# QUARTERLY REPORT

## AT SEPTEMBER 30, 2018

# CONTENTS

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The document has been translated into English for the convenience of readers outside Italy. The original Italian document should be considered the authoritative version.

# HIGHLIGHTS OF THE GROUP

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.

| **2017 full year (*)** | **Income statement highlights** (millions of euros) | **9 months 2018** | 9 months 2017 (*) | % change | **Q3 2018** | Q3 2017(*) | % change |
|---|---|---|---|---|---|---|---|
| 8,783 | Sales revenues | 6,521 | 6,353 | *2.6%* | 2,096 | 1,976 | *6.1%* |
| 803 | EBITDA | 620 | 647 | *(4.2%)* | 213 | 221 | *(3.6%)* |
| *9.1%* | *% of sales revenues* | *9.5%* | *10.2%* | | *10.2%* | *11.2%* | |
| 42 | EBIT | 235 | 84 | *n.m.* | 75 | 65 | *15.4%* |
| *0.5%* | *% of sales revenues* | *3.6%* | *1.3%* | | *3.6%* | *3.3%* | |
| (176) | Group interest in profit (loss) | 87 | (110) | *n.m.* | 25 | 30 | *(16.6%)* |

| **12.31.2017** | **Balance sheet highlights** (millions of euros) | **09.30.2018** | 09.30.2017 | % change | **Q3 2018** | Q3 2017 | % change |
|---|---|---|---|---|---|---|---|
| 377 | Capital expenditures | 280 | 228 | *22.8%* | 92 | 75 | *22.7%* |
| 80 | Investments in exploration | 16 | 60 | *(73.3%)* | 5 | 18 | *(72.2%)* |
| 6,319 | Net invested capital (A + B) (1) | 6,584 | 6,832 | *4.2%* | | | |
| 116 | Net financial debt (A)(1)(2) | 310 | 622 | *n.m.* | | | |
| 6,203 | Total shareholders' equity (B)(1) | 6,274 | 6,210 | *1.1%* | | | |
| 5,915 | Shareholders' equity attributable to Parent Company shareholders (1) | 6,004 | 5,919 | *1.5%* | | | |

(1) End-of-period data. The changes are computed against the data at December 31, 2017.
(2) A breakdown of this item is provided in the "Net Financial Debt and Cash Flows" section of this report.
(*) 2017 Sales revenues were restated following the application of IFRS 15 "Revenue from Contracts with Customers", without any impact on the EBITDA.

| **Rating** | **09.30.2018** | 12.31.2017 |
|---|---|---|
| Standard & Poor's | | |
| -Rating M/L | BBB- | BB+ |
| -Outlook M/L term | Stable | Stable |
| -Rating Short term | A-3 | B |
| Moody's | | |
| -Rating | Baa3 | Baa3 |
| -Outlook M/L term | Stable | Stable |

# INTRODUCTION

## The preparation criteria of quarterly information

Starting from 2017, the Company decided to continue to provide the market with voluntary quarterly consolidated information, more concise and focused on its business performance. This report therefore includes a comment on the reference economic context, on the performances of the Group and the main operating sectors and provides the presentation formats with economic and financial data comparable with those of the Annual and Semiannual Reports. For quantitative data, the equivalent figures of the previous reference period are also given.

The international accounting principles, the evaluation and consolidation criteria applied in preparing this information are consistent with those used for the 2017 Consolidated Financial Statements with the exception of the two new international accounting principles applicable from January 1, 2018, respectively:

- **IFRS 15** "**Revenues from contracts with customers**", for which, at the moment of the first-time adoption, Edison chose to apply the new standard retrospectively with the re-statement of the comparative financial statements of 2017. In this regard, there were no impacts on the shareholders' equity as at January 1, 2017, while for the application of the following rules: i) "principal vs agent" principle for some contracts based on which the qualification of Edison as "agent" requires presenting revenues on a net basis in order to highlight only the Agent margin; ii) "combination of contracts" concerning the identification of the performance obligation for which it was applied par. 17 (c) of IFRS 15, proceeding with the combination of two or more contracts finalized into in the same period of time with the same customer, and account for them as if they were a single contract, the "Sales Revenues" and "Raw Materials and Services Used" related to the 2017 are affected by a decrease of the same amount (862 million euros at September 30, 2017, 1,157 million euros at December 31, 2017).

| **IFRS 15 impacts** (in millions of euros) | **9 months 2017 published** | *Principal vs agent* | *Combination of contracts* | **Total impact IFRS 15** | **9 months 2017 restated** |
|---|---|---|---|---|---|
| Electric Power Operations | 3,861 | (219) | (643) | (862) | 2,999 |
| Hydrocarbons Operations | 3,935 | - | - | - | 3,935 |
| Corporate Activities and Other Segments | 36 | - | - | - | 36 |
| Eliminations | (617) | - | - | - | (617) |
| **Total Sales Revenues** | **7,215** | **(219)** | **(643)** | **(862)** | **6,353** |
| Electric Power Operations | (3,539) | 219 | 643 | 862 | (2,677) |
| Hydrocarbons Operations | (3,456) | - | - | - | (3,456) |
| Corporate Activities and Other Segments | (69) | - | - | - | (69) |
| Eliminations | 627 | - | - | - | 627 |
| **Total Raw Materials and Services Used** | **(6,437)** | **219** | **643** | **862** | **(5,575)** |

- **IFRS 9 "Financial Instruments",** which replaced IAS 39 with effectiveness for financial years starting on or after January 1, 2018, whose mainly impacts concern: a) the introduction of new method of impairment of receivables which includes the expected losses (so called Expected credit losses); the effects of the first-time adoption of the new accounting standard regarding the valuation of receivables, quantified as at December 31, 2017, were booked to shareholders' equity as at January 1, 2018 for a negative amount of about 29 million euros (37 million euros net of the associated tax effect of 8 million euros); b) the changes of amendments in terms of hedge accounting that have prospective application from January 1, 2018; c) the changes in presentation and treatment of some not significant stakes, the reclassification from "Available-for-sale investments" and "Equity investments held for trading" to "Investments at fair value through profit and loss".

Instead, with reference to the new principle **IFRS 16 "Leases"**, published in the O.J.E.U. on November 9, 2017 and applicable from 2019, it should be noted that the adaptation project is in progress.

For further information please refer to the disclosure provided in 2017 Consolidated Financial Statements.

The Board of Directors, meeting on October 25, 2018, authorized the publication of Edison's Group Quarterly Report at September 30, 2018, which was not audited.

Unless otherwise stated, all amount in these accompanying notes are in millions of euros.

## Changes in the Scope of Consolidation compared with December 31, 2017 - Acquisition and Disposal of Assets

The main changes occurred in the period are related to:

- In February, the acquisition by Edison Spa of the 100% of Gas Natural Vendita Italia Spa (GNVI), company operating in the sale of natural gas and electricity and consolidated line by line. The name of the company was later changed into Edison Energie Spa;
- a new company Edison Esplorazione e Produzione Spa, (subsequently renamed Edison Exploration & Production Spa), fully owned by Edison Spa, was established in February and it is consolidated line by line. It is intended for Exploration & Production activities;
- in May, Edison Energia Spa acquired the 100% of Attiva Spa, company operating in the sale of natural gas and consolidated line by line;
- On July 2, 2018 the company Fenice, fully owned by Edison, acquired from Prima Holding Srl 71.3% of ordinary share capital (corresponding to 70.66% of total share capital, represented by ordinary shares and performing shares) of Zephyro Spa, company operating in energy efficiency sector and in the supply of integrated energy management solutions; the company was consolidated line by line. Thus, Fenice launched a Public Tender Offer on the remaining ordinary shares and in the subscription period, which began on August 22 and ended on October 15, 2018, including the re-opening period, a total of 3,289,715 ordinary shares were contributed. As a result of the Public Tender Offer, taking into account the shares already held and those acquired on AIM Italia, Fenice owns the 99.93% of the share capital represented by Zephyro ordinary shares and 99.05% of total capital. The total disbursement, at a price of 10.25 euros per share, was about 105.6 million euros, paid on July 2, 2018 for about 71.8 million euros at the acquisition of the majority of the share capital and for about 33.8 million euros in October 2018. Consequently, as the conditions for delisting had been met, Borsa Italiana withdrew Zephyro's ordinary shares and warrants from trading on the AIM Italia, effective from October 23, 2018.

