EDISON
EDF GROUP

2017 FINANCIAL REPORT

REPORT ON OPERATIONS

CONTENTS

2017 FINANCIAL REPORT

Group Profile

We work together with our customers, supporting their businesses and daily needs**.** We endeavour to be the benchmark for providing energy with low environmental impact. We offer our unique experience and know-how to build a future of sustainable energy that will improve and simplify people's lives. The energy efficiency solutions and technologies that we propose to our customers and partners represent our customized responses to their specific needs.

We are a leading operator in the Italian energy sector in a context in which energy is no longer just electricity and gas, but is rather a broader concept, associated with everything that it makes possible: energy is the key to the smart transformation of our lifestyles.

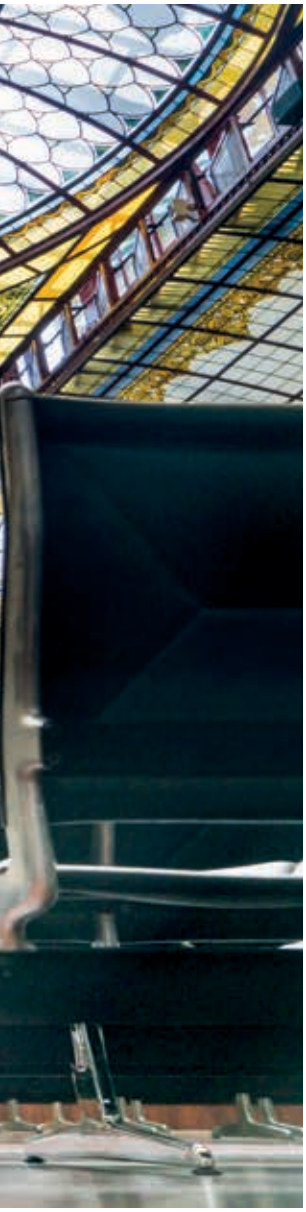
Edison, the oldest energy company in Europe, currently operates in Italy, Europe and the Mediterranean with a staff of more than 5,000 people. Since 2012, the Company has been controlled by the EDF Group and is listed on the Italian Stock Exchange, limited to its saving shares.

Edison distributes electric power and natural gas to households and businesses, as well as energy efficiency services and environmental solutions, in particular to industrial clients and Public Administration. Thanks to a highly efficient and flexible portfolio of electric power-generating facilities ranging from CCGT plants to hydroelectric stations, wind farms, solar and biomass systems, Edison generated 19.7 TWh in 2017, accounting for 7% of Italy's electric power production. Our objective is for 40% of the electricity we produce to come from renewable sources by 2030.

In the hydrocarbons business, Edison operates in Italy, in the Mediterranean Area and in Northern Europe, with over 100 concessions and permits for the exploration and production of natural gas and crude oil, and reserves of 224 million barrels of oil equivalents. In 2017, the company imported 15.1 billion of cubic meters of gas, covering 22% of Italy's total gas imports and contributing to the security of the national energy system.

Edison's gas supply system is based on a diversity of sources and routes and numerous flexible long-term agreements with a range of European, African and Middle Eastern countries. The company is also developing infrastructure projects to import gas that will contribute to the security and affordability of Italy's electricity supply. It also manages gas storage and distribution with its subsidiaries.

A Letter to Shareholders



Dear Shareholders,

in 2017, Edison effectively commenced a major transformation of its business and operating model, in line with the changes in the energy markets and the new strategy of focusing on customers, geared towards promoting a future of sustainable energy and developing solutions with low CO_2 emissions for power generation and the market.

The year 2017 saw a significant improvement in Edison's operating and financial results.
The market context registered notable growth in the prices of energy commodities and, at the same time, a slight increase in the demand for electricity and gas.
Edison was able to seize upon this scenario evolution and translated it into positive performances in all business sectors and at the same time took advantage of the growth opportunities in the market.

All this in the context of the definition by the Government and the institutions of a strategic view on the evolution of the Italian energy market, which culminated in the adoption of a National Energy Strategy. The guidelines identified for the development in the energy sector are fully consistent with Edison's areas of growth.

In the downstream business, Edison took a first significant step towards growth in size, signing an agreement to acquire the commercial operations of Gas Natural Italia. The acquisition of roughly 500,000 customers, which will be finalised in the first quarter of 2018, will allow Edison to increase its portfolio by 50%, strengthening its presence in central-southern Italy, and allowing it to develop important operating synergies. Edison's role in the retail market will be reinforced from both a geographical and product point of view, in full consistency with one of the strategic lines of growth.

Furthermore, in the past year, Edison launched Edison World, the offer for the residential market, with smart home automation services and advanced self-consumption solutions. The offer was also enhanced by the extensive network of installers thanks to the partnership with Assistenza Casa and digital sales and post-sales channels.
In particular, thanks to the "My Sun" offer, a photovoltaic system with battery, Edison set itself apart for the launch of a solution targeted at the residential self-consumption market, a segment that presents significant growth potential.
The objective continues to be establishing ourselves as a leading operator in view of the complete opening of the market, with the aim to respond to the evolving role of customers, who are actively seeking to manage their own energy profile.
I would also like to underline the continued improvement in the management of sales processes and the quality of the customer base, which has now culminated in operational indicators in line with the market best practices.

In 2017, the Company continued to strengthen the energy services business, where Edison aims to offer complete solutions with a high degree of innovative content to the different customer segments.
This is being achieved thanks to a fully operational Energy Services Business Unit and the integration of Fenice, a leader in Italy in providing energy services to large industrial clients.
Today, Edison is capable of providing the specific expertise and technologies for the target market segments (public administration, industrial, district heating, environmental services) also thanks to the acquisition and the development of some specialised operators (Comat for district heating and Energon Facility Solutions for services to the public administration, in addition to two acquisitions - Pavoni Rossano and Ecologica Marche – carried out in environmental services at the end of 2016).

Just as intense, during the year, was Edison's commitment to increasing its capacity to generate electricity from renewable sources, starting with the development of mini-hydro plants, a strategic activity where Edison aims to become a leading market operator. The green-field installation of Pizzighettone was completed in 2017, using proprietary technology in full harmony with the local area. At the same time, we acquired plants in Piedmont and Lombardy with capacity of roughly 10 MW, plus the majority stake in Frendy Energy, that manages 15 electric power plants on the irrigation channels of Piedmont and Lombardy.
On top of that, the development of 8 wind farms with a capacity of 165 MW, awarded to the E2i platform at the GSE auction at the end of 2016, is progressing; the completion is expected by 2019. In 2017, Edison obtained a loan from the EIB for the financing of part of E2i's investment, testimony to the bank's appreciation of the soundness of the industrial project and of the central importance of renewable sources recognised at European level.

The year 2017 also recorded an increase in the operations of Edison's combined cycles by more than 5,000 hours of operation in the year, guaranteeing a sustainable, reliable and flexible energy mix, which complements the renewable sources that have been impacted by major climate factors, such as lower availability of water. All this demonstrates the key role that will be played by high-efficiency thermoelectric generation in the scenario where Italy abandons the coal power generation, outlined in the National Energy Strategy.

As regards mid-stream gas activities, the positive and stable results were confirmed following the significant cycle of renegotiations of the procurement portfolio.
In 2017, thanks to the extensive expertise acquired, Edison assumed the role of Gas platform of the EDF Group for the integrated management of procurement and Midstream gas activities of the Group; based on a services contract, Edison can build on its experience on international gas markets, by also managing the Group's assets.

The Company is also continuing with intense development of the infrastructures of the "Corridoio Sud" (Southern Corridor), with the goal of consolidating the role of strategic operator for the country, expanding its portfolio with competitive and safe gas, to directly support the customers consumption and Italian production activities.
In particular, in 2017 Edison, Depa and Gazprom signed the second phase of the Poseidon protocol, the gas pipeline for the transportation of gas to Italy from both the Turkey/Greece border and from the East Mediterranean region through the EastMed gas pipeline.
Indeed, in 2017, the company Poseidon, equally owned by Edison and Depa, concluded the feasibility study on EastMed with the support of the European Union, which will also co-finance the study of the development phase in 2018.

As regards the exploration and production of hydrocarbons, the performance was markedly positive thanks to the high level of operating efficiency and the improvement in the oil scenario.

The year 2017 closed with production volumes slightly higher than the expectations and up over 2016, thanks to the contribution from the new Egyptian Platform NAQ PIII, which reached full production in July, on schedule and within budget.
In December, we also announced the start of production in the field of Reggane in Algeria, in which Edison holds a stake. Full production will be reached in the first half of 2018.

On the whole, 2017 was characterised by a recovery in EBITDA, which reached a significantly higher level than the expectations, also thanks to the constant focus on cost savings.
In spite of the recovery, the result for the year was influenced by the negative impact of the change in fair value of commodity and currency hedges and the impairment write-downs recorded in the year. The latter are essentially connected to the deterioration in the long-term view of the commodity scenario.
Lastly, the significant reduction in the net financial position, deriving for about 500 million euros from the disposals of non-strategic assets and for 200 million euros from the improvement in working capital, will allow Edison to support its strategic development plan in the short-term. The latter has already been effectively implemented through the impending acquisition of Gas Natural operations in Italy.

In the context of a more general social performance, it is crucial to point out that Edison (including Fenice) has achieved excellent results in worker safety, with a global accident frequency rate of 1.0 accidents for every million hours worked. This is the best ever result recorded by Edison, proof of the Company's excellence in providing a safe environment for the work force. To be noted that the indicator takes account of the workers of contracting companies and, for this reason, is of paramount importance.

The results of the Company internal perception survey should also be stressed, as they also show a rise in Edison employee engagement in 2017. Edison employees confirmed their full confidence in the future of the Company and widespread support for the strategic development lines and the projects for the transformation of the operating model.

Lastly, there were two important developments regarding our commitment to sustainable development. The first is the new Sustainability Policy and the associated objectives based on the Sustainable Development Goals of the United Nations. The second is that, from this year, the Sustainability Report, adopted by Edison in 2004, has evolved to become the Report on non-financial information, the fifth publication of these financial statements, in compliance with the new Legislative Decree 254/2016 and our principles of transparency and openness.

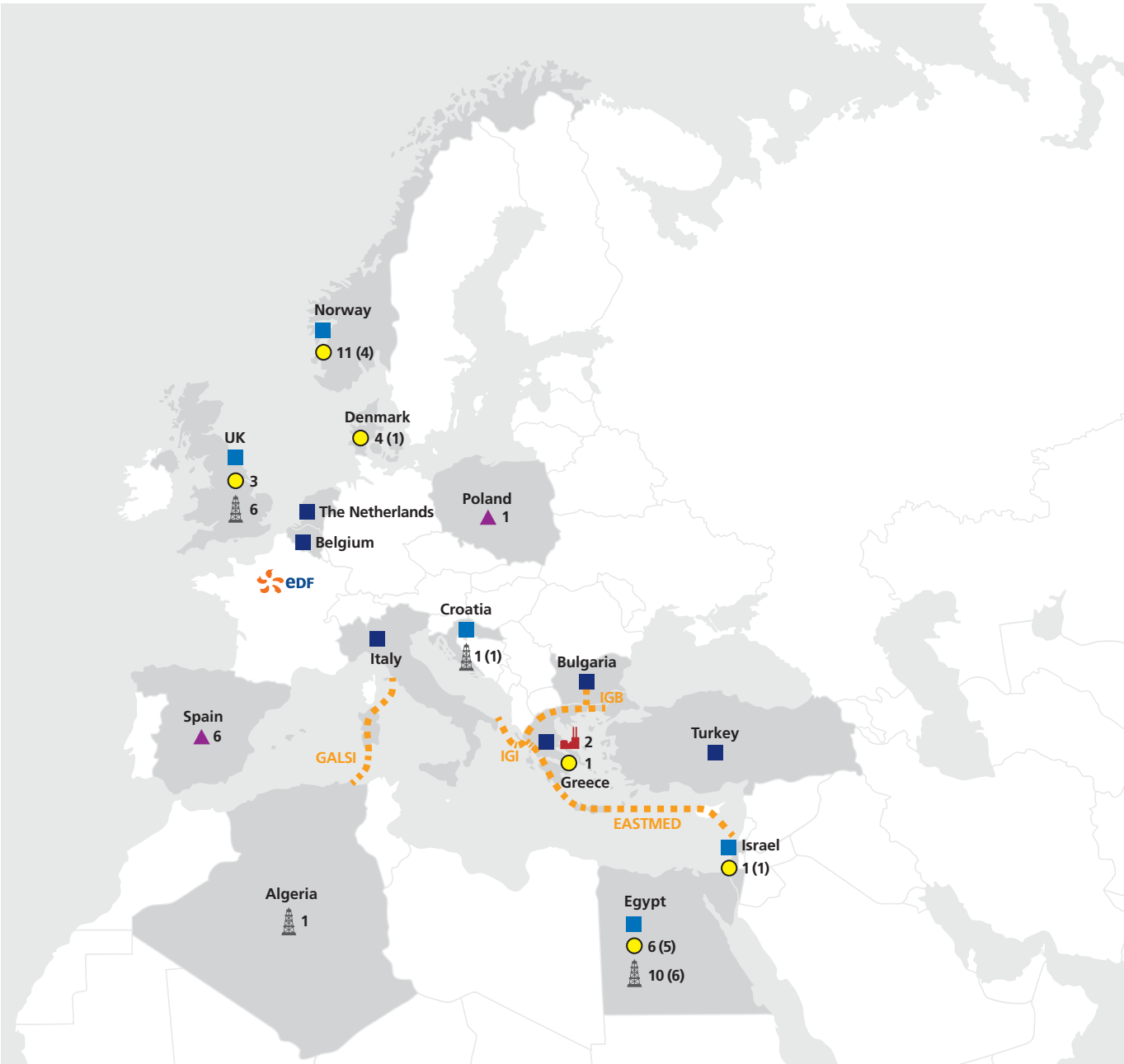
In conclusion, in the year just ended, Edison was able to effectively benefit from the improved market context and managed to ramp up its performance in all business sectors. At the same time the company gave tangible shape to the transformation process, with significant steps taken towards meeting the strategic objectives.

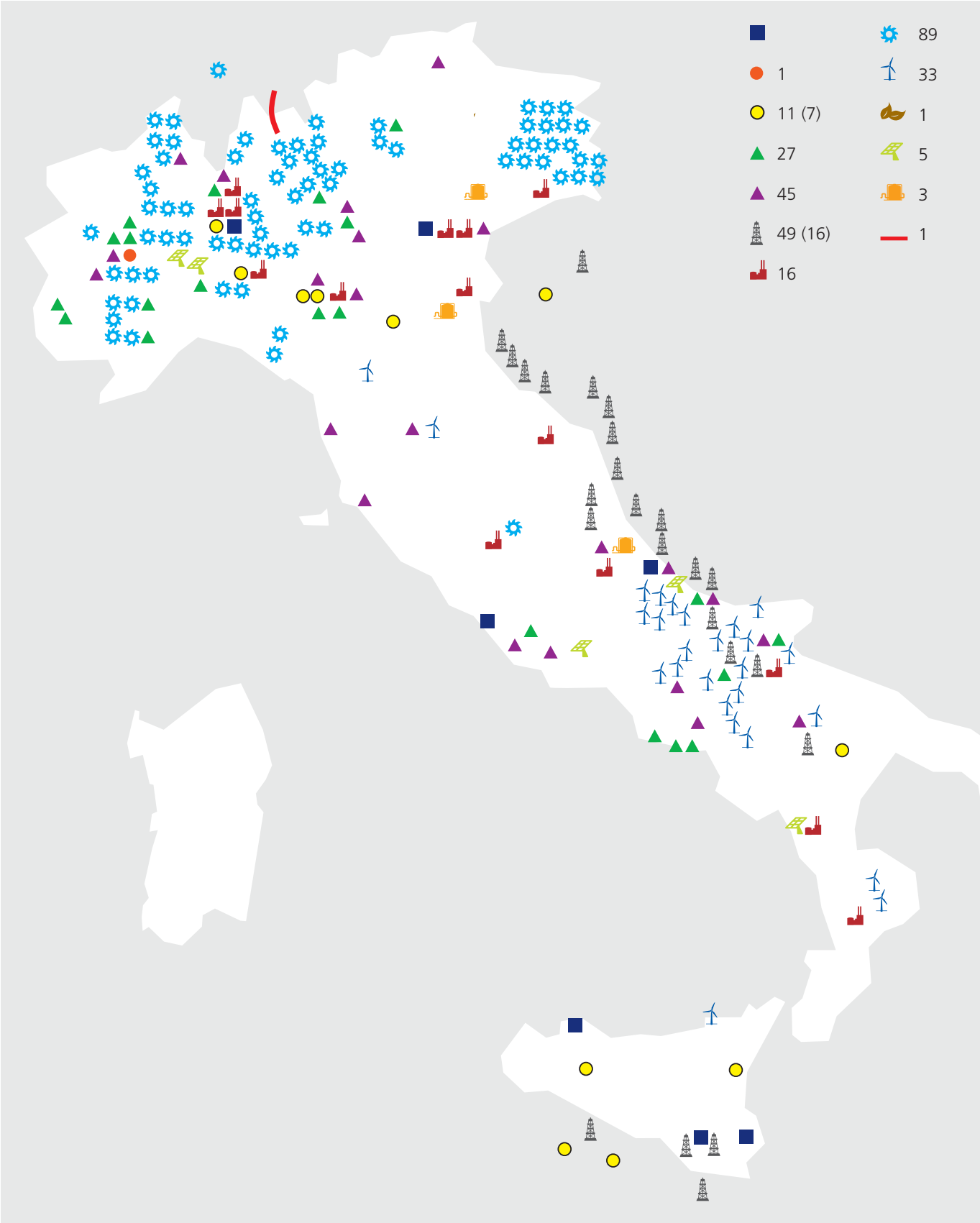
For 2018 the Company confirms its determination in pursuing, its objectives to grow in the end market, renewable energies and energy efficiency. Many challenges lie ahead. I would like to stress that these include effective integration of the companies acquired and in the process of being acquired, in order to take advantage of their potential expertise and synergies, and strengthen Edison's market position, as well as its profile of first-rate energy operator.

Marc Benayoun
Chief Executive Officer

Operational presence

- Edison locations and offices
- Hydrocarbon branches and offices
- Operating sites for environmental services
- Managed production sites (Fenice and Edison Energy Solutions)
- R&D center
- Hydrocarbon exploration licenses (of which as operator)
- Hydrocarbon production concessions (of which as operator)
- Thermoelectric power plants
- Hydroelectric power plants
- Wind farms (through E2i)
- Biomass power plant
- Photovoltaic plants
- Gas storage centers
- Merchant line
- Pipelines under development

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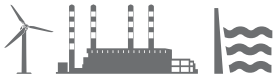
Value chain

ACTIVITY

Upstream

Midstream



Power assets & Engineering

ELECTRIC POWER

Management and development of generating electric facilities in Italy and abroad

6.4 GW
net installed capacity

1 HV
merchant power line (150 MW)

19.7 TWh
net production

89 hydroelectric power plants (of which 50 mini hydro)
18 thermoelectric power plants
33 wind farms
5 photovoltaic systems
1 biomass power plant

HYDROCARBONS

Hydrocarbon exploration, development and production in Italy and abroad

Exploration & Production

224 MBoe
hydrocarbon reserves

17.0 MBoe
hydrocarbon production

4.2 MBoe Italy
12.8 MBoe abroad

105
concessions, permits and licenses

60 in Italy
45 abroad

4 gas pipeline projects

Development of gas transmission infrastructures abroad

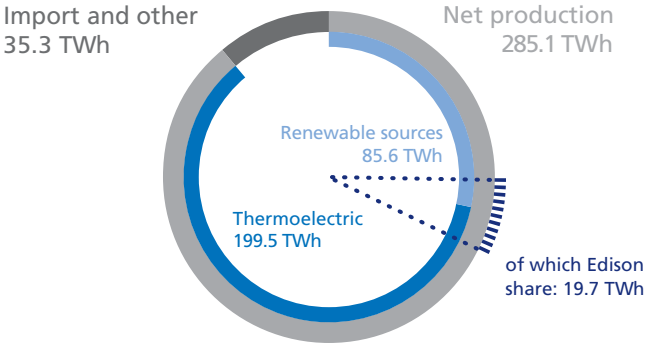
14.4 bn m^3/y*
(of which 6.4 bn from terminal)

Gas supply contracts
(*Annual Contracted Quantities)

ITALIAN MARKET

Electric power

2017 - Total gross Italian demand 320.4 TWh



7%
Edison's share of total Italian production

Downstream

Gas & Power Market

1,059 thousands
sites served

10.9 TWh
electric power sold to end customers

6.9 bn m^3
gas sold for residential and industrial uses

45
electric (among which renewable) and thermal generation plants

20 million m^2
of managed area

100
district heating systems

27 operating sites
for environmental services

Energy Services Market

Energy Management

Dispatching portfolio, optimization and energy trading

73.7 TWh
volumes handled

21.3 bn m^3

3 storage centers

3,598 km
of low and medium pressure gas pipelines

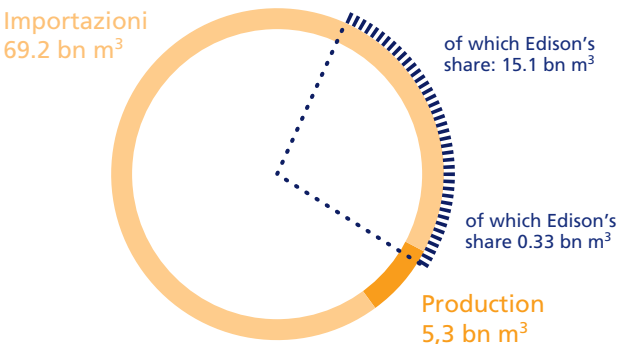
Storage management and gas distribution in Italy

Management of long-term procurement contracts, logistics, supply of gas to the thermoelectric and wholesale markets

Gas Midstream, energy management & optimization

Gas

2017 - Total Italian demand 74.7 bn m^3



22%
Edison's share of total Italian imports

6%
Edison's share of total Italian production

HIGHLIGHTS OF THE GROUP

MAIN FINANCIAL AND OPERATING HIGHLIGHTS

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.

