edison worked to consolidate its position in that area. Thanks to the acquisition launched at the end of 2014 of the interest held by Apache, a U.S. company, in the two Scott and Telford fields, for an additional production volume of about 3,500 barrels a day, hydrocarbon production in the North Sea will more than double in 2015. In addition the portfolio of exploration licenses was developed and optimized, with their number increasing from 23 to 33 due mainly to activities in Norway.

In the gas procurement area, the pressure on margins remains high. To address this situation, Edison continued to pursue a second cycle of price reviews, completing in 2014 the revision of the contract for the procurement of natural gas from Russia. This achievement comes on the heels of the already completed reviews for gas from Qatar and Algeria, while the revision of the last gas contract, the one with Libya, is now in its final phase.

In this highly unstable and volatile context, Edison was nevertheless able to fully exploit the flexibility of the LNG terminal of Rovigo in Italy and contributed with its competencies to the development of the LNG terminal under construction in Dunkirk, France.

In addition, 2014 was characterized by a growing focus on the development of new gas supply routes towards Italy and Europe and Edison relaunched its projects for new international interconnections. More specifically, the IGI project was recognized as a key infrastructure to develop the southern corridor as a potential route for bringing to Europe gas from the Eastern Mediterranean and complete the TAP gas pipeline. This route has become even more strategic after Gazprom's decision to redirect the South Stream gas pipeline towards Turkey. At the same time, work continued on the development of the IGB (Greece-Bulgaria) gas pipeline project, now close to the investment decision, while the start of the Galsi (Algeria-Italy via Sardinia) gas pipeline is still being negotiated.

Edison's role in the Mediterranean Basin, where it has established a presence with its hydrocarbon activities, is completed by the Company's electric power generation and sales activities in Greece, where Edison has become a significant player, and in Turkey, strategic crossroads of energy flows were new initiatives with local partners are now being considered. Edison's portfolio of projects also includes attractive growth opportunities in Egypt and the Balkans.

In the gas & power sector in Italy, despite the challenging context, Edison was able to exploit the exceptionally high levels of available water resources, integrating them into the optimization of its electric power generation portfolio, based on a complex of generating facilities that are among the most flexible in Italy. The challenges posed by the market are becoming more evident every day, to the point that the Italian government established discussion groups for the reform of the entire sector, from power generation to sales to end customers. Edison on the one hand is contributing to the development of the regulatory framework and, on the other hand, is continuing to rationalize its activities, adopting the most innovative solutions possible. The streamlining of the portfolio of thermoelectric facilities continued, with the mothballing of the Piombino power plant and the sale of the Porcari power plant, without any adverse effect on employment levels thanks to the relocation of all affected employees. The Company increased efficiency and effectiveness in the management of end customers, thanks to the introduction of a new CRM system, and reduced the level of past-due trade receivables, which had increased significantly over the past two years due to the general economic crisis. In addition, it strengthened its relationship with customers through the launch of innovative product-service programs.

Lastly, in the renewable energy sector, Edison, together with EDF Energies Nouvelles and F2i, created Italy's third-largest operator with an innovative business model that makes it possible to fully benefit from the professional competencies of the parties involved while at the same time guaranteeing the future development of these businesses and improving the Company's overall economic and financial position.

Thanks to these and many other actions, Edison confirmed the gratifying results achieved the previous year despite a significant deterioration of market conditions. Edison ended 2014 with revenues holding steady at 12.3 billion euros and EBITDA of 814 billion euros, for a gain of 100 million euros compared with 2013, net of the nonrecurring effect of the renegotiations of gas procurement contracts, which had different impacts in each of the two years. Net financial debt significantly improved, falling to 1,766 million euros compared with 2,451 million euros at the end of 2013, thanks the transaction executed in the renewable energy sector and a reduction in operating working capital, particularly in the retail sector and in Egypt. However, the modest level of investment activity also contributed to the debt reduction. These results could not have been achieved without the ability demonstrated by Edison's women and men to respond to the challenges of the external environment professionally, competently and innovatively.

The year 2014 was also characterized by the completion of projects tied to the celebration of the 130<sup>th</sup> anniversary of the Company's history, which further consolidated and strengthened, both internally and externally, Edison's positive image, specifically in terms of its ability to contribute to innovation and to the economic and social development of the communities and regions where it operates and of the people who work at the Company. The ability to motivate and empower our people, coupled with the outstanding results achieved in reducing workplace accidents represent important achievements and, at the same time, are of vital importance to tackle a still difficult market environment and pursue the Company's growth.

The year 2015 will be particularly challenging for our sector; however, by continuing to implement the activities currently in progress and launching new initiatives, the Company's operating result is expected to grow to at least 1 billion euros. This projection takes into account the impact of the outcome of the arbitration proceedings related to the contract for the supply of gas from Libya and includes the economic effects of nonrecurring items and the impact of falling oil prices and of projects implemented by the Company to reduce operating costs.

This year as well, as was the case in 1883, Edison's women and men never stopped believing in progress.



**Bruno Lescoeur**  
CEO Edison

# EDISON TODAY

Edison is one of Italy's top energy operators. It produces, imports and sells electric power and hydrocarbon products (natural gas and oil).

## Electric Power

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### ITALIAN MARKET IN 2014

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**309.0** TWh TOTAL ITALIAN GROSS DEMAND

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**267.6** TWh NET PRODUCTION OF ELECTRIC POWER IN ITALY

incl:

**165.7** TWh  
THERMOELECTRIC  
PRODUCTION

**101.9** TWh  
PRODUCTION  
FROM RENEWABLE SOURCES

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**788** '000 LOCATIONS SERVED

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### FACILITIES AND PRODUCTION CAPACITY IN 2014

---

**7.3** GW

EDISON'S INSTALLED CAPACITY

---

**17.6** TWh

EDISON'S NET PRODUCTION OF ELECTRIC POWER

---

**6.6** % SHARE OF TOTAL ITALIAN PRODUCTION

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Sources: Pre-closing data by Terna and Edison estimates.



## Hydrocarbons

### ITALIAN GAS MARKET IN 2014

61.4 Bill. m<sup>3</sup> TOTAL ITALIAN DEMAND

incl: 6.9 Bill. m<sup>3</sup> PRODUCTION 55.4 Bill. m<sup>3</sup> IMPORTS

### EDISON'S SALES AND PRESENCE IN ITALY IN 2014

**13.2** Bill. m<sup>3</sup> EDISON'S SALES

9.9 Bill. m<sup>3</sup> EDISON'S IMPORT

17.9 % SHARE OF TOTAL ITALIAN IMPORT

3 NUMBER OF STORAGE-CENTER CONCESSIONS IN ITALY

3.58 '000/Km GAS TRANSMISSION NETWORK (LOW AND MEDIUM PRESSURE PIPELINES)

0.08 '000/Km GAS TRANSMISSION NETWORK (HIGH PRESSURE PIPELINES)

557 '000 LOCATIONS SERVED

### E&P FACILITIES AND PRODUCTION CAPACITY IN 2014

4.7 MBoe HYDROCARBON PRODUCTION EDISON (ITALY)

60 No. OF CONCESSIONS AND PERMITS IN ITALY

12.8 MBoe HYDROCARBON PRODUCTION EDISON (OUTSIDE ITALY)

67 No. CONCESSIONS, PERMITS AND LICENSES OUTSIDE ITALY

**283.5** MBoe

### HYDROCARBON RESERVES

Sources: Pre-closing data by the Ministry of Development and Snam Rete, and Edison estimates.

# EDISON KEY FIGURES



**13.2**

**BILL. m<sup>3</sup>  
NATURAL GAS  
SALES IN ITALY**



**127**

**MINERAL LEASES  
(GAS AND OIL)**



**283.5**

**MBoe  
HYDROCARBONS  
RESERVES**



**3**

**GAS  
STORAGE  
CENTERS**



**1**

**BIOMASS  
SYSTEM**



**1**

**LNG TERMINAL  
(CAPACITY  
8 Bm<sup>3</sup>/Y)\***

\* Edison Uses 6.4 Bm<sup>3</sup>/y



# 17.6

TWh  
NET PRODUCTION  
OF ELECTRIC  
POWER IN ITALY



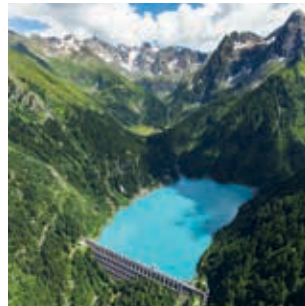
# 7.3

GW  
INSTALLED  
GENERATING  
CAPACITY



# 96.2

TWh  
GROSS SALES OF  
ELECTRIC POWER  
IN ITALY



# 47

HYDROELECTRIC  
POWER PLANTS



# 21

THERMOELECTRIC  
POWER PLANTS



# 9

PHOTOVOLTAIC  
SYSTEMS



# 35

WIND  
FARMS



# 1

HV MERCHANT  
LINE (150 MW)\*\*

\*\* Edison Share 48.45%

# SIMPLIFIED STRUCTURE OF THE GROUP AT DECEMBER 31, 2014

Organization and Activities of the Divisions, Business Units and Main Consolidated Companies in the scope of Consolidation.



■ Electric Power Business Unit

■ Hydrocarbons Business Unit

■ Main consolidated companies in the Scope of Consolidation

<sup>(\*)</sup> Companies subject to functional unbundling requirements.

<sup>(\*\*)</sup> Independent Transmission Operator

<sup>(1)</sup> Edison Spa, working through its Division, Business Units and Corporate Activities, is directly engaged in the production of electric power from thermoelectric and hydroelectric power plants, and produces, imports and distributes hydrocarbon products.

# CORPORATE GOVERNANCE BODIES

## Board of Directors, Statutory Auditors and Independent Auditors

### Board of Directors

Chairman	Jean-Bernard Lévy <sup>(1)</sup>
Chief Executive Officer	Bruno Lescoeur <sup>(2)(3)</sup>
Directors	Béatrice Bigois <sup>(2)(4)</sup>
Independent Director	Paolo Di Benedetto <sup>(2)(5)</sup>
	Philippe Esper <sup>(2)</sup>
Independent Director	Gian Maria Gros-Pietro <sup>(2)(6)</sup>
	Denis Lépée <sup>(2)</sup>
	Thomas Piquemal <sup>(2)(7)</sup>
Independent Director	Nathalie Tocci <sup>(2)(8)</sup>
	Nicole Verdier-Naves <sup>(2)(9)</sup>

<sup>(1)</sup> Coopted and elected Chairman by the Board of Directors on December 12, 2014 for a term of office ending with the next Shareholders' Meeting.

<sup>(2)</sup> Elected by the Shareholders' Meeting of March 22, 2013 for a three-year period ending with the Shareholders' Meeting convened to approve the 2015 annual financial statements.

<sup>(3)</sup> Confirmed Chief Executive Officer by the Board of Directors on March 22, 2013.

<sup>(4)</sup> Chairman of the Control and Risk Committee.

<sup>(5)</sup> Chairman of the Compensation Committee and member of the Control and Risk Committee, the Committee of Independent Directors and the Oversight Board.

<sup>(6)</sup> Chairman of the Committee of Independent Directors, Lead Independent Director and member of the Control and Risk Committee, the Compensation Committee and the Oversight Board.

<sup>(7)</sup> Member of the Control and Risk Committee.

<sup>(8)</sup> Member of the Compensation Committee and the Committee of Independent Directors.

<sup>(9)</sup> Member of the Compensation Committee.

<sup>(10)</sup> Elected by the Shareholders' Meeting of March 28, 2014 for a three-year period ending with the Shareholders' Meeting convened to approve the 2016 annual financial statements.

<sup>(11)</sup> Audit engagement awarded by the Shareholders' Meeting of April 26, 2011 for the nine-year period from 2011 to 2019.

Secretary to the Board of Directors	Lucrezia Geraci
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### Board of Statutory Auditors <sup>(10)</sup>

Chairman	Serenella Rossi
Statutory Auditors	Giuseppe Cagliero Leonello Schinasi

### Independent Auditors <sup>(11)</sup>

Deloitte & Touche Spa
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## Information About the Company's Securities

### Number of shares at December 31, 2014

Common shares	5,181,545,824
Savings shares	110,154,847

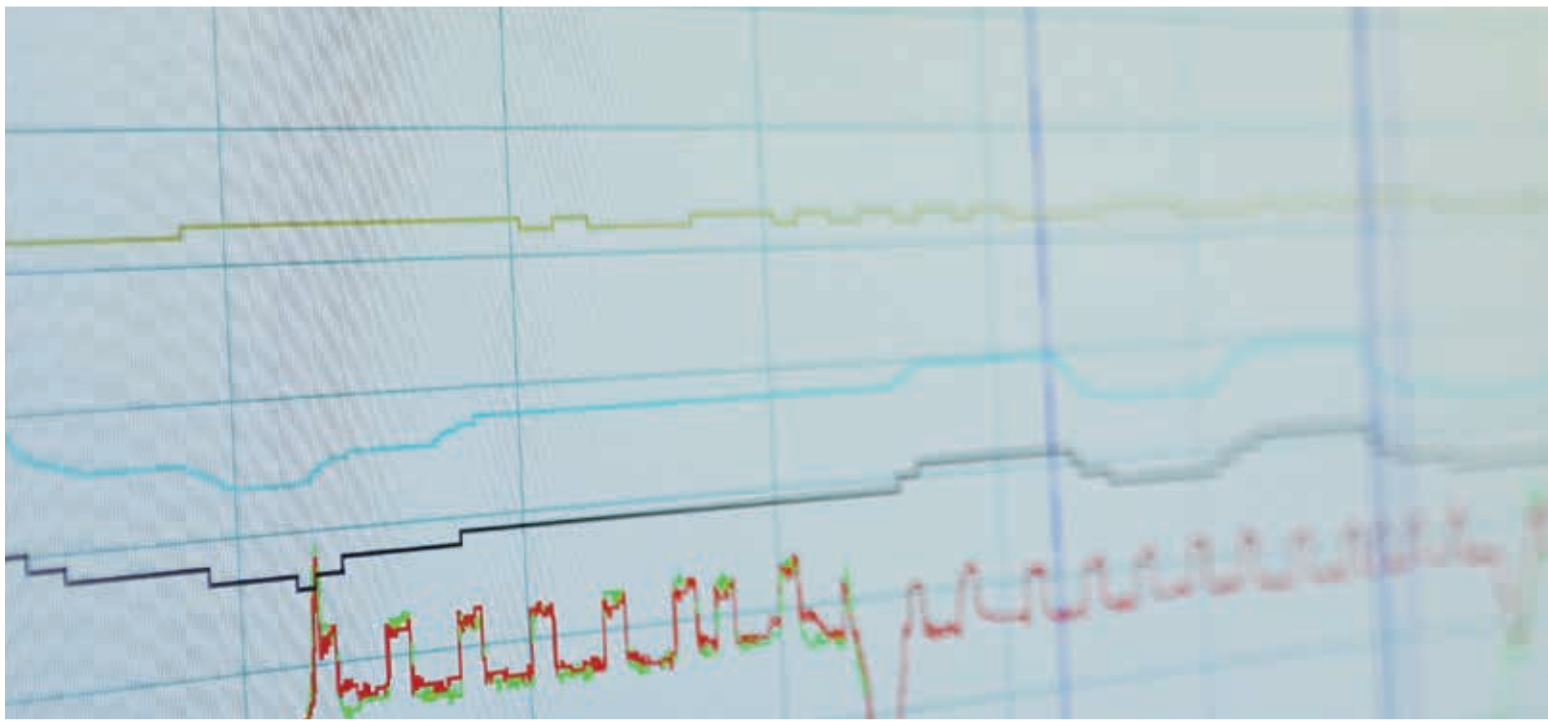
### Shareholders with Significant Holdings at December 31, 2014

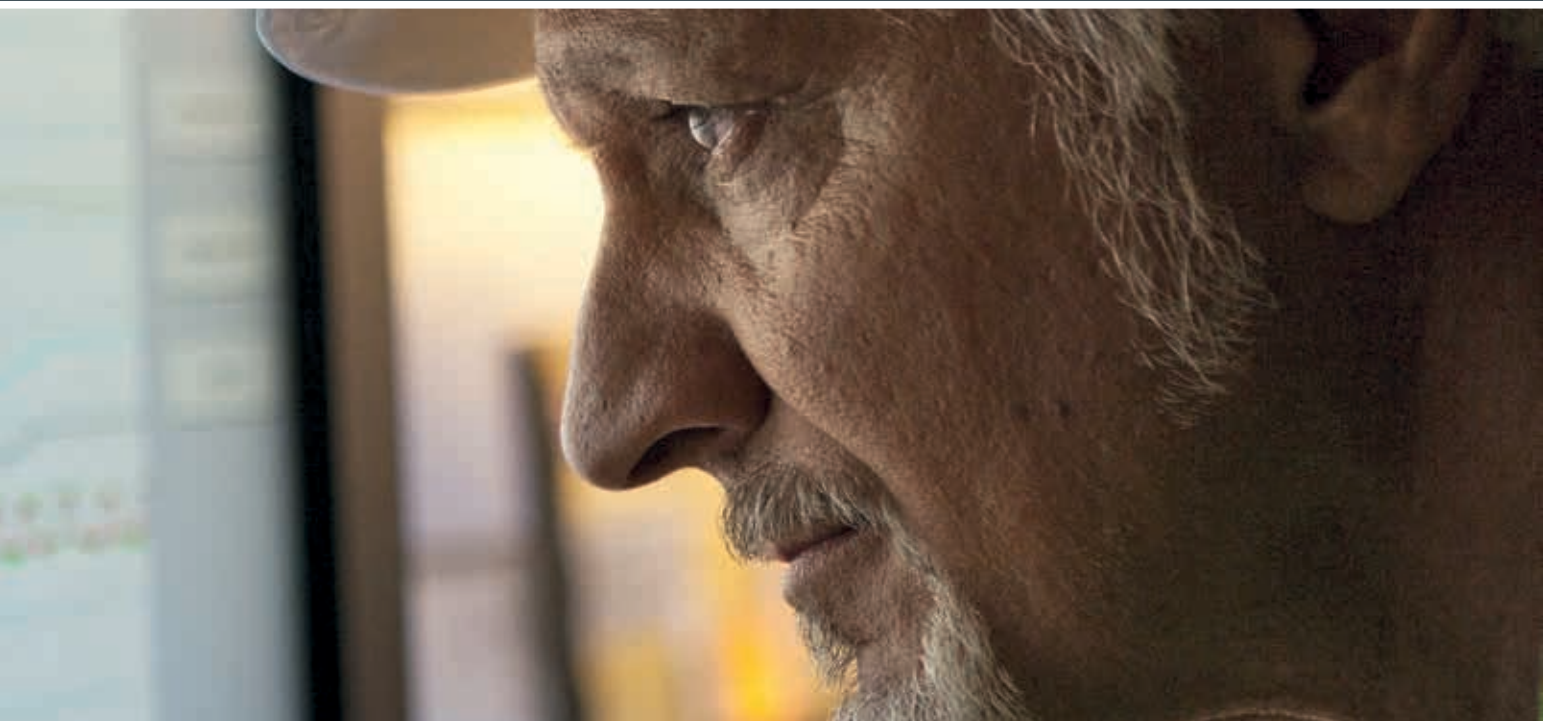
	% of voting rights	% interest held
EDF Electricité de France Sa <sup>(1)</sup>	99.476%	97.405%

<sup>(1)</sup> Held indirectly.



# REPORT ON OPERATIONS





# KEY EVENTS IN 2014



## GROWING OUR BUSINESS

### Edison Is Awarded Three New Hydrocarbon Exploration Licenses in Norway

In January 2014, Edison, through its Edison International Spa subsidiary, was awarded three new hydrocarbon exploration and production licenses put out for bids by the Norwegian Oil and Energy Ministry. The first license, in the Norway Sea, is for Block PL759, with Edison as operator at 40% in a joint venture with Concedo at 30% and Skagen 44 at 30%; the second license, in the Southern North Sea, is for Block PL727, with Edison as operator at 40% in a joint venture with Concedo at 30% and Skagen 44 at 30%; lastly, the third license, in the Barents Sea, is for Block PL770, with Edison as operator at 60% in a joint venture with North Energy at 20% and Lime at 20%.

All three licenses allow a two-year period for 3D seismic mapping, at the end of which the partners will have to decide whether to proceed with drilling or relinquish the licenses, under the “drill or drop” provision.

### Edison is Awarded Two New Hydrocarbon Exploration Licenses in Egypt

On February 12, 2014, Edison, through its Edison International Spa subsidiary, was awarded two new hydrocarbon exploration and production licenses in Egypt: North Thekah Offshore and South Idku Onshore. The first block, with Edison as operator at 50% in a joint venture with Petroceltic at 50%, is located in a section of the Eastern Egyptian Offshore bordering Israel's territorial waters; pursuant to contractual obligations, 3D seismic mapping of about 1,500 km<sup>2</sup> will be performed during the first three years. The second block, with Edison at 25% and Petroceltic as operator at 75%, is located in the Western Nile Onshore Delta; commitments for the first three years include 3D seismic mapping and the drilling of two exploratory wells.

### Edison is Awarded a New Hydrocarbon Exploration License in United Arab Emirates

In April 2014, Edison, through its Edison International Spa subsidiary, acquired through a farm out a 30% interest in the Ras Al Khaima exploration permit in the eponymous emirate, part of the United Arab Emirates. The permit is operated by DNO Al Khalej, which holds the remaining 70%.

By November 15, 2015, following completion of the surveying and seismic data acquisition process, the consortia will decide whether to proceed with drilling or relinquish the license, under the “drill or drop” provision.

### Edison: Start of Production at the Izabela Field in Croatia

Early in July 2014, production began from the Izabela field in Croatia, in which Edison holds a 70% participating interest through a joint venture with the Croatian oil company INA.

The field, which is located in the Northern Adriatic Sea, 50 km off the Pula coast, has 1.4 billion cubic meter of estimated gas reserves and, at full capacity, will produce 280 million cubic meter of gas per year. Production is being carried out through two platforms (Izabela North and Izabela South), installed in a water depth of 37 meters, while the gas processing and compression takes place on the Ivana A and K platforms, which are operated by INAgip (a joint venture of INA and Eni) and connected to the Izabela facilities through a 26 km pipeline.

Completed in 2010 with the installation of the two production platforms, the Izabela development plan was delayed due to a disagreement between the parties on the terms for gas transmission and sales. Thanks to an open and constructive dialog with INA, the dispute was resolved to the mutual satisfaction of both partners and production from the field was allowed to begin.

With the start of production from Izabela, Croatia becomes Edison's fourth largest hydrocarbons producing country behind Italy, Egypt and the UK, consistent with the Group's growth strategy in the hydrocarbons sector.

Paderno old dam of the “Angelo Bertini” hydroelectric power plant on the river Adda.

### **Edison, EDF Energies Nouvelles and F2i in an Agreement to Create a New Renewable Energy Hub**

On July 31, 2014, F2i, Edison and EDF Energies Nouvelles entered into an agreement that led to the founding of Italy's third largest operator in the renewable energy sector and which controls about 600 MW of capacity (mainly wind power) following the combination of the facilities operated by Edison Energie Speciali Spa and of some of the facilities that EDF Energies Nouvelles Italia operates.

The new renewable energy hub will contribute to the growth and consolidation of this sector's best operators, leveraging Edison's industrial competencies in managing and optimizing electric power production from different technologies, together with those of EDF Energies Nouvelles in the Operation and Maintenance (O&M) area. Financial strength and skills will be enhanced by the presence of a strategic partner such as F2i, a long-term institutional investor with consolidated expertise in the renewable energy sector.

The Italian electric power market, while still going through a challenging period, thus confirms its attractiveness for operators capable of optimizing the complementarity of thermoelectric, hydroelectric and other renewable-source power generating assets. By maximizing the value of these competencies, the new company could become an aggregation hub for medium-size and smaller operators in the renewable energy sector.

For detailed information of the agreement, see the "Other Information" chapter of the Consolidated Financial Statements.

### **Edison: Conclusion of the Promgas Arbitration for a Revision of Natural Gas Prices Under Long-term Contracts**

On August 29, 2014, further to a decisions by Edison and Promgas to entrust to the Stockholm Board of Arbitration the revision of the price for gas purchased from Russia under a long-term contract, the Board of Arbitration, which is part of the Stockholm Chamber of Commerce, notified its award to the parties. The overall positive impact for Edison is estimated at 80 million euros at the EBITDA level in 2014.