# KEY EVENTS

## Legal disputes

### Ausimont – Bussi sul Tirino – criminal proceeding

On September 28, 2018, the Italian Supreme Court quashed the judgement rendered by the Appellate Court of Assise of L'Aquila in the criminal proceedings relating to the Bussi Site: i) acquitting a part of the defendants from the charge of environmental disaster and water poisoning because "they did not commit the facts ascribed to them" ("per non aver commesso i fatti"), ii) declaring that the charge of environmental disaster ascribed to the other defendants is time-barred, and iii) holding that nothing is due for the damages allegedly suffered by all the civil parties

### Enimont – Mantua – remediation administrative proceeding

In the past years the Province of Mantua served Edison with several orders for remediation (eight) of areas sold by Montedison to ENI Group in 1990 (Petrolchimico di Mantova), despite the matter had been disciplined by two different transaction agreements, respectively signed with ENI and the Ministry of the Environment. Following these agreements Edison should not incur in any further liabilities for environmental issues related to the Mantova site.

Against all these orders, Edison filed separate complaints before Lombardy Regional Administrative Court – Brescia section.

The Regional Administrative Court of Brescia joined the proceedings in a single one and in August 2018 decided to reject seven of the eight lawsuits. Edison will claim before Consiglio di Stato against the ruling.

# EXTERNAL CONTEXT

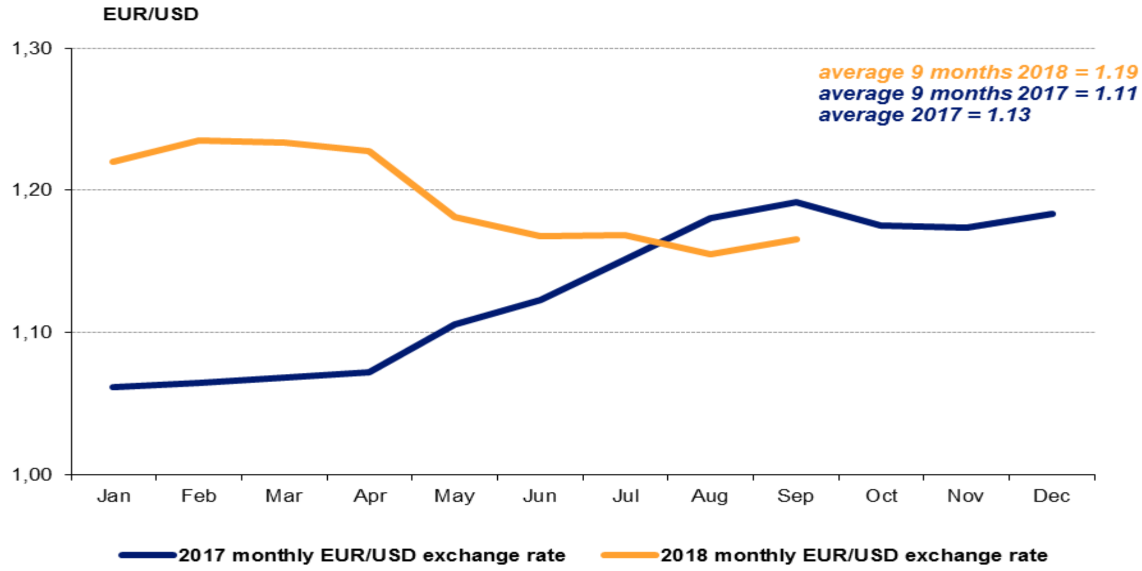
## Economic framework

In the first nine months of 2018 the global macroeconomic environment shows signs of a gradual slowdown, increasing the relative risks. Firstly, the increased commercial tensions between the United States and China have contributed to the deceleration of international trade, which, in turn, forebodes a more pronounced slowdown in the global economy.

Global economic growth is currently differentiated, with the United States growing at a faster pace than Europe, which is currently experiencing a less dynamic phase.
In fact, the United States continues to implement fiscal policies to stimulate the economy, while the Economic and Monetary Union has instead become essentially neutral. The considerable tax stimulus initiated by the Trump administration since the beginning of the year has for now more than offset the domestic effects of the protectionist policies adopted by the U.S. government, as a result of which domestic prices of some goods have increased. A slowdown at the end of 2019 is more plausible, when the effects of the tax stimulus have lost part of their effectiveness, if, at the same time, trade tensions have further increased.
With regard to emerging countries, the strengthening of the dollar has raised concerns, together with the uncertainties caused by the escalation of trade tensions, which are creating pressures on the currencies of countries with high internal inflation and greater foreign debt. On the other hand, given the significant openness to international commerce of many of these economies, devaluations will act as a stimulus to exports, improving the balance with foreign countries.

For Europe, the principal fear is that duties on American imports will be extended to other countries, including Europe, in a context that is already characterised by a slowdown in exports in the Euro Zone in the first part of the year. There is also uncertainty linked to expectations regarding European governance and doubts about the resilience of moderate forces in next year's European elections, given the concerns regarding immigration and high unemployment levels. To counter the possibility of an abrupt deceleration, there is a satisfactory rate of growth in investments in capital goods (double that recorded in 2017) and widespread growth among European countries, which is, however, more modest for France and Italy.
In Italy, the slowdown in its growth in the first months of the year was more significant than in other European countries. With regard to foreign trade, exports in particular suffered, as a result of the threat of trade wars, slowdowns for primary trading partners, and the crisis in certain emerging countries; domestically, there are doubts related to the directions of the economic policy that the Italian government intends to adopt and its compatibility with the indications and commitments as part of the European Union, with resulting tensions for government debt securities and the risk of a deterioration in government budgets.

In the first nine months of 2018, the euro grew 7.3% in value against the dollar compared to the same period of 2017, reaching 1.19 euro per USD. Analysing the monthly variations, after an initial strengthening of the euro in the first quarter of the year, the exchange rate began a downward trend, recording an average of 1.16 in the third quarter, down 2.4% compared to the previous quarter and 1.0% compared to the third quarter of 2017. The appreciation of the dollar in recent months has been driven by the strong expansion of the US economy and the progressively restrictive policy adopted by the Fed. Moreover, in its last meeting in September, the ECB confirmed the decisions taken in June, which envisaged the conclusion of the Quantitative Easing programme to purchase securities at the end of 2018 and the maintenance of interest rates at current levels until at least the summer of 2019.




With regards to oil markets, the average crude oil price for the first nine months of 2018 was 72.7 USD/barrel, 38.1% higher than the average recorded for the same period of 2017. During the year, the Brent price showed an increasing trend, reaching an average value of 76.0 USD/barrel in the third quarter, an increase of 45.6% over the same period of the prior year and 1.4% compared to the second quarter of 2018.

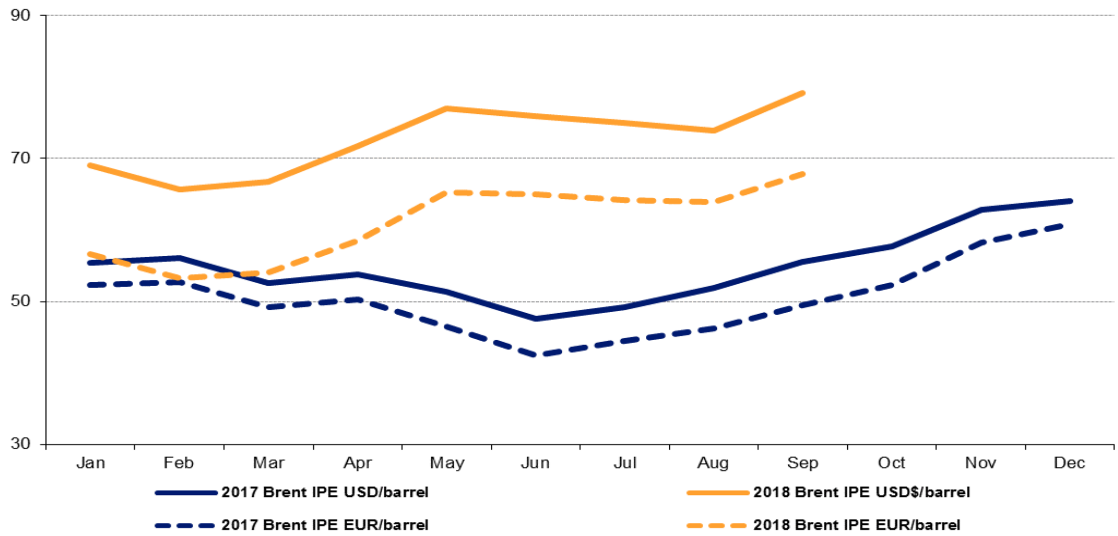
The price of crude oil in euro stood at an average of 60.9 EUR/barrel, up 28.6% over the first nine months of 2017.

