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Press Release

EDISON: STANDARD AND POOR'S RAISES EDISON RATING BY TWO NOTCHES TO BBB WITH POSITIVE OUTLOOK

Milan, December 20 2012 – Edison informs that Standard & Poor's Ratings Services raised Edison Spa long and short term ratings by two notches, respectively to BBB/A-2 from BB+/B, with positive outlook.

S&P indicated that the rating improvement is determined by the successful completion of Edison's equity capital restructuring. Following this transaction, EDF has gained the full control of Edison, has defined Edison as the group's gas platform and has integrated Edison's treasury and funding management into that of the group.

The rating improvement is also linked to the successful arbitrations for the long term gas import contracts signed with RasGas and ENI, through which Edison obtained a price review that made it possible to recover the profitability drop incurred by the natural gas supply activities over the past three years of these contracts.

The positive outlook reflects the possibility that Edison rating could be further raised within two years, if EDF were to show ongoing support for Edison and, in particular, with reference to its gas strategy and long-term plans for the company.

Full Standard&Poor's press release is here below.

Italian Utility Edison Upgraded To 'BBB/A-2' On Integration With EDF And Successful Gas Arbitration; Outlook Positive

Overview

- As of September 2012 Electricite de France fully controls Italian utility Edison SpA and manages Edison's cash and funding. We expect EDF to provide Edison with necessary and timely financial and operational support, in line with our criteria on parent-subsidiary links.

- We believe Edison's shareholder restructuring and successful arbitration on gas contracts support its liquidity and credit metrics.
- We are raising our ratings on Edison to 'BBB/A-2' from 'BB+/B' and withdrawing the '3' recovery rating on Edison's debt.
- The positive outlook reflects the possibility of another upgrade within two years, under our criteria for parent-subsidiary links, on evidence of ongoing support and stronger visibility on EDF's gas strategy and long-term plans for Edison.

Rating Action

On Dec. 20, 2012, Standard & Poor's Ratings Services raised its long- and short-term corporate credit ratings on Italy-based utility Edison SpA to 'BBB/A-2' from 'BB+/B'. The outlook remains positive. At the same time, we withdrew the '3' recovery ratings on Edison's senior unsecured debt.

Rationale

The upgrade follows the completion of the long-delayed restructuring of Edison's ownership structure and Edison's successful arbitration on gas supply contracts. In September this year Electricite de France S.A. (EDF; A+/Stable/A-1) gained full control of Edison, with almost 100% of the voting rights, after its successful tender offer for minority shares, which resulted in Edison's delisting. Then in September and October courts of arbitration ruled in Edison's favor regarding gas supply contracts with RasGas and Eni SpA (A/Negative/A-1).
We have reassessed Edison's importance for its parent, including the parent-subsidiary links, based on the degree of Edison's integration into EDF's operations, strategy, control, and management. In particular, EDF has:

- Effectively gained full managerial control of Edison and appointed Edison's CEO and Chief Financial Officer, who are experienced managers of EDF group;
- Defined Edison as the group's gas platform that will manage EDF's gas interests in the South Stream pipeline project and its new Dunkirk liquid natural gas terminal; and
- Integrated Edison's treasury and funding management into that of the group. Edison's cash has been pooled with EDF's and its funding needs will be covered by intragroup loans.

We now believe Edison is a strategic subsidiary of EDF and that EDF, in the event of financial stress at Edison, would provide the necessary and timely financial and operational support to Edison. Consequently, we now factor two notches of uplift for shareholder support into our ratings on Edison compared with one notch under the previous dual-control structure.

We are also of the view that Edison's managerial, financial, and industrial integration into its highly rated parent EDF, Europe's largest producer of electricity, strengthens Edison's stand-alone credit profile (SACP) through ongoing support. In particular, we have revised our assessment of Edison's liquidity upward to "adequate" from "less than adequate", as defined in our criteria. This is because we anticipate that EDF will refinance Edison's maturities and meet its funding needs in the future through intergroup loans, as prescribed by the group's policies. We have observed such an approach for EDF Energy PLC (A/Negative/A-1), another fully controlled subsidiary of EDF.

The improvement of Edison's liquidity profile, its significant debt reduction in 2012, and strengthening credit metrics have led us to revise our assessment of Edison's financial risk profile upward to "significant" from "aggressive", and the SACP to 'bb+' from 'bb'. We estimate that Edison's adjusted debt will be about €3.9 billion at year-end 2012, down from €5.6 billion one year ago, partly thanks to €1.2 billion from Edison's disposal of Edipower. In addition, the arbitration courts' ruling in favor of Edison on long-term gas contracts with RasGas and Eni means that Edison will recoup midstream gas losses incurred up to and including 2012, representing about €700 million to be received by year's end.