Income statement highlights (millions of euros)	**2017**	**% of revenues**	**2016**	**% of revenues**	**% change**
Sales revenues	9,940		11,034		*(9.9%)*
EBITDA	803	*8.1%*	653	*5.9%*	*23.0%*
EBIT	42	*0.4%*	(260)	*n.m.*	*n.m.*
Profit (Loss) attributable to Parent Company shareholders	(176)		(389)		*54.8%*

Balance sheet highlights (millions of euros)	**12.31.2017**	**12.31.16**	**% change**
Capital expenditures	377	337	*11.9%*
Investments in exploration	80	68	*17.6%*
Net invested capital (A + B)	6,319	7,327	*(13.8%)*
Net financial debt (A) (1)	116	1,062	*(89.1%)*
Total shareholders' equity (B)	6,203	6,265	*(1.0%)*
Shareholders' equity attributable to Parent Company shareholders	5,915	5,955	*(0.7%)*

Rating	**12.31.2017**	**12/31/16**
Standard & Poor's		
- Medium/Long-term rating	BB+	BB+
- Medium/Long-term outlook	Stable	Stable
- Short-term rating	B	B
Moody's		
- Rating	Baa3	Baa3
- Medium/Long-term outlook	Stable	Stable

Key Indicators	**2017**	**2016**	**% change**
Debt/Equity ratio (A/B)	0.02	0.17	
Gearing (A/A+B)	1.8%	14.5%	
Number of employees (2)	5,144	4,949	*3.9%*

(1) A breakdown of this item is provided in the "Net Financial Debt" section of the Notes to the Consolidated financial statements.
(2) Year-end data for companies consolidated line by line.

Operating data	**2017**	**2016**	**% change**
Net production of electric power (TWh)	19.7	20.4	*(3.0%)*
Sales of electric power to end users (TWh)	10.9	11.6	*(5.6%)*
Gas imports (Bn m^3)	15.1	14.6	*3.3%*
Total net gas sales in Italy (Bn m^3)	21.3	21.9	*(2.7%)*
Locations served power and gas (thousands)	1,059	1,059	-
Hydrocarbon reserves (Mboe)	224.0	248.4	*(9.8%)*
Net Hydrocarbon production in Italy and abroad (Mboe)	17.0	16.1	*5.4%*

INFORMATION ABOUT THE EDISON SHARES

Shares at December 31, 2017	Number	Price
Common shares	5,266,845,824	(*)
Savings shares	110,154,847	0.9809

Shareholders with significant holdings at December 31, 2017	% of voting rights	% interest held
Transalpina di Energia Spa (1)	99.484%	97.446%

(*) Delisted as of September 10, 2012.
(1) 100% indirectly controlled by Eléctricité de France Sa.

CORPORATE GOVERNANCE BODIES

Board of Directors (1)		
Chairman		Jean-Bernard Lévy (2)
Chief Executive Officer		Marc Benayoun (3)
Directors		Marie-Christine Aulagnon (4)
		Béatrice Bigois (5)
	Independent Director	Paolo Di Benedetto (6)
	Independent Director	Gian Maria Gros-Pietro (7)
		Sylvie Jéhanno (8)
	Independent Director	Nathalie Tocci (9)
		Nicole Verdier-Naves (10)
Secretary to the Board of Directors		Lucrezia Geraci
Board of Statutory Auditors (11)		
Chairperson		Serenella Rossi
Statutory Auditors		Lorenzo Pozza
		Gabriele Villa
Independent Auditors (12)		Deloitte & Touche Spa

(1) Elected by the Shareholders' Meeting on March 22, 2016 for a three-year period ending with the Shareholders' Meeting convened to approve the 2018 financial statements.
(2) Confirmed as Director and Chairman by the Shareholders' Meeting on March 22, 2016.
(3) Confirmed as Director by the Shareholders' Meeting on March 22, 2016 and as Chief Executive Officer by the Board of Directors on March 22, 2016.
(4) Elected as Director by the Shareholders' Meeting on March 22, 2016. Chairperson of the Control and Risk Committee.
(5) Confirmed as Director by the Shareholders' Meeting on March 22, 2016. Member of the Control and Risk Committee.
(6) Confirmed as Director by the Shareholders' Meeting on March 22, 2016. Chairman of the Compensation Committee and member of the Control and Risk Committee, the Committee of Independent Directors and the Oversight Board.
(7) Confirmed as Director by the Shareholders' Meeting on March 22, 2016. 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.
(8) Elected as Director by the Shareholders' Meeting on March 22, 2016.
(9) Confirmed as Director by the Shareholders' Meeting on March 22, 2016. Member of the Compensation Committee and the Committee of Independent Directors.
(10) Confirmed as Director by the Shareholders' Meeting on March 22, 2016. Member of the Compensation Committee.
(11) Elected by the Shareholders' Meeting of March 30, 2017 for a three-year period ending with the Shareholders' Meeting convened to approve the 2019 financial statements.
(12) Audit engagement awarded by the Shareholders' Meeting on April 26, 2011 for the nine-year period from 2011 to 2019.

Report on Operations

KEY EVENTS

Edison teams up with Comat Energia to enter the district heating sector in Piedmont

On March 1, 2017, Edison launched into the urban biomass district heating sector, acquiring the majority share (51%) of Comat Energia, the Comat group company operating in 50 mountain communities across Piedmont. The operation is part of Edison's strategy to develop the energy and environmental services sector as it pursues a market leadership position in Italy in this segment too, offering integrated services covering all sectors, from industry to the service sector and public administration.

Comat Energia operates in the heating and woody biomass district heating sector through around 100 heat production plants.

Edison enters the home services market

On March 9, 2017, Edison purchased 51% of Assistenza Casa, the Italian company of the international HomeServe Group, which holds the remaining 49% of the capital. Assistenza Casa, established in 2010, numbers more than 50 employees, boasting a network of around 1,400 artisans across Italy and approximately three hundred thousand customers.

Thanks to this operation, Edison will be able to offer its customers repairs of electrical, gas and hydraulic systems, the installation and maintenance of boilers and air conditioning units, as well as the installation of remote-controlled smart systems connected to the internet ("Internet of Things"). These home services are an integral part of the new Edison World platform that was unveiled to the market late March, offering customers innovative smart home services, offering assistance in the home and control over consumptions.

Gazprom, DEPA and Edison sign an Agreement of Cooperation on the southern route for Russian gas supplies to Europe

On June 2, 2017, Gazprom, Edison and DEPA signed a Cooperation Agreement at the St. Petersburg International Economic Forum 2017.

The agreement envisages joint efforts aimed at establishing a southern route for Russian gas supplies from Russia to Europe, which will run across Turkey and Greece to Italy. The three companies will coordinate the development and implementation of the TurkStream project and of the Poseidon project from the Turkish/Greek border to Italy, in full compliance with relevant applicable legislative framework. In addition, the Agreement formalizes the arrangements on expanding cooperation in the field of Russian gas deliveries.

Edison inaugurated Pizzighettone hydroelectric plant

On June 28, 2017, Edison inaugurated its hydroelectric plant in Pizzighettone (CR), on the Adda River, confirming its view that developing renewables is key to the company's growth. The Pizzighettone plant, a mini run-of-river hydroelectric installation with a capacity of 4.3 MW, blends perfectly into the landscape of South Adda Park, thanks to its underground structure and special passage that allows fish to swim upstream.

The plant can generate an average of 18 million KWh a year. The sustainable energy generated by the water is equivalent to the annual consumption of about 6,000 households and prevents the release of approximately 8,000 tons of carbon dioxide into the atmosphere.

Acquisition of mini-hydroelectric power plants

Edison Spa acquired from IDRORA Srl the business operation consisting of the run-of-the-river water hydroelectric power plant on the river Dora Baltea named "Montestrutto" in the municipality of Tavagnasco (TO), with average nominal concession power of 2,065 kW. This acquisition, for an amount of 21 million euros, is effective from July 1, 2017.

Moreover, Edison Spa is acquiring from Bergamo Brescia Energia Srl (BBE) some plants under construction located in the Province of Bergamo on the rivers Brembo and Serio.

Edison strengthens its role as EDF's gas platform, in virtue of the renowned distinctive competencies in the natural gas market.

In the framework of the reorganization of the Group's gas activities, EDF SA and Edison Spa signed a services contract, with effect from August 1,2017, that assigned to Edison the operating and commercial management of EDF's assets and the development of opportunities in the gas midstream sector: from the supply contracts portfolio to medium and long-term optimization, to transport and gas storage.

Edison approved the project for merger by incorporation of Edison Trading

On September 20, 2017 Edison's Board of Directors approved, in place of Shareholders' Meeting, the project for the merger by incorporation into Edison Spa of Edison Trading Spa, a sole shareholder company, subject to the direction and coordination of Edison Spa. The minutes of the meeting were recorded on September 21, 2017 in the Milan Register of Companies.

Edison sells ITG and 7.3% interest in Adriatic LNG to SNAM

On October 13, 2017 Edison transferred to Snam Spa the 100% stake in Infrastrutture Trasporto Gas (ITG), and the 7.3% equity investment in Terminale GNL Adriatico Srl (Adriatic LNG).

The transaction, already announced on July 25, is worth 225 million euros and is part of the company's non-strategic asset disposal program that will finance Edison's investment plan to achieve market leadership in renewable energies and expand its retail customer base.

In particular, ITG is the company that built and operates the 83 Km Cavarzere Minerbio gas pipeline, connecting the Adriatic LNG's regasification terminal to the Snam Rete Gas national transport network. The pipeline has a transport capacity of 9.6 billion cubic meters per year, and since 2009 it has allowed the transport of approximately 10% of the gas imported in Italy.

Adriatic LNG operates a regasification terminal with a capacity of 8 billion cubic meters located off the coast of Rovigo.

Edison sells to Snam Spa its remaining equity investment equal to 7.3% of the company's share capital, while maintaining the use of the 80% of the capacity.

Edison has a long-term contract with RasGas for the supply of 6.4 billion cubic meters of natural gas per year to be re-gasified by the Rovigo terminal. Should Adriatic LNG sign new contracts for the use of the terminal's capacity, Edison will have an additional earn-out.

Edison acquires control of Frendy Energy Spa

On July 17, 2017 Edison and Cryn Finance signed a binding agreement for the acquisition by Edison of the controlling interest in Frendy Energy Spa (Frendy), a company with shares traded on the AIM Italy (Alternative Investments Market), which owns 15 mini hydroelectric power plants (of which 3 are at an advanced stage of construction), mainly situated on irrigation channels in Piedmont and Lombardy, generating a total of approximately 20 GWh per year.

Based on the agreement, Edison was to acquire from Cryn Finance and from a minority shareholder 45.039% of the capital of Frendy Energy Spa at an estimated price of 0.340 euros per share. The closing, was subject to Edison achieving an overall portion, in a single context, of not less than 50.01% of Frendy's voting rights, also by acquiring Frendy shares from third parties at the same final price. Following the signing of additional agreements, on October 17, 2017, Edison obtained the controlling interest in Frendy, taking over 29,704,909 ordinary Frendy shares from four different vendors, corresponding to 50.078% of the capital, at a price of 0.34 euros per share (unchanged on the initial estimate) with a total outlay of approximately 10 million euros.

On November 22, 2017, Edison launched the public mandatory purchase offer procedure on the remaining 29,612,338 Frendy shares at the same price.
During the Offer subscription period, that started on November 22, 2017 and finished on December 19, 2017, were contributed a total of 12,557,625 shares, equal to 21.170% of the Issuer's share capital, for a total value of 4.3 million euros, paid on December 22, 2017.
Edison, at the date of payment of the shares contributed to the Offer, owned 71.248% of Frendy Energy's share capital (n° 42,262,534 shares), consequently, the conditions were satisfied for the re-opening of the terms of the Offer, in application of art.40-bis of the Issuers' Regulation.
During the Re-opening of the Terms of the Offer, which started on December 27, 2017 and finished on January 3, 2018 (inclusive), 997,444 shares were contributed, for a total value of 0.3 million euros.
Considering the shares already held and those acquired as part of the Offer before the Re-opening of the Terms, on January 8, 2018, Edison holds 72.930% of Frendy's share capital (n°. 43,259,978 shares).

Edison signs binding agreement with Gas Natural Fenosa for the acquisition of Gas Natural Vendita Italia and of the Shah Deniz II contract

On October 13, 2017 Edison and Gas Natural Fenosa signed a binding agreement for the acquisition by Edison of 100% of Gas Natural Vendita Italia (GNVI) and a long-term gas supply contract from the Shah Deniz II field.
GNVI commercializes natural gas and electricity across Italy and operates in the sector of domestic gas boiler maintenance, with more than 400,000 customers. The price of the whole operation is 203 million euros; the Enterprise Value of GNVI is 263 million euros after debt repayment and provision.
On February 6, 2018 the European Commission for Competition authorized the transaction, acknowledging its compatibility with the Italian and European markets. The transfer of the stake will take place according to the contractual terms and within February.

Edison SPA, Edison Partecipazioni Energie Rinnovabili Srl, E2i Energie Speciali Srl, F2i SGR Spa and Eolo Energia Srl resolve the shareholders' agreement with Alerion Clean Power

On November 17, 2017, Edison Spa, Edison Partecipazioni Energie Rinnovabili Srl, E2i Energie Speciali Srl, F2i Sgr Spa and Eolo Energia Srl, also in anticipation of the contribution of Alerion Clean Power Spa (Alerion) shares by Eolo Energia Srl to the public purchase offer promoted by FRIEL - Green Power Spa on all ordinary Alerion shares (the Offer), agreed to resolve, by mutual consent, the shareholders' agreement of October 12/November 30, 2016, relevant in accordance with art. 122 of Legislative decree no. 58 of February 24, 1998 (TUF) and art. 129 of CONSOB Regulation no. 11971/1999 relating to Alerion shares, subject to market communication on October 12/November 30, 2016, and published in accordance with law.
It is also noted that, on the same date, the subsidiary Eolo Energia Srl subscribed to the Offer with all Alerion shares held by it, equal to 9,979,767 shares, corresponding to 22.90% of the share capital.

Edison signed an agreement for the sale and lease of its Foro Buonaparte headquarters in Milan

On November 21, 2017 Edison signed an agreement with DeA Capital Real Estate SGR, the main asset management company in Italy in the real estate sector, controlled by the De Agostini Group, for the sale and re-rental of the Milan properties of Foro Buonaparte. The transaction, announced on July 27, 2017 worth 272 million euros, is part of the Company's non-strategic asset disposal program and will finance Edison's investment plan to achieve market leadership in renewable energies and expand its retail customer base.
Upon signing of this agreement, Edison stipulated, at the same time, a 12-year rental agreement for them, with the possibility of renewing the rent under the same conditions for a further 6 years. The contract also gives Edison the right to buy back the Milan properties of Foro Buonaparte nos. 31 and 35 at market value.

150 million euros from the EIB to Edison for new E2i wind farms in central-southern Italy

On November 23, 2017, the European Investment Bank (EIB), which finances projects in support of the European Union's objectives, granted Edison a credit line of 150 million euros, intended to finance the construction of wind farms with a total capacity of 165 MW, to be used by E2i Energie Speciali, an investee of Edison and F2i (Italian infrastructure fund). The loan will be used to implement eight projects which E2i was awarded at the GSE (Electricity Services Operator) auction in 2016, and may be used in various tranches, each with a duration of 15 years, and is available for a period of 24 months in line with the plan of investments envisaged by E2i for new wind capacity.

The Reggane Nord Consortium launched production in the gas field in Algeria

On December 18, 2017, the *Groupement Reggane-Nord (GRN)*, composed of Edison International (11.25%), Repsol (29.25%) and Sonatrach (40%) the latter two as operators, and DEA Deutsche Erdoel AG (19.5%), launched production in Reggane Nord gas fields in Algeria, located in the south-west of the country, around 1,500 Km from Algeri, in the Sahara Desert. The Reggane Nord project, composed by Azrafil Sud-Est, Kahlouche, Kahlouche Sud, Tiouliline and Sali fields, will enter full operation, with a total capacity of 8 million cubic meters of gas per day, from January 2018 and will remain in production until at least 2041.

Edison acquires Energon Facility Solutions and starts providing energy services for the public administration

On December 20, 2017, Edison, through its subsidiary Fenice, signed the closing with Energon Esco Spa for the acquisition of 100% of Energon Facility Solutions Spa (formerly PVB Solutions), a Trento based company that operates in the design, construction, maintenance and plant and energy management of civil, hospital and industrial buildings.
Thanks to this operation, Edison reinforced its position as an active operator in providing high value-added energy services and established itself as a reference point for the public administration and industrial customers.
Energon Facility Solutions serves more than 1,800 buildings, including public structures, hospitals, council housing, schools and condominiums in Trentino Alto Adige, Veneto, Friuli Venezia Giulia and Lombardy. The company in 2016 recorded a turnover of around 36 million euros and a contract portfolio of more than 100 million euros, thanks to the daily contribution of 130 personnel, managers and key resources for the future development of the business.

Fenice Qualità per l'Ambiente, FCA Group Purchasing and CNH Industrial Italia agree on the principles for the renewal of the energy and ecological service agreement

On December 29, 2017, Edison announces that its subsidiary Fenice Qualità per l'Ambiente Spa, FCA Group Purchasing Srl and CNH Industrial Italia Spa signed an agreement on the principles for the renewal of the energy and ecological services. Thanks to this agreement, Fenice will continue to transform and distribute electricity, produce and distribute thermal energy, compressed air and industrial, drinking and demineralised water, as well as manage waste water treatment plants through its own plants present in a series of establishments belonging to FCA and CNHI.

Significant events occurring after December 31, 2017

Information about events occurring after the end of the reporting year subject of this Report is provided in the section of the Consolidated financial statements entitled "Significant events occurring after December 31, 2017".