The main factor that bolstered prices during the year was the expectation of reduced supplies on the oil market, following the decision by the United States to reintroduce sanctions against Iran. The amendment of the agreement between OPEC and its allies in June related to production cuts, with the objective of lowering the overall level of compliance to 100%, resulted in an increase in supply, which contributed to the fall in prices between June and August. Since mid-August, prices have started rising again as a result of the upward revision of forecasts for the drop in Iran's oil exports, which began to fall even before the sanctions came into effect, which is expected at the beginning of November. These tensions drove the Brent price to 82.7 USD/barrel on September 28, the highest level since November 2014.

The table and graph below respectively give the average values per quarter and the monthly trend of this year and the previous year:

| 2017 full year | | **9 months 2018** | 9 months 2017 | Change % | **Q3 2018** | Q3 2017 | Change % |
|---|---|---|---|---|---|---|---|
| 54.8 | Oil price USD/barrel[(1)] | 72.7 | 52.6 | *38.1 %* | *76.0* | *52.2* | *45.6 %* |
| 1.13 | USD/EUR exchange rate | 1.19 | 1.11 | *7.3 %* | *1.16* | *1.17* | *(1.0 %)* |
| 48.6 | Oil price, EUR/barrel | 60.9 | 47.4 | *28.6 %* | *65.3* | *44.4* | *47.1 %* |

(1) Brent IPE




# The Italian Energy Market

## Demand for Electric Power in Italy and Market Environment

| 2017 full year | (TWh) | 9 months 2018 | 9 months 2017 | Change % | Q3 2018 | Q3 2017 | Change % |
|---|---|---|---|---|---|---|---|
| 285.3 | Net production: | 209.9 | 214.3 | *(2.0%)* | 74.2 | 73.6 | *0.9%* |
| 200.3 | *- Thermoelectric* | 135.3 | *146.1* | *(7.4%)* | 49.2 | *48.9* | *0.6%* |
| *37.6* | *- Hydroelectric* | 38.4 | *31.0* | *23.8%* | 12.6 | *11.6* | *8.9%* |
| *24.0* | *- Photovoltaic* | 19.5 | *20.4* | *(4.5%)* | 8.0 | *7.9* | *1.6%* |
| *17.6* | *- Wind power* | 12.6 | *12.5* | *0.3%* | 2.9 | *3.7* | *(21.0%)* |
| *5.8* | *- Geothermal* | 4.3 | *4.4* | *(2.2%)* | 1.4 | *1.4* | *(2.3%)* |
| 37.8 | Net import/export balance | 33.9 | 28.1 | *20.5%* | 10.1 | 9.8 | *2.6%* |
| (2.5) | Pumping consumption | (1.7) | (1.8) | *(4.8%)* | (0.3) | (0.5) | *(29.0%)* |
| **320.5** | **Total demand** | **242.2** | **240.7** | ***0.6%*** | **83.9** | **82.9** | ***1.3%*** |

Source: processing of final 2017 and preliminary 2018 Terna data, gross of grid losses.

In the third quarter of 2018, gross total demand for electric power from the Italian grid totalled 83.9 TWh, an increase of 1 TWh (+1.3%) compared to the corresponding period of the previous year. The increase is mainly due to higher than average temperatures recorded in September.

Net domestic production showed an overall increase (+0.7 TWh) in comparison with the third quarter of 2017 which, excluding pumping, covered 88% of demand, in line with the corresponding quarter of 2017, while net imports satisfied the remaining 12%.

With regard to generation, the thermoelectric sector recorded a slight increase of 0.3 TWh (+0.6%), especially in September, characterized by high demand (+0.9 TWh) and low performance of the wind sector (-0.4 TWh). Hydroelectric production increased by 1 TWh compared to the same quarter of 2017 (+ 8.9%).

With regard to other renewable sources, solar plants have recorded a slightly positive trend, increasing by 0.1 TWh (+1.6%), while wind energy has suffered a strong setback, falling 21% (-0.8 TWh) compared to the same period of the previous year.

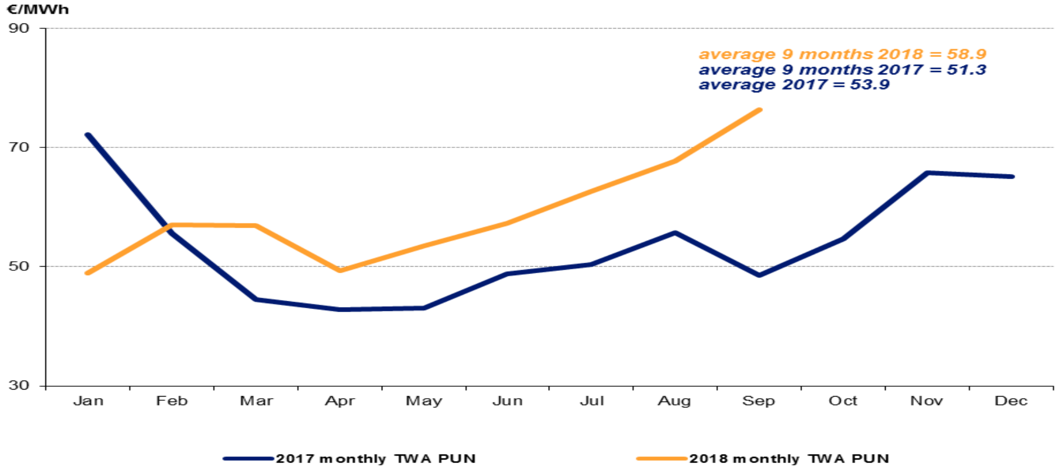
Overall, in the first nine months of 2018, gross total demand for electric power from the Italian grid was 242.2 TWh, an increase of 1.5 TWh (+0.6%) compared to the corresponding period of the previous year.

With reference to the price scenario as at September 30, 2018, the 2018 average listing of the time weighted average (TWA) of the single national price (abbreviated as "PUN" in Italian), came in at 58.9 euro/MWh, an increase of nearly 15% against the figure for the same period of the previous year (51.3 euro/MWh). The average for the third quarter of 2018 was 68.8 euro/MWh, up 28.9% on the previous quarter and 33.4% over the same period of 2017.

This price increase was driven by the increase in costs for thermoelectric generation (gas, coal, $CO_2$) and by the reduction of nuclear availability from outside Italy, particularly in the summer months, when high temperatures caused a capacity restriction for issues related to cooling systems.

Analysing the monthly evolution of the PUN, the most significant variations were in January, March, and September, with January posting a sharp drop from the same period in 2017 due to higher imports from neighbouring countries and mild temperatures. Instead, in September 2018, the PUN was higher, on several occasions reaching nearly 90 euro/MWh due to the restrictions on inter-zone transfers and imports from France, as well as the previously mentioned increase in production costs.

The following graph shows the comparison of the monthly trend between the first nine months of the two years under review:




In the first nine months of 2018, zonal prices also registered increases, albeit with uneven fluctuations due to the different impact of the aforementioned weather and structural factors (+12.3% in the North and +21.2% in the South). Hourly time periods F1, F2 and F3 showed an increase in all bands, in line with as recorded by the PUN (+12.2%, 14.4% and 17.4% over the first nine months of 2017).

The upward trend was also recorded in prices in foreign countries: in particular, in the first nine months of 2018, there was an increase of 12.0% in France and an increase of 20.7% in Germany, where the average price was 41.7 euro/MWh. The rise in German prices, especially in recent months, was driven by the increase in the price of coal and $CO_2$.