The arbitration rulings secure, in our view, a significant share of Edison's cash flows. Although the magnitude and the timing of the arbitration proceeds to Edison are uncertain, we anticipate that Edison, as a last resort, will be able to recoup the losses in the future under long-term take-or-pay gas supply contracts. In the fourth quarter of this year Edison started a new phase of negotiation/arbitration on all its gas contracts. This supports our view that the improvement in Edison's credit metrics in 2012 is sustainable in the medium term across the arbitration cycle. We forecast that Edison will post a Standard & Poor's-adjusted ratio of funds from operations (FFO) to debt of about 23%-24% in 2012, a range significantly higher than our previous estimate of 13%-15%.

Our assessment of Edison's SACP reflects our view of the company's well-established position as Italy's second-largest electricity and gas group, its efficient and modern generation fleet, increased focus on profitability and financial discipline through the reduction of capital expenditures (capex), and its supportive and strong owner. These strengths are partly offset by Edison's primary focus on power generation, limited downstream integration, and the continued margin squeeze in the oversupplied domestic gas and power markets, which face weak demand, solar capacity additions, and looming gas market reform. Further rating constraints include the increasing weight of riskier exploration and production activities and the limited fuel diversity of the group's generation fleet.

Liquidity

The short-term rating is 'A-2'. We assess Edison's liquidity as "adequate" in line with that of its parent EDF, which pools Edison's cash and will cover its refinancing needs through intergroup loans, as prescribed by the group's policies.

Our assessment is further supported by our anticipation that Edison's projected sources of liquidity will cover projected uses by about 1.2X over the next 12 months.

As of Sept. 30, 2012, we factor the following sources into our liquidity assessment for the next 12 months:

- Nearly €600 million of cash available plus about €700 million of arbitration proceeds to be received by year's end;
- FFO of about €400 million, conservatively assuming that the full impact of the second wave of gas contract renegotiations (or ultimately arbitration) will be realized in 2014. There is some upside on cash flow as we consider it likely that some renegotiations or arbitrations will be concluded in 2013; and
- Our assumption that EDF will provide Edison a credit facility of up to €1.5 billion, with the amount and conditions likely to be formalized before April.

Against these sources, we factor in the following liquidity uses:

- Our conservative assumption of relatively high capex of about €450 million;
- Nearly €1.6 billion of short-term debt, including Edison's main credit facility, a €1.5 billion syndicated loan maturing in April 2013; and
- About €100 million in working capital needs.

Outlook

The positive outlook reflects the possibility of another upgrade within two years, under our criteria for parent-subsidiary links, on evidence of ongoing support and stronger visibility on EDF's gas strategy and long-term plans for Edison.
Should we assess Edison as a core subsidiary, firmly integrated into the EDF group with no prospect of disposal in the long term, we could consider equalizing Edison' SACP, and in turn the long-term rating, with the SACP of the parent EDF, which is at 'a'. This would likely depend upon EDF's long-term strategic plans in the gas industry, which it has not yet formalized, and our view of Edison's role and importance in EDF's gas expansion and the strength and durability of its link with EDF.

Improving conditions in Italy's energy markets, translating into a sustainable recovery of Edison's profitability, and a further improvement of credit metrics beyond our expectations could also lead us to revise our assessment of Edison's SACP upward and raise the rating.

Conversely, we would consider a negative rating action if shareholder support did not compensate for a deterioration of Edison's SACP, which in our view remains pressured by the poor outlook for gas and power markets in Italy.

Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Edison 'BB+/B' Ratings Affirmed, Off CreditWatch Negative On Regulatory Approval Of EDF's Tender Offer; Outlook Positive, May 14, 2012

- Italian Utility Edison Downgraded To 'BB+/B' On Weakening Liquidity; L-T Rtg Kept On Watch Neg On Delayed Restructuring, March 6, 2012
- Italian Utility Edison Downgraded To 'BBB-', Placed On Watch Negative On Weakening SACP And Shareholder Agreement Delay, Dec. 5, 2011
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Edison 'BBB/A-2' Ratings Remain On Watch Developing On Weakening SACP And Delayed Agreement On Shareholder Structure, Sept. 19, 2011
- Edison 'BBB/A-2' Ratings Placed On CreditWatch Developing On Weakening SACP And Uncertainty Over Shareholder Structure, June 21, 2011
- Credit FAQ: How Negotiations Of The EDF/A2A/Delmi Shareholder Agreement Could Affect The Ratings On Edison, EDF, And A2A, June 21, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link To Parent, Oct. 28, 2004

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44)20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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Public disclosure required by Consob Resolution No. 11971 of May 14, 1999, as amended.

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