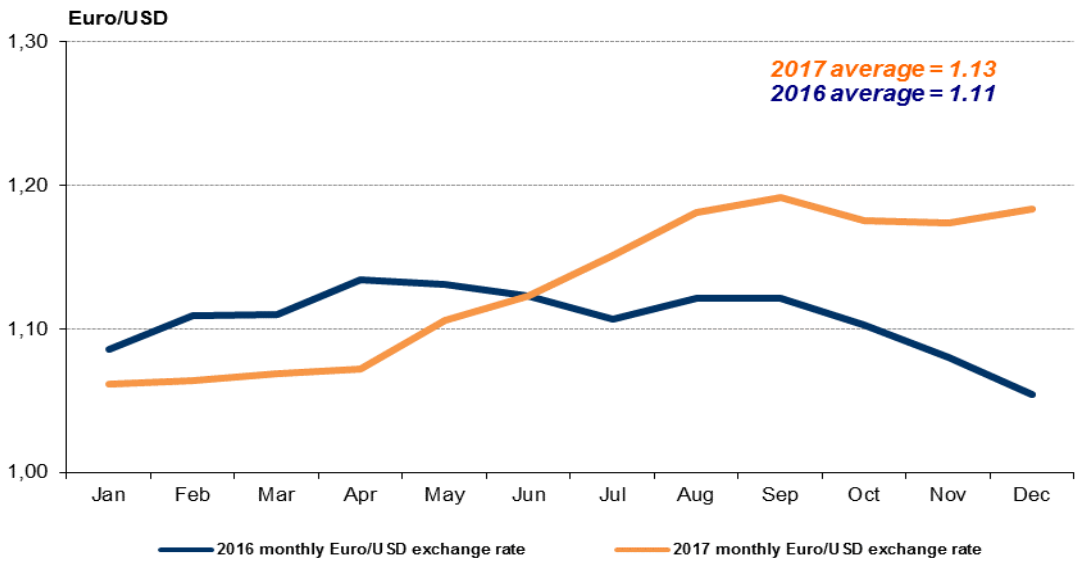
EXTERNAL CONTEXT

Economic framework

In 2017, the global economy showed signs of strengthening and an improvement across the board in growth rates in the majority of countries, due partly to the continuation of the monetary and fiscal stimulus to boost the recovery, and partly to the significant increase in the flows of international trade, with a huge contribution made by China. Global GDP recorded a positive trend, in particular in the final part of the year, and the positive trend appears to be solid, despite the presence of some geopolitical risks, especially in North Korea and the Middle East, and potential uncertainties on the global currency and financial markets linked to the tax reform recently approved in the United States.
The strengthening of the global recovery and of international trade benefitted from a number of factors: the persistent phase of expansion of the US economy (growing for 8 years now), made possible by the staying power of consumption and the acceleration in investments; the renewed vigor of the Japanese economy due to the contribution of foreign demand, private investments and the expansion in industrial production; growth above expectations in China, which is preparing to undertake a major process of reforms which will slow the rate of growth, but also lead to prospects of greater sustainability; the progress made in some important emerging markets in stabilizing their respective economies, after years of deep recessions, as in the cases of Russia and Brazil.
The European economy recorded positive results, not only because of the stronger growth at global level, but also the strength of internal demand, driven by the staying power of private consumption and the recovery in investments which, in turn, benefitted from favorable financing conditions and a less uncertain economic climate. European economies, albeit with different rates, are registering growth and the respective job markets are showing improvements and reductions in unemployment. During the year, a favorable context took hold in terms of the economic growth of the major European nations (Germany, France, Italy and Spain), but also for the Eurozone. However, European governance shows signs of indecision in continuing with the reforms and, after the UK's decision to leave the European Union, other geopolitical uncertainties reared their heads, as in the case of Catalonia.
In Italy, growth remains below that of the other major countries and of the European Union as a whole, although it was revised upwards during the year. The change in GDP is forecasted at +1.5%, because of greater consumption and investments. The Italian economy recovery, although limited, occurred in the wake of the strengthening of global growth, thanks not only to the significant performance of Made in Italy exports (also better than some European competitors), but also owing to the renewed impetus of domestic demand, within which two expenditure items stand out on which the tax policies were primarily focused, i.e. private consumption and company investments, with particular reference to investments in machinery, equipment, patents and vehicles which registered high values. Industry, in the strictest sense, was at the helm of the recovery, but progress is gradually being recorded in other services sectors too and there are clear signs of a revitalization in tourism. The improvements in the job market help complete the positive picture. The approaching of the political elections generates elements of uncertainty, linked to the political frame of reference.

The Euro/USD exchange rate in 2017 stood at an average value of 1.13 USD, up by 2% over 2016. An analysis of the monthly trend shows that the changes to the exchange rate highlighted, starting from the lows observed in December 2016, a positive trend, going from an exchange rate of 1.06 in January to 1.18 in December, with a more marked rise between April and September, the month in which the high of 1.20 Euro/USD was recorded. Although, on the one hand, the depreciation of the dollar was favored by the gradual reduction in expectations by the markets following the US presidential elections at the end of 2016, partly mitigated from the middle of October by the expectations of potential benefits stemming from the tax reform approved in December, on the other hand, the appreciation in the Euro was driven by the robust economic recovery which expanded in 2017 in terms of countries and sectors, as well as the monetary

policy of the ECB which, at the end of October, confirmed the extension of the government bond-buying programme, albeit reducing its size, therefore deferring the phase of slowdown of Quantitative Easing.



As regards the oil markets, the average price of Brent recorded an increase of 21.7%, moving from 45.1 USD/barrel in 2016 to 54.8 USD/barrel in 2017. After the substantial stability in the first quarter and the decrease in the second quarter, to a minimum price of 44.8 USD/barrel on June 21, the Brent recorded a rising trend in the second quarter. At the end of October, it returned to above the 60 USD/barrel, a value not registered since June 2015, and in the fourth quarter of 2017 it reached an average price of 61.5 USD/barrel.

The increase in prices was favored, to a significant degree, by supply-side events, particularly the success of the joint agreement relating to the production cuts of OPEC – non-OPEC countries, signed at the end of 2016. The 22-member countries recorded, as a whole, high levels of compliance in reducing production, with notable effects on prices which, however, only materialized in June. In the first part of the year, greater efforts pledged to the cuts by Saudi Arabia offset the low level of compliance by its partners and the higher production of Iran, Libya and Nigeria, exempted from the cuts. The fluctuating trend in production in Libya and Nigeria, characterized by a series of unforeseen interruptions, influenced the volatility of oil prices between the middle of March and the middle of May. Non-OPEC countries, first and foremost Russia, gradually reduced their production, only beginning to fully meet their obligations in August, also thanks to a series of unscheduled maintenance operations at oil sites. US production, which also rose as a result of the recovery in the prices recorded at the end of 2016, and the subsequent increase in stocks, limited the increase in prices in the first few months of 2017. This led, in May, to the partners extending the agreement for the first time, initially set to run until June 2017, for a further nine months. In September the Brent was supported by the expectations, which then materialized, of a further extension in the agreement, for the whole of 2018, at the meeting in Vienna on November 30. During this meeting, Libya and Nigeria, up until now exempted for reasons of internal stability, agreed to sign up to the agreement.

In the last few months, new and growing geopolitical risks which involved the leading three OPEC producers supported the prices; that is, the tensions with the regional Government of Kurdistan, in Iraq; the US' failure to certify observance of the nuclear agreement, in Iran; the internal tensions in Saudi Arabia and, lastly, in December, the unavailability of

infrastructures in the North Sea and Libya. The Brent reached its highest level of the last two and a half years on December 26, touching 67 USD/barrel.

The gradual rebalancing of the market, supported by the production cuts and the increase in demand, driven primarily by China (up by 3.9% compared to 2016), was cushioned by the robust growth of production of crude oil in the United States, also supported in the second half, not only by the price increase, but constant improvements in productivity and the broad availability of capital.

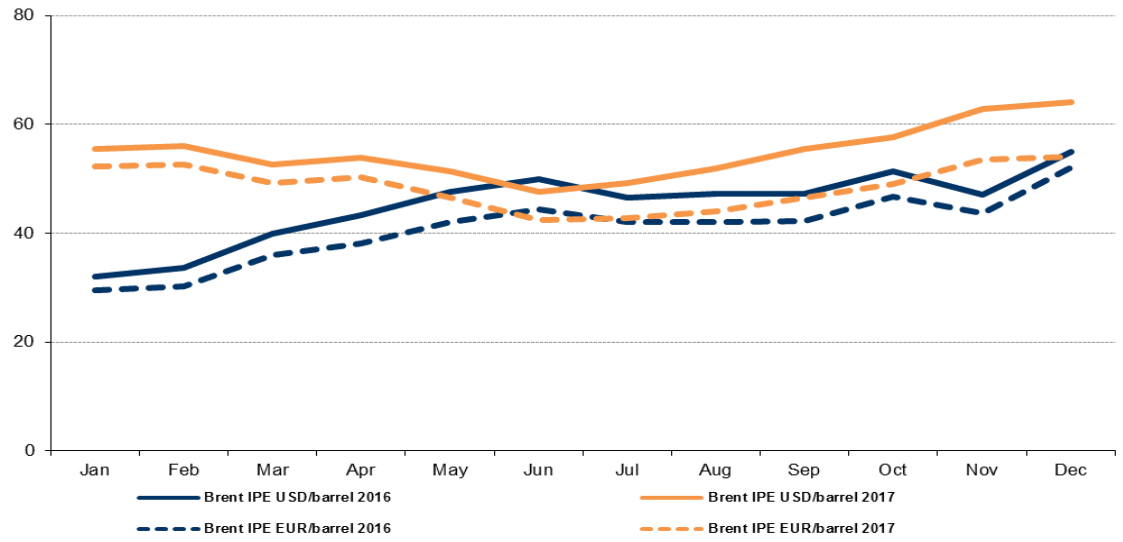
Crude oil prices stated in euros mirrored the annual trend of the price in U.S. dollars, with the appreciation of the single currency limiting the rise in prices in euros in the second half. At 48.6 euro/barrel, the average price for 2017 was 19.2% higher than the average for 2016.

The table and chart that follow show the annual average figures and the monthly trends, in Euros and Dollars, for 2017 and 2016.

The table and chart that follow show the average data for the year and the monthly trends in the current year and the previous year:

	2017	2016	% change
Oil price in USD/bbl (1)	54.8	45.1	*21.7%*
USD/EUR exchange rate	1.13	1.11	*2.0%*
Oil price in EUR/bbl	48.6	40.8	*19.2%*

(1) Brent IPE



As was the case for oil, the prices of distilled products also recorded a rising trend in 2017, determining higher annual averages than 2016. As regards diesel, the average price in 2017 was 494.6 USD per metric ton, 23.7% higher than the average in 2016, while low sulphur and high sulphur fuel oils recorded annual average prices of 309.6 USD per metric ton and 300.3 USD per metric ton respectively, increases of 42.7% and 44.9% compared to the previous year. Prices of low sulphur and high sulphur fuel oils registered more accentuated changes than those of crude oil, being supported in the first few months of the year, by higher consumption for thermoelectric generation which came as a result of the unavailability of various nuclear plants in Europe.

Coal prices on the Atlantic market also recorded growth, coming in at 84.5 USD per ton, up 41.3% compared to the previous year. In particular, over the course of the last two quarters, prices have seen changes of +13.5% and +7.8% respectively.
In the second half of the year, price tensions in the Asian and Australian markets, the former sustained by vibrant demand for thermoelectric generation, the latter fueled by production limitations due to logistical problems, were also reflected in the prices of coal bound for the European market.

At the same time, gas prices on the main European hubs stood at higher levels than 2016, with higher annual values of around 24% on average. During the year, prices fluctuated between positive changes, registered in the first, third and fourth quarters (on average approximately +8.7%, +2% and +20%) and negative changes recorded during the second quarter (around -15% on average). The price of gas on the TTF, the main European reference hub, stood at an average of 18.3 c€/scm, against an average of 14.8 c€/scm in 2016.

The market prices of CO_2 emissions rights recorded growth over 2016, with an average value of 5.8 euro per ton, up by almost 9%. The price of CO_2 rights, after an initial decrease in the first six months of 2017, with trend-based changes of around -12.5% on average, exhibited a markedly rising trend, recording average changes in the third and fourth quarters of roughly +30% and +35% compared to the same period in 2016. Downward factors prevailed in the first part of the year, for example the end of backloading plus worries over Brexit. Fears over the conversion of quotas to cash by UK producers further fueled downward sentiments: in a market context of excess supply, prices fell to 4.6 euro per ton, the lowest since July 2016. Subsequently, after the record negative values registered in May, prices started to rise again, recording changes of around +23% and +27% respectively in the third and fourth quarters. Although in the first few months of the year, regulatory uncertainties surrounding the reform of the Emissions Trading System (ETS) did not support prices, from September onwards the gradual outlining of the design of the market post-2020, including substantial measures targeted at reducing surplus market quotas, pushed prices up. Following the approval of the text of the reform in November, although the final vote of the full European Parliament is set for next February, prices touched 7.5 euro per ton, passing the levels registered in December 2015.

The Italian Energy Market

Demand for Electric Power in Italy and market environment

(TWh)	2017	2016	% change
Net production:	285.1	279.8	*1.9%*
- Thermoelectric	*199.5*	*190.8*	*4.6%*
- Hydroelectric	*37.5*	*43.8*	*(14.3%)*
- Photovoltaic	*24.8*	*21.8*	*14.0%*
- Wind power	*17.5*	*17.5*	*(0.2%)*
- Geothermal	*5.8*	*5.9*	*(1.4%)*
Net imports	37.7	37.0	*2.0%*
Pumping consumption	(2.4)	(2.5)	*(1.1%)*
Total demand	**320.4**	**314.3**	***2.0%***

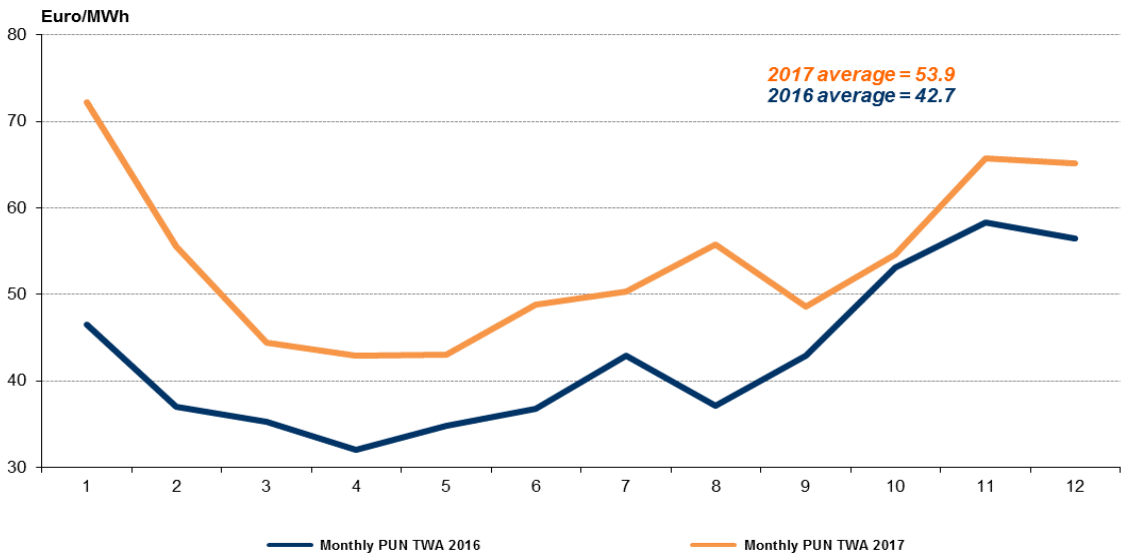
Source: processing of 2016 official data, pre-closing 2017 Terna data, before line losses.

The gross demand for electricity in Italy in the 2017 came to 320.4 TWh (TWh = billions of kWh), up by 2.0% compared to the previous year; on a seasonally adjusted basis (i.e. removing effects resulting from variations in the number of working days from the 2016 data), the value increases by roughly 0.2%, sitting at around 2.3%.
In 2017, net electricity production rose by 5.3 TWh and the production mix with respect to the previous year was characterized by a greater contribution from thermoelectric generation of 8.7 TWh (+4.6%), which more than offset the notable decrease in hydroelectric production, down by 14.3% (-6.3 TWh).
The net import balance remained essentially in line with 2016 (+0.7 TWh; +2.0%), although remains well below the 2015 figures (-8.6 TWh; -18.5%), due to the lower contribution of flows from central Europe. With regards to pumping consumption, there are not significant changes compared with the previous year.
As for other renewable sources, the positive trend of recent years continued with a growth of 2.9 TWh (+6.5%), in particular, note the greater production of photovoltaic plants (+3 TWh, +14.0%), in contrast to the lower production from wind, which is in line with the previous year.
On the whole, net of pumping consumption, domestic production covered 89% of demand, a value essentially in line with the previous year.

Insofar as the price scenario at December 31, 2017 is concerned, the time-weighted average (TWA) for the Single National Price (abbreviated as PUN in Italian) settled at 53.9 euro/MWh, up 26.1% compared with the previous year (42.7 euro/MWh). This increase is incorporated in a context of greater demand for electricity (+2.0% on an annual basis), reduced availability of renewable energy, prevalently from hydroelectric plants (-14.3%) and an increase in the costs of thermoelectric generation (gas, coal and CO_2).
An analysis of the monthly trend of the PUN in 2017 shows that it was constantly higher than that of 2016. At the start of the year, worries regarding the ability of the French system to meet the winter electricity demand given the unavailability of some nuclear plants, with a subsequent reduction in imports to Italy, combined with colder temperatures and the sustained gas price, supported prices on the day-ahead market (+45.1% in the first quarter over the same period in the previous year). With the arrival of the summer, the increase in demand and low water availability (in fact, the summer of 2017 was the fourth driest in the last two centuries) entailed greater use of thermoelectric production, characterized by higher generation costs. In September, prices were further sustained by the marked rise in the price of gas, which

coincided with the fresh criticalities of the nuclear plants in France: consequently, the third quarter recorded an increase of 26.1% compared to the same period in 2016.
The last quarter of the year recorded growth in prices, driven by temperatures below the seasonal averages and the continued shut-down of some French nuclear plants. In the second week of December, some tensions on the gas market, in a context of low wind power generation and high demand, led to sharp growth in the PUN, which hit a two-year high of 110.98 euro/MWh on December 13.
In 2017, the F1, F2 and F3 hourly time period and, similarly, the peak and off peak intervals experienced virtually identical increases of about 26% compared with the previous year.
As regards zonal prices, rather homogeneous increases were registered in 2017, with slightly more marked increases in the North and Central zones and Sicily (+27.4%, +27.6% and +27.4% respectively) compared to the increases of around 25% in the other zones.

The chart that follows shows the monthly trend compared with the previous year:



Similarly, the prices in foreign countries also showed a general increase. France closed 2017 at 45 euro/MWh, an increase of 22.4% compared to the same period in the previous year; the figure was impacted by the unavailability of nuclear plants due to maintenance, which took place in the winter of 2016-2017 and September 2017, along with temperatures below the norms. However, the Italian price rose more than the corresponding French price; therefore, the differential increased by 48.5% compared to the value in the previous year.
Germany closed the year at 34.2 euro/MWh, an increase of 18% compared to the same period in 2016; despite significant renewable generation, predominantly from wind power, which determined significantly negative prices on some days of the year, in periods of low RES (Renewable Energy Source) production, the thermoelectric plants (characterized by increased generation costs) were able to shape the price curve. The closure of coal and lignite plants provided further support. The Italy-Germany spread widened by 43% compared with 2016, sitting at 19.7 euro/MWh.

Demand for Natural Gas in Italy and market environment

(billions of cubic meter)	2017	2016	% change
Services and residential customers	29.2	28.2	*3.5%*
Industrial users	17.9	16.7	*6.9%*
Thermoelectric power plants	25.4	23.4	*8.7%*
System usage and leaks	2.2	2.1	*5.5%*
Total demand	**74.7**	**70.4**	***6.1%***

Source: 2016 final data and 2017 preliminary data from Snam Rete Gas and the Ministry of Economic Development and Edison estimates.

In 2017, Italian demand for natural gas grew by 6.1% compared with the previous year to a total of about 74.7 billion cubic meters, for an overall increase of about 4.3 billion cubic meters.

Similar to 2016, this increasing trend in 2017 is attributable primarily to the thermoelectric sector, which benefitted from a series of conjunctural effects such as the stationary conditions of electricity imports (nonetheless 18.3% lower than 2015) and a lower contribution from hydroelectric production and coal plants, therefore bringing consumption by gas fired generating facilities up by 2 billion cubic meters compared to 2016 (+8.7%).

Consumption by industrial users was also up, rising by 6.9% compared with the previous year, with volumes increasing by 1.2 billion cubic meters, concentrated in the summer months in particular.