## Demand for Natural Gas in Italy and Market Environment

| 2017 full year | (billions of m3) | 9 months 2018 | 9 months 2017 | Change % | Q3 2018 | Q3 2017 | Change % |
|---|---|---|---|---|---|---|---|
| 29.1 | Services and residential customers | 19.6 | 18.7 | *4.9%* | 2.0 | 1.9 | *1.7%* |
| 17.9 | Industrial use | 13.3 | 13.2 | *0.0%* | 3.9 | 4.1 | *(4.4%)* |
| 25.4 | Thermoelectric fuel use | 16.9 | 18.4 | *(8.0%)* | 6.3 | 6.1 | *3.7%* |
| 2.2 | Consumptions and system losses | 1.5 | 1.5 | *(1.8%)* | 0.6 | 0.6 | *0.6%* |
| **74.7** | **Total demand** | **51.4** | **51.9** | ***(1.1%)*** | **12.9** | **12.8** | ***0.7%*** |

Source: 2017 non-finalised data and 2018 preliminary data from Snam Rete Gas and the Ministry of Economic Development and Edison estimates.

In the third quarter of 2018, the demand for natural gas in Italy remained essentially stable, in line with the values from the previous year, coming in at 12.9 billion cubic meters, up overall by 0.1 billion cubic meters.

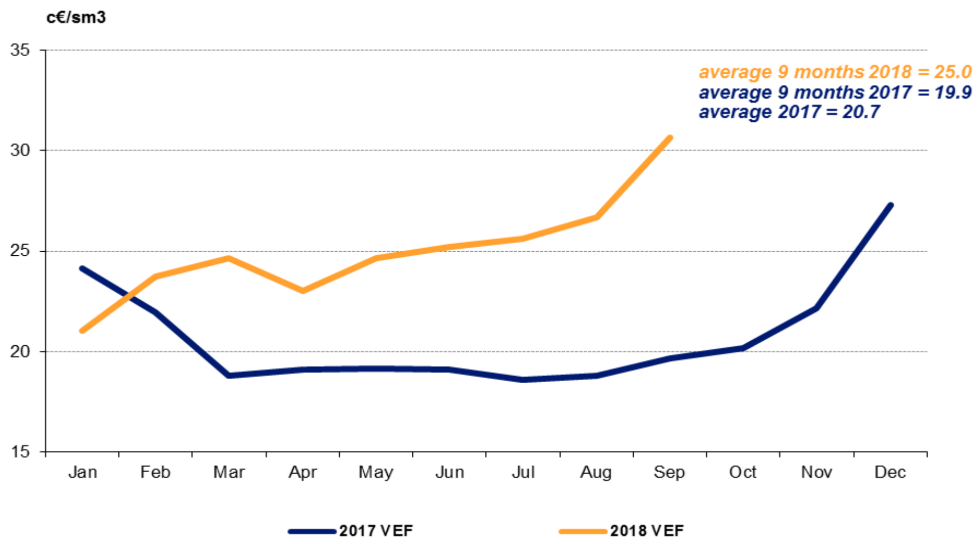
In absolute terms, this dynamic is mainly attributable to the increase in thermoelectric usage, which grew 0.2 billion cubic meters (+3.7%), in contrast to the industrial sector, which posted a slight decline of 0.2 billion cubic meters (-4.4%), while civil gas consumption is in line with the corresponding quarter of 2017 (+1.7%).

Regarding the sources of procurement, the third quarter of 2018 recorded, as compared with the corresponding period of 2017:

- a slight decline in national production (-5% vs 2017);
- a slight increase in gas imports (+2% vs 2017);
- an increase in volumes injected as storage (+0.3 billion cubic metres; +5% vs 2017).

With reference to the first nine months of the year, natural gas demand stood at 51.4 billion cubic meters, down 0.5 billion cubic meters (-1.1%) compared to the same period of 2017, with withdrawals growing in the civil sector (+4.9%), stable in the industrial sector, and declining in the thermoelectric sector (-8%).

The spot gas price in Italy in the first nine months of 2018 rose by 25.6% on the same period of 2017, coming in at 25.0 c€/sm3. Prices showed an increasing trend during the year, reaching an average value of 27.7 c€/sm3 in the third quarter, an increase of 45.5% over the same period of 2017. The VEF-TTF spread averaged 1.5 c€/sm3 over the nine months, down 31.3% compared to the same period of the previous year. In the third quarter, the price differential stood at 1.7 c€/sm3, down by almost 14% over the previous quarter. This movement was caused by the higher increases in the TTF supported by tensions on Northern European gas markets, characterised by low levels of storage replenishment and a reduction of the flows from Norway.



# Legislative and Regulatory Framework

Below are the key points of the main developments recorded to the regulatory framework relative to the quarter July-September 2018, for the various areas of the corporate business.

## Electric Power

### Wholesale Market

**UVAM pilot projects:** following the consultation relating to UVAM (mixed virtual units authorised), the last pilot project on methods for aggregating widespread resources, after the UVAC (virtual units of loading authorised), UVAP (virtual units of production authorised) and UPR (relevant production units). On September 25, Terna published the final regulation that enables practical experimentation of the participation of resources in the DSM. The qualification of UVAM in the DSM will take place beginning November 1, 2018. During October, the forward supply procedure of balancing resources offered by UVAM will be published as per Resolution 422/2018/R/eel and in December the relative auction will be conducted. The project will allow Edison to experiment with different types of participation in demand, renewable generation, and storage in the dispatching services market and to develop new potential businesses related to the role of aggregator, which will be increasingly active in the electricity system in coming years.

## Issues Affecting Multiple Business Segments

**Extension of the price protection regulation:** Law Decree no. 91 of July 25, 2018 was converted with Law no. 108 of September 21, containing the extension of conditions envisaged for various legislative provisions.
Among other matters, the measure envisages the extension to July 1, 2020 of the date established in Law no. 124 of August 4, 2017, for the end of the transitory price protection regulation for domestic customers and small electricity companies and for domestic gas customers.

## European regulations

**2030 EU targets for renewable energy sources and energy efficiency:** during the summer, a political agreement was reached in Brussels on the European targets for renewable energy sources and energy efficiency for 2030. The new Directives, which require only the formal steps of publication in the Official Gazette, will set a target of 32% (compared to 27% originally proposed by the European Commission) in 2030 for end consumption of renewable sources, with a 1.3% annual requirement on thermal renewables (heating and cooling) and a 14% requirement for the transportation sector (biofuels). For energy efficiency, the new target for 2030 was set at 32.5% (non-binding at European level). For both Directives, there is also a revision clause in 2023.

**Projects of Common Interest (PCI):** on July 27, 2018, the European Commission granted exemption from the TPA for 25 years to the IGB project (Interconnector Greece-Bulgaria developed by IGI-Poseidon), through Decision - C(2018) 5058 final. The IGB project has the status of Project of Common Interest (PCI) at European level and the Decision will enable the development of the project in line with its economic feasibility and market development.

**Remuneration mechanism in Greece:** on July 30, 2018, the European Commission approved the capacity remuneration mechanism in Greece, as part of the government aid procedures. Through competitive auctions, the new mechanism should be in operation until the end of 2019.

# PRESENTATION FORMATS

## Consolidated Income Statement

| (in millions of euros) | 9 months 2018 | 9 months 2017 (*) |
|---|---|---|
| Sales revenues (*) | 6,521 | 6,353 |
| Other revenues and income | 120 | 97 |
| **Total net revenues** | **6,641** | **6,450** |
| Raw materials and services used (-) (*) | (5,777) | (5,575) |
| Labor costs (-) | (244) | (228) |
| **EBITDA** | **620** | **647** |
| Net change in fair value of commodity derivatives | 6 | (196) |
| Depreciation, amortization and writedowns (-) | (376) | (361) |
| Other income (expense), net | (15) | (6) |
| **EBIT** | **235** | **84** |
| Net financial income (expense) | (22) | (46) |
| Income from (Expense on) equity investments | 5 | (44) |
| **Profit (Loss) before taxes** | **218** | **(6)** |
| Income taxes | (120) | (94) |
| **Profit (Loss) from continuing operations** | **98** | **(100)** |
| Profit (Loss) from discontinued operations | - | - |
| **Profit (Loss)** | **98** | **(100)** |
| Broken down as follows: | | |
| Minority interest in profit (loss) | 11 | 10 |
| **Group interest in profit (loss)** | **87** | **(110)** |
| Earnings (Loss) per share (in euros) | | |
| Basic earnings (loss) per common share | 0.0156 | (0.0217) |
| Basic earnings per savings share | 0.0456 | 0.0375 |
| Diluted earnings (loss) per common share | 0.0156 | (0.0217) |
| Diluted earnings per savings share | 0.0456 | 0.0375 |

(*) "Sales revenues" and "Raw materials and services used " related to reporting period 2017 were restated following IFRS 15 adoption with no EBITDA impact.
The first adoption impacts related to IFRS 9 were recorded in equity without restatement of 2017 data.