### **Edison Signs Two Memoranda with QALAA and EGPC to Build a Combined-cycle Power Plant at Abu Qir in Egypt**

On November 27, 2014, Edison signed two memoranda with QALAA and Egyptian General Petroleum Corporation for the construction of a thermoelectric power plant. The protocol of understanding with QALAA, a major investment company in Africa focused on supporting the region's economic growth and meeting its energy needs, will lead to the construction of a new 180 MW thermoelectric power plant (gas fired, combined cycle system) that will produce safe and sustainable electric powers for customers in Egypt using the gas produced from the Abu Qir concession in the Nile Delta.

The protocol of understanding with EGPC, Egypt's national oil company, requires that a portion of the new gas produced from the Abu Qir concession will be allocated to the thermoelectric power plant to increase Egypt's available electric power supply and reduce its lack of capacity. The energy produced by this CCGT facility will be safe, accessible, sustainable, efficient and competitive thanks to Edison's significant expertise in developing and operating electric power plants.



## OTHER KEY EVENTS

### Revision to Edison's Rating

On September 26, 2014, the Standard & Poor's rating agency raised Edison's long-term credit rating to A-, up from BBB+, with negative outlook. The rating agency confirmed the short-term rating at A-2. The long-term rating upgrade reflects the new assessment of Edison by Standard & Poor's as a highly strategic company for the EDF Group. The negative outlook reflects the outlook for Italy's sovereign rating. Standard & Poor's pointed out that international development through Edison is a strategic priority for the EDF Group as it seeks to diversify its activities. More specifically, the rating agency underscored Edison's importance as a gas platform for the entire Group and the positive outcome of efforts to renegotiate gas procurement contracts. Thanks to these successful renegotiations and Edison's integration into its parent company's liquidity and funding management framework, Standard & Poor's projects a steady improvement in Edison's financial metrics.

Subsequently, on December 15, 2014, Standard & Poor's revised Edison's long term credit rating to BBB + from A- as automatic consequence of cutting of Italy's sovereign rating, based on the methodological criteria of the Agency. Similarly, the outlook is stable in line with that of Italy.

### Edison: 500-million-euros Bank Facility

On November 14, 2014, Edison Spa executed an agreement for a short-term facility in the amount of 500 million euros. This credit line, provided by a pool of top Italian and international banks, is structured as a Club Deal, without subsequent syndication, and calls for unsecured utilizations on a revolving basis (Revolving Credit Facility). The interest rate is indexed to the Euribor, plus a spread in line with the best terms currently available in the market, with expiration scheduled for November 2016. This new credit line replaces the July 2013 Revolving Credit Facility of equal amount, which was cancelled ahead of schedule.

With this new credit line, Edison further increased its level of financial flexibility.

Con questa nuova linea di credito Edison rafforza ulteriormente il proprio grado di elasticità finanziaria.

## SIGNIFICANT EVENTS OCCURRING AFTER DECEMBER 31, 2014

Information about events occurring after the end of the year covered by this Report is provided in the section of the Consolidated Financial Statements entitled "Significant Events Occurring After December 31, 2014."

# FINANCIAL HIGHLIGHTS. FOCUS ON RESULTS



In order to help the reader obtain a better understanding of the Group's operating and financial performance, the tables below contain alternative performance indicators that are not included among those provided in the IFRS accounting principles. The methods used to compute these indicators, consistent with the guidelines of the European Securities and Markets Authority (ESMA), are described in the footnotes to the tables.

## Edison Group

(in millions of euros)	2014	2013 (*)	% change
Sales revenues	12,325	12,304	0.2%
EBITDA	814	970	(16.1%)
<i>as a % of sales revenues</i>	6.6%	7.9%	
EBIT	292	321	(9.0%)
<i>as a % of sales revenues</i>	2.4%	2.6%	
Net profit (loss) from continuing operations	55	98	(43.9%)
Net profit (loss) from discontinued operations	-	-	-
Group interest in net profit (loss)	40	96	(58.3%)
Capital expenditures of continuing operations	320	171	87.1%
Investments in exploration	67	92	(27.2%)
Net invested capital (A + B)	8,903	9,690	(8.1%)
Net financial debt (A) <sup>(1)</sup>	1,766	2,451	(27.9%)
Total shareholders' equity (B)	7,137	7,239	(1.4%)
Shareholders' equity attributable to Parent Company shareholders	6,627	7,126	(7.0%)
ROI <sup>(2)</sup>	3.25%	3.43%	
ROE <sup>(3)</sup>	0.58%	1.35%	
Debt/Equity (A/B)	0.25	0.34	
Gearing (A/A+B)	20%	25%	
Number of employees <sup>(4)</sup>	3,101	3,183	(2.6%)

(1) A breakdown of this item is provided in the "Net Financial Debt" section of the Notes to the Consolidated Financial Statements.

(2) EBIT/Average net invested capital of continuing operations. Net invested capital of continuing operations does not include the value of equity investments held as non-current assets and is computed as the arithmetic average of net invested capital at the end of the year and at the end of the previous year.

(3) Group interest in net profit/Average shareholders' equity attributable to the shareholders of the controlling company. Average shareholders' equity is the arithmetic average of the shareholders' equity at the end of the year and at the end of the previous year.

(4) Companies consolidated line by line.

(\*) The 2013 amounts were restated for the adoption of IFRS 11 "Joint Arrangements" and a new presentation of derivatives and other nonrecurring expenses.

## Edison Spa

(in millions of euros)	2014	2013(*)	% change
Sales revenues	4,822	5,792	(16.7%)
EBITDA	(258)	60	n.m.
<i>as a % of sales revenues</i>	n.m.	1.0%	
EBIT	(402)	(177)	n.m.
<i>as a % of sales revenues</i>	n.m.	n.m.	
Net profit (loss) from continuing operations	(37)	78	n.m.
Net profit (loss) from discontinued operations	-	-	-
Net profit (loss)	(37)	78	n.m.
Capital expenditures	238	90	n.m.
Net invested capital	5,954	6,745	(11.7%)
Net financial debt	373	746	(50.0%)
Shareholders' equity	5,581	5,999	(7.0%)
Debt/equity ratio	0.07	0.12	
Number of employees	1,506	1,552	(3.0%)

(\*) The 2013 amounts were restated for the a new presentation of derivatives and other nonrecurring expenses.

## Sales Revenues and EBITDA by Business Segment

(in millions of euros)	2014	2013(*)	% change
<b>Electric Power Operations <sup>(1)</sup></b>			
Sales revenues	7,859	7,162	9.7%
Reported EBITDA	652	656	(0.6%)
Adjusted EBITDA (**)	690	666	3.6%
<b>Hydrocarbons Operations <sup>(1)</sup></b>			
Sales revenues	5,168	5,998	(13.8%)
Reported EBITDA	293	425	(31.1%)
Adjusted EBITDA (**)	255	415	(38.6%)
<b>Corporate Activities and other segments <sup>(2)</sup></b>			
Sales revenues	48	52	(7.7%)
EBITDA	(131)	(111)	(18.0%)
<i>as a % of sales revenues</i>	<i>n.m.</i>	<i>n.m.</i>	
<b>Eliminations</b>			
Sales revenues	(750)	(908)	17.4%
<b>Edison Group</b>			
<b>Sales revenues</b>	<b>12,325</b>	<b>12,304</b>	<b>0.2%</b>
<b>EBITDA</b>	<b>814</b>	<b>970</b>	<b>(16.1%)</b>
<i>as a % of sales revenues</i>	<b>6.6%</b>	<b>7.9%</b>	

<sup>(1)</sup> See Simplified Structure of the Group on page 8.

<sup>(2)</sup> Includes those operations of Edison Spa, the Group's Parent Company, that engage in activities that are not industrial in nature and certain holding companies and real estate companies.

(\*) The 2013 amounts were restated for the adoption of IFRS 11 "Joint Arrangements" and a new presentation of derivatives and other nonrecurring expenses.

(\*\*) Adjusted EBITDA reflect the effect of the reclassification from the Hydrocarbons Operations to the Electric Power Operations of the results of commodity and foreign exchange hedges executed in connection with contracts to import natural gas for the portion of the result attributable to the Electric Power Operations. This reclassification is being made to provide a better operational presentation of the Group's industrial results. The adjusted EBITDA amount was not audited by the Independent Auditors.

## PERFORMANCE AND RESULTS OF THE GROUP IN 2014 AND BUSINESS OUTLOOK FOR 2015

### Operating Performance

The Group reported sales revenues of 12,325 million euros in 2014, basically in line with the previous year. A breakdown by business segment shows a gain of 9.7% for the Electric Power Operations and a decrease of 13.8% for the Hydrocarbons Operations, consistent with the effects of sales volume dynamics.

EBITDA totaled 814 million euros, or 156 million euros less (-16.1%) than the 970 million euros reported in 2013.

This result is attributable:

- For 255 million euros to the Hydrocarbon Operations and, more specifically, the positive margins of the Exploration and Production activities and the Regulated Gas Infrastructures, net of the loss generated by the gas buying and selling activities, which continue to be characterized by negative average unit sales margins.

The decrease of 160 million euros compared with the adjusted EBITDA<sup>(1)</sup> of 2013, amounting to 415 million euros, is attributable to the result from the gas buying and selling activity, which, while benefiting from the Promgas arbitration in 2014, is being compared with a figure that reflects the impact of positive nonrecurring components resulting from the price revisions of contracts for the supply natural gas from Algeria and Qatar recognized in 2013.

- For 690 million euros to the Electric Power Operations, which benefited from the management of the Group's thermoelectric, hydroelectric and renewable-source power plants, the contribution of dispatching activities, the optimization of the facilities portfolio on the spot and wholesale markets and sales to end customers. This result, while boosted by an exceptionally high availability of water resources, reflects a positive operating performance (+3.6% compared with the same period last year) despite a particularly challenging market environment, with steady year-over-year declines both in the level of demand for electric power and energy prices.

A more detailed analysis of the Group's performance in 2014 is provided in the section of this Report entitled "Performance of the Group's Businesses."

EBIT totaled 292 million euros at December 31, 2014, down 9% compared with 2013. In addition to the factors mentioned above, EBIT reflect depreciation and amortization and writedowns amounting to 761 million euros, a net positive change in fair value of 250 million euros related to commodity and foreign exchange hedging activities (negative change of 9 million euros in 2013) and other net expenses of 11 million euros. Writedowns of 240 million euros (100 million euros in 2013), which reflected the effects of the annual impairment test of non-current assets and goodwill, mainly include charges of 72 million euros for the hydrocarbon concessions in Egypt, due to a downward revision of hydrocarbon reserves and to lower expected profitability caused by a changing scenario, and 161 million euros for the goodwill allocated to the Electric Power Operations, due to a revision of the estimated level of profitability projected for margins in the electric power area.

The result from continuing operations, which is after net financial expense of 91 million euros and income taxes of 159 million euros that benefited from the positive impact of the tax realignment transaction executed in July 2014, amounted to 55 million euros (98 million euros in 2013).

At December 31, 2014, net financial debt totaled 1,766 million euros, showing a considerable improvement compared with the 2,451 million euros owed at December 31, 2013.

<sup>(1)</sup> See note on page 18.





At the Collalto (Udine) gas storage center, many visitors paused to enjoy the show "Pioneers - a photographic journey in Edison's history" and attended a jazz concert that was extremely well received by the public.

More detailed information about the individual components of this item is provided in the "Net Financial Debt" section of the Notes to the Consolidated Financial Statements.

The table below provides a breakdown of the changes that occurred in net financial debt:

(in millions of euros)	2014	2013 (*)
<b>A. NET FINANCIAL (DEBT) AT BEGINNING OF PERIOD</b>	<b>(2,451)</b>	<b>(2,508)</b>
EBITDA	814	970
Cancellation of non- monetary items included in EBITDA	(25)	(83)
Net financial expenses paid	(98)	(93)
Net Income taxes paid (-)	(249)	(170)
Dividends received	9	5
Change in other operating assets and liabilities	(21)	(15)
<b>B. CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>430</b>	<b>614</b>
Change in operating working capital	408	(62)
Change in non-operating working capital	23	(201)
Net investments (-)	(92)	(308)
<b>C. CASH FLOW AFTER NET INVESTMENTS AND CHANGE IN WORKING CAPITAL</b>	<b>769</b>	<b>43</b>
Dividends paid (-)	(76)	(20)
Other items	(8)	34
<b>D. NET CASH FLOW FOR THE PERIOD</b>	<b>685</b>	<b>57</b>
<b>F. NET FINANCIAL (DEBT) AT END OF THE PERIOD</b>	<b>(1,766)</b>	<b>(2,451)</b>

(\*) The 2013 amounts were restated for the adoption of IFRS 11 "Joint Arrangements" and a new presentation of derivatives and other nonrecurring expenses.

## Outlook for 2015

The 2015 EBITDA are expected to be at least 1 billion euros. This guidance takes into account the impact of the arbitration with Eni for the long-term gas procurement contract from Libya, the effects of the drop in oil prices and of the implementation of the actions taken by the company to reduce operating costs.



## EDISON AND THE FINANCIAL MARKETS

### Stock Price and Other Per Share Data

	December 31, 2014	December 31, 2013
<b>Edison Spa</b>		
Stock market price (unit price in euros) <sup>(1)</sup> :		
- common shares <sup>(2)</sup>	-	-
- savings shares	0.8507	0.9592
<b>Number of shares (at end of the year):</b>		
- common shares	5,181,545,824	5,181,545,824
- savings shares	110,154,847	110,154,847
<b>Total shares</b>	<b>5,291,700,671</b>	<b>5,291,700,671</b>
<b>Edison Group</b>		
Earnings per share <sup>(3)</sup> :		
basic earnings per common share	0.0070	0.0175
basic earnings per savings share	0.0370	0.0475
diluted earnings per common share	0.0070	0.0175
diluted earnings per savings share	0.0370	0.0475
Shareholders' equity per share attributable to the controlling company's shareholders (in euros)	1.252	1.347

<sup>(1)</sup> Simple arithmetic average of the prices for the last calendar month of the year.

<sup>(2)</sup> Delisted on September 10, 2012.

<sup>(3)</sup> Computed in accordance with IAS 33.

### Other Financial Indicators

Rating	Current	December 31, 2013
Standard & Poor's		
Medium/Long-term rating	BBB+	BBB+
Medium/long-term outlook	Stable	Stable
Short-term rating	A-2	A-2
Moody's		
Rating	Baa3	Baa3
Medium/long-term outlook	Stable	Stable

# AN EVOLVING SCENARIO. MARKETS AND REGULATIONS





## ECONOMIC FRAMEWORK

Global GDP grew in 2014, but the increase was slightly less than anticipated. Undoubtedly, the United States provided a major contribution, which was unexpected given the negative performance recorded at the beginning of the year: the revised data for third quarter GDP in the United States showed that the economy grew at the fastest pace in more than ten years, causing the White House to state that 2014 was the year of the turnaround for the United States. The growth of the American economy was driven by spending for durable goods and private investments, in addition to government spending; moreover, GDP data and the Fed's decision to postpone a hike in interest rates made the financial markets more bullish. Things were different in Europe, which in 2014 continued to struggle in its efforts to produce convincing signs of a recovery, with the low investment levels and the high unemployment rate that have characterized this region reflecting the impact of low economic activity. In addition, Europe is still paying the price of the constraints of its governance, the differences between member countries, the failure to implement economic resources and the lack of confidence in its institutions and among its very people. Germany, the engine that drives the European economy, was forced to scale down its growth projections, with the German PMI Index sliding into recession, as was already the case for Italy and France.

Inflation remained low in Europe throughout the year, creating deflation risk concerns, which Mario Draghi, the ECB Chairman, dismissed in his speech at the Euro Summit in October. However, he did acknowledge that a protracted period of low inflation would be worrisome due to its impact on wages and prices and, consequently, urged the European leaders to combine their efforts to avoid slipping back into recession.

The two main question that Europe was facing at the end of the year had to do with the possible deployment of a European quantitative easing program and the implementation of the Juncker Plan, a proposed package of 315 billion euros over three years to stimulate investments.

As for Italy, 2014 ended with the economy in recession and the deficit/GDP ratio was held at 3%, but at the cost of significant sacrifices for the country. However, the first signs of a turnaround in spending by Italian households were recorded during the year, thanks to the government's policies, the low level of inflation and, in the closing months of the year, a decrease in energy costs. Uncertainties about Italy remain, tied to the review by the European Commission, postponed to March 2015, of Italy's budget, together with those of France and Belgium. However, the E.U. did acknowledge that Italy is taking important steps on the correct path of reforms, with the European institutions viewing particularly favorably the reform of the labor market. Unemployment, which continued to increase reaching record levels, remains a source of grave concern.

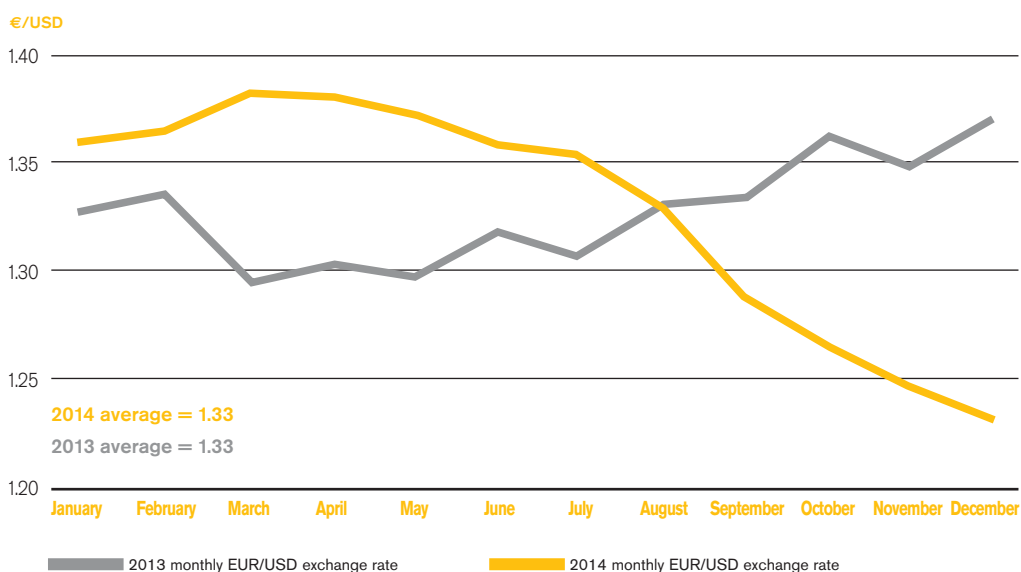
In Japan, the VAT increase in April contributed to pushing the country's GDP into recession: consumer spending failed to increase as expected and private investments virtually collapsed. Prime Minister Abe, following a successful December election, immediately announced a series of support programs to stimulate the economy, consisting of a package of 3,500 billion yen focused mainly on aiding low income regions and families.

India and China continued to enjoy healthy growth rates thanks to reforms in India and employment support programs in China. The opposite was true for Russia, which fell into economic chaos, starting with the conflict in Ukraine, followed by the stiff sanctions imposed by the United States and the European Union, the slump in oil prices and a currency crisis. International speculators then took advantage of this situation making matters worse, as the scenario in Russia showed the close link that continues to exist between the oil market and the Russian economy: the energy sector represents one-fourth of GDP, 70% of exports and half of the government's revenues.

Engine room of the "Carlo Esterle" hydroelectric power plant on the river Adda.

The euro/U.S. dollar exchange rate averaged 1.33 USD for one euro, in line with the rate for 2013, but fluctuated widely in the course of the year. The rise observed during the first half of 2014 (+4.3% compared with 2013) was followed by a sudden drop that brought the exchange rate to 1.23 USD for one euro in December.

Several factors account for this volatility, including the surprising recovery of the U.S. economy, which, starting in the second quarter, exceeded the most optimistic expectations, and the diverging monetary policies pursued by different central banks. Specifically, the Federal Reserve ended its quantitative easing program, planning to raise interest rates, while this option has been adopted by the ECB in January 2015. In Europe, such a program came on the heels of the decision to cut refinancing benchmark rates implemented to stimulate the availability of bank loans to households and non-financial companies, with the aim of bringing inflation to a level close to 2%, primary objective of the ECB mandate.



In the oil market, the average price settled at around USD 100 per barrel in 2014, down 8.5% compared with an annual average for 2013. After two years of persisting stability, except for the second quarter of 2014, when the average price rose to USD 110 per barrel (+6.2% compared with the same period in 2013), the trend turned negative starting in July 2014.

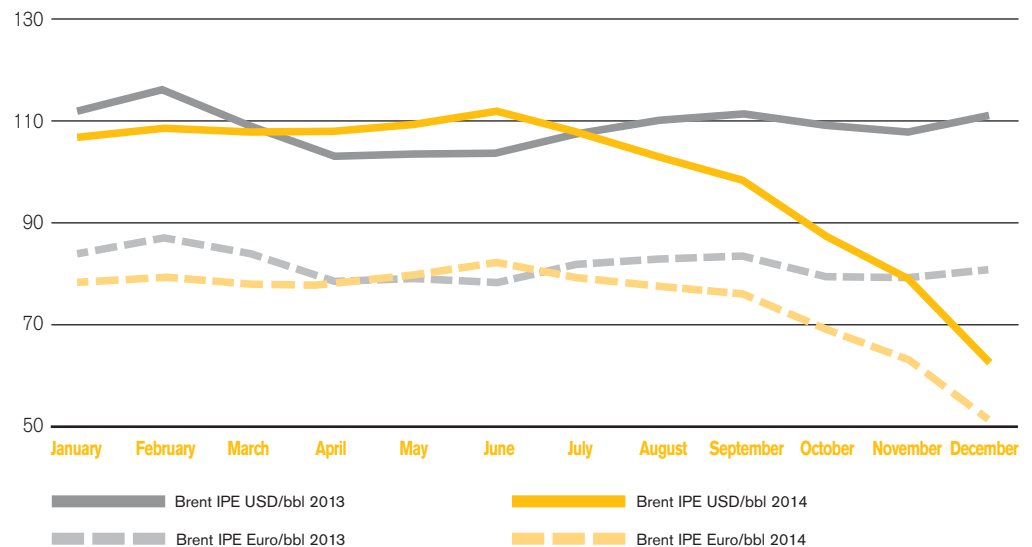
An analysis of year-over-year changes shows that the biggest price drop occurred in the fourth quarter of 2014, with the price falling to about USD 77 per barrel, for a negative change of about 30% compared with the same period the previous year. More specifically, the average for December was USD 63.3 per barrel, the lowest level since 2009, with the daily price hitting the bottom for the year precisely on December 31, 2014 (USD 57.3 per barrel).

Structural market conditions are the main reasons for the price decrease. In 2014, growth projections for the global economy were revised downward multiple times, due to the slowing of the growth rate in China and continuing stagnation in Europe. Similar negative revisions were announced by various agencies, including the International Energy Agency (IEA), with regard to global demand for crude oil. On the supply side, during the first half of the year, despite a production boom in the United States that caused a steady decrease in imports to meet domestic demand, geopolitical tensions between Russia and Ukraine and unrest in Libya provide support for prices. From the third quarter on, a persisting supply overhang put pressure on prices, owing in part to OPEC's decision, at its meeting of November 27, 2014, to maintain unchanged its production ceiling of about 30.6 million barrels a day. When stated in euros, the price of crude oil follows the same annual trend as that of the USD price, but the slump recorded in last quarter was attenuated by the decline in the value of the euro.

The table and chart provided below show the average annual data and the monthly trends for 2014 and 2013:

	2014	2013	% change
Oil price in USD/bbl <sup>(1)</sup>	99.5	108.7	(8.5%)
USD/EUR exchange rate	1.33	1.33	0.1%
Oil price in EUR/bbl	74.9	81.9	(8.5%)

<sup>(1)</sup> Brent IPE.



As was the case for Brent crude, the prices of other commodities that serve as benchmarks for the energy markets also decreased. The slump in the price of crude oil had an impact on the prices of distilled products, with the price of gasoil falling from USD 920 per metric ton to USD 840 per metric ton on an annual basis; the same was true for fuel oil prices, which contracted by 9% and 11%, respectively, for low sulfur and high sulfur products. The slump in the price of low sulfur fuel oil is attributable in part to new regulations for marine fuel, which starting in January 2015 will be required to have a maximum sulfur contents of 0.1% compared with the current 1%.