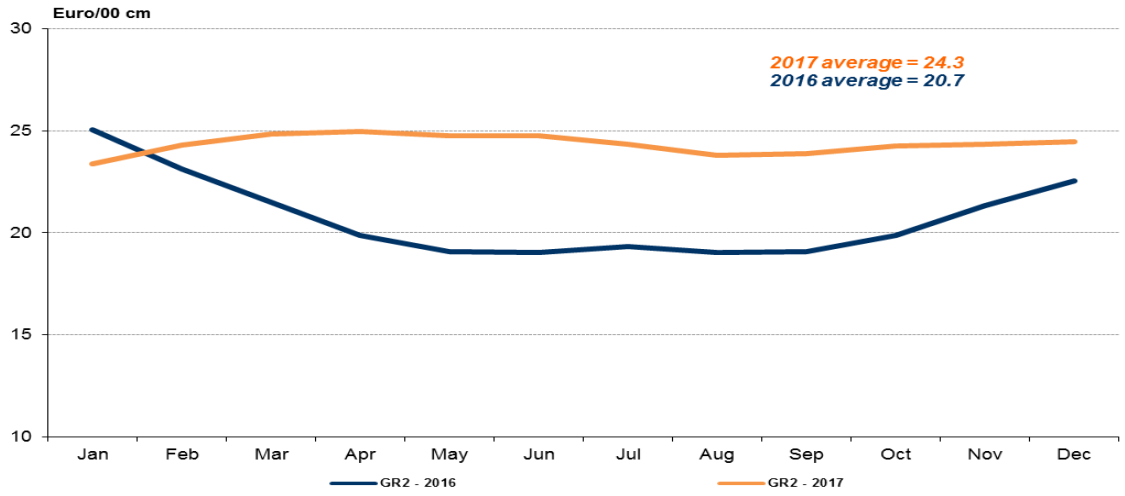
As regards consumption for services and civil uses, the rather cold weather in the winter months at the start and end of the calendar year helped increase consumption by a total of around 1 billion cubic meters, closing with an increase of 3.5%.

As for supply sources, the following developments characterized 2017:

- lower domestic production (-0.3 billion cubic meters; -6.1% compared to the figure in 2016);
- higher gas imports (+4.2 billion cubic meters; +6.4% compared with 2016);
- a net increase of about 0.2 billion cubic meters in volumes added to the stored gas inventory.

In 2017, the price for indexed gas (shown in the chart that follows, which uses the Gas Release 2 formula as a benchmark) increased by 17.4% compared with 2016 averaging 24.3 c€/scm

While in the first quarter, prices grew slightly (around +14%) due to the rise increase in oil and distilled products and the simultaneous stability of the exchange rate, in subsequent months, upward movement in the oil market was extinguished by the appreciation of the Euro, resulting in essentially stable prices at around 24 c€/scm.



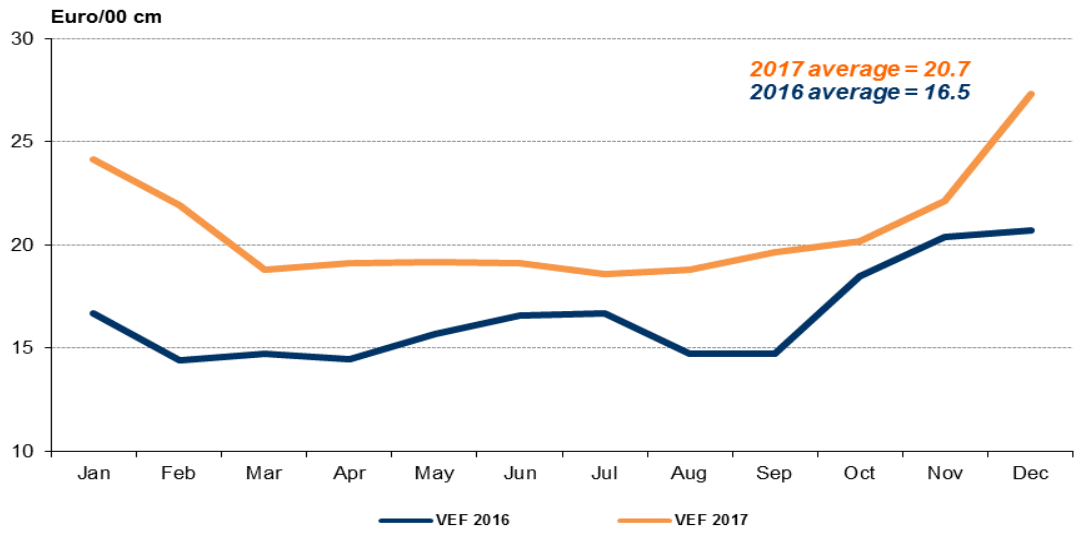
In 2017, the spot gas price in Italy (represented in the graph below, which uses the PSV as a benchmark), in concert with the movements registered on other European hubs, recorded an increase of around 25% compared to the previous year, sitting at 20.7 c€/scm.

Although the movements in prices were upwards with respect to the prices recorded in 2016, the changes indicate a trend that, consistently with the seasonal movements in demand, saw a reduction in prices in the first quarter, followed by substantial stability in the summer months, then closing with an increase of around 22% during the final quarter.

In the first quarter, the reduced import flows from France and the temperatures below the seasonal average, guided the upward movement of prices. During the summer months, although demand was supported by low water availability which affected the entire Alps region, prices remained essentially stable, at an average of around 19 c€/scm.

During the last quarter, temperatures below the seasonal average, together with fresh worries over the French nuclear capacity available, brought about an increase in prices, up by roughly 22% compared to the previous period. Lastly, in December, an explosion at Austria's Baumgarten gas hub further destabilized the Italian system, already subject to tensions due to the low temperatures and reduction in the import capacity from Passo Gries, due to maintenance on the Netherlands-Germany infrastructure. The spot price passed 80 c€/scm without, however, calling for the use of extraordinary emergency measures, since supplies were only halted on the day of the incident, therefore involving only short-lasting tensions on the price side, immediately come back the next day.

In 2017, the PSV-TTF spread rose when compared to the previous year, registering an average value of over 2 c€/scm. This growth is primarily attributable to the above-mentioned tensions which affected the Austrian infrastructure in December, when the spread touched 5.4 c€/scm. The forward scenario did not acknowledge this volatility, remaining stable at below 2 c€/scm.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Legislative and Regulatory Framework

The main legislative and regulatory measures enacted in 2017 that concern the Group's various businesses are reviewed below, except for their impact on the Group, which, when material, is the subject of a specific disclosure in the sections of this Report where results and risks are reviewed.

ELECTRIC POWER

The Environment

Energy efficiency: by means of Organizational Unit Managerial Decree no. 176 of January 12, 2017, the Region of Lombardy approved the update of the provisions on the energy efficiency regulations of buildings and related energy performance certificate. Thereafter, the Region of Lombardy published its Organizational Unit Managerial Decree no. 246 of March 8, 2017, which partly replaces the provisions on the energy efficiency regulations of buildings and related annex contained in decree no. 176 of January 12, 2017, and makes provision, among other amendments, for a new procedure for calculating renewable energy extracted from the environment using heat pumps.

Noise pollution - wind farms: Legislative decree no. 42 of February 17, 2017, regarding the new regulations governing noise pollution, was published in the Official Journal in April. An implementing decree of the Ministry for the Environment will follow, in agreement with the Ministry of Economic Development, the Ministry of Health and the Ministry of Transport, with which the criteria will be defined for the measurement of noise emitted by the wind farms and to limit the related noise pollution.

White certificates: the ministerial decree of January 11, 2017 of the Ministry of Economic Development regarding the determination of the national energy saving quantitative objectives that must be pursued by electric power and gas distribution companies for the years from 2017 to 2020 and for the approval of the new guidelines for the preparation, execution and valuation of energy efficiency projects, was published in Official Journal no. 78 of April 3, 2017. The decree defines the criteria and methods for the development of energy efficiency projects through which to access the white certificates mechanism.

Air emissions, acknowledgement of EU Directive on medium combustion plants: Legislative decree no. 183 of November 15, 2017, containing the "Implementation of EU directive 2015/2193 of the European Parliament and Council of November 25, 2015 relating to the limitation on the air emissions of certain pollutants originating from medium combustion plants, as well as for the reorganization of the regulatory framework for plants that produce air emissions, pursuant to art. 17, of Law no. 170 of August 12, 2016", was published in Official Journal no. 293 of December 16, 2017.
The provision acknowledges directive EU 2015/2193 that establishes rules for controlling the air emissions of sulphur dioxide (SO_2), nitrogen oxides (NOx) and dusts, as well as for the monitoring of emissions of carbon monoxide (CO).
The regulations apply to medium combustion plants, i.e. that have a nominal thermal capacity of equal to or greater than 1 MW and under 50 MW, but also to a group formed of new medium combustion plants with a total nominal thermal capacity of equal to or greater than 50 MW.

Wholesale market

Italian capacity market: on August 3, 2017, the Authority for electricity, gas and the water system (the Authority; from January 1, 2018 called Italian Regulatory Authority for Energy, Networks and Environment) published DCO 592/2017/R/eel which outlines the final guidelines regarding the technical-economic parameters of the Italian capacity market. The Authority confirms that the exercise price remains a parameter which is representative of the variable cost of

production: the value relating to June 2017 is 125 euro/MWh. To avoid excessive costs for consumers, the Authority then proposed to apply a maximum value to the premium for existing capacity of 20,000 euro/MW/year and a maximum value of the premium for new capacity of 75,000 euro/MW/year. On August 23, the Ministry of Economic Development sent a formal notification to the European Commission to launch the procedures for approval of the mechanism proposed according to the Guidelines on State Aid; the European Commission gave its approval on February 7, 2018.

Imbalance regulation: on June 8, 2017, the Authority published resolution 419/2017/R/eel which revises the valuation of actual imbalances pending the implementation of the key regulation.
In particular, the provision establishes:

- the introduction, as from July 1, 2017, of non-arbitrage macro zone fees, to eliminate the distortion deriving from the determination of imbalance prices on a macro zone level, in the presence of zone level market prices;
- the introduction, as from September 1, 2017, of the new method for calculating the sign of the zone level aggregate imbalance, by using the value of the sign determined on day “D+1”, published on a preliminary basis within 30 minutes;
- the restoration of the single pricing mechanism for dispatch points for unauthorized units from September 1, 2017.

The prescriptive proceedings launched by means of resolution 342/2016/R/eel are also at the completion phase; these were aimed at counteracting some of the conduct engaged in by the Dispatching Users in the wholesale electric power market in the spring of 2016. The proceedings launched by means of resolution 333/2016/R/eel relating to the valuation of actual imbalances for the years 2012, 2013 and 2014 as a result of ruling 1648/2014 of the Lombardy Regional Administrative Court and rulings 1532/2015 and 2457/2016 of the Council of State are also at the completion phase.

Dispatching services market-DSM: on May 5, 2017, the Authority published resolution 300/2017/R/eel opening the DSM to demand and production units also from renewable sources that are not already authorized, as well as storage systems. The resolution envisages the launch of an experimental phase through pilot projects; this is necessary to acquire useful elements for the organic reforming of dispatching and to make new dispatching resources available immediately. The pilot projects proposed up to now relate to the methods for:

- the creation, qualification and management of virtual consumption units authorized (UVAC) for the MSD, also making provision for forward procurement for the summer of 2017 and winter of 2017-2018;
- the creation, qualification and management of virtual production units authorized (UVAP) for the MSD;
- the procurement of the voltage regulation service, with a special focus on the area of Brindisi.

European Network Codes: on November 23, 2017, Regulation EU 2017/2195 “Guideline on electricity balancing” was published, which defines the principles regarding electricity system balancing, including the establishment of common principles for the acquisition and activation of the primary, secondary and tertiary reserves. On November 24, 2017, Regulation EU 2017/2196 “Network code on electricity emergency and restoration” was also published, which establishes the requirements regarding the management of states of emergency, blackouts and restoration throughout Europe. By contrast, as regards the implementation of the CACM Regulation, on November 14, 2017, ACER published Decision 04/2017 in which it defined the maximum and minimum prices of the SDAC (MGP - day ahead market) and SIDC (MI - intra-day market) markets, respectively equal to 3,000 euro/MWh and -500 euro/MWh for the SDAC and 9,999 euro/MWh and -9,999 euro/MWh for the SIDC. The amendments for the part relating to the MGP (day ahead market) could enter into force in June 2018.

Re-activation of non-operating plants: on March 21, 2017, Edison Trading received a communication from Terna asking it to re-activate the thermoelectric plants not currently operating (Cologno Monzese, San Quirico, Porto Viro and Jesi) as quickly as possible; authorization for the definitive decommissioning of Sarmato was instead received from the

Ministry of Economic Development. This request, also taking due consideration of the low level of the water basins due to the scarce rainfall during the winter season and the difficulties of French nuclear plants, had become necessary in order to cope with the summer and winter peaks in consumption. In the letter of reply sent to Terna on March 31, Edison Trading confirmed the timing for re-activation, also subject to the replenishment of the underlying costs.

Retail market

General system charges: the long dispute continued which led, through some rulings of the Council of State, to the cancellation of the provisions of the typical Network Code of the electricity market relating to the system for the collection of general system charges and the associated guarantees that vendors are required to pay to distributors. The last of these rulings definitively rejected the appeals of the Authority and of E-distribuzione, identifying the substantial shortage of powers of the Authority in requiring traders to pay distributors the system charges not collected from customers, as well as stipulating guarantees on said amounts in advance.

In August, the Authority published DCO 597/2017/R/eel regarding "Initiatives relating to the regulation of the contractual guarantees and the billing of the electricity transport service", which provides for:

- a fully operational model, changed from the one currently provided for the collection of the RAI fee, for which, however, legislative action is needed to globally reform the nature and structure of the general charges;
- a transitory model based on the separate management of transport fees and of the system charges and associated guarantees, with the introduction of the appropriate mechanism for the reinstatement to distributors, to whom the responsibility for the non-collection is transferred, for charges not collected from vendors.

Simultaneously, provision is made for the possibility for vendors to recover charges not collected but paid to distributors relating to the period prior to the entry into force of the new regulation.

On February 2, 2018 the Authority published a further consultation document (DCO 52/2018/R/eel) which outlines the guidelines regarding the mechanism for recognizing users of the transport general system charges, otherwise unrecoverable, that they have regularly paid to the distribution companies and have not collected from the final customers.

Standardized electricity and gas offers (**PLACET**): in July 2017, the Authority published resolution 555/2017/R/com, which introduces the obligation, from January 1, 2018, for each vendor to offer standardized offers to smaller dimensions of electricity and gas customers. These offers must be inserted by each free market operator in their list of commercial offers and they will apply, for the electric power sector, to customers (domestic and non-domestic) connected at low voltage and, for the natural gas sector, to customers (domestic and non-domestic, including condominiums for domestic use) holding the redelivery point (PDR) with annual consumption of under 200,000 scm. By means of resolution 848/2017, the Authority identified the future web portal for the collection and publication of applicable offers on the retail market, set forth in Law no. 124/2017, as the tool for the comparison of PLACET offers. The characteristics of this portal were placed under consultation in December 2017 with DCO 763/2017. Subsequently, on February 2, 2018, with the resolution 51/2018/R/com, the Authority defined the rules for the construction and management, by the Operator of the Integrated Information System (SII) of the Offer Portal.

List of parties authorized to sell electric power to customers: on November 16, 2017, by means of resolution 762/2017/I/eel the Authority presented its proposal to the Ministry of Economic Development regarding the vendors register sought by Competition Law 124/2017, presenting its indications on the criteria, requirements and methods for the admission of subjects to the List, which should be issued shortly by means of a decree of the Ministry. Effective from the entry into force of the relative decree, registration in the List is a necessary condition for carrying out electric power sales to customers.

Indemnity System: on August 3, 2017 the Authority published resolution 593/2017/R/com defining the rules governing the indemnity system for both the electric power and natural gas sectors, through the full implementation of related processes within the Integrated Information System (SII), approving the "Integrated text of the indemnity system for the final defaulting customer in the electric power and natural gas sectors" (TISIND). The provision envisages some important changes: 1) the extension to the gas sector of the Indemnity System regulation; 2) the adjustment of the indemnity recognized to vendors adapting the amount of the default fee to the value of the supply of the last four months prior to the switching date (instead of the 3 months envisaged by the previous regulation); 3) the simplification of the operating methods of the indemnity system, in observance of the principle of graduality, with a lower impact on information systems for vendors and maximum simplification for distribution companies, compatibly with the information available in the Official Central Register. The implementation of the processes within the SII is expected to entail, nonetheless, a significant simplification and increase in efficiency of the current procedures. Lastly, the Single Buyer defined the technological model and published the technical specifications which will be implemented by May 31, 2018.

Tariff structure of charges for non-domestic customers: by means of resolution 922/2017/R/eel, the Authority completed the reform of the tariff structure of general system charges for non-domestic customers of the electricity sector, coordinating it with the new mechanism for the recognition of concessions for energy-intensive companies (whose implementing provisions were defined in resolution 921/2017/R/eel), effective from January 1, 2018.
In particular, the general system charges were broken down into two groups: expenses relating to renewable energy: support and cogeneration (ASOS) and the remaining general charges (ARIM).

- for ARIM charges, provision is made for a trinomial tariff structure, with a fixed portion (euro cents/withdrawal point/year), a capacity portion (euro cents/kW per year) and an energy portion (euro cents/kWh), determined proportionally, according to a fixed coefficient applied to network services tariffs;
- for ASOS charges, provision is always made for a tariff structure determined by a linear combination of a trinomial tariff (with an incidence of 25%), in turn determined (as with ARIM charges) in proportion to the network services tariffs and a flat uniform rate in euro cents/kWh (with an incidence of 75%), undifferentiated by voltage levels.

HYDROCARBONS

Rates and market

Distribution rates: by means of resolution 145/2017/R/gas of March 16, 2017, the definitive 2016 reference tariff components were published for the distribution and metering services, redefined by subsequent resolution 288/17/R/gas of April 28, 2017. The provisional reference tariffs for 2017 were determined by resolution 220/17/R/gas of April 6, 2017. Resolution 859/17/R/gas updated the mandatory rates and the reference rate framework for 2018 (which had initially been defined by resolution 367/14/R/gas for the 2014-2019 regulatory period). Lastly, resolution 904/17/R/gas of the end of the year postpones to November 2018 the conclusion of the procedure which must lead to the definition of the reference methodology for recognition of the costs relating to investments in natural gas distribution networks at standard costs, which will be applied to investments in 2019, based on the need for further in-depth analyses that the joint technical work Panel established on an ad hoc basis by the Authority and the Trade Associations will need to carry out.

Recognition of costs of metering activities on distribution networks: by means of resolution 389/17/R/gas, the operating costs relative to the remote reading/remote management systems and concentrators were recognized, as incurred in the years 2011-2013 by the distributors that adopted buy type solutions. At the end of the year, the Authority approved resolution 904/17/R/gas which defined the 2018 and 2019 standard costs of the meters and the percentage of profit/loss sharing for the determination of the costs recognized. The resolution also set forth that the costs relating to remote reading/remote management systems and the costs of concentrators are recognized, for the years 2018-2019,

based on a final balance approach but subject to a maximum ceiling. The resolution also confirmed the value of the component to cover the meteorological checks for the year 2017 equal to 50 euros per PDR (the redelivery point), while these costs will be recognized on a final balance basis from 2018.

Transport tariffs: on April 6, 2017, the European Transmission Tariffs Code (Regulation EU 2017/460 - TAR NC) came into force, prescribing common rules to be applied by all Member States in determining the gas transmission tariffs. The Code becomes an integral part of Regulation 715/2009, part of the "Third Energy Package" and is directly applicable in Italy. The objective of the TAR NC is to guarantee, on the one hand, a greater standardization of transmission tariffs in Europe, through the application of common determination criteria, and on the other to guarantee greater transparency for users regarding information relative to the calculation of tariffs and underlying costs, as well as a greater predictability of such. At the same time, the Italian Authority, also in order to acknowledge the provisions of the TAR NC, decided to extend the current regulatory period of the transport tariffs, originally set to close on December 31, 2017, by a further two years, making changes, however, to the regulation for the years 2018 and 2019. In particular, resolution 575/2017/R/gas regarding the determination of the tariffs charged, made provision for a breakdown of the costs attributed to entry and exit points at a ratio of 40/60 (compared to the present 50/50), with a consequent decrease, ceteris paribus, of the expenditure on import capacity. With reference to the remuneration of the recognized invested capital, the rate of remuneration for transport activities is confirmed at 5.4% for 2018.

Reform of the regulation of conferral of regasification auctions: in 2017, the Authority reformed the regulation of access to regasification capacity, by means of resolution 660/2017/R/gas, which introduces competitive procedures (auctions) for the conferral of regasification capacity, hence superseding today's allocation mechanism based on priority criteria as regards access and pro-rata criteria in the case of congestion and making provision for allocations of up to 15 years (longer than the current 5 years). Regasification companies are required to draft a proposal for the updating of its access codes, to be sent to the Authority by January 31, 2018, based on prior completion of the relevant consultation, so that the new regulation can be implemented in 2018. Lastly, as regards the determination of the auction reserve price, the resolution in question is limited, in this first phase, to identifying the general methodological principles as well as the parameters which will be taken into consideration by the Authority in a subsequent provision.