# Consolidated Balance Sheet

| (in millions of euros) | **09.30.2018** | 12.31.2017 |
|---|---|---|
| **ASSETS** | | |
| Property, plant and equipment | 3,631 | 3,657 |
| Investment property | 5 | 5 |
| Goodwill | 2,445 | 2,313 |
| Hydrocarbon concessions | 289 | 322 |
| Other intangible assets | 289 | 154 |
| Investments in associates | 66 | 67 |
| Available-for-sale investments (*) | - | 1 |
| Investments at fair value through profit and loss (*) | 1 | - |
| Other financial assets | 68 | 80 |
| Deferred-tax assets | 470 | 467 |
| Other assets | 516 | 302 |
| **Total non-current assets** | **7,780** | **7,368** |
| Inventories | 250 | 182 |
| Trade receivables | 1,459 | 1,656 |
| Current-tax assets | 12 | 8 |
| Other receivables | 1,354 | 840 |
| Current financial assets (*) | 4 | 6 |
| Cash and cash equivalents | 266 | 260 |
| **Total current assets** | **3,345** | **2,952** |
| **Total assets** | **11,125** | **10,320** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Share capital | 5,377 | 5,377 |
| Reserves and retained earnings (loss carryforward) | 377 | 601 |
| Reserve for other components of comprehensive income | 163 | 113 |
| Group interest in profit (loss) | 87 | (176) |
| **Total shareholders' equity attributable to Parent Company shareholders** | **6,004** | **5,915** |
| Shareholders' equity attributable to minority shareholders | 270 | 288 |
| **Total shareholders' equity** | **6,274** | **6,203** |
| Provision for employee severance indemnities and provisions for pensions | 42 | 42 |
| Provision for deferred taxes | 133 | 76 |
| Provisions for risks and charges | 1,316 | 1,249 |
| Long-term financial debt and other financial liabilities | 306 | 221 |
| Other liabilities | 235 | 65 |
| **Total non-current liabilities** | **2,032** | **1,653** |
| Bonds | 4 | 4 |
| Short-term financial debt | 270 | 157 |
| Trade payables | 1,443 | 1,696 |
| Current taxes payable | 15 | 19 |
| Other liabilities | 1,087 | 588 |
| **Total current liabilities** | **2,819** | **2,464** |
| **Total liabilities and shareholders' equity** | **11,125** | **10,320** |

(*) Since January 1, 2018, following the application of the new accounting principle IFRS 9 the "Available-for-sale investments" and the "Equity investments held for trading" (included for about 3 million of euros in "Current financial assets" at December 31, 2017) were reclassified in "Investments at fair value through profit and loss".
The first adoption impacts related to IFRS 9 were recorded in equity without restatement of 2017 data.

# Changes in Consolidated Shareholders' Equity

| (in millions of euros) | Share capital | Reserves and retained earnings (loss carry-forward) | Reserve for other components of comprehensive income | Group interest in profit (loss) | Total shareholders' equity attributable to Parent Company shareholders | Shareholders' equity attributable to minority shareholders | Total shareholders' Equity |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2017** | **5,377** | **601** | **113** | **(176)** | **5,915** | **288** | **6,203** |
| IFRS 9 - first adoption | - | (29) | - | - | **(29)** | - | **(29)** |
| **Balance at January 01, 2018** | **5,377** | **572** | **113** | **(176)** | **5,886** | **288** | **6,174** |
| Appropriation of the previous year's profit (loss) | - | (176) | - | 176 | **-** | - | **-** |
| Dividends and reserves distributed | - | - | - | - | **-** | (29) | **(29)** |
| Change in scope of consolidation | - | (15) | - | - | **(15)** | 1 | **(14)** |
| Other changes | - | (4) | - | - | **(4)** | (1) | **(5)** |
| Total comprehensive profit (loss) | - | - | 50 | 87 | **137** | 11 | **148** |
| of which: | | | | | | | |
| - Change in comprehensive income | - | - | 50 | - | **50** | - | **50** |
| - Profit (loss) at September 30, 2018 | - | - | - | 87 | **87** | 11 | **98** |
| **Balance at September 30, 2018** | **5,377** | **377** | **163** | **87** | **6,004** | **270** | **6,274** |

# ECONOMIC & FINANCIAL RESULTS AT SEPTEMBER 30, 2018

## Sales Revenues and EBITDA of the Group and by Business Segment

| full year 2017 (*) | (in million euros) | 9 months 2018 | 9 months 2017 (*) | Change % | Q3 2018 | Q3 2017 (*) | Change % |
|---|---|---|---|---|---|---|---|
| | **Electric Power Operations** | | | | | | |
| 3,970 | Sales revenues | 2,742 | 2,999 | *(8.6%)* | 919 | 1,046 | *(12.1%)* |
| 289 | Reported EBITDA | 253 | 250 | *1.2%* | 71 | 108 | *(34.3%)* |
| 265 | Adjusted EBITDA (1) | 253 | 232 | *9.1%* | 71 | 101 | *(29.7%)* |
| | **Hydrocarbons Operations** | | | | | | |
| 5,592 | Sales revenues | 4,279 | 3,935 | *8.7%* | 1,365 | 1,114 | *22.5%* |
| 613 | Reported EBITDA | 444 | 462 | *(3.9%)* | 165 | 126 | *31.0%* |
| 637 | Adjusted EBITDA (1) | 444 | 480 | *(7.5%)* | 165 | 133 | *24.1%* |
| | **Corporate Activities and Other Segments (2)** | | | | | | |
| 54 | Sales revenues | 45 | 36 | *25.0%* | 16 | 12 | *33.3%* |
| (99) | EBITDA | (77) | (65) | *(18.5%)* | (23) | (13) | *(76.9%)* |
| | **Eliminations** | | | | | | |
| (833) | Sales revenues | (545) | (617) | *11.7%* | (204) | (196) | *(4.1%)* |
| | **Edison Group** | | | | | | |
| **8,783** | **Sales revenues** | **6,521** | **6,353** | ***2.6%*** | **2,096** | **1,976** | ***6.1%*** |
| **803** | **EBITDA** | **620** | **647** | ***(4.2%)*** | **213** | **221** | ***(3.6%)*** |
| ***9.1%*** | ***as a % of sales revenues*** | **9.5%** | ***10.2%*** | | ***10.2%*** | ***11.2%*** | |

(1) With reference to 2017, adjusted EBITDA reflects 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. In the first nine months of 2018, there were no hedges to be reclassified between the two business segments.

(2) 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.

(*) 2017 Sales revenues were restated following the application of IFRS 15 "Revenue from Contracts with Customers", without any impact on the EBITDA. The effects resulting from the initial application of IFRS 9 were recognised in shareholders' equity with no restatement of comparative data.

Sales revenues for the Group amounted to 2,096 million euros in the third quarter of 2018 and 6,521 million euros in the first nine months of 2018, up 6.1% and 2.6%, respectively, compared to the analogous period of the previous year.

EBITDA posted a decline of 8 million euros for the third quarter of 2018 and 27 million euros for the first nine months of 2018. The decrease for the first nine months is primarily due to lower profitability on gas purchases and sales and lease instalments for the Foro Buonaparte properties, partly offset by an improvement in the Exploration & Production business.