The price of coal in Europe followed a downward trend throughout the year, averaging USD 75 per metric ton, or 8% less than in 2013. A sharp drop in imports and excess inventory, both in Europe and Asia, created a persisting global situation of excess supply. Coal prices were also dragged down by the decrease in crude prices, which, in addition to generating a generic downward effect, had an impact on fundamentals. The reduction in the price of fuel oil for ship propulsion, which adversely affected ship charter rates, on the supply side, and the availability of cheaper pet coke (coal produced by distilling crude oil), on the demand side, further reduced the price of coal.

Gas prices on the main European hubs were down sharply, with even bigger declines in comparison with the price on the Virtual Exchange Facility (-17.2%): the price of gas decreased by about 22% on the TTF (the main European gas hub). The trend was the same at all other Northern European gas hubs (NCG, Zeebrugge and NBP). The price decrease on the VTP, Austria's hub, was more in line with that on the Virtual Exchange Facility, as both reflected the impact of Russian gas flow dynamics in 2014.

In 2014, the CO<sub>2</sub> emissions rights market was characterized by an upward trend, supported by a plan to implement a structural reform of the market that addresses the excess supply that developed in recent years. The annual average price of ETS certificates rose to 6 euros per ton, up 34% compared with the previous year. The adoption of the quota backloading plan, as a temporary measure to address demand/supply imbalances, supported prices. At the same time, bullish expectations were generated by the potential introduction of a market stability mechanism.



## THE ITALIAN ENERGY MARKET

### Demand for Electric Power in Italy and Market Environment

TWh	2014	2013	% change
Net production:	267.6	278.8	(4.0%)
- Thermoelectric	165.7	183.4	(9.7%)
- Hydroelectric	58.1	54.1	7.4%
- Other renewables <sup>(1)</sup>	43.8	41.4	5.9%
Net imports	43.7	42.1	3.7%
Pumping consumption	(2.3)	(2.5)	(9.7%)
<b>Total demand</b>	<b>309.0</b>	<b>318.5</b>	<b>(3.0%)</b>

Source: Analysis of 2013 data and pre-closing 2014 Terna data, before line losses.

<sup>(1)</sup> Includes production from geothermal, wind power and photovoltaic facilities.

In 2014, gross total demand for electric power from the Italian grid totaled 309 TWh (TWh = 1 billion kWh), or 3% less than in the previous year. On a seasonally adjusted basis (i.e., eliminating the impact of changes in average temperature and the number of business days), demand was down 2.9%.

In 2014, net production of electric power fell by 11.3 TWh as a result of a reduction of 9.5 TWh in demand for electric power, an increase of 1.6 TWh in net imports and a contraction of 0.2 TWh in pumping consumption.

Net of pumping consumption, domestic production covered 86% of demand, down slightly (-1%) compared with 2013.

Net imports of electric power totaled 43.7 TWh, or 3.7% more than in 2013. This gain reflects an increase of 4.3 TWh in net imports from the Northern border (Switzerland, France, Austria and Slovenia), while on the Southern border (Greece) a total of 1.2 TWh were exported, reversing the trend of 2013, when net imports of 1.5 TWh were recorded on this border.

The decrease of 17.7 TWh in thermoelectric output recorded in 2014 (-9.7% compared with 2013) was due mainly to the triple effect of lower demand, an increase of 4.0 TWh in hydroelectric production (+7.4%) and a further gain of 2.4 TWh in the output of renewable-source facilities (+5.9%).

Specifically with regard to the main renewable energy sources, in addition to the record availability of water in 2014 (highest recorded level in history), there was a positive production performance by photovoltaic systems (+2.1 TWh; +10%), with smaller gains for other sources: wind power +0.2TWh (+1.0%) and geothermal +0.2 TWh (+4.2%). It is worth mentioning that for the first time in Italy, production from renewable sources (wind power, solar, geothermal and hydroelectric) exceeded 100 TWh.

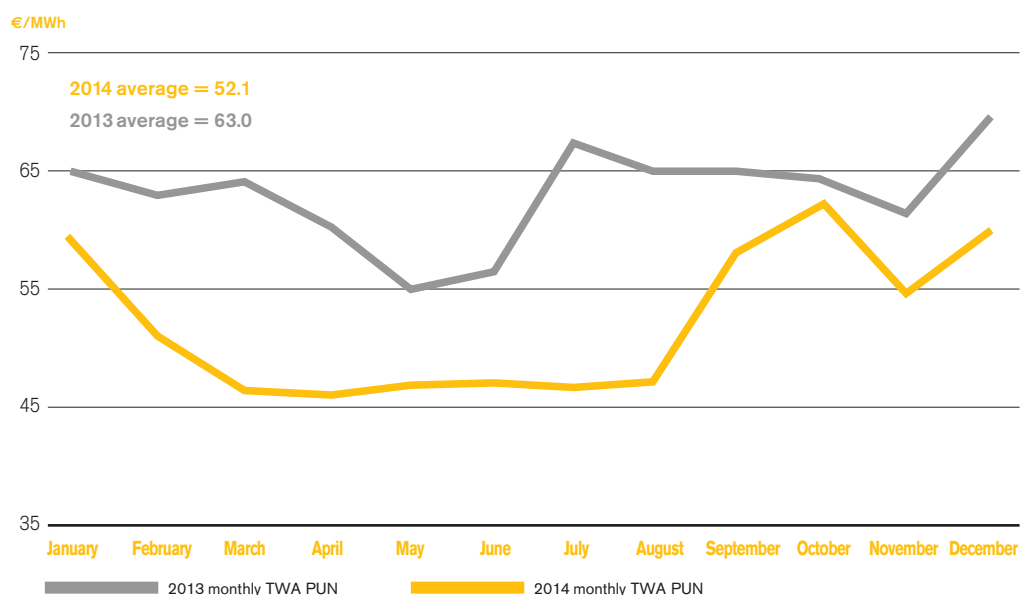
Insofar as the price scenario is concerned, the time-weighted average (TWA) for the Single National Price (abbreviated as PUN in Italian) settled at 52.1 euros per MWh, for a decline of 17.3% compared with 2013 (63.0 euros per MWh).

The decrease in demand and the increases in net imports and renewable production, with an attendant significant reduction in thermoelectric demand, are the main reasons for the decline in electric power prices in the domestic market. Another factors with a significant impact on conditions in 2014 was the weather variable: temperatures that were not aligned with seasonal averages contributed to a reduction in consumption in the residential sector during the winter months and failed to stimulate electric power usage for air conditioning during the summer.

In addition to the impact of falling demand, the price of electric power was adversely affected by a reduction of thermoelectric generation costs due to lower raw material prices, affecting both gas (spot) and coal.

In the F1, F2 and F3 hourly time periods the decreases amounted to 16%, 18.5% and 17.4%, respectively. In 2014, repeating the trend of 2013, average F2 levels were higher than F1 levels in the months from March to October, except for June, when they were substantially the same. The

significant output generated by renewable production sources contributed to lowering prices during the central hours of the day, shifting peak prices to the early evening hours. The chart below shows a year-over-year comparison of the monthly trend for the TWA PUN.



Consistent with the trend in Italy, prices for electric power trended downwards also in the other European markets, but decreases were smaller. More specifically, electric power prices were down 13.3% in Germany, but fell by 19.9% in France. As a result, the differential between the PUN and the price on foreign markets narrowed: the Italy-France differential contracted from 19.7 euros per MWh to 17.4 euros per MWh and the Italy-Germany differential decreased from 25.2 euros per MWh to 19.3 euros per MWh.

### Demand for Natural Gas in Italy and Market Environment

In billions of m <sup>3</sup>	2014	2013	% change
Services and residential customers	25.6	30.4	(16.0%)
Industrial users	16.5	16.5	(0.1%)
Thermoelectric power plants	17.7	20.7	(14.3%)
System usage and leaks	1.6	1.9	(13.6%)
<b>Total demand</b>	<b>61.4</b>	<b>69.5</b>	<b>(11.6%)</b>

Source: 2013 data and preliminary 2014 data from Snam Rete Gas and the Ministry of Economic Development and Edison estimates.

In 2014, Italian demand for natural gas contracted by 11.6% compared with the previous year to a total of about 61.4 billion cubic meters, for an overall reduction of about 8.1 billion cubic meters. This decrease is attributable mainly to the residential sector (-4.8 billion cubic meters; -16.0% compared with 2013), due to unusually mild weather during the winter months and a resulting lower usage for heating purposes. Consumption was also down sharply in the thermoelectric segment (-3.0 billion cubic meters; -14.3% compared with the previous year) due, in addition to an increase in production from renewable sources, hydroelectric and photovoltaic above all, to a reduction in demand for electric power in all months of the year but particularly during the summer months, which were characterized by particularly mild weather in 2014. Consumption in the industrial sector held steady (-0.1% compared with 2013).

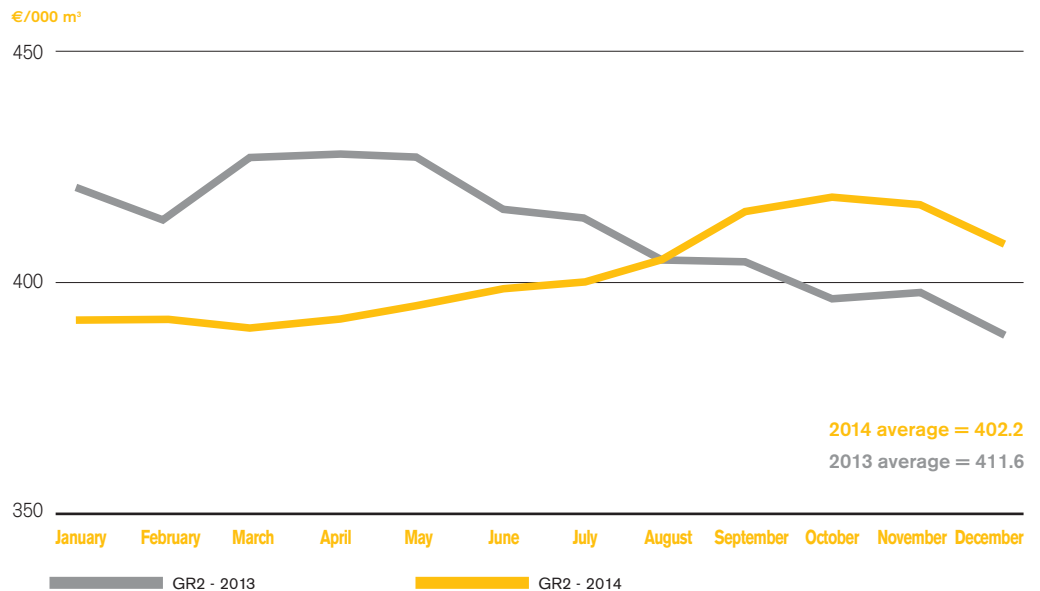


A highly successful turnout by the public and local authorities at the Meduno power plant and the Ca' Selva Dam, which are part of the hydroelectric facilities of the Meduna Valley in the Friuli Venezia Giulia region.

The following developments characterized supply sources in 2014:

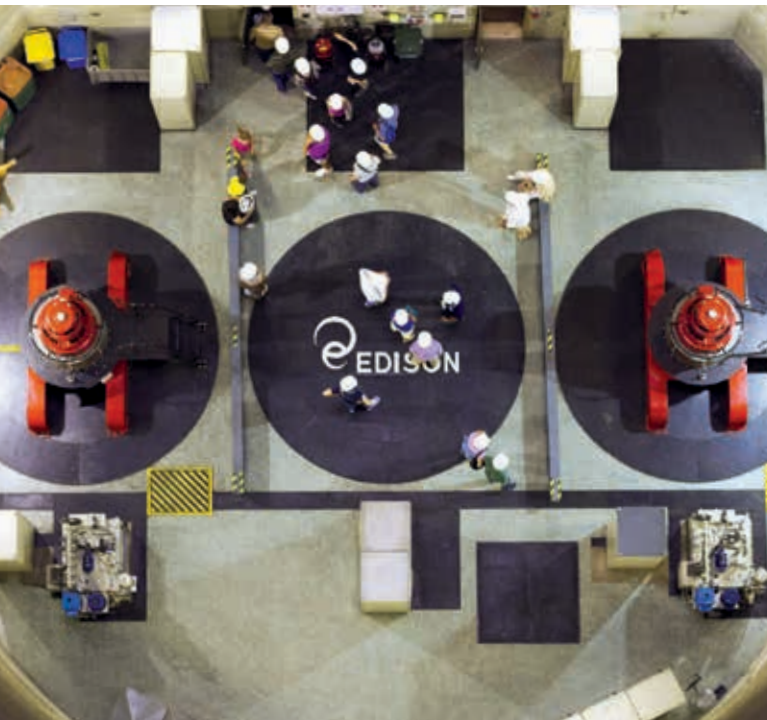
- domestic production was down compared with 2013 (-0.5 billion cubic meters; -7%);
- imports of natural gas decreased compared with the previous year (-6.2 billion cubic meters; -10%);
- a net addition to the gas inventory of about 0.9 billion cubic meters.

Prices for indexed gas (shown in the chart below, which uses the Gas Release 2 formula as a benchmark), while lower by 2.3%, compared with the previous year (about 9 euros/000 per standard cubic meter), showed an upward trend. During the second half of the year, the marginally bearish effect of crude oil, due to the timing lag with which it is reflected on prices for indexed gas, was more than offset by the appreciation of the U.S. dollar versus the euro, pushing the Gas Release 2 to higher average level than in the previous year.

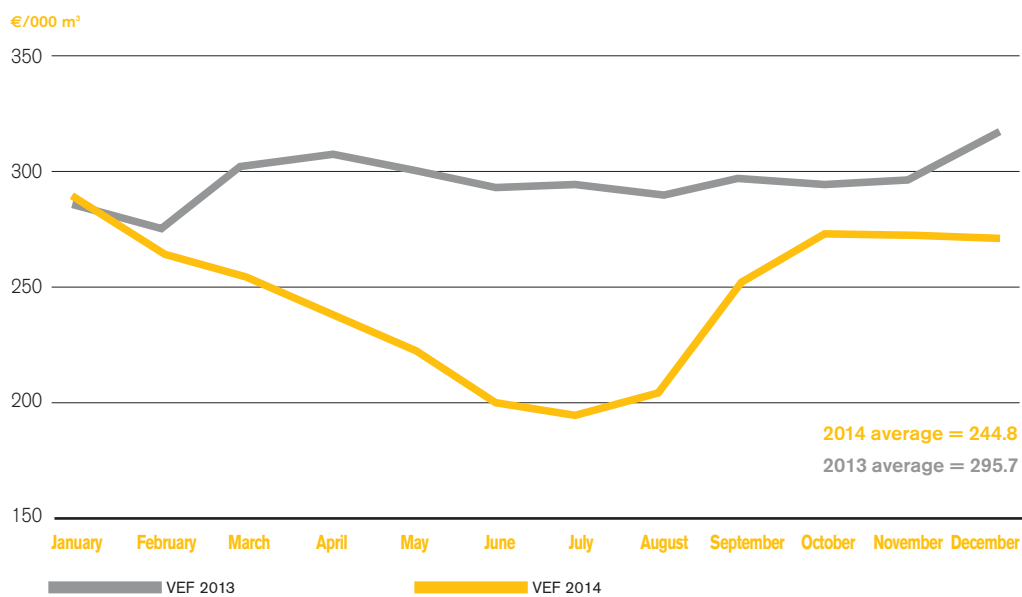


As for the monthly trend for gas prices on the spot market (shown in the following chart, which uses the price at the Virtual Exchange Facility - VEF as a benchmark), gas prices in Italy followed the declining trend of other European gas hubs in 2014, contracting by 17.2% compared with the previous year. The main factors accounting for this decrease included a stagnating demand, which contracted by about 8 billion cubic meters, and the high level of stored gas, which resulted in a structural oversupply of gas during the summer, with a downward pressure on prices both in the inventory addition phase and the release phase in the fourth quarter.





Despite the lower annual average compared with 2013, the VEF recorded a stronger upward bias than the other European hubs, concurrently with the most acute phase of the geopolitical tensions between Russia and Ukraine (third quarter of 2014), which reduced the volumes imported through Austria and caused an increase in the VEF-TTF differential. In October, this differential rose to 0.05 euros per standard cubic meters, this trend was reversed when Gazprom and Naftogaz reached an agreement at the end of the same month. On an annual basis, the VEF-TTF differential widened from 0.011 euros per standard cubic meters in 2013 to 0.024 euros per standard cubic meters in 2014.



The table below shows average annual prices for the Gas Release 2 and the VEF:

	2014	2013	% change
Gas Release 2 - euro/000 m <sup>3</sup> <sup>(1)</sup>	402.2	411.6	(2.3%)
VEF - euro/000 m <sup>3</sup>	244.8	295.7	(17.2%)

<sup>(1)</sup> Gas Release 2: Gas sold by ENI to competitors pursuant to a 2007 resolution by the Antitrust Authority. It reflects the trend of natural gas prices under long-term supply contracts. The price is the one quoted on the Virtual Exchange Facility.

In the residential market, the Wholesale Distribution Charge (abbreviated as CMEM in Italian) rate component, which underwent several indexing changes in 2013, was fully indexed to spot gas in 2014, as required by Resolution No. 196/2013/R/GAS.

## LEGISLATIVE AND REGULATORY FRAMEWORK

The main legislative and regulatory measures enacted in 2014 that had an impact on the various businesses of the Group are reviewed below.

### Electric Power

#### Environment

**Law No. 23 of March 11, 2014, "Taxing Authority Delegation Law,"** which sets forth "*Provisions for a more equitable, transparent and growth oriented taxation system,*" was published on March 12, 2014, in Issue No. 59 of the *Official Gazette of the Italian Republic* and went into effect on March 27, 2014. Article 15 sets forth provisions concerning "Taxation in the Energy and Environmental Fields" aimed at steering the market towards sustainable consumption and production modalities and revise the rule governing excise taxes on energy products and electric power, taking also into account carbon content and emissions of nitric oxide and sulfur oxide, consistent with the principles that will be adopted with the approval of the proposed amendment to Directive No. 2003/96/EC, as mentioned in Communication No. COM(2011)169 published by the E.U. Commission on April 13, 2011.

**"Competitiveness" Decree Law:** Law No. 116 of August 11, 2014 was published on August 20, 2014 in Issue No.192 of the *Official Gazette of the Italian Republic*, converting the Competitiveness Decree, which set forth "Urgent provisions for the farming sector, environmental protection and energy efficiency in school and university buildings, the relaunching and development of business enterprises, the containment of costs affecting electric power rates and the immediate definition of compliance requirements deriving from European regulations." This law contains some provisions that are relevant to the Company. More specifically:

- 1) article 23 defines as "essential for the reliability of the electric power system" all Sicilian power plants with a capacity of more than 50 MW (excluding non-programmable renewable source facilities, such as photovoltaic and wind power systems) until the Sorgente-Rizziconi power line is commissioned and orders, in the interim, the elimination of the Sicily and Sardinia macro zones;
- 2) article 24 requires certain energy self-consumption mechanisms (such as Internal User Networks, Efficient User Systems and equivalent systems), which under the previous regulations paid rate charges and system costs only for the energy drawn from the grid, to pay a portion of those charges also on energy consumed and not drawn from the grid, i.e., on self-produced energy (Excluding renewable source systems with a capacity of not more than 20 kW);
- 3) article 26, which is comprised on two parts: the first part of this provision (so-called mandatory incentive spreading around provisions), in order to achieve an annual reduction of the incentive provided to large-scale photovoltaic facilities (capacity of more than 200 kW), gives producers a choice among three options:
  - an extension from 20 to 24 years of the incentive period in exchange for an adjustment to the unit value of the incentive, the amount of which will depend on the remaining length of the incentive period;
  - retaining the 20-year the incentive payment period, in exchange for a reduction of the incentive during an initial period and a corresponding increase of the incentive during a second period, in accordance with percentages defined by the Ministry of Economic Development;
  - retaining the 20-year the incentive payment period, in exchange for a percentage reduction specified in the decree (6% for facilities with a rated capacity between 200 kW and 500 kW, 7% for systems between 500 kW and 900 kW and 8% for those of more than 900 kW).

The second part of the article provides the beneficiaries of multi-year incentives for the production electric power from renewable sources, with the option of selling up to 80% of their renewable source incentives to international financial operators through an auction organized by the Electric Power and Gas Authority (the "Authority"). These incentives will not be subject to adjustment as of the date of sale.

## Wholesale Market

**Remuneration of production capacity:** On June 30, 2014, the Ministry of Economic Development officially approved the new capacity market mechanism proposed by Terna. Initial auctions should take place in 2015 and the new mechanism should go into effect starting in 2019.

As for the transitional capacity payment system, the Authority published Resolution No. 320/2014/R/eel setting forth its flexibility remuneration proposal for the 2015-2017 transitional period, which it submitted to the Ministry for approval. In addition, by Resolution No. 400/2014/R/eel, the Authority modified the criteria for the disbursement of the GS fee as part of the transitional capacity payment, in compliance with the relevant decision by the Council of State, delegating to Terna the task of defining any applicable payment adjustments.

**Facilities that are essential for the reliability of the electrical system:** Facilities classified as essentials for 2014 included San Quirico (included with cost reimbursement status) and Milazzo (included in alternative modalities with a contract with Terna for the forward step-up supply of reserve on the Dispatching Services Market). On September 30, 2014, Edison filed an application requesting an advance on the reimbursement owed for San Quirico.

In 2015, due to the effect of Decree Law No. 91/14, all Sicilian power plants with a capacity of more than 50 MW will qualify as essential until the new power line with Calabria is commissioned and will thus be entitled to be specifically reimbursed for their fixed and variable costs of an operational nature, in addition to an adequate return on invested capital. The Authority implemented the abovementioned decree by publishing Resolutions No. 521/2014/R/eel and No. 667/2014/R/eel.

**Dispatching for renewable sources:** In June 2014, the Council of State permanently voided Resolution No. 281/12 concerning the introduction of imbalance compensation penalties for non-programmable renewable-source facilities, providing the Authority with a mandate to revise the relevant regulations, taking into account the different degree to which sources can be programmed. This issue was the subject discussions during the year and revised rules were set forth in Resolution No. 522/2014/R/eel, which went into effect on January 1, 2015.

**Private network, RIU and SEU:** In March 2014, Enel Distribuzione challenged a resolution concerning San Quirico, by which the Authority recognized Edison's right to obtain an agreement for the remuneration and use of its assets by the distributor. In addition, at the end of December, the Authority published a consultation document on the regulations applicable to RIUs.

## Retail Market

**Revision of end-customer billing documents:** In October 2014, further to a consultation process aimed at defining regulatory measures regarding the transparency, rationalization and simplification of the information provided in billing documents (DCO 69/2014/R/Com of February 20, 2014), the Authority published Resolution No. 501/2014/R/com, which defines a new invoice layout that will go into effect on September 1, 2015.

**Reactivation of the project for the definition of the standardized network code for electric power distribution:** At the end of 2013, the AEEG reactivated the project for the definition of the standardized network code for the electric power distribution system. During the initial phase, the focus of the project was on adopting provisional measures aimed at resolving some problems that had arisen with regard to billing for the transmission service and determining the guarantees required of operators for the purpose of accessing the service. On March 14, 2014, the Authority convened the first meeting of the Work Group for the electric power standardized network code. The main items on the meeting's agenda included: provision of guarantees to access the distribution service (determination of the amount of the guarantees and definition of the types of guarantees allowed) and billing for transmission services (standardization of transmission invoices and payment terms). Edison attended





Major success of the EDISON START national award for the development of innovative projects in the fields of energy, social development and smart communities. In addition to a prize of 100,000 euros, the three winning entities were provided with tutoring by Edison experts.

the meeting as a representative of Associazione Federestrattiva. In June, the Authority published a consultation document that contains all of the recommendations discussed by the Work Group. A second work group was convened on September 12, 2014 to analyze the Authority's initial positions regarding invoicing and guarantees. Edison attended all meetings and submitted its recommendations as IGAS. An additional consultation document (618/2014) published in December 2014 sets forth the final positions regarding guarantees and invoicing for the transmission service. Edison submitted its remarks on the consultation document within the deadline of January 16, 2015.