Pilot Project Termo Capacity Transfer: in July, the Authority published resolution 512/2017/R/gas completing the regulatory framework for the pilot project launched in 2016, introducing more flexible capacity transfer mechanisms at the delivery points of the gas transport network that supply thermal power plants. The completion of the project provides for the possibility of using monthly capacity transfers, in addition to the daily capacity products already available from January 1, 2017. Lastly, for entities that request intra-year transfers to delivery points forming the object of the pilot project, provision is made for the possibility of requesting a transfer of an equal or smaller size at the corresponding exit point.

Gas settlement: the Authority published resolutions 670/17/R/GAS and 782/2017/R/gas which govern the methods of management of adjustment sessions for the previous period, starting from 2013 until the start of the new regulation (which will be the object of a subsequent provision). In accordance with said resolution, the outcomes of the first multi-year adjustment session - which will concern settlements from the years 2013 to 2016, will be made available to operators by Snam Rete Gas in June 2018, while the settlements relating solely to the year 2017 (annual adjustment session), will be carried out in October 2018, according to the methods and billing times currently forming the object of the proposal and consultation by Snam Rete Gas. Resolution 782/2017/R/gas also established the new additional component of the CRVST transport tariff, applied solely to quantities of gas delivered to points interconnected with distribution networks, and set at 0.27 c€/scm, effective from July 1, 2018, to cover the requirements of the fund with

reference to the 2013-2017 period. The Authority instead deferred the definition of the methods with which the settlements of discrepancy fees will be managed to a subsequent provision, applied to users in the previous period due to material or metering errors. To this end, the Authority has planned a collection of information from operators relating to cases for which the adjustment of discrepancy fees is required.

Gas balancing - Implementation of EU regulation no. 312/2014 - Gas market regulation: in September 2017, by means of resolution 630/2017/R/gas, the agreement was approved between Edison Stoccaggio and GME that regulates the flow of information between them to ensure the proper execution of the MGS market session (which takes place at the end of the gas day within M-Gas), thus allowing also Edison Stoccaggio to take part in the Balancing platform from October 1, 2017.

Gas tenders - Simplifications of the procedure for evaluating VIR-RAB discrepancies and tenders: the procedure for evaluating VIR-RAB discrepancies was firstly simplified by means of approval of resolution 344/17/R/gas and subsequently through resolution 905/17/R/gas. The latter acknowledged the provisions of art. 1, paragraphs 93 and 94 of the Competition Law 124/2017, by simplifying both the process of evaluating VIR-RAB discrepancies and the process of analyzing tenders. Consequently, the regulation relating to area tenders was reunified, repealing the previous resolutions and approving two new integrated texts: the “Integrated text of provisions of the Authority governing the determination of the reimbursement value of the natural gas distribution networks for the purposes of area tenders” and the “Integrated text of provisions of the Authority governing the process of analyzing tenders”.

Default Distribution Service: by means of resolution 513/17/R/gas, the detailed regulation was defined for the assessment of applications targeted at the partial or full exemption from the payment of the penalties envisaged, pursuant to the Integrated text of retail sale of natural gas and gases other than natural gas distributed via urban networks (TIVG), in the cases of non-physical disconnection of delivery points supplied in the Default Distribution Service, also as a result of the start of judicial initiatives aimed at obtaining forcible access to the delivery point.

Infrastructures

Storage auctions for thermal year 2017-2018: by Ministerial decree of February 14, 2017, the Ministry of Economic Development regulated the storage capacity for thermal year 2017-2018. Thereafter, by resolution 76/2017/R/gas, the Authority defined the provisions for the organization of the procedures for the conferral of said capacity (auctions), also defining the criteria to be applied in calculating the reserve price. The formula applied to calculate this reserve price was delivered by the Authority to the storage businesses with reserved provision (for Edison Stoccaggio by Resolution 83/2017/R/gas). This year’s regulatory framework has remained basically unchanged with respect to that of last year, hence the criteria for the conferral of storage capacity have been confirmed for thermal year 2017/2018 with some exceptions, namely the elimination from the reserve price of the costs associated with transport prices to the entry/exit points of the grid interconnected with the storage and a different formulation of the reserve price growth function according to the quantities offered.

Edison Stoccaggio Revenues: at the beginning of August, the Authority’s annual provision was published (resolution 589/17/R/gas), which provides for the recovery of lost revenues of storage companies acquired in capacity transfer auctions. These lost revenues are due to the difference between the rate recognized for the modulation service and the capacity assignment price in the auctions. This year, the provision also reports the findings of the investigation carried out by the Authority on the performance of Stogit storage facilities and confirmed the mechanisms for recognition of the revenue guarantee factor, keeping the so-called “range factor” equal to 1 also for the remaining two years of the current regulatory period, 2017 and 2018. By means of resolution 775/17/R/gas, the company revenues for the storage service

presented by Edison Stoccaggio for the year 2017 were definitively approved, however, the Authority reserves the right to adjust these revenues, considering quantities of cushion gas transferred from Cotignola to Collalto excluded from invested capital, if an improvement in delivery performances declared on the basis of an increase in cushion gas is not reached on the latter. The 2018 revenue proposal presented by Edison Stoccaggio was subsequently provisionally approved by the Authority by means of resolution 855/17/R/gas, which accepted the request to determine the operating cost recognized for the San Potito and Cotignola site based on the actual costs relating to 2016. This resolution also acknowledged the regulatory changes introduced by the Competition Law 124/2017 (art.1, paragraph 96-97) regarding the compensation contribution for the non-alternative use of the area, maintaining the neutrality of the storage companies with respect to these changes to the regulatory framework.

ISSUES AFFECTING MULTIPLE BUSINESS SEGMENTS

Annual market and competition law: Law no. 124 of August 4, 2017, published in the Official Journal of August 14, 2017, entered into force on August 29, 2017. The provision contains, inter alia, some forecasts aimed at completing the market liberalization path for the sale of electricity and gas. In particular, provision is made for the removal, from July 1, 2019, of the price protection regulation for domestic customers and small electric power companies and for domestic gas customers. The implementing decree relating to the definition of detailed measures for the passage from the protected market to the free market is expected in the first half of 2018.

2017 National Energy Strategy: by means of Ministerial decree of November 10, 2017 of the Ministry of Economic Development and of the Ministry of the Environment and Land and Sea Protection, the 2017 National Energy Strategy was adopted. The 2017 National Energy Strategy is the Italian Government's 10-year plan for anticipating and managing the change of energy system, which aims to: improve the country's competitiveness, by reducing the price gap and cost of energy with respect to Europe in a context of rising international prices; to sustainably achieve the environmental and low carbon objectives set at European level, in line with future goals established in the COP21 and to continue to enhance procurement safety and the flexibility of energy systems and infrastructures, reinforcing Italy's energy independence.

2017 European Law: Law no. 167 of November 20, 2017 "Provisions for the fulfilment of obligations deriving from Italy's membership of the European Union" - was published in the Official Journal of November 27, 2017.
Among the other regulations, the provision contains measures for the adjustment of national legislation into line with Communication 2014/C 200/01 of the European Commission, regarding State aid in favor of the environment and energy. In particular, these measures concern:

- revision of the support for renewable energy production;
- the reconfiguration of the fees for general system charges targeted at the definition of concessions for electric power-intensive companies and natural gas-intensive companies.

2018 Budget Law: Law no. 205 of December 27, 2017, "Forecast State Budget for the financial year 2018 and multi-year Budget for the three-year period 2018-2020", published in the Official Journal of December 29, 2017, entered into force on January 1, 2018. The provision contains, inter alia, the following measures:

- modification of the provisions governing concessions for large-scale shunts for hydroelectric purposes in the areas in the provinces of Bolzano and Trento. In particular, the new regulation indicates the criteria for exercising the legislative power assigned to the provinces;
- extension to December 31, 2018 of the 65% deduction for building energy redevelopment initiatives and building restructuring;

- provision, in electric power and gas supply contracts, of the right to fees between all parties in the chain is set at two years.

Internal Users Networks (RIU): resolution 582/2017 postponed the date of application of the Integrated Text of Closed Distribution Systems (TISDC), in relation to the internal users networks from October 1, 2017 to January 1, 2018. The extension was provided for as a result of the application of the reform of the structure of tariff components and of general system charges applied to non-domestic customers from January 1, 2018; this reform will take effect, in the case of Closed Distribution Systems, with reference to interconnection points between said systems and the public network as well as to electric power withdrawn through them. Therefore, up to December 31, 2017, the internal users networks will continue to be managed as they are today, while effective from January 1, 2018, the new methods of providing connection, metering, transport and dispatching services must be applied.

ECONOMIC & FINANCIAL RESULTS AT DECEMBER 31, 2017

Sales revenues and EBITDA of the Group and by Business Segment

(millions of euros)	2017	2016	Change	% change
Electric Power Operations [1]				
Sales revenues	5,127	5,682	*(555)*	*(9.8%)*
Reported EBITDA	289	386	*(97)*	*(25.1%)*
Adjusted EBITDA [2]	265	242	*23*	*9.5%*
Hydrocarbons Operations [1]				
Sales revenues	5,592	6,031	*(439)*	*(7.3%)*
Reported EBITDA	613	361	*252*	*69.8%*
Adjusted EBITDA [2]	637	505	*132*	*26.1%*
Corporate Activities and Other Segments [3]				
Sales revenues	54	51	*3*	*5.9%*
EBITDA	(99)	(94)	*(5)*	*(5.3%)*
Eliminations				
Sales revenues	(833)	(730)	*(103)*	*(14.1%)*
Edison Group				
Sales revenues	**9,940**	**11,034**	***(1,094)***	***(9.9%)***
EBITDA	**803**	**653**	***150***	***23.0%***
as a % of sales revenues	***8.1%***	***5.9%***		

(1) See the Value Chain on page 10.
(2) Adjusted EBITDA reflect the effect of the reclassification from the Hydrocarbons Operations to the Electric Power Operations of the portion attributable to the Electric Power Operations of the results of commodity and foreign exchange hedges executed in connection with contracts to import natural gas. This reclassification is being made to allow a better operational presentation of the Group's industrial results. Adjusted EBITDA are not verified by the Independent Auditors.
(3) Includes those operations of Edison Spa, the Group's Parent Company, that engage in central and transversal activities, i.e., activities that are not directly tied with a specific business and certain holding companies and real estate companies.

In 2017, the Group's net revenues totaled 9,940 million euros, or 9.9% less than the previous year.

EBITDA registered an increase of 150 million euros mainly thanks to a favorable scenario that has contributed to higher margins in thermoelectric generation and Exploration & Production.

See the sections of this Report that follow for a more detailed analysis of the performance of the individual business segments.

Electric Power Operations

Sources

(GWh) (*)	2017	2016	% change
Edison's production:	**19,742**	**20,358**	***(3.0%)***
- Thermoelectric power plants	16,469	16,765	*(1.8%)*
- Hydroelectric power plants	2,209	2,490	*(11.3%)*
- Wind power and other renewables	1,064	1,103	*(3.5%)*
Other purchases (wholesalers, IPEX, etc.) (1)	**54,002**	**70,836**	**(23.8%)**
Total sources	**73,744**	**91,194**	**(19.1%)**

(1) Before line losses and excluding the trading portfolio.
(*) One GWh is equal to one million kWh, referred to physical volumes.

Uses

(GWh) (*)	2017	2016	% change
End customers (1)	10,927	11,582	*(5.6%)*
Other sales (wholesalers, IPEX, etc.) (2)	62,817	79,612	*(21.1%)*
Total uses	**73,744**	**91,194**	**(19.1%)**

(1) Before line losses.
(2) Excluding trading portfolio.
(*) One GWh is equal to one million kWh.

The Group operates in accordance with a business model that calls for the separation of power generation activities (thermoelectric and renewables), sales to the end-user market (business and retail) and buying and selling activities, aimed at implementing adequate segregation and risk hedging policies for the above-mentioned portfolios and at maximizing their profitability through their optimization.

Under the scope of this model, Edison net production in Italy comes in at 19,742 GWh in 2017, down 3% on 2016; more specifically, thermoelectric production decreased by 1.8%, partly reflecting the sale of Termica Milazzo completed on August 1, 2016 (production 2016 equals to 535 GWh) and of Gever Spa as from March 2017 (production 2016 equals to 714 GWh). With regards to production from renewable energy sources, the trend in 2017 saw hydroelectric production down 11.3%, in line with the national trend, because of water availability in the period, and wind power generation and other renewables with values slightly down due, primarily, to less wind in the period.

Sales to end customers dropped by 5.6%, mainly due to the smaller volumes sold to the Business segment.

Other purchases and other sales were down by more than 20% compared with the previous year. However, it is worth mentioning that this category includes not only purchases and sales on the wholesale market, but also purchases and sales on the IPEX, which are characterized by lower unit margins as they are related to production from facilities operating in bidding mode, the balancing of individual portfolios and make-or-buy activity.

Energy Services

(GWh) (*)	2017	2016 (**)	% change
Production of electric power by cogeneration and trigeneration systems and other smaller facilities	**1,046**	**797**	***n.a.***

(*) One GWh is equal to one million kWh.
(**) Referred to the period April - December

The production of electric power by energy services refers to the new Energy Services Market Division established through the incorporation of the activities of the Fenice Group, acquired in April 2016.

Income Statement Data

(millions of euros)	2017	2016	% change
Sales revenues	5,127	5,682	*(9.8%)*
Adjusted EBITDA (1)	265	242	*9.5%*

(1) See note on page 36.

Sales revenues for 2017 come to 5,127 million euros and, despite the presence of sales revenues of Fenice (consolidated from April 2016), are down 9.8% on 2016, due to a reduction in volumes sold owing to a different portfolio optimization, not offset by the increase of average prices of sale driven by the reference scenario.
The adjusted EBITDA amounts to 265 million euros, marking an increase of 9.5%, mainly thanks to higher margins of thermoelectric generation partly offset by a lower contribution made by the hydroelectric sector, as well as by non-recurring phenomenon such as the contribution made by Fenice for the whole of 2017 (79 million euros in 2017, as compared with 60 million euros in the same period of 2016) and, in 2016, the net income of 33 million euros deriving from the exchange of equity investments held by Edison in Hydros and Sel Edison and the equity investment of Alperia in Cellina Energy.

Hydrocarbons Operations

Sources of Natural Gas

(millions of m^3 of natural gas)	2017	2016	% change
Production (1)	437	521	*(16.1%)*
Imports (Pipeline + LNG)	15,102	14,615	*3.3%*
Other purchases	5,843	6,745	*(13.4%)*
Change in stored gas inventory (2)	(94)	0	*n.m.*
Total sources	**21,288**	**21,881**	***(2.7%)***
Production outside Italy (3)	**1,636**	**1,403**	***16.6%***

(1) Net of self-consumption and at Standard Calorific Power. It includes the production from the Izabela concession in Croatia imported into Italy.
(2) Includes pipeline leaks. A negative change reflects additions to the stored gas inventory.
(3) Counting volumes withheld as production tax.

Uses of Natural Gas

(millions of m^3 of natural gas)	2017	2016	% change
Residential use	2,404	2,562	*(6.1%)*
Industrial use	4,507	3,970	*13.5%*
Thermoelectric fuel use	7,311	7,320	*(0.1%)*
Other sales	7,066	8,029	*(12.0%)*
Total uses	**21,288**	**21,881**	***(2.7%)***
Sales of production outside Italy (1)	**1,636**	**1,403**	***16.6%***

(1) Counting volumes withheld as production tax.

Production of natural gas in 2017, counting the combined output of the Italian and international operations, totaled 2,073 million cubic meters, up 7.8% compared with the previous year. Production marketed in Italy was down 16.1%, primarily due to the natural decline in the production curves, while foreign production rose by 16.6%, mainly thanks to the commissioning of two new wells at the Egyptian concession of Abu Qir in April and May 2017. It should be noted that the Reggane field in Algeria entered production on December 18, 2017.
Total gas imports rose slightly while Other Purchases recorded a drop of more than 13% due to the fall in sales (-2.7%).
The quantities sold of 21,288 million of cubic meters recorded a drop of 2.7% compared to 2016, mainly due to lower sales on the wholesale and spot markets (-12.0%) and lower sales for civil use (-6.1%), partly offset by higher sales for industrial uses (13.5%), also thanks to the acquisition of new customers.

Crude Oil Production

(thousands of barrels)	2017	2016	% change
Production in Italy	1,874	2,163	*(13.3%)*
Production outside Italy (1)	2,127	1,980	*7.4%*
Total production	**4,001**	**4,143**	***(3.4%)***

(1) Counting volumes withheld as production tax.

Crude oil production in 2017 highlights a total decline of 3.4% due to lower Italian production, down due to the natural decline in concessions, partly offset by higher foreign production thanks to the contribution made by the two new wells at the Egyptian concession of Abu Qir, which entered in production between April and May 2017.

Income Statement Data

(millions of euros)	2017	2016	% change
Sales revenues	5,592	6,031	*(7.3%)*
Adjusted EBITDA (1)	637	505	*26.1%*
- *amount from gas activities*	374	323	*15.8%*
- *amount from Exploration & Production*	263	182	*44.5%*

(1) See note on page 36.

Sales revenues came in at 5,592 million euros in 2017, down 7.3% compared to 2016. This decrease was determined primarily by the fall in income from derivative contracts for the management of the risk of fluctuation in the cost of natural gas and the risk relating to its sale; it should also be pointed out that a decrease was similarly recorded in realized derivatives in the associated cost item with a positive effect on EBITDA.
Adjusted EBITDA in 2017 came to 637 million euros, up by 132 million euros compared to 2016; this variation is attributable:

- for gas activities, up by 51 million euros mainly thanks to better results recorded by regulated activities and to the effect of different fund provision policies.
- for Exploration & Production activities, up by 81 million euros, not only to the higher margin realized as a result of the recovery of the oil scenario but also two insurance reimbursements and some reductions in fixed costs in 2017, which offset the non-recurring income registered in 2016, owing to the sale of some facilities.

Hydrocarbon Reserves

The Group's hydrocarbon reserves (proven reserves plus 50% of probable reserves) totaled about 36.5 billion cubic meter equivalent (224.0 MBoe) at December 31, 2017, compared with 40.4 billion cubic meter equivalent (248.4 MBoe) the previous year. Therefore, net of the gross 2017 production, totaling about 2.8 billion cubic meter equivalent (17.4 MBoe), hydrocarbon reserves decreased by around 1.1 billion cubic meters equivalent (7.0 MBoe). This variation is the result of the revision or sale/acquisition of the reserves of some concessions. The most significant reductions concerned the Zidane concession in Norway, where half of the amount held at the end of 2016 was sold, and to a lesser extent, the concessions in Italy and the Reggane concession in Algeria. These reductions were partially offset by the increase in the reserves of the Abu Qir concession in Egypt, and the acquisition of the North El Amriya and North Idku mineral leases in Egypt, with associated probable reserves valued (at 50%) at around 6 MBoe.

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

Income Statement Data

(millions of euros)	2017	2016	% change
Sales revenues	54	51	*5.9%*
EBITDA	(99)	(94)	*(5.3%)*

Corporate Activities and Other Segments include those operations of Edison Spa, the Group's Parent Company, that engage in central and transversal activities, i.e., activities that are not directly tied to a specific business, and certain holding companies and real estate companies.

Sales revenues in 2017 are up slightly compared to 2016, while EBITDA dropped by 5 million euros, connected in part to the non-recurring income recorded in 2016.

Other Components of the Group's Income Statement

(millions of euros)	2017	2016	% change
EBITDA	**803**	**653**	**23.0%**
Net change in fair value of derivatives (commodities and foreign exchange)	(221)	(166)	*(33.1%)*
Depreciation, amortization and writedowns	(655)	(734)	*10.8%*
Other income (expense) net	115	(13)	*n.m.*
EBIT	**42**	**(260)**	*n.m.*
Financial income (expense), net	(52)	(94)	*44.7%*
Income from (Expense on) equity investments	(31)	7	*n.m.*
Income taxes	(122)	(25)	*n.m.*
Profit (Loss) from continuing operations	**(163)**	**(372)**	***56.2%***
Profit (loss) attributable to Parent Company shareholders	**(176)**	**(389)**	***54.8%***

EBIT of 42 million euros are after depreciation, amortization and write-downs totaling 655 million euros, a negative net change in the fair value of commodity hedging and foreign exchange transactions amounting to 221 million euros (negative by 166 million euros in 2016) and other net income of 115 million euros.