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

| 2017 full year (*) | GWh (1) | **9 months 2018** | 9 months 2017 (*) | Change % | **Q3 2018** | Q3 2017 (*) | Change % |
|---|---|---|---|---|---|---|---|
| **19,742** | **Edison's production:** | **13,638** | **15,017** | ***(9.2%)*** | **4,842** | **5,019** | ***(3.5%)*** |
| 16,469 | *- Thermoelectric power plants* | 10,604 | 12,501 | *(15.2%)* | 4,018 | 4,086 | *(1.7%)* |
| 2,209 | *- Hydroelectric power plants* | 2,356 | 1,761 | *33.8%* | 675 | 720 | *(6.2%)* |
| 1,064 | *- Wind power and other renewables* | 678 | 755 | *(10.2%)* | 149 | 213 | *(30.2%)* |
| **33,288** | **Other purchases (wholesalers, IPEX, etc.)(2)** | **17,804** | **25,377** | ***(29.8%)*** | **5,525** | **7,722** | ***(28.5%)*** |
| **53,030** | **Total sources** | **31,442** | **40,394** | ***(22.2%)*** | **10,367** | **12,741** | **(18.6%)** |

(1) 1 GWh is equal to 1 million kWh, referred to physical volumes.
(2) Before line losses and excluding the trading portfolio.
(*) 2017 Other purchases were restated following the application of IFRS 15 "Revenue from Contracts with Customers".

## Uses

| 2017 full year (*) | GWh (1) | **9 months 2018** | 9 months 2017 (*) | Change % | **Q3 2018** | Q3 2017 (*) | Change % |
|---|---|---|---|---|---|---|---|
| **10,927** | **Customers (2)** | **10,237** | **7,997** | ***28.0%*** | **3,536** | **2,837** | ***24.6%*** |
| **42,103** | **Other sales (wholesalers, IPEX, etc.)(3)** | **21,205** | **32,397** | ***(34.5%)*** | **6,831** | **9,904** | ***(31.0%)*** |
| **53,030** | **Total uses** | **31,442** | **40,394** | **(22.2%)** | **10,367** | **12,741** | **(18.6%)** |

(1) 1 GWh is equal to 1 million kWh.
(2) Before line losses.
(3) Excluding trading portfolio.
(*) 2017 Other sales were restated following the application of IFRS 15 "Revenue from Contracts with Customers".

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 maximising their profitability through their optimisation.
Within this model, Edison production in Italy amounted to 4,842 GWh in the third quarter of 2018, down 3.5% from the third quarter of 2017; in particular, thermoelectric production was essentially in line with previous year (-1.7%), With regard to hydroelectric production, the trend for the third quarter of 2018 saw a decline in production (-6.2%) due to lower availability of water. Furthermore, there was a decline in wind power and other renewable production (-30.2%), consistent with the trend at the national level, due to the lower wind levels in the period as well as the dismantling of several plants that are being revamped.
Sales to customers were up 24.6%, with higher volumes in all business segments.
Other purchases and sales during the third quarter of 2018 are down compared to the values of the same period of 2017; it should be recalled, however, that these items include not only purchases and sales on the wholesale market but also purchases and sales on IPEX, albeit characterised by smaller unit margins, connected with the balancing of portfolios and the make or buy activity.
During the first nine months:

- Edison's net production amounted to 13,638 GWh (-9.2% compared to the first nine months of 2017);
- the Group's overall sales stood at 31,442 GWh (-22.2%), despite an increase in sales to end customers, totalling 10,237 GWh (+ 28%).

## Income Statement Data

| full year 2017 (*) | (in million euros) | **9 months 2018** | 9 months 2017 (*) | Change % | **Q3 2018** | Q3 2017 (*) | Change % |
|---|---|---|---|---|---|---|---|
| 3,970 | Sales revenues | 2,742 | 2,999 | *(8.6%)* | 919 | 1,046 | *(12.1%)* |
| 265 | Adjusted EBITDA [(1)] | 253 | 232 | *9.1%* | 71 | 101 | *(29.7%)* |

(1) See note on page 16.

(*) 2017 Sales revenues were restated following the application of IFRS 15 "Revenue from Contracts with Customers", without any impact on the EBITDA.
The effects resulting from the initial application of IFRS 9 were recognised in shareholders' equity with no restatement of comparative data.

Sales revenues for the third quarter of 2018 came in at 919 million euros, representing a decrease from the third quarter of 2017, mainly due to lower volumes sold.
The quarter's EBITDA, which amounted to 71 million euros (101 million euros during the same period of 2017), shows a decrease of 30 million euros from the analogous period in 2017, which benefited from incentives for the Candela plant.
Overall, during the first nine months of the year, sales revenues came in at 2,742 million euros, down 8.6% on the first quarter of 2017, as a result of the drop in volumes.
The EBITDA amounted to 253 million euros, an increase of 21 million euros over the first nine months of 2017, mainly attributable to higher margins in thermoelectric generation and an increased contribution from the hydroelectric segment.

# Hydrocarbons Operations
## Sources of Natural Gas

| 2017 full year | in millions of m3 of natural gas | **9 months 2018** | 9 months 2017 | Change % | **Q3 2018** | Q3 2017 | *Change %* |
|---|---|---|---|---|---|---|---|
| 437 | Production [(1)] | 278 | 337 | *(17.4%)* | 87 | 109 | *(20.3%)* |
| 15,102 | Imports (Pipeline + LNG) | 10,777 | 11,122 | *(3.1%)* | 3,765 | 3,578 | *5.2%* |
| 5,843 | Other purchases | 4,210 | 3,875 | *8.6%* | 1,084 | 1,008 | *7.6%* |
| (94) | Change in stored gas inventory [(2)] | (220) | (137) | *(59.9%)* | (211) | (149) | *(41.5%)* |
| **21,288** | **Total sources** | **15,045** | **15,197** | ***(1.0%)*** | **4,725** | **4,546** | ***3.9%*** |
| **1,636** | **Production outside Italy [(3)]** | **1,413** | **1,254** | ***12.7%*** | **500** | **497** | ***0.6%*** |

(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

| 2017 full year | in millions of m3 of natural gas | **9 months 2018** | 9 months 2017 | *Change %* | **Q3 2018** | Q3 2017 | *Change %* |
|---|---|---|---|---|---|---|---|
| 2,404 | Residential use | 1,722 | 1,513 | *13.8%* | 185 | 134 | *38.1%* |
| 4,507 | Industrial use | 3,247 | 3,249 | *(0.1%)* | 993 | 1,040 | *(4.6%)* |
| 7,311 | Thermoelectric fuel use | 4,798 | 5,413 | *(11.4%)* | 1,776 | 1,759 | *1.0%* |
| 7,066 | Other sales | 5,278 | 5,022 | *5.1%* | 1,771 | 1,613 | *9.8%* |
| **21,288** | **Total uses** | **15,045** | **15,197** | ***(1.0%)*** | **4,725** | **4,546** | ***3.9%*** |
| **1,636** | **Sales of production outside Italy[(1)]** | **1,413** | **1,254** | ***12.7%*** | **500** | **497** | ***0.6%*** |

(1) Counting volumes withheld as production tax.

Gas production during the third quarter, combining domestic and foreign, came to 587 million cubic metres, down 3.1% from the third quarter of last year. More specifically, production marketed in Italy was down 20.3% due to the natural decline of the production curves and lower imports from Croatia; foreign production is essentially in line with the third quarter of 2017 thanks to the production of the Reggane field in Algeria, which started production at the end of December 2017, which offset the production decline in Egypt and Croatia.

Total gas imports during the third quarter and other purchases slightly increased by 5.2% and 7.6%, respectively.

The quantities sold, totalling 4,725 million cubic metres, showed an increase of 3.9% on the third quarter of 2017; in particular, sales for residential use posted an increase of 38.1%, due to the contribution from Edison Energie (former GNVI), consolidated from the end of February 2018.

In cumulative terms, the balance of Edison's sources and uses amounted to about 15 billion cubic meters in the first nine months of 2018, essentially in line with the same period of 2017.

## Crude Oil Production

| 2017 full year | thousands of barrels | **9 months 2018** | 9 months 2017 | Change % | **Q3 2018** | Q3 2017 | Change % |
|---|---|---|---|---|---|---|---|
| 1,874 | Production in Italy | 1,288 | 1,420 | *(9.3%)* | 424 | 472 | *(10.2%)* |
| 2,127 | Production outside Italy (1) | 1,735 | 1,658 | *4.6%* | 560 | 510 | *9.8%* |
| **4,001** | **Total production** | **3,022** | **3,078** | ***(1.8%)*** | **984** | **982** | ***0.2%*** |

(1) Counting volumes withheld as production tax.