**Integrated Information System:** In the first half of 2014, the Authority carried out a consultation process reflected in Resolution No. 296/2014/R/gas, which extends the system's platform to the gas sector through the accreditation of users and distributors and the population of the official central register. In August 2014, the Authority published consultation No. 429/2014/R/eel, which proposes that metering data be managed by the Integrated Information System following a testing period during which distributors will send metering data concurrently to the Integrated Information System. In addition, by Resolution No. 398/2014/R/eel the Authority established the rules for the contract transfer process within the framework of the Integrated Information System for the electric power sector, defining the modalities by which an end customer can acquire title to an active point of delivery, giving priority to the straight contract transfer (without change of supplier). The resolution does not set a date when these rules will go into effect, but outlines a path with deadlines for the different activities. In December 2014, the Authority published a resolution to start the testing process regarding the management of hourly metering data within the framework of the Integrated Information System.

**Consumer Code:** In June 2014, the Authority, by Resolution No. 266/2014/R/com, adopted the provisions of the Consumer Code (Legislative Decree No. 21/2014). The abovementioned resolution specifies that the Code's provisions are applicable only to residential customers for contracts signed after June 13, 2014 and introduces certain amendments to the Commercial Conduct Code (additional information that must be provided to final residential customers before executing a contract; change in the maximum deadline for exercising the right to void the contract, which is extended from 10 business days to 14 calendar days) and rules applicable to deceptive business practices (amends the content of preventive measures and complaint procedures). In addition, the Authority launched two consultation processes aimed at completing the adoption of the Decree both within the framework of the Commercial Conduct Code (this consultation was published in August with DCO 401/2014) and with regard to deceptive business practices (publication pending).



**Delinquent customers:** A project carried out by Edison together with the main market operators resulted in the publication, in October 2014, of a consultation document (477/2014) that addresses in general terms the issue of delinquent end customers (tools to reduce the incidence of delinquent customers ex-ante and ex-post). The main issues includes: switching with reserve and assignment of the receivable, simplification and integration of the Indemnification System and risk sharing by the seller and the distributor (system of indemnities). The abovementioned document adopted in part the recommendations of the joint working group and, consequently, the operators will shortly request a meeting with the Authority.

**Unbundling:** In July 2014, the Authority began consultations (DCO 346/2014) about the reform of functional unbundling obligations for the electric power and gas sectors. The most significant recommendation concern brand unbundling, requiring the complete separation of the brand and communication policies from distribution and sales activities in the gas sector and distribution, sales in the deregulated market and sales to customers with protected status in the electric power sector. Edison views favorably the activities presented in the consultation document and looks forward to further consultations.

**Handling of disputes between sellers and customers:** In July 2014, the Authority began a process (410/2014) aimed at rationalizing the system of protections for end customers with regard to handling complaint and settling amicably disputes with operators in regulated sectors. The objectives include handling disputes more efficiently, greater involvement of customers and a revision of the current commercial quality rules. In October 2014, the Authority held hearings open to consumers and their associations and to sellers and their trade associations to obtain additional information useful for the achievement of the desired objectives. The publication of a document incorporating the findings is pending.

## Hydrocarbons

### Infrastructures

**Modulation storage - allocation modalities (Ministry Decree of February 19, 2014 and Resolution No. 85/2014/R/Gas):** As required to implement the provisions of Article 14, Section 3, of the Deregulations Decree Law (Law No. 27 of March 24, 2012), as amended by Article 38, Section 2, of the Growth Decree Law (Law No. 134 of August 7, 2012), the Ministry published a Decree redefining the volumes and allocation modalities of modulation storage for the 2014-2015 thermal year. The portion of stored gas earmarked for the modulation service was set at 6.95 Gm<sup>3</sup> (including 6.1 Gm<sup>3</sup> Stogit and 0.54 Gm<sup>3</sup> Edison Stoccaggio) and will be allocated by means of consecutive auctions, structured based

on a predefined calendar for the entire injection period and a reserve price not disclosed to the operators. 50% of this capacity will be reserved for the modulation needs of the residential market, which will have allocation priority with regard to the order in which the auctions will be held. Subsequently, by Resolution No. 85/2014/R/gas, the Authority regulated the modalities for organizing the auction procedures for the conveyance of storage capacities for the 2014-2015 thermal year, requiring the use of a pricing system of the system-marginal-price type only for the first auction and a system of the pay-as-bid type for subsequent auctions. In addition, the resolution requires that the allocation fee determined based on the auction's outcome be applied to the conveyed uniform and peak storage capacity, instead of the fs fee, and that the fPI and fPE fees be set at zero. Gas handling fees are also set at zero for all storage services. Lastly, regarding the revenue guarantee mechanism for storage operators, the resolution requires that the CVos fee be charged for the gas injected into the network during the winter months: for the October 1, 2014-March 31, 2015 period, this fee was set at 0.009 euros per standard cubic meter, while the amount defined by Resolution No. 641/13 (0.00095 euros per standard cubic meter) was applied for the period until September 30, 2014. By Resolution No. 369/2014, the Authority set the CVos at zero for the period from April 1 to December 31, 2015 and launched a procedure to determine whether it would be better to shift the imposition of the CVos downstream of the VEF.

Edison Stoccaggio allocated the all of the available peak capacity of 0.54 Gm<sup>3</sup>.

Subsequently, in June, the Authority published Resolution No. 295/2014/R/Gas, for the purpose of offsetting the financial impact on storage companies of the changes made by the abovementioned resolution No. 85/2014/R/gas to the regulations governing capacity conveyances. These changes made it necessary to adjust the revenue guarantee mechanism for storage companies (in advance) because the revenues actually earned by these companies are tied to the award prices of the conveyance auctions which, as mentioned above, have been significantly lower than those resulting from the application of the rate components (as per Resolution No. 350/2013 - 2014 rates).

Starting next July, the storage companies will receive in advance from the Equalization Fund for the Electric Power Sector the amounts resulting from the mechanism to guarantee capacity revenues (each month one-twelfth of the total balance) in addition to the missing commodity revenues (from the elimination of the storage rate variable component) for the third preceding month.

**Criteria to regulate rates for the natural gas storage service:** On October 30, 2014, by Resolution No. 531/2014/R/gas, the Authority defined the criteria for the main parameters to determine the allowed revenues of operators of storage systems for the next 2015-2018 regulatory period. In addition, the Resolution confirms the current rate amounts for up to the end of the current thermal year (March 2015) and leaves to subsequent resolutions the task of defining new rules for the determination of rate amounts that are better coordinated with the mechanisms for the competitive allocation of storage capacity. Subsequently, it will also define additional incentive mechanisms for the development of the new peak capacity required pursuant to Decree Law No. 133 of September 12, 2014 (also known as "Let's Get Italy Growing" Decree) converted into Law and published on September 12, 2014 in Issue No. 212 of the *Official Gazette of the Italian Republic*.

More specifically, this resolution:

- Sets at 6.0% the return on invested capital (in the third regulatory period, the WACC rate was 6.7%).
- Calls for a revision of the WACC computation, requiring that it be updated in 2015 to make it consistent with the corresponding parameter set for the other regulated services (transmission and distribution) and using only the risk-free rate as a benchmark. This revision will determine a WACC valid for the remaining three years of the regulatory period.
- Confirms the return on the fixed assets under construction, but only for those recognized up to December 31, 2014 and using the base WACC, differently from what is currently the case (4% increase over the base WACC).
- To cut in half the regulatory time lag and minimize its financial impact, the computation of the allowed invested capital shall include investments for the year when the rate proposal is submitted.
- Establishes incentivizing mechanisms for new investments put into services starting in 2015 based on market criteria (withholding of a portion of extra-revenues in auctions for the allocation of storage capacity).



- Allows the application of the reference revenue guarantee factors, but “weakened” compared to the current level because the full remuneration deriving from the incentives for investments carried out during the regulatory periods is guaranteed only if the entire capacity is allocated. Differently from the past, the coverage factor is also extended to 80% of the operating costs. This corrective factor is applicable only to storage facilities in service as of December 31, 2014, or scheduled to be put into service on January 1, 2015, provided that are part of the so-called strategic infrastructures referred to in Article 3 of Legislative Decree No. 93/11, which shall be identified by the government with a special Prime Minister’s Decree.

**Regulation of storage service quality:** On December 4, 2014, by Resolution No. 596/2014/R/gas, the Authority defined the obligations and presentation standards for storage companies regarding the reliability, continuity and commercial quality of the natural gas storage service for the next regulatory period beginning on January 1, 2015.

**Storage costs:** In consultation document No. 553/2014/R/gas “Reform of the provisions concerning the coverage of storage costs,” the Authority proposes changing the regulation concerning storage costs coverage modalities by charging a new fee for the volumes allocated at the exit points of the national gas pipeline network, applied to the volumes injected at the entry points. This reform will also be adopted for the other fees, added to the transmission rate, applied to injections at the entry points of the national gas pipeline network.

**Flexibility of the Adriatic LNG terminal:** In September 2014, by Resolution No. 448/2014/R/gas, the authority approved a proposal submitted by Adriatic LNG for the introduction of daily flexibility and temporary storage services (as required by Resolution No. 502/2013/R/gas), conditional on the implementation of certain changes that reflect requests put forth by Edison during the consultation phase (also, and more importantly, in terms of amendments to the Code).

The provisions of the resolution regarding the flexibility service concern the following issues:

- jointly deciding the monthly program (ongoing users);
- availability and delivery of the flexibility service;
- determination of the cost of the flexibility service.

Subsequently, Adriatic LNG published the documents concerning the Flexibility Service and the temporary storage service specifying the respective rates.

## Rates and Market

**Rate regulations of the transmission system for the 2014-2017 regulatory period and updated gas transmission components (Resolutions No. 514/2013/R/gas and 458/2014/R/com):** The new regulation substantially confirms the old regulation, continuing to call, during the next regulatory period, for the adoption of a variable charge and a fixed charge for reserved transmission capacity. However, both the new rate structure (applied starting in January 2014) and the transmission capacity allocation criteria may be revised during the regulatory period, partly to ensure compliance with the European network code. In addition, the regional charge for redelivery point located within 15 km from the national network is being gradually eliminated, as are the reductions of this charge for off-peak usage and the startup of new redelivery points. Lastly, a re-proportioning coefficient of the charge for daily capacity conveyances at the entry points is being introduced.

By Resolution No. 458/2014, the Authority quantified the supplemental CVfg fee (which covers the costs of the guarantee factor for regasification services) in the amount of 0.0614 €cent/Sm<sup>3</sup> starting on January 1, 2015. The increase in this component derives from the adoption of the revenue guarantee factor at the OLT terminal, required also for terminals that renounce the TPA exemption, provided they qualify as essential and indispensable infrastructures to guarantee the reliability, affordability and competitiveness of energy supplies.

For issues regarding the CVos, see the section entitled “Modulation storage - allocation modalities.”



One of the most important programs organized to celebrate Edison's 130 year history was the project "At the heart of energy - a journey to the discovery of Edison's industrial facilities." In the photo, images of the event at Torviscosa (Udine).

**Gas balancing (Resolutions No. 27/2014/R/gas, No. 57/2014/R/gas and No.485/R/gas):**

Starting on February 1, 2014, new flexibility resources were gradually introduced for the offer side on the G-1 balancing platform: in addition to pipeline imports, active since November 2013, it is also possible to offer:

- resources resulting from unused delivery/injection capacity of the transmission operator Snam Rete Gas;
- additional delivery capacity provided by Stogit to its users;
- available capacity from Edison Stoccaggio;
- guaranteed flexibility in managing the existing gas in the transmission network (line pack space).

Subsequently, by Resolution No. 485/2014/R/gas, the Authority instituted some improvements and optimizations to the current structure of the balancing market for the 2014-2015 winter (originally proposed this past summers in DCO 373/2014) and published Snam's proposal for the implementation of the European Balancing Network Code (Balancing NC).

The resolution's content deals with adjustments to the balancing system for the 2014-2015 winter, specifically concerning:

- changes for the determination of prices in the G-1 session;
- compatibility between the G-1 session and the introduction of entry intraday renomination cycles;
- handling of offers for resources requiring replenishment at the VEF in subsequent days;
- identification of indicators that can be used to define Snam's performance objectives;
- market monitoring (reference to the REMIT Regulations).

In addition, the Resolution requires Snam to publish on its website the final criteria for participating in G-1 as buyer or seller and approved the version of the PB GAS Regulations in effect since February 3, 2014.

**Fourth regulatory period for calls for tenders for area gas distribution:** In 2014, some significant changes were made to the Letta Decree No. 164/2000, with the enactment of the "Destination Italy" Decree Law No. 145 of December 23, 2013 (converted into Law No. 9/2014), which significantly amended some of its provisions concerning the criteria for valuing natural gas distribution networks relevant for the purpose of awarding service delivery contracts through calls for tenders. More specifically, the new law introduces a different method for computing the reimbursement value owed to the owners of the expiring awards and concessions, when it cannot be deduced from the contracts between the municipal administration and the operator, and makes reference to Ministry's guidelines for the VIR computation. The Decree requires that, for VIR computation purposes, all public and private grants be deducted from net invested capital.



As for the bidding costs, in order to facilitate the start of the calls for tender procedures, the law requires that they be advanced by the outgoing operator, who will then recover them, with interest, from the incoming operators (who will recover this cost through the rate charged).

In the meantime, further to the approval of the Uniform Code on the quality of the rates for gas distribution and metering services for the 2014-2019 regulatory period (TUDG), the Authority, by Resolution No. 367/2014/R/gas completed the rate regulations for area concessions, specifically with regard to the rate component that covers the difference between VIR and RAB, as required by Legislative Decree No. 93/11. The abovementioned document significantly amended Resolution No. 573/2013 and its TUDG Annex (RTDG 2014/19).

The resolution also confirmed the differentiation in determining the amount at which net non-current assets are recognized for rate setting purposes, treating the cases in which the incoming operator is different from the outgoing operator differently from those in which the incoming and outgoing operator are the same (“asymmetric regulation”).

By Resolution No. 310/2014/R/gas, entitled “Provisions regarding the determination of the reimbursement value of natural gas distribution networks,” the Authority implemented the recent findings of Consultation No. 178/2014 concerning procedures and analysis methods to evaluate the differential between VIR and RAB, in implementation of the provisions of Decree Law No. 145/13 (Destination Italy).

Resolution No. 414/2014/R/gas introduced provisions concerning benchmark analyses for the purpose of verifying the differentials between VIR and RAB, as published on the Authority’s website, and defines reference values for determining unit cost benchmarks that should be used in benchmark analyses for the purpose of verifying the differentials between VIR and RAB referred to Article 16, Section 1, of Resolution No. 310/2014/R/gas.

With regard to the calls for tenders for the award of area gas distribution services, the deadline for the first lot of calls for tenders, originally scheduled for July 11, 2014, was extended for eight months by the “Competitiveness” Decree Law (Final deadline March 11, 2015). In addition, this Decree extended by six months the deadlines for the second, third and fourth lots, and by four months those for the fifth and sixth lots of area concessions.

Currently the legislative and regulatory framework for the start of the calls for tenders is completed. Article 30 *bis*, Section 1, of the “Competitiveness” Decree Law, converted with amendment into Law No. 116/2014, recognizes as valid the agreements on the determination of the VIR executed by the parties before the enactment of Ministry Decree No. 226/2011; after this document, the Guidelines set forth in the Annex to the Ministry Decree of May 22, 2014 are applicable. Please note that expert appraisals performed in the past retain some value, as they need only to be updated as of the date of preparation



of the calls for tenders to make them consistent with the requirement to deduct private grants.

An important resolution concerning the use of so-called smart meters in the residential market was published towards the end of the year. These new provisions, which amend and integrate the rules set forth in Resolution No. 631/13, call for:

- elimination of the requirement to install G4-G6 next-generation smart meters by January 1, 2015;
- resolution of the issues related to the inclusion among revenue restrictions of remote management and remote meter reading in the event of the adoption of buy-type solutions;
- partial revision of the obligation to communicate meter replacements to end customers.

**Redetermination of the CVbl fee (Resolution No. 372/2014/R/gas):** The Authority, in implementation of Decision No. 1587/2014 by the Regional Administrative Court of Lombardy, effectively confirmed the current amount of the CVbl fee, keeping it at 0.1 cent/Scm, both for prior periods (since October 2012) and for future months.

On this occasion, the Authority also published, as required by the abovementioned court decision, the report of the first investigative process launched with Resolution No. 144/2013/R/gas, after which it recomputed and confirmed the amount of the CVbl fee.

**Delinquent customers - DCO 477/2014/R/com:** In the fourth quarter, the Authority carried out a consultation process based on document DCO 477/2014/R/com "Amendments and integrations to the rules governing payment delinquency in the retail markets for electric power and natural gas," which represents the first step in addressing a reform of this subject matter that hopefully should be completed by March 2015.

The national picture is characterized by a high and growing presence of delinquent customers, particularly in recent years, which caused the Authority to call, in the consultation document, for a more proactive approach by distributors in discouraging the so-called "energy tourism" of some customers, while protecting those who are truly in difficult situations.

The main issues addressed in the consultation document are:

- limiting the overall cost for the system represented by the cost incurred by all end customers for the delinquency of a few customers;
- provide certainty about timing and applicable procedures;
- maintain incentives for sellers and distributors to manage their businesses efficiently;
- increase efficiency and competition within retail markets, define regulations for the retail segment of electric power sector and the natural gas sectors that are as homogeneous as possible.

**Mechanism for the allocation of transmission capacity at internationally interconnected points**

**- Approval of updates to the Snam Code:** In August 2014, by Resolution No. 419/2014/R/gas, the Authority approved updates to the Snam network code proposed to comply with the following resolutions:

- No. 83/2013, concerning the guidelines for the introduction of a mechanism to allocate daily capacity on a day-ahead basis for transmission via Tarvisio;
- No. 411/2013, concerning provisions to ensure that users can make available for conveyance to third parties continuous capacity (daily or longer) at internationally interconnected points.

The Authority decided that the new regulations for the secondary market would go into effect as of September 1, 2014. The Resolution also requires Snam to update its Code, consistent with the findings of the CMP guidance, and submit a report to the Authority. It is worth mentioning that the purpose of the CMP guidance, published by the European Commission on July 11, 2014, is to optimize and harmonize at the European level national regulations managing congestions, particularly with regard to bundled products.

## Issues Affecting Multiple Business Segments

**“Let’s Get Italy Growing” Decree Law:** Law No. 164 of November 11, 2014, converting with amendments Decree Law No. 133 of September 12, 2014 *“Urgent measures to reactivate construction sites, build public works, computerize the country, simplify the bureaucracy, address the hydrogeological instability emergency and stimulate the resumption of production activities,”* also known as “Let’s Get Italy Growing,” was published on November 11, 2014 in the *Official Gazette of the Italian Republic*, General Series No. 262. This decree contains some provisions that are relevant to the Company, including Article 8, which calls for a reorganization and simplification of the provisions governing excavated soil and rocks, Article 22, which introduces amendments to the metrics of the thermal account, and Article 34, which introduces amendments to the Construction Projects Code that simplify the provisions concerning the environmental remediation and securing of contaminated sites.

Provisions of even greater relevance include Article 36, which introduces measures in favor of development programs by regional administrations for hydrocarbon exploration, and Article 37, which introduces certain amendments to provisions concerning natural gas infrastructures, for the purpose of establishing that pipelines to import gas from abroad, LNG regasification terminals, natural gas storage facilities and the infrastructures of the national natural gas transmission network, including the preparatory activities necessary to develop such projects and related works, are strategically important. These activities are a national priority, are beneficial for the public good, cannot be postponed and are urgent. In addition, this Article provides investment incentive for the development of additional peak-period capacity by storage facilities starting in 2015.

In addition, Article 38 qualifies activities that involve hydrocarbon prospecting, exploration and production and the underground storage of natural gas as strategically important activities that are in the public interest, are urgent and cannot be postponed. Another change is the inclusion of onshore hydrocarbon prospecting, exploration and production activities among projects under the jurisdiction of the central government, subject to the Environmental Impact Assessment procedure and the conclusion of the procedures currently ongoing at the regional level. In addition, the decree establishes new principles for awarding mineral leases, with the aim of simplifying and reducing the time needed for issuing hydrocarbon exploration and production permits, calling for the issuance of a single concession granting document. Lastly, the decree calls for incentivizing compensation to increase the response capacity of the national storage system under peak demand conditions, with the Authority empowered to define the modalities starting next year, taking into account “the specificities of these services and market conditions and prioritizing developments characterized by a high ratio between peak-period performance and storage volume.

**Energy Efficiency Legislative Decree:** Legislative Decree No. 102 of July 4, 2014, which implements Directive No. 2012/27/EU on energy efficiency, which amended Directives No. 2009/125/EC and No. 2010/30/EU and repeals Directives No. 2004/8/EC and No. 2006/32/EC, was published on July 18, 2014 in the *Official Gazette of the Italian Republic*, General Series No. 165.

This decree sets forth a series of provisions aimed at promoting and improving energy efficiency that will contribute to the achievement of a national objective of energy savings of 20 MTEP in primary energy consumption (equal to 15.5 MTEP in final energy consumption) by 2020. This decree contains some provisions that are relevant to the Company, including:

- the white certificate mechanism is expected to generate energy savings equal to at least 60% of the national energy savings objective;
- in order to foster a more effective measurement of the consumption of electric power, gas, district heating and cooling and hot water for home use, the Authority will define the specifications for intelligent metering systems, which operators who provide metering services will be required to comply with;

- the Authority shall also intervene in regulating the billing and management of consumer metering data, in order to avoid duplications of activities and costs, using the Integrated Information System when necessary;
- the Authority shall regulate demand side access to and participation in balancing and reserve markets and other system services, defining the technical modalities with which the operators of the transmission and distribution systems will organize the participation of the suppliers of services and consumers;
- lastly, the decree introduces some new provisions concerning district heating and cooling and high-yield cogeneration.

**2013 European Delegation Law and European Law 2013-Bis:** The delegation Law for the adoption of E.U. directives and the implementation of other E.U. measures, which, regarding issues of more direct relevance to the Company, delegates to the government the task of implementing Directive 2013/11/EU on alternative modalities for the resolution of consumer disputes and the adoption of Directive 2013/30/EU concerning the safety of offshore activities in the hydrocarbon sector, was published on October 28, 2014 in the *Official Gazette of the Italian Republic*, General Series No. 251. In addition, European Law 2013-Bis "Provisions for the fulfillment of obligations deriving from Italy's membership in the European Union," Article 11 of which, in addressing issues related to the Uniform Financial Code, introduces certain provisions aimed at implementing E.U. Regulation No. 648/2012 (EMIR), was published on October 11, 2014 in the *Official Gazette of the Italian Republic*, General Series No. 261. More specifically, these regulations identify the Bank of Italy, the Consob, the Italian Insurance Oversight Institute (IVASS) and the Italian Pension Fund Oversight Commissions (COVIP) as the authorities responsible for ensuring compliance with the obligations imposed by the regulations on the parties subject to oversight, each authority for the area under its jurisdiction. Article 22, in implementation of E.U. Regulation No. 1227/2011 (REMIT), introduces new provisions concerning attributions to the Authority in areas of the wholesale energy market, providing the Authority with new investigative and enforcement powers for instances involving the abuse of insider information and violation of the obligation to disclose insider information.

### European Regulations

**Start of the process to update the Ten-Year Network Development Plan for the European gas network (TYNDP 2015-2024) by the European Commission (DG Energy) and ENTSO-G.** This Plan, the purpose of which is to present potential infrastructural developments for the European gas system (transmission, storage and LNG), is published every two years. In 2014, ENTSO-G (European association of operators of gas transmission systems) approved the cost-benefit method applied to evaluate investments, which will be used to analyze common-interest projects for inclusion in the TYNDP. During the summer, interested parties submitted common interest projects regarding new infrastructures for inclusion in the Plan. At the end of the year, the European Commission published a list of common interest projects that were candidates for funding and simplified authorization procedures. This list will be the subject of a consultation process until March 13, 2015.

