

A LETTER TO SHAREHOLDERS

Dear Shareholders,

My commitment is to unleash the great potential of Edison, despite a challenging market environment, defining a solid path of value creation for the long term. The deep changes that characterized energy markets in recent years require to look at the future with a new approach that should be reflected not only in our strategies, but also in the value of our assets. With this in mind, the positive operating and financial results achieved in 2015 confirm that Edison is in good shape, able to react to the external environment and ready to seize opportunities in a market that is still undergoing a major transformation.

Even though the Italian economy is showing feeble signs of improvement throughout the 2015, with an increase in GDP of about 0.7%, the energy markets confirmed their weakness, characterized by consumption stagnation, exceptionally low prices and strong pressure on margins. The increases marked in 2015 in the Italian electricity consumption (+1.5% compared with 2014) and gas (+9.1% compared with 2014) were almost entirely weather related, attributable to temperature and rainfall levels, while prices for power and gas reached the bottom. Moreover, oil price dropped: in just one year, the price per barrel halved compared to about 100 dollars during the previous four years, following a downward trend that brought it at 30 dollars at the beginning of 2016.

In this challenging environment, Edison will continue to work with the aim of anticipating market and regulatory changes, leveraging its competencies and strengthening its position both in the final market and the energy services market. All of the above keeping flexible and reactive and preserving the value of its existing investments.

In Italy, the power generation is affected by a severe overcapacity that will continue to characterize the market over the medium term. Many operators are struggling to extract value from this activity and the market is facing a deep restructuring phase. The future evolution is still not clear: there is the possible consolidation of the weakest operators, on one side, and a possible change in the regulatory framework, on the other side, with a revision of the market design and the introduction of the capacity market. In this context, Edison is continuing to rationalize its thermal plants, maximizing the value of the more flexible and efficient and looking for *ad hoc* solutions for the others. Hydroelectric generation is a key part of the portfolio, and the Company is committed to preserve and expand it. This is indeed the aim of the swap between minority stakes in Alto Adige and a new concession in Friuli, as well as the new mini-hydro projects along Adda river. The key challenge for the future is to be ready for the renewal of hydro concessions, thus the company is advocating a competitive and not distortive framework. The growth in other renewable energy sources is led by E2i, the new platform implemented in 2015.

The results reported in 2015 by the activity of power and gas sales to end customers benefited of the programs implemented in the previous years aimed at reducing overdue, optimizing operating costs and increasing the level of customer service, all bolstered by the introduction of innovative products and services. In addition, the development of energy efficiency services enables the Company to offer an integrated product range to customers, in a market where differentiation is the key to attract and retain new customers. Consistently with this approach, Edison Energy Solutions continues to operate successfully in the Italian market and, in 2015, performed over 200 energy audits. By continuing in this direction and broadening the offers and the customer base, even through M&A, the Company will succeed in rebalancing its portfolio and optimizing its risk profile. A further boost to the sales to end customers could be linked to the end of regulated market, expected for 2018. This should trigger all consumers to select a supplier in the free market, resulting in a more efficient competition.

In 2015 the gas supply successfully concluded the second difficult cycle of long-term gas contracts revisions, with the arbitral award obtained for the last of the four contracts. The Company thus fully demonstrated its ability to profitably manage this business and is in the process of embarking on a new cycle of contract revisions, this time at the request of its suppliers, in connection with the sharp drop in oil prices to which the contracts are indexed. In parallel Edison is engaged in the development of new infrastructural options for a competitive and reliable gas supply to Italy and Southern Europe, a growing concern not only for operators but also for the governments of countries that,

like Italy, are heavily dependent on imports. Interconnection projects, such as the fully approved IGI (Greece-Italy) and the Eastmed, in a feasibility study phase, offer new import routes from existing suppliers and the possibility to reach new gas discoveries in the Eastern Mediterranean area (Egypt, Israel and Cyprus in particular). At the end of 2015, the decision to invest in the Greece-Bulgaria gas pipeline (IGB), supported by our partner and the Bulgarian government, confirms the Edison strategic positioning in Southern Europe and the Eastern Mediterranean.

The Eastern Mediterranean area became even more important in 2015, following the exceptionally large gas discoveries by Eni in the Egyptian offshore, nearby some Edison concessions that present similar geological profiles and offer new and important perspectives for exploration activities. The Company's position in Egypt is supported by local government, which considers Edison a strategic partner for the country's development. Edison has indeed shown reliability in Abu Qir operations, dynamism in the exploration area and the ability to bring innovation to the benefit of Egypt's energy sector, such as the new turbogas power plant project fueled with Abu Qir gas, that will alleviate the scarcity of electric power in Egypt. Having secured a minimum guaranteed price for gas produced in Abu Qir, largely unaffected by oil price, the Company is considering new options for the development of its activities. On the other hand, the drop in oil and gas prices had severe impacts on the profitability of other Edison fields, mainly located in Italy. Moreover, the result of an upcoming referendum could affect the future of Italian E&P activities within 12 miles from the coast, which account for a major portion of the Company's portfolio. In this challenging context, Edison is reviewing its portfolio of activities and development projects to optimize their profitability and value.

Despite the challenging market environment described above, Edison 2015 EBITDA rose to 1,261 million euros, up from 814 million euros in 2014, thanks to the successful arbitral award for the last gas contract and the program implemented to cut operating costs, which decreased by 12% in 2015 on a comparable scope of consolidation basis.

These results off-set the impact on margins caused by the collapse in crude oil prices, the contraction of thermoelectric generation margins and the lower hydropower production compared to the exceptional 2014 levels. The cash flow, which was positive by more than 600 million euros in 2015, benefited from the successful management of operating working capital during the year and contributed to the Group's financial strength (debt/EBITDA ratio close to 1). However, the future market scenario, regarding both oil and power & gas prices, made necessary a writedown up to 1,534 million euros to adjust the book values to the low profitability of the current energy markets. As a result, the bottomline registered a loss for 980 million euros.

Given the deterioration affecting the Italian power market and the current level of oil prices, 2016 EBITDA is expected to be significantly lower than the 2015 one, on a comparable scope of consolidation, mainly because it will not benefit of extraordinary components. Nevertheless, Edison could leverage on the particularly low debt level to actively participate to the current market consolidation process. Thanks to this advantage and its distinctive internal competencies, Edison could be able to attract other players and thus increase its critical mass, thereby improving its competitive position, lowering its risk profile and increasing its operating efficiency.

Lastly, Edison continues to look at the future, promoting innovation and development, for its own businesses and the community, as it did during its long pioneering history. Through the rich program of initiatives "Edison Open4Expo", together with the Milan Municipality, Edison has stimulated reflections – very followed by all stakeholders – on how to combine innovation with energy, sustainability and development, thus contributing to the ideas of EXPO 2015, also in preparation to the Paris climate negotiations (COP21).

In conclusion, financial strength, distinctive competencies and ability to innovate are the elements that I intend to develop, in order to continue writing Edison's history of successes.

Marc Benayoun
Chief Executive Officer