Write-downs, amounting to 169 million euros (256 million euros in 2016), include the write-down of some in sale assets of Hydrocarbons Operations, for 30 million euros, and the effects of the annual impairment testing of assets and goodwill for 139 million euros. In particular, the write-downs of assets, totaling 93 million euros, mostly refer to hydrocarbon concessions, in Italy (40 million euros) and abroad (50 million euros), primarily as a result of the revision of the estimates of expected profitability on the margins due to the trend in the scenario, while the write-down of goodwill of 46 million euros is attributed to Electric Power Operations.

Other net income, amounting to 115 million euros, includes the income from the sale of the Foro Buonaparte properties in Milan, for 131 million euros.

The net result from continuing operations was a loss of 163 million euros (loss of 372 million euros in 2016), after net financial expense of 52 million euros, income from equity investments of 31 million euros and income taxes of 122 million euros.

Net financial expense improved considerably thanks to a lower level of debt and a lower cost of debt due to a different mix of financial resources. It should be pointed out that 2016 included 20 million euros as breakage costs, for the early repayment of the long-term loan to EDF IG Sa.

The net expense on equity Investments includes the write-down of the sale of 100% of Infrastrutture Trasporto Gas Spa (ITG) and 7.3% of the equity investment held in Terminale GNL Adriatico Srl. This write-down amounts to 55 million euros and includes 14 million euros related to the goodwill allocated, pursuant to IAS 36, par. 86. For more information, please refer to the section "Non-recurring operations" contained in the notes to the abridged consolidated financial statements.

Income taxes include IRAP (regional business tax), foreign taxes and some provisions made for risks relating to tax disputes.

Net Financial Debt and Cash Flows

At December 31, 2017 net financial debt amounted to 116 million euros, marking a decrease of 946 million euros compared with the 1,062 million euros owed at the end of December 2016.
More detailed information about the individual components of this item is provided in the "Net Financial Debt" section of the Consolidated financial statements 2017.

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

(millions of euros)	2017	2016
A. NET FINANCIAL (DEBT) AT BEGINNING OF PERIOD	**(1,062)**	**(1,147)**
EBITDA	803	653
Elimination of non-cash items included in EBITDA	26	(76)
Net financial expense paid	(20)	(55)
Net income taxes paid (-)	(63)	(196)
Dividends collected	17	12
Other items from operating activities	1	(15)
B. CASH FLOW FROM OPERATING ACTIVITIES	**764**	**323**
Change in operating working capital	208	649
Change in non-operating working capital	(8)	(177)
Net investments (-)	(489)	(555)
Non-recurring operations	489	-
C. CASH FLOW AFTER NET INVESTMENTS AND CHANGES IN WORKING CAPITAL	**964**	**240**
Dividends paid (-)	(46)	(77)
Other items	28	(78)
D. NET CASH FLOW FOR THE PERIOD	**946**	**85**
E. NET FINANCIAL (DEBT) AT END OF PERIOD	**(116)**	**(1,062)**

The main cash flows for the period derive from EBITDA, as commented on previously, from the positive variation in operating working capital, also thanks to significant collections of receivables in Egypt, from net investments, which include capital expenditures and exploration (-457 million euros) and restructuring and focusing on energy services and customers (-32 million euros), as well as from non-recurring operations (+489 million euros).
More specifically, capital expenditures and exploration include:

- investments in Exploration & Production for 203 million euros, mainly abroad. In particular: in Egypt, the Abu Qir concession for the completion of construction works of the platform NAQ PIII (42 million euros), the drilling of a new well NAQ PIII-4&5 on the same platform (27 million euros), the drilling and completion of a new well on the platform NAQ PI (16 million euros) as well as the acquisition of the new concessions of North el Amryia and North Idku (10 million euros); in Algeria the development of the concession of Reggane (36 million euros); in Norway mainly the Zidane concession (36 million euros);
- investments in exploration for approximately 80 million euros, mainly in Egypt (47 million euros) for exploration works in the East Med and onshore delta of the Nile areas, and in Norway (16 million euros) for activities regarding new exploration permits, such as the drilling of the Goliat Eye and Aurelia wells (11 million euros).

The portfolio restructuring operations (-32 million euros) saw, in particular:

- in the electricity generation sector, the acquisition of a business unit consisting of the run-of-the-river water hydroelectric power plant on the river Dora Baltea, named “Montestrutto” (21 million euros), the acquisition of the majority stake in Frendy Energy, which heads up 15 mini-hydro plants (14 million euros), the sale of the stake in Alerion Clean Power Spa (30 million euros) and the sale of the Gever Spa equity investment.
- in the energy services sector, the acquisition Energon Facility Solutions Spa (net effect of 24 million euros) and of Comat Energia Srl;
- in the end market services sector, the acquisition of Assistenza Casa Spa.

Non-recurring operations include the sale of the 100% stake in Infrastrutture Trasporto Gas (ITG) and 7.3% interest in Terminale GNL Adriatico Srl (net financial effect of 217 million euros and the sale of the Foro Buonaparte properties in Milan (272 million euros).

Outlook and Expected Results in 2018

In view of a market scenario with prices and margins lower than those recorded in 2017, Edison expects that EBITDA in 2018 will range between 670 and 730 million euros.

Edison Spa
Financial Highlights

(millions of euros)	2017	2016 pro-forma (*)	% change	2016
Sales revenues	7,982	9,106	*(12.3%)*	6,154
EBITDA	307	206	*49.0%*	27
as a % of sales revenues	*3.8%*	*2.3%*		*0.4%*
EBIT	(26)	(239)	*(89.1%)*	(438)
as a % of sales revenues	*n.m.*	*n.m.*		*n.m.*
Net profit (loss)	(184)	(263)	*30.0%*	(250)
Capital expenditures	104	94	*10.6%*	94
Net invested capital	3,918	4,890	*(19.9%)*	5,155
Net financial debt	(1,332)	(414)	*n.m.*	66
Shareholders' equity	5,250	5,304	*(1.0%)*	5,089
Debt/Equity ratio	n.a.	n.a.		0.01
Number of employees	1,470	1,535	*(4.2%)*	1,419

(*) Taking into account the merger by absorption by Edison Spa of Edison Trading Spa, the 2016 pro-forma amounts have been adjusted in order to allow a homogeneous comparison.

Pursuant to Consob Communication No. DEM/6064293 of July 28, 2006, the schedules below provide a reconciliation of the Group interest in net profit (loss) for the period and the shareholders' equity attributable to the shareholders of the controlling company at December 31, 2017 to the corresponding data for Edison Spa, the Group's Parent Company:

Reconciliation of the Net Result of Edison Spa to the Group Interest in Net Result

(millions of euros)	2017	2016
Net result of Edison Spa	**(184)**	**(250)**
Intra-Group dividends eliminated in the consolidated financial statements	(21)	(199)
Results of subsidiaries, affiliated companies and joint ventures not recognized in the financial statements of Edison Spa	86	112
Valuation of investments in associates measured by the equity method	(14)	(1)
Other consolidation adjustments	(43)	(51)
Group interest in net result	**(176)**	**(389)**

Reconciliation of the Shareholders' Equity of Edison Spa to the Equity Attributable to the Shareholders of the Controlling Company

(millions of euros)	12/31/17	12/31/16
Shareholders' equity of Edison Spa	**5,250**	**5,089**
Carrying value of investments in associates eliminated against the corresponding interests in the shareholders' equities of the investees companies, including:		
- Elimination of the carrying values of the consolidated investments in associates	(1,009)	(1,202)
- Recognition of the shareholders' equities of consolidated companies	1,720	2,086
Valuation of investments in associates measured by the equity method	29	48
Other consolidation adjustments	(75)	(66)
Equity attributable to the shareholders of the controlling company	**5,915**	**5,955**

RISKS AND UNCERTAINTIES

RISK MANAGEMENT AT THE EDISON GROUP

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

In pursuit of this objective, Edison adopted a risk mapping and risk scoring methodology that assigns a relevance index to each risk based on an assessment of its overall impact, probability of occurrence and level of control, and a Business Risk Model, developed in accordance with best industry and international practices, which encompasses within an integrated framework the different types of risks that are inherent in the businesses in which the Group operates:

- risks related to the external environment, which have to do with conditions in the market and the competitive environment in which the Group operates and changes in the political, legislative and regulatory context;
- operational risks, which are tied to processes, structures and business management systems, specifically regarding production and distribution activities;
- strategic risks, which are related to the definition and implementation of the Company's strategic guidelines.

More specifically, with the coordination of the Risk Office, the managers of the various Company departments map and assess risks within their scope of activity through a Risk Self-Assessment process and provide an initial indication of the mitigating actions associated with those risks. 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 Enterprise Risk Management process is closely linked with the medium-and long-term 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 are communicated to the Control and Risk Committee and Board of Directors on predetermined dates and are used by the Internal Audit Department as a source of information to prepare special risk-based audit plans.

An analysis of the overall results of the process for the year just ended is provided in the "Risk Factors" section that follows, while the "Financial Risks" section lists the main factors related to the commodity price, exchange rate, credit, liquidity and interest rate risks, for which specific safeguards were adopted over the years to manage and minimize their impact on the Group's economic and financial equilibrium. For additional details about these risks, see the information provided for IFRS 7 purposes in the section of the Consolidated financial statements 2017 entitled "Group Financial Risk Management."

RISK FACTORS

1.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, which affects market activity, rate plans, required levels of service quality and technical and operational compliance requirements.

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

In this context, among the main changes in the evolving legislative framework, the most significant risk factors include:

- the renewal of large-scale hydroelectric concessions, which were substantially amended by art. 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). At the moment, the Ministry of Economic Development is conducting an in-depth review aimed at revising the reference regulatory framework, closing the infraction procedure in progress and completing regulations (detailed and general) concerning the procedures for the renewal of hydroelectric concessions. The lack of legislative clarity puts the renewal of existing concessions at risk. The awarding of said tenders could be more expensive than expected;
- the new system for remuneration of production capacity, revised in 2016 and 2017 with some consultation documents of Terna and the Authority. The operating of the new system, related to the notification process with the European Commission, is expected in 2018. The development of the regulatory framework will clarify aspects related to the effective date of introduction of the new system and to the remuneration that will be recognized by said system;
- the removal, from July 1, 2019, of the protected electric power and gas market, set forth in the Competition Law which entered into force in August 2017; the implementing decree relating to the definition of detailed measures for the passage from the protected market to the free market is expected in the first half of 2018. The lack of legislative clarity represents a risk in relation to the expected development in the commercial retail sector.

Market and Competitive Environment

The energy markets in which the Group operates registered a slight recovery in 2017, despite the persistence of high competitive pressure.

In the Italian electric power market, demand remains low. In 2017, gas thermoelectric production, which accounts for a considerable portion of the Group's production mix, benefited, in the first part of the year, from the reduction of imports from France (in turn linked to the unavailability of some nuclear power plants), particularly harsh temperatures recorded in January and high temperatures in the summer period, and lower water availability. This factor has instead had the opposite effect on hydroelectric production. This latter, with specific reference to the major derivation hydroelectric concessions available to the Group, is also exposed to the above-mentioned risk of a revision of the reference legislative context and the outcome of the calls for tenders for the renewal of expired or expiring concessions. Moreover, technological changes in the electric power sector could make some technologies/services more competitive than those that are part of the Company's business. 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" section of this Report on operations 2017.

On the natural gas market, demand recorded a slight increase compared with the previous year, particularly as regards the thermoelectric and industrial sectors. The clauses for the renegotiation of prices of long-term gas procurement contracts offer important tools by which to mitigate the effects of changes in the energy scenario and market conditions, as monitored constantly by the Group.

Country Risk

The Group's presence in the international markets involving both the marketing of electric power and the pursuit of hydrocarbon exploration and production activities exposes the Company to a whole series of risks deriving mainly from political, economic, social, regulatory and financial differences compared with conditions in the country of origin. Currently, the areas that are most significant for the Group are Greece, where Edison, operating through Elpedison Sa, 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:

- In Greece, political and financial stability are heavily dependent on the assistance provided by European and international institutions, the disbursement of which is conditional on the implementation of a program of reforms by the government. Insofar as the energy sector is concerned, the introduction of a new temporary mechanism, following the April 30 expiry of the previous mechanism for the remuneration of production capacity for certain types of electric power generating facilities (including the gas-fired, combined-cycle power plants operated by Elpedison Sa, for an installed capacity of roughly 800 MW), was postponed until the first half of 2018. In this context the Company constantly monitors the political and economic environment of the country, to which the Group is exposed as at December 31, 2017, as indicated below:

	Mln€
Loan receivable from the affiliate	68
Guarantees provided	24
Investments in associates	10
Total	**102**

- In Egypt, the political and economic situation remains unstable, due to the expansion of the Islamic State in strategic areas of the region and the occurrence of protests and unrest. Signs of greater confidence from foreign investors and of an improvement in the economic environment stem from the financial aid from the International Monetary Fund, the World Bank and the African Development Bank (AfDB), the issuing of eurobonds and the finalization of some internal reforms, together with the stabilization of the exchange rate of the local currency. In said context, the Group monitors the political and economic environment on an ongoing basis, with regard to which the main uncertainties include the commercial exposure with the government owned Egyptian General Petroleum Corporation (EGPC) for approximately 285 million USD at December 31, 2017, the volatility of the exchange rate (even though the amount of liquid assets held in the local currency was extremely small) and the security conditions under which the Company operates and implements the most appropriate risk mitigation actions.

With reference to the long-term gas procurement contracts, the Company is exposed to the geographical-political context of the countries from which it gains its supplies (i.e. Qatar, Libya, Algeria and Russia) and, therefore, constantly monitors the situation. Following the decision at the start of June by some Arab countries to suspend diplomatic and economic relations with Qatar, at present, there are no significant critical issues relating to the supply of natural gas by this region.

2. Operational Risks

Processes, structures and Business Management Systems

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 risks deriving from the potential inefficiency of internal processes and organizational support structures or exogenous events, such as malfunctions or unavailability of equipment and machinery. These risks could potentially have repercussions on the Company's profitability, the efficiency of its business activities and/or its own reputation.

The policy to manage these risks calls for the adoption of specific security and quality standards, and the implementation of upgrades to comply with international and national laws and the requirements of local entities with regulatory authority over such issues and of activities to improve the quality of processes in the various areas of business, with special focus on customer services. In addition, the management of potential crisis events is governed by specific internal guidelines 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 and reputation.

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

Information Technology

The Group's diverse activities and business processes are supported by complex information systems. Risks issues exist with regard to the adequacy of these systems and the availability, integrity and confidentiality of data and information. In relation to the first of these issues, the "Digital Transformation" program was launched in 2017 for the Gas & Power Market Division, with the aim of providing tools that are increasingly aligned with customer needs. This program, divided into several project streams, which will run for about two years, saw the release to production, in 2017, of a new customer engagement system, new sales and after-sales sites, also including the new payment methods, apps for after-sales services and systems for the supply of value-added services. Additionally, during 2017, important projects were launched, including the implementation of a new IT application to manage the gas logistics and the "Energy Services Division ICT Project" which defined the target application architecture and the involved the launch of the development of the Division CRM system.

With regard to the risk of unavailability caused by a system fault, Edison adopted high reliability hardware and software configurations for those applications that support critical activities. These configurations, together with a new disaster recovery solution, were tested from a technological and application perspective during the complex project involving the migration of the company information system from the Settimo Milanese data center to that of EDF, which was finalized in June 2017; an integrated, global test was successfully performed in September.

Lastly, the risk relating to the integrity/confidentiality of company data and information and their availability in the event of cyber-attacks that are increasingly more frequent and sophisticated, is mitigated with the adoption of strict security standards and solutions; the Security Operation Centre (SOC), operative since January 1, 2016, aims to prevent and manage new forms of computer attack and was redefined during the early months of 2017 with a view to extending the monitoring services to cover all systems migrated to the new data center.

3. Strategic Risks

The development of the core businesses of the Edison Group must be supported with investments, acquisitions and selected divestments, implemented as part of a strategy to streamline the overall portfolio and constantly responding to

the competitive environment: the Group's ability to strengthen its core businesses in the markets where it operates is predicated on the effective deployment of these initiatives.
More specifically, insofar as direct investments are concerned, they typically entail a risk related to potential overruns in operational and investment costs, as well as possible delays in the start of commercial service, due in part to uncertainties in the permit issuing process, with a resulting impact on the profitability of these initiatives.
As for the strategy of growth through acquisitions, its success is predicated on the availability in the market of opportunities that could help the growth of the Group's core businesses at an acceptable cost and on the Company's ability to identify those opportunities on a timely basis and effectively integrate the acquired assets into the Group's activities.
In order to mitigate these risks, the Company adopted a series of internal processes to monitor the research and assessment phases of investment initiatives. In addition to 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, project management and project control activities.

FINANCIAL RISKS

Commodity Price Risk

The Edison Group is exposed to the risk of fluctuations in the prices of all the energy commodities that it handles, which affect the Group both directly and indirectly through indexing mechanisms contained in pricing formulas. Moreover, because some of the above-mentioned commodity prices are quoted in a foreign currency, 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 used 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.

Foreign Exchange Risk

The activities carried out by the Group in currencies different from the euro and its strategies of expansion in the international markets expose the Company to fluctuations in foreign exchange rates. The guidelines concerning the governance and strategies to mitigate the foreign exchange risk generated by business activities are set forth in specific policies, which describe the foreign exchange risk management objectives depending on the different nature of the risk in question.
The Company adopts a centralized type of management model, through which the Parent Company is able to constantly safeguard the Group's economic and financial equilibrium by constantly monitoring exposures and implementing appropriate hedging and foreign exchange procurement strategies designed for risk mitigation purposes.

Credit Risk

With regard to the risk of potential losses caused by the failure of any of the counterparties the Company interacts with to honor the commitments they have undertaken, the Group has implemented for some time procedures and tools to evaluate and select counterparties based on their credit rating, constantly monitor its exposure the various counterparties and implement appropriate mitigating actions, primarily aimed at recovering or transferring receivables.

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, which it manages mainly by defining the characteristics of the facilities during the negotiation phase.

Liquidity Risk

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.

PROVISIONS FOR RISKS AND CHARGES

In addition to the risk management and mitigation activities described above, when faced with present obligations deriving from past events, which can be of a legal or contractual nature or result from statements or conduct of the Company such as to engender in third parties a valid expectation that the company is responsible or assumes responsibility for fulfilling an obligation, the Edison group recognized over the years adequate accruals to special provisions for risks and charges listed among the liabilities in the financial statements (see also the accompanying notes to the Consolidated financial statements).

More specifically, the companies of the Group are parties to judicial proceedings and some tax disputes a description of which is provided in the section entitled “Risks and contingent liabilities associated with legal and tax disputes” in the “Commitments, Risks and Contingent Assets” chapter of the Consolidated financial statements 2017.

OTHER RESULTS FROM OPERATIONS

INNOVATION, RESEARCH AND DEVELOPMENT

In 2017, the Research, Development & Innovation Department (RD&I) pursued and expanded a series of activities concerning both the electric power and hydrocarbon sectors, aimed at ensuring environmental and economic sustainability in a context characterized by rapid developments in technology and market changes.
Edison RD&I therefore collaborated with the other Company Departments and Business Units for the development of business support solutions, in particular with the Gas and Power Market Department in creating the new services platform Edison World, presented to the market in the spring.
The Trofarello Research Centre has played an important role in this project, testing and selecting the technological solutions on which Edison World is based. The activity was conducted in the Domus laboratory, which hosts and replicates in real use, Internet of Things (IoT) solutions for smart homes, targeted at ensuring consumption comfort and control, making a concrete contribution to a new energy market approach. It should be noted that the Trofarello Research Centre saw the launch of the process of development of the quality management system of the geo-sciences laboratory, in compliance with standard UNI EN ISO 9001:2015. The certification is expected in 2018.

Close collaboration continued with the EDF R&D International centers: during the international seminar which, on an annual basis, brings together representatives from research centers from all over the world, common interests and potential stemming from collaboration with personnel of the EDF Group were confirmed and broadened.

The expertise of the RD&I Department continues to be enhanced by exchanges and collaborations with Italian and foreign industrial and academic partners such as the Polytechnic of Milan, the Polytechnic of Turin, Federico II University of Naples, the University of Pisa, the University of L'Aquila and Stanford University.

HEALTH, SAFETY AND THE ENVIRONMENT

The main results achieved in 2017 and projects under development are reviewed below.