**Approval of European regulation EC/312/2014, which establishes the European Network Code for balancing gas networks.** The second European Network Code required by the Third Energy Package, which is a Network Code that introduces harmonized rules for balancing the gas networks of member countries was approved on March 26. Pursuant to this Regulation, which must be implemented by all member countries by October 1, 2016 at the latest, E.U. gas transmission operators must update their balancing mechanism, adopting a system in which primary responsibility for maintaining balance positions rests with the network users, who must be given access to sufficient flexibility tools to manage the positions in their portfolios of network withdrawals and injections. Snam Rete Gas plans to implement in Italy the balancing model provided by the European Network Code by October 1, 2015.

**Final approval by the member countries and the European Commission of the European Network Code for Interoperability and Data Exchange on gas transmission networks.** Under this Code, the gas transmission companies will be required to standardize a number of operating procedures (content of interconnection contracts, units of measure used, procedures to manage different quality gases, etc.) so as to reduce the existing technical obstacles to transnational gas flows between E.U. countries. In addition, protocols and IT formats common for all E.U. transmission companies will be introduced to standardize the exchange of data flows with network users.

**MIFID Directive (Directive No. 65/2014 EU).** The new MIFID Directive (Financial Market Instruments), which amends and repeals the existing Directive No. 39/2004, and the new MIFIR Regulation No. 600/2014, which introduces some amendments to the EMIR Regulation, due to the provisions introduced by the new MIFID, were published in the *Official Journal of the European Union* in June 2014.

Relevant provisions for trading in commodities concern the following issues:

- a more restrictive revision of the previous framework for exemptions from the MIFID licensing requirement for commodity trading;
- a possible revision of the scope of the concept of financial instruments, relevant for forward contracts for power and gas, depending on the terms and execution location;
- the occurrence of areas of duplication with the EMIR Regulations, particularly with regard to the classification of hedging instruments.

The measures developed to implement the Directive, which are currently in the definition phase, will govern several detail issues, including the conditions to determine whether certain instruments should be treated as financial derivatives (i.e., physical delivery) and the criteria underlying the exemption framework (i.e., definition of ancillary activities and criteria such as market share, utilized capital, etc.). A period of two years is being provided to incorporate into the legal systems of the member countries these new rules, which will become applicable in January 2017.

In 2014, new rules governing market abuse (former Directive No. 6/2003/EC) were also adopted, and published in the *Official Gazette of the Italian Republic*, through new MAR Regulations (EU Regulation No. 596/2014) concerning the prohibition of insider dealing and market manipulation and a new Directive (Directive No. 57/2014 EU), which established the crimes of insider dealing and market manipulation.

This revision applies to the financial markets in general (the REMIT Regulations apply to wholesale energy markets) and the new Regulations will apply to all financial instruments (including commodity derivatives and compliance instruments that are part of the EU's ETS) traded on regulated markets, MTFs and OTFs. The scope of implementation (including the prohibition of insider dealing and market manipulation) will be broadened to include, under certain conditions, the spot and OTC markets.

# OVERVIEW OF THE YEAR. PERFORMANCE OF THE GROUP'S BUSINESSES



## ELECTRIC POWER OPERATIONS

### Quantitative Data

#### Sources

GWh (*)	2014	2013 (**)	% change
<b>Edison's production:</b>	<b>17,616</b>	<b>18,408</b>	<b>(4.3%)</b>
- Thermoelectric power plants	11,756	13,503	(12.9%)
- Hydroelectric power plants	4,954	4,029	23.0%
- Wind farms and other renewables	906	876	3.4%
<b>Other purchases (wholesalers, IPEX, etc.)<sup>(1)</sup></b>	<b>78,564</b>	<b>55,407</b>	<b>41.8%</b>
<b>Total sources in Italy</b>	<b>96,180</b>	<b>73,815</b>	<b>30.3%</b>

<sup>(1)</sup> Before line losses and excluding the trading portfolio.

(\*) One GWh is equal to one million kWh, referred to physical volumes.

(\*\*) The 2013 amounts were restated for the adoption of IFRS 11 "Joint Arrangements" and a different presentation of Sources/Uses.

#### Uses

GWh (*)	2014	2013 (**)	% change
End customers <sup>(1)</sup>	20,409	19,149	6.6%
Other sales (wholesalers, IPEX, etc.) <sup>(2)</sup>	75,771	54,666	38.6%
<b>Total uses in Italy</b>	<b>96,180</b>	<b>73,815</b>	<b>30.3%</b>

<sup>(1)</sup> Before line losses.

<sup>(2)</sup> Excluding the trading portfolio.

(\*) One GWh is equal to one million kWh.

(\*\*) The 2013 amounts were restated for the adoption of IFRS 11 "Joint Arrangements" and a different presentation of Sources/Uses.

### Financial Highlights

(in millions of euros)	2014	2013 (**)	% change
<b>Sales revenues</b>	<b>7,859</b>	<b>7,162</b>	<b>9.7%</b>
Reported EBITDA	652	656	(0.6%)
Adjusted EBITDA <sup>(1)</sup>	690	666	3.6%
Capital expenditures	46	31	48.4%
Number of employees <sup>(2)</sup>	1,051	1,138	(7.6%)

<sup>(1)</sup> See note on page 18.

<sup>(2)</sup> Year-end data.

(\*\*) The 2013 amounts were restated for the adoption of IFRS 11 "Joint Arrangements" and a new presentation of derivatives and other nonrecurring expenses.

### Production and Sales

In 2014, the Group consolidated a business model that calls for the separation of power generation activities (thermoelectric and renewables), sales to the end-user market (business and retail), proprietary trading activities and buying and selling activities, aimed at implementing adequate segregation and risk hedging policies for the abovementioned portfolios and at maximizing their profitability through their optimization. Within the framework of this model, the Group's net production in Italy totaled 17,616 GWh, or 4.3% less than in 2013; more specifically, thermoelectric output was down 12.9%, consistent with the prevailing national trend and reflective of a drop in demand for electric power and a concurrent sizable gain in production from renewable sources. With regard to renewables, hydroelectric production was up sharply in 2014 (+23%), thanks to the extraordinary abundance of water resources that characterized Italy in 2014, and there was a modest increase in production from wind farms and other renewable-source facilities (+3.4%).

Gas storage center at S. Potito and Cotignola (Ravenna).



More specifically with regard to wind power facilities, it is worth mentioning that a transaction executed at the beginning of October within the framework of the abovementioned reorganization of the renewable energy hub resulted in the acquisition of the Andretta Bisaccia and Rignano Garganico wind farms in the Apulia region. Production by these two facilities more than offset the negative impact of a reduced availability of wind energy during the period.

Other purchases and sales were up sharply in 2014, due to production facilities operating in bidding mode and through the balancing of the individual portfolios and the use of make-or-buy activities, which, by exploiting the flexibility of the Group's CCGT power plants, made it possible to reduce thermoelectric output (not competitive in the current market environment), choosing instead purchases on the IPEX and wholesale market.

### **Operating Performance**

In 2014, sales revenues totaled 7,859 million euros, or 9.7% more than in 2013, due mainly to the effect of higher sales volumes, which more than offset a reduction in average sales prices driven by the trend in the benchmark scenario.

Within the context of an electric power market that continues to be particularly challenging, with further reductions both of prices and consumption, adjusted EBITDA improved to 690 million euros in 2014, up slightly compared with 2013 (666 million euros) thanks to positive operating performances in the end customer sales segment and the abovementioned abundance of water resources.

### **Capital Investments**

Capital expenditures totaled 46 million euros in 2014, including 10 million euros for the construction of a wind power facility in Baselice, which went into service in December 2014, with minor additions and maintenance upgrades to hydroelectric and thermoelectric facilities accounting for the balance.

## HYDROCARBONS OPERATIONS

### Quantitative Data

#### Sources of Natural Gas

Gas in millions of cubic meters	2014	2013	% change
Productions <sup>(1)</sup>	417	410	1.7%
Imports (Pipeline + LNG)	9,915	12,512	(20.8%)
Other purchases	2,739	3,078	(11.0%)
Change in stored gas inventory <sup>(2)</sup>	172	(341)	n.m.
<b>Total sources in Italy</b>	<b>13,243</b>	<b>15,659</b>	<b>(15.4%)</b>
<b>Production outside Italy <sup>(3)</sup></b>	<b>1,734</b>	<b>1,799</b>	<b>(3.6%)</b>

<sup>(1)</sup> Net of self-consumption and stated at Standard Calorific Power. It includes the production from the Izabela concession in Croatia imported into Italy.

<sup>(2)</sup> Includes pipeline leaks. A negative change reflects additions to the stored gas inventory.

<sup>(3)</sup> Counting volumes withheld as production tax.

#### Uses of Natural Gas

Gas in millions of cubic meters	2014	2013	% change
Residential use	2,314	2,737	(15.5%)
Industrial use	3,413	2,707	26.1%
Thermoelectric fuel use	4,407	6,578	(33.0%)
Other sales	3,109	3,637	(14.5%)
<b>Total uses in Italy</b>	<b>13,243</b>	<b>15,659</b>	<b>(15.4%)</b>
<b>Sales of production outside Italy <sup>(1)</sup></b>	<b>1,734</b>	<b>1,799</b>	<b>(3.6%)</b>

<sup>(1)</sup> Counting volumes withheld as production tax.

#### Oil Production

in thousands of barrels	2014	2013	% change
Production in Italy	2,620	1,940	35.0%
Production outside Italy <sup>(1)</sup>	1,541	1,640	(6.0%)
<b>Total production</b>	<b>4,161</b>	<b>3,580</b>	<b>16.2%</b>

<sup>(1)</sup> Counting volumes withheld as production tax.

### Financial Highlights

(in millions of euros)	2014	2013 (*)	% change
<b>Sales revenues</b>	<b>5,168</b>	<b>5,998</b>	<b>(13.8%)</b>
Reported EBITDA	293	425	(31.1%)
Adjusted EBITDA <sup>(1)</sup>	255	415	(38.6%)
Capital expenditures	270	135	100.0%
Investments in exploration	67	92	(27.2%)
Number of employees <sup>(2)</sup>	1,419	1,415	0.2%

<sup>(1)</sup> See note on page 18.

<sup>(2)</sup> Year-end data.

(\*) The 2013 amounts were restated for the adoption of IFRS 11 "Joint Arrangements" and a new presentation of derivatives and other nonrecurring expenses.

### Production and Procurement

In 2014, production of natural gas, counting the combined output of the Italian and international operations, decreased from 2,209 million cubic meters to 2,151 million cubic meters, for a year-over-year reduction of 2.6%. Production marketed in Italy was up 1.7%, thanks to the start of production from the Izabela field in Croatia, which was imported into Italy and more than offset the natural decline of production curves for some fields. Outside Italy, production decreased slightly (-3.6%), reflecting the normal depletion of the Egyptian concessions, offset in part by the contribution of fields in Great Britain acquired in October 2013.



Events during the “Summer Fest,” a favorite of the entire staff, included the customary awards ceremony for the company arena soccer tournament.

Production of crude oil totaled 4,161,000 barrels, up from 3,580,000 barrels in 2013, with output in Italy increasing mainly due to production from the Tesoro field following the development activities completed the previous year, which more than offset a shortfall in production abroad. Gas imports decreased by about 20.8% compared with the previous year, to a total of about 9.9 billion cubic meters, due to reduced demand from residential and thermoelectric users.

### Sales and Marketing

Gas volumes sold to customers in Italy totaled 13,243 million cubic meters in 2014, for a reduction of 15.4% compared with 2013.

Specifically, sales to residential users were down by 15.5%, due to the year’s weather dynamics, while deliveries to thermoelectric users decreased by 33%, due to lower gas consumption by the Group’s thermoelectric facilities and power plants of external customers, which, as mentioned above, were adversely affected by a contraction in national demand and an increase in output by renewable-source facilities. On the other hand, sales to industrial users grew by about 706 million cubic meters (+26.1%) thanks to the acquisition of new customers.

### Operating Performance

Sales revenues amounted to 5,168 million euros in 2014, or 13.8% less than in 2013, due mainly to decreases both in sales volumes and average sales prices that reflect the impact of a significant decline in the benchmark scenario.

Adjusted EBITDA totaled 255 million euros at December 31, 2014, for a decrease of 160 million euros compared with the previous year.

The abovementioned EBITDA amount is the net result of the contribution of the exploration and production activities (427 million euros, down compared with the previous year due to the decline in production mentioned above), the EBITDA earned by regulated gas infrastructures and the loss incurred by the activities engaged in buying and selling natural gas, which are continuing to experience negative average unit sales margins. For this reason, Edison is committed to pursuing to completion a second round of price renegotiations for all of its procurement contracts, in the belief that it is essential to restore a reasonable level of profitability to its portfolio of multi-year contracts.



With regard to this area, it is worth mentioning that the EBITDA reported in 2014 benefited from positive extraordinary items recognized upon the successful conclusion on August 29, 2014 of the arbitration for the price revision of the long-term contract with Promgas for the supply of natural gas. Lastly, when making a comparison with the previous year, it is important to keep in mind that the 2013 EBITDA reported by the activities engaged in buying and selling natural gas benefitted significantly from the renegotiation of contracts for the supply of natural gas from Algeria and Qatar, which included a one-off amount attributable to previous years.

### Capital Investments

In 2014, capital investments totaled 270 million euros. The main investments in Italy included 51 million euros to develop the Fauzia field, 11 million euros to develop the Clara Northwest field, 16 million euros for sidetrack drilling activities at the Clara East field, 12 million euros for development activities at the Regina field, 11 million euros at the Calipso field and 13 million euros (ancillary costs included) for the buyout of 100% of the Leonis storage vessel for the Vega oil field.

Investment projects outside Italy focused on the Abu Qir concession in Egypt for asset upgrade and work over activities for 2 wells (30.5 million euros), the Zidane concession in Norway (10 million euros), construction of the Polarled pipeline that will link Zidane with the mainland (19 million euros) and development of the Reggane concession in Algeria (24.5 million euros).

### Exploration Activities

The Group invested 67 million euros in exploration activities in 2014. Exploration projects were carried out in Norway (39 million euros, mainly to drill the Titan, Atlas, Penguin, Tvillingen and Skarfjell South wells), in Great Britain (13 million euros for exploration activities in the Handcross concession) and the Falkland Islands (11 million euros for hydrocarbon exploration activities in the southern area).

### Hydrocarbon Reserves

The Group's hydrocarbon reserves (proven reserves plus 50% of probable reserves) totaled about 46.2 billion cubic meter equivalent (283,5 Mboe) at December 31, 2014, compared with 50.4 billion cubic meter equivalent (309,3 Mboe) at the end of the previous year. Therefore, net of the volumes



produced in 2014 (about 2.8 billion cubic meter equivalent; 17,8 Mboe), hydrocarbon reserves decreased by about 1.4 billion cubic meter equivalent (8 Mboe). The main reason for this reduction was the decline in production experienced in 2014 from the Rosetta and West Wadi El Ryan concessions in Egypt, which required a downward revision at the end of the year of the estimated reserves remaining at these two concessions. The reclassification from proven to probable of a portion of the reserves at the Abu Qir concession also had a negative impact on the Group's total reserves. More detailed information is available in the section of the consolidated financial statements entitled "Additional Disclosure About Natural Gas and Oil."

## CORPORATE ACTIVITIES AND OTHER SEGMENTS

### Financial Highlights

(in millions of euros)	2014	2013 (*)	% change
<b>Sales revenues</b>	<b>48</b>	<b>52</b>	<b>(7.7%)</b>
EBITDA	(131)	(111)	(18.0%)
<i>as a % of sales revenues</i>	<i>n.m.</i>	<i>n.m.</i>	
Capital expenditures	4	5	(20.0%)
Number of employees <sup>(1)</sup>	631	630	0.2%

<sup>(1)</sup> Year-end data.

(\*) The 2013 amounts were restated for the adoption of IFRS 11 "Joint Arrangements" and a new presentation of derivatives and other nonrecurring expenses.

Corporate Activities and Other Segments include those operations of Edison Spa, the Group's Parent Company, that engage in activities that are not industrial in nature, and certain holding companies and real estate companies.

In 2014, sales revenues totaled 48 million euros, or 7.7% less than the previous year. EBITDA were negative by 131 million euros, showing a deterioration of 20 million euros due in part to nonrecurring expenses and in part to tax and environmental items.

Backstage for Edison's latest advertising campaign: the EDISON BEST offer is unparalleled.





## RECONCILIATION OF THE PARENT COMPANY'S NET PROFIT AND SHAREHOLDERS' EQUITY TO THE CORRESPONDING DATA FOR THE GROUP

Pursuant to Consob Communication No. DEM/6064293 of July 28, 2006, the schedules that follow provide reconciliations of the Group's interest in net profit and the shareholders' equity attributable to Parent Company shareholders at December 31, 2014 to the corresponding data for Edison Spa, the Group's Parent Company.

### Reconciliation of the Net Profit of Edison Spa to the Group's Interest in Net Profit

(in millions of euros)	2014	2013 (*)
<b>Net profit (loss) of Edison Spa</b>	<b>(37)</b>	<b>78</b>
Intra-Group dividends eliminated in the consolidated financial statements	(343)	(260)
Results of subsidiaries, affiliated companies and joint ventures not recognized in the financial statements of Edison Spa	375	271
Valuation of investments in associates measured by the equity method	3	-
Other consolidation adjustments	42	7
<b>Group interest in net profit (loss)</b>	<b>40</b>	<b>96</b>

(\*) The 2013 amounts were restated for the adoption of IFRS 11 "Joint Arrangements".

### Reconciliation of the Shareholders' Equity of Edison Spa to the Shareholders' Equity Attributable to Parent Company Shareholders

(in millions of euros)	12.31.2014	12.31.2013 restated (*)	12.31.2013 published
<b>Shareholders' equity of Edison Spa</b>	<b>5,581</b>	<b>5,999</b>	<b>5,999</b>
Carrying amount of investments in associates eliminated against the corresponding interests in the shareholders' equities of the investee companies, including:			
- Elimination of the carrying values of the investments in consolidated associates	(1,358)	(1,308)	(1,345)
- Recognition of the shareholders' equities of consolidated companies	2,343	2,435	2,492
Valuation of investments in associates measured by the equity method	36	32	12
Other consolidation adjustments	25	(32)	(32)
<b>Shareholders' equity attributable to Controlling Company shareholders</b>	<b>6,627</b>	<b>7,126</b>	<b>7,126</b>

(\*) The 2013 amounts were restated for the adoption of IFRS 11 "Joint Arrangements".



# SOCIAL RESPONSIBILITY. OUR ACTIONS



## INNOVATION, RESEARCH AND DEVELOPMENT

In 2014, the Research, Development and Innovation (R, D & I) Department continued its established study activities in the electric power sector and strengthened its research program in the hydrocarbon area, natural gas primarily, also taking on the role of coordinator for the R&D activities of the EDF Group in this area.

The main projects pursued by the Department focused on the following areas of technology.

### Energy Storage

Activities in this field focused on the performance characterization of advanced storage systems (Na/NiCl<sub>2</sub> and Li-ion batteries) at the Trofarello Research Center. Testing activities were carried out in collaboration with the LME Department of EDF R&D. An aspect of this project involves testing storage systems combined with photovoltaic facilities and linked with the electrical grid to optimize home self-consumption.

### Advanced Materials

The issues tackled by materials science are transversal to many innovation projects in the energy sector and, for this reason, the topic of materials was the subject of research projects at the Research Center where, in 2014, the laboratory specialized in "thin film" deposition techniques continued working on the development of solid oxide fuel cells (SOFC).

### Fuel Cells

Research in this area is being pursued by a dedicated laboratory at the Edison Research Center engaged in activities that, within the framework of European projects, are carried out in close collaboration with the EIFER Institute in Karlsruhe, Germany, and the Energetics Departments of Turin's Polytechnic University.

### Energy Efficiency and Usage Qualification

In order to pursue this topic as effectively as possible, the R, D & I Department monitors on an ongoing basis technologies for the delivery of energy efficiency services and performs specific tests in this area, such as the use of heat pumps for heating and air conditioning.

Regarding energy efficiency and usage qualification, the R, D & I Department works hand in hand with the Marketing Department, providing support for activities to develop new services, including though the use of commercial pilot projects both for residential customers and micro and small/medium-size businesses. Within the Research Center work continued at the residential simulator laboratory for post-meter services, which involved testing intelligent load management systems and usage monitoring systems; work in this area resulted in the development of the "Energy Control" product, with regard to which the R, D & I Department handled all of the technical development phases of the measuring device and of the contents regarding usage analysis.

### Data Mining

In 2014, in response to the constant evolution of the energy scenario, the Group increased its involvement in data processing and interpretation activities in order to project the production profile of renewable source facilities or classify and interpret energy consumption profiles. In this area, the R, D & I Department developed internally proprietary models based on cutting edge computational intelligence tools and conducts research in collaboration with research entities of national renown.

Vega A is the biggest oil platform in the Mediterranean Sea, in operation since 1987.

### Hydrocarbons/Natural Gas

The Trofarello Research Center completed the construction of the Hydrocarbon Laboratory, equipped with systems focused on the geomechanical and petrophysical areas, capable of delivering a broad spectrum of research and analysis services.

### 2014 EPS Edison-Volta European Physics Award

In June, Edison honored Jean-Michel Raimond with the EPS Edison-Volta European Physics Award for his important contribution to quantum physics studies and experiments, which provided the foundation for technologies, such as those of lasers and transistors, and radically innovative ideas, such as quantum computers. The EPS Edison-Volta Award builds on the tradition of the Francesco Somaini Physics Award, which, established in 1953 in honor of Alessandro Volta, the physicist from Como, is still regarded as one of the most prestigious physics awards. Edison, together with the Alessandro Volta Center for Scientific Culture in Como and the European Physics Society decided to give to the award a European dimension and continue the tradition.

### Agreement with the University of L'Aquila

The "New Technologies for Energy Monitoring" laboratory that Edison, through its R, D & I Department, built at the School of Industrial Engineering, Information and Economics of the University of L'Aquila was inaugurated in October 2014. This Laboratory is part of an agreement that Edison signed with the University of L'Aquila. This agreement, which will be in effect until 2018, calls for the establishment of four doctoral research programs in areas related to the energy sector and the award of four post graduate research grants, with a duration of one year each, and the possibility for 10 students in the final year of a specialized degree course to enroll in training courses in the oil and natural gas sector organized by Edison in collaboration with the World Energy Council (WEC). The agreement also includes the development of joint research programs and degree dissertations in the energy field.

## HEALTH, SAFETY AND THE ENVIRONMENT

The main achievements of 2014 and projects under development are reviewed below.

### Occupational Safety Performance

Consistent with previous years, the Group consolidated its focus on managing with a global approach the effect of programs to promote a culture of occupational health and safety; occupational safety indices are computed combining the data for Edison's personnel and for employees of suppliers, assigning across-the-board to management improvement objectives compared with the average results for the previous three years.

In this area, 2014 ended with the combined Injury Incidence Rate for activities in Italy settling at 1.6, down sharply compared with the result for 2013 (3.1), reflecting the effect of a reduction in the number of injuries (9 compared with 18 in 2013) achieved even though the hours worked decreased by about 4% compared with the previous year (more in detail, -12% for employees of contractors and virtually unchanged for Group employees). This achievement was made possible by a significant improvement in the rate for contractor companies, which reported an Injury Incidence Rate of 2.3, down from 5.5 the previous year. The Injury Incidence Rate also improved for Group employees, falling from 1.8 in 2013 to 1.3 in 2014, with the number of injuries decreasing from 7 the previous year to 5 in 2014.

The aggregate Lost Workday Incidence Rate for Italy was 0.12 at the end of 2014, for a modest improvement compared with the result in 2013 (0.18).

In the aggregate, adding the data for the Italian and international operations, Edison's Injury Incidence Rate decreased to 1.7 for 2014, compared with 2.3 in 2013.