Crude oil production was unchanged on the whole for the quarter; lower Italian production (-48 thousand barrels) was offset by the increase in foreign production (50 thousand barrels), due to the contribution of the new wells for the Egyptian concession of Abu Qir and higher production in the United Kingdom.

In cumulative terms, there was a 1.8% reduction compared to the prior year, with a partial offset between Italian production, which was lower, and an increase in production abroad, both in Egypt and in the UK.

## Income Statement Data

| 2017 full year (*) | (in millions of euros) | **9 months 2018** | 9 months 2017 (*) | Change % | **Q3 2018** | Q3 2017 (*) | Change % |
|---|---|---|---|---|---|---|---|
| 5,592 | Sales revenues | 4,279 | 3,935 | *8.7%* | 1,365 | 1,114 | *22.5%* |
| 637 | Adjusted EBITDA (1) | 444 | 480 | *(7.5%)* | 165 | 133 | *24.1%* |
| *374* | *- amount from gas activities* | *161* | *277* | *(41.9%)* | *51* | *73* | *(30.1%)* |
| *263* | *- amount from Exploration & Production* | *283* | *203* | *39.4%* | *114* | *60* | *90.0%* |

(1) See note on page 16.

(*) The effects resulting from the initial application of IFRS 9 were recognised in shareholders' equity with no restatement of comparative data.

Sales revenues for the third quarter amounted to 1,365 million euros, up 22.5% on the third quarter of 2017, primarily as a result of the improved reference scenario.

The third quarter's EBITDA came to 165 million euros, up 32 million on the same period of 2017. This change is principally attributable to the higher margin posted by the Exploration & Production business, due to the improved scenario and the recovery of exploration costs in Algeria relating to previous years.

In addition, during the first nine months of 2018, there was an increase in sales revenues of 8.7%, whilst EBITDA was down by 36 million euros compared to the same period of 2017. This change is mainly attributable to the purchase and sale of gas due to the deteriorating market scenario and the sale of Infrastrutture Trasporto Gas Spa (ITG), which took place in October 2017. Lower profitability on the purchase and sale of natural gas was partly offset by higher margins in the Exploration & Production business as a result of the factors previously mentioned for the third quarter. Moreover, note that non-recurring income of 20 million euros was recognised during the first nine months of 2017, partly linked to an insurance claim reimbursement.

# Corporate Activities and Other Segments

## Income Statement Data

| 2017 full year | in millions of euros | **9 months 2018** | 9 months 2017 | Change % | **Q3 2018** | Q3 2017 | Change % |
|---|---|---|---|---|---|---|---|
| 54 | Sales revenues | 45 | 36 | *25.0%* | 16 | 12 | *33.3%* |
| (99) | EBITDA | (77) | (65) | *(18.5%)* | (23) | (13) | *(76.9%)* |

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 for the third quarter of 2018 posted an increase compared to the same period of 2017, both in the quarter and over the first nine months.

EBITDA decreased by 10 million euros in the third quarter and 12 million euros in the first nine months of 2018 due to the lease instalments of the Foro Buonaparte properties, sold in November 2017, in addition to different phasing of operating expenses.

# Other Components of the Group's Income Statement

| 2017 full year | (in millions of euros) | 9 months 2018 | 9 months 2017 | Change % |
|---|---|---|---|---|
| **803** | **EBITDA** | **620** | **647** | ***(4.2%)*** |
| (221) | Net change in fair value of derivatives (commodity and foreign exchange) | 6 | (196) | *n.m.* |
| (655) | Depreciation, amortization and writedowns | (376) | (361) | *4.2%* |
| 115 | Other income (expense), net | (15) | (6) | *n.m.* |
| **42** | **EBIT** | **235** | **84** | ***n.m.*** |
| (52) | Financial income (expense), net | (22) | (46) | *(52.2%)* |
| (31) | Income from (expense on) equity investments | 5 | (44) | *n.m.* |
| (122) | Income Taxes | (120) | (94) | *27.7%* |
| **(163)** | **Profit (Loss) from continuing operations** | **98** | **(100)** | ***n.m.*** |
| **(176)** | **Group interest in profit (loss)** | **87** | **(110)** | ***n.m.*** |

The **Group's interest in the net result** was positive by 87 million euros (negative by 110 million euros in the first nine months of 2017).

In addition to the industrial margin dynamics discussed above, the main factors affecting the result for the period included:

- a net positive change in the fair value of derivatives amounting to 6 million euros (negative by 196 million euros in the first nine months of 2017);
- depreciation and amortization for 376 million euros increased compared with the first nine months of 2017 (361 million euros) mainly due to the writedowns of the period, in part related to the above-mentioned recovery of exploration costs in Algeria relating to previous years, only partially off-set by lower exploration costs;
- the financial items (it is worth of mentioning that the first nine months of 2017 included writedowns of assets held for sale for 55 million euros and the gain of 7 million euros resulting from the sale of the equity investment held in Istituto Europeo di Oncologia) and the Income Taxes which include regional taxes (IRAP) and foreign taxes.

Here below the details of the main Other Components of the Group's Income Statement:

## Net Change in Fair Value of Commodity Derivatives

| (in millions of euros) | 9 months 2018 | 9 months 2017 | Change |
|---|---|---|---|
| **Change in fair value in hedging the price risk on energy products:** | **(26)** | **(191)** | **165** |
| - definable as hedges - Cash Flow Hedge (CFH) (*) | (4) | 1 | (5) |
| - definable as hedges - Fair Value Hedge (FVH) | (24) | (26) | 2 |
| - not definable as hedges | 2 | (166) | 168 |
| **Change in fair value in hedging the foreign exchange risk on commodities:** | **41** | **(96)** | **137** |
| - definable as hedges - Cash Flow Hedge (CFH) (*) | 1 | (4) | 5 |
| - definable as hedges - Fair Value Hedge (FVH) | 46 | (69) | 115 |
| - not definable as hedges | (6) | (23) | 17 |
| **Change in fair value in physical contracts (FVH)** | **(9)** | **91** | **(100)** |
| **Total for the Group** | **6** | **(196)** | **202** |

(*) Referred to the ineffective portion.

It should be noted that the new accounting principles IFRS 9, which substituted the IAS 39, is entered into force starting from January 1, 2018 and moreover changed the amendments in term of hedge accounting. These new amendments involve also changes in the rules of the accounting hedge relationships approaching the logics of recognition to those of risk management. The application of these new rules, possible only prospectively, entailed a re-assessment of the hedging relationships on the contracts in existence as at January 1, 2018. This review had extended the application of hedge accounting consequently reducing the volatility effects.

The amount of the first nine months of 2017, negative by 196 million euros, was mainly related to derivatives that, as a result of economic hedging strategies to protect margins and of the significant commodities prices fluctuations, determined in past years, starting from 2014, a positive Fair Value that is necessarily reversed in the income statement accounts of the following years until 2017, with a negligible economic effect in the total period.

## Depreciation, Amortization and Writedowns

| (in millions of euros) | 9 months 2018 | 9 months 2017 | Change |
|---|---|---|---|
| **Depreciation and amortization of:** | **326** | **361** | **(35)** |
| - property, plant and equipment | 254 | 253 | 1 |
| - exploration costs | 16 | 60 | (44) |
| - hydrocarbon concessions | 32 | 33 | (1) |
| - other intangible assets | 24 | 15 | 9 |
| **Writedowns of:** | **50** | **-** | **50** |
| - property, plant and equipment | 50 | - | 50 |
| **Total for the Group** | **376** | **361** | **15** |

| **Breakdown by Business Segment** | **9 months 2018** | 9 months 2017 | Change |
|---|---|---|---|
| Electric Power Operations | 168 | 168 | - |
| Hydrocarbons Operations | 205 | 188 | 17 |
| Corporate Activities and Other Segments | 3 | 5 | (2) |
| **Total for the Group** | **376** | **361** | **15** |

## Net Financial Income (Expense)

| (in millions of euros) | 9 months 2018 | 9 months 2017 | Change |
|---|---|---|---|
| Net financial expense on debt | (4) | (10) | 6 |
| Fees | (9) | (7) | (2) |
| Financial expense on decommissioning projects and provisions for risks | (24) | (22) | (2) |
| Other financial income (expense) | 11 | 5 | 6 |
| Net foreign exchange translation gains (losses) | 4 | (12) | 16 |
| **Net financial income (expense) for the Group** | **(22)** | **(46)** | **24** |

The **Net financial expense on debt** benefited from a lower level of indebtedness; it should be noted that the amount of the first nine months of 2017 included the net financial expense on the bond issue of Edison Spa (nominal value 600 million euros) which was reimbursed at maturity on November 10, 2017. It should be noted higher net foreign exchange gains resulting from currencies trend.