SAFETY PERFORMANCE TREND

Consistent with previous years, the Group consolidated the practice of presenting with a comprehensive and integrated approach the effects of prevention programs to promote a culture of occupational health and safety, combining the data for Edison's personnel and for employees of suppliers, assigning to management throughout the organization improvement objectives compared with the average results for the previous three years.
Based on this approach, 2017 closed with a combined Injury Incidence Rate for activities in Italy and abroad that came in at 1.0, which confirms the positive trend recorded in previous years and which is a notable improvement on the figure at the end of 2016 (1.96). More specifically, the Injury Incidence Rate was 0.8 (1.6 in 2016) for Company employees and 1.3 (2.7 in 2016) for employees of contractor companies.
The combined Lost Workday Incidence Rate was 0.09 in 2017, also lower than the rate at the end of 2016 (0.14).

ACTIVITIES CONCERNING HEALTH, SAFETY AND THE ENVIRONMENT

The main activities and processes carried out in 2017 are reviewed below:

- the requirements of the applicable regulations concerning health, safety and the environment were satisfied and verified also with special audits to test legislative compliance, specifically with regards to updating risk assessments and holding periodic safety meetings, during which the implementation progress of training programs and the macro results of the employee health monitoring were presented. In addition, the timing and qualitative requirements of the deadlines of national environmental laws, which fall for the most part in the second half of the year, were complied with.
- The required inspections and/or renewal visits for the management systems certified in accordance with the UNI EN 14001 environmental standard, the BSI OHSAS 18001 health and safety standard and the UNI EN ISO 9001 quality standard, on which our organizational models for the governance of said processes are based, were successfully completed. In addition, where applicable, the scheduled audits were conducted to maintain EMAS environmental registrations, and to obtain or maintain the UNI EN ISO 50001 energy certification and UNI ISO 11352 certification for energy services (ESCo). All audits were successful, confirming the quality, environment and safety certificates in place, guaranteeing the validity of our management and control systems and compliance with legal worker health and safety requirements, health surveillance, training, business coordination and compliance with environmental protection laws implemented by the corporate organizations. The move to standards 9001 and 14001 was launched in this domain (process already completed at some company organizations), which will be completed in 2018.
- All controls on operating plants were carried out in order to guarantee adequate levels of safety, also through the improvement in digital instruments; for example, a "Safety Management System" was implemented in various operating divisions, which allows plant operators, using tablets, to register periodic, technical and safety checks (daily, weekly, fortnightly, etc.) The system also manages their deadlines by sending automatic reminders. The process was launched for the drafting of Large Risks Reports pursuant to Legislative decree 145/2015 for all offshore plants of the Operations Area - Southern Europe.
- An overall company-wide review of the environmental and safety systems was carried out in February in accordance with the Organizational Model and the relevant protocols pursuant to Legislative decree No. 231/2001; on that occasion, the targets for 2017 were defined and communicated, as was the internal auditing plan and cross-

functional training activities for the health, safety, environment and quality professional family. In order to improve the integration and effectiveness of the organizational model in line with the individual management systems, a select committee was established, representative of the professional family, whose main task is to identify, coordinate and monitor the initiatives that impact all operating entities, also in consideration of the Group objectives and guidelines. In that sense, EDF is identifying the Group objectives relating to accident rates for the 2018-2020 three-year period which will be supported by the issuing of specific guidelines (H&S Management System Expectations), prepared in 2017 by EDF H&S Community with a significant contribution from Edison.

- The year 2017 saw a continuation of the constant commitment to the dissemination of a culture of safety with staff awareness, information, training and involvement activities through the weekly dissemination of safety messages, the participation in dedicated training sessions, the identification, analysis, sharing of high potential events (HPE) that were verified within the EDF Group, and starting with the analysis of these situations, the resolution of dangerous situations or events noted in the various production units and in order to prevent potential injuries. The "TUTOR della Sicurezza" project is incorporated in the same domain at the Simeri Crichi thermoelectric power plant (as in-depth training on the perception of risk) and the initiatives for the recognition of good conduct of personnel from external companies operating at the sites of the Engineering department.
- There were no accidents with a significant impact on the environmental matrices (soil, subsoil, surface waters and biodiversity) during the first half of 2017. It should be noted that, as a precaution, two procedures for the communication of potential pollution were launched, one resulting from the discovery of metals during the phase of characterization of the areas of land during the project for the expansion of a wind farm owned by the company E2i, concluded with a disposal of part of the land concerned, and the other resulting from the discovery of a diesel tank following a flooding of the river at the intake system of the Farigliano hydroelectric power plant in the municipality of Clavesana, making provision for the emptying and removal of the underground tank and certification of the walls and excavation bottom.
- Site characterization, safety assurance and environmental remediation work continued. Most of these activities involved highly significant industrial sites potentially polluted by activities carried out in the past by businesses that were part of the former Montedison Group sold a long time ago and/or closed. The most significant initiatives in 2017 include the entry into operation of the table water wells and the related treatment plant at the ex Montedison area of Melegnano (Province of Milan) and the supplementary surveys on the site of national interest of Bussi (Province of Pescara), with the subsequent creation of a system for the preventive safety of table water (pending launch due to delays in the authorization of discharge by the Authorities) and the presentation of a proposal for definitive intervention in the areas. In addition, remediation works have been completed on areas of land at the ex Montedison site of Massa, for which the related certification is awaited from the Ministry for the Environment.
- The process of collecting and analyzing the environmental and health and safety data needed to draft and issue the sustainability reports of both Edison and the EDF Group was carried out and completed in accordance with the timescales and methods required by the reference standards.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

Human Resources

At December 31, 2017, the Edison Group had a total of 5,144 employees, compared with 4,949 as at December 12, 2016, for an overall increase of 195 employees (+3,9%) This increase primarily reflects the significant changes in scope of consolidation that occurred during the year (+3,2%), including:

- the acquisition of Assistenza Casa (54 employees)
- the acquisition of Comat Energia (7 employees)
- the acquisition of Energon (142 employees)
- the sale of Gever (16 employees)
- the sale of Infrastrutture Trasporto GAS (27 employees)

Total labor costs for the year amounted to 311 million euros, with an increase of 5% compared with the previous year, mainly due to the above-mentioned changes in scope of consolidation, the consolidation of Fenice Group, consolidated only for 9 months in 2016. The increase was partly compensated by a reduction in labor costs, related to Egypt activities, as a result of a significant depreciation of the local currency.

Industrial Relations

In 2017, the following general trade union agreements were reached for the Edison Group:

- Liquidation of FIPREM Fund and convergence to FOPEN
  By means of the trade union agreement of April 4, 2017, the FOPEN Fund was identified as the reference Pension Fund for Edison Group companies and the methods and timescales were defined for the convergence from FIPREM to FOPEN. In execution of this agreement, more than 60% of FIPREM members chose to transfer their individual positions to FOPEN and there were more than 120 new members.
- Smart Working experimentation
  By means of the trade union agreement of June 13, 2017 signed with the RSU of the Milan office, the experimentation of smart working was launched, in line with the new regulation issued by means of Law no. 81 of May 22, 2017. This preliminary experimentation phase, which involved more than 170 employees of the Milan office, is to be performed prior to an examination of the results achieved planned for the first quarter of 2018 and will facilitate the assessment of a subsequent gradual extension of the new methods of work performance to the other company areas involved in the experimentation phase, for compatible duties from a technical-organizational perspective.
- Transfer of operations of Bolzano office of Edison Energia Spa
  On November 10, an agreement was signed with the trade union organizations of the Province of Bolzano with the purpose of defining the consequences of the transfer to Milan of the activities previously carried out in Edison Energia Spa's Bolzano office, an office which ceased operating at the end of the year.
- Merger by incorporation of Edison Trading in Edison Spa
  November 22 saw the signing, at the offices of Assolombarda, of the joint examination report in relation to the transaction, effective from December 1, involving the merger by incorporation of Edison Trading Spa in Edison Spa All 46 Edison Trading Spa employees were subsequently transferred to Edison Spa, without interruption, pursuant to and in accordance with art. 2112 of the Italian Civil Code.
- Renewal of EDISON / FISDE agreement (Supplementary healthcare assistance fund for the electricity sector)
  The Agreement between Edison and the Fondo di Assistenza Sanitaria Integrativa FISDE (Supplementary health care assistance fund) was renewed in the second half of December, to which all employees with CCNL (national collective labour agreement) for the electricity sector can sign up. The new Agreement, which will be applicable for

the 2018/2020 three-year period, follows up on the contents of the previous Agreement and acknowledges the provisions of the CCNL regarding additional payments to the reference supplementary health care assistance funds.

- Fenice Group: move from the FASIF supplementary healthcare fund to metaSalute
  In compliance with the provisions of the CCNL (national collective labor agreement) for metal workers, a specific agreement was signed on December 4 targeted at managing the move from the FASIF supplementary healthcare fund to metaSalute. The total cost payable by the company is 156 Euros per year per employee.
- Renewal of performance-related bonuses for the electricity and hydrocarbons sector
  At the close of the year, through a unique understanding with the Coordinamento Unitario (Unitary Coordination) of the Edison Group RSU (trade union representatives) and the National Secretaries of the energy and hydrocarbons sector (including therein the gas-water distribution sector), the performance-related bonuses for the electricity, energy and oil and gas-water sectors were renewed for the 2017-2018 two-year period. This new agreement represents another step towards the standard principles and structure of company performance-related bonuses in those business chains, overcoming pre-existing differences and simplifying the negotiating process and it also confirms that performance-related bonuses can be converted to welfare services, in accordance with the existing legislation and the application started in 2017.

Organization and Employee Services

The main organizational changes that occurred in the reference period are reviewed below:

- Within the Energy Services Market Division:
  1. the new Environmental Services Business Unit was created through the new company Sersys and associated subsidiaries, concentrating in said new Business Unit all activities performed in Italy within this business chain.
  2. as part of the energy services development strategy, through the company Edison Energy Solutions and the acquisition of the controlling interest in Comat Energia Srl, the development of the district heating sector was kick-started;
  3. thanks to the acquisition of Energon Facility Solution which operates in the energy services sector for the Public Administration, the development of the Public Administration Market Department within the Division was launched.
- The structure and responsibilities of the External Relations & Communication Department have been redefined, whose manager has joined the Edison Executive Committee (COMEX);
- Within the Power Asset & Engineering Division, the structure and responsibilities of the Hydroelectric Department have been redefined with the reorganization of two of the three hydroelectric poles and related plants.
  Moreover, the organizational model and responsibilities of the company E2i Energie Speciali Srl, have also been redefined, to strengthen the managerial and operative structure of the Company; there has also been a suitable monitoring of the development activities consequent to the plan to strengthen production capacity deriving from the award of the auctions at end 2016.
- Within the Gas and Power Market Division and in line with the service development strategies targeted at the Division's retail customers, Edison entered the home services sector, acquiring 51% of the capital share of Assistenza Casa Spa, a company of the HomeServe Group. In the second half of the year, Edison and Gas Natural Fenosa signed a binding agreement for the acquisition by Edison of Gas Natural Vendita Italia (Etna Project). In addition, during the second half of the year, Edison and Gas Natural Fenosa signed a binding agreement for the acquisition by Edison Energia of Gas Natural Vendita Italia (Etna Project). To support the activities related to the closing, expected within February 2018, and to prepare the immediately following activities, finalized to the integration of the acquired company in the whole of the processes, activities and customer portfolio of the Edison group, was launched the Project "Etna Integration".

- In the second half, the Gas Midstream Energy Management & Optimization Division was reorganized, with the goal of responding to evolution of the market in this business context and to optimize the division's activities as a result of the organizational and operating synergies developed with the EDF Group as part of the portfolio of gas midstream and proprietary trading activities.
- In the Corporate Areas, the organizational structure and fundamental responsibilities of the Planning & Control Department were also redefined, with the objective of guaranteeing more integrated and coordinated management of the planning processes and control of economic and financial performances and of the assessment processes and risk control, and the organizational model and the main responsibilities of the HR & Organization Department were redefined in line with the evolution of the Edison Group's business.

In relation to employee services the Company continued to provide significant support to the "Edison per Te" employee well-being programme, the objective of which is to help employees reconcile their personal needs with their professional obligations with the aim of improving their quality of life. Employees continue to give highly positive ratings to this programme: more than 93% find it extremely, very or fairly useful, as shown in the results of the annual My Edf 2017 survey. Through said survey, conducted by IPSOS, around 80% of employees stated that they were highly satisfied with the collection of employee services and welfare, healthcare and accident-prevention coverage available, higher than the average of other large Italian companies. In addition, thanks to the introduction of flexible benefits, it is possible to convert performance-related bonuses to services and welfare services, in accordance with the criteria set forth by law and the trade union agreements signed at the company. This initiative provides employees with the added possibility of using an additional welfare credit deriving from the conversion of performance-related bonuses to satisfy additional needs in terms of reconciling their personal needs with their professional obligations, as well as to contribute to their own supplementary pension, increasing the net value of their overall salary package without an increase in the company's costs.

Training and Development

During 2017, training and development activities continued, on the one hand, in line with the approach adopted in previous years and, on the other, new training projects were implemented tied to the new strategic objectives of the Company business and digital transformation under way.

On the whole, training initiatives were implemented for more than 164.000 hours which concerned 79.2% of personnel, with a financial investment of 7,3 million euros (2,2% of annual labor costs), of which 0.4 million euros was financed by the inter-professional funds Fondimpresa and Fondirigenti.

As regards managerial training, in line with the Group managerial model, a series of initiatives were implemented targeted at developing associates' management skills and the effective management of teams: the training initiatives involved the recently appointed department heads at both the central headquarters and the peripheral units.

The company continued to discuss the topics of plurality and inclusion, and staff empowerment initiatives were implemented through the launch of a mentoring programme and a seminar on developing female leadership, dedicated to female managers. Again, in relation to the theme of empowerment, "Managerial Conversation" sessions were held on the topics put forward by managers, also through personal case studies.

As part of the implementation of the Group's Talent management Policy, a series of potential assessment sessions were held and individual development plans were then defined: therefore, specific training initiatives were implemented on the basis of the individual needs identified, such as, for example, coaching courses, cross-company initiatives aimed at developing influencing capacity and complex problem-solving abilities. Professional updating of managers was also encouraged by the initiatives proposed by the permanent update service provided through the Ambrosetti network and the web platform of the Ecampusmanager Group, which systematically proposes new updated content on both the issues of development of managerial skills and the economic scenario and innovation.

The collaboration with Edf's Corporate University continues and offers international scope programmes on the development of leadership and on the improvement of strategic business expertise. The initiatives proposed have seen both young talents participate, and Group managers and top managers.
An important Digital Education and Transformation project was launched in 2017, whose main objective is to facilitate an understanding of the profound digital transformations in progress in the Company which impact the way people work.
An integrated Digital Learning portal was created in this domain, with a company intranet, which allows simple and fast access to a series of e-learning contents that have been designed to ensure the continuous updating on significant issues for the company and to enhance employees' professional skills.
In partnership with the Polytechnic of Milan, a series of training courses have been designed, aimed at helping the company population to understand and use the new digital technologies in their working environment, with particular reference to the digital tools available in the company through the Microsoft 365 suite. The main assets used by the project are those of digital learning, webinars and mentoring through a "train the trainer" process.
The significant investment in newly hired young people at Edison continues, inserted in the Young Community who, from the moment they join, up until completion of their 36th month of company service, are involved in a highly structured process of induction and socialization, targeted at developing organizational conduct, training on the energy sector and on the associated economics. It should also be noted that, at the request of the top management, the OnBoarding process for all new Group employees was also redesigned by young newly hired staff.
As usual, the Edison Energy Summer Camp was held which, also for 2017, was designed and run in collaboration with WEC Services Italia: a week of full immersion in the energy sector and Edison saw 45 young people involved, including students from the Universities of L'Aquila, Rieti, Viterbo and Palermo and Edison's Young Community.
As regards the professional family initiatives, the most significant ones were : a laboratory course was launched, targeted at developing project management skills, aimed at young professionals operating in Gas Midstream; programmes dedicated to the various company certifications continued regarding energy efficiency, aimed at business development and a project was launched with the goal of identifying the best training methods for disseminating the required know-how for effective management/maintenance of energy efficiency systems. High level specialist training provided through internationally recognized partners continued, in particular the Nautilus programme on geo-sciences, which involved employees from the Exploration and Production Business Unit and the Research, Development and Innovation Department.
The activities of the professional academy continued for employees who operate in the business world, *Edison Market Academy*, which is concentrated on the launch of an innovative training course in e-learning mode dedicated to the Agents of Small and Medium Enterprises and residential market vendors, targeted at strengthening customer sales and contact skills.
The third edition of the Specialization Course in Energy Business and Utilities was completed, a programme developed by Edison in collaboration with the MIP Polytechnic of Milan, whose objective is to provide an integrated overview of the company and the energy markets to expert professionals who possess key skills for the company.
A great deal of attention was focused on IT security and data processing issues and, to this end, a series of informative workshops were held, open to all employees.
Significant investments continued to be made in training geared towards improving language skills and, during the year, a new policy on language training was defined with the goal of certifying the level of knowledge of foreign languages in the Group.

Sustainability

Edison's sustainable business model is illustrated in the Consolidated Non-Financial Disclosure, in accordance with Italian Legislative decree No. 254 of 2016, contained in the 2017 Financial Report.

OTHER INFORMATION

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

- at December 31, 2017, 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 2017, the Group executed transactions with related parties. A description of the most significant transactions is provided in the section of the 2017 Consolidated financial statements entitled “Intercompany and Related-Party Transactions.”;
- no secondary registered offices have been established.

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.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF EDISON S.P.A. PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/1998

Dear Shareholders,

In the year ended December 31, 2017, 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 DAC/RM/97001574 of February 20, 1997 and 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 in office was appointed by the Shareholders' Meeting on March 30, 2017 in compliance with provisions of law, regulations and the Bylaws, and its term of office will end with the Shareholders' Meeting convened to approve the financial statements at December 31, 2019.

The members of the Board of Statutory Auditors are in compliance with the limit on the number of governance posts held set forth in art. 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., (the "Independent Auditors") pursuant to an assignment awarded for nine years (2011-2019) by the Shareholders' Meeting on April 26, 2011.

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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 attended the Shareholders' Meeting on March 30, 2017, through its Chairman, 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 documents and information obtained from managers of relevant Company departments and periodic exchanges of information with the Independent Auditors;
- through its Chairman or another member as a minimum, it participated in the meetings of the Control and Risk Committee, the Compensation Committee and the Oversight Board and, as a rule, attended those of the Committee of Independent Directors when it met to examine transactions with related parties;
- 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 promptly exchanged significant data and information with the managers of the Independent Auditors for the performance of the respective duties pursuant to art. 150 of Legislative Decree No. 58/1998, also by examining the results of the work carried out and the receipt of the reports established in art. 14 of Legislative Decree No. 39/2010 and art. 11 of EU Regulation 537/2014;
- it examined the content of the additional report pursuant to art. 11 of EU Regulation 537/2014, which will be sent to the Board of Directors and did not highlight any aspects that need to be mentioned in this report;
- it monitored the functionality of the control system for Group companies and the adequacy of the instructions given to them, also pursuant to art. 114, paragraph 2, of Legislative Decree No. 58/1998;
- it was informed of the preparation of the Compensation Report required pursuant to art. 123-*ter* of Legislative Decree No. 58/1998 and art. 84-*quater* of the Issuers' Regulations and has 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 concreted 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 art. 4, paragraph 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 2017 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 was publicly disclosed in the manner required pursuant to law;
- it was informed that the Company is continuing to publish, on a voluntary basis, quarterly reports by the deadlines required under the old regulations;
- it also acted as an Internal Control and Audit Committee, pursuant to art. 19, paragraph 1 of Legislative Decree No. 39/2010, as amended by Legislative Decree No. 135/2016, and in this capacity performed the specific information, monitoring, control and review functions set forth therein, fulfilling all of the obligations and tasks required by the abovementioned regulation;
- it supervised observance with the provisions laid out in Legislative Decree No. 254/2016, examining, *inter alia*, the consolidated non-financial statement, also ascertaining compliance with the provisions governing its preparation pursuant to the abovementioned decree.

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.