## Activities Concerning Occupational Health and Safety

The main activities carried out or launched in 2014 in this area are reviewed below:

- The Risk Assessment Documents were reviewed and updated. The results of the assessments were discussed at the periodic safety meetings required by current regulations (Article 35 of Legislative Decree No. 81/08), during which progress reports on the implementation of training processes and the macro-results of employee health monitoring programs were also presented.
- The scheduled program of cross-functional training activities for managers of the Prevention and Protection Service was completed in 2014. This program consisted of 28 hours devoted to issues in the areas of equipment management and control, effectiveness of the internal auditing process, roles of the managers of the Prevention and Protection Service and handling of chemicals. At the same time a training course was also provided to Safety Union Representatives on work-related stress situations.
- As part of the Back to School at Work project, the Company offered to employees at the Foro Buonaparte headquarters a voluntary training cycle on posture in the workplace.
- The project for the certification of the safety management system at the offices in Milan and Rome was completed; the certification audit was successfully carried out in December. The issuance of the corresponding certificate marked the achievement of the goal to certify staff processes that support already certified company organizations.
- Activities involving collaboration and sharing within the Health and Safety Community of the EDF Group continued in the course of the year. More specifically, meetings on specific issues and theme-specific work groups were held, also in preparation of the OSHA Week 2014, held in October, the theme of which was "Managing the Risk of Work-related Stress Situations."

## Environmental Activities

There were no accidents with an impact on the environmental matrices (soil, subsoil, surface waters and biodiversity) in 2014.

The main activities carried out or launched in 2014 in this area are reviewed below:

- As part of the implementation of the environmental management systems, all analyses of environmental issues at operating sites and their level of significance were updated.
- The process for the environmental certification of the Engineering Division and the Trofarello Research and Development Center in accordance with the UNI EN ISO 14001 standard was successfully completed.
- The first phase of the project to monitor biodiversity at the Vega offshore field was completed. The results show that the area where the Vega A platform is located has a high level of biodiversity and an attraction effect for many species usually not found in that type of environment. A similar project was completed for the Meduno Valley hydroelectric area, which showed that Edison's facilities did not have any impact on the species present in that area.
- The 2014 program of cross-functional training activities for environmental technicians of the Environmental Protection, Safety and Quality professional family was successfully completed. This program consisted of 20 hours devoted to such issues as operational management of chemicals, effectiveness of the internal auditing process and operational management of waste.
- All activities required by national environmental laws were completed on schedule during the year, including: disclosures about the handling of drained and discharged water, reports about generated waste, disclosures about the handling of fluorinated gases with a greenhouse effect, transmission of data to the INES/E-PRTR register for targeted facilities with emissions that exceed the ceilings of the relevant regulations, disclosures required by the Emissions Trading regulations, filing of application for the issuance of the Integrated Environmental Permit, and payment of the fee for the waste tracking system (SISTR). Worth mentioning with regard to SISTR was the start of an online



system for the transportation of hazardous waste, which was supported by a specific training session for all company operators involved.

- Site characterization, safety assurance and environmental remediation work continued. Most of these activities involve highly significant industrial sites potentially polluted by activities carried out in the past but no longer related to core-business. In this area, soil remediation in areas located in the municipality of Sinigo (BZ) was successfully completed.
- Activities involving collaboration and sharing within the Environmental Community of the EDF Group continued in the course of the year. More specifically, meetings on specific issues and theme-specific work groups were held. In addition, the process of incorporating Edison within the Group's environmental management system was completed; consequently, as of May 2014, Edison is included in EDF's worldwide 14001 certificate.

### **Combined Quality, Environmental, Health and Safety Activities**

The following monitoring inspections of certified management systems were successfully completed in 2014: the 9001 quality management system for the Marketing, Sales and Energy Services Division and Edison Energia SpA; the 14001-18001 integrated environmental and safety management system for the Hydroelectric and Thermoelectric Operations, the Italy E&P Operations Department and the companies Energie Speciali Spa and Edison Stocaggio Spa; the 18001 safety management system for the Trofarello Research and Development Center; and the 9001, 14001 and 18001 integrated quality, environmental and safety management system for Edison Distribuzione Gas Spa.

In addition, all of the EMAS environmental registrations for production facilities that adopted EMAS were renewed or confirmed.

Edison Energy Solutions Spa successfully completed the ESCO accreditation process and 9001 quality certification.

All management reviews required by the implementation of organizational models and the environmental and safety management systems were carried out. During those reviews the results for 2014 were analyzed and programs for improvements in subsequent years were identified.

The process of collecting and analyzing the environmental and health and safety data needed to prepare and publish the Sustainability Reports of Edison and the Group was completed.

The annual program of internal audits concerning quality, the environment and safety, the implementation progress of which is monitored monthly as an indicator of the Company's performance, was completed. In 2014, 86 audits were completed out of 89 scheduled.

## HUMAN RESOURCES AND INDUSTRIAL RELATIONS

### Human Resources

At December 31, 2014, the Edison Group had a staff of 3,101 employees, compared with 3,183 at December 31, 2013. The reduction of 82 employees reflects changes in the scope of consolidation, specifically including the transfer through incorporation of the business activities in the Operations & Maintenance area from Edison Energie Speciali Srl to Edf EN Service Italia Srl and the sale of the Porcari thermoelectric power plant.

Total labor costs amounted to 221 million euros in 2014, virtually unchanged compared with the previous year.

### Industrial Relations

The National Collective Bargaining Agreement for the Gas and Water Sector, which expired on December 31, 2012 and is applicable to about 120 employees of the Edison Group, was renewed on February 14, 2014 for three year, from 2013 to 2015.

In 2014, work continued on the implementation of the Labor Union Agreement signed on October 30, 2012 to address the occupational issues resulting from crisis of the Italian thermoelectric industry that, between the end of 2012 and the beginning of 2013, affected six production facilities operated by Edison employees (Sulmona, Termoli, Jesi, Porto Viro, Sarmato and Cologno Monzese).

The processes for the relocation and reclassification of the affected employees were completed in 2014. With regard to the production facilities mentioned above, the reallocation of the Jesi power plant will be completed in the first half of 2015.

In addition, in order to address the problems deriving from conditions at the steel production hub where the Piombino power plants are located, two special agreement were signed to address the social fallout of this situation (44 employees):

- on April 11, 2014, effective as of May 19 and for a duration of one year, for the activation of a defensive Solidarity Contract;
- on October 21, 2014, effective as of November 17, for the purpose using the Regular Supplemental Layoff Benefits Fund in addition to the Solidarity Contract, in response to further contraction in business activity caused by the general crisis of the industrial hub where Edison's power plants are located.

### Organization and Employee Services

The main organizational changes that occurred in 2014 are listed below:

- Reconfiguration of the organization models of the Gas Midstream, Energy Management & Optimization Division, with the aim of redefining the business areas.
- Reorganization of the Italian activities of the EDF Group in the renewable energy sector, with the transfer to the newly created company EDF EN Services Italia Srl of the business operations of Edison Energie Speciali Spa consisting of the equipment and resources necessary to carry out the operational management and maintenance of the portfolio of wind farms and photovoltaic facilities. In addition, Edison Energie Speciali was reorganized consistent with the new corporate structure defined with the shareholder F2i.
- Further strengthening and refocusing of the structure and alignment of responsibilities of the Interfunctional Credit Task Force, created to streamline credit management activities and focus more on the Company's credit collection activities.
- Redefinition and updating of the processes and Company regulations regarding the procurement of goods, services, activities and projects. The new regulations made it possible to integrate and upgrade Edison's procurement practices consistent with best international standards, Italian and E.U. laws, the policies and Code of Ethics of the EDF Group and the Code of Ethics and the organizational model adopted pursuant to Legislative Decree No. 231/2001.

- Recent completion of planning activities for implementation, within the framework of the Company's processes, of the E.M.I.R. regulations related to activities involving financial instruments.
- Launch of a process aimed at incorporating, within the framework of the Company's processes, the effects of the R.E.M.I.T. regulations to ensure greater transparency in the wholesale energy markets.
- Successful completion of two information and communication technology projects:
  - NICE project, focused on the evolution of IT tools to support Customer Relationship Management processes in the retail customer area;
  - NEXT project, focused on the evolution of ERP systems and specifically on the convergence of applications used by Italian companies and foreign branches.
- Further development of the "Edison per Te" employee wellbeing program, the objective of which is to help employees reconcile their personal needs with their professional obligations and further enhance activities that protect the health of their families and provide support for them. Lastly,



Great success of the orientation and fun day organized by members of Edison's Young Community for the children of Edison employees who are about to finish high school.

based in part on the findings of the surveys conducted on these issues, two new services to provide support to families in defraying school costs and managing parenting obligations during the summer months were offered in the first half of 2014. The feedback trend has been positive in terms of overall satisfaction by the employees using the services.

### Training and Development

In 2014, Edison carried out training programs for a total of about 85,000 hours. The plan covered about 2,200 employees, for a teaching cost of about 2.9 million euros, including about 250,000 euros financed through the training account of the Fondimpresa and Fondirigenti interprofessional funds. Compared with the previous year, training activities show a decrease of about 15% in terms of total hours due to the decrease in the scope of activity resulting from the mothballing of some facilities and changes in the scope of consolidation.

In 2014, the training program was again characterized by a broad and transversal coverage of the different Company populations, including both professional development and technical training and the customary commitment to safety and the environment. A significant increase in foreign language

training to support international business development activities is also worth mentioning. Among “continuous training” initiatives, it is important to mention the new teaching modalities deployed for e-learning programs on “Work-Related Stress” and “231 Regulatory Requirements,” both addressed to the Group’s entire population. In the same fashion, a course on the Company’s “Code of Ethics” was launched in December 2014 with the aim of publicizing the values, principles and rules of conduct of Edison’s Code of Ethics in an innovative and dynamic fashion benefitting all employees; this program is available in online mode.

The “professional family” competencies were addressed, in addition to the structural activities of the Edison Market Academy, with the start of specialized training programs, including a program taught mainly by internal instructors for project engineers in the Engineering Division and technical trade training for the hydrocarbon districts of Edison Spa and Edison Stocaggio Spa. In addition, activities involving the Exploration and Production Division included the Media Training program developed



by the External Relations Department to support management in interacting with the media and the host communities.

It is also worth mentioning the continuous investment in institutional and managerial training, aimed at preparing young recent graduates and professionals for assignments of increasing managerial responsibility, which in 2014 included the implementation of some training programs that are totally innovative in terms of objectives and methodology, including an educational and professional orientation program developed by Edison’s Young Community for the benefit of adolescent children of employees throughout the Company.

The collaborative relationship between Edison Training and the EDF Corporate University is continuing involving all leadership and management programs. Particularly noteworthy is the new Gas and Hydrocarbon Fundamentals program developed by Edison and EDF in cooperation with SDA Bocconi. In addition, in April, Edison hosted a Technology Outlook Seminar about recent technology trends in the energy field developed by the Group’s R&D organizations.

Lastly, an important project aimed at early detection of talented young employees, carried out as part of the Group’s Talent Policy, was completed in 2014.



## RISKS AND UNCERTAINTIES

### Risk Management at the Edison Group

#### Enterprise Risk Management

Edison developed an integrated risk management model based on the international principles of Enterprise Risk Management (ERM), the main purpose of which is the adoption of a systematic approach in identifying the Company's most significant risks, addressing in advance their potential negative effects and taking appropriate actions to minimize them.

In pursuit of this objective, Edison adopted a Corporate Risk Model and a risk mapping and risk scoring method that assigns a relevance index to risks based on an assessment of their overall impact, probability of occurrence and level of control.

Working with the support of the Risk Office, the managers of the Company's business units and departments use a Risk Self-Assessment process to identify and assess the risks that affect the areas under their jurisdiction and provide an initial indication of the mitigating actions they have taken. The results of this process are then consolidated at the central level into a mapping system in which risks are prioritized based on the scores assigned to them and aggregated, so as to facilitate the coordination of mitigation plans within the framework of an integrated risk management approach.

The Corporate Risk Model, which was developed based on best industry and international practices, covers within an integrated framework the types of risks that are inherent in the businesses in which the Group operates and makes a distinction between risks related to the external environment and internal process and strategic risks.

The Enterprise Risk Management process is closely linked to the planning process in order to correlate the Group's overall risk profile with the return on investment projected in the plan/budget document. The results produced by ERM and Risk Self-Assessment are communicated to the Control and Risk Committee and Board of Directors on predetermined dates and are used by the Internal Auditing Department as a source of information to prepare special risk-based audit plans.

#### Energy Risk Management

Within the risk management activities, a separate process specifically addresses the commodity risk, which is the risk associated with price fluctuations in the financial and physical markets in which the Company operates with respect to such energy raw materials as electric power, natural gas, coal, crude oil and derivative products, and the related foreign exchange risk.

The specific objectives and operating procedures of the energy risk management process are discussed in detail in the section of the Consolidated Financial Statements at December 31, 2014 entitled "Group Financial Risk Management," which should be consulted for additional information.

### Risk Factors

#### Risks Related to the External Environment

##### Legislative and Regulatory Risk

A potential source of uncertainty for Edison is the constant evolution occurring in the reference legislative and regulatory framework, both at the national and E.U. level, which affects market activity, rate plans, required levels of service quality and technical and operational compliance requirements.

Among the main changes in the legislative framework, which are discussed in detail in the section of this Report entitled "Legislative and Regulatory Framework", one of particular significance is the one concerning the regulations governing hydroelectric concessions, which were substantially amended by Article 37 of Decree Law No. 83 of June 22, 2012, setting forth "Urgent Measures for the Country's Development" (converted into Law No. 134/2012). More specifically, pursuant to the new rules, issues



related to concessions that expired or are in the process of expiring are also addressed in the law by means of transitional provisions (for concessions that have already expired and those expiring up to December 31, 2017, to which the five year period provided under Article 12, Section 1, of the Bersani Decree is not applicable, the new concession starts five years after the original expiration date, but never later than December 31, 2017). In order to complete the reference regulatory framework, the Ministry of Economic Development is working at a Ministry Decree that will specify the criteria for responding to calls for tenders. This decree should be a source of certainty for operators, also with regard to planning future investments and the submission of bids for the renewal of concessions.

In this area, Edison is engaged in an ongoing activity to monitor and carry out a constructive dialog with national and local public institutions, so as to develop opportunities for discussing and promptly assessing the impact of regulatory changes, with the aim of minimizing the resulting economic impact.

### Price Risk and Foreign Exchange Risk Related to Commodity Activities

The Edison Group is exposed to the risk of fluctuations in the prices of all of the energy commodities that it handles, including, specifically, electric power, natural gas, coal, petroleum products and environmental securities. These fluctuations affect the Group both directly and indirectly through indexing mechanisms contained in pricing formulas. Moreover, because some of the abovementioned commodity prices are quoted in foreign currencies, the Group is also exposed to the resulting foreign exchange rate risk.

The activities required to manage and control these risks are governed by the Energy Risk Policies, which require the adoption of specific risk limits, in terms of economic capital, and the use of financial derivatives that are commonly available in the market for the purpose of containing the risk exposure within preset limits.

Approved activities that are part of the core businesses of the Edison Group include physical and financial commodity trading, which must be carried out in accordance with special procedures and segregated at inception in special trading portfolios. Trading portfolios are monitored by means of strict risk limits and compliance with these limits is verified by an organizational unit independent of those who execute the transactions.

A more detailed analysis of these risks is available in the disclosure provided pursuant to IFRS 7 in the section of the Consolidated Financial Statements at December 31, 2014 entitled "Group Financial Risk Management."

### Foreign Exchange Risk

The foreign exchange risk arises from the fact that some of Edison's activities are carried out in currencies other than the euro or are influenced by changes in foreign exchange rates through indexed contractual components. Revenues and expenses denominated in a foreign currency can be influenced by fluctuations in exchange rates, with an impact on sales margins (economic risk), while trade and financial receivables and payables can be affected by the translation rates used, with an impact on the economic results (transactional risk). Lastly, fluctuations in exchange rates have an effect also on the consolidated result and the interest in shareholders' equity attributable to Company shareholders, due to the fact that the financial statements of some investee companies are denominated in currencies other than the euro and need to be translated into euros (translational risk).

The objectives pursued when managing the exchange rate risk are set forth in specific Exchange Risk Policies, depending on the different nature of the risk in question. For a detailed analysis of this risk please see the IFRS 7 disclosure provided in the section of the Consolidated Financial Statements at December 31, 2014 entitled "Group Financial Risk Management."

### Interest Rate Risk

Because it is exposed to fluctuations in interest rates primarily with regard to the measurement of debt service costs, the Edison Group assesses on a regular basis its exposure to the risk of changes in interest rates and uses derivatives to hedge its positions. The Group's main interest rate exposure is to the Euribor.

A more detailed analysis of the interest rate risk is available in the disclosure provided pursuant to IFRS 7 in the section of the Consolidated Financial Statements at December 31, 2014 entitled "Group Financial Risk Management."

### Credit Risk

The credit risk represents Edison's exposure to potential losses caused by the failure of commercial and financial counterparties to honor the commitments they have undertaken. The Edison Group's exposure to the credit risk is related to sales of electric power and natural gas, both in Italy and abroad, the investment of temporary excess liquidity and financial derivative positions.

To control this risk, the Group implemented procedures and activities that are described more in detail in the disclosure provided pursuant to IFRS 7 in the section of the Consolidated Financial Statements at December 31, 2014 entitled "Group Financial Risk Management."

### Competitive Environment

In recent years, the energy markets in which the Group operates have been faced with a condition of excess supply that exerted significant pressure on volumes and sales margins. This situation is the result of a series of concomitant factors, chief among them a contraction in energy consumption, which continued to decline in 2014, specifically reflecting the impact of the global economic crisis, the effectiveness of energy conservation programs and the geographic delocalization of the manufacturing sector, which uses electric power and gas for its production activities.

In the Italian electric power market, the reduction in demand and the structural increase in capacity from renewable sources are having a negative effect almost exclusively on gas-fired thermoelectric production, which represents a significant portion of the Group's production mix, which, for the power generation part dependent on large-scale hydroelectric concessions, is also exposed to the risk entailed by the outcome of the calls for tenders for the renewal of expired or expiring concessions. In addition, radical changes in the power generation technologies currently in use or under development could make some technologies more competitive than those that are part of the Company's production mix. In order to mitigate this risk, Edison monitors and assesses on an ongoing basis the development of new technologies, which are discussed in greater detail in the "Innovation, Research and Development" chapter of this Report on Operations at December 31, 2014.

In the natural gas market, the full availability of new importation infrastructures started in previous years and an ample supply of LNG, due in part to the development of major reserves of non-conventional gas in the United States, resulted in an increase in the availability of gas in an environment characterized by falling consumption, with negative effects also in terms of the Company's exposure to the take-or-pay clauses of long-term gas procurement contracts. Under those clauses, Edison has agreed to take delivery each year of contractually predetermined quantities of gas or, should it fail to take delivery, pay the full price, or a fraction thereof, for the undelivered volumes up to the contractual minimum. However, under the take-or-pay clauses, the Company has the right to take delivery of the prepaid gas in subsequent years, thereby recovering the cash advances it paid, net of the financing costs associated with the advances.

In order to address the risks entailed by its involvement in the domestic electric power market, the Group has been pursuing in recent years lines of action aimed mainly at developing a portfolio of customers in the deregulated segment of the market, consistent with a strategy of gradual downstream integration, geographic diversification, optimization of the production mix, and development of renewable energy sources.

Among the various actions taken to minimize the competitive pressure risk in the hydrocarbon area, a major contractual tool is the enforcement of clauses allowing the renegotiation of prices, based on changes in the benchmark energy scenario and market conditions, which are included in long-term

natural gas supply contracts. In this respect, Edison successfully completed a first round of renegotiations of the existing contracts with all of its current suppliers of natural gas. The success of these negotiations made it possible to relieve over the near term the pressure on sales margins that the Group is continuing to experience, reestablishing a reasonable level of profitability for its portfolio of multi-year contracts. In 2014, as part of the second phase of the price review processes for the long-term gas procurement contracts, the Promgas arbitration for the revision of the contract price for purchases of Russian gas was completed and the price review for the Libyan contract should be completed in 2015.

### Country Risk

The Edison Group has undertaken an important internationalization strategy that involves both the marketing of electric power, through some foreign branches, and the pursuit of hydrocarbon exploration and production activities.

Because of its presence in these international markets, the Group is exposed to the so-called "country risk," i.e., a whole series of risks deriving mainly from political, economic, social, regulatory and financial differences compared with conditions in the country of origin. These risks can vary widely from those faced when operating exclusively in the domestic market and, consequently, can have a negative effect on the profitability and valuation of investments made abroad.

Currently, the most significant areas are Greece, where Edison produces and markets electric power through a joint venture with Hellenic Petroleum, its Greek partner, and Egypt, where the Company is a producer of natural gas and crude oil as the operator of the Abu Qir offshore concession.

- Greece, after achieving the target of a primary budget surplus in 2013, experienced an overall positive trend in the macroeconomic picture in 2014, as shown by the growth of its GDP after six years of recession. This improvement was reflected in the upgrade to B with stable outlook in the credit rating assigned to Greece by the rating agency Standard and Poor's in September 2014.

On the other hand, there still is significant uncertainty with regard to the stability of the internal political situation, which led to early elections in January 2015, and the change of government, resulting in a lack of continuity with respect to the political and economic address undertaken by the previous administration.

In this context, the Company constantly monitors the stability of Greece's political-economic context and its regulatory framework with regard to potential changes in the structure of the electric power market and, more specifically, the mechanism that guarantees the profitability of gas-fired generating facilities.

- In Egypt, the institutional developments of 2014, such as the adoption of a new constitution in January and the election of President Al-Sisi in May, helped to significantly reduce the political instability that followed the end of Mubarak's regime and the deposition of President Morsi by the Armed Forces in 2013. Despite the relative political stability, expectations of economic recovery are closely tied to the ability of the new government to implement substantive political and economic reforms (an example in this area is the reduction of government fuel subsidies introduced in July 2014 in an effort to reduce the huge government deficit) in a context in which the country's public finances continue to rely to a significant extent on foreign aid. Specifically, financing from Gulf countries enabled the Egyptian authorities to manage over the medium term the most pressing problems, including a weak tax and debt position, a deterioration of reserves and a scarcity of foreign currency. In view of these developments, in November 2013, the Standard and Poor's rating agency revised Egypt's credit rating, assigning to its sovereign debt a rating of B-, with stable outlook. A further signal of confidence in this country for investors depends on its ability to secure IMF loans, the negotiations for which remain on hold, even though relationships between Egypt and the IMF are improving.

In this environment, the potential repercussions on Edison's ability to continue operating under economically viable and safe conditions are being closely monitored by the Group, particularly with regard to a potential increase in domestic unrest in anticipation of the parliamentary elections



A guided tour of the Cedegolo and Sonico power plant in the Camonica Valley was followed by a highly successful concert by young talents from the Academy of Milan's Teatro alla Scala.

scheduled for the end of the first quarter of 2015. In any event, there have been no repercussions thus far on the production of natural gas and crude oil from the Abu Qir concession, which continued to generate positive economic results in 2014.

## Process Risks

### Operational Risk

Edison's core businesses include building and operating technologically complex facilities for the production of electric power and hydrocarbons that are interconnected along the entire length of the value chain, managing gas storage centers, developing gas infrastructures, marketing energy efficiency services and solutions and distributing electric power and gas in retail and wholesale markets. These activities, which could entail the involvement of third parties, expose the Company to operational risks deriving from external or internal events, such as the potential inadequacy of procedures or systems, with a potential impact both on the Group's economic performance and its reputation.

Insofar as the Group's industrial risk management policy is concerned, it includes risk prevention and control activities, the adoption of specific security standards developed by international recognized entities, such as the National Fire Protection Association (NFPA) and Factory Mutual (FM), implementation of the upgrades required by national laws and local entities with regulatory authority over such issues, and frequently scheduled equipment overhauls, contingency planning, inventory management and maintenance activities. When appropriate, an effective industrial insurance and expert evaluation strategy that includes the use of Erection All-Risk, Property All-Risk and Exploration and Production policies that also provide coverage for indirect damages or delays in the availability of new facilities can help minimize the potential consequences of such damage events.

In addition, the management of crisis events is governed by specific internal guidelines, updated in 2014, designed to provide a quick and effective response to potential crisis situations that could cause injuries to people and damage the environment and the Company's facilities or reputation.

Additional information about the management of environmental and occupational safety risks is provided in the section of this Report on Operations at December 31, 2014 entitled "Health, Safety and the Environment."