# Net Financial Debt and Cash Flows

At September 30, 2018, net financial debt totaled 310 million euros, or 194 million euros higher than the 116 million euros owed at December 31, 2017. The table below provides a simplified breakdown of the net financial debt:

| (in millions of euros) | 09.30.2018 | 12.31.2017 | Change |
|---|---|---|---|
| Non-current bank loans | 236 | 144 | 92 |
| Amounts due to other lenders - non-current portion | 70 | 77 | (7) |
| **Non-current financial debt** | **306** | **221** | **85** |
| Bonds | 4 | 4 | - |
| Short-term financial debt | 270 | 157 | 113 |
| Current financial assets (*) | (4) | (6) | 2 |
| Cash and cash equivalents | (266) | (260) | (6) |
| **Current net financial debt** | **4** | **(105)** | **109** |
| **Net financial debt** | **310** | **116** | **194** |

(*) At December 31, 2017 the "Current financial assets" included for about 3 million euros the "Equity investments held for trading" starting from January 1, 2018 included in the "Investments at fair value through profit and loss" followiong the application of the new principle IFRS 9.

The change of the period is related to the acquisitions of the companies GNVI (now Edison Energie), Attiva and Zephyro and to the good cash generation that permitted to limit the net financial debt.

The increase of the **non-current financial debt** included:

- the drawdown for 35 million euros of the credit line of 150 million euros provided from European Investment Bank (EIB) to Edison in 2017 and usable in several tranches with maturity up to 15 years and intended to finance the construction of new wind farms through the company E2i Energie Speciali (E2i);
- the drawdown for 50 million euros of a bank revolving credit facility subscribed by E2i in the period (total nominal amount of 100 million euros).

**Cash and cash equivalent** includes the treasury current account with EDF Sa for a credit balance of 75 million euros (credit balance of 140 million euros at December 31, 2017).

It should be noted that at September 30, 2018, as at December 31, 2017, the two credit lines for a total amount of 900 million euros subscribed by Edison Spa in 2017 were fully available (with EDF Sa for nominal amount of 600 million euros and with a pool of banks on Club Deal basis for nominal amount of 300 million euros).

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

| 2017 full year | (in millions of euros) | **9 months 2018** | 9 months 2017 |
|---|---|---|---|
| **(1,062)** | **A. NET FINANCIAL (DEBT) AT BEGINNING OF PERIOD** | **(116)** | **(1,062)** |
| 803 | EBITDA | 620 | 647 |
| 26 | Elimination of non-cash items included in EBITDA | 14 | 51 |
| (20) | Net financial expense paid | (10) | (16) |
| (63) | Income taxes paid (-) | (97) | (59) |
| 17 | Dividends collected | 8 | 14 |
| 1 | Other items from operating activities | (14) | 7 |
| **764** | **B. CASH FLOW FROM OPERATING ACTIVITIES** | **521** | **644** |
| 208 | Change in operating working capital | (18) | 84 |
| (8) | Change in non-operating working capital | (48) | 29 |
| (489) | Net investments (-) | (627) | (310) |
| 489 | Non-recurring operations | - | - |
| **964** | **C. CASH FLOW AFTER NET INVESTMENTS AND CHANGE IN WORKING CAPITAL** | **(172)** | **447** |
| (46) | Dividends paid (-) | (29) | (29) |
| 28 | Other items | 7 | 22 |
| **946** | **D. NET CASH FLOW FOR THE PERIOD** | **(194)** | **440** |
| **(116)** | **E. NET FINANCIAL (DEBT) AT END OF PERIOD** | **(310)** | **(622)** |

The main cash flows for the period derive from EBITDA, as previously commented, the absorption of cash by operating working capital, net investments, which include capital expenditures and exploration (-297 million euros), financial investments (-5 million euros), portfolio readjustment operations (+43 million euros), as well as the acquisitions of GNVI (now Edison Energie), Attiva and Zephyro (-368 million euros).

More specifically, capital expenditures and exploration include:

- investments in Exploration & Production activities of 108 million euros, which mainly concerned foreign operations. In Egypt (40 million euros), mainly for the drilling of the new NAQ PIII-4,5&6 wells for the Abu Qir concession, in Norway (35 million euros), mainly for activities as part of the concessions of Dvalin (formerly Zidane) and Skarfjell, and in Algeria (9 million euros) for development of the Reggane concession;
- investment in the sector of electric power generation from renewable sources of 102 million euros, relating to activities for the construction of the new wind power plants (greenfield and full rebuilding) of Vaglio, San Giorgio La Molara, Mazara del Vallo, Montefalcone and Troia;
- investments in exploration of approximately 16 million euros, mainly for exploration activities outside of Italy.

The portfolio readjustments (net positive effect of 43 million euros) refer mainly to the Exploration & Production sector, due to the sale of the Norwegian gas pipeline Polarled and the energy services sector, due to the sale of some assets.

## Fair value recorded in Balance Sheet and Cash Flow Hedge Reserve

The fair value recorded in balance sheet is reported here below.

| (in millions of euros) | 09.30.2018 | | | 12.31.2017 | | |
|---|---|---|---|---|---|---|
| Broken down as follows: | Receivables | Payables | Net | Receivables | Payables | Net |
| - Current financial assets / Short-term financial debt | - | - | - | - | - | - |
| - Other assets / liabilities (non-current portion) | 316 | (234) | 82 | 144 | (65) | 79 |
| - Other assets / liabilities (current portion) | 967 | (777) | 190 | 316 | (260) | 56 |
| **Fair Value recognized as assets or liabilities (a)** | **1,283** | **(1,011)** | **272** | **460** | **(325)** | **135** |
| of which of (a) related to: | | | | | | |
| - Interest Rate Risk Management | - | - | - | - | - | - |
| - Exchange Rate Risk Management | 25 | (20) | 5 | 2 | (78) | (76) |
| - Commodity Risk Management | 897 | (571) | 326 | 414 | (154) | 260 |
| - Trading Portfolios (physical and financial) | 9 | (10) | (1) | 10 | (10) | - |
| - Fair value on physical contracts | 352 | (410) | (58) | 34 | (83) | (49) |

The table below provides a breakdown of the changes that occurred in the Cash Flow Hedge reserve for the accounting treatment of derivatives. The change refers to the provisional recognition in equity of the effective portion of derivatives executed to hedge price and foreign exchange risks on energy commodities. The amounts recognized directly in equity are reflected in the income statement in line with the effects of the hedged item.

| **Cash Flow Hedge reserve** (in millions of euros) | Gross reserve | Taxes | Net reserve |
|---|---|---|---|
| Reserve at December 31, 2017 | 127 | (35) | 92 |
| Changes in the period | 72 | (21) | 51 |
| **Reserve at September 30, 2018** | **199** | **(56)** | **143** |

# OUTLOOK

Edison further revised upward its guidance for 2018 EBITDA, which will exceed 740 million euros.

# SIGNIFICANT EVENTS OCCURRING AFTER SEPTEMBER 30, 2018

No significant events occurred after September 30, 2018.

**Milan, October 25, 2018**

The Board of Directors
**By Marc Benayoun**
**Chief Executive Officer**

# CERTIFICATION
## Pursuant to article 154-bis, Section 2, of Legislative Decree No. 58/1998

Didier Calvez and Roberto Buccelli, in their capacity as "Dirigenti preposti alla redazione dei documenti contabili societari" of Edison Spa, declare that the accounting information contained in this Quarterly Report at September 30, 2018 is consistent with the data in documents, accounting records and other records.

**Milan, October 25, 2018**

**"Dirigenti Preposti alla redazione**
**dei documenti contabili societari"**
Didier Calvez
Roberto Buccelli