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

1. Amongst the significant events specified by the Company in the Directors' Report on Operations and the separate financial statements, as well as in the consolidated financial statements relating to the year 2017, please take note of the following transactions with a greater material impact on the Company's income statement, balance sheet and financial position executed in 2017, including those implemented through subsidiaries:

- on July 17, 2017 Edison and Cryn Finance SA stipulated a binding agreement for the purchase by Edison of a majority stake in Frendy Energy S.p.A. - a company operating in the renewable energy sector - in execution of which Edison first acquired the majority of the share capital of Frendy Energy with a total outlay of roughly 10 million euros and, thereafter, promoted a mandatory public purchase offer on its shares, which was completed, following the re-opening of the terms, on January 3, 2018. After the offer, Edison held a total of 43,259,978 shares of Frendy Energy, equal to 72.93% of its share capital, for a further outlay of 4.6 million euros;
- on October 13, 2017, Edison sold to Snam S.p.A., for a total value of 225 million euros, its 100% stake in Infrastrutture Trasporto Gas (ITG), the company that owns the Cavarzere Minerbio methane pipe, and the 7.3% stake in the capital of the company Terminale GNL Adriatico (Adriatic LNG), which owns the regasification plant of Rovigo. The Company's Board of Directors approved the transaction at its meeting on June 29, 2017 and granted the necessary powers to complete the transaction to the Chief Executive Officer;
- on October 13, 2017, Edison and Gas Natural Fenosa International SA stipulated a binding agreement for Edison's purchase of 100% of the share capital of Gas Natural Vendita Italia s.p.a. for a total value of 203 million euros. The Company's Board of Directors approved the transaction at its meeting on September 20, 2017 and granted the necessary powers to complete the transaction to the Chief Executive Officer;
- on November 21, 2017, Edison signed an agreement with IDeA Fimit s.g.r. for the sale of two properties located in Milan, at Foro Buonaparte 31 and 35, which will be rented to Edison for a period of twelve years which may be extended for another six years, with Edison's right to repurchase the abovementioned properties; the agreement called for the payment by the buyer of a

total price of 272 million euros. The Board of Directors approved the transaction at its meeting on June 26, 2017 and granted the necessary powers to complete the transaction to the Chief Executive Officer;

- in the second half of 2017, as part of a reorganization of the activities carried out by Edison Trading s.p.a., the merger by absorption by Edison of Edison Trading was carried out, effective as of December 1, 2017; the merger plan was approved by Edison's Board of Directors, in place of the Shareholders' Meeting, pursuant to art. 2505, paragraph 2, of the Italian Civil Code on September 20, 2017;
- on November 17, 2017, Eolo Energia s.r.l., an Edison subsidiary, agreed to participate in the public purchase offer promoted by FRIEL – Green Power s.p.a. on all of the ordinary shares of Alerion s.p.a., selling all Alerion shares that it held, equal to 22.90% of the share capital, and, on the same date, Edison, Edison Partecipazioni Energie Rinnovabili s.r.l., E2i Energie speciali s.r.l., F2i s.g.r. s.p.a. and Eolo Energia s.r.l. agreed to terminate, by mutual consent, the shareholders' agreement of October 12/November 30, 2016, relating to the Alerion shares, subject to disclosure to the market on October 12/November 30, 2016 and published in accordance with legal requirements;
- in April 2017, Edison entered into a loan agreement for a revolving credit line with a pool of banks for an amount of 300 million euros. This loan was approved by the Board of Directors at its meeting on February 13, 2017, which granted the necessary powers to complete the transaction to the Chief Executive Officer;
- in April 2017, Edison entered into a loan agreement for revolving credit lines expiring in two years with EDF SA for an amount of 600 million euros, to replace the previous loan of an equal amount which had reached maturity. This loan was approved by the Board of Directors at its meeting on April 4, 2017, which granted the necessary powers to complete the transaction to the Chief Executive Officer.

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 in the Financial Report regarding significant nonrecurring events and transactions and 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 2017, the parties involved and their financial effects are explained in the section of the 2017 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 practice. Transactions executed with the controlling company Transalpina di Energia S.p.A. in connection with the Group consolidated VAT return and the consolidated corporate income tax (IRES) return were negotiated by the parties in accordance with the applicable laws.

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, considering that they are monitored by the Company on an ongoing basis, taking also into account the Company's ownership structure.

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 art. 2391-*bis* of the Italian Civil Code and the regulations issued by the Consob, as amended, most recently on November 12, 2014. The Board of Statutory auditors reviewed the Procedure, 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 2017, the Company carried out, directly and through subsidiaries, two related-party transactions that qualified as Less Material Transactions pursuant to the abovementioned Procedure, both of which were approved by the Board of Directors at its meeting on July 26, 2017, relating respectively to:

- Edison Trading s.p.a. and EDF Trading Limited entering into a "Cooperation Project" for the performance of proprietary trading activities in the power sector by establishing a joint desk at EDF Trading London and the provision of services to the power market for forward energy sales;
- an agreement for the provision of services by Edison s.p.a. to EDF SA as part of gas tanker activities, with the resulting amendment of the existing service provision agreement.

For each of the abovementioned transactions, the Board of Statutory Auditors verified observance of the approval methods laid out by the Procedure and, in particular, that the opinion provided by the Committee of Independent Directors contained an adequate justification of the Company's interest in carrying out the transactions as well as their benefit for the Company and the substantial fairness of their conditions.

In addition, please note that in 2017 the Company carried out, directly and through subsidiaries, related-party transactions qualified as Regular Transactions and transactions that did not qualify either as Highly Material or Less Material Transactions pursuant to the Procedure, some of which were reviewed and assessed by the Committee of Independent Directors. Of these, in particular, Edison and EDF SA entered into a loan agreement for revolving credit lines, pursuant to section 1 of this report, for an amount of 600 million euros, which may be qualified as a "regular transaction under market conditions".

4. On February 20, 2018, the Independent Auditors issued the reports required by art. 14 of Legislative Decree No. 39/2010 and art. 10 of EU Regulation 537/2014, which certified that:

- the separate financial statements of the Company and the consolidated financial statements of the Group at December 31, 2017 provide a true and fair view of the balance sheet at December 31, 2017 and the income and cash flows for the year ending at that date in compliance with the International Financial Reporting Standards adopted by the European Union, as well as the measures issued in implementation of art. 9 of Legislative Decree No. 38/2005;
- the Directors' Report on Operations and some specific information set forth in the Report on Corporate Governance and the Company's Ownership Structure specified in art. 123-*bis*, paragraph 4 of Legislative Decree No. 58/1998 are consistent with the Company's separate financial statements and the Group's consolidated financial statements and drawn up in compliance with the law;

- the opinion on the separate and consolidated financial statements expressed in the abovementioned Reports is aligned with what is specified in the additional report prepared pursuant to art. 11 of EU Regulation 537/2014.

In the Report on the audit of the consolidated financial statements, the Independent Auditors also declared that they had verified the approval by Edison's Directors of the non-financial statement relating to the year 2017.

The abovementioned Reports of the Independent Auditors do not contain any qualifications or disclosure requests or statements issued pursuant to art. 14, paragraph 2, letters d) and e) of Legislative Decree No. 39/2010.

Also on February 20, 2018, the Independent Auditors also:

- sent to the Board of Statutory Auditors, as the Internal Control and Audit Committee, the additional report established by art. 11 of EU Regulation 537/2014;
- issued, pursuant to art. 3, paragraph 10 of Legislative Decree No. 254/2016 and art. 5 of EU Regulation 20267/2018, the certification of compliance, with regard to all significant aspects, of the consolidated non-financial statement prepared by the Company with what is required by the abovementioned Decree and the principles and methodologies pursuant to the GRI Standards selected by the Company. In that Report, the Independent Auditors declared that nothing had come to their attention that would lead them to believe that the Edison Group's non-financial statement for the year ending on December 31, 2017 was not drafted, with regard to all significant aspects, in compliance with the requirements of art. 3 and 4 of the Decree and the selected GRI Standards.

No issues requiring mention in this report were uncovered in the course of the regular meetings that the Board of Statutory Auditors held with the Independent Auditors, as required by art. 150, paragraph 3, of Legislative Decree No. 58/1998.

In addition, the Board of Statutory Auditors did not receive disclosures from the Independent Auditors on facts deemed objectionable identified in the performance of their auditing activities on the separate and consolidated financial statements.

5. In 2017, the Board of Statutory Auditors did not receive any complaints pursuant to art. 2408 of the Italian Civil Code or negative remarks submitted by shareholders or third parties.

6. In the course of 2017, on the basis of what was reported by the Independent Auditors, Edison and some of its subsidiaries assigned duties to the Independent Auditors and the parties belonging to its network in favour of the Parent Company, some Group companies and their employees, for services other than the audit of the accounts.

The fees for the abovementioned engagements amount to a total of 563,337 euros, as confirmed by the Independent Auditors.

Other services rendered by the Independent Auditors or parties belonging to its network in favour of Edison or its subsidiaries in the course of 2017 derive from engagements assigned in previous years.

The details of the fees paid during the year and the cost for the tasks carried out - including those relating to engagements assigned in 2017 - by the Independent Auditors and by parties belonging to its network in favour of Edison and its subsidiaries are provided in the Company's separate financial statements, as required by art. 149-*duodecies* of the Issuers' Regulation.

In its role as Internal Control and Audit Committee, the Board of Statutory Auditors fulfilled the obligations laid out in art. 19, paragraph 1, letter e) of Legislative Decree No. 39/2010, as amended by Legislative Decree No. 135/2016 and art. 5, paragraph 4 of EU Regulation 537/2014 on the prior approval of the abovementioned engagements, verifying their compatibility with regulations in force and, specifically, with the provisions pursuant to art. 17 of Legislative Decree No. 39/2010, as amended by Legislative Decree No. 135/2016 - as well as with the prohibitions pursuant to art. 5 of EU Regulation 537/2014 referred to therein.

In addition, the Board of Statutory Auditors:

a) verified and monitored the independence of the Independent Auditors, in accordance with art. 10, 10-*bis*, 10-*ter*, 10-*quater* and 17 of Legislative Decree No. 39/2010 and art. 6 of EU Regulation No. 537/2014, confirming compliance with regulatory provisions in force on the matter and that the engagements for services other than auditing assigned to that company do not appear to be such so as to generate potential risks for the auditor's independence and for the safeguards pursuant to art. 22-*ter* of Dir. 2006/43/EC;

b) examined the transparency report and the additional report prepared by the Independent Auditors in observance of the criteria pursuant to EU Regulation 537/2014, highlighting that, based on the information obtained, no problematic issues were uncovered regarding the independence of the Independent Auditors;

c) received the written confirmation that from January 1, 2017 until the moment the statement was issued, the Independent Auditors did not identify situations that could compromise its independence from Edison pursuant to the joint provisions of art. 6, paragraph 2, letter a) of EU Regulation 537/2014, 10 and 17 of Legislative Decree No. 39/2010, as well as 4 and 5 of EU Regulation 537/2014;

d) discussed with the Independent Auditors the risks for its independence and the measures it adopted to mitigate them, in accordance with art. 6, paragraph 2, letter b) of EU Regulation 537/2014.

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7. In 2017, the Board of Statutory Auditors issued the opinions required pursuant to the applicable laws and regulations, specifically regarding:

a. the approval of the actual 2016 MBO data relating to the variable portion of the compensation of the Chief Executive Officer, also examining the guidelines of the 2017 compensation policy for the Directors and the management;
b. the approval of the objectives underlying the 2017 MBO of the Chief Executive Officer as identified by the Company's Board of Directors.

It also provided its opinion whenever the Board of Directors requested it, also in accordance with provisions that, for certain decision, require the prior input of the Board of Statutory Auditors.

8. In general, in order to obtain the information needed to carry out its oversight activities, the Board of Statutory Auditors met twelve times in 2017, and nine of these meetings were held by the body appointed by the Shareholders' Meeting on March 30, 2017, respecting the minimum frequency required by law. The activities performed on those occasions were documented in the minutes of the meetings.

In addition, the Board of Statutory Auditors participated:

- in all nine meetings of the Company's 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;
- represented by its Chairman, in the Shareholders' Meeting of March 30, 2017;

- through its Chairman or another of its members as a minimum, in the five meetings of the Control and Risk Committee and the two meetings of the Compensation Committee;
- through its Chairman or another of its members as a minimum, in six of seven meetings of the Committee of Independent Directors, which were held to review related-party transactions;
- through its Chairman, in the five meetings of the Oversight Board of the Organization and Management Model adopted pursuant to Legislative Decree No. 231/2001.

Lastly, the Board of Statutory Auditors exchanged information with the control bodies of the subsidiaries, as required by art. 151 of Legislative Decree No. 58/1998, there being no indication of any significant issues or ascertained circumstances that would require mention in this report.

9. 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.

10. 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 Company's 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.

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 specified 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).

In the course of 2017, and effective as of February 24, 2017, the organizational, managerial and corporate structure of COMEX was modified to increase the number of members from nine to ten, including the Chief Executive Officer, to include the new Director of External Relations and Communications.

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 sharing 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.

11. In monitoring the adequacy and effectiveness of the system of internal controls, also with regard to the requirements of art. 19 of Legislative Decree No. 39/2010 currently in effect, 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 as a minimum by a member of the Board of Statutory Auditors by attending relevant meetings of the Control and

Risk Committee and the Oversight Board of the Model pursuant to Legislative Decree No. 231/2001.

It found that 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 for 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 guidelines of this system are defined by the Board of Directors with the assistance of the Control and Risk Committee. The Board of Directors also evaluates its adequacy and proper functioning, at least once per year, with the support of the Internal Auditing Department.

The Board of Statutory Auditors periodically interacted 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.

Consistent with past practice, the Board of Statutory Auditors verified, for the areas under its jurisdiction, 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. The characteristics of the structure and functioning of these systems and models are described in the Report on Corporate Governance and the Company's Ownership Structure.

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

The Board of Statutory Auditors also monitored the adequacy of the organizational structure and the correct implementation of the safeguards adopted by the Company to ensure compliance with provisions of the EMIR Regulation.

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 the first half of 2017, the Company updated the Protocol for the Management of Confidential and Insider Information following the update of the Edison Group's Procedure concerning the processing and management of confidential and inside information so as to adjust it to EU regulations on market abuse (EU Reg. 596/2014 and Dir. 57/2014).

In the second half of 2017, following the introduction into Legislative Decree No. 231/2001 of the new types of predicate offences on: 1) unlawful brokering and exploitation of labour (art. 603-*bis* of the Italian Criminal Code); 2) corruption between private parties (art. 2635 of the Italian Civil Code) and incitement to corruption between private parties (art. 2635-*bis* of the Italian Civil Code), the Company updated the Model and the decision-making protocols concerned by these regulatory amendments, i.e., the Protocol for the Management of Confidential and Insider Information, the Protocol for the management of goods and services procurement, the Protocol for personnel selection and hiring, the Protocol for the management of professional engagements assigned to third parties, the Protocol for the management of sponsorships, association contributions and donations and the Protocol for the management of perks and gifts.

Also, in the second half of 2017, the Company began to evaluate the possible operational impacts on the Procedure for the Processing of Confidential and Insider Information deriving from the publication, on October 13, 2017, of Consob's Guidelines No. 1/2017 on the "Management of insider information".

With the support of the Internal Auditing Department, the Company provided training to its personnel on the principles and requirements of the 231 Model, the Code of Ethics and the functioning of the whistleblowing system. In particular, in 2017 the Company activated a new company e-learning platform (MyLA) which contains courses relating to compliance, Health, Safety and the Environment (HSE) and the Corporate area and, at that time, the e-learning courses

in the area of compliance (Legislative Decree No. 231/2001, the Code of Ethics and the Anti-corruption guidelines) were updated, also considering the recent updates made on these matters.
The Oversight Body supervised the functioning and observance of the 231 Model - the "suitability" of which it evaluated pursuant to Legislative Decree No. 231/2001 - monitoring the evolution of the relevant regulations, the implementation of personnel training initiatives and the observance of the Protocols by their addressees, also through audits conducted with the support of the Internal Auditing Department.
Lastly, some time ago the Company adopted an Antitrust Code that complements the Code of Ethics, with the aim of supporting and facilitating compliance with the rules protecting competition.
In the area of internal dealing, in addition to the obligations that already exist pursuant to the regulations concerning market abuse, the Company adopted rules governing the obligation to refrain from executing transactions that involve financial instruments issued the Company that are listed on regulated markets, as required by EU Regulation No. 596/2014 on market abuse, making the prohibition requirement applicable only to mandatory financial documents and specifying the timing and duration of this prohibition, in accordance with the provisions of the abovementioned Regulation.
For the year 2017, 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.

12. 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 analysing 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 art. 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 14, 2018. 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 one of its members 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 Edison's Chief Executive Officer and Corporate Accounting Documents Officers 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 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.

The Company has a Procedure (*Guidelines for the sustainability reporting process*) for the preparation of the Edison Group's sustainability reporting, which is therefore functional to identifying and gathering the qualitative and quantitative information required to draw up the non-financial statement.

The Board of Statutory Auditors examined this Procedure and deemed it to be adequate on the whole.

The non-financial statement is prepared by the Sustainability and CSR Department which coordinates and supplements the contributions of the competent departments and divisions on the respective sustainability themes.

13. The Board of Statutory Auditors monitored the adequacy of the instructions provided by the Company to its subsidiaries pursuant to art. 114, paragraph 2, of Legislative Decree No. 58/1998, 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.

14. 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"), also with respect to updating those monitoring activities to reflect the provisions added to the Corporate Governance Code further to the revisions completed in July 2015.

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.

15. The Company's Board of Directors is currently comprised of nine members, including three independent Directors. Its composition is compliant with gender parity rules. The Directors were elected by Shareholders' Meeting on March 22, 2016 and their term of office will end with the Shareholders' Meeting convened to approve the financial statements at December 31, 2018.

In 2017, 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 14, 2018 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.

Lastly, the Board of Statutory Auditors ascertained that its members met the same independence requirements as the Directors and notified the Company's Board of Directors of this fact. It also adopted the Corporate Governance Code's recommendation requiring that its members disclose any direct or third-party interest they may have in specific transactions submitted to the Board of Directors. No situation with respect to which the members of the Board of Statutory Auditors would have been required to make disclosures of this type occurred in 2017.

The following committees have been 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, as well as on the sustainability and Corporate Social Responsibility policies enacted in Edison, also with regard to the obligations to draft the non-financial statement pursuant to Legislative Decree No. 254/2016. This committee, which is comprised of four non-executive Directors, two independent, met five times in 2017. 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 Report on Corporate Governance and the Company's Ownership Structure.
- The Compensation Committee, which is comprised of four non-executive Directors, three independent, met two times in 2017.
- The Committee of Independent Directors, which is comprised of three independent Directors, held seven meetings in 2017 during which it reviewed and assessed several related-

party transactions, including two transactions that qualified as Less Material Transactions in accordance with the Procedure for Related-party Transactions (discussed in section 3 of this report), with regard to which the Committee of Independent Directors 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.

16. The Board of Statutory Auditors reviewed the Compensation Report approved by the Board of Directors on February 14, 2018 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.

17. The Board of Statutory Auditors also reviewed the motions that the Board of Directors, meeting on February 14, 2018, resolved to submit to the Shareholders' Meeting and declares that it has no specific remarks in this regard.

18. 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 of the Group at December 31, 2017, the respective accompanying Notes and the Directors' Report on Operations. 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 art. 149 of Legislative Decree No. 58/1998, attests that the separate and consolidated financial statements of Edison at December 31, 2017 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.

In addition, the Board of Statutory Auditors verified that the Company fulfilled the obligations laid out in Legislative Decree No. 254/2016 and that, in particular, it drafted the consolidated non-financial statement in compliance with the provisions of art. 3 and 4 of the same Decree. On this point, the Board of Statutory Auditors acknowledges that the Company relied on exemption from the obligation to draft the separate non-financial statement laid out in art. 6, paragraph 1 of Legislative Decree No. 254/2016, as it prepared the consolidated non-financial statement pursuant to art. 4. This statement was accompanied by the required certifications of the Independent Auditors on the compliance of the information provided with what is set forth in the abovementioned Legislative Decree with reference to the principles, methodologies and procedures established for its preparation, also pursuant to the Consob Regulation adopted with resolution No. 20267 of January 18, 2018.

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Based on the foregoing considerations, which provide an overview of its activities in 2017, 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 art. 153 of Legislative Decree No. 58/1998, with regard to issues under its jurisdiction, and finds no grounds for objecting to the approval of the motions submitted by the Board of Directors to the Shareholders' Meeting.

Milan, February 21, 2018

The Board of Statutory Auditors

Serenella Rossi	Chairman
Lorenzo Pozza	Statutory Auditor
Gabriele Villa	Statutory Auditor