### Information Technology

The Group's operations are supported by complex information systems, specifically with regard to the technical, commercial and administrative areas. Risks issues exist with regard to the adequacy of these





systems and the availability, integrity and confidentiality of data and information. With regard to the first of these issues, important projects were brought into service in 2014, including:

- a new information system for ERP processes (Accounting, Management Control, Purchasing, Investments, Maintenance, Human Resources) for Italy and abroad;
- a new CRM integrated information system (“Nice” and “Thor” projects) to support the processes of the Marketing, Sales & Energy Services Division;
- a system for the management and optimization of the industrial gas portfolio.

Ongoing important projects that will be finalized in 2015 are focused on:

- making the management processes of the gas and power businesses and the respective systems compliant with new Italian and European directives;
- implementing a new information system to support credit collection activities, particularly in the retail sector;
- updating the Contract Management system.

With regard to the risk of activity interruption caused by a system fault, Edison adopted a high reliability hardware and software configuration for those applications that support critical activities. Specifically, a business continuity solution capable of guaranteeing the continuity of processes even in case of a disaster event at the main data processing center was tested successfully at the Company level through an effective simulation.

Lastly, the risk of the occurrence of new types of cyber attacks is being mitigated with the adoption of strict security standards and solutions. In this regard, competing bids will be requested in 2015 for the supply of an SOC (Security Operation Center) that will provide the services needed to prevent and manage these new types of cyber attacks.

### **Internal Processes and Structures Supporting Business Activities**

The internal processes and the organizational structure that support both corporate and operating activities require constant update, consistent with the evolution of market developments, the legislative/regulatory framework and the Company's operating and strategic objectives. Risk factors can arise from a delay and/or incomplete adjustment of internal processes and the organizational structure, with potential repercussions on the profitability and efficiency of business activities and/or the Company's own reputation.

Edison carries out periodically and on an ongoing basis activities to improve the quality of its processes in the different areas of business, with special emphasis on customer service, and defines special controls and projects for specific issues of particular importance, such as credit collection in the Small



and Medium-size Business and Residential segments and compliance with new E.U. regulations on the activities and transparency of the energy markets. In addition, Edison adopts specific compensation and management policies aimed at retaining and acquiring key competencies.

### Liquidity

The liquidity risk has to do with the possibility that the Company may not have access to sufficient financial resources to meet its financial and commercial obligations in accordance with agreed terms and maturities. The policy to manage this risk, integrated at the EDF Group level, is designed to ensure that the Edison Group has access to sufficient credit facilities to meet short-term financial maturities, while at the same time consolidating its funding sources.

A more detailed analysis of this risk is available in the disclosure provided pursuant to IFRS 7 in the section of the Consolidated Financial Statements at December 31, 2014 entitled "Group Financial Risk Management."

## Strategy and Planning Risks

### Investments in Development and Acquisitions

The development of the core businesses of the Edison Group must be supported with direct investments (internal growth) and acquisitions.

Insofar as direct investments in the electric power sector are concerned, the Edison Group is constantly engaged in programs to develop new power plants and upgrade older facilities in order to increase their profitability, efficiency and operating flexibility. In addition, the average age of the thermoelectric power plants in Edison's portfolio of production facilities is quite low, because in recent years the Group completed an ambitious program to expand electric power generating capacity in Italy. Moreover, also in the areas of electric power distribution and production, the Group is engaged in the development of investments outside Italy, focusing on the Balkans and Southeast Europe.

As a result of these activities, the Edison Group is exposed to permit risks; risks of delays in the construction and launch of commercial activity of new projects; risk of increases in operating, materials and service costs; risks related to new developments in existing technologies; risks related to changes in the political and regulatory framework in some of the foreign countries where it operates or plans to operate in the future (see the "Country Risk" section above); and risks related to public opinion, which could affect the Company's reputation.

As for direct investments in the hydrocarbon sector, the Group is engaged in exploration, development and production in the natural gas and crude oil areas, with the aim of increasing its hydrocarbon reserves and develop its asset portfolio as an integrated energy operator, while pursuing projects for the development of gas storage fields and thus increase the reliability of Italy's gas system.

With regard to the hydrocarbon development and production activities, in addition to the remarks provided above concerning investments made to develop the electric power operations and the considerations about country risk (disclosed in a special section of this chapter), please note that they are typically subject to uncertainties with regard to estimates of proven reserves, projections of future production rates and the timing of development investments, due to the fact that estimates of proven reserves depend on a long series of factors, assumptions and variables. Moreover, between the exploration phase and the start of subsequent phases involving the development and commercial exploitation of the discovered hydrocarbon reserves there is usually a significant time lag needed to assess the commercial viability of the discovered hydrocarbon deposits, authorize the development project and build and put into service the necessary equipment (time to market). During this time period, a project's profitability can be affected by volatility in oil and gas prices and by the variability of development and production costs.

Moreover, future hydrocarbon production levels will depend on the Group's ability to access new reserves through new discoveries made possible by its exploration activities, the success of its development activities and its ability to negotiate concession agreements with the countries that possess known hydrocarbon reserves.

Additional investment and some carefully selected divestments, implemented as part of a strategy to streamline the overall portfolio, are planned for the future to support the growth of the Group's core businesses both in the electric power sector and the hydrocarbons area. As mentioned above, this development strategy also calls for expansion of the Group's international operations outside the European Union, in countries where Edison is already present, but where the political, social and economic environment could be less stable.

As for the strategy of growth through acquisitions, its success is predicated on the availability of market opportunities to foster the growth of the Group's core businesses at an acceptable cost and on the Company's ability to seize those opportunities. In this area, there can be no absolute guarantee that Edison will be able to achieve the benefits initially expected from such transactions. Specifically, this could result from an ineffective integration of the acquired assets or from losses and costs not originally anticipated. Moreover, acquisition also entails the financial risk of being unable to cover purchasing costs, due to the occurrence of a protracted weakness in prices and the benchmark scenario.

In order to minimize these risks, Edison adopted a series of internal processes to monitor the research and assessment phases of investment initiatives. In addition to requiring the use of appropriate written procedures, these processes require the use of due diligence activities, binding contracts, multilevel internal authorization processes, project risk assessment activities and strict project management and project control activities.

## Policies and Management Tools Adopted by the Group

### Energy Risk Policy

#### Governance

Pursuant to the rules governing Energy Risks Management, risk limits, stated in terms of economic capital, may be approved exclusively by the Board of Directors together with the budget.

The Risk Committee defines the policies, monitors risk levels, approves hedging strategies and defines any subsets of risk limits.

Consistent with the need to establish a clear separation of functions, the Risk Office, which reports to the CFO, prepares the items on the agenda of Risk Committee meetings and monitors compliance with limits and the results of financial hedges, while the Front Office executes transactions in the financial markets, striving to optimize their structure, timing and counterparties.

#### Financial Hedges

One of the objectives of the Group's risk management activity is to stabilize the cash flows generated by the existing portfolio of assets and contracts and use strategic hedging to protect the Group's industrial margins from fluctuations caused by the effect of the price risk and the foreign exchange risk (as defined above in the Risk Factors section of this chapter) on the commodities used.

Strategic hedging is carried out by means of financial hedges that are activated gradually during the year, based on market trends and changes in projections of the volumes of physical buy and sell contracts and the production of the Group's assets.

The gradual implementation of strategic hedging helps minimize the execution risk, which refers to the possibility that all hedges will be activated during an unfavorable market phase, the volume risk, which is related to the variability of the underlying items that require hedging based on the best volume projections, and the operational risk, which is related to implementation errors.

Moreover, the Group's policy is designed to minimize the use of financial markets for hedging purposes by maximizing the benefits of the vertical and horizontal integration of its different business segments. Accordingly, the Group makes it a planning priority to physically balance the volumes of physical energy commodities that it will sell in the market on the different due dates, using for this purpose the production assets it owns and its portfolio of medium/long-term contracts and spot contracts.

In addition, the Group pursues a strategy designed to homogenize sources and physical uses, so that

the formulas and indexing mechanisms that determine the revenues generated by the sale of energy commodities reflect as much as possible the formulas and indexing mechanisms that govern the costs that the Group incurs to purchase energy commodities in market transactions and to supply its production assets.

To manage the price and foreign exchange risk on the remaining exposure of its portfolio of assets and contracts, the Group can use structured hedges executed in the financial markets in accordance with a cash flow hedging strategy.

Financial hedges can also be established in response to specific requests by individual business units to lock in, with operational hedging, the margin earned on a single transaction or a limited number of related transactions.

### **Enterprise Risk Management Policy**

#### **The ERM Process and Assessments of the Impact on Margins-Objectives**

The Enterprise Risk Management process is carried out concurrently with the development of the Budget and Operational Plan by means of a Risk Self-Assessment process, the results of which are presented on predetermined dates at meetings of the Control and Risk Committee and the Board of Directors. In this case as well, the model is based on information provided by the individual operating units and departments, each of which, limited to the areas under its jurisdiction, prepared a map of the existing risks based on three parameters that measure their overall impact, the probability of occurrence and the level of control.

The overall results for 2014 are reviewed in the "Risk Factors" section of this Report.

A coordinator is designated for each of the mapped priority risks and specific mitigating actions are identified and codified within predefined classes of actions. Regular updates are performed during the year to review the results of the selected mitigating actions and assess their potential impact.

#### **Provisions for Risks and Charges**

In addition to the disclosures provided above concerning risk management and mitigation activities, whenever it incurs current obligations arising from past events, which can be of a legal or contractual nature or implied by Company declarations or conduct such as to create in a third party a valid expectation that the Company will be responsible or assume responsibility for the performance of an obligation, the Edison Group sets aside appropriate amounts in special provisions for risks and charges, which are shown among the liabilities on the balance sheet (see also the Notes to the Consolidated Financial Statements). Specifically, in the normal course of business, Group companies have become parties to judicial proceedings and tax disputes, a description of which is provided in the section entitled "Risks and Contingent Liabilities Associated with Legal and Tax Disputes" within the "Commitments, Risks and Contingent Assets" chapter of the Consolidated Financial Statements at December 31, 2014.

## OTHER INFORMATION

Pursuant to Article 2428 of the Italian Civil Code, the Company provides the following disclosure:

- At December 31, 2014, it did not hold treasury shares or shares of its parent company, either directly or indirectly through nominees or other third parties. No transactions involving treasury shares or shares of the parent company were executed during the year, either directly or indirectly through nominees or other third parties.
- In 2014, the Group executed significant transactions with related parties, a description of which is provided in the section of the consolidated financial statements entitled "Intercompany and Related-Party Transactions."
- No secondary registered offices have been established.

Information about the Company's ownership structure and corporate governance, which includes the fees paid to the independent auditors, is provided in the Report on Corporate Governance 2014. Data about the equity investments, compensation and stock option plans of Directors, Statutory Auditors and Executives with strategic responsibilities are listed in the Annual Compensation Report. Both Reports are reproduced in a separate volume, which is an integral part of this annual report.

The Company chose to avail itself of the options provided under Article 70, Section 8, and Article 71, Section 1-*bis*, of the Issuers' Regulations. Consequently, it is not complying with the requirement to make available to the public an Information Memorandum in connection with significant transactions involving mergers, demergers, capital increases through conveyances of assets in kind, acquisitions and divestments.



## MOTION FOR A RESOLUTION

*Dear Shareholders,*

Your company's separate financial statements at December 31, 2014 show a loss of 37,469,676.02 euros.

If you concur with the criteria adopted to prepare the financial statements and the accounting principles and methods applied, we recommend that you adopt the following resolutions:

### **The Shareholders' Meeting,**

- having reviewed the Company's separate financial statements and the Group's consolidated financial statements at December 31, 2014, as well as the Report on Operations submitted by the Board of Directors and the Report on Corporate Governance and the Company's Ownership Structure;
- being cognizant of the Report of the Independent Auditors pursuant to Article 153 of Legislative Decree No. 58/1958 (TUF);
- being cognizant of the Reports of the Independent Auditors on the separate and consolidated financial statements at December 31, 2014;
- considering that, as a result of the transition to and adoption of the IFRS principles, the Company's shareholders' equity at December 31, 2014 includes reserves that are unavailable, pursuant to Articles 6 and 7 of Legislative Decree No. 38/2005, and partially restricted, pursuant to Section 147 of Law No. 147/2013;

**resolves:**

### **FIRST RESOLUTION**

to approve the Company's separate financial statements for the year ended December 31, 2014, and the individual items contained therein.

### **SECOND RESOLUTION**

to cover the loss of 37,469,676.02 euros by drawing the same amount from the retained earnings reserve, which will thus decrease to 10,423,478.55 euros.

Milan, February 11, 2015

The Board of Directors  
By: Bruno Lescoeur  
*Chief Executive Officer*

## REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF EDISON S.P.A. PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/98

Dear Shareholders:

In the year ended December 31, 2014, the Board of Statutory Auditors of Edison S.p.A. (hereinafter the "Company" or "Edison") carried out its oversight activities pursuant to law, performing its work in accordance with the rules of conduct for Boards of Statutory Auditors recommended by the Italian Board of Certified Public Accountants and Accounting Experts and consistent with the pronouncements published by the Consob concerning corporate controls and the activities of the Board of Statutory Auditors. This report was prepared in accordance with the guidelines provided by the Consob in Communication DEM/1025564 of April 6, 2001, as amended and integrated by Communication DEM/3021582 of April 4, 2003 and Communication DEM/6031329 of April 7, 2006.

The Board of Statutory Auditors currently in office was elected by the Shareholders' Meeting of March 28, 2014, in accordance with the provisions of the applicable laws and regulations and those of the Company Bylaws, which, in accordance with the amendments to the Bylaws approved by the Shareholders' Meeting of March 22, 2013 that, *inter alia*, eliminated the slate voting requirement to elect Statutory Auditors, due to the delisting of the Company's common shares, and introduced new rules for the election of Statutory Auditors consistent with the provisions of laws and regulations concerning gender parity. The following candidates were elected Statutory Auditors: Serenella Rossi (Chairperson), Giuseppe Cagliero and Leonello Schinasi, with Elisabetta Bertacchini, Vincenzo D'Aniello and Luigi Migliavacca serving as Alternates. The term of office of this Board of Statutory Auditors will end with the Shareholders' Meeting convened to approve the financial statements at December 31, 2016.

The members of the Board of Statutory Auditors are in compliance with the limit on the number of governance posts held set forth in the Bylaws and Article 144-*terdecies* of the Issuers' Regulations.

The independent statutory audits required by Legislative Decree No. 58/1998 and Legislative Decree No. 39/2010 are performed by Deloitte & Touche S.p.A., pursuant to an assignment awarded for nine years (2011-2019) by the Shareholders' Meeting on April 26, 2011.

\* \* \* \* \*

With regard to the performance, in the course of the year, of the activities under its jurisdiction, the Board of Statutory Auditors declares that:

- It became acquainted with the activities carried out by the previous Statutory Auditors until the date when the current Statutory auditors accepted their engagement;
- It attended the Shareholders' Meetings and the meetings of the Board of Directors and obtained from the Directors adequate information about the Company's operating performance and business outlook, as well as about transactions executed by the Company and its subsidiaries that qualified as highly material, because of their size and characteristics;
- It obtained the information needed to perform the activities required to verify compliance with the law, the Bylaws and the principles of sound management and the adequacy of the Company's organization through direct observation, documents and information obtained from managers of relevant Company departments and periodic exchanges of information with the company retained to perform statutory, independent audits of the annual and consolidated financial statements;
- Through its Chairman, it attended the meetings of the Control and Risk Committee, the Compensation Committee and the Oversight Board, as well as those of the Committee of Independent Directors subsequent to the amendments made to the Procedure for Related-party Transactions, which enabled the Board of Statutory Auditors to attend meetings of this Committee;

- It monitored the working and effectiveness of the system of internal controls and the adequacy of the administrative and accounting system, specifically with regard to the latter's reliability in presenting the results from operations;
- It carried out its monitoring activities in accordance with Article 19 of Legislative Decree No. 39/2010, which requires the Board of Statutory Auditors to perform the function of the "Internal Control and Audit Committee" with regard to: a) the financial reporting process, b) the effectiveness of the internal control, internal auditing and risk management systems, c) the statutory, independent auditing of the annual and consolidated financial statements, d) the independence of the Independent Statutory Auditors;
- It exchanged information on a regular basis with the Independent Auditors about the work they performed pursuant to Article 150 of the TUF by reviewing the results of the work performed by the Independent Auditors and obtained from the Independent Auditors the reports required by Article 14 and Article 19, Section Three, of Legislative Decree No. 39/2010 and the independence confirmation declaration required pursuant to Article 17, Section Nine, Letter a), of Legislative Decree No. 39/2010;
- It discussed with the company performing statutory, independent audits of the financial statements the risks related to its independence and the measures it adopted to minimize them, in accordance with Article 17, Section Nine, Letter a), of Legislative Decree No. 39/2010;
- It monitored the functionality of the control system for Group companies and the adequacy of the instructions given to them, also pursuant to Article 114, Section 2, of Legislative Decree No. 58/1998;
- It was informed of the preparation of the Compensation Report required pursuant to Article 123-*ter* of Legislative Decree No. 58/1998 and Article 84-*quater* of the Issuers' Regulations and have no remarks to make in this regard;
- It ascertained that the provisions of the Bylaws were in compliance with statutory and regulatory requirements;
- It monitored the concremented methods deployed to implement the corporate governance rules adopted by the Company in accordance with the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A.;
- It ensured that the internal procedure concerning related-party transactions was consistent with the principles set forth in the Regulation approved by the Consob with Resolution No. 17221 of March 12, 2010, as amended, and that the abovementioned procedure was being complied with, pursuant to Article 4, Section 6, of the abovementioned Regulation;
- It monitored the corporate information process and verified compliance by the Directors with the procedural rules governing the preparation, approval and publication of the separate and consolidated financial statements;
- It ascertained the methodological adequacy of the impairment process applied to determine whether any Company assets listed on the balance sheet were impaired;
- It verified that the 2014 Report of the Board of Directors on Operations complied with current laws and regulations and was consistent with the resolutions adopted by the Board of Directors and the facts presented in the separate and consolidated financial statements;
- It became familiar with the content of the Semiannual Consolidated Report, concluding that no remarks by the Board of Statutory Auditors were required with regard to it and verified that the Semiannual Consolidated Report and the Quarterly Reports were publicly disclosed in the manner required pursuant to law.

In the course of its oversight activities, which the Board of Statutory Auditors carried out in the manner described above, based on the information and the data obtained, no facts were uncovered indicating failures to comply with the applicable laws and the Articles of Incorporation or otherwise requiring disclosure to the regulatory authorities or mention in this Report.

\* \* \* \* \*

The additional disclosures that must be provided pursuant to Consob Communication DEM/1025564 of April 6, 2001, as subsequently updated, are listed below:

1. With regard to the year subject of this Report, the transactions with a greater material impact on the Company's income statement, balance sheet and financial position executed in 2014, including those implemented through subsidiaries, all of which are discussed in the Report on Operations, are summarize below:

- In January 2014, Edison, through its Edison International Spa subsidiary, was awarded three new hydrocarbon exploration and production licenses put out for bids by the Norwegian Oil and Energy Ministry. In each of three licenses Edison is the operator in a joint venture with other companies, holding interests of 40% (for activities under the first two licenses) and 60% (for activities under the third license). All three license allow a period of time for seismic mapping, at the end of which the partners will have to decide whether to proceed with drilling or relinquish the licenses, under the “drill or drop” provision.
- In February 2014, Edison, through its Edison International Spa subsidiary, was awarded two new hydrocarbon exploration and production licenses in Egypt in joint ventures with other companies. Edison holds interests of 50% for activities under the first license (as operator) and 25% for activities under the second license. Under both licenses three years are allowed for 3D seismic mapping.
- In April 2014, Edison, through its Edison International Spa subsidiary, acquired through a farm out a 30% interest in an exploration permit in the United Arab Emirates, operated by another company that holds the remaining 70%. By November 15, 2015, following a period for completion of the surveying and seismic data acquisition process, the consortia will decide whether to proceed with drilling or relinquish the license, under the “drill or drop” provision.
- In July 2014, production began from the Izabela field in Croatia, in which Edison holds a 70% participating interest through a joint venture with the Croatian oil company INA.
- On August 29, 2014, the arbitration proceedings filed earlier with Promgas for a revision of the price for gas purchased from this Russian company under a long-term supply contract was successfully completed, with a positive impact of about 80 million euros on the 2014 income statement.
- The transaction aimed at streamlining and maximizing the value of the activities of the Edison Group engaged in the production of electric power from renewable energy sources closed on November 5, 2014. This transaction calls for the amalgamation in Edison Energie Speciali, now called E2i Energie Speciali S.r.l. (EDENS), of the production facilities operated by EDENS and a portion of those owned by EDF EN Italia, with the concurrent restructuring of the ownership of EDENS, which is now owned 70% by F2i ER2 S.p.A., a wholly owned subsidiary of F2i, and 30% by a holding company owned by Edison (83% stake) and EDF EN (17% stake). In addition, a new management company called EDF EN Services Italia S.r.l., owned 30% by Edison and 70% by EDF EN Services S.A., was established to manage and maintain the production facilities owned by EDENS of which the new renewable energy hub is comprised.
- On November 14, 2014, Edison Spa executed a loan agreement with a pool of top Italian and international banks for a short-term facility (expiring in November 2016) in the amount of 500 million euros. This credit line, which is structured as a Club Deal, without subsequent syndication, calls for unsecured utilizations on a revolving basis and accrues interest at a rate indexed to the Euribor plus a spread, replaces and earlier facility of the same amount.
- On November 27, 2014, Edison signed two memoranda with QALAA and Egyptian General Petroleum Corporation for the construction of a 180 MW thermoelectric power plant that will produce electric powers for customers in Egypt using the gas produced from the Abu Qir concession.

Based on the information supplied by the Company and data obtained regarding the transactions described above, the Board of Statutory Auditors ascertained that they were consistent with the provisions of the applicable laws, the Articles of Incorporation and the principles of sound management, making sure that they were not patently imprudent or reckless, potentially entailing conflicts of interest, in violation of the resolutions adopted by the Shareholders' Meeting or capable of impairing the integrity of the Company's assets.

2. In the course of its reviews, the Board of Statutory Auditors did not identify any transactions that were atypical and/or unusual, as defined in Consob Communication DEM/6064293 of July 28, 2006.



The Board of Statutory auditors acknowledges that the information provided by the Directors' Report on Operations regarding atypical and/or unusual transactions, including intercompany or related-party transactions, is adequate.

3. The characteristics of intercompany and related-party transactions executed by the Company and its subsidiaries in 2014, the parties involved and their financial effects are explained in the section of the 2014 Consolidated Financial Statements entitled "Intercompany and Related-party Transactions," which should be consulted for additional information. In that document, the Company specifies that all transaction reviewed in it were executed on terms consistent with market terms, except for transactions executed with the controlling company Transalpina di Energia in connection with the Group consolidated VAT return and the consolidated corporate income tax (IRES) return, which were negotiated by the parties, as allowed pursuant to law. This information is also mentioned in the Report on Operations. The Board of Statutory Auditors believes that information provided in the manner mentioned above about the abovementioned transactions is adequate overall and that, based on the data thus acquired, the transactions in question appear to be fair and in the Company's interest.

Related-party transactions, identified in accordance with international accounting principles and the directives issued by the Consob, are governed by an internal procedure (the "Procedure") adopted by the Company's Board of Directors on December 3, 2010, as required by Article 2391 *bis* of the Italian Civil Code and the regulations issued by the Consob, as later amended and integrated. Most recently, on November 12, 2014, the Board of Directors agreed to amend the Procedure with the purpose, on the one hand, to make it consistent with the organizational changes that occurred within the Company and eliminate provisions of a transitional nature that were no longer needed and, on the other hand, from a procedural standpoint, to make the information provided to the Board of Statutory Auditors about meeting of the Committee of Independent Directors more timely and effective. In addition, a coordination system was implemented for the rules governing the publication of information memoranda regarding related-party transactions, to reflect the governance changes made in this area. The Board of Statutory auditors reviewed the Procedure, including its amended version, verifying that it was compliant with Consob Regulation No. 17221 of March 12, 2010, as amended by Resolution No. 17389 of June 23, 2010 and as interpreted by Resolution No. 78683 of September 24, 2010.

In the course of 2014, the Company, acting both directly and through subsidiaries, carried out four transactions to which the abovementioned Procedure is applicable, all classifiable as "Less Material" transactions, including three that were part of a project to streamline and maximize the value of activities for the production of electric power from renewable energy sources and one between Edison and its parent company EDF SA concerning a contract for the mutual supply of services. As required, the opinion by the Committee of Independent Directors was obtained for all of the above transactions. The Board of Statutory Auditors verified that the abovementioned transactions were carried out in accordance with the approval and implementation modalities set forth in the abovementioned Procedure.

4. On February 12, 2015, the Independent Auditors Deloitte & Touche S.p.A. issued the reports required by Article 14 of Legislative Decree No. 39 of January 27, 2010, certifying that:
  - the separate and consolidated financial statements at December 31, 2014 were prepared transparently and present truthfully and fairly the financial position, income statement and cash flow of the Company and the Group;
  - the Report on Operations and the disclosures provided in the Report on Corporate Governance and the Company's Ownership Structure in accordance with Article 123-*bis*, Section 1, Letters c), d), f), l) and m), and Section 2, Letter b), of Legislative Decree No. 58/1998 are consistent with the Company's Statutory Financial Statements and the Group's Consolidated Financial Statements.
 The abovementioned report of the Independent Auditors did not contain any qualifications or disclosure requests.

No issues requiring mention in this Report were uncovered in the course of the regular meeting that the Board of Statutory Auditors held with the Independent Auditors, as required by Article 150, Section Three, of Legislative Decree No. 58/1998.

5. In 2014, the Board of Statutory Auditors received a communication from the shareholder Marco Bava, which Mr. Bava entitled "Complaint to the Chairman of the Board of Statutory Auditors Pursuant to Article 2408 of the Civil Code," by which he denounced as improper conduct the difficulty he personally encountered (as consumer-user) on September 9, 2014, when he attempted to contact the call center at the number 800031141 to report a gas meter reading for his personal account. The Board of Statutory Auditors, having determined that the issue subject of the abovementioned complaint was the responsibility of the Edison Energia S.p.A. subsidiary, which handles retail customer contracts and operates the call center number listed in the complaint, forwarded this communication to the Board of Statutory Auditors of Edison Energia S.p.A., which did not uncover any anomalies. Edison's Board of Statutory Auditors also obtained a report from the manager of the Marketing, Sales & Energy Services function, who is also Chief Executive Officer of Edison Energia S.p.A., showing that the customer service call center was operating at adequate levels of performance during the period subject of the communication.
- In 2014, the Board of Statutory Auditors did not receive any negative remarks submitted by third parties.
6. Please note that, in 2014, according to information provided by the Company, the Independent Auditors Deloitte & Touche S.p.A. received from Edison SpA the following additional assignments:
- additional activities within the framework of the 2014 independent audit, pursuant to Section 5 (Fee Adjustment), of the engagement letter of March 4, 2011 regarding the independent audit of the statutory and consolidated financial statements of Edison S.p.A. for nine years from 2011 to 2019, concerning the transaction to streamline and maximize the value of activities for the production of electric power from renewable energy sources carried out by the Edison Group in 2014 and called "Eureka Project," for a charge of 135,000.00 euros as a fee adjustment;
  - Performance of agreed upon auditing procedures concerning certain items in the balance sheet for the conveyance of the "Gas and Commercial Uses" business activities to Edison Energia S.p.A., for a fee of 22,000.00;
  - independent audit of the projected-data and actual-data Technical-economic Report prepared for the recognition of the expansion costs for the Fontanamora hydroelectric power plant operated by Edison S.p.A. in the municipality of Bagolino (BS), for fees totaling 7,000.00 euros for the projected-data report and 4,000.00 euros for the actual-data report.
7. In addition, the following assignment were awarded to the Independent Auditors Deloitte & Touche S.p.A. by subsidiaries of Edison S.p.A.:
- independent audit of the Norway branch of Edison International S.p.A., for a fee of 44,300.00 euros;
  - performance of agreed upon auditing procedures concerning an Egyptian company in which Edison International S.p.A. holds an interest, for a fee of 44,000.00 euros;
  - limited audits of the balance sheets and income statements of Parco Eolico San Francesco S.r.l., Fri-El Campania S.r.l. and Gargano Energia S.r.l. prepared for the purpose of their merger into Edison Energie Speciali S.p.A., for a fee of 32,000.00 euros;
  - other specific auditing activities concerning the financial statements of Edison Energia S.p.A. and additional related auditing activities requested by the company's management, for fees totaling 30,000.0 euros;
  - independent audit of the Israel branch of Edison International SpA, for a fee of 27,150.00 euros;
  - auditing services for the schedule of incremental costs for recognition in the rates for 2012 and 2013 of Edison Stoccaggio S.p.A., for a fee of 20,000.00 euros;
  - issuance of the opinion that the Independent Auditors are required to provide pursuant to law in connection with the distribution of an interim dividend by Edison Trading S.p.A., for a fee of 18,000.00 euros;
  - services provided in connection with attestations provided to the Electric Power and Gas Authority (AEEG) in connection with the San Quirico power plant of Edison Energia S.p.A., for a fee of 16,000.00 euros;
  - audit of the Croatia branch of Edison International S.p.A., for a fee of 15,900.00 euros.

The Board of Statutory Auditors rendered its opinion regarding the additional assignment awarded by Edison S.p.A. to the Independent auditors Deloitte & Touche S.p.A., as listed above in Section 6 of this Report.

8. The Board of Statutory Auditors monitored the independence of the Independent Auditors, taking also into account the requirements of Article 19 of Legislative Decree No. 39/2010, ascertaining that they were in compliance with the provisions of the relevant statutes in providing Edison S.p.A. and its subsidiaries with services other than the statutory, independent audits of the financial statements, and determined, based on information provided by the Company, that no assignments were granted in 2014 to parties linked with the Independent Auditors by an ongoing relationship, pursuant to Section 2, Item 8, of the Consob Communication of April 6, 2001. Based on the information obtained, no problematic issues were uncovered regarding the independence of the Independent Auditors.
  
9. The Board of Statutory Auditors issued the opinions required pursuant to the applicable laws and regulations, specifically regarding:
  - a. the approval of the actual MBO data applicable to the variable compensation of the Chief Executive Officer for 2013;
  - b. the proposal concerning the definition of the 2014 targets upon which the variable compensation of the Chief Executive Officer will be based;
  - c. other assignment awarded to the Independent auditors, as listed above in Section 6 of this Report.

In addition, it approved a resolution adopted on December 12, 2014 by the Board of Directors to coopt, pursuant to Article 2386 of the Italian Civil Code and Article 14, Section 7, of the Company Bylaws, Jean-Bernard Levy to serve as a Director and Chairman of the Board of Directors of Edison S.p.A. following Henri Proglio's resignation from that office.

It also provided its opinion whenever the Board of Directors requested it in accordance with provisions that, for certain decision, require the prior input of the Board of Statutory Auditors.
  
10. In general, in order to obtain the information needed to carry out its oversight activities, the Board of Statutory Auditors performed the following activities:
  - in 2014, it met on a regular basis, within the time intervals required pursuant to law, twice in its previous composition and six times in its current composition; the activities performed on those occasions were documented in the minutes of the meetings;
  - It attended all seven meetings of the Board of Directors, obtaining from the Board of Directors a steady flow of information concerning its activity and transactions with a material impact on the Company's income statement, financial position and cash flow executed by the Company and its subsidiaries;
  - in its previous and current composition, respectively, it attended the Shareholders' Meetings of March 28, 2014 and September 23, 2014;
  - its Chairman attended the five meetings of the Control and Risk Committee and the two meetings of the Compensation Committee;
  - it exchanged information with the control bodies of the subsidiaries, as required by Article 151 of Legislative Decree No. 58/1998, holding joint meetings with some of them, there being no indication of any significant issues or ascertained circumstances that would require mention in this report;
  - its Chairman attended the four meetings of the Oversight Board of the Organizational Model adopted pursuant to Law No. 231/2001;
  - subsequent to the amendments to the Procedure for Related-party Transactions, which enabled Statutory Auditors to attend the meetings of the Committee of Independent Directors, the Chairman of the Board of Statutory Auditors and another Statutory Auditor attended one meeting of the Committee of Independent Directors.
  
11. The Board of Statutory Auditors monitored compliance with the law and the Articles of Incorporation and with the principles of sound management, ensuring that all transactions approved and executed by the Board of Directors complied with the abovementioned rules and principles, were financially

sound, were not manifestly imprudent or reckless, did not give rise to potential conflicts of interest with the Company, were not in conflict with resolutions approved by the Shareholders' Meeting and did not impair the integrity of the Company's assets. The Board of Statutory Auditors believes that the tools and governance systems adopted by the Company provide an effective safeguard in terms of compliance with the principles of sound management.

The Board of Directors retains ample decision-making powers. Specifically, it has sole jurisdiction, in addition to the issue assigned to it pursuant to law and the Company Bylaws, over decisions concerning particularly significant issues and transactions, which, consequently, cannot be delegated to executive Directors.

The Board of Directors delegated powers exclusively to the Chief Executive Officer enabling him to perform all activities that are consistent with the Company's purpose, except for the limitations imposed by laws and the Company Bylaws and excluding the transactions over which the Board of Directors decided to reserve sole jurisdiction.

Pursuant to the Bylaws, the Chairman of the Board of Directors and the Chief Executive Officer are the Company's legal representative vis-à-vis third parties and in court proceedings.

The Chairman of the Board of Directors does not have operational authority, serving instead in an institutional guidance and control function.

12. The Board of Statutory Auditors monitored the adequacy of the organizational structure of the Company and the Group by gaining an understanding of the Company's administrative structure and exchanging data and information with the managers of the various Company functions, the manager of the Internal Auditing Department and the Independent Auditors.

The organizational structure of the Company and the Group is defined by the Chief Executive Officer and implemented by means of a system of internal communications, by which the managers of the various departments and business units were appointed and to whom power were delegated consistent with the assigned responsibilities, the attribution guidelines of which are confirmed within the framework of the 231 Model. The responsibilities of the Company's top management are clearly defined, with a detailed specification of the attributions of the managers of the main areas of business and corporate functions, who are members of the Executive Committee (COMEX).

The more operational aspects of the organizational structure are defined by additional organizational communications issued by the managers of the various Departments and Business Units, with the prior approval of the Chief Executive Officer, which are posted on the Company Intranet. Based on the verifications performed, no problematic issues having been uncovered, the Company's organizational structure appears adequate in light of the Company's purpose, characteristics and size.

13. In monitoring the adequacy and effectiveness of the system of internal controls, also with regard to the requirements of Article 19 of Legislative Decree No. 39/2010, the Board of Statutory Auditors met on a regular basis with managers of the Internal Auditing Department and other Company functions and relied on the information obtained by the Chairman of the Board of Statutory Auditors by attending relevant meetings of the Control and Risk Committee (another Statutory Auditor also attended those meetings) and the Oversight Board of the 231/2001 Model.

Edison's system of internal controls is based on a structured and organic set of rules, procedures and organizational structures aimed at preventing or minimizing the impact of unexpected results and allow the achievement of the Company's strategic and operating objectives (i.e., consistency of the activities with the desired objectives, effectiveness and efficiency in conducting its operations, and protection of the corporate assets), compliance with applicable laws and regulations, and accurate and transparent internal and market communications (reporting).

The Board of Directors, working with the support of the Control and Risk Committee, (i) defines the guidelines of the system of internal controls; (ii) regularly reviews the main risks faced by the Company, as defined by the Chief Executive Officer, who is responsible for implementing the guidelines of the system of internal controls; and (iii) assesses the adequacy, efficacy and effectiveness of the system of internal controls at least once a year.



The system of internal controls includes an Internal Auditing Department, which is responsible for providing support to the Board of Directors, the Control and Risk Committee and the Company's management in pursuing the objective of a properly functioning internal control and risk management system. The Board of Directors assigned to the manager of this department the task of assessing the adequacy and effectiveness of the overall system of internal controls. The activity of this Department is carried out primarily through an annual plan of auditing and compliance engagements and includes monitoring the actual implementation of recommendations issued in connection with auditing engagements (follow up).

The Board of Statutory Auditors interfaced on a regular basis with the Internal Auditing Department for the purpose of assessing the audit plan and its findings, both in the planning phase and in the review of completed audits and the corresponding follow-up activities.

In addition, the Board of Statutory Auditors verified that internal control monitoring tools were also promptly activated by subsidiaries whenever necessary or just appropriate, depending on the circumstances. The Company, directly and at the Group level, uses additional tools to monitor progress toward the achievement of operational and compliance objectives, including a structured and periodic planning, management control and reporting system, a financial risk governance system (commodity and foreign exchange risks primarily), a system to manage Company risks in accordance with Enterprise Risk Management (ERM) principles, and the accounting control model required by Law No. 262/2005 in the area of financial disclosures.

Consistent with the ERM Model, the Company developed a map of the main business risks by implementing a structured risk mapping and risk scoring activity, carried out through a risk self-assessment process that involved all Department and Business Unit managers. Edison's Risk Officer is responsible for coordinating the risk management process, supporting management in defining the overall strategy and risk policies; analyzing, identifying, assessing and managing risks; and defining and managing an appropriate control and reporting system.

As part of the ERM Model, the Company has adopted for some time an Energy Risk Policy that, in addition to defining the governance, monitoring and control environment for these risks (specifically risks related to fluctuations in the prices of energy commodities and the related foreign exchange risk, when denominated in foreign currencies), calls for the adoption of specific risk limits.

In 2014, the Company also carried out program to make its processes compliant with the EMIR regulations.

Periodically, the Board of Statutory Auditors, working with managers of the relevant department, reviewed changes in the risk map based on ERM methods.

Edison adopted the organizational model required pursuant to Legislative Decree No. 231/2001 ("231 Model") of which the Code of Ethics is an integral part. The Model is designed to prevent the perpetration of the unlawful acts referred to in the abovementioned Decree and, consequently, shield the Company from administrative liability. In 2014, Edison completed the updating of some of its Model 231 protocols with the aim of adopting specific safeguards suitable for addressing the new types of crimes introduced by Law No. 190/2012 ("Corruption between private parties" and "Unlawfully inducing the giving or promising of benefits"). A similar process to gradually update their 231 Models was carried out by the subsidiaries.

In 2014, the Oversight Board, with the support of the Internal Auditing Department, implemented programs to provide employees with training on the principles and requirements of the 231 Model and monitored the development of relevant regulations concerning Law No. 231/2001.

The Company has in place a procedure for the external communication of documents and information concerning its activities as an issuer of securities, which is an integral part of its 231 Model and calls for the adoption of specific safeguards for the management of insider information. In the area of internal dealing, in addition to the obligations that already exist pursuant to the regulations concerning market abuse, the Company, acting pursuant to law, introduced an obligation to refrain, during certain periods of the year, from executing transactions that involve financial instruments issued by the Company that are listed on a regulated market.

In 2014, the Board of Directors, based on the available information and evidence, gathered in

part thanks to the preparatory work of the Control and Risk Committee, carried out an overall assessment of the adequacy of the internal control and risk management system, concluding that it was adequate overall for the purpose of providing a reasonable certainty that the mapped risks are properly managed. In the opinion of the Board of Statutory Auditors, in light of the information obtained, the Company's internal control and risk management system appears to be adequate, effective and effectively implemented.

14. In addition, the Board of Statutory Auditors monitored the adequacy and reliability of the Company's administrative and accounting system in presenting accurately the results from operations by obtaining information from the managers of the relevant departments, reviewing Company documents and analyzing the information produced by the Independent Auditors. The two Corporate Accounting Documents Officers were awarded jointly the attributions that the law requires and were provided with sufficient authority and resources to discharge their duties. In addition, the Chief Executive Officer, through the Corporate Accounting Documents Officers, is responsible for implementing the "Accounting Control Model Pursuant to Law No. 262/2005," the purpose of which is to establish the guidelines that must be applied within the Edison Group to satisfy the obligations set forth in Article 154-*bis* of Legislative Decree No. 58/1998 with regard to the preparation of corporate accounting documents and comply with the resulting certification requirements. The preparation of accounting disclosures and of statutory and consolidated financial statements is governed by the Group Accounting Manual and by the other administrative and accounting procedures that are part of the Model pursuant to Law No. 262/2005, including the fast closing procedure adopted by the Company.

The Model adopted pursuant to Law No. 262/2005 includes official procedures concerning the impairment test, performed in accordance with IAS 36. The analysis of the recoverable values of goodwill and other assets was carried out with the support of a highly qualified independent expert and approved by the Board of Directors on February 11, 2015. A detailed description of the methods and assumptions applied is provided in the relevant note to the consolidated financial statements.

The impairment test procedure and its results were monitored by the Board of Statutory Auditors through meetings with Company managers and the Independent Auditors and through the attendance by the Chairman of the Board of Statutory Auditors at meetings held by the Control and Risk Committee to review the abovementioned results.

The Board of Statutory Auditors is cognizant of the attestations issued by the Chief Executive Officer and Corporate Accounting Documents Officers of Edison S.p.A. regarding the adequacy of the administrative and accounting system, in light of the Company's characteristics, and the effective implementation of the administrative and accounting procedures required for the preparation of the separate financial statements of Edison S.p.A. and the consolidated financial statements of the Edison Group. In addition, the Board of Statutory Auditors, having monitored the financial information reporting process by obtaining information from Company managers, found that, overall, the Company's administrative-accounting system is adequate and reliable in presenting accurately the results from operations.

15. The Board of Statutory Auditors monitored the adequacy of the instructions provided by the Company to its subsidiaries pursuant to Article 114, Section 2, of Legislative Decree No. 58/98, determining, based on information provided by the Company, that these instructions were suitable for providing the information needed to comply with statutory disclosure requirements, and has no objections.
16. The Board of Statutory Auditors, with the support of the Corporate Affairs Department, monitored the process adopted to ensure the concrete implementation of the corporate governance rules set forth in the edition currently in effect of the Corporate Governance Code published by Borsa Italiana (the "Code"). The Report on Corporate Governance and the Company's Ownership Structure lists the Code recommendations that the Board of Directors chose not to adopt, explaining the reasons for those choices, and describes any alternative solutions that may have been adopted.

17. The Company's Board of Directors is currently comprised of 10 members, including three independent Directors. Its composition is compliant with gender parity rules. On December 12, 2014, following Henri Proglio's resignation from the post of Director and Chairman of the Board of Directors on December 3, 2014, the Board of Directors, acting pursuant to Article 2386 of the Italian Civil Code and Article 14, Section 7 of the Company Bylaws, coopted as a member Jean-Bernard Lèvy, who, at the same time, was named Chairman of the Board of Directors. The Board of Statutory Auditors approved the cooption resolution adopted by the Board of Directors, as required by Article 2386, Section 1, of the Italian Civil Code.

In addition, Pierre Lederer and Jorge Mora resigned from their office as Company Directors in 2014. In both cases, the Board of Directors resolved to defer to the next Shareholders' Meeting for any decision about their replacement.

The Board of Statutory Auditors assessed the legality of this decision by the Board of Directors, without any objection, and reviewed the motions that the Board of Directors, meeting on February 11, 2015, resolved to submit to the Annual Shareholders' Meeting convened to approve the 2014 financial statements.

In 2014, the Board of Directors carried out a self-assessment of the size, composition and activities of the Board of Directors and its Committees. The results of this process were presented to the Board of Directors at a meeting held on February 11, 2015 and are listed in the Report on Corporate Governance and the Company's Ownership Structure.

With regard to the procedure followed by the Board of Directors to ascertain the independence of its members, the Board of Statutory Auditors carried out a review of the issues over which it has jurisdiction, concluding that the criteria and procedures used to verify the independence requirements, pursuant to the applicable laws and the Corporate Governance Code, were correctly applied and the requirements concerning the overall composition of the Board of Directors were complied with.

On the occasion of the most recent verification of compliance with the independence requirements, performed on February 11, 2015, specifically regarding the uninterrupted service on the Board for more than nine of the past 12 years by the Director Gian Maria Gros-Pietro, the Board of Directors confirmed that the abovementioned Director met the independence requirement, considering substantive criteria and the ethical and professional qualities of the party in question. The abovementioned Director also serves in the capacity as Lead Independent Director since October 2012 and, as such, organized one meeting reserved exclusively for independent Directors in 2014, during which the self-assessment process for the Board of Directors was developed.

Lastly, the Board of Statutory Auditors ascertained that its members met the same independence requirements as the Directors and adopted the Corporate Governance Code's recommendation requiring its members to disclose any personal or third-party interest in specific transactions submitted to the Board of Directors for approval. In 2014, there were no instances in which the members of the Board of Statutory Auditors were required to make such a disclosure.

The following committees were established within the framework of the Board of Directors:

- The Control and Risk Committee, which is responsible for providing consulting support and making recommendations, reports to the Board of Directors at least once every six months about the work it performed and the adequacy of the internal control and risk management system. This committee, which is comprised of four non-executive Directors, two independent, met five times in 2014. The recommendation of the Corporate Governance Code that the Control and Risk Committee be comprised exclusively of independent Directors was not complied with for the reasons presented in the 2014 Report on Corporate Governance and the Company's Ownership Structure.
- The Compensation Committee, which is comprised of four non-executive Directors, three independent, met twice in 2014.
- The Committee of Independent Directors, which is comprised of three independent Directors, held four meetings in 2014 during which it reviewed four Less Material related-party transactions (three transactions that were part of a project to streamline and maximize the value of activities for the production of electric power from renewable energy sources and one transaction

between Edison and its parent company EDF SA concerning a contract for the mutual supply of services), with regard to which the Committee rendered its opinion.

Additional information about the Company's corporate governance is provided in the Report on Corporate Governance and the Company's Ownership Structure, with regard to which the Board of Statutory Auditors has no objections requiring disclosure

18. The Board of Statutory Auditors reviewed the Compensation Report approved by the Board of Directors on February 11, 2015 upon a recommendation by the Compensation Committee and verified its compliance with the applicable laws and regulations, and the clarity and completeness of the disclosures provided regarding the compensation policy adopted by the Company.
19. The Board of Statutory Auditors also reviewed the motions that the Board of Directors resolved to submit to the Shareholders' Meeting and declares that it has no remarks in that regard.
20. Lastly, the Board of Statutory Auditors verified directly compliance with the provisions of the statutes governing the preparation of the draft separate financial statements and consolidated financial statements at December 31, 2014, the respective accompanying Notes and the Report of the Board of Directors. It accomplished this task through direct observations and with the support of managers of Company departments and representatives of the Independent Auditors. Specifically, the Board of Statutory Auditors, based on the controls performed and the information supplied by the Company, within the limits of its jurisdiction pursuant to Article 149 of Legislative Decree No.58/98, attests that the separate and consolidated financial statements of Edison S.p.A. at December 31, 2014 were prepared in accordance with the laws governing their construction and presentation and the International Financial Reporting Standards issued by the International Accounting Standards Board, as published in the *Official Journal of the European Union*. The separate and consolidated financial statements are accompanied by the required conformity declarations signed by the Chief Executive Officer and the Corporate Accounting Documents Officers.

\* \* \* \* \*

Based on the foregoing considerations, which provide an overview of its activities in 2014, the Board of Statutory Auditors did not uncover any specific negative issues, omissions, improper acts or irregularities and has no remarks or recommendations for the Shareholders' Meeting, as would be required pursuant to Article 153 of Legislative Decree No. 58/1998, with regard to issues under its jurisdiction concerning the separate and consolidated financial statements, the accompanying notes and the report on operations, and finds no grounds for objecting to the approval of the motions submitted by the Board of Directors to the Shareholders' Meeting.

Milan, February 17, 2015

The Board of Statutory Auditors

Serenella Rossi	Chairperson
Leonello Schinasi	Statutory Auditor
Giuseppe Cagliero	Statutory Auditor

This document is also available on the  
Company website: [www.edison.it](http://www.edison.it)

Editorial coordination  
External Relations and Communications Department

Art direction by  
In Pagina, Saronno

Photographs by  
[www.edisonmediacenter.it](http://www.edisonmediacenter.it)

Printed by  
Faenza Printing Industries Srl, Milan

Milan, March 2015

This publication has been printed on ecological paper with a low environmental impact.





**Edison Spa**

31 Foro Buonaparte  
20121 Milan, Italy

Capital stock: 5,291,700,671.00 euros, fully paid in  
Milan Company Register and Tax I.D. No 06722600019  
VAT No. 08263330